MINISTRY OF AGRICULTURE OF THE REPUBLIC OF KAZAKHSTAN

ZHANGIR KHAN
UNIVERSITY

Zhangir khan West Kazakhstan
Agrarian-Technical University

Z.Kh. Sultanova

Banking:

Textbook for students of the economic specialties

Uralsk 2020

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The textbook is completed according to the syllabus of the subject. The textbook consists of the theoretical and practical materials for bachelor students. The textbook includes theoretical materials and a set of tasks for self-studying and self-checking.

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INTRODUCTION

Banking sector is vital for the economy of any state. Students seeking degrees in finance, accounting, and related fields are generally required to take some classes in banking. This course can be part of bachelor programs in accounting, business, and financial services.

The studying of the subject provides a full representation of the banking services and financial institutions, students also will be able to compare the operations of commercial and state banks. During the course students determine the principles of banking transactions and the different services providing by banks.

The purpose of studying the discipline "Banking" is to give students the complex information on theoretical-methodical bases and practical aspects of the banks.

According to this purpose the tasks of this textbook are:

- to systematize theoretical information on essence and banking system's main structural components in Republic of Kazakhstan;
- to impart practical skills of financial calculations implementation concerning functioning questions of loan, currency to students that will be certainly necessary during their future professional work;
- to develop students' analytical skills and skills of team work by the application of such active methods of training in the educational process as individual and group presentation, work in small groups;
- to improve the extent of students' mastering professional vocabulary.

Applying this textbook in educational process on the discipline "Banking", it is supposed to reach the following results:

- to know and understand the principles of banking activity;
- to be able to distinguish calculations relating to main operations which are carried out by commercial banks;
- to be able to analyze the banking phenomena occurring in the country, region, world economy;
- to be able to formulate the judgment concerning the organization of commercial banks' activity;
- to be able to put the gained knowledge into practice, carrying out decisions, analyzing influence of internal and external factors on a condition of the commercial banks.

Textbook includes a theoretical materials and tasks for self-studying and tasks for self-checking.

Topic 1. Commercial banks and main conditions of its activity. Law basics of the activity the banks in the Republic of Kazakhstan

1. Economic essence of the bank
2. Functions of the commercial bank
3. Principles of the commercial bank's activity organization
4. Organizational structure of commercial bank

1. Economic essence of the bank

Kazakhstan has embarked on developing the national economy in terms of economic relations sharp break once unified national economic complex. It was formed its own financial system which today is one of the most successful among former Soviet countries. Financial markets is part of the system of market relations in general. Key role in the financial markets played by financial institutions, directing cash flows from the owners to the borrowers where the goods are the payment instruments and securities.

Financial intermediation is an important role in banking. The term ''financial intermediation'' means accepting funds from one source (such as savings customers) and using the money to make loans or other investments.

Essentially, financial intermediation means acting as a go-between for individuals or businesses that have extra money and individuals or businesses that want to borrow money.

Each person or business with extra funds could try to find a borrower on its own, but the process would be time-consuming and difficult. It could be very difficult to find another person who would want to borrow the exact amount of our savings for the length of time we want to lend it.

Financial intermediation is a business activity that supplies a service by pooling funds from many different sources and advancing loans and making investments. The people and businesses that supply the funds receive interest or services for allowing their funds to be pooled and loaned out or invested. The borrowers pay interest for the privilege of borrowing money they use to generate income or meet other goals.

Another way to understand financial intermediation is to match it to another kind of intermediation. Consider how a blood bank operates. A blood bank finds healthy individuals and arranges for them to donate blood. The blood bank then processes the blood and makes it available to hospitals. The blood bank does not actually use the blood; it simply acts as a channel (or intermediary) between the donors and the hospitals. Just as the blood bank functions between the donor and recipient of blood, a bank operates as an intermediary between people with extra money and people who want to borrow money. It is a financial intermediary. This is one of the unique characteristics of financial institutions, and of banks in particular—their role as financial intermediaries.

Many of us share a fairly basic view of banks. They are places to store money, provide basic investments like term deposits, sign up for a credit card or get a loan. Behind this view, however, is a highly regulated system that connects our daily banking with the wider financial system.

No one can say correctly who exactly has started the world's first bank, but we do know is that banking's roots are in the early trading civilizations of the Mediterranean ocean. Trade was the main factor that led to the establishment of banks. It was impossible to finance trading activities without bank institutions.

But lets just say, on the off-chance that we live in ancient Greece or Phoenicia and we are merchants. We earn a living by selling to distant ports with boatloads what consist of olive oil and spices. We don't grow the olive oil and spices, we just buy these products from growers or other merchants. If anything will be fine, we will be paid for your cargo when we reach our destination, but before we can sail, we must have money to outfit your ship.

We find this money by seeking out people who have money and don't use these right now. They agree to put up the money for our business and supplies in exchange for a share of our financial results when we return from our business voyage, of course if we return. We are having a moan that they're demanding too large a share of our profits. The debate between lenders and borrowers have been continuing till current time too.

Today, majority of people who needs to borrow money requesting to banks rather than to rich individuals. But the basic understanding of processes of borrowing and lending haven't really changed. It's risky to lend money to someone. There is no guarantee that the lender will return the money, even if the borrower is an our old friend. But we should provide question : why people conduct lending activities. Answer is very simple: lending provides an opportunity to receive even more money. People often take risks if they think there's a good chance of making more money.

The activity of banking institutions is broad-based. In current conditions banks realize various types of transactions. They organize money turnover and credit relations, finance different spheres of the national economy and buy or sell securities. Banks realize transaction as intermediary and also conduct management of the property.

Bank's activity is concentrated not in the production sphere, but in the sphere of the circulation.

There are more actions, of course, and finer categories within this broad view. Commercial banks may offer other services such as brokering insurance contracts, giving investment advice and so on. They also provide a wide variety of loans and offer other credit vehicles like cards and overdrafts. However, the common theme among these activities is that they are aimed at providing a financial service to an individual or business.

Commercial bank as unique enterprise produces a product with significantly differs from material production's product. Bank produces not simple goods, it produces unique goods in the money, payment means. Besides these goods banks provides different kinds of services.

Bank is the organization that provides various financial services to people and business, for example keeping or lending money.

The bank is the organization established for attraction of money and their placement on its own behalf on the terms of recoverability, payment of interest and urgency.

Basic purpose of the commercial bank - intermediation in movement of cash from creditors to borrowers and from sellers to customers. Along with banks movement of cash in the markets carry out both others financial institutions such as investment funds, insurance companies, stock exchanges, etc. But banks as subjects of the financial market have two essential signs distinguishing them from all other subjects.

Firstly, the double exchange of debts is characterized for commercial banks, they place own debts (deposits, savings certificates, etc.), and the means mobilized thus place in debts and the securities issued by other issuers. It is one the main differences between banks and financial brokers and dealers who don't issue own debts.

Secondly, banks are distinguished by acceptance by itself unconditional obligations with the fixed amount of debt before legal body and individuals. It differs banks from various investment funds which all risks connected with change of cost of its assets and liabilities, distributes among the shareholders.

Depending on specifics of banks, they can be subdivided into two main types: issue and not issue. Banks issues are allocated with an exclusive right of issue of banknotes in the address. In Kazakhstan this kind of the bank is the National bank of the Republic of Kazakhstan.

The main functions of commercial banks are:

- function of accumulation and saving of cash reserves for the commercial banks, this function means that any commercial bank is obliged to store on the reserve account in National bank the sum in a certain ratio to the size of its deposits;
- function of the keeper of gold and foreign exchange reserves of the state;
- granting the credits and performance of settlement operations for government bodies;
- implementation of operations with the state securities;
- monetary policy implementation.

Describing of the commercial bank's essence needs studying of it structure. The structure of the bank and its management structure are different categories. The structure of the bank it is its building which gives possibility to function as specific enterprise.

The structure of the commercial bank includes four elements such as:

- is banking capital in form of specific capital which basically operate in loan form and always moves;

- banking activity which differs from the activity of other enterprises and institutions by the essence of main product;

- is special group of the people which have special knowledge in sphere of banking and banking management;

- it is production block which includes banking technique, constructions, means of communication, internal and external information, certain forms of productive material.

Banks are a critical intermediary in what is called the payment system, which helps an economy exchange goods and services for money or other financial assets. Also, people who have extra money that they would like to save can store their money in a bank rather than look for an individual that is willing to borrow it from them and then repay them at a later date. People who prefer to borrow money can go directly to a bank rather than trying to find someone to lend them cash transaction costs are the costs what are associated with finding a lender or a borrower for this money. Thus, banks provide lower transactions costs and act as financial intermediaries, so they bring savers and borrowers together. Along with making transactions what are safer and easier banks also play a crucial role in the creation of money.

According to all of them bank is the money and credit institution, which regulates circulation of the money in cash and non-cash forms.

2. Functions of the commercial bank

Commercial banks originally address the needs of business and industry. They provided services in spheres where business could safely deposit their funds or borrow money when necessary. Many commercial banks also provide loans and offered accounts to individual customers but they rendered most of their effort into serving business (commercial) customers.

Basic point for understanding of the banking activity's essence is the knowing the functions of the bank.

In economic literature are given three following functions of the commercial banks:

- The function of accumulation the resources;
- The function of transformation the resources;
- The function of regulation the money turnover.

According to its functions commercial bank accumulates temporarily free money resources and capital of own clients. Enterprises create accounts in the bank and using money from these accounts they carried out cash and non-cash transactions.

Private persons contribute own money resources for deposits which give to banks opportunity to transform them in credit. It reduces economic risks in comparison risk which are typical for direct transactions between borrower and

lender. Creation of payment instruments by banks lets to regulate money turnover and makes banks more economical due to realization non-cash payments.

Banking product in form of banking personal's cooperative work is the banking activity's result.

This product is typical only for bank. Neither other subject doesn't produces payment tools in cash and non-cash forms; only bank does it.

Each product has own service which presents a set of activities and process of the creation the banking product.

The list of banking services consists crediting, the organization of the payment process, deposit service.

Service needs realization of the operations. Banking transaction is specific kind of activity for creation the banking product.

3. Principles of the commercial bank's activity organization

Principles of banking activity describe rules which have to be keeping by banks in process of the creation own product.

Few principles are used in banking activity.

First principle means orientation for client's demands. Clients provide bank with work, create its incomes and influence for the success of its activity. Bank cannot exist without clients.

Second principle is the principle of mutual interest of the bank and its client. Using orientation for client's needs and rule «all for clients» banks realize partnership with them.

Third principle is the principle of rational (effective) activity. Banks try to avoid possible losses in it activity.

Fifth principle meant that bank works for money. This principle lets to compensate banking expenses for creation the banking product and to give profit.

Last principle consist is about ethical rules of the banking. Banking activity is based on following rules:

- Understanding its civil and professional debt for society;
- Maximal transparency of its professional activity for saving confidential information;
- Improvement the corporative management;
- Honest competition;
- Completeness responsibility for quality and results of its work.

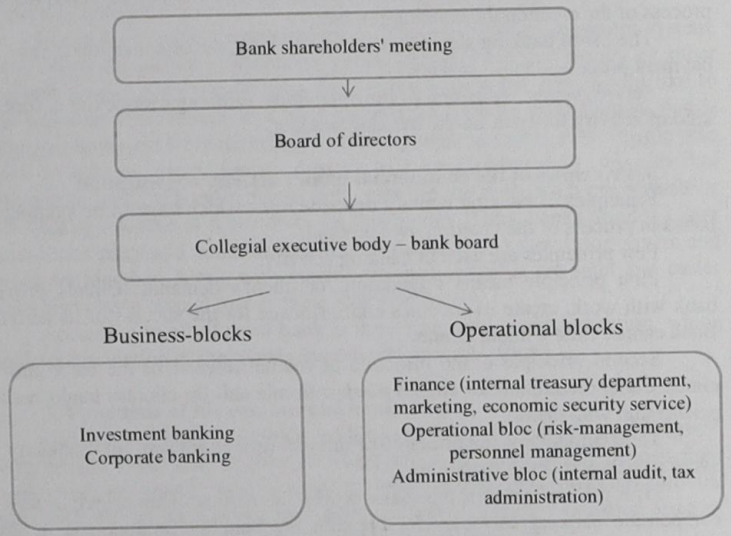
Combination business and ethical principles of banking activity lets banks more effectively realize its role in economy.

4. Organizational structure of commercial bank

The structure of banking management is dedicated by national laws and bank's function.

Organizational and administrative structures of commercial banks are regulated by foundation the charter which indicates basic information about managerial units in the bank and about its creation and functioning. Commercial bank's organizational structure indicates by two factors such as management structure and its functional departments' structure.

It is necessary to indicate that management's organizational structure is one of the main management theory's categories.



Picture 1 – Simplified model of banking organizational structure

Organizational structure in its classical understanding indicates three following characteristics:

- set of all departments and employees;
- horizontal and vertical relations between these elements;
- hierarchy levels which these elements have.

Banking organizational structure means bank's division in accordance with its activity's types.

Banking organizational structure's simplified model is given in following picture. It consists of two blocks – operational and business.

Supreme governing body in the commercial bank is meeting of bank's shareholders. It approves annual financial statement and indicates procedure fir the distribution of net income for the reporting financial year.

Tasks for self-studying

1. Describe main functions and principles of banking activity.
2. How is banking activity regulated in Kazakhstan?
3. Describe the essence of commercial bank operations.
4. What are specialties of banking activity?
5. What does bank secrecy include?
6. What does not commercial bank's secrecy include?
7. What is the commercial bank's organizational structure? Who does indicate it?
8. What are main functions and role of director's board?
9. Who are bank affiliates? What categories of person does it include?
10. What is difference between bank holdings and conglomerates?
11. Describe the specific of bank activity.
12. Would you complete a table describing main stages of Kazakhstan' bank systems reforming?
13. What is the main difference between bank holding and bank group?
14. Who does give the licensee for realization of bank activity in the Republic of Kazakhstan?
15. What is a main difference between a commercial bank and a central bank?

Tasks for research

1. Prepare for the discussion on the theme: "The current structure of the financial market".

During discussion is necessary to describe the role of each link in the structure of financial markets with specific examples of its ongoing operations.

2. Prepare for the individual presentation on "Instruments of the financial market». Is recommended to describe an instrument having used by a student himself or his family members their selves, such as payment card, stocks, etc. During the presentation, tell about the history of this instrument, the extent of its application in Kazakhstan, its advantages and disadvantages.

3. Provide an analytical report about current problems of commercial banks' functioning. We recommend use qualitative sources during the providing the report.

4. Complete the SWOT-analyze of current bank system in the Republic of Kazakhstan.

5. Complete the research about banks of the Republic of Kazakhstan which have provided bank activity abroad too.

6. Complete the essay about history of banking in the world.

7. Complete the essay about history of banking in the independent Kazakhstan.

8. Provide the research work on a subject: "Banks of the Republic of Kazakhstan: evolution of development and current states" (on the example of any commercial bank).

9. Provide the comparison of the Kazakhstani banking system and the banking system of one of the Soviet Union's republic's banking system.

10. Provide actual examples how stakeholders impact on commercial banks' activity.

Tests for self-checking

1. The financial market is a ...

A. Cash ratio, implying credit relations.

B. Money relationship implying a redistribution of the totality of the savings of the population.

C. Financial relationships that are the foundation of any country.

D. Distribution process of monetary capital between small businesses.

E. Distribution process of monetary capital between actors of the production process of the country.

2. What does determine the financial market:

A. Financial relationship is the basis of the activities of intermediaries in the market conditions.

B. System mechanism reallocating capital between lenders and borrowers through intermediaries within the formation of supply and demand for capital.

C. System capital redistribution mechanism between suppliers and buyers of goods, work and services, as well as to the system of supply and demand.

D. Monetary relations, implying a redistribution of the totality of the population savings and venture capital.

E. Monetary capital allocation process between actors sphere brokering of small businesses.

3. Who are the buyers and sellers in the market of financial services:

A. Economic entities regardless of ownership, public administrations executive population.

B. Individuals, entities, depending on the form of ownership (only private), public administrations.

C. Individuals, business entities regardless of ownership, public administrations.

D. Individuals, financial intermediaries, public administrations.

E. Economic entities, government controls the executive and legislative branches.

4. Factors that determine the function of the financial market:

A. Minimizing the role of the state in the redistribution of financial resources, lack of permanent capital increase population and businesses.

B. Minimizing the role of the state in the redistribution of financial resources, the use of a monetary fund to cover the country's budget deficit.

C. Complete independence of economic actors.

D. Minimizing the role of the state in the redistribution of financial resources, the full independence of economic actors.

E. Full independence of economic actors using a money fund to cover the country's budget deficit.

5. The original foundation of any financial market:

A. Gold.

B. Precious metals.

C. Money.

D. Electronic money.

E. The production of material goods.

6. What organizations do approach under the term the financial intermediary?

A. The commercial bank, self-regulated organizations, insurers, pension funds.

B. Stock exchange and commercial bank.

C. The commercial banks, self-regulated organizations, insurers, pension funds and other financial credit institutions.

D. Insurance companies and pension funds, stock exchange and commercial bank.

E. National bank of the Republic of Kazakhstan, stock exchange and commercial bank.

7. What financial institutions do function only in certain spheres of economy?

A. Investment banks.

B. Banks.

C. Commercial banks.

D. Credit associations and pawnshops.

E. Stock exchanges, the insurance companies and commercial banks.

8. Organizational form of activity of the commercial banks, gained the greatest distribution in Kazakhstan ...

A. LC.

B. Joint stock company.

C. Co-operative

D. Consortium

E. LLC.

9. What of these expressions does not describe the commercial bank's function?

A. Official establishing the rules of payments' providing.

B. Providing of payments.

C. Creating of payment resources.

D. Organization of securities' issue and regulation.

E. Money capital's accumulation.

10. Who cannot be commercial bank's founder?

A. State ownership's enterprises.

B. Government of the Republic of Kazakhstan.
C. Legal entities – Republic of Kazakhstan's non-residents.
D. Private persons - Republic of Kazakhstan's non-residents.
E. Banks - Republic of Kazakhstan's non-residents.
11. Who does regulate the banking activity in Kazakhstan?
A. National Bank of the Republic of Kazakhstan.
B. President the Republic of Kazakhstan.
C. Government of the Republic of Kazakhstan.
D. Ministry of Finance of the Republic of Kazakhstan.
E. Kazakhstan stock exchange.
12. The main objective of National bank of the Republic of Kazakhstan is:
A. Regulation of the non-monetary address;
B. Ensuring internal and external stability of national currency;
C. Protection of interests of commercial bank clients
D. Organization of calculations and cash service;
E. Protection of interests of bank.
13. Characteristic of function of National bank "bank of banks":
A. Carries out licensing to banking institutions;
B. Carries out a currency issue;
C. Regulates a rate of national currency to the foreign century;
D. Stores reserves of commercial banks, issues them loans, conducts supervision and control of activity of banks;
E. Issues loans to the governmental organizations.
14. What tool of a monetary policy is applied by National bank, urged to reduce risks of non-payment by banks according to their obligations, to protect interests of their clients, investors and shareholders of bank?
A. Operations in the open market;
B. Credits to banks;
C. Minimum reserve requirements;
D. Currency intervention;
E. Levels of rates of remuneration on the credits of National bank.
15. How is the tool of a monetary policy applied by National bank, characterizing purchase and sale of foreign currency in the interbank or exchange market for impact on a rate of tenge called?
A. Levels of rates of remuneration on the credits of National bank;
B. Currency intervention;
C. Minimum reserve requirements;
D. Operation in the open market;
E. Credits to banks.
16. Which of following characteristics does describe bank activity's essence?
A. Intermediation in credit operations.
B. Creation of credit circulation facilities.

C. Money resources' accumulation for transformation of theirs in loan capital.
17. What is the specific result of bank activity?
A. Organization of money-credit process.
B. Credit circulation facilities' creation.
C. Bank product's creation.
D. Providing transactions with gold coins.
E. Providing specific transactions with bank cards.
18. Legally, the relationship between a banker and its customer is which one of the following?
A. Membership.
B. Contract.
C. Custodian.
D. Trustee.
19. What is the main activity of financial institution of the Republic of Kazakhstan as carrying out common monetary policy?
A. Financial markets committee and the financial organizations of National bank of the Republic of Kazakhstan.
B. National Bank of the Republic of Kazakhstan.
C. Ministry of Finance of the Republic of Kazakhstan.
D. Ministry of Economy and budget planning of the Republic of Kazakhstan.
E. Committee on foreign investments.
20. … is an organization that provides various financial services to people and business.
A. A Bank.
B. Enterprise.
C. Firm.
D. Consortium.

Topic 2. Creation of bank resources and their planning

1. Bank resources and basic principles of their creation
2. Bank resources' sources and their features

1. Bank resources and basic principles of their creation

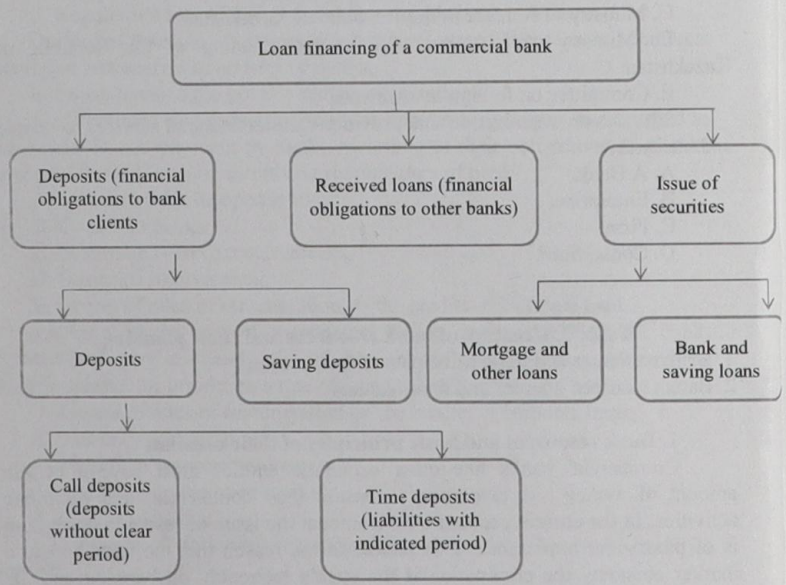
Commercial banks like other economic entities must have a certain amount of money, i.e. resources, to ensure their commercial and economic activities. In the current economic environment the issue of resource generation is of paramount importance. It is related to the reason that the transition to a marker economy the elimination if the state's monopoly on banking and the construction of a two-tier banking system the nature of the banking resources has changed considerably.

The extent of banks' activities as determined by the subject of their active operations depends on totally of the resources at their disposal and especially on the amount of resources mobilized. This situation exacerbates competition among banks for resources.

Commercial bank needs any sum of money resources for providing of own commercial activity. Banking activity's specific is that banks attract free resources from different sources and use these sources for satisfaction needs of enterprises, organizations and private persons. Commercial bank resources' composition and structure significantly affect the bank's liquidity and financial results.

Commercial bank's resources describe their equity, funds and resources attracted by banks in result of passive and active-passive operations. Commercial bank resources' sources are created in result of providing by banks passive operations. Passive bank operations are operations which provide increasing of money resources on passive or active accounts.

There are four forms of commercial bank's passive operations: primary issue of securities; deductions from the bank's profit for creation and increasing of funds; receiving of loans from other entities.



Picture 2 – Passive operations of commercial bank

Structure commercial bank's passive operations is fully described on the picture 2.

Passive operations let commercial banks to attract on a bank money resources which are already circulated. New resources are created by bank systems in result of active credit operations. First two forms of passive operations help to create own resources. Newt two forms of passive operations create loan or attracted credit sources. Own bank sources describe bank capital and equated positions.

Decision making about financial resources' composition includes following stages:

- research of the free resources' market condition;
- indication the tactics of behavior on the market;
- elaboration of alternative managerial variants;
- selection of the resource management's variant;
- measurement of management results.

The list of bank resources' creating principles consists few principles such as:

- presence of free resources' full and civilized market;
- presence of full and objective information about these sources;
- necessarily to manage liquidity.

2. Bank resources' sources and their features

Commercial banks' sources or bank sources describe set of all own and attracted bank sources which used for active operations' providing.

According to its creation's method all bank sources divide into two groups such as own sources and attracted sources.

Vast majority of bank sources is attracted sources.

Bank sources' structure includes two elements:

- equity (share capital, additional capital, reserve funds, undistributed net income of previous years, undistributed net income);
- attracted resources (call deposits, time deposits, household deposits, certificates, promissory notes, interbank loans, correspondent accounts).

According to resources' cost all resources can be divided into three groups: free, cheap and expensive.

Bank resources' first group includes the part of own sources which are financed by income.

The group of cheap resources usually consists of call deposits.

Expensive resources' group includes time deposits and resources which were bought in interbank market.

Attracted resources in accordance with client's type can be divided into three groups:

- bank's resources;
- entities' resources;
- private persons' resources.

Vast majority of attracted resources is funded by deposits.

Deposit means the sum of money or securities which were given to banks for temporary using.

According to its economic essence all deposits can be divided as call deposits, time deposits and saving deposits.

Call deposit meaning: In deposit terminology the term call deposit refers to a specific type of interest bearing investment account that allows a person to withdraw their money from the account without a penalty. In many cases the money can be withdraw from a call deposit account without prior notification to the bank. For example, a person with a call deposit account, besides earning a favorable rate of interest, also has considerably more access to their money than people with their money invested in other types of accounts. As a result, a call deposit account has considerable advantages over other types of interest bearing accounts when liquidity is required. A call deposit account allows the holder instant access to their account and the ability to withdraw their money at any time without having to pay an early withdrawal penalty or inform the bank in advance of their intention to withdraw their funds. Call deposit accounts generally have a minimum balance which must be maintained in order to take advantage of the benefits.

Bank's own resources are the most important part of the bank resources. In international practice this indicator is described by two aspects – as main capital and as additional capital. Main capital describes the shareholders' resources and participation' share in the capital of subsidiary companies and funds.

Additional capital includes hidden reserves and profit.

Tasks for self-studying

1. What do bank resources include?
2. Describe main principles of the resource base's creation.
3. What are passive operations? Describe their forms.
4. How is attracted resources' qualitative and quantitate analyze provided?
5. What does bank resources' structure include?
6. What do attracted resources include?
7. Describe more fully deposit and no deposit resources of a bank.
8. How we can describe the role of banks' deposit policy in improvement of the depositors' trust to commercial banks?
9. How can be provided of resource base's stability in commercial banks?

Tasks for research

1. Complete the data about deposit policy in five banks leading on the deposit market of the Republic of Kazakhstan.
2. Complete the SWOT-analyze of these banks deposit policy by comparison with deposit policy of foreign commercial banks.
3. Complete the research work about one of the commercial banks operating in the Republic of Kazakhstan by using their financial settlements from official web-sites.
4. Research foreign experience in the development of banking resources.
5. Provide the SWOT-analyze for deposit policy of one of the Russian subsidiary banks operating in Republic of Kazakhstan.

Tests for self-checking

1. The raised funds of commercial banks consist generally from:

A. Loans of commercial banks.

B. Call deposit, time deposits and savings deposits.

C. Interbank credits.

D. Loans of the state banks.

E. Treasury bills.

2. Passive operations of commercial bank are…

A. Operations on granting of credit to other second level banks and on receiving the lombard credit of National bank.

B. Operations on cash settlement service and reception of deposits, issue of own shares

C. Trust operations and leasing operations.

D. Credit operations, investments into securities, cash operations, intermediary and confidential operations.

E. Operations on issue of own shares and bonds.

3. …operations are the operations of banks and other credit institutions when entities' and individuals' money resources are attracted.

A. Trust.

B. Investment.

C. Loan.

D. Deposit.

4. … operations are the banks' operations when banks attract resources for creation own financial base.

A. Active.

B. Passive.

C. Commission-intermediary.

D. Trust.

5. What do commercial bank's passives include?

A. Unpaid documents' card file.

B. Investment in securities.

C. Loans receiving from other commercial banks.

D. Resources in turnover cash.

6. Bank's strategy about attracting of deposit resources is indicated by...
A. Its credit policy.
B. Its deposit policy.
C. Its accounting policy.
D. It percentage policy.
E. Its human resources' policy.
F. Its risk management's policy.
7. According to its economic essence all deposits can be divided as ...
A. Time deposits, call deposits, options.
B. Passive deposits, active deposits.
C. Saving deposits, passive deposits.
D. Call deposits, time deposits and saving deposits.
8. Which of following sources is (are) the bank capital' source?
A. Founders' divvy.
B. Profit.
C. Attracted money resources.
D. Share capital.
E. Additional capital.
9. What are money resources aimed to compensate possible losses on bank operations which are financed by profit's part?
A. Additional capital.
B. Reserve capital.
C. Special funds.
D. Share capital.
10. Current number of commercial banks in the Republic of Kazakhstan which capital consists of foreign capital too is:
A. Less than ten banks.
B. Between ten and twenty banks
C. Between fifteen and thirteen banks.
11. What kind of assets can be considered as an investment in banking equity:
A. Movable property.
B. Immovable property.
C. Cash.
D. Money resources.
E. Liabilities of another subjects.
F. Any sorts of the property.

Practical task

1. Indicate the volume of bank's basic and additions capital by using balance sheet of a commercial bank.

Table 1 – Balance sheet of any commercial bank

Balance sheet item	Sum, thousand tenge
ASSETS	
Cash and cash equivalents	51,996,783
Financial instruments at fair through profit or loans	295,920
Available-for-sale financial assets	757,542
Loans and advances to banks and other financial institutions	13,340,011
Loans to customers	131,824,973
Property, equipment and intangible assets	2,276,113
Deferred tax asset	-
Other assets	23,179,127
Total assets	223,670,469
LIABILITIES	
Deposits and balances from banks and other financial institutions	45,844,884
Current accounts and deposits from customers	145,182,100
Subordinated bands	7,022,664
Current tax liability	74,366
Deferred tax liability	39,537
Other liabilities	2,017,724
Total liabilities	200,181,275
EQUITY	
Share capital	20,785,466
Additional paid-in-capital	(112,895)
General reserve	957,976
Revaluation reserve for available-for-sale financial assets	(29,926)
Revaluation reserve for land and buildings	301,462
Retained earnings	1,587,111
Total equity	23,489,194
Total liabilities and equity	223,670,469

Topic 3. Commercial bank's equity and its functions

1. The essence and functions of the bank's equity
2. Structure of the equity and its characteristic
3. Assessment of capital adequacy
4. Share capital and its features

1. The essence and functions of the bank's equity

Bank's capital is property which is free from liabilities. In other words capital describes own property of a bank. Capital is the source of the commercial bank's resources. It describes special form of bank resources because has functional purpose and bases the bank activity's basics.

Bank passives' characteristic is that bank own resources' share is higher than attracted resources' share. There are few reasons this cause. Firstly bank realize redistribution of clients' free resources, because operate with resources of other persons and entities. Secondly bank assets are more liquid than assets of nonfinancial companies, because they are use in money form. It helps banks more intensively mobilize money resources for own obligations' execution and decreases need for own capital.

Bank's own capital forms in tenge as its founders' contributions, share capital, part of profit remaining in the bank after distribution.

There are stages of bank capital's planning:

- forming of the total financial plan;
- determination of capital's volume which are necessary for realization of banking activity;
- determination of capital's volume which bank can attract by using internal sources;
- determination and choice of more best capital sources for bank's purposes.

Equity's functions are following:

- the operative function which means that equity is used for financing all expenses. It is necessary in first stages of bank's activity;
- the safe function which characterizes that equity's volume depends on bank's ability to pay and its stability. Bank is able to pay if its equity is more than its liabilities. This function means the ability to pay compensations to depositors in case of bank' liquidation. Own resources let bank to save ability to pay by assets' reserving. Capital uses as «safe pillow» and lets continue bank's activity in negative conditions too;
- regulate function means that National Bank of the Republic of Kazakhstan controls and regulates the banks' capital level;
- the turnover function describes that equity can be used in any active bank operations, for instance for purchasing of securities, leasing transactions;
- the reserve function is realized in using of equity for compensation of losses. Banks create equity's reserve for reimbursement of risks. Using of own resources lets bank to save ability to pay by reserves' creation. However, vast majority of losses is compensated by current bank incomes. Different reserve funds are used for expenses' financing;
- the regulative function means that financial basic of bank transactions depends on society's interest to operate successfully. This function includes capital's using of loan and investment transactions.

Turnover capital means that own resources can be invested in any active bank transactions such as purchasing of securities, investments in buildings, leasing operations.

Reserve function is realizes by using of own capital for losses' compensation.

2. Structure of the equity and its characteristic

Bank's own resources include funds which were formed by bank and profits which were provided in result of activity current year and last years. Bank's funds are the basic of own resources.

Key point of bank activity is share capital. It has to be created in volume which was indicated by national banking law. Bank's share capital is created totally from its shareholders contributions.

Banks also have to form reserve find too. The main purpose of reserve fund is to compensate losses from active operations, paying dividends to privileged shares' holders in non-profitable times. Reserve fund is created as deductions from bank's net income. Reserve fund' size directly depends on share capital's size.

Bank can create other funds using bank profit. Usually development's fund and current expenses' fund are created. Bank's own resources also can include other elements too.

According to international requirements banks' own capital can be divided into two tiers – capital of first tier and capital of second tier.

Tier 1 capital consists of shareholders' equity and retained earnings. Tier 1 capital is intended to measure a bank's financial health and is used when a bank must absorb losses without ceasing business operations.

It includes the sum of elements such as paid capital or common shares, capital reserve, surplus reserve, general reserve, undistributed profit and minority interest that meets the criteria for inclusion in common first tier capital.

Tier 2 capital includes revaluation reserves, hybrid capital instruments and subordinated term debt, general loan-loss reserves, and undisclosed reserves. Tier 2 capital is supplementary capital because it is less reliable than tier 1 capital.

Tier two capital consists of elements such as financial instruments issued by a commercial bank that meet the criteria for inclusion in tier 2 capital and the stock surplus (share premium) resulting from the issue of such instruments, excess loan loss provisions.

Let consider excess loan loss provisions' definition more briefly. A loan made by a state chartered or national bank to an individual that is over the loan lending limit as established by law. The legal lending limit establishes the rule that state-chartered banks cannot loan more than 10% of their capital to any one borrower; national banks cannot lend more than 15% of their capital. Regulators want banks to lower their risk of loan default by not making large loans to

individual borrowers in this way. If a bank chooses to make an excess loan the bank's Board of Directors could become liable in the event that the borrower goes into default. If it seems like you're always late to the party when the market is swinging, it's because other investors are beating you to the news. Stay ahead of the pack by getting the latest insight and analysis in your inbox every morning and after the market closes. If you're tired of making losing trades day after day and are looking for an edge then why not sign up for free and start your day better informed and ready to take on the markets.

Most new kind of sources for our banks is subordinated debt. Subordinated debt is a loan or security that ranks below other loans and securities with regard to claims on a company's assets or earnings. In the case of borrower default, creditors who own subordinated debt won't be paid out until after senior debtholders are paid in full. Subordinated debt is more risky than unsubordinated debt. Subordinated debt is considered any type of loan that's paid after all other corporate debts and loans are repaid, in the case of borrower default. Borrowers of subordinated debt are usually larger corporations or other business entities. Subordinated debt is the exact opposite of unsubordinated debt in that senior debt is prioritized higher in bankruptcy or default situations.

3. Assessment of capital adequacy

The most commonly used assessment of a bank's capital adequacy is the capital adequacy ratio However, many analysts and banking industry professionals prefer the economic capital measure. Additionally, analysts or investors may look at the tier one leverage ratio or basic liquidity ratios.

The capital adequacy of banks is tightly regulated worldwide in order to better ensure the stability of the financial system and the worldwide economy, and also to provide additional protection for depositors.

The regulation and solvency of banks are considered to be critical because of the unique importance of the banking industry to the functioning of the economy as a whole. Monitoring the financial condition of banks is also important because banks have to deal with a mismatch in liquidity between their assets and liabilities. On the liabilities side of bank's balance sheet are very liquid accounts, such as demand deposits. However, a bank's assets primarily consist of rather illiquid loans. While loans can be – and frequently are – sold by banks, they can only quickly be converted to cash by selling them at a substantial discount.

The capital adequacy ratio represents the risk-weighted credit exposure of a bank. The ratio measures two kinds of capital. Tier one capital is ordinary share capital that can absorb losses without requiring the bank to cease operations. Tier two capital is subordinated debt, which can absorb losses in the event of a winding up of a bank. Some analysts are critical of the risk-weighting aspect of the capital adequacy ratio and have pointed out that the preponderance of loan defaults that occurred during the financial crisis of 2008 were on loans

assigned a very low risk weighting, while many loans carrying the heaviest weighting for risk did not default.

A related capital adequacy ratio sometimes considered is the tier one leverage ratio, calculated as a bank's tier one capital divided by the average value of its total consolidated assets. Many analysts and bank executives consider the economic capital measure to be a more accurate and reliable assessment of a bank's financial soundness and risk exposure than the capital adequacy ratio. The calculation of economic capital, which estimates the amount of capital a bank needs to have on hand to ensure its ability to handle its current outstanding risk, is based on the bank's financial health, credit rating, expected losses and confidence level of solvency. By including such economic realities as expected losses, this measure is considered to represent a more realistic appraisal of a bank's actual financial health and risk level.

Investors or market analysts can also examine banks by utilizing standard equity evaluations that assess the financial health of companies in any industry. These alternative evaluation metrics include liquidity ratios such as the current ratio, the cash ratio or the quick ratio.

4. Share capital and its features

Share capital denotes the amount of capital raised by the issue of shares, by a commercial bank. It is collected through the issue of shares and remains with the commercial bank till its liquidation.

Share capital is owned capital of the commercial bank, since it is the money of the shareholder and the shareholder are the owners of the commercial bank. The total share capital is divided into small parts and each part is called a share. Share is the smallest part of the total capital of a commercial bank.

Features of share capital are following:

Owned capital: Share capital is owned capital of the commercial bank. It is actually the money of the shareholders and since the shareholders are the owner of the commercial bank, so share capital is the owned capital.

Remains with the commercial bank: It remains with the commercial bank till its liquidation.

Dependable sources: Share capital is the most dependable source of finance for the joint stock companies.

Raises creditworthiness: It raised the credit worthiness of the commercial bank.

Substantial funds: It provides substantial funds to the commercial bank.

Available for: Share capital is easily available for expansion and diversification of business activities.

Amendment: The amount of share capital can be raised by amending the capital clause of the memorandum of association.

No charge: Share capital does not create any charge on the assets of the commercial bank.

Opportunity to participate: Share capital give its shareholders an opportunity to participate in the commercial bank's management with normal rights of shareholders.

Benefit of bonus shares: It gives it shareholders the benefit of bonus shares.

Benefit of limited liability: Share capital also gives its shareholders the befit of limited liability as the liability of its shareholders is limited up to the face value of each share.

Meaningful participation: Share capital enables its shareholders to have a meaningful participation in the expansion of bank sector.

Tasks for self-studying

1. What does bank's equity include?
2. Give description of own capital's structure.
3. What are most important functions of bank's equity?
4. Describe the elements of bank's capital.
5. What are requirement for the creations of commercial bank' equity?
6. Provide the titles of the laws what regulate the level of commercial bank's equity in the Republic of Kazakhstan.

Tasks for research

1. Complete the TOP-10 of commercial banks operating in the Republic of Kazakhstan depending on the theirs equity's size.

Tests for self-checking

1. What indicator does represent the risk-weighted credit exposure of a commercial bank?

A. The capital adequacy ratio.
B. The first tier capital.
C. The second tier capital.
D. Equity.
E. Share capital.

2. What kind of sources' volume is largest in a commercial banks?

A. Attracted sources'.
B. Own sources'.
C. Loan resources'.

3. What body does regulate the policy of creation the banks' equity in the Republic of Kazakhstan?

A. National Bank of the Republic of Kazakhstan.
B. Ministry of finance of the Republic of Kazakhstan.
C. Government of the Republic of Kazakhstan.
D. Directors of commercial banks.

E. Owners of commercial banks cooperatively with Government of the Republic of Kazakhstan.

4. Save and deposit certificates are included in one of the following sources…

A. Deposit sources.
B. Non-deposit sources.

5. …is the total value of the assets that a commercial bank owns minus debts.

A. Liabilities.
B. Equity.
C. Capital.
D. Assets.

6. … is the money for banking activities that a commercial bank obtains by selling shares rather than from loans.

A. Liabilities.
B. Equity.
C. Capital.
D. Assets.

7. Traditional in the terms of the Republic of Kazakhstan type of attracted banking sources:

A. Bond.
B. Share.
C. Deposit.
D. Deposit certificate.
E. National Bank's note.
F. Loans.

Topic 4. Deposit policy of the commercial bank and its features

1. Economic essence and classification of deposits
2. Role deposit policy of the commercial bank in the banking risk management system

1. Economic essence and classification of deposits

From the time of being independent state Kazakhstan began to modernize its economy and reform all its sectors. The most important result is the reforming of deposit market - as one of the strategic policy of commercial banks to mobilize domestic sources of investment. Transitional problems could not fail of its effect on the formation of a national deposit market, which led to its poor development in the early stages of development. The main reasons that determined this situation, Doctor of Economic Sciences A.Adambekova notes the following:

- The republic was not about investment funds received previously centralized and necessary not only to maintain the reforms, was forced to raise external borrowing, while ignoring domestic savings;

- The lack of majority culture deposit and positive experience to access services of financial institutions has caused subsidence trend of cash "on hand";

- The level of income of the majority of citizens of the state at the initial stage of the reforms is not allowed to accumulate savings and invest them even more into something, most of society was practically " on the zeros ";

- Different wave bankruptcy trust, venture capital firms, financial pyramids has further aggravated the general distrust of the commercial banks, the lack of government guarantees on bank deposits, also rejects it from the deposit of investment;

- The lack of effective and real indexation mechanism deposits, high inflation hindered the implementation of many large projects savings banks;

- Total dollarization of the economy due to the strengthening of the U.S. dollar in the domestic banking system led to a significant structural change in favor of the deposit portfolio of foreign currency deposits.

Kazakhstan deposit market along with the credit market can be attributed to the most "advanced" segment of the financial market, having particular history of its development. Deposit market value should be seen not only from the standpoint of its materiality in financial markets, but in terms of its role as an important component of the national economy, considered segmental aspect impact of the financial market:

-Due to the main role of deposit market - resource supplying and accumulating function forms for the national economy and for the financial market in particular, significant amounts of investment resources are cheap and reliable and what is more the most important source of Kazakh investments are its internal investments;

- The dynamics of the deposit market of any state characterizes the success and reliability of the financial market of the country, demonstrates the level of confidence of economic agents to this market and their state. At the same time the reliability of the deposit market is the main indicator, the indicator of moral tranquility of citizens, while the reliability of the credit market indicator and mark of moral tranquility major investors of the bank;

- In Kazakhstan the main vector of development of the financial market country during the period of its formation has been chosen by the market;

- Deposit market provides financial market does not just borrowings and means cheap enough in the total population succinct and have a decent life of the loan;

- The cost of deposit financial instruments underlies value of many financial market instruments. For example, when determining the value of a financial institution lending products comes primarily from the value received

from the sale of deposit instruments to ensure the profitability of the total population of the Institute;

- The development of the deposit market, with money and credit markets, contributed to the development of the banking system. We can say that developing and improving its deposit instruments, commercial banks in the country were able to develop their role, to strengthen their power and become the leading, cutting-edge business entities of our national economy;

- The quantity and quality traded in the deposit market Tool assesses overall level of confidence of economic agents to the very financial markets, and that is no less important to the state;

- The successful functioning of the deposit market contributed to the creation of conditions for the formation of the positive experience of private investment and involvement of individual investors to investment activities in the financial market;

- The development of the deposit market promotes the fastest growth financial literacy levels.

The role of the deposit market and its characteristic features observed today, developed as a result of influence of the following factors determining the development of the deposit market in Kazakhstan:

- An important condition that precipitated the successful development of the deposit market in Kazakhstan has become a measure introduced by the National Bank in the framework of reform of the banking system (15 February 1995) to restrict the access of commercial banks to the auction resources at the main bank of the country on the basis of the target, which limited their activity to credit market. As a result, banks were forced to carry out a more focused its activities on the deposit market instruments;

- Tax credits were an important stimulus to increase demand for deposit instruments with potential investors as full exemption from personal income tax at the time acted as an important tool in saving money for investors;

- Establishment of a system of collective insurance. Since January 1, 2000 in the Republic of Kazakhstan has a system of deposit insurance for private individuals, which is the central body of Guarantee Fund (insurance) individuals;

- Improvement of the legislation by introducing amendments on banking secrecy accounts for individuals, significantly increased turnover of deposit instruments;

- The launch of the pension market, where pension funds as financial institutions began to place part of the raised their pension savings in bank deposits, which greatly increased the amount of the deposit resources in the market and contributed to enhancing themselves depository institutions to develop and improve their deposit policies;

- Expansion of the network of branches and cash settlement centers, since 1999, to improve the quality of service increased access to deposit instruments and, consequently, increased their volume.

In the economic literature there are three main stages of development of the deposit market in Kazakhstan:

- "Perestroika" period lasted from 1990 to 1993. This period of "ruble zone" bringing time of banking system when the deposit resources were mainly represent the balances on deposit and savings deposits mainly Offices Savings Bank of the Kazakh SSR;

- Stage 1 - the period from 1993 to 1999 - the beginning of the formation of the basic parameters of the deposit market in the form of infrastructure concepts deposit policy and its implementation, expanding the range of deposit instruments, active outreach to the media;

- Stage 2 - the period from 2000 to 2004 - the beginning of growth and all the parameters of the deposit market, changing the structure of deposit instruments in favor of deposits in national currency , public confidence in the banking system in connection with the establishment and start of operation of JSC " Kazakhstan Deposit Insurance Fund ";

- Stage 3 - the period from 2005 to the present time - the heyday and increased competition in the deposit market, improvement and development of deposit instrument , liberalization of the treatment of deposit instruments , the emergence of new types of deposits in the form of conditional deposit instruments. This period is characterized by strengthening the position and image of national deposit market, due to the demonstrated Kazakhstan Deposit Insurance Fund guarantees the performance of its obligations under the bankrupt party, in which the Fund intends to pay off all deposit liabilities to depositors.

The resource base policy providing by commercial banks during their passive operations is one of most important elements of whole banking activity. The main part of commercial banks' sources is created during deposit operations. So, sustainability of credit organization depends on effective and right their organizations.

The provision of deposit and loan products is the main difference between banks and other types of financial firms. Deposit products pay out money on demand or after some notice. Deposits are liabilities for banks, which should be managed if the bank is to maximize profit. Likewise they manage the assets created by lending. Thus, the core activity is to act as intermediaries between depositors and borrowers. Other financial institutions, such as stockbrokers, are also intermediaries between buyers and sellers of shares, but it is the taking of deposits and the granting of loans that singles out a bank, though many offer other financial services.

Modern bank's practice is described by vast majority of contributions, deposits and save accounts. This is due to the banks' desire in conditions of

segmented and high competitive market more fully satisfy the needs of clients' different groups and attract clients' resources for bank accounts.

Deposit describes the total amount of money that has been paid into bank accounts in a particular area or country.

Bank deposits consist of money located into banking institutions for safekeeping. These deposits are made to deposit accounts such as savings accounts, checking accounts and money market accounts. The account holder has the right to withdraw deposited funds, as set forth in the terms and conditions governing the account agreement. The deposit itself is a liability owed by the bank to the depositor, and the word refers to this liability rather than to the actual funds that have been deposited. When someone opens a bank account and makes a cash deposit, he surrenders legal title to the cash, and it becomes an asset of the bank. In turn, the account is a liability to the bank.

Free money putting to bank play two role: it can be used as money and can be used as capital giving income.

There are several different types of deposit accounts including current accounts, savings accounts, call deposit accounts, money market accounts and certificates of deposit (CDs).

A current account, also called a demand account, is a basic checking account. Consumers deposit money which they can withdraw as desired on demand. These accounts often allow the account holder to withdraw funds using bank cards, checks or over-the-counter withdrawal slips. In some cases, banks charge monthly fees for current accounts, but they may waive the fee if the account holder meets other requirements such as setting up direct deposit or making a certain number of monthly transfers to a savings account.

Savings accounts offer the account holder interest on his deposits. However, in some cases, account holders may incur a monthly fee if they do not maintain a set balance or a certain number of deposits. Although savings accounts are not linked to paper checks or cards like current accounts, their funds are relatively easy for account holders to access. In contrast, money market accounts offer slightly higher interest rates than savings accounts, but account holders face limitations on the number of checks or transfers they can make from these accounts.

Like a savings account, a time deposit account is an investment vehicle for consumers. Also known as certificates of deposit (CD), time deposit accounts tend to offer a higher rate of return than traditional savings accounts, but the money must stay in the account for a set period of time. In other countries, time deposit accounts feature alternative names such as term deposits, fixed-term accounts and savings bonds.

Financial institutions refer to these accounts as interest-bearing checking accounts, checking plus or advantage accounts. These accounts combine the features of checking and savings accounts, allowing consumers to easily access their money but also earn interest on their deposits.

Based on the categories of depositors the following deposits are distinguished:

- Deposits of legal entities (companies, organizations, other banks);
- Deposits of individuals.

On purpose of designation deposits are divided:

- for retirement, for children's
- jackpot;
- general.

According to the degree of profitability classified:

- Deposits with monthly capitalization of income;
- Deposits with a market capitalization of income at the end of the contract;
- Deposits that pays periodic income;
- Deposits prepaid accrued income.

On the basis of the fixed interest rate on the deposit are distinguished:

- Deposits with fixed interest rate;
- Deposits with floating interest rates;
- Deposits without incurring interest rate.

Maturity deposits of commercial banks can be divided into following:

- Short-term;
- Long-term;
- Demand loan;
- Without time limitation deposits.

According to currency there are:

- Deposits in national currency;
- Deposits in foreign currency;
- Multi-currency deposits (with any combination of currencies).

In world bank practice also NOW-accounts are more used. It is an interest-earning bank account with which the customer is permitted to write drafts against money held on deposit.

2. Role deposit policy of the commercial bank in the banking risk management system

Deposit operations' realization means that any commercial bank designed own deposit policy which describes a set of a commercial bank's activities to define the forms, tasks and content of banking activities for the formation, planning and regulation of banking resources.

Deposit policy's implementation can be described from two positions. Firstly, deposit policy is the commercial bank's activity related to fund-raising by contributors and another creditors and regulation of appropriate combinations of funds' sources. Secondly, deposit policy characterizes activities to meet the liquidity needs of the bank through active fund-raising.

The ultimate goal of developing and implementing an effective deposit policy of any commercial bank is to increase the resource base while minimizing bank expenditure and maintaining the necessary liquidity for all types of risks.

Deposit policy-making is based on both general and specific principles. Deposit policy's general principles are principles which are uniform for central bank's public policies at the macroeconomic level and for policies at the level of each specific commercial bank. This group of principles consists of the principle of an integrated approach, the principle of scientific soundness, the principle of optimum and efficiency, the principle of unity of all elements of the bank's deposit policy.

Integrated approach is expressed both in the elaboration of the theoretical bases, the priorities of the bank's deposit policy from the point of view of its development strategy, and in the definition of the most effective, optimal tactics and methods for the present stage of the bank's development.

Specific principles of the deposit policy include principle of optimal bank costs, principle of deposit operations and principle of reliability. Since the bank accumulating temporary funds for the purpose of further investment does not seek to generate income at any price but takes into account the realities of the market in which bank operates. Compliance with these principles allows the bank to form both strategic and tactical directions in the organization of the deposit process, ensuring the efficiency of the deposit policy.

The main elements of the commercial bank's deposit policy are following:

- the commercial bank's strategy on development of deposit process's main directions;
- the commercial bank's tactics on organization of resource base;
- Management oversight of the deposit policy's implementation.

Generally, banks develop a document defining the strategy and tactics of the bank in organizing the deposit process. Document named Deposit policy of the commercial bank designed on the basis of an analysis of the structure, status and dynamics of the bank's resource base, and in close connection with such documents, which determine the main directions and conditions for the placement of the funds raised.

In deposit policy the commercial bank forecasts future growth of its own funds, their duration, the relationship between term deposits and demand deposits, etc.

The commercial bank's deposit policy should be consistent with its strategic objectives. During formulating the deposit policy the commercial banks should select own target customers. Either they are retail customers or they are legal entities or they are from both market segments. In a competitive environment commercial banks are forced to adopt an aggressive deposit policy.

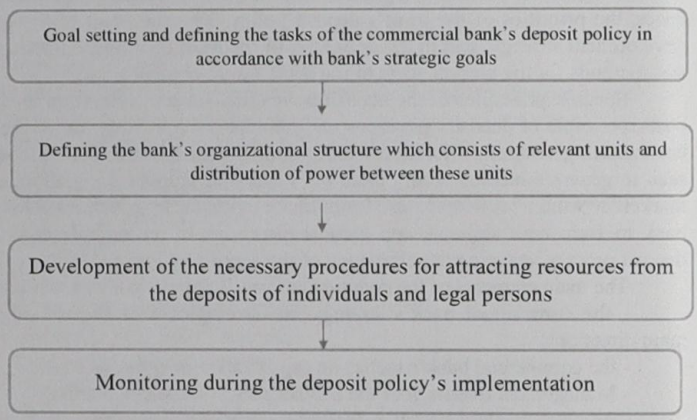
The commercial bank's deposit policy requires that particular attention should be paid to the risk management of deposit operations. The commercial bank's deposit risk management is based on maintaining the necessary level of

diversification of deposit resources at all times; As well as maintaining the balance of the bank's liabilities with its assets in terms of timing and interest rates, and ensuring that funds can be raised from other sources.

The main goals of the commercial bank's deposit policy are following:

- Attracting resources at minimal cost for longer periods.
- Providing liquidity to bank's balance sheet.
- The establishment of the conditions for sustainability of funds what were raised.

The main stages of the deposit policy's establishment are described on the picture 3.



Picture 3 – The main stages of the deposit policy's formation process

The commercial bank's deposit policy must be documented. It can be fixed as a stand-alone document for one or two years or it can be presented as a separate provisions for fund-raising from clients.

Provision on commercial bank's deposit policy usually consists of few chapters such as:

- General provisions.
- Commercial bank's resource policy objectives.
- Interaction of relevant units.
- The structure of bank's sources.
- Terms for attracting money.
- The list of documents necessary to open deposit in the commercial bank.
- The procedure to attract money and to formalize the fund-raising operations.

- Procedures for charging and paying interest on passive transactions.
- Records retention schedule.

Depending on the clients' composition and the commercial bank's activity directions its deposit policy may also include other chapters.

The commercial bank's deposit policy shall meet the following requirements:

- Cost-effectiveness.
- Competitiveness.
- Internal consistency.

Tasks for self-studying

1. Indicate a difference between basic capital and additional capital.
2. Give names of indicators which nowadays use for evaluation of equity's adequacy.
3. Describe all kinds of bank deposits.
4. What do you think is the difference between savings and investments?
5. What do you think are the benefits to the customer of having a current account?
6. What are some of the reasons why a customer might want to borrow money from a bank?

Tasks for research

1. Complete an analytical report about activity of Kazakhstan Deposit Insurance Fund by comparing its activity with the activity of similar organizations in other countries.
2. Analyze specialties of conditions using by banks for attraction free money resources of individuals for time deposits. What are banks are more profitable for depositors? Explain your point of view.
3. Prepare writing Information Market Overview deposits in Kazakhstan.

Tests for self-checking

1. Certificate of deposit is a ...

A. Written evidence on the contribution of Bank funds certifying the vendor to receive at maturity, the transfer amount and interest.

B. Down payment, payment after delivery, partial payments.

C. A written certificate issuer bank's contribution of funds certifying the investor to receive at maturity, the principal and interest.

D. Written testimony bank levying funds from the account of the depositor and the receipt of interest.

E. Conditional monetary obligation of the bank issued them on behalf of the buyer to the seller.

2. What forms of certificates of deposit are allocated in the world

A. Transferable and non-transferable.

B. Buyer and Supplier.

C. Major and others.

D. Cash and documentary.

E. Cash and trade.

3. What benefits have certificates before term deposits?

A. Providing a uniform flow of money into the economy.

B. Providing a stable exchange rate.

C. Producers provide incentives to invest their own capital in the national economy.

D. Acceleration Interest on invested capital, obtaining reinsurance risk investments.

E. The number of potential investors and can be sold early.

4. When Deposit Guarantee Fund of individuals became operational and who is the only constitutor?

A. Since 2000, the Ministry of Finance of the Republic of Kazakhstan.

B. Since 2000, the National Bank of the Republic of Kazakhstan.

C. Since 2000, the President of the Republic of Kazakhstan.

D. Since 2000, the International Monetary Fund.

E. Since 2000, the Association of Banks of Kazakhstan.

5. The relationship between a depositor and a banker is one of:

A. Trustee and beneficiary.

B. Member and depositor.

C. Debtor and creditor.

D. Bailor and bailee.

6. … the amount of money that has been paid into bank accounts in a particular area or country.

A. Loans.

B. Deposit.

C. Savings.

D. Accounts.

7. … is a person or an organization that puts money in a bank account.

A. Lender.

B. Borrower.

C. Depositor.

D. Beneficiary.

Topic 5. Non-deposit sources of resources' attracting

1. Non-deposit sources and features of its attracting
2. Planning of non-deposit resources and its meaning

1. Non-deposit sources and features of its attracting

Commercial banks' existing in economics of a country needs stable relations between them. These relations are realizing through system of correspondent relationships. Correspondent relations describing a certain degree of trust between banks-correspondents provide the realization of banks' mission.

Correspondent relations are based on wide variety of bank services. Interbank settlements are one of relations' kinds between banks. Interbank settlements provide clients' order to transfer any sum of money to accounts in other banks.

Before last period all settlements between commercial banks were realized by using of inter-branch turnovers' system. This system of settlements gave opportunity to effectively provide accounting and control these operations and described the process of resources' redistribution between bank institutions within a single bank which operated on base of governmental ownership.

Current system of interbank settlements is based on settlements' realization through commercial banks' correspondent accounts which were opened in agencies of National Bank of the Republic of Kazakhstan and also through banks' correspondent accounts which were opened on base of direct correspondent agreements between commercial banks.

Commercial bank can replenish own resources by using other banks' resources which are named as interbank credits.

All commercial banks usually have the time surplus or the time shortage of credit resources. This problem can be solved on the interbank credits' market.

Non-deposit sources by using credits from interbank market consist of following sources:

- attracting or selling of deposits which are saving on reserve account in the National Bank of the Republic of Kazakhstan;
- agreement about selling of securities with redemption's condition, repo transaction;
- short-term secured loan;
- discounting of bills, giving credits from National Bank of the Republic of Kazakhstan;
- selling of bank accepts;
- time-bills which are aimed to finance the foreign trade operations;
- commercial securities' issuing.

Main purpose of these operations is improving of the bank's liquid position.

2. Planning of non-deposit resources and its meaning

As was indicated before commercial banks can replenish own resourced\s by using other banks' sources.

Interbank loans are credits which were given by one commercial bank to other commercial banks. Using of interbank credits gives the opportunity banks

to more operatively manage own liquidity, more operatively attract necessary sum of money or allocate resources. Main object of interbank crediting is lack in payment turnover. Such credits' character is short-term. More actively on the interbank credits' market banks-leaders operate. Theirs income is interest margin or the difference between placement's interest and interest of resources' attracting. Operational systems such as Reuters Dealers provide technical possibilities to very operatively provide transactions. Operational system's income is created from fees and participants' subscription fee.

An interbank loans' market has following features:

- market's participants are all operating banks;
- market is oriented for using of counter payments;
- markets is high liquid;
- market is mobile and provides operative decision-making by each transaction's counterparties;
- percentage rates' abrupt changes.

Interbank credits can be attracted by two methods: through direct agreements or through financial intermediaries.

Credit relations' subjects are central and commercial banks. Banks having free credit resources sell them on interbank credits' market.

Most active participants of interbank loan's market are bank-dealers which operate by using own resources and can be borrower and lender. Theirs income is interest margin. Interbank crediting is one of financial market's biggest segments. Interbank credits are most operative sources for liquid balance's providing.

Percentage's level on the interbank credits' market depends on period of crediting.

Tasks for self-studying

1. What do non-deposit bank sources include?
2. Describe the current interbank settlements' system.
3. What is most important difference between deposit and non-deposit sources?

Tests for self-checking

1. What is interbank loan?

A. Resources attracted another way than using of clients' deposits.

B. A loan that one commercial bank makes to another.

C. It is a financial transaction and a type of debtor finance in which business sells its accounts receivable to a third party at a discount.

D. A type of financing that whereby a commercial bank gives an exporter cash up front so as to guarantee payment to them.

E. It is an atypical rental contract. The remuneration payable by the lessor represents the consideration afforded for the right to use the leasing asset.

2. What are non-deposit sources of a commercial bank?

A. Resources attracted another way than using of clients' deposits.

B. A loan that one commercial bank makes to another.

C. It is a financial transaction and a type of debtor finance in which business sells its accounts receivable to a third party at a discount.

D. A type of financing that whereby a commercial bank gives an exporter cash up front so as to guarantee payment to them.

E. It is an atypical rental contract. The remuneration payable by the lessor represents the consideration afforded for the right to use the leasing asset.

Topic 6. Assets and active operations of commercial banks

1. Essence of assets and indictors of assets' quality
2. Main directions of active operations' structure improvement

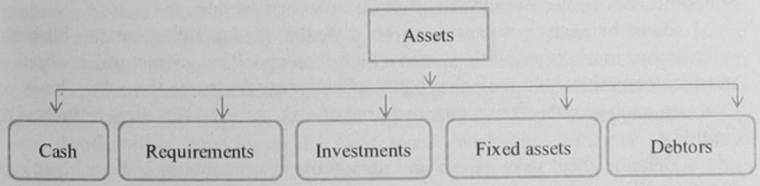
1. Essence of assets and indictors of assets' quality

Asset is a thing of value that a commercial bank owns, such as money or property.

Bank' assets characterize the direction of resources' using and have following characteristics:

- all bank assets depend on its passives;
- bank assets are divided into profitable assets and low-profitable assets;
- bank assets can be liquid and except fixed assets are financial resources;
- bank assets describe bank's relationships with economic subjects, individuals, National bank of the Republic of Kazakhstan, other commercial banks, international financial institutions and government.

The structure of banks' assets is described in next picture.



Picture 4 – Structure of bank assets

Commercial bank's active operations are lending operations for own, borrowed and contracted bank resources on the banking market, these operations represent a significant part of its operations. We should note that precisely this

sort of banking operations provides for commercial bank vast majority of its income. Therefore the role of the active operations is very important for any commercial bank.

Through active transactions banks channel the released during economic activity money resources for market's participants who needs capital for time. Therefore commercial banks through own active operations provide a capital's transfer to more perspective economic fields and help to improve the level of investments in production, implement innovations, realize economy's restructuration.

Active operations of commercial bank is first of all credit operations, investment operations, operations on formation of property of bank, settlement and cash operations, commission and intermediary (factoring, leasing, a forfeiting and other).

Active operations of banks are operations on delivery to different (placement) of the credits. The main type of loan, given out by banks, the short-term loan to economic agents, usually for financing of purchase of inventory items is. This loan can be issued under real providing or without it, but in any case its receiving requires existence of the reporting financial documents characterizing a financial position of the borrower the bank could estimate probability of timely repayment of the loan at any time.

Assets' structure means a ratio of balance sheet's items of different quality to balance sheet. We should note that quality of the commercial bank's assets is indicated by the appropriate structure of its assets what includes indicators such as liquidity, diversification of the active operations, the value of the assets providing income and volume of risky assets.

2. Main directions of active operations' structure improvement

Structure of bank's balance is one of most important factors indicating bank risk's level.

Balance's analyze needs to know not only bank's activity and total economic, political environment, client base's composition.

Bank balances' structure can be different in depending on the business orientation, markets conditions and clients' composition. Structural analyze is most informative stage of the bank effectiveness's evaluation. We have to evaluate each asset's element from point of risk, profitability and influence to liquidity.

Balance sheet item «Cash and resources on accounts in National Bank of the Republic of Kazakhstan» describes high-liquid assets such as banknotes, gold coins, ingots and deposits in National Bank of the Republic of Kazakhstan.

Credits and loans to clients are most significant component of bank's assets. It include loans for improvement of total working capital, investment credit, mortgage loans, debtors' financing. Credits and loans are given to banks in domestic or foreign currency for economics' financing.

Balance sheet items reflecting investments in securities and securities for reselling include securities which provide percent and investments in share capital of subsidiary companies.

Main purpose of the requirements for liquid assets is to provide foreseeable resources' movement.

Assets' quality is defines by four criteria such as liquidity, risky, profitability diversification.

Assets' liquidity describes its ability to transform in cash money through its realization.

Liquidity's main aim is to receiving maximal incomes.

Liquidity ratios provide the primary means of judging a bank's liquidity position. Norms for liquidity ratios of business firms are possible because their liabilities are predictable due to their fixed maturities. For banks, there are no universally recognized liquidity ratios as a large percentage of their liabilities (e.g. deposits) are due on demand. Nevertheless the following ratios can be used as partial indicators.

Cash Ratio. This ratio relates the sum of cash in hand and at banks including the Central Bank to total deposits. Most of these cash resources are not available to meet liquidity requirements, and total deposits is an imperfect measure of an individual bank's liquidity.

Loans to Deposit Ratio. This ratio is a measure of bank liquidity; the higher the ratio, the lower the liquidity. This ratio does not indicate anything about future loan demands or expected deposit withdrawals. It does not also indicate anything about the liquidity of the remaining assets or the nature of the banks' other liabilities which could be a source of great liquidity need.

Loans to Assets Ratio. The loans to asset ratio is similar to the loans to deposits ratio. Other things equal, a rise in this ratio would indicate lower liquidity and the need to evaluate other liquidity ratios. There is no standard way to measure a bank's liquidity. Those without access to internal data will have to use a number of ratios. Larger banks will have greater flexibility in liquidity planning because they can practice liability management nation-wide. Because of this ability, their liquidity planning horizon is much shorter than it is for smaller banks. Successful use of liability management techniques depend on many factors: capital adequacy, profit trends, growth in deposits and assets, the bank's past record in loan losses and the competence of bank management.

Profitability Performance The most common measure of bank performance is profitability. Profitability is measured using the following criteria:

Return on Assets (ROA) = net profit/total assets shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments.

This ratio indicates how much net income is generated per £ of assets. The higher the ROA, the more the profitable the bank.

Return on Equity (ROE) = net profit/ total equity.

ROE is the most important indicator of a bank's profitability and growth potential. It is the rate of return to shareholders or the percentage return on each £ of equity invested in the bank.

Cost to Income Ratio (C/I) = total cost /total income measures the income generated per cost. That is how expensive it is for the bank to produce a unit of output. The lower the C/I ratio, the better the performance of the bank.

A commercial bank's primary purpose is to make money from its assets. The assets are primarily in the form of loans. Some banks may also hold various securities as investments—especially for investment banks. But not all loans or investments have the same sort of risk. In calculating risk-weighted assets, we first segregate a bank's loans and investments into separate categories. Each category has a risk weight. For less risky loans and investments, this risk-weighted value is low. For more risky assets and investments, this risk-weighted value is high.

Tasks for self-studying

1. What is difference between bank's assets and passives?
2. What is difference between active and passive operations of a commercial bank?

Task for research

1. Complete a comparative analyze of active operations' scale providing by commercial bank operating in a Republic of Kazakhstan.
2. Complete the SWOT-analyze of the leaders on credit market. Which bank do realize more active credit policy and why?

Practical tasks

1. Complete the information about structure of a commercial bank. Indicate advantages and disadvantages of this structure. Use figures which were given in a table 1.

Tests for self-checking

1. Active operations of commercial bank are operations on …

A. Formation of credit policy.
B. Management of bank resources.
C. Formation of bank resources.
D. Formation of image policy.
E. Issue of shares

2. Active operations of commercial bank are:

A. Operations on issue of own stocks and bonds.

B. Operations on cash settlement service and reception of deposits, issue of own shares.

C. Trust operations and leasing operations.

D. Credit operations, investments into securities, cash operations, intermediary and confidential operations.

E. Operation on obtaining of credits from other second level banks and on receiving the lombard credit of National bank of the Republic of Kazakhstan.

3. What is a leasing?

A. It is a financial transaction and a type of debtor finance in which business sells its accounts receivable to a third party at a discount.

B. A type of financing that whereby a commercial bank gives an exporter cash up front so as to guarantee payment to them.

C. It is an atypical rental contract. The remuneration payable by the lessor represents the consideration afforded for the right to use the leasing asset.

D. It is a debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments.

4. What is a factoring?

A. It is a financial transaction and a type of debtor finance in which business sells its accounts receivable to a third party at a discount.

B. A type of financing that whereby a commercial bank gives an exporter cash up front so as to guarantee payment to them.

C. It is an atypical rental contract. The remuneration payable by the lessor represents the consideration afforded for the right to use the leasing asset.

D. It is a debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments.

5. What is a forfeiting?

A. It is a financial transaction and a type of debtor finance in which business sells its accounts receivable to a third party at a discount.

B. A type of financing that whereby a commercial bank gives an exporter cash up front so as to guarantee payment to them.

C. It is an atypical rental contract. The remuneration payable by the lessor represents the consideration afforded for the right to use the leasing asset.

D. It is a debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments.

6. What is a mortgage?

A. It is a financial transaction and a type of debtor finance in which business sells its accounts receivable to a third party at a discount.

B. A type of financing that whereby a commercial bank gives an exporter cash up front so as to guarantee payment to them.

C. It is an atypical rental contract. The remuneration payable by the lesso represents the consideration afforded for the right to use the leasing asset.

D. It is a debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments.

Topic 7. Crediting's system and its main elements

1. Crediting' system and its elements

1. Crediting' system and its elements

The credit market is a mechanism that establishes the relationship between economic and population requiring financial resources between economic agents and the public that they may be present on certain conditions. Credit market performs accumulation, distribution and redistribution of debt capital between sectors of the economy in the reproduction process, the movement of capital within the country, the transformation of money savings in capital investment.

The nature and role of the credit market determines the functions undertaken by them. Kazakh group of scientists led by Doctor of Economi Siences Iskakov U.M. identifies four features from the Kazakh credit market:

- Maintenance of commodity circulation through credit;
- Attracting money savings business entities, the public, state, foreign customers;
- Accumulation of funds directly to the loan capital and use it in the form of investment for maintenance of the production process;
- Ensure the service of the state and the population as a source of capital to cover government and consumer spending, as well as promoting education powerful financial-industrial groups.

The main participants of the credit market are the lender and borrower. Creditor is one party of the credit transaction, providing the loan. In order to give a loan the lender must have some fund. Their sources can become their own savings, resources, in turn, borrowed on the basis of return in other subjects of the reproductive process. In today's economy the bank - the lender can make a loan not only from their own resources, but also the expense of borrowed funds deposited in his accounts, and mobilized through placement of shares and bonds.

Forming banks creditors are appeared. Bankers are representatives of all other creditors. Banks as collective creditors can mobilize for the needs of all the lending resources, which are temporarily used in the national economy, as well as resort to emissions. In certain cases, lent values that are not free up resources. When a commercial loan lender provides the borrower products to be implemented. The very fact of shipment, however, does not turn the shipper into creditor. The gap in time between the arrival of the shipment of goods and

proceeds from the sale can cause a lender, but for this supplier of the goods must allow deferment of payment equivalent. Be aware that the lender did not itself generates purchase - sale, not the fact , the gap in time between the shipment of goods and payment, and that additional transaction that captures additional deferred payment, authorizes the payment is not immediately, but after a certain period of time.

Creditors act grantor resources in agriculture another owner for a specified period. Lenders tend to become voluntary. Cases where the borrower does not return the loan on time, prolong the life of the subjects of reproduction, acting as lenders violate the voluntary credit transaction, lead to tighter relationship with the borrower. Temporal boundaries of existence lenders loan terms are defined, which in turn, depending on the progress of the process of reproduction.

Borrower is a party credit relations receiving credit and obligated to repay the loan. The debtor and the borrower - close, but apparently not the same concept. Debt is a broader concept that characterizes the duty at all. In relation to credit transaction should not be talking about the debtor and on the borrower. Historically, individuals were experiencing the need for additional resources. At first they were small farmers who live by their labor such as craftsmen.

In modern time besides banks borrowers can be economic organizations and the state itself. Borrower unlike lender loan transaction has the following features. First, he is not the owner to lend funds, and acts as its own time, working with other people's resources which do not belong to him. Second, the borrower uses the loan funds in the sphere of circulation, and the manufacturing sector. The lender provides the loan in exchange phase, without going directly into production. Third, the borrower returns to lend resources, to complete the circuit in his farm. To secure the repayment of the borrower so must build the reproduction process to ensure the release of sufficient funds to make payments to the lender. Fourthly, the borrower not only returns the value obtained for temporary use, but pay the loan interest at the same time. Fifthly, the borrower depends on the lender who dictates his will to the borrower. Economic dependence on the borrower's lender makes efficient use of lent funds to fulfill its obligations as a borrower.

Entering the credit relationship, lender and borrower demonstrate the unity of its objectives, the unity of interests. Under the loan lender and borrower relationship may be reversed: the borrower becomes the lender, the borrower becomes the lender.

Nature of credit more fully revealed his laws of motion. Movement loan can be represented as follows: placing the loan - a loan borrowers - loan use - freeing up resources - return temporarily borrowed cost - getting a lender of funds deposited in the form of a loan.

Accommodation loan is an important point in its movement. The lender needs to be sure that its resources are located in the most efficient manner.

Banks as lenders make loans in accordance with the requirements of the fina stage - the return of the loan, its effective use. Getting a loan borrower is len transfer value at a certain time. In use, the consumer credit realized his value a a transfer object. Releasing resources characterized by the completion of the ac of the circuit value in the economic process of the borrower. Therefore, thi stage is the movement of the loan material prerequisite for entry into the nex phase of a new circuit.

Repayment of the loan borrowed temporarily expresses the transition cos from the borrower to the lender. The final phase of the movement credit is an ac of the creditor receives the value provided for temporary use.

All stages of the movement of funds as part of the full circuit lends value interconnected and interdependent.

Credit can be classified in accordance with the purposes of lending, type of borrowers and sphere of operation.

Loan is classified according to criteria such as the type of borrowers terms of use, type of necessity, conditions of use, method of repayment, th nature of the interest rate, the method of payment of interest, the currency of th loan, the number of creditors, conditions for loans and credit facility.

In banking practice the most common classification of bank loans by types of borrowers.

Loans to business enterprises earmarked for expenses and for working capital. One part of loans to commercial and industrial businesses is seasonal in nature, i.e. used to finance the seasonal changes of working capital requirements. Bank loans business enterprises can also be used as sources of capital expenditures, and their subsequent conversion into long-term loans by placing on the market of shares or bonds. Short-term loans are widely used ligh and food industry, trade, procurement, procurement industries.

Mortgage loans are issued to construction companies as a form of interim financing during the construction cycle. In foreign practice mortgage loans are repaid by the contractor at the expense of long-term loan received from special financial institutions. The category also includes mortgage loans to individuals for the purchase of immovable property under the mortgage. Banks often sell these mortgages financial agents of the mortgage market the state-controlled.

Bank mortgage loans are characterized by the following features:

- Relatively low risk when granting loans, since it provided the real estate;
- These are long-term loans;
- They provide for a stable clientele of the bank;
- The bank has an opportunity to diversify its loan portfolio as mortgages can optionally implement the secondary securities market.

Agricultural loans are available to finance agricultural enterprises seasonal expenses in crop and livestock production, namely blank seed, fertilizer, labor and fuel, as well as for the purchase of cattle for fattening and for the family. Bank loans to cover the costs of seasonal agricultural enterprises

tend to have a relatively small size and provided harvest technology, livestock. If the borrower does not have enough equity, then as collateral may be taken property and transfer lettering. Bank loans for the purchase of agricultural machinery, equipment and inventory are mainly medium-and long-term nature, hence their provision requires collateral. In foreign practice to secure widespread mortgage on movable and immovable property. Banks issuing loans secured by mortgages, loans to enterprises directly as the borrower is called to practice direct lending. Indirect credit to agricultural enterprises made by the bank by purchasing bills from vendors agricultural machinery, equipment and supplier, as well as the purchase of securities from financial agents of the mortgage market.

For non-bank financial institutions using bank loans include financial companies, investment banks, savings and loan associations, companies from transactions with mortgage, credit unions and insurance companies. Bank loan for these institutions is one of the main sources of market funds, which they then sent to the various kinds of loans, thus removing from the percentage difference corresponding profit.

Commercial bank loan is an instrument of redistribution of credit between banks within the correspondent relations. Borrowers and lenders are commercial banks, loans are redistributed to profit from the difference in percentage or to maintain current liquidity. Using Interbank loans due to two factors. First, on the correspondent accounts of commercial banks at the central bank is sometimes surplus which creates excess liquidity and reduces the bank's profitability. Therefore a commercial bank would be interested in a favorable placement of excess funds. Secondly, the excess demand for borrowed funds over supply of credit resources of commercial banks forcing them to get loans from correspondent banks.

Loans issued to brokers and dealers for the purchase of securities on demand. Loans for the purchase of securities traded both legal entities and individuals. Banks providing loan against securities, should ensure the financial stability of the issuer and the market value of the collateral. Preference is given to securities listed or having circulation in the over-the-counter market. Banks lending loans under the stocks or bonds should be informed that the borrowing of funds will be used for production purposes and to buy new shares.

Loans to foreign government authorities is intended to cover the state budget deficit, balance of payments and the large-scale investment programs.

Loans to foreign banks are also issued to finance large investment programs.

Bank loans authorities granted in connection with the temporary cash needs between tax revenues.

Bank loans are available to individuals in the form of consumer credit and personal loans. Such loans are given for purchase of durable goods, and they can be secured and unsecured.

Consumer loans are used to meet the borrowing needs of end users - individuals. Therefore, consumer loan is associated with higher living standards.

Depending on the timing of the use of bank loans usually are of four kinds:

- Short-term - up to 1 year;
- Medium - from 1 to 3 years;
- Long-term - more than 3 years;
- Loan demand.

Loans without limitation of time given by a bank for an indefinite period are called "on-call", that is loan demand. Such a loan the borrower must repay on demand bank. If the bank does not require repayment the loan is repaid at the discretion of the borrower. By the nature of software loans are distinguished to secured and unsecured.

Secured bank loans can serve as a pledge of property, guarantees and warranties in favor of the bank transfer of contracts and accounts receivable requirements of the borrower to a third party liability insurance contracts outstanding loans per borrower, providing travel and trade documents and securities secured by notes and providing insurance policies life insurance.

Depending on the conditions of use of loans are divided into one-time and renewable. The occasional loan each his extradition is an independent, legally isolated from other lending operations. With revolving credit issued under long-term relationship between the bank and the borrower 's credit limit and entered its total period within which the borrower can use the loan.

By the ways of repayment loans can be divided into the following types:

- Loans repayable in proportion, i.e. the loan is repaid within a certain time and equal parts of principal and payment for the loan;
- Loans repayable in a progressive way. In this case the amount of repayment of loans is increasing;
- Loans, repayable at the same time, i.e. the sum of loans repaid in one term.

Loans by the nature of the interest rate can be of two types:

- Loans with a fixed interest rate;
- Loans with floating interest rates.

By the method of payment of interest on the loans are divided into regular and discounted loans. Unlike conventional loans, provision of loans is to hold the discount lending rate (discount) for a loan.

In the classification of the loan by loan currency recovered loans in domestic currency and foreign currency loans.

By the quantity of creditors loans are divided into loans provided by one bank, syndicated (syndicated) loans and parallel loans. Most common are loans provided by one bank. However sometimes there is a need to bring together a number of banks to issue loans. The banks join consortia for joint action. In this case one of the banks becomes the manager while another one is the leading bank. It is responsible for agreeing the terms of a loan to the client, after the conclusion of the credit agreement provides a direct lending after the

accumulation of funds of banks included in the consortium. Leading Bank is also redistribution percent. These entire actions bank consortium appropriately rewarded. Parallel loans are expected to participate in their provision of at least two banks. Unlike syndicated loan negotiations with the client is carried out by each bank individually, and then, after an agreement between the terms of the loan, the loan agreement is shared with common conditions. Provision of loans made by each bank in proportion stipulated in the contract.

Under the terms of realization of loans distinguished cash (transferred to the account of the borrower) loans and acceptance (bank agrees to accept a draft) loans.

On objects lending bank loans are divided to meet costs in revolving funds to cover the costs of fixed assets and the cost of foreign economic activity.

Taking into consideration the classification of bank loans you need to stop on their classification according to the procedure of the National Bank of Kazakhstan approved at a meeting of the Directorate of National Bank protocol number 12 dated 27 April 1995. According to this technique the bank loans are classified into the following types:

- Creditor - centralized budget, bank, non-bank financial institutions, commercial and external;
- On borrowers - loans to financial institutions, non-budgetary funds, banks, nonbank financial institutions, loans to non-financial agents (by industries of all forms of ownership : industry, agriculture, trade, procurement organizations, supply and marketing organizations, cooperatives , private entrepreneurs) and loans consumer loans;
- On terms of use - short, medium and long term;
- On purpose and character of use - loans in fixed assets and working capital loans;
- By the presence and type of collateral - secured (forfeit, guarantees, liens), insured and unsecured (blank);
- According to the degree of repayment: term (standard loans with a maturity of not arrived and the quality is not in doubt) late (non-standard loans that carry little risk associated with delayed repayment of the loan for 30 days and extended more than once; unsatisfactory loans, the duration of the delay which is 30 to 60 days from the date of issuance of the debt at the expense of non-performing loans and extended more than once; questionable loans, the duration of the delay ranging from 60 to 90 days from the date of issuance of the debt at the expense of non-performing loans; unprofitable loans, delay period which exceeds 90 days;
- By providing currency - foreign currency loans in tenge;
- By ways of giving loan it can be avail (bank takes responsibility for the obligations of the client in the form of guarantees or sureties), acceptance, reimbursement, auction, exchange, mortgage, syndicated, loan to cover the debit

balance (overdraft), leasing, Lombard, discount, on-call, consumer, revolving standby, seasonal, factoring and forfeiting;

- By object lending - loans for lack of working capital loans aggregate inventory and production costs, credits for exports and imports of goods and the cost of economic activity; loans raw materials, tools and other property acquired by citizens concerned self-employed, deposit- lending operations of pawnshops seasonal gap between income and expenditure theaters, parks, attractions, to finance capital expenditure on salaries, loans fast payback and high activities.

Tasks for self-studying

1. Describe an economic essence of mortgages.
2. What are main principles of credit operation' providing in a commercial bank?
3. Describe all elements of the crediting's system.

Tasks for research

1. Complete the critical analyze of mortgage's development in the Republic of Kazakhstan.
2. Evaluate activity of JSC "Kazakhstan Mortgage Guarantee Fund" by using official data from Fund's web-site.

Practical task

1. LLP "Student" applied to the bank asking for a loan to expand production of washing powder in the amount of 50 million tenge for a period of 8 months. Credit policy of the bank provides loans to businesses that must not exceed 500 % of its own capital. At the filing date loans to businesses totaled 385,961 thousand, the bank's equity - 95,840 tenge. Required to determine whether the bank to accept the application for these purposes by specified amounts in accordance with the credit policy of the bank.
2. Customer of the bank appealed to the bank to ask for a loan for the purchase of a house at 19% per annum. He has current account of 30 million U.S. dollars in this bank. The annual income is 14,000 U.S. dollars. Price of the house is 120,000 U.S. dollars. Annual costs of the client - 6 thousand dollars.

You need:

- To identify documents that requires the bank from the client;
- Calculate the risk of lending;
- To make payments schedule.

Tests for self-checking

1. Under what conditions are provided long-term financial instruments on the capital market?

A. Monetary and repayment of coupon yield, percentage fees.

B. Interest reward.

C. Monetary and repayment of coupon yield.

D. Urgency of repayment.

E. Repayment and interest payment.

2. What is a mortgage?

A. It is the bank's obligation to provide the agreed amount in the contract at the request of the borrower.

B. The agreement between the banks to provide a simple term bank loan business entity.

C. It is a loan provided by mortgages.

D. This revolving credit that is renewable.

E. It is a perpetual loan, the borrower can get it on demand.

3. Loan with the opening line of credit:

A. It is the bank's obligation to provide the agreed amount in the contract at the request of the borrower.

B. The agreement between the banks to provide a simple term bank loan business entity .

C. It is a loan provided bail purchased housing.

D. This revolving credit that is renewable.

E. It is a perpetual loan, the borrower can get it on demand.

4. What is syndicated loan:

A. This is a revolving loan that is renewable.

B. It is a perpetual loan, the borrower can get it on demand.

C. This is the bank's obligation to provide the agreed amount in the contract at the request of the borrower.

D. This is a loan provided by the security purchased housing.

E. The agreement between banks to provide a simple term bank loan business entity.

5. The main creditors on capital market in Kazakhstan act...

A. Pension Funds.

B. State budget.

C. Commercial Banks.

D. Insurance Company.

E. Foreign governments.

6. Who is the borrower in the interbank market?

A. Pension Funds.

B. Commercial Banks.

C. Economic entities.

D. State budget.

E. Population.

7. Most developed today in Kazakhstan segment loan market?

A. The market for agricultural loans.

B. Consumer lending market.

C. Market mortgages.
D. The market for construction loans.
E. Market industrial loans.
8. Role loan market as a component of the financial market is ...
A. Financing the real economy;
B. The development of new production technologies;
C. Development of the scientific process of foreign states;
D. Uniting disparate small savings;
E. Rapid transfer of money.
9. Credit market is:
A. The mechanism by which established relationships with businesses and communities in need of funding.
B. Meet the seller and the buyer's capital.
C. Sale and purchase of capital expressed in bonds.
D. Feasibility scheme providing loan capital.
E. Sale and purchase of capital, expressed in actions.
10. Home mortgage lending in Kazakhstan has been associated with ...
A. Shortage of housing for young families.
B. The adoption of the Law "On mortgage of immovable property."
C. Reducing the demand for housing.
D. The development of housing and lack of demand for housing.
E. Increasing the price of land.
11. The main participants of credit relations:
A. State and entity.
B. Commercial Bank and the borrower.
C. Commercial bank and the client.
D. The borrower and the lender.
E. Commercial Bank and the state budget.

Topic 8. Credit process's organization and credit rating

1. Credit process and its elements
2. The credit initiation and analysis process

1. Credit process and its elements

Credit process is a set of any stages.

The credit process begins with a thorough analysis of the borrower' creditworthiness or capacity and willingness to repay the loan. The examiner should find an assessment by the credit officer of:

- the borrower's current and expected financial condition;
- the borrower's ability to withstand adverse conditions or «stress»;
- the borrower's credit history and a positive correlation between historical and projected repayment capacity;

- the optimal loan structure; including loan amortization, covenants, reporting requirements – the underwriting elements;
- collateral pledged by the borrower – amount, quality and liquidity; bank ability to realize the collateral under the worst case scenario;
- qualitative factors; such as management, the industry and the state of the economy.

It needs the completing all necessary documents. Credit documentation has to include all information necessary for indications of loan' aims, about basic and additional sources of its repayment, about basic and additional credit security.

Table 2 – List documents necessary for credit operation's providing

Document' name	Person responsible for preparing of the document
Application for credit	Company-potential borrower
Borrower's questionare	Company-potential borrower
Business-plan	Company-potential borrower
Company's constituent documents: Charter, Memorandum of association, Certificate of legal entities' state registration, Certificate about registration in statistical body, Card with specimen' signatures and seal imprint, Documents certificating the authority to provide this operation for the company	Company-potential borrower
Company' financial settlements for last three years	Company-potential borrower
Detailed explanation of accounts payable accounts receivable	Company-potential borrower
Certificate about existence or absence of loan debts	Bank institution servicing for this company
Certificate about existence or absence of debts to the budget and extra-budgetary funds	Tax body
Statement of account turnover	Bank institution
Statement of cash box's turnovers	Company-potential borrower
Contracts, agreements with partners	Company-potential borrower
Pledge and guarantee documents	Company-potential borrower
Copies of borrower's licensees	Company-potential borrower
Other law, financial documentation necessary for expertise's providing	Company-potential borrower

This process's first stage is the collection analysis and evaluation of information required to determine the creditworthiness of the borrower seeking credit from the bank. After the credit analysis is completed and borrower has been determines to be acceptable risk, the credit officer proposes a loan structure for approval that preserves the strengths and projects against identified weakness of the borrower. The process will be finished with determination of a risk rating for the credit and loan approval. The bank's credit policy, lending standards and procedures create the parameters for this process, thereby establishing the bank's appetite for risk, conservative or aggressive.

The credit policy and credit standards should define acceptable loan purposes, types of loans and loan structures, and industries to which the bank is willing to lend, as well as the types of information the lender is required to obtain and analyze. The policy and standards help to create the framework, requirements and tolerance limits for lending in which all bank credit personnel will engage. The lender must understand the bank's credit risk management system and his role in it, as he engage in lending activities such as analysis, underwriting and monitoring.

Credit underwriting is the process that banks undertake to structure a credit facility to minimize risks and generate the best return, given the risks that the banks assume. The credit structure includes the term of the loan, collateral required, amortization requirement, timing of interest payments and reporting requirements.

Best underwriting practices include protections for the bank to mitigate the risks and increase the likelihood of loan repayment. Such proportions include verification of cash flow to meet loan servicing requirements, proper loan covenants to preserve borrower strengths and limit weaknesses, and the requirement for sufficient, verified collateral and guarantees to provide a secondary or even tertiary repayment source.

Underwriting also includes the reporting required of the borrower during the life of the loan. The higher the risk identified in the credit, the more information will be required and the greater the frequency of the information. This reporting forms the basis of post-disbursement loan monitoring.

The structure of the loan is based on the analysis of the four credit foundations and should be approved in accordance with the credit authorities and approval procedures established in the credit policy.

The credit approval should also include confirmation of the borrower's credit risk rating and requirements for monitoring proposed by the credit officer. The higher the risk, the more stringent the monitoring requirements should be.

Loan disbursement should occur once all required documents have been signed and delivered to the commercial bank.

The loan agreement, a legal document binding both parties, is the most important document for the lender. It should be designed to control the borrower and contain protections for the bank. These protections include such items as

conditions under which are preserved and weaknesses are contained. The strengths and weaknesses should have been clearly identified earlier in the credit process, quantified and then reflected in the loan agreement to mitigate the lender's risk and exercise control.

Once loans are disbursed, the monitoring process begins. The purpose of loan monitoring is to identify as soon as possible any changes in the borrower's financial condition or performance that impact, or may impact, the borrower's capacity to repay the outstanding loan(s) to the bank as agreed. As noted above, the primary monitoring tool is the loan agreement.

The monitoring process is based on the weaknesses identified during the credit initiation and analysis phase. These may be weaknesses in the borrower's industry, financial condition or performance, changes in which could impact the borrower's capacity to repay the loan in accordance with the credit agreement. The lender should actively monitor the borrower's strengths and, particularly, the weaknesses identified during the underwriting process on a regular basis. The greater the weaknesses identified, the more frequent the monitoring. And, if new or worsening weaknesses are identified, the monitoring should be more frequent.

Typically, the credit agreement requires the borrower to submit financial and other information on a regular basis. Generally, the higher the credit risk, the more often information is required by the bank. In addition to this regular flow of information, the lender contacts the borrower by phone, in person or today by email to track how the borrower is performing. The credit file should contain evidence of monitoring by the credit officer: site visits, phone calls, interim financial reporting, and annual financial statements.

Of course, the best indicator of performance are loan and interest payments in accordance with the credit agreement, although on-time payments are not a guarantee that there are no credit problems.

The key to effective monitoring is regular, close customer contact and receipt of financial statements to ensure that the bank has current knowledge of borrower activities. Based on direct customer information, the analytical framework developed during the credit initiation and analysis phase should be used to track borrower performance. The credit officer should monitor any previously identified weaknesses closely and track identified strengths for deterioration. The bank/lender should pay particularly close attention to preserving the two sources of loan repayment – cash flow and security realization.

The primary monitoring tool, the loan agreement, should stipulate the requirements for information that the borrower must provide: types of information and frequency of submission. The loan agreement should also contain covenants that the borrower must observe during the life of the loan. Such covenants may include requirements to observe certain ratios, such as leverage and liquidity, at all times. They may also include certain prohibitions,

such as loans to company owners or officers, owner salaries or purchase of equipment without the written consent of the lender.

Once deterioration or negative changes are identified, the bank/lender must determine whether or not the changes are material enough to affect repayment capacity and, therefore, effect a change in the risk rating. A truly material change may even represent a loan default, a violation of the credit agreement (the so-called MAC or Material Adverse Change clause), which would give the bank an opportunity to restructure the credit.

A change in the risk rating sets in motion a series of other actions, including an increase in the loan loss reserve, as stipulated by the credit policy and central bank regulations. Other actions may include the demand for additional collateral, an increase in the interest rate, even demand for immediate loan repayment, "calling the loan."

Depending on the severity of the changes identified and the subsequent change in the risk rating, an action plan for the restoration of the credit risk rating should be developed, approved and executed.

Credit workout, or working with problem loans, should be covered in detail in the bank's credit policy. The process for dealing with borrowers whose capacity to repay is in doubt or has become impaired is the subject.

Banks have different methods for managing problem loans. Sometimes the responsibility lies with the originating loan unit, sometimes it lies with a special workout unit. The more complex the problem credit and the more bank departments that service the borrower, the greater the likelihood that a special workout unit will be charged with the responsibility of handling the loan. The bank's credit policy will dictate the methodology for working with problem loans.

There must be a mechanism for formal identification of a problem loan, such as a "watch list" and a "watch list "committee of problem credits. This mechanism is part of the process of informing senior management of the problem, so that a decision can be made about bank action as soon as possible. Generally, when a credit is placed on the "watch list," it receives a risk rating downgrade and a higher reserve because the capacity to repay has been, or is on the verge of becoming, impaired. A "watch list" committee meets on a regular basis to monitor progress in managing the "watch list" loans.

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The bank should have a methodology for making either the rehabilitation or exit strategy decision. This methodology should be communicated to all lending units throughout the bank so that a uniform approach to managing problem loans can be adopted. Of course, each problem loan is unique in its own way, but a uniform initial approach is essential.

Problem loans develop when credit weaknesses appear that impair, or will soon impair, the capacity of the borrower to repay. Successful loan workouts depend on early identification of credit weaknesses and adverse credit trends. This requires consistent loan monitoring to identify any deterioration in the borrower's creditworthiness that may cause a downgrade of the risk rating. Then, senior management must be informed promptly of the deterioration. Examiners should be alert to delays in reporting of problem credits to senior management because prompt action is crucial to successful management and recovery. Typically, the more time that elapses before action is taken, the greater the loss.

Examples of credit deterioration include a new import regulation that will impact an entire industry, fraud, loss of key management, loss of a critical contract or supplier, or a warehouse fire in which inventory was destroyed.

In order to evaluate the bank's credit process, the examiner will first need to ascertain what kinds of lending activities the bank participates in. What the bank chooses to do sets the requirements for the specific types of risk management systems used. After determining the credit areas that will be the focus of the examination, the examiner will begin by reviewing the bank's credit policy, standards and procedures. The policy, standards and procedures establish the bank's credit risk management system, from the general to the specific. The examiner must determine whether or not the policy and credit risk management system it sets forth is adequate for the types of loans the bank extends to its customers, the bank's credit risk profile. Further, the examiner must assess whether or not the credit process is adequate.

2. The credit initiation and analysis process

The objective of the credit initiation and analysis process is to ensure that loans extended by the bank meet credit policy guidelines and that credit standards and procedures established in the credit policy are observed in all geographic areas where the bank is active. The credit policy, updated

periodically as necessary, should clarify what types of loans are acceptable to the bank, what loan purposes, tenor, collateral, structure, and guarantees the bank will accept in its lending activities. In other words, the credit policy establishes threshold requirements that any prospective borrower must meet.

The credit initiation and analysis process should follow a typical diagnostic process flow, beginning with screening of potential customers and data collection, followed by identification, analysis and measurement of risks, and then moving to a series of specific risk evaluation and risk mitigation actions in preparing for a credit decision.

Analysis of risks associated with any borrower should focus on the four foundations of creditworthiness, shown below:

Industry involves the industry dynamics and the company's position within the industry. Weakness in the industry itself can significantly impact loan repayment ability and the company's position within the industry is an important issue.

Financial Condition focuses on the borrower's ability to generate sufficient cash, the first source of loan repayment, or to draw on existing resources, e.g., capital or assets, to repay bank borrowings. The credit analyst examines the income statement, the balance sheet and the cash flow statement to evaluate this foundation of creditworthiness, focusing on profitability, efficiency, liquidity, and leverage, in particular.

Management quality entails the competence, integrity and alliances of the key individuals running the company. Management weakness or dishonesty can have an impact on both repayment capacity and security realization. Depth of management is always a concern, especially in smaller, family run organizations.

Security realization determines the level of the bank's control over collateral and the likely liquidation value, factoring in time, i.e., net present value. Weakness in security realization threatens the second source of loan repayment.

The credit officer must have some knowledge of the industry in which the borrower operates, in order to assess the key industry factors that impact the borrower today and may influence the borrower tomorrow.

Analysis of the borrower's financial state may require an extensive effort, depending on the size and complexity of the borrower's business. The more complex the borrower, the more difficult it will be to analyze the financial statements and understand the interrelationship among the balance sheet, income statement and cash flow statement. If the borrower is part of a larger corporate structure, it will require an experienced lender, perhaps even a team of lenders, to fully understand the borrower's financial condition.

Evaluation of the competence, capability and honesty of management requires serious due diligence on the part of the lender. This evaluation requires an experienced lender who is capable of probing into the borrower's

relationships with customers, suppliers and other creditors in order to understand the borrower's business relationships.

At the same time the lender must evaluate the skill and competence of management. In the absence of competent, skilled, honest management (or an owner), in whom the bank has confidence, the loan should not be approved, even if all other factors are rated excellent. Management/the owner is in control and decides if and when to repay loans.

The credit analyst or officer must investigate the security or collateral that the borrower proposes to provide as support for the extension of credit and assure himself/herself of the value of the collateral in a liquidation scenario. In the worst case, what can the lender realistically expect to realize from sale of the collateral? The time value of money should also be factored in, especially if the collateral is real estate or a fixed asset whose sale is time consuming.

There should be evidence in the credit file of each borrower that the credit analyst and/or officer has thoroughly analyzed the four credit foundations and identified the strengths and weaknesses of each foundation in relation to the borrower. Once the analysis is complete, the internal credit risk rating should be assigned as the culmination of the analysis. The bank's credit policy should provide detailed guidance on assigning borrower risk ratings, including both quantitative and qualitative factors.

Tasks for self-studying

1. When a company publishes financial information infrequently, or when the reliability of the information is in doubt, commercial banks turn to alternative sources of information. What alternative sources of information have you seen?
2. What kind of indicators use for emerging credit quality problems?
3. What is a difference between credit memorandum and crediting's regalement?
4. What is diversification? How it can be used in crediting's process?
5. What is a difference in evaluation of the creditworthiness for individuals and for entities?
6. What are most important stages of the lending process?

Tasks for research

1. Research, when was the last time the banks changed theirs credit policy with regard to the type of information it requires from potential borrowers in the credit approval process.
2. Provide the comparative analyze of the conditions what commercial banks use when they realize credit activity in the Republic of Kazakhstan.

Practical tasks

1. Complete the entity's creditworthiness by using data giving in a next table.

Table 3 – Consolidated balance sheet of a JSC, thousands tenge

Balance sheet item	Sum,
Assets	
Non-current assets	**403 665 538**
Property and equipment	279 941 247
Intangible assets	18 873 247
Advances paid for non-current assets	95 597
Investments in an associate	97 488 509
Deferred tax asset	1 354
Other non-current financial assets	4 963 874
Other non-current assets	2 301 710
Current assets	
Inventories	3 930 583
Trade accounts receivable	24 031 334
Prepayments	543 363
Income tax prepaid	4 978
Other financial assets	31 270 978
Other current assets	3 798 325
Cash and cash equivalents	18 721 823
Assets classified as held for sale	-
Total assets	**485 966 922**
Equity and liabilities	
Equity attributable to equity holders of the parent	**359 744 721**
Charter capital	12 136 529
Treasury shares	(6 464 488)
Currency translation reserve	37 857
Other capital reserve	1 820 479
Retained earnings	352 214 344
Non-controlling interests	-
Total equity	**359 744 721**
Non-current liabilities	**91 540 750**
Borrowings	55 087 552
Finance lease liabilities	3 488 396
Deferred tax liability	18 481 255
Employee benefit liability	7 274 355
Debt component of preferred shares	874 156
Other non-current liabilities	6 335 036
Current liabilities	**34 681 451**
Borrowings	6 015 557
Current portion of finance lease liabilities	4 392 250
Current portion of employee benefit liability	511 689
Trade accounts payable	8 984 230
Advances received	2 203 861
Income tax payable	499 443
Other current liabilities	12 074 421
Liabilities directly associated with assets classified as held for sale	-
Total liabilities	**126 222 201**
Total equity and liabilities	**485 966 922**

Table 4 – Consolidated statement of comprehensive income, thousands tenge

Indicator	Sum
Continuing operations	
Revenue	47 695 856
Compensation for universal services provision in rural areas	1 326 795
	49 022 651
Cost of revenue	(29 902 960)
Gross profit	**19 119 691**
General and administrative expenses	(5 153 230)
Selling expenses	(285 200)
Operating profit	**13 681 261**
Share of loss of an associate	(1 307 162)
Finance costs	(1 441 712)
Finance income	1 080 456
Foreign exchange loss, net	(33 276)
Loss from disposal of property and equipment	(6 749)
Other income	1 168 638
Other expenses	(86 983)
Profit before tax from continuing operations	**13 054 473**
Income tax expense	(3 022 708)
Profit for the period from continuing operations	**10 031 765**
Discontinued operations	
Profit/(loss) after tax for the period from discontinued operations	57 399 863
Profit for the period	**67 431 628**
Attributable to:	
Owners of the parent	67 431 628
Non-controlling interests	-
Other comprehensive income	
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax):	-
Exchange differences on translation of foreign operations	(9 805)
Share of other comprehensive profit of an associate	136 782
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**126 977**
Total comprehensive income for the period, net of tax	**67 558 605**
Attributable to:	
Owners of the parent	67 558 605
Non-controlling interest	-
	67 558 605
Earnings per share	
Basic and diluted, profit for the period attributable to owners of the parent, tenge	6 116,85
Earnings per share for continuing operations	
Basic and diluted, profit for the period from continuing operations attributable to owners of the parent, tenge	911,86

2. A breach of a loan covenant usually triggers a default of the loan. However, most commercial banks prefer to negotiate a fee-based waiver of the default so long as the ultimate repayment of the tableloan is relatively assured. How many of you have seen loan covenants in a loan agreement?

3. As a potential lender, what are your thoughts regarding the potential strengths and weaknesses in lending to the following industries:

- oil;
- grocery stores;
- computer manufacturing;
- airlines;
- cellular telephone.

Tests for self-checking

1. Which credit's function is characterizes by creation of credit resources for theirs circulation?

A. Distribution function.
B. Emission function.
C. Control function.
D. Regulative function.

2. Credit potential of a commercial bank is...

A. Total sum of resources mobilizing by a commercial bank.
B. The sum of attracted resources.
C. The sum of attracted resources minus liquidity's reserve.

3. Which of following definitions more'fully describe the essence of bank's credit policy?

A. The credit policy is a policy'of creation of a bank' credit portfolio.
B. The credit policy is the in'ication of standards and procedures for credit's providing.
C. The credit policy is indicating 'f bank' activity ways in sphere of credit and investment'operations.

4. A security pledged for the payment of a loan named as...

A. Risk.
B. Security.
C. Collateral.
D. Percentage rate.

5. What is a capability?

A. The act or method of restricting, limiting or managing something.
B. The ability or qualities necessary to do something.
C. The quantity of goods that a company can produce.
D. Property or something valuable that a company promise to give a bank is it cannot pay a loan.

6. What is a capacity?

A. The act or method of restricting, limiting or managing something.
B. The ability or qualities necessary to do something.
C. The quantity of goods that a company can produce.
D. Property or something valuable that a company promise to give a bank is it cannot pay a loan.

7. What is collateral?

A. The act or method of restricting, limiting or managing something.
B. The ability or qualities necessary to do something.
C. The quantity of goods that a company can produce.
D. Property or something valuable that a company promise to give a bank is it cannot pay a loan.

8. What is a control?

A. The act or method of restricting, limiting or managing something.
B. The ability or qualities necessary to do something.
C. The quantity of goods that a company can produce.
D. Property or something valuable that a company promise to give a bank is it cannot pay a loan.

Topic 9. Banking operations with money market's financial instruments

1. Financial structure and money market instruments
2. Payment money market instruments

1. Financial structure and money market instruments

Money market consists of the following five segments: cash market, the market for payment cards market bills and promissory notes, bankers' acceptances market and market checks.

The following transactions in financial instruments of the money market are in circulation now in Kazakhstan:

- The transfer of cash (notes);
- Issuance of checks;
- Issuing bills or transfer by endorsement;
- The use of credit cards;
- Treatment IOUs.

Payments using cash produced by transferring them into the form of banknotes or coins that are legal tender. This type of payment is the physical transfer of banknotes or coins person exercising his face, in front of which the payer has the obligation. Cash payment can be made person to whom the monetary obligation is performed, either directly or through an intermediary.

Calculations are made using checks settlement, road and other checks - written orders payer to his bank to pay his bills with a certain amount of the check holder. In world practice, distinguish monetary and settlement checks.

Cash receipts are used to pay the holder cash in the bank. Settlement checks are used for cashless payments and is a document containing an unconditional order in writing of the owner of the current account (the drawer) to the bank for payment of the sum specified therein to a certain person or to bearer (the beneficiary). Checks payable may be covered and uncovered.

Covered drawer of the check in the bank can be:

- Funds deposited by check issuer in a separate account;
- Funds in the relevant account of the drawer, but not more than the amount guaranteed by the Bank in consultation with him when issuing checks. In this case, the bank can guarantee the drawer in the temporary absence of funds in his account payment of checks at the expense of the bank.

Together with checks regardless of their number bank provides the client identification card in one instance and identifies the drawer for each check issued. Check is nominal (payable to a certain person), bearer (payable to bearer) and made out to order. Banker's check issued in favor of a particular person or on his orders, that is, the drawer may transfer it to the new owner with the help of an endorsement. The advantages of check circulation can be attributed the fact that the checks allow calculated in all cases where it is impossible to pay by other payment instruments.

Through bills issued commercial credit. Providing a delay in payment, they are traded on the market, being bought and sold. Paper circulation may cover different areas: the relationship between banks and customers in the issuance of bank loans between society and the state (treasury bills), between individuals and legal entities without the mediation of the bank.

Bill is an unconditional obligation to pay a person for a certain amount of money in a certain place at a certain date. This abstract debt, which does not depend on any conditions.

Characteristic features are the notes:

- Unconditional monetary obligation;
- Abstract nature of the obligation;
- Strictly documented procedure of filling the bill.

Bill comes in two basic types: simple and transferable.

Promissory note (solo) is the bill containing the unconditional obligation of the debtor (the drawer) to pay to the lender (note holder) a certain amount of money in a particular place and time or by order of the lender to transfer funds to a third party. A distinctive feature of the bills that the debtor is individuals who gives the bill which is called the drawer. The holder of an instrument may be used in the calculation of the bill and its contractors, transferring their debts to the drawer.

A bill (draft) is a document regulating relations promissory three parties: the drawer, the debtor (drawee) and payee (remittee). Feature release and circulation of the bill is that it cannot serve as a simple means of payment. The essence of these relations in the following: the drawer (drawer) writes (traces) on a bill proposing the drawee to pay a certain sum of money to the payee in a certain place at a certain date. Remittee getting a bill is not sure in repaying to drawee. That is why it is necessary to be sure that the debtor agrees to pay bill amount. For this purpose the bill is sent to the drawee for acceptance.

In connection with the introduction of new technologies in Kazakhstan became possible application and use another instrument - a payment card - as a means of access to money through electronic terminals or other devices containing information to enable the holder of the card to make payments, withdraw cash, exchange rates and other operations defined by the issuer and its conditions.

Providing loans to each other, bypassing the banks, the population prepares IOUs notarized, which can also be regarded as a financial instrument of the money market.

2. Payment money market instruments

The main cash flow account for cashless currency, carried out through commercial banks.

Cashless monetary circulation is made through the following payment instruments: money order payment request, order, letter of credit.

Cashless payments are made by issuing a payment or filing a document containing financial obligation or an indication about the payment or payments by transferring a document or e-mail message containing an indication of the payment of money.

Settlements by payment orders are the easiest way to settlements between economic entities. This document is an instruction for the transfer of an economic entity to a certain amount from your account to another subject. Instruction is received from the payer for execution only if funds are available in the account, unless otherwise agreed between the bank and the account holder.

Payment request-orders - it calculated the document containing the seller to the buyer to pay on the basis referred to it by bypassing the bank settlement and shipping documents supplied under the contract price of the goods. Identifying the possibility of payment received payment request-orders payer gives the document in its servicing bank for the transfer of the amount accepted by them on account of the seller.

Letter of Credit is a conditional cash obligation of the bank issued them on behalf of the buyer to the seller, whereby the bank that opens the scoreboard (issuing bank) may make payments to the seller or to authorize another bank to make such payments if the documents stipulated in the Credit and when the other conditions of the credit.

Thus, payment instruments of money market play an important role in the implementation of movement and redistribution of financial resources. Cashless circulation of money is going through them, holding a major share of money turnover both within the country and abroad.

Tasks for self-studying

1. Who does regulate the money supply?

2. What does the balance in the money market and when this phenomenon occurs?

3. List the instruments of monetary policy and explain their action.

Practical tasks

Task 1. The volume of production in the country increased by 6%, the money supply by 20%. How the average level of prices has changed at a stable rate of turnover of money?

Task 2. Production increased by 6%, the money supply by 24%, the average price of 7%. Calculate the index of turnover in the money supply.

Tests for self-checking

1. What relationship expresses the totality of all the cash resources of the country are in constant motion:

A. Economic relations.

B. Adjustable relationship.

C. Financial relationships.

D. Mediation relationship.

E. Cash relations.

2. What has been the regulation of the circulation of money?

A. Control of cash and non- cash turnover of the country.

B. Control of non-cash turnover of the country.

C. Control of cash turnover of the country.

D. In the Control of the exchange rate and inflation.

E. In the sphere of control of trade in financial instruments in foreign countries.

3. For any economic entity money market solves the problem of its current liquidity?

A. Commercial Banks.

B. State.

C. Households.

D. Economic entities.

E. Ministry of Finance.

4. Bill is ...

A. Variety of quasi money.

B. Variety of credit money.

C. Variety of non-cash.

D. Variety of paper money.

E. A variety of electronic money.

5. Check - it is...

A. Written form of the order to repay the buyer's account by the supplier

B. The written form of the deal with the bank to transfer a certain amount before payment.

C. The written form of the transaction with the bank not to transfer a certain amount of payment before the contract.

D. The written form of the order to pay the bank account holder or transfer an amount of money.

E. The written form of the security.

6. Money in the commodity-money relations play a role of

A. Reserve.

B. Definitions of the value of gold in relation to credit money.

C. Value measuring.

D. Definitions of the value of gold in relation to foreign currencies.

E. Measurements of capital investment.

7. What functions does the money play?

A. Measure of value, medium of exchange, a means of payment means of formation of the family budget.

B. Measure of value, medium of exchange, a means of payment means of accumulation, world money.

C. Measure of value, medium of exchange, means of payment, means of the exchange rate regime.

D. The measure of income and expenditures of enterprises, storage means, world money.

E. Measure the system definition of income and expenditure of all economic agents, storage means, the world's money.

8. Function of the money market:

A. Measure the system definition of income and expenditure of all economic agents, storage means, the world's money.

B. Billing, providing commercial lending, accounting function.

C. Provisions investments in the real sector of the economy, the world's money.

D. Measure of value, medium of exchange, participation in all non-cash transactions, means the exchange rate regime.

E. Determination of commodity value, medium of exchange, a means of payment means of formation of the family budget.

9. What types of checks are distinguished in the world?

A. Derivatives and foreign exchange; limited and not limited, emission and emission.

B. Settlement and cash.

C. Derivatives and foreign exchange.

D. Limited and not limited.

E. Emission and emission.

10. Which area of circulation do bills cover?

A. The relationship between banks and customers, the relationship between state and society, the relationship entities non-residents.

B. The relationship between banks and customers, the relationship between state and society, the relationship between individuals and legal entities with mandatory mediation bank.

C. The relationship between banks and customers, the relationship between society, the relationship entities non-residents.

D. The relationship between banks and customers, the relationship between state and society, the relationship between individuals and legal entities without the mediation of the bank.

E. Relationship entities non-residents and residents, as well as importers and exporters.

11. Characteristic signs of bills:

A. Unconditional nature, abstract, strictly formalized procedure monetary form of payment.

B. Required bill discounting in commercial bank debt and unconditional.

C. Strictly formalized procedure kind and cash payments.

D. Debt nature, participation of two parties.

E. Kind and cash payments, unconditional, mandatory bill discounting at a commercial bank.

12. The circulation of money in non-cash forms of calculations made by ...

A. Derivative securities.

B. Payment instruments.

C. Transfer

D. Calculation.

E. Paid bills.

13. What is credit?

A. Bank Order Supplier buyer's bank to transfer money.

B. Order of the buyer's bank to the bank for money transfer provider.

C. It is a double bond bank issued it on behalf of the buyer to the seller.

D. Order the buyer's bank for payment remittance.

E. Order the seller's bank to the payment remittance.

14. A revocable letter of credit - it is ...

A. Credit that cannot be changed after the deal before the appointed time.

B. Credit that may be canceled or changed by the issuer bank without prior agreement with the seller.

C. Credit such as the seller's bank credit assignment to the payment remittance.

D. Credit that can be changed in advance before entering into the transaction.

E. Credit that instructs the buyer's bank for payment remittance.

Topic 10. Commercial bank's currency transactions

1. The notion of the foreign exchange market and the role of the commercial banks in its structure
2. Currency transactions and their characteristics

1. The notion of the foreign exchange market and the role of the commercial banks in its structure.

Foreign exchange market is a mechanism by which establishes the legal and economic relationships between consumers and sellers of currencies.

Foreign exchange market is a system of sustainable economic and institutional relations arising in the implementation of operations on purchase and/or sale of foreign currency, payment documents in foreign currencies as well as operations on the movement of capital from foreign investors.

Currency exchange operations existed in the ancient world and the Middle Ages. However, the modern foreign exchange markets emerged in the 19th century.

The main prerequisites, contribute to the formation of the currency market in the modern sense is as follows:

- The development of a wide variety of international economic relations;
- The creation of the world monetary system based on the organization and regulation of monetary relations, fixed by international agreements;
- Widespread credit for International Settlements and payments;
- Consolidation and centralization of bank capital, the broad development of correspondent relations between banks in different countries, including the maintenance of correspondent accounts in foreign currency;
- The development of information and communication technologies: the telegraph, telephone, telex, making it easier contacts between foreign exchange markets and reduced the time to get information about transactions.

Developing the national currency markets and their interaction formed a single world currency market, which began to circulate freely leading currency in the world's financial centers.

On the foreign exchange market can be committed transactions of two types:

- Retail transaction - in which the bank in the sale interacts directly with the client;
- Wholesale interbank trade transaction in which two banks interact with each other using the currency broker, thereby forming an interbank market.

The main participants of the foreign exchange market are:

1. Central banks. Their functions include management

State foreign exchange reserves and to ensure exchange rate stability. To implement these tasks can be carried out as a direct foreign exchange intervention and indirect effects - through regulation of the refinancing rate, reserve requirements, etc.

2. Commercial banks. They spend the bulk of foreign exchange transactions. Banks maintain accounts and other market participants carried out through them as necessary for the purposes of conversion and its deposit and lending operations. Banks concentrate the combined needs of commodity and stock markets in the exchange rates, as well as in attracting / placement of funds. In addition to satisfying clients' requests, banks can operate independently and at their own expense. Ultimately, the international foreign exchange market (forex) is the market of interbank transactions. Biggest influence major international banks, the daily volume of transactions of billions of dollars. The volume of interbank one contract with real currency delivery at the second working day (spot market) is usually about 5 million U.S. dollars or its equivalent. Conversion price of one payment is from 60 to 300 dollars. Besides, we have to bear the costs of up to 6 thousand dollars per month for interbank informational trading terminal. Because of these conditions, do not spend on Forex conversions small amounts. To do this, cheaper to turn to financial intermediary (bank or exchange broker), which will convert for a certain percentage of the transaction amount. With a large number of clients and applications regularly divergent situation arises internal clearing when the intermediary is not required to contact the counterparty (no need to carry out a real conversion through Forex). But their commissions intermediaries receive from clients always. It is because of the fact that the Forex fall not all client applications, intermediaries can offer customers a commission that is substantially lower cost of direct operations on Forex. At the same time, if you eliminate the middlemen, the cost of converting to the end client is bound to increase.

3. Firms that conduct foreign trade operations. Total applications from importers form strong demand for foreign currency and exporters - its bid, including in the form of foreign currency deposits (temporarily idle balances in foreign currency accounts). Typically, firms direct access to the foreign exchange market does not have and spend conversion and deposit transactions through commercial banks.

4. International investment companies, pension and hedge funds, insurance companies. Their main task - diversified portfolio management, which is achieved by placing assets in the securities of governments and corporations in various countries. At the dealership slang they are called simply funds. To this type may also include large multinational corporations engaged in foreign manufacturing investment: creation of subsidiaries, joint ventures, etc.

5. Currency Exchange. In some countries operate national currency exchanges in functions include exchange for businesses and the market exchange rate formation. The state usually actively regulates the exchange rate, using the compactness of the local exchange market.

6. Foreign exchange brokers. Their functions include the reduction of the buyer and seller of foreign exchange and implementation between conversion or deposit and loan operations. For its mediation brokerage firms charge a

brokerage fee as a percentage of the transaction amount. But the amount of the commission is often less than the difference between bank lending rates and rates on bank deposits. Banks can also perform this function. In this case, they do not give credit, and do not bear the risks involved.

7. Individuals. Citizens carrying out a wide range of operations, each of which is small, but the amount can generate significant additional demand or supply: payment of foreign tourism, remittances of wages, pensions, royalties, purchase / sale of currency as a store of value; speculative currency transactions.

8. Currency market participants perform the functions of remittances, hedging, clearing and credit. The simplest of these functions are the remittances. When hedging the currency market participants seek to protect themselves from currency exposures of potential losses, we conclude, for example, that may increase the tenge against the dollar. In this case, it may proceed to hedge by buying tenge. Such purchase tenge captures the dollar value of the goods and provides protection when the exchange rate.

In the currency market that banks use the following important tools:

- Telegraph or electronic funds transfers with perpetual deposits;
- Bank promissory notes payable to bearer;
- Commercial drafts.

Currency transactions impossible without currency exchange between participants of the currency market and determine proportional currency of one country by another country's currency. Such a mechanism is performed by currency quotations.

Currency quote - the definition of currency movements between the two countries, which is established on the basis of the ratio of their monetary units proposed for exchange. This ratio varies depending on supply and demand in the foreign exchange market.

Based on the foreign exchange market instruments, its structure includes the foreign exchange market, the market of refined gold bullion market for postal orders, the market for international payments and transfers, the market of payment instruments in foreign currency, securities market in foreign currency.

2. Currency transactions and their characteristics.

Currency transactions is real money traded in the foreign currency market and payment documents in foreign exchange. On the territory of Kazakhstan currency transactions can be carried out by residents and non-residents through authorized banks and non-bank financial institutions, exchange offices.

By the object currency transactions are classified into transactions with foreign and local currency; securities transactions in foreign currency; operations with precious metals and stones.

On the territory of the foreign exchange transactions are divided into domestic and foreig operations.

By type of relationships within which to conduct foreign exchange transaction, it distinguishes between the following types:

- Financial and legal - listings repayment of tax payments;
- Administrative law - payment of fines in foreign currency;
- Civil - currency payment resident importer on under the contract transfer in favor of the transport of the resident;
- International private law - residents in foreign currency payments favor of non- export-import foreign trade contracts;
- International public law - in favor of currency transfers international organizations.

In the Republic of Kazakhstan currency relations are governed by the Law of Kazakhstan "On currency regulation" under which foreign exchange transactions are divided into two groups: current operations and operations related to the movement of capital.

The main types of current operations include:

- Translations for the settlement of export- import transactions providing deferred payment or advance payment for goods, works and services for a period not exceeding 180 days;
- Giving and receiving credits for a period not exceeding 180 days;
- Transfer and receipt of dividends, interest and other income from deposits, investments, borrowings and other transactions;
- Translation of non-trade concerns, including grants, transfers of amounts for transactions inheritance, wages, pensions, alimony, and others.

The operations involving the movement of capital include:

- Realization of investments;
- Translations for the settlement of transactions providing a full transfer of exclusive rights to intellectual property;
- Transfers in payment of property rights to real estate, except for the property, which is equated to real estate;
- Translations for the settlement of export- import transactions providing deferred payment or advance payment for goods, works and services for more than 180 days;
- Giving and receiving credits for more than 180 days;
- International transfers for transactions related to the accumulation of pension assets and insurance contracts incremental nature;
- The transfer of the trust management of currency values .

At the current exchange market are the following types of transactions.

1. Currency transactions for immediate delivery ("spot"). Spot transactions are transactions for buying and selling currencies on the conditions of its immediate delivery counterparty banks no later than the second business day after the date of the transaction , during which the fixed rate of sale / purchase. Currency transactions for immediate delivery are the most mobile element currency positions are subject to certain risks. With operations "spot"

banks provide the needs of their clients in foreign currency, capital mobility, including "hot" money from one currency to another, arbitrage and speculation.

2. Forward transactions in foreign currencies. For urgent currency transactions include forwards, futures and options transactions and currency swaps.

To carry forward transactions on purchase and sale of foreign currency in which the price (bid - sale) determined at the time of the transaction and delivery of currency, it is the fulfillment of obligations by the parties, it is envisaged in the future.

Forward transactions are conducted under contracts whose terms (amount of purchase / sale, time and place of performance) are individual and are not standard.

Futures contracts include standard purchase contracts - sell currencies that are traded on an exchange. Such transactions are made on terms that develops Exchange and that are mandatory for everyone who enters into transactions with futures. Futures have standard terms of performance. The most common is the three-month futures.

Leading exchanges trade futures contracts are the Chicago Mercantile Exchange (CME), New York (Somekh), London (LIFFE), Singapore (SIMEX), Zurich (SOFFEX), Paris (MATIF). Futures trading is done through a clearing house (clearinghouse) which is a seller for every buyer and buyer to every seller.

An option is a derivative financial instrument contract in which the buyer of an option acquires the right but not the obligation to buy or sell a certain amount of currency in the future at a fixed price (strike price). The option buyer upon payment option premium seller , which is essentially the cost of the option acquires the right to either buy (Transaction "call") or sell (Transaction "put") at any time if it is the American option , or on a specific date in time month if it is a European option).

Trade currency option contracts carried out: the world's largest Chicago Board Options Exchange, the European Options Exchange in Amsterdam, Austrian Exchange futures options in Vienna.

A currency swap is a transaction that combines the sale of the two currencies on the conditions for immediate delivery with simultaneous contra-deal for a certain period with the same currency. Each side is both the seller and buyer a certain amount of currency. A currency swap is not a standard exchange contract.

On operations "swap" transaction is cash at the spot rate, which contra-deal (urgent) adjusted for premium or discount depending on the exchange rate dynamics. The customer saves on margin - the difference between bids and ask prices on the cash transaction. Operation "swap" convenient for banks: they do not create an open position (buy selling covered) temporarily provide necessary without currency risk associated with the change in its course.

The main body responsible for control over fulfillment of currency operations in the Republic of Kazakhstan, is the National Bank of the Republic of Kazakhstan.

Tests for self-checking

1. Key elements of the foreign exchange market are:

A. World monetary system, foreign currency.

B. The national currency, foreign currency.

C. The national currency, the priority of the currency regime national currency market.

D. Cross-sectoral transfers of exporters and importers, the exchange rate, foreign currency.

E. Cross-sectoral transfers of exporters and importers, the national currency, the monetary system of the world.

2. That recognizes the value of the currency?

A. Securities.

B. Gold purchased for production purposes.

C. Funds in accounts in monetary units of a foreign state.

D. Government securities.

E. Derivatives.

3. Which currencies are freely convertible?

A. The U.S. dollar, gold, the German mark and the pound sterling.

B. The U.S. dollar and gold.

C. The currencies which are exchanged for any currency and gold.

D. The currencies which are exchanged without any restrictions on foreign currencies.

E. Only the U.S. dollar.

4. Which currencies are freely convertible?

A. The U.S. dollar and gold.

B. The currencies which are exchanged without any restrictions on foreign currencies.

C. The currencies which are exchanged for any currency and gold.

D. U.S. Dollar, gold, the German mark and the pound sterling.

E. Only the U.S. dollar.

5. How is a relation between the currencies of various countries, i.e. the price of the monetary unit of one country expressed in the currency of another country?

A. Currency convertibility.

B. The exchange rate.

C. Currency liquidity.

D. Currency convention.

E. Currency basket.

6. What is the exchange rate parity?

A. This relationship between the two currencies, by spontaneously and which is the basis of foreign currency liquidity?

B. The ratio between currencies governing the use of international currency

C. This relationship between the two currencies set by law and is the basis of the exchange rate.

D. This restriction currency transactions, which is the subject of interstate regulation.

E. This monetary value applied in connection with the introduction of a floating exchange rate regime.

7. Allowing you to identify the quote currency, what kinds of quotes distinguish?

A. Quoted rates to determine the specificity of the formation of currency chicken. There are two kinds of quotations: direct and indirect.

B. Quoted rates to determine the ratio of the two monetary units proposed for exchange. There are two kinds of quotations: direct and indirect.

C. Quoted rates to determine the specificity of the formation of currency chicken. There are two kinds of quotations: direct and restrictive.

D. Quoted rates to determine registration interbank rate by sequential comparison of supply and demand for each currency. There are two kinds of quotations: direct and indirect.

E. Quoted rates to determine the monetary value of gold is not directly, but through the relative cost of credit money. There are two kinds of quotations: direct and indirect.

Topic 11. Management control system

1. The concept and tasks of the bank controlling
2. Strategic and operative bank controlling

1. The concept and tasks of the bank controlling

Basically bank controlling means there is good harmony among profitability, growth and risk taking factors. It embraces the fields of management, planning, balance-income analysis, bank calculation, control, coordination and organization. Commercial banks are controlling concept – including banks in Germany- uniformly based on this concept, certainly it means there can be differences between the techniques used by banks to put it into practice. All these statements show that controlling is a philosophy and a way of thinking, which can be extended to the decentralized management area also through information management. Thus bank controlling is able to become a management information centre.

Controlling is – from the functional point of view – a management subsystem, which coordinates planning, control and information provision". This definition can be built in a commercial bank's organizational and operational system.

The main tasks of controlling just like in every other field, are actual and only because of the special nature of the "product" (in bank controlling the product is the different banking transactions such as cash flow management, lending, investment etc.) its role can expand and develop according to the banking sector.

Main tasks and functions of bank controlling are the following:

- improving accounting system towards management accounting;
- planning – strategic planning and operative planning- plan-fact analysis - cost analysis, income analysis, risk analysis, expected future trend analysis;
- information provision: managerial information system development of reporting system with an appropriate IT support.

These controlling tasks and their weights depend on the size of the bank, its profile, the size of its network. We distinguish centralized and decentralized tasks. The ones that focuses on the whole bank and the coordination, integration of the different activities on its various fields are considered to be the centralized controlling functions which basically synchronize the active and passive business activities.

Certainly the size and function of a bank or financial institute plays a crucial role when judging centralized and decentralized controlling tasks. Centralized controlling tasks can be found in small and medium sized banks.

There are the different controlling activities of centralized/decentralized tasks:

- centralized tasks: developing business policy, profitability and risk analysis, profit requirement calculation, expenditure plan calculation, systematic evaluation of target theme implementation, development of integrated plan-fact controlling system, developing business policy alternatives, developing managerial information system;
- decentralized tasks: developing decision oriented mentality, decentralized expenditure plan, implementing certain planning and controlling tasks, regulation of information process.

2. Strategic and operative bank controlling

The two-level or two-step management method of the controlling activity can be achieved through strategic and operative bank controlling.

This closely linked "two-step planning" gives the integrated bank concept. On the first step basically is the outline of the bank's overall comprehensive strategic objectives – as the market risk and opportunity – and also the risk policy targets and structural profit requirements.

As a second step – particularly balance sheet structure optimization – the operational management of profitability and liquidity are defined through plan-fact budget control system.

So the strategic controlling activity regarding the bank as a whole deals with only developmental, structural and security issues; mostly with the balance sheet structure risks, market risks, structural yield options, growth potentials.

The strategic controlling contains the following subfields:

- portfolio management: takes into consideration the transaction structure, market structure and opportunities; in other words it tends to ensure -through the market strategy- the optimum utilization of the bank return potential;
- structural balance management: it examines risk factors and return requirement depending on the balance structure; to achieve long-term financial balance.

Within this framework becomes essential to define the market strategy originating from the banking product structure. Behind all these stands an important target such as the yield potential and securing the bank's long term competitive position. Such strategic decisions become necessary like the bank's security policy which defines the content, circle and quality of the output according to three aspects: selection of banking services, quality of services, depth and level of detail of services.

The starting point of defining product selection is to decide how wide the bank is willing to continue the three main banking activities (cash flow, lending, capital market operations).

Regarding the quality of banking services, the main aspects are: security, reliable, discretion, speed and the individual execution of banking services.

The banking services program is made up of the (more or less) strongly differentiated of the recommendation of different service groups.

After establishing the business policy the next question is the way of mediation – known as distribution policy – namely the transmission of banking performances to the consumers.

Here takes place the evaluation of the balance sheet structure in the sense of risk to partly or completely eliminate the different banking risk factors.

The two basic aspects of risk management and security are:

- the key issue of bank risk management is the structure and form of the bank's balance sheet;
- from the aspect of the bank's profitability bearing capacity the key is the size of the cumulated risk factors.

While strategic bank controlling (portfolio and balance structural management) is a comprehensive, global management mode ergo outlines business policy of the bank; the operative (budget management) concretizes these objectives. So budget management is an integrated, operative management tool for bank management to break down the general targets to the bank's subfields, in order to make them visible, tangible namely specific tasks.

It is quite important to divide the comprehensive balance - and outcome targets (defined by the portfolio and balance structural management) in a unified, closed budget-plan and control system, into different areas of the bank so that the plan fulfilment of subfields can determine bank efficiency.

Budget planning involves constant control, analysis and evaluation of the casual aspects of differences in order to find out what kind of management activities needs to be used to follow the plan or whether the change of market conditions (unforeseen) requires modification of the original plan.

Essentially the accounting system of the banks is an information system which aims to satisfy both internal and external information needs as much as possible. Bank accounting systems are based on the Accounting Act, the accounting rules for financial institutions, tax legislations and (as a result of the international nature of the financial institutions and obligatory of the audited balance sheet) on the generally accepted accounting principles.

The specifications of bank accounting arises primarily from the "uniqueness" of accounting, bank balance structure and also from accrual and detection. So that formulation of these factors should be used as basic requirements.

When developing a leadership oriented system, the following tasks must be met in a bank:

- against the traditional cost-income aspect, expenditures and incomes should be grouped according to return-input; to be able to measure efficiency;
- we must separate costs into types and location of costs;
- fixed and variable costs must be defined for different functions;
- ensure resolution of details that allows the developed bank controlling system's planning and management information system to be updated;
- distinguish transactional and operational bank activities and the related accounting procedures.

Tasks for self-studying

1. What is main purpose of management control system?
2. What are main important components of management control system in commercial banks operating in the Republic of Kazakhstan?

Tasks for research

1. Provide the SWOT-analyze of management control systems in commercial banks successfully operating in the Republic of Kazakhstan.

Tests for self-checking

1. What is a credit risk?

A. It is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and

includes lost principal and interest, disruption to cash flows, and increased collection costs.

B. It is risk which is divided into two types: funding liquidity risk (aka cash-flow risk) and market liquidity risk (aka asset/product risk).

C. It is the risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations, and penalties and sanctions pronounced by a regulatory body.

D. It is the risk of negative effects of the financial result and capital of the commercial bank die to bank's inability to collect claims from such entity for reasons arising from political, economic or social conditions in such entity's country of origin.

E. It is the risk of negative effects on the financial result and capital of the commercial bank caused by omissions in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems, and unforeseeable external events.

2. What is a risk of liquidity?

A. It is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

B. It is risk which is divided into two types: funding liquidity risk (aka cash-flow risk) and market liquidity risk (aka asset/product risk).

C. It is the risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations, and penalties and sanctions pronounced by a regulatory body.

D. It is the risk of negative effects of the financial result and capital of the commercial bank die to bank's inability to collect claims from such entity for reasons arising from political, economic or social conditions in such entity's country of origin.

E. It is the risk of negative effects on the financial result and capital of the commercial bank caused by omissions in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems, and unforeseeable external events.

3. What is a legal risk?

A. It is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

B. It is risk which is divided into two types: funding liquidity risk (aka cash-flow risk) and market liquidity risk (aka asset/product risk).

C. It is the risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations, and penalties and sanctions pronounced by a regulatory body.

D. It is the risk of negative effects of the financial result and capital of the commercial bank die to bank's inability to collect claims from such entity for reasons arising from political, economic or social conditions in such entity's country of origin.

E. It is the risk of negative effects on the financial result and capital of the commercial bank caused by omissions in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems, and unforeseeable external events.

4. What is a country risk?

A. It is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

B. It is risk which is divided into two types: funding liquidity risk (aka cash-flow risk) and market liquidity risk (aka asset/product risk).

C. It is the risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations, and penalties and sanctions pronounced by a regulatory body.

D. It is the risk of negative effects of the financial result and capital of the commercial bank die to bank's inability to collect claims from such entity for reasons arising from political, economic or social conditions in such entity's country of origin.

E. It is the risk of negative effects on the financial result and capital of the commercial bank caused by omissions in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems, and unforeseeable external events.

5. What is an operational risk?

A. It is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

B. It is risk which is divided into two types: funding liquidity risk (aka cash-flow risk) and market liquidity risk (aka asset/product risk).

C. It is the risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations, and penalties and sanctions pronounced by a regulatory body.

D. It is the risk of negative effects of the financial result and capital of the commercial bank die to bank's inability to collect claims from such entity for reasons arising from political, economic or social conditions in such entity's country of origin.

E. It is the risk of negative effects on the financial result and capital of the commercial bank caused by omissions in the work of employees, inadequate

internal procedures and processes, inadequate management of information and other systems, and unforeseeable external events.

Topic 12. Custodian services of commercial banks

1. The role of custodian
2. The financial profile of custodian business

1. The role of custodian

An investor-whether a retail investor, an employee pension fund, a mutual fund or any other kind of institutional investor-who invests in a financial asset such as an equity or debt security needs someone to hold and safe keep the asset on its behalf; receive on its behalf any dividends or interest payments made by the company that issued the security; alert the investor of any votes or other actions the investor needs to take with respect to the security (such as responding to an offer by the issuer to exchange the security for another security); and, if the investor wishes to sell the security or purchase another security, process the transaction on the investor's behalf.

Custodians provide all of these custody services to investors by contracting with the investor either directly or with an agent of the investor, such as an investment manager. In short, a custodian provides custody and related services to investors - broadly characterized as the safekeeping and servicing of an investor's assets - and in this respect plays a critical role in helping investors to build and maintain wealth.

The specialized nature of the custody services that custodians provide, in addition to the time and costs involved in establishing new custody relationships and moving the assets from one custodian to another (a process known corporate trust, but do not have a significant commercial banking business.

The provision of custody and other asset services by custodians, facilitates client access to and participation in global financial markets, including interactions with other market participants. In this regard, these services are critical to the functioning of financial markets, and, in fact, the use of these custody services is often required by law or regulation in order to protect investors from potential misappropriation of their assets by funds and other vehicles in which they have invested.

The activities of custodians help to link investors to issuers of securities and thereby facilitate the infrastructure investment and physical capital formation necessary for economic growth and the accumulation of retirement and other long-term savings.

Although custodians facilitate transactions involving client assets, they do not make markets in or underwrite the issuance of the assets they service. Trading activities in which custodians engage are ancillary to their core custody function and are specifically focused on assisting clients in the management of

their investment assets. In providing custody services, custodians act solely on instructions from their clients and do not exercise any discretion over the use or reuse of client assets under custody, or use them for proprietary purposes. In this regard, the role of a custodian is different from that of an asset manager, which typically has discretion over investments made with, and the use and reuse of, client assets under its management. The term "assets under custody" (or "AUC") is frequently used to refer to the value of client assets held by a custodian, for which the custodian provides safekeeping services and assumes recordkeeping, segregation, reconciliation and monitoring responsibilities. The term "AUC" is intended to distinguish a custodian's pure agency role in holding and servicing those assets from an asset manager's active decision-making role over the assets it manages, referred to as "assets under management" (or "AUM").

Although custodians may have separate commercial or consumer lending relationships with certain custody clients, such lending relationships do not generally extend to the financing of clients' custodied investment positions through loans or long-dated credit facilities. In general, the only lending custodians engage in as principal as part of their custody services business involves the provision of short-term credit (generally intraday or overnight) to facilitate efficient settlement across different payment and settlement systems and time zones, cover overdrafts, facilitate client redemptions, enable the payment of management fees and other expenses, and allow their clients to manage liquidity. This lending is provided in connection with the processing of client securities or payment transactions.

2. The financial profile of custodian business

Custody-related revenues are primarily driven by fees collected for services rather than by the use of their balance sheets to take principal risk. In general, these balance sheets are liability-driven, with deposits largely consisting of cash held by their institutional investor clients. Custodians reinvest client cash deposits in broadly diversified and prudently managed portfolios of investment assets; consequently, net interest income is also an important component of revenues. Because they hold large volumes of client-provided liquidity, custodians generally do not rely on significant interbank borrowings or wholesale funding for liquidity purposes.

The cash balances held in custodians' client accounts that are used to support custodial and other operational activities, result from day-to-day transactional activities, such as securities purchases or sales, dividends and interest payments, corporate action events and client subscriptions and redemptions. In addition, custodians hold cash deposit balances maintained by clients to address anticipated and unanticipated funding needs stemming from various operational considerations, such as failed securities transactions, the non receipt of payments and timing differences in the movement of cash.

As a result, the size of the balance sheet of a custody business is primarily driven by client investment and transactional activity, over which custodians have little direct means of control. While operational deposits are generally stable over time, there may also be short-term "excess" or temporary deposits related to a custody business that flow onto custodians' balance sheets during periods of financial market stress. As clients reassess their view of financial markets and appropriate levels of risk during such times, they may place cash on deposit with custodians, typically after disposing of market assets in favor of cash. This can result in substantial short-term fluctuations in the size of custodians' balance sheets.

The asset side of a bank-chartered custodian's balance sheet is typically invested in a diversified portfolio of high-quality, liquid fixed-income securities, such as government and agency and asset-backed securities. These proprietary securities portfolios are generally held either for investment purposes or to secure extensions of credit related to custodians' securities settlement activities. Client securities are never reflected on a custodian's balance sheet because the institution is not the beneficial owner of its clients' securities and does not bear the credit or market risk relating to those securities. By the same token, because custodians do not own their clients' securities, clients do not have any credit exposure to custodians arising from their safekeeping of the clients' securities.

Custodians do not tend to engage in significant maturity transformation activities (i.e., they typically do not accept demand deposits and use them to fund long-dated loans), and the primary lending activity that custodians conduct as principal involves the provision of short-term credit (generally intraday or overnight in connection with the provision of custody services) to facilitate efficient settlement across different payment and settlement systems and other related operational needs. Thus, the balance sheet associated with a custody business does not inherently present a significant duration or liquidity mismatch. Additionally, the only credit exposure that clients have to custodians related to the provision of custody services is with respect to their cash deposits.

Task for self-studying

1. Describe the economic essence of custodian activity.
2. What is main specialty of custodian business?
3. What kind of conditions does custodian activity need?
4. How many commercial banks in the Republic of Kazakhstan do provide custodian activity?
5. What are difficulties of the providing of the custodian activity by commercial banks?

Tasks for self-checking

Mark these statements True or False.

1. A custodian is an industrial institution that holds customers' securities for safekeeping to minimize the risk of their theft or loss.

2. A custodian holds securities and other assets in electronic or cash form. They are responsible for the safety of assets and securities that may be worth hundreds of millions or even billions of dollars, custodians generally tend to be large and reputable firms.

3. The fees charged by custodians do not depending on the services that the client desires.

.4. A custodian is a person or entity selected to hold and protect customer funds or investments through either direct or indirect means.

5. A custodian may have the right to assert possession over the assets if required often in conjunction with a power of attorney.

6. If an account beneficiary is a minor, a custodian is often required due to the rules and regulations limiting the activities of minors, resulting in the creation of a custodial account.

7. The custodian has the authority to make contributions and investment decisions regarding the assets in the account, but the funds are ultimately intended for use by the named beneficiary.

Topic 13. Electronic banking

1. The essence and role of electronic banking
2. Forms of electronic banking

1. The essence and role of electronic banking

The banking industry is being reshaped by globalization, competition and innovation and customer needs. Due to the emergence of a knowledge-based economy and society as information and communication technology (ICT) advanced, banking services have undergone profound changes during the last period.

ICT, the most important factor in the future development of banking, enables banks to create sophisticated products, to have better market infrastructure and to reach geographically distant and diversified markets. Furthermore, consumers' banking needs and demands have changed significantly over the past three decade. They require today more personalized banking products and services and they expect to access such services at any time and any place. In addition, customers are looking for simplicity in their day-to-day banking and those who trust their bank are more willing to consolidate their banking needs with a single financial services provider.

Traditional banking network what consists of physical branch infrastructure is more and more threatened by information technologies represented by automated forms of interaction with the client (ATMs, call

centres, online banking, mobile banking) that involve relatively lower costs and allow customers to choose from alternate delivery channels.

The introduction of new technologies have led to significant changes in bank strategies and branch banking started to lose ground to virtual banking as the use of remote banking services increased. Globalization, competition, changing social trends and especially ICT advancements have caused intense restructuring of the banking industry. Initially, information infrastructure was regarded by developed banks over the world as a mere possibility of creating new electronic distribution channels for existing products. For this reason, remote banking services have been called electronic or e-banking services.

In time, the increase of investments in technology was followed by banking products innovation, a driving force of efficiency boost. Banks and information technology manufacturers have begun to stimulate each other more and more in the development and profit creation. The increasing range and complexity of electronic banking services has led to the expansion of customers while satisfying more sophisticated needs and ensuring customer loyalty imposed a continuous demand for new technologies.

Remote banking, considered representative for the new economy, consists of electronic transactions between customers and their bank. Electronic banking, more commonly known as e-banking, is the newest delivery channel for banking services.

The term had been defined in many ways by researchers mainly because electronic banking refers to several types of services through which customers can request information and execute transactions via telephone, digital television, computer or mobile phone.

Electronic banking is the distribution of information and services by banks to customers via different delivery platforms that can be used with a personal computer or other intelligent devices. E-banking refers to the supply of information or services by a bank to its customers, via a computer or television. Most specialists agree that e-banking ensures 24-hour-a-day, 7-day-a-week accessibility through a type of advanced information system.

A common definition for electronic banking comes from the Basel Committee on Banking Supervision: "e-banking includes the provision of retail and small value banking products and services through electronic channels as well as large vale electronic payments and other wholesale banking services delivered electronically".

E-banking, a term used for new age banking system, represents an automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels. It is a service that provides customers the opportunity to gain access to their accounts, execute transactions, and obtain information on financial products and services through a public or private network, including the Internet. There are several terms used in the literature all referring to one form or another of electronic

banking: personal computer banking, internet banking, virtual banking, online banking, web banking, home banking, phone banking, remote electronic banking, mobile banking etc., but they are often used interchangeably.

Electronic banking services have been around for quite some time in the form of automatic teller machines and telephone transactions. In more recent years, modern e-banking services such as internet and mobile banking has revolutionized banking services. The evolution of the e-banking industry can be traced to the early 1970s when banks began to look at these types of services as an alternative to some of their traditional bank functions. First, such a choice was considered appropriate since it ensures reduced costs as branches were very expensive to set up and maintain. Second, e-banking products and services like ATMs and electronic fund transfer were an important qualitative element of differentiation for banks that used them. Given that banks operate in a fiercely competitive industry, their ability to differentiate themselves on the basis of price is limited. Thus, in order to remain on the customers' needs and developments in technology.

The term e-banking became popular in the early 1980's referring to using a computer to access banking service via a phone line. E-banking first appeared in New York in 1981. The early electronic banking services were basic, covering services like viewing bank statements and paying bills online without being a full transaction banking service.

Electronic banking services have actually started to develop only since 1995, when the Maryland Presidential Bank, an American bank, allowed bank accounts to be opened online. The electronic banking involves many different types of services.

2. Forms of electronic banking

Clients use modern communication media for remote communication with the bank: a modem, telephone, computer or payment card. A characteristic feature of these services is the client's uninterrupted round-the clock account access, i.e., independent of banking business hours and the ability to execute local and international payments directly from the comfort of the home or office. This reduces cash handling and transport costs, lowers the risk of theft or accepting counterfeit bank notes, increases speed and enhances the comfort of making payments.

Electronic communication means are particularly coming to the forefront. These are more convenient, faster, and often cheaper for clients. Banking experience shows it is suitable to use combinations of several communication means, depending on individual segments, clients, and types of operations, products and situations. Electronic banking is a service that specifically uses electronic communication forms.

Electronic banking can be divided on the basis of the instruments used: telephone connection, personal computers, means of payment and self-service zones.

Telephone banking and the first banking services using classic telephone lines for communication date back to the turn of the sixties and seventies of the last century. These services grew very rapidly and at the close of the 20th century mobile phones also started to be used in banking with the development of information and communication technologies. In this period banks quickly responded to the dawning of a new era in using mobile telephones world-wide and began communicating with their clients by SMS messages, with GSM banking later becoming a natural component of electronic banking. Each financial institution offers this under a different name, but the essential product remains the same. A mobile phone can be used to communicate with a so-called telephone banker or an automated telephone system, just as well as a fixed line. However, opportunities for mobile phone usage in communication with a bank are much greater.

Mobile phone use represents a direct communication channel that spread on a massive scale through which clients have immediate access to typing a bank operation, ordering services or working with accounts.

Electronic banking using a telephone connection can be divided into phone banking (ATS, client advisor) and mobile banking (SMS banking, GSM SIM Toolkit and WAP).

Using the phone banking's service enables bank clients to obtain information concerning active and passive banking products, but a client can also actively use the bank payment system and request, for example, a payment order or a collection order, open or cancel a term deposit or a current account. In this case a fax connected to the telephone serves as an output communication channel.

As a rule bank telephone center (call center) operators work 24 hours a day nonstop and it is thus possible to use their services from any place at any time. A client advisor is a bank employee; the bank pays his salary thus increasing its costs and fees for this service. Banks therefore sometimes establish automated telephone systems.

The technical means necessary to use this system are the same as for communication with a client advisor. A telephone is required, which must have tone dialing or be equipped with an accessory adaptor (tone dialer).

An automated telephone system works on the basis of a menu through which clients can move around using buttons on the telephone. The service menu tree is usually designed to be simple so that a choice does not take too long. More extensive information is sent to the client by fax either to a telephone number agreed in advance or to a number requested by the client. Cost efficiency is the advantage. Some banks offer this service to clients free-of-charge because costs are negligible and comfort is significant. One disadvantage

is that problems can sometimes arise when the client cannot choose a menu item that corresponds with his wishes or the computer responds to an instruction in a way that differs from what the client wanted. It is then appropriate to connect to an automated telephone system with a telephone banker who can resolve the problem. Secure communication for this system can be arranged in two elementary ways:

1. End-to-end security - the whole communication chain is secured by a verbal code. This is very secure but also expensive and only used in public administration and the army,

2. Using so-called access rights - at the start the client must document his authorization to communicate with the bank.

A client's personal number (e.g. account number) and PIN as a numerical password are often used for passive operations. Here, however, the risk of misuse is relatively great because everyone who gets to know the personal number and password will be able to enter the system. The following methods are safer:

- when an account is open the client selects several keywords. An operator stores them in the information system. During client authorization in the course of the next call the system generates a request for specific letters from these words. The operator rewrites them into the information system terminal which then confirms or rejects the client's authorization. Hence not even the operator ever sees the whole keywords. One exception to this is when the account is initially open;

- using a so-called authorization code - on the principle of a tear-off notebook. Each authorization code is used for one day only and then becomes invalid;

- electronic key - a special device similar to a calculator. The bank's information system gives the client a random number, the client types it into his key and the key answers with the authorization code. The authorization code is activated by the system and the system either confirms or rejects the authorization. The key itself is protected against misuse by a PIN which the client can change at will. No password or answer is repeated twice;

- a two-level system of protection is often used. During entry a client types his personal number and a password. If he wants to perform an active operation he must enter a nonrecurring password. When the client signs a contract on using telephone banking services he receives a set of several passwords, whereby for every active operation with an account he uses one, by which he authorizes the given operation. Once used the password cannot be used repeatedly. Changing the numerical password after some time further increases safety. When an incorrect password is repeatedly entered the system blocks access to the given user.

The GSM SIM Toolkit service can only be used from a mobile phone supporting this technology. GSM SIM Toolkit is a software interface that

enables arbitrary changes to the mobile phone menu. Operators supporting this technology can use it to personalize mobile phone menus. This means that only functions activated and paid for will appear on the user menu. This technology dates back to 1998.

Most mobile phones now on the market support for the GSM SIM Toolkit. To use this service the client needs to be using services of an operator supporting this standard in its network, be a client of a bank that offers handling of accounts through the GSM SIM Toolkit, have a mobile phone supporting GSM SIM Toolkit technology and use a special SIM card for banking services.

After buying a special SIM card and activating it at the pertinent bank branch the client can begin using this service. The mobile phone menu will be widened to include the Banking Services item, through which it is possible to carry out active or passive banking operations.

The precise structure differs from one financial institution to another. Security is what is important here. To access banking services it is necessary to know BPUK (PUK for banking applications) and BPIN. BPUK is assigned to a client by the bank when the application is activated and recorded on the mobile phone's SIM card. BPIN is used for every access to protected items in the banking application. When a client makes three unsuccessful attempts to type the BPIN, access to the banking application and its items is blocked, it is necessary to know the BPUK to unblock it. When the client fails ten times to type the right BPUK the SIM card can no longer be used for banking services. The main advantage of this service is its simplicity. A client just follows instructions on the mobile phone display.

WAP is often compared to web pages, although this is a simplification. Unlike pages appearing on a computer monitor, WAP presents its output on a small mobile phone display, therefore concentrating on text information. It is a form of gateway to various services prepared by a mobile network operator or another firm. One condition for using the service is that the client must have a mobile phone supporting WAP technology. Security is again provided by an electronic key. WAP banking has not caught on very well so far, some banks however continue to offer it despite the relatively low number of users.

Along with significant growth in the usage of mobile phones in banking practice, personal computers have also come to the fore, which to an even greater extent facilitate and modernize banking service provision. In an information society this communication instrument plays an irreplaceable role and is indispensable for the present day banking sphere. The area of electronic banking realized through personal computers can be divided into home banking, internet banking and mail-banking.

Home banking is a service that enables a bank client to handle his accounts from a computer from a place selected in advance, at home or in the office.

The main features of home banking systems are:

- the high level of security;
- comfort;
- simplicity of use;
- openness of the system;
- wide communication possibilities;
- networking;
- definition of users and their rights;
- automated data transmission;
- the option to define a combined signature specimen.

A home banking system usually consists of two parts: a bank computer program and a program in the client's computer. The bank program works as a communication server. It receives calls from clients, verifies their identity, receives data from them, authenticates digital signatures, generates digital receipts and sends data to clients. A home banking computer system is a multi user application, meaning that several of the client's employees can work with it, in particular:

- administrator - can define new employees, change rights;
- sender - ensures communication with the bank and transmission of prepared data;
- accountant - can type payment orders and orders for collection;
- viewer - can browse through statements and announcements received.

This system is open and can be expanded in the future without great cost.

Internet banking can be used from the home or the office, as well as an internet café, although the latter is not recommended for security reasons. In order to handle his account a user just needs an internet browser (such as MS Explorer or Netscape Navigator).

A client cannot avoid visiting the bank though, because he must first ask for an identification code. After opening the bank's web site the client simply selects internet banking and, further to proper identification, can perform passive or active operations.

Good internet banking should provide a maximum of services. No less important are the graphic interface, clarity, simplicity, and unambiguity of usage. The intelligibility of texts determines simplicity and speed of understanding of the meaning of menu items, data fields, and general text information displayed to the client.

Safety for concrete applications is assured by client authentication, verification of data and data protection by encryption. Client identification is done using passwords or codes. The client chooses some of these and the bank assigns others. It is recommended to choose a password made up of various types of characters, which can be a combination of numbers, lower case and capital letters, and special symbols.

Banks usually protect large volume transactions with additional security means, such as an encryption (authentication) calculator, or a token, which generates nonrecurring random passwords, which a client types on confirming an order. The token itself is protected by certain security features. Work with it is only enabled after the client types a four-digit PIN code, whereby the user can change the PIN at any time. In the event of three failed attempts to type the correct PIN the token blocks itself. After 60 seconds of inactivity a token automatically switches itself off and once switched back on, it again requests the PIN.

When a client generates several (for example 10) authentication codes in succession and types none of them into the client system, the key becomes desynchronized. This protection serves to prevent use of the key for other purposes. A cheaper and, based on its dimensions, more practical alternative to a token is a grid card. This is a card with a mesh drawn on it with fields with random generated characters. The user authorizes an active operation by typing the right code from the field of the card the operator requests from him.

In expert circles it is sometimes possible to encounter another form of electronic banking: fax-banking. A fax is however mostly used as an addition to other forms, such as telephone banking, when a client agrees with the bank that all output would be sent to him by fax.

Tasks for self-studying

1. What is essence of e-banking
2. Describe the essence of credit card.
3. Describe the essence of debit card.

Tasks for research

1. Provide research about development of e-banking in the Republic of Kazakhstan.

2. Provide the SWOT-analyze of the bank cards' development in the Republic of Kazakhstan.

Practical task

1. Describe your experience of e-banking' usage.

Tasks for self-checking

1. It is a numeric password used to authenticate a user to a system:

A. Post code.
B. Pin.
C. Passport number.
D. Account's number.

2. Mark these statements True or False.

2.1. A bank card is typically a gold card issued by a bank to its clients that performs one or more of a number of services that relate to giving the client access to funds, either from the client's own bank account, or through a credit account. It can also be a smart card.

2.2. Physically, a credit card will usually have the client's name, the issuer's name, and a unique card number printed on it. It will have a magnetic strip on the back enabling various machines to read and access information.

2.3. Depending on the issuing bank and the preferences of the client, this may allow the card to be used as an ATM card, enabling transactions at automatic teller machines; or as debit card, linked to the client's bank account and able to be used for making purchases at the point of sale; or as a credit card attached to a revolving credit line supplied by the bank.

3. Which one of the following bodies participated in the creation of the Banking Code?

A. Financial Services Authority.
B. Building Societies Commission.
C. National Bank.
D. Association for Payment Clearing Services.

Topic 14. The activity of investment banks

1. Essence of investment banks
2. Operations of investment banks

1. Essence of investment banks

Investment banking is an economics category, but a completely unequivocal definition of its nature is not simple even for any theory of economics. Investment banking is not a legal term and as such this concept is neither defined nor used in applicable laws or other statutory regulations. It was coined in response to the specific activity of investment conducted by banks notably in the securities markets. This was as a result of a prevailing focus on performance of investment activities and a specific group of investment banks were profiled within the banking systems of certain countries. Nevertheless, investment activities were also carried out by other specialized institutions, apart from banks, whereas the term of investment banking came to be generally used to refer to this type of service, regardless of the type of licensed entities providing them.

Investment banking can be defined as transactions in securities, financial derivatives and other instruments of private financial markets.

2. Operations of investment banks

There are three types of services providing by investment banks. First, they provide activities in 'primary capital markets' - those markets used by

companies to raise finance by issuing shares and bonds to investors. Second, they realize trading activities. These include buying and selling shares and bonds that have already been issued - that is, those trading in 'secondary markets' - but also writing derivative contracts for their clients. Finally, investment banks play important role in financial market infrastructure, and in markets where financial institutions borrow and lend cash or securities in 'secured', or collateralized, transactions.

Investment banks help companies and government agencies to access finance for investment or other expenditure by providing underwriting services, whereby the investment bank agrees to purchase, at a pre-determined price, any securities -equity shares and bonds - that are not taken up by investors. By doing this, the investment bank guarantees that the amount of financing that the client wants to raise will be available, and removes uncertainty and risk for the client. By helping companies and governments manage this risk, investment banks facilitate access to finance through capital markets. Corporate clients tend to be large companies that are required to disclose information to investors and can thus attract funding in capital markets, rather than rely on retail banks to lend to them. But investment banks serve smaller companies too. Investment banks also provide 'leveraged loans' directly to companies. These are loans to highly levered companies, sometimes to fund specific projects, including acquisitions. When underwriting large transactions or providing leveraged loans, investment banks sometimes form a 'syndicate' with other banks — a group that shares the risks by splitting the total amount loaned or underwritten between members.

Alongside their underwriting service, investment banks typically run a 'book building' process (they are known as 'book runners'). During this process. they try to find investors who are willing to buy the securities that will be issued by their clients. They typically promote the issuance to investors in the run-up to an auction, where investors are invited to bid for the securities. Investment banks also sometimes carry out a 'due diligence' process - where they review a company's operations to ensure that they have not been misrepresented to investors - and help with the preparation of legal documentation for clients. The book-building service is crucial for matching up investors (the providers of capital or credit) with issuers (users of capital or borrowers of credit).

In addition to facilitating equity and debt issuance, investment banks play an important role in the process of securitization, which can support the provision of credit in the real economy. Securitization involves pooling together various types of debt such as mortgages, credit card loans, student loans or commercial real estate lending. These pools of loans are typically moved to a separate legal entity (or 'vehicle', known as a special purpose vehicle from which securities are issued to investors. The returns on these securities are dependent on the principal and interest repayments of the loans to which the securities are linked.

The most common role for investment banks in the securitization process is to arrange the transaction. This involves structuring the securitization into different 'tranches' or portions - each tranche issues a different security with its own risk and return profile, based largely on the order in which investors get repaid on the loan portfolio. Investment banks also act as underwriter, whereby they undertake the book-building process. Finally, they can help the special purpose vehicle to hedge its risks using financial instruments such as derivatives; provide a liquidity line (a facility that allows the special purpose vehicle to borrow cash); and offer administrative support services (such as cash management).

The primary purpose of securitization is to repackage loans into a series of related securities that can easily be traded by investors - 'asset-backed securities. Like debt and equity securities, once asset-backed securities have been issued, they can be traded by financial market participants. The creation of a security allows a lender to easily transfer the risks and rewards from a set of loans to other investors such as other banks or asset managers. A lender may do this to improve its liquidity position, either by raising cash by selling existing loans for securitization, or by using the asset-backed securities - which are more liquid than raw loans - as collateral against which to borrow cash. This, in turn, can support credit provision to the real economy: the knowledge that a lender may be able to sell asset-backed securities to other market participants in the event that it needs to raise cash means that the lender may be more likely to provide credit in the first place. Securitization gained prominence during the recent global financial crisis, when the opaque and complex nature of some securitized products was associated with the large losses generated at many financial institutions.

Investment banks also provide market-making services (and are sometimes referred to as 'market makers'), whereby, at their clients' request, they buy and sell financial instruments that are already in issue - that is, instruments trading in secondary markets. By doing this, they add depth to the market and they improve the chances that a buyer or seller finds a counterparty to transact with, at a given price, thus providing 'market liquidity'. This is particularly important for trading in financial instruments such as corporate bonds, which are not traded via a central limit order book on an exchange, but instead rely on investors contacting market makers for quotes. Investment banks provide these trading services to a range of clients in the financial sector, which are often described as 'institutional investors'. These are asset managers such as pension funds or hedge funds, which manage savings on behalf of individuals, as well as insurance firms, which manage large cash pools from their customers' premium payments and to cover products such as annuities. The knowledge that securities can easily be traded in secondary markets reduces investors' risk of participating in primary issuances and holding securities for longer than they would like. If an investor knows that there is likely to be a liquid market that a bond can be sold into, then he or she would be more likely to buy it in the first

place. In this way, trading activity supports the provision of finance in primary capital markets.

As part of their trading services, investment banks also trade in derivatives with their clients. Non-financial companies can use derivative contracts to hedge their risks. In the case of futures, which are traded on-exchange, an investment bank could merely be facilitating the trade by providing access to the exchange. But investment banks predominantly write more bespoke derivative contracts, traded outside of centralized exchanges, for their clients. Retail banks also make use of derivative contracts to manage their risks. For example, a retail bank might issue a fixed-rate bond but prefer to pay out floating-rate interest payments in order to better match the cash flows on its loans and deposits.

Investment banks provide some ancillary services alongside their market-making activities. For example, they produce research aimed at informing their clients about factors which may affect interest rates, exchange rates and the price of financial assets such as shares, corporate and government bonds and commodities such as oil or precious metals. They can also contribute to industry-wide benchmarks from which the prices of certain financial instruments are set. And they create indices based on the prices of a group of securities. These activities contribute to the institutional design of the financial industry through the creation of standards which are useful to participants. Indices, for example, allow investors to track the performance of the bonds or equities issued by one industry relative to other industries, or track the performance of a company relative to the rest of its sector.

Investment banks can also trade in secondary markets on their own account, rather than to serve clients. For example, many investment banks enhanced their revenues in the years prior to the crisis through 'proprietary trading': investing the bank's surplus cash reserves into high-yielding securities or derivatives. These were investments where traders bought or sold financial instruments with the aim of profiting from expected fluctuations in market prices. Banks disclose very little information on their proprietary trading activities, so it is difficult to gauge their magnitude, but the data available suggest that, relative to activities serving clients, they were not a large contributor to trading revenues even prior to the crisis, although they were a source of material losses during the crisis at certain banks.

Unlike trading to facilitate market-making, the net benefit to the real economy of proprietary trading by investment banks is more open to debate. On the one hand, more trading in secondary markets improves market liquidity. But on the other hand, proprietary trading can leave investment banks vulnerable to large, potentially destabilizing losses which may then impede their capacity to supply financial services. In addition, the existence of proprietary trading desks that aim to maximize returns on their trading portfolio may create conflicts of interest for investment banks when entering into trades with clients.

This activity has reduced considerably since the crisis as many investment banks shut down their proprietary trading operations in part as a result of regulatory changes. These measures are discussed in the final section of the article.

Investment banks are key participants in the securities lending market. Securities lending is the temporary transfer of financial securities, such as equities and bonds, from a lender to a borrower. Investment banks may borrow securities on their own behalf or on behalf of other institutions such as hedge funds. For example, investment banks can borrow securities to meet customer demand when providing market-making services. And hedge funds may borrow securities via investment banks to sell them - so-called 'short-selling' - as part of their trading strategy. Lenders of securities are commonly referred to as 'beneficial owners'. They are typically investors such as pension funds and insurance companies, and lend out securities to generate additional income on their asset portfolios. In their role as intermediaries, investment banks can help to match the beneficial owners and end-users of securities.

As well as arranging securities lending transactions, investment banks also facilitate transactions in repo markets. A repurchase agreement, or repo, is essentially a secured loan. An institution borrows cash by selling an asset, for example a government bond, which it later repurchases at a prearranged price. The counterparty has recourse to the bond as collateral until the repurchase date. Borrowers in repo markets are typically financial institutions seeking to finance their operations. By acting as middlemen, investment banks facilitate the provision of credit to financial institutions.

Table 5 - Investment banks' activities and their clients

Investment bank activity	Clients
Underwriting and book building	1. Non-financial companies 2. Government agencies 3. Retail banks and other financial institutions
Trading in securities	1. Insurance companies 2. Pension funds 3. Asset managers
Derivative trading	1. Non-financial companies 2. Retail banks 3. Asset managers 4. Insurance companies
Securitization of loans	1. Retail banks 2. Finance companies
Providing access to financial market infrastructure	1. Asset managers
Facilitating securities financing transactions	1. Asset managers.

Table 5 shows a list of services provided by investment banks, as described above, alongside clients that frequently make use of these services.

Major investment banks also play an important role in financial market infrastructure by providing clearing services to other financial institutions, including via central counterparties. Central counterparty or clearing house is a financial institution that acts as the counterparty to numerous participants in financial markets to clear transactions. Investment banks are often direct members of central counterparties, meaning that they are able to clear transactions with other members, but they also facilitate their customers' access to central counterparties through client clearing arrangements. These customers may not be eligible to join central counterparties directly - or find the cost of joining prohibitively expensive - but nonetheless require access to central clearing to trade in financial markets. Financial institutions rely heavily on investment banks to provide these infrastructure services. In terms of the payments infrastructure, large banking groups often facilitate electronic payments for their retail customers, or for smaller banks, but typically do not offer these services through their investment banking operations.

Tasks for self-studying

1. What is main difference between a commercial bank and investment bank?
2. Describe the list of tools using in activity of investment banks.
3. Describe the activity of investment banks.
4. What is main different from the underlying securities derivatives?
5. Provide comparative analyze features of common and preferred shares

Tasks for research

1. Complete the research about one of most developed investment banks in the world.
2. Complete the SWOT-analyze of the investment banks' activity in the Europe.

Tests for self-checking

1. The main signs and features of derivative securities.

A. This is a debt security income expressed as a percentage.

B. the number of potential investors and can be sold early.

C. Form of address, a limited time period, not an issued security.

D. In providing stimulus producers own capital to invest in the national economy.

E. It is a perpetual loan, the borrower can get it on demand.

2. Warrant shall entitle the holder:

A. On the derivative security paper, which is a right to purchase own buying or selling an asset at a specified exchange rate. The owner has the option to sell (buy) or refuse.

B. Buy a certain amount of securities of the company within a certain period at a pre- fixed price.

C. On the derivative security paper, which is a standard exchange contract purchase - sale of the underlying asset.

D. Sell a certain number of securities of the company within a certain period.

E. Buy indefinite amount of securities of such non-resident company at a pre- fixed price.

3. Futures entitle the holder to:

A. Buy a certain amount of securities of the company within a certain period at a pre- fixed price.

B. On the derivative security paper, which is a standard exchange contract purchase - sale of the underlying asset.

C. Sell a certain amount of securities of the company within a certain period.

D. On the derivative security paper, which is a right to purchase own buying or selling an asset at a specified exchange rate. The owner has the option to sell (buy) or refuse.

E. Buy indefinite amount of securities of such non-resident company at a pre- fixed price.

4. Option entitles its owner:

A. On the derivative security paper, which is a standard exchange contract purchase - sale of the underlying asset.

B. Buy an indefinite amount of securities of such non-resident company at a pre- fixed price.

C. On the derivative security paper, which is a right to purchase own buying or selling an asset at a specified exchange rate. The owner has the option to sell (buy) or refuse.

D. Buy a certain amount of securities of the company within a certain period at a pre- fixed price.

E. Sell a certain number of securities of the company within a certain period.

5. General market functions of the securities market:

A. Price, info, regulatory.

B. Service of commodity circulation through credit, attracting money savings, accumulation of funds.

C. Billing, providing commercial lending, accounting function and others.

D. The accumulated investments in the real sector of the economy, the world's money.

E. Determination of commodity value, medium of exchange, a means of payment means of formation of the family budget.

6. Specific functions of the securities market:

A. Price, info, regulatory.

B. Redistributive function of price insurance and financial risks, financing the budget deficit.

C. Service of commodity circulation through credit, attracting money savings, accumulation of funds.

D. The accumulated investments in the real sector of the economy, the world's money.

E. Determination of commodity value, medium of exchange , a means of payment means of formation of the family budget.

7. The emergence of the securities market is associated with ...

A. The advent of monetary relations.

B. Non-cash forms of payment, and the advent of commercial banks.

C. Market transactions in derivative securities.

D. The emergence and practice of the trade and money-lending operations.

E. Emergence of the State.

8. The open joint stock company, the activity of which is property investment in security papers and other objects are:

A. Joint-stock investment fund.

B. Unit investment fund.

C. The legal entity or the individual entrepreneur, authorized to make civil transactions with securities on behalf of their owner on the basis of an official permission.

D. Bank.

E. Clearing organization.

Topic 15. Banking marketing

1. Role of marketing systems in the commercial bank
2. The main goals, objectives and principles of banking marketing
3. Marketing policies and their role in ensuring the competitiveness of commercial banks

1. Role of marketing systems in the commercial bank

The concept of "marketing" is one of the most common vocabulary of business people living in different countries and on different continents of the globe. Today in the world there is practically no country with a developed economy where marketing is not used, not only by large multinational corporations, banks and firms, but also by many medium and small enterprises. Marketing is practiced by industrial enterprises, wholesalers and retailers,

financial companies and banks, firms specializing in consumer services, travel and transportation companies, research institutions and creative organizations, as well as non-profit organizations.

The most important factors that have necessitated the use of marketing in the banking sector are the following:

- Internationalization of economic processes, which is accompanied by the penetration of banks into foreign markets and their competition with local banks. Globalization of banking competition.

- The emergence and development in almost all countries of a huge number of non-banking institutions that competed with banks.

- Diversification of the banking industry itself. Expanding the range of services provided by banks, and the development of non-bank methods of borrowing money (issuing bonds, for example).

- Development of information technologies and means of communication based on modern technology and, as a result, expansion of the regional and national spheres of activity of financial and credit institutions.

- The development of competition within the banking system, as well as between banks and non-banking institutions, both in the field of raising funds and in the provision of services, especially credit. Competition in the banking services market arose later than competition in industry, however, it is distinguished by the development of forms and high intensity, in particular, due to the lack of entry barriers that are characteristic of many other industries (for example, there is no patent protection).

- Limitations of price competition in the banking services market related to state regulation, as well as the fact that there is a limit on the percentage below which the bank no longer makes a profit, highlight the problems of managing the quality of the banking product and promoting the product by market.

Marketing is telling a story, marketing is advertising, marketing is engaging with customers. All true, but with all the flash it's easy to forget what's in the essence of all marketing. Because, in its essence, marketing has a very simple and very obvious core, which you ought not to forget.

Marketing is bringing a product to markets, building communication about the product and its features, benefits and other qualities. Thus in the centre, the core and heart of marketing is the product. Marketing begins with planning and designing, creating the idea and format of the product. Even the production of a product is part of its marketing. The way a product is produced is as much part of marketing as the end result, the product. The product is what is being marketed, and the product is itself a marketing effort. All the qualities of the product, its look, feel, sounds, ideas around it, are part of its marketing.

The definition of a product is not limited to physical products. Product can be anything from an actual physical product, digital product or service, other type of a service, idea, brand, business, company, organization or even a person,

to mention some. Product serves as a base for the marketing, and it works as the essential building block for the marketing. Without the product there's no (point in) marketing. Product also can be and usually is part of marketing other products. For instance, when Apple presents a new iPhone or OS they also market their brand and their other products through it.

Decision-making in marketing the bank cannot be conceived without a well-organized and adapted information system requirement. The function of research is considered a marketing analytic function. There is a need to establish a new function within the bank that consists of the collection, processing, analysis, storage, distribution and transmission of data needed for the correct decisions and timely. This function is usually performed by the department of information or a special - marketing information system. The information provided by this department is necessary not only to marketers and managers taking strategic decisions - it can be used by any subdivision of the bank for the purpose of forecasting and planning, taking into account, of course, the hierarchy of access to different types of information. Marketing information system in the bank must fulfill the following functions, among which we mention:

- providing quality information;

- ensuring the preservation, transmission and distribution of data collected;

- a systematic analysis of current data and those from the archive, taking into account the indicators needed to manage marketing in the bank;

- providing consumers access to the data relative about the bank's private;

- development of newsletters;

- improving the methods used.

For proper functioning of the information system of the bank, the bank needed to be technically equipped to accordingly.

This equipment includes:

- the presence of computer and communicational networks inside the bank so there is no hindrance in the development and distribution of integrated information flows;

- a high level of qualification of the users of the system;

- possibility of connecting to local and global networks;

- development and implementation of indicators of work;

- use this system to solve strategic marketing issues.

The design, organization and functioning of the banking information system affects the quality and efficiency of banking.

Marketing research provide informational support needed at all stages of decision making and represents work through which, by means of concepts, methods and techniques of scientific investigation is done specifying the measurement, collection, analysis and interpretation of marketing information. This research is dedicated to the management unit for a better understanding of

the environment in which it operates, and for identifying opportunities, evaluating alternative marketing actions and their effects. Marketing research on the banking market is a complex process that includes two basic directions: banking market research and market strategy development and implementation.

Marketing research process includes a series of steps, which we will elaborate further, but on the concrete realization of market research experience and traditions basically depends on the bank's goals, qualification executants' research.

Market research includes analysis of such banking issues such as the needs of potential consumers in the market competing proposals; Subjects market work; advertising, studying possibilities of the Bank, including the Bank's analysis of economic activity, production costs of bank production, stimulate spending and advertising.

Status banking sector is a direct reflection of the general state of the economy. Therefore, banks are interested in normalizing circuit lending money order and relations at the micro-and macro-economic development of the country, increase income levels and general welfare, and that is very essential for political stability.

Research should be noted that the accuracy depends on many factors, including:

- the volume of information retrieved;
- choosing representative group;
- method of data collection;
- methods for establishing contacts.

Important areas of marketing activity are bank communication policy development and implementation. This assumes greater importance and unique content in terms of lack of effective relationships, long-term real customer. In this case the bank is forced to steer policy and promotion to attract new clients and maintaining effective communication with customers constantly.

Motivation calls customers in the banking services of particular importance. Factors shaping consumers' motivations: the need to appeal to a specific service of the bank, the existence of the necessary information about the product and about the bank can choose from several service options proposed by the banks in the market, the price, banking, preferences consumers, the number of consumers, and their income.

Gathering and analyzing information from research (financial situation of the bank's clients, the types of services advertised in the market, the costs to produce a unit of banking service, the benefit amount received from the sale of a production unit banking) allows useful conclusions on solvency and competitiveness shares in the banking market. The methodology for determining the solvability or customer competitiveness can be a "know-how" commercial bank, drawn by its economic service.

The main conditions for the emergence and development of marketing in the world economy are:

1. The rapid increase in the number of banks in different countries of the world and especially non-bank financial institutions and institutions that competed with banks on the markets.

2. Significant consolidation of banking and financial structures due to their mergers and acquisitions of small and medium-sized institutions by larger ones.

3. Diversification of services in the banking industry itself.

4. A sharp intensification of competition within the banking system, as well as between banks and non-banking institutions, both in terms of attracting funds from the population, organizations and enterprises, and providing them with loans and borrowings.

5. Significant acceleration, especially in recent decades, of the process of internationalization of the commercial activities of banks, embracing new countries of the world (in particular, Eastern Europe and the former USSR). This process is characterized by competition between the largest banks in the world and non-banking institutions with local, much less powerful banks.

6. Strengthening state regulation of banking in many countries, which, in particular, is manifested in the limitation of price competition. In these conditions, banks are forced to pay much more attention to improving the quality of services provided and promoting them on the market.

7. The emergence and rapid development of new information technologies and means of communication, which made it possible for banks and other financial institutions to have unhindered access to a significantly larger number of customers both in their own country and abroad, as well as stimulated competition for new services, provided on the basis of the most modern information technologies.

In these conditions, marketing becomes the most important competitive tool in the global and regional financial markets and one of the main factors for the survival of banks, especially medium and small ones.

2. The main goals, objectives and principles of banking marketing

The main objectives of marketing in the bank are:

- Formation and stimulation of demand.
- Ensuring the validity of management decisions and work plans of the bank.
- Expansion of the volume of services provided, market share.
- Increase in profits.

Ultimately, banking marketing is aimed at the realization of a common goal: the radical use of income and cash temporarily released on the farm.

To offer the client what is being realized, rather than trying to impose something else, is the basis of the marketing approach in managing the bank's activities.

The main objectives of marketing in the bank

1. Ensuring the profitability of the bank in the ever-changing conditions of the money market.

2. Guarantee (provision) of liquidity of the bank in order to comply with the interests of creditors and depositors, maintaining the image of the bank.

3. Maximum satisfaction of customer requests in terms of volume, structure and quality of services provided by the bank. This creates the conditions for the sustainability of business relations.

A specific feature of the bank's marketing activities is a wide range of factors that must be constantly monitored: money circulation and credit relations at macro and micro levels, the presence of considerable risk when performing monetary operations arising from the complex interweaving of numerous external circumstances and others.

3. Marketing policies and their role in ensuring the competitiveness of commercial banks

Adoption and successful implementation of the marketing concept as the basis of the whole strategic and tactical decisions, which are used in the management process and the underlying actual existence banking institution, requires consideration of the following four elements:

Satisfying customer desires - vital aspect of the marketing concept, without which the bank's financial objectives could not be achieved;

Return - customers are not satisfied with any price, because there is a balance between the degree of satisfaction of desires and gains achieved as a result of effort;

Co-workers - all employees should understand the importance of marketing and work in the spirit of marketing concept. Employees' needs must be satisfied, taking into account the importance of controlling costs and maximizing revenue;

Social responsibility - the bank must be sensitive and aware of what the community in which medium works. Depending on this, it must adopt a responsible behavior.

Any decision marketing strategy to generate market success has to be focused on the development, maintenance and communication of competitive advantage. Developing competitive advantage can result from a mix of original algorithm marketing policies that create value for customers and cannot be easily imitated by competitors or simultaneously implemented.

Bank marketing mix according to the literature, includes an expanded number of policies compared to the marketing mix of the goods. This is explained by the nature and specificities of banking services. The four policies classic mix (product, price, promotion and placement) are combined with other specific policies to banking - interest rates policy processes, relational policy, personnel policy and politics presentation. However, we must emphasize that the

two components of the traditional mix (product and distribution) undergo significant changes in the scope of banking services. In general the commercial banks are considered to be essential elements: content providers, the material elements of the services, personnel contact and communication about the product. Banking products and services range is extremely wide. The size range of banking products depends directly on the participation of the product to the bank's profitability and the intensity of current customers turn to each service; positioning in relation to competing products. Thus, development of new products the bank is justified in two ways: existing customer needs evolve and new products are required to meet them; new products are likely to attract new customers to the bank. The essence of all policies of banking product consists of product-client relationship.

A fundamental aspect of the product is the quality. This, in turn, generates a number of advantages: greater customer loyalty, a repetition frequency of business, reduced vulnerability to price policy, ability to practice a relatively higher price without affecting the market share of costs marketing smaller increase market share.

Quality of service is defined as "the ability of the bank to meet or exceed consumer expectations", the "expectations" it stands to reason that consumers imagine, they want from a job. A specific feature of banking is that, given the differentiation otherwise, is depleted, the quality strategy becomes paramount. In this case, the emphasis is on: improving quality; maintaining quality; qualitative differentiation.

There are five dimensions that define the quality of banking services: credibility; tangibility; responsibility; kindness; empathy. The problem of maintaining and tracking banking products is a very important aspect of the product policy of a commercial bank. In general, the products "older" very slow. However, at some point there is a need to improve them after a certain period of time. Banking products are not subject to wear and are less exposed material obsolescence. Clientele, regular time with the use of a particular product, will oppose some resistance when you question his disappearance.

Life expectancy of a banking product is very long, and its disappearance causes must be sought in three directions. First, it should be noted that a large number of banking products were created at the initiative of the public authorities. By changes in legislation or introducing certain regulations, such products may be eliminated or, at best, will be affected by certain characteristics of them. Second, resolve the interchangeable with other products, which have superior quality characteristics. Two of banking products popular and widely used - letter of credit and letter of credit - currently considered outdated. Consequently, they were replaced with the transfer, travel check etc. Third, it should be noted that the bank will give a product if its profitability will become low.

Tasks for self-studying

1. What is the specific of banking marketing?
2. What is the difference between banking product and bank service?
3. Describe the most important stages of the banking marketing.
4. What is direct promotion? What are main types of direct promotion in the commercial bank?
5. What are most important functions realizing by market specialists in commercial banks?

Tasks for research

1. Provide the comparative analyze of commercial banks' web-sites. What are attractive positions of this web-sites?
2. Provide SWOT-analyze of one of commercial bank's marketing policy orienting for retail customers.

Practical task

1. Provide in small group completing the advertisement video for your future commercial bank.

Tests for self-checking

1. What is marketing?

A. The process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs or demand characteristics. Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment.

B. The management process through which goods and services move from concept to the customer.

C. It is one of the various services offered by a commercial bank to its customers: mortgages, loans, insurance etc.

D. It is the action of making generally known, a calling to the attention of the public.

E. The various ways in which a commercial bank can help a customer, such as operating accounts, making transfers, paying standing orders and selling foreign currency.

2. What is advertisement?

A. The process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs or demand characteristics. Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment.

B. The management process through which goods and services move from concept to the customer.

C. It is one of the various services offered by a commercial bank to its customers: mortgages, loans, insurance etc.

D. It is the action of making generally known, a calling to the attention of the public.

E. The various ways in which a commercial bank can help a customer, such as operating accounts, making transfers, paying standing orders and selling foreign currency.

3. What is a banking product?

A. The process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs or demand characteristics. Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment.

B. The management process through which goods and services move from concept to the customer.

C. It is one of the various services offered by a commercial bank to its customers: mortgages, loans, insurance etc.

D. It is the action of making generally known, a calling to the attention of the public.

E. The various ways in which a commercial bank can help a customer, such as operating accounts, making transfers, paying standing orders and selling foreign currency.

4. What is segmentation?

A. The process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs or demand characteristics. Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment.

B. The management process through which goods and services move from concept to the customer.

C. It is one of the various services offered by a commercial bank to its customers: mortgages, loans, insurance etc.

D. It is the action of making generally known, a calling to the attention of the public.

E. The various ways in which a commercial bank can help a customer, such as operating accounts, making transfers, paying standing orders and selling foreign currency.

5. What is a banking service?

A. The process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs or demand characteristics. Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment.

B. The management process through which goods and services move from concept to the customer.

C. It is one of the various services offered by a commercial bank to its customers: mortgages, loans, insurance etc.

D. It is the action of making generally known, a calling to the attention of the public.

E. The various ways in which a commercial bank can help a customer, such as operating accounts, making transfers, paying standing orders and selling foreign currency.

6. Mark these statements True or False:

6.1. The most important objective for any successful financial marketer is to not focus on improving the customer experience across channels and with every communication. Touchpoints such as mobile, video and social media continue to grow in importance, with the underlying need for improved data analytics being paramount.

6.2. The importance of consumer insight and data for financial marketers will be more important than ever. In the past, the vast majority of financial marketers were more talk than action around "big data" because they lacked the skills and budget to make an impact. New tools and technologies make advanced analytics available for all sized organizations, while digital channels and the desire for personalized offers make the investment in data analytics mandatory for success.

Topic 16. Banking management

1. Essence of the banking management
2. Features of credit management in the commercial bank
3. The structure of banking management

1. Essence of the banking management

Modern banking belongs to one of the most dynamic sectors of the economy. The technical revolution, increased competition, landslide inflation, economic crises have led to increased banking risk. At the present stage of the development of the banking system, the main task is to find real ways to minimize risks and obtain sufficient profits for the safety of depositors' funds and support the life of the bank. The successful solution of this complex problem requires the use of many methods, techniques, methods, systems and the development of new approaches to managing a commercial bank, which are united by the concept of management.

Banking management is the science of reliable and efficient management systems for all processes and relationships that characterize the activities of the bank. Under the processes and relationships understand the combination of financial, economic, organizational and social spheres of banking.

Banking management, like every science, is based on certain principles and aimed at performing specific functions with the help of tools to achieve your goals.

Management is characterized by principles common to all areas of activity: the focus of the actions of the subject of management on achieving specific goals; unity of purpose, result and means of achieving it; the complexity of the management process, which includes planning, analysis, regulation and control; the unity of strategic, tactical and operational planning to ensure the continuity of the process; control over management decisions as the most important factor in their implementation; material and moral stimulation of creative activity, successes and achievements of the whole team and each of its members separately; the flexibility of the organizational structure of management, which makes it possible to solve functional and managerial tasks.

Management is the market model of economics' management orienting for maximal profit.

There are many definitions of bank management. In general, bank management refers to the process of managing the Bank's statutory activity. Bank management is characterized by the specific object of management - financial relations connected with banking activities and other relations, also connected with implementation of management functions in banking.

The main objective of bank management is to build organic and optimal system of interaction between the elements of banking mechanism with a view to profit.

Successful optimization of the "profitability-risk" ratio in a bank lending operations is largely determined by the use of effective methods of bank management.

Bank management, like every science, is based on certain principles and is aimed at performing specific functions with the help of tools in order to achieve their goals.

Management is characterized by principles that are common to all areas of activity:

- Orientation of the subject of management to achieve specific goals.
- Unity of purpose, result and means of achieving it.
- The complexity of the management process, which includes planning, analysis, regulation and control.
- Unity of strategic (perspective) and tactical (current) planning to ensure the continuity of the corresponding process.
- Control over management decisions made as the most important factor in their implementation.
- Material and moral stimulation of creative activity, successes and achievements of the whole team and any member in particular.
- Flexibility of the organizational structure of management, which makes it possible to solve functional and managerial tasks.

2. Features of credit management in the commercial bank

Credit management plays a vital role in the banking sector. As we all know bank is one of the major source of lending capital. So, Banks follow the following principles for lending capital: Liquidity plays a major role when a bank is into lending money. Usually, banks give money for short duration of time. This is because the money they lend is public money. This money can be withdrawn by the depositor at any point of time.

So, to avoid this chaos, banks lend loans after the loan seeker produces enough security of assets which can be easily marketable and transformable to cash in a short period of time. A bank is in possession to take over these produced assets if the borrower fails to repay the loan amount after some interval of time as decided. A bank has its own selection criteria for choosing security. Only those securities which acquires enough liquidity are added in the bank's investment portfolio. This is important as the bank requires funds to meet the urgent needs of its customers or depositors. The bank should be in a condition to sell some of the securities at a very short notice without creating an impact on their market rates much. There are particular securities such as the central, state and local government agreements which are easily saleable without having any impact on their market rates. Shares and debentures of large industries are also addressed under this category. But the shares and debentures of ordinary industries are not easily marketable without having a fall in their market rates. Therefore, banks should always make investments in government securities and shares and debentures of reputed industrial houses. Safety The second most important function of lending is safety, safety of funds lent. Safety means that the borrower should be in a position to repay the loan and interest at regular durations of time without any fail. The repayment of the loan relies on the nature of security and the potential of the borrower to repay the loan. Unlike all other investments, bank investments are risk-prone. The intensity of risk differs according to the type of security. Securities of the central government are safer when compared to the securities of the state governments and local bodies. Similarly, the securities of state government and local bodies are much safer when compared to the securities of industrial concerns. This variation is due to the fact that the resources acquired by the central government are much higher as compared to resourced held by the state and local governments. It is also higher than the industrial concerns. Also, the share and debentures of industrial concerns are bound to their earnings. Income varies according to the business activities held in a country. The bank should also consider the ability of the debtor to repay the debt of the governments while investing in their securities. The prerequisites for this are political stability and peace and security within the country. Securities of a government acquiring large tax revenue and high borrowing capacity are considered as safe investments. The same goes with the securities of a rich municipality or local body and state government of a flourishing area. Thus, while making any sort of investments, banks should

decide securities, shares and debentures of such governments, local bodies and industrial concerns which meets the principle of safety. Therefore, from the bank's way of perceiving, the nature of security is very essential while lending a loan. Even after considering the securities, the bank needs to check the creditworthiness of the borrower which is monitored by his character, capacity to repay, and his financial standing. Above all, the safety of bank funds relies on the technical feasibility and economic viability of the project for which the loan is to be given. It should never invest its total funds in a specific type of securities, it should prefer investing in different types of securities. It should select the shares and debentures of various industries located in different parts of the country. In case of state governments and local governing bodies, same principle should be abided to. Diversification basically targets at reducing risk of the investment portfolio of a bank. The principle of diversity is applicable to the advancing of loans to different types of firms, industries, factories, businesses and markets. A bank should abide by the maxim that is "Do not keep all eggs in one basket." It should distribute its risks by lending loans to different trades and companies in different parts of the country. Stability Another essential principle of a bank's investment policy is stability. A bank should prefer investing in those stocks and securities which hold a high degree of stability in their costs. Any bank cannot incur any loss on the rate of its securities. So it should always invest funds in the shares of branded companies where the probability of decline in their rate is less. Government contracts and debentures of industries carry fixed costs of interest. Their cost varies with variation in the market rate of interest. But the bank is bound to liquidate a part of them to satisfy its needs of cash whenever stuck by a financial crisis.

Else, they follow their full term of 10 years or more and variations in the market rate of interest do not disturb them. So, bank investments in debentures and contracts are more stable when compared to the shares of industries. Profitability This should be the chief principle of investment. A bank should only invest if it earns sufficient profits from it. Thus, it should, invest in securities that have a fair and stable return on the funds invested. The procuring capacity of securities and shares relies on the interest rate and the dividend rate and the tax benefits they hold. Broadly, it is the securities of government branches like the government at the center, state and local bodies that hugely carry the exception of their interest from taxes. A bank should prefer investing in these type of securities instead of investing in the shares of new companies which also carry tax exception. This is due to the fact that shares of new companies are not considered as safe investments. Now lending money to someone is accompanied by some risks mainly. As we know that bank lends the money of its depositors as loans. To put it simply the main job of a bank is to rent money from depositors and give money to the borrowers. As the primary source of funds for a bank is the money deposited by its customers which are repayable as and when required by the depositors, the bank needs to be very

careful while lending money to customers. Banks make money by lending money to borrowers and charging some interest rates. So, it is very essential from the bank's part to follow the cardinal principles of lending. When these principles are abided, they assure the safety of banks' funds and in response to that they assure its depositors and shareholders. In this whole process, banks earn good profits and grow as financial institutions. Sound lending principles by banks also help the economy of a nation to prosper and also advertise expansion of banks in rural areas.

3. The structure of banking management

Banking management consists of three important elements such as:

- strategic management;
- financial management;
- management of human resources.

Strategic management includes a set of sub-elements such as:

- indicating of the commercial bank's development conception;
- indicating of the aims for commercial bank's activity;
- providing the events how to realize these aims;
- creation of optimal bank' structure as important factor of effective activity's providing.

Financial management means the management of financial and economic activity of the commercial bank.

Commercial bank's financial management includes following elements:

- management of capital;
- management of assets and passives;
- management of liquidity;
- management of profitability;
- bank risk-management;
- financial planning and budgeting;
- system of accounting and information.

Management of capital is an accounting strategy that strives to maintain sufficient and equal levels of working capital, current assets and current liabilities. This helps a commercial bank to meet its expense obligations while also maintaining sufficient cash flow and is primarily related to short-term financial decisions.

Liquidity management takes one of two forms based on the definition of liquidity. One type of liquidity refers to the ability to trade an asset, such as a stock or bond, at its current price. The other definition of liquidity applies to large organizations, such as financial institutions. Banks are often evaluated on their liquidity, or their ability to meet cash and collateral obligations without incurring substantial losses. In either case, liquidity management describes the effort of investors or managers to reduce liquidity risk exposure.

Investors, lenders and managers all look to a company's financial statements, using liquidity measurement ratios to evaluate liquidity risk. This is usually done by comparing liquid assets and short-term liabilities. Companies that are over-leveraged must take steps to reduce the gap between their cash on hand and their debt obligations. All companies and governments that have debt obligations face liquidity risk, but the liquidity of major banks is especially scrutinized. These organizations are subjected to heavy regulation and stress tests to assess their liquidity management because they are considered economically vital institutions. Here, liquidity risk management uses accounting techniques to assess the need for cash or collateral to meet financial obligations.

Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities.

Risk management occurs everywhere in the financial world. It occurs when an investor buys low-risk government bonds over more risky corporate bonds, when a fund manager hedges his currency exposure with currency derivatives and when a bank performs a credit check on an individual before issuing a personal line of credit. Stockbrokers use financial instruments like options and futures, and money managers use strategies like portfolio and investment diversification, in order to mitigate or effectively manage risk.

Financial planning and financial controlling involve a combination of activities that support the entire financial management process for commercial banks.

Human resource management is the management of human resources. It is designed to maximize employee performance in service of an employer's strategic objectives of the commercial bank.

Tasks for self-studying

1. What is the difference between management of the commercial bank and management of entities?
2. Describe the difference between a commercial bank's strategy and its mission.

Tests for self-checking

1. What is a banking management?

A. Is characterized by the specific object of management - financial relations connected with banking activities and other relations, also connected with implementation of management functions in banking.

B. Is an accounting strategy that strives to maintain sufficient and equal levels of working capital, current assets and current liabilities.

C. Is the process of identification, analysis and acceptance or mitigation of uncertainty in investment decisions

D. Is the ability of a business to earn a profit.

E. It is a management designed to maximize employee performance in service of an employer's strategic objectives.'

2. What is a capital management in a bank?

A. Is characterized by the specific object of management - financial relations connected with banking activities and other relations, also connected with implementation of management functions in banking.

B. Is an accounting strategy that strives to maintain sufficient and equal levels of working capital, current assets and current liabilities.

C. Is the process of identification, analysis and acceptance or mitigation of uncertainty in investment decisions

D. Is the ability of a business to earn a profit.

E. It is a management designed to maximize employee performance in service of an employer's strategic objectives.'

3. What is banking risk-management?

A. Is characterized by the specific object of management - financial relations connected with banking activities and other relations, also connected with implementation of management functions in banking.

B. Is an accounting strategy that strives to maintain sufficient and equal levels of working capital, current assets and current liabilities.

C. Is the process of identification, analysis and acceptance or mitigation of uncertainty in investment decisions

D. Is the ability of a business to earn a profit.

E. It is a management designed to maximize employee performance in service of an employer's strategic objectives.'

4. What is a profitability?

A. Is characterized by the specific object of management - financial relations connected with banking activities and other relations, also connected with implementation of management functions in banking.

B. Is an accounting strategy that strives to maintain sufficient and equal levels of working capital, current assets and current liabilities.

C. Is the process of identification, analysis and acceptance or mitigation of uncertainty in investment decisions

D. Is the ability of a business to earn a profit.

E. It is a management designed to maximize employee performance in service of an employer's strategic objectives.'

5. What is human-resource management?

A. Is characterized by the specific object of management - financial relations connected with banking activities and other relations, also connected with implementation of management functions in banking.

B. Is an accounting strategy that strives to maintain sufficient and equal levels of working capital, current assets and current liabilities.

C. Is the process of identification, analysis and acceptance or mitigation of uncertainty in investment decisions

D. Is the ability of a business to earn a profit.

E. It is a management designed to maximize employee performance in service of an employer's strategic objectives.'

6. Mark these statements True or False:

6.1. Securitization enabled banks to originate loans, such as mortgages, without being constrained by the amount of equity capital they had and by the requirement to keep their capital to assets ratio at or above a minimum.

6.2. The professionalism and ethics of individual bankers is not so important to be left to each bank on its own: the industry as a whole needs to come together to set new standards.

6.3. Regular financial stability assessment and the identification of macroprudential leading indicators signaling coming risks to the banking system are of major importance for central banks and supervisory authorities. A safe and sound banking system ensures the optimal allocation of capital resources, and regulators therefore aim to prevent costly banking system crises and their associated adverse feedback effects on the real economy.

Topic 17. Banking regulation and supervision

1. Role of banking regulating
2. The nature of supervision
3. Types of financial regulation
4. Main objectives and functions of Committee on control and supervision of the financial market and financial organizations of National Bank of the Republic of Kazakhstan

1. Role of banking regulating

Around the world, many countries are considering the institutional structure of regulatory and supervisory agencies in the financial sector on the grounds that existing structures, which were often established in a markedly different market and intuitional environment than exists today, may have become inappropriate. In many countries governments have been reviewing their institutional structures of financial regulation and in some countries major changes have been made.

Regulation of the financial sector means streamlining the relations arising in the course of activity of its participants, and also implementation of operations between them from the organizations authorized on these actions.

This process covers all its participants, all kinds of activity and all types of operations.

The main functions of regulation of the financial sector are:

- concept formulation of development of the financial market and its realization program;
- improvement and development of acts for development of the financial market;
- development of norms of functioning of the market and their periodic updating;
- control over a financial condition of investment institutes.

The purposes of regulation of the financial market are:

- order maintenance, creation of conditions for work of all participants of the financial market;
- protection of participants against dishonesty and fraud of individuals or organizations;
- ensuring free and open process of pricing on financial instruments on the basis of supply and demand;
- creation of the effective financial market having incentives for business and adequate remuneration of risk;
- organization of the new markets, support of their structures, undertakings and innovations;
- impact on the market for achievement of the public purposes.

To the basic principles providing effective regulation of the financial market, belong:

- division of approaches in regulation of the relations of issuers, investors and professional participants;
- maximum disclosure of information on all;
- ensuring competition;
- optimum distribution of functions of regulation between the government and non-state bodies;
- publicity and division of powers when developing legislative and regulations acts.

Banking regulation originates from microeconomic concerns over the ability of bank creditors (depositors) to monitor the risks originating on the lending side and from micro and macroeconomic concerns over the stability of the banking system in the case of a bank crisis. In addition to statutory and administrative regulatory provisions, the banking sector has been subject to widespread "informal" regulation, i.e., the government's use of its discretion, outside formalized legislation, to influence banking sector outcomes (for example, to bail out insolvent banks, decide on bank mergers or maintain significant state ownership).

Banks in one form or another have been subject to the following non exhaustive list of regulatory provisions:

- restrictions on branching and new entry;
- restrictions on pricing (interest rate controls and other controls on prices or fees);
- line-of-business restrictions and regulations on ownership linkages among financial institutions;
- restrictions on the portfolio of assets that banks can hold (such as requirements to hold certain types of securities or requirements or not to hold other securities, including requirements not to hold the control of non financial companies);
- compulsory deposit insurance (or informal deposit insurance, in the form of an expectation that government will bail out depositors in the event of insolvency);
- capital-adequacy requirements;
- reserve requirements (requirements to hold a certain quantity of the liabilities of the central bank);
- requirements to direct credit to favored sectors or enterprises (in the form of either formal rules, or informal government pressure);
- expectations that, in the event of difficulty, banks will receive assistance in the form of "lender of last resort";
- special rules concerning mergers (not always subject to a competition standard) or failing banks (e.g., liquidation, winding up, insolvency, composition or analogous proceedings in the banking sector);
- other rules affecting cooperation within the banking sector (e.g., with respect to payment systems).

A stable and efficient financial system has a potentially powerful influence on a country's economic development not the least because it may have an impact on the level of capital formation, efficiency in the allocation of capital between competing claims, and also the confidence that end-users (consumers) have in the integrity of the financial system. The stability and efficiency of the system has both supply-side and demand-side effects on the economy. In turn, a well-structured regulatory regime contributes to the efficiency and stability of the financial system. A central issue, therefore, is whether the institutional structure of financial regulation and supervision has any bearing on the efficiency of financial regulation and supervision itself and its impact on the wider economy.

The basic functions performed by regulatory agencies are universal and cover ten main areas:

- prudential regulation for the safety and soundness of financial institutions;
- stability and integrity of the payments system;
- prudential supervision of financial institutions;
- conduct of business regulation (i.e. rules about how firms conduct business with their customers);

- conduct of business supervision;
- safety net arrangements such as deposit insurance and the lender-of-last-resort role performed by the central bank;
- liquidity assistance for systemic stability, i.e. liquidity assistance for solvent institutions;
- the handling of insolvent institutions;
- crisis resolution, and issues related to market integrity.

These are the universal areas that regulatory and supervisory agencies need to address in one way or another.

While it is universally agreed that the central bank has a major responsibility for maintaining systemic stability, the definition and legal authority for this is often blurred. Financial stability usually refers to the risks to the financial system as a whole and the integrity of the payments system.

Irrespective of what role, if any, is assigned to the central bank with respect to the prudential regulation and supervision of financial institutions, it is universally the case that the central bank is the agency responsible for the stability of the payments system, liquidity assistance to markets and solvent institutions, and systemic stability.

2. The nature of supervision

Supervision may involve authorization, monitoring compliance, enforcement and imposing penalties. Often, there will be a distinction between the agency responsible for monitoring compliance and identifying suspected rule breaking (the 'policing role'), and the agency (tribunal, court, arbitrator, ombudsman) which determines whether there has been a breach and imposes any penalty, compensation, or settlement (the 'judicial' role); although this is not the case in financial regulation where these functions have been assigned to separate parts of the regulators.

The style and intensity of monitoring depends on the likelihood of the firm or individual breaching the rules, the likely consequences of a breach and the resources available to the supervisor. Enforcement may result from the supervisor's own monitoring, or a complaint by a customer or another regulator or market participant, or notification by the regulate of a breach. It will, typically, involve an inquiry to determine issues such as whether there has been a breach, its causes, and whether further action is required.

The supervisor may operate through enforcement officers with powers to gather information. Indeed, the power to conduct an inquiry into a breach may be experienced by the firm as punishment if it involves suspension of work or damage to reputation, and such powers may be used simply for these purposes, which, although an abuse, would be difficult to challenge.

The actions of enforcement officers may lead to prosecution before a court or quasi judicial authority, which has the power to impose a penalty, such as a fine, suspension or withdrawal of authorization. The aim may be to achieve

compliance of the firm/individual or across the industry, or punish for the breach, or compensate loss suffered by a customer as a result of the breach.

They may also have powers to impose sanctions, such as cautions, compliance notices, or temporary suspensions of authorization. The need to take immediate action to protect a vulnerable third party (such as bank depositors or employers) may be regarded as sufficiently important as to override the due process rights of the party allegedly in breach (the bank or employer). The authority to impose sanctions, such as a fixed penalty notice, may save scarce resources, but not serve the public interest in punishment. The supervisor may be guided by the need for a co-operative relationship with regulate in order to make their work easier – confrontational supervision is likely to be more expensive. On the other hand, the supervisor can come under pressure from public opinion to take a more aggressive approach.

3. Types of financial regulation

Financial regulation is a wide set of activities.

Types of financial regulation can be the following:

- external and internal;
- state, public or regulation from professional participants of the financial market or market self-regulation;
- direct, that is administrative or indirect and economic.

External regulation of the financial market is based on observance of norms of legislative and regulations acts of the country providing normal functioning of all institutes of the market. Internal regulation is based on accepted directly the own normative documents by the participant of the market.

State regulation assumes regulation of the relations developing in the financial market, authorized government bodies.

Methods of direct regulation are:

- publication of the regulations establishing obligatory requirements to activity of subjects of the financial market;
- registration of issue securities and control of observance by issuers of conditions and the obligations provided in them;
- licensing of activity of professional participants, stock exchanges, and also the organizations which are carrying out the quotation and technical ensuring trade in financial instruments, addressing in the off-exchange market;
- control of activity of professional participants of the financial market and application of the corresponding sanctions for a violation of the law;
- identification and taking measures to accountability of the persons violating the law in the financial market;
- system organization on improving of professional and educational levels of participants of the financial market.

Indirect regulation of the financial market is carried out by the state via the economic levers which were at its disposal which belong a tax policy,

monetary policy, the state capitals, the external economic policy, and also foreign policy activity. In some countries regulation of the financial market is primary function of the state and only small part of powers transfer to associations of professional participants of the financial market. – In other countries the greatest possible volume of powers is transferred to the self-regulating organizations, and the state has the main control questions.

Self-regulation is regulation of the financial market from associations of professional participants of the market, urged to protect interests of participants of the financial market. Public regulation assumes regulation through public opinion.

4. Main objectives and functions of Committee on control and supervision of the financial market and financial organizations of National Bank of the Republic of Kazakhstan

The National Bank of the Republic of Kazakhstan is a state institute, directly subordinate and accountable to the President of the Republic of Kazakhstan which realize following activities:

- ensuring the development and implementation of monetary policy;
- the functioning of payment systems, the appropriate level of protection of the rights and legitimate interests of consumers of financial services;
- promoting stability of the financial system;
- performing statistical activities in the field of monetary statistics and external sector statistics, currency regulation and control;
- government regulation, control and supervision of financial market and financial organizations, as well as other persons within the competence regulation of functioning of the regional financial center Almaty.

At the initial stages of acquisition the sovereignty and independence of Kazakhstan the level of development of sectors of the national financial market and their regulation were extremely broken among themselves. In this regard the fastest formation and development of domestic financial sector demanded creation of new system of state regulation of financial institutions, including taking into account positive international practice.

Within realization of these task elements of new system of state regulation of activity of financial institutions, on the basis of practice and the general methodological base of supervision created by National Bank of the Republic of Kazakhstan started being formed in the republic in the late nineties of the last century. Within several years to National Bank functions and powers of Department of insurance supervision of the Ministry of Finance of the Republic of Kazakhstan on supervision of the insurance market (1998) were transferred, to the National commission of the Republic of Kazakhstan on securities – on securities market regulation (2001), Committee on regulation of activity of accumulative pension funds of the Ministry of Labour and Social Protection of

the population of the Republic of Kazakhstan – on regulation of activity of accumulative pension funds (2002).

For performance of the tasks, taking into account existing realities, the Agency realized a package of measures on reforming and improvement of system of state regulation and supervision of the financial market, directed on creation of independent and effective system of the consolidated financial supervision.

And powers and function of Agency were delegated to National Bank of the Republic of Kazakhstan by decrees of the President of the Republic of Kazakhstan of April 12, 2011 No. 25 of, and of April 18, 2011 No. 61 the Committee on control and supervision of the financial market and the financial organizations of National Bank of the Republic of Kazakhstan was established.

This transformation is carried out in line with a world tendency of the present stage of development of system of regulation and supervision of financial sector, including considering experience of the last global crisis, consisting in strengthening of the central banks.

The committee carries out the main functions on the state control and supervision of bank, insurance activity and activity of accumulative pension funds, investment funds, subjects of securities market and credit bureaus, and also protection of the rights of consumers of financial services.

Committee, as a whole keeping continuity of policy and practice of Agency concerning supervision of the financial market and the financial organizations, continues work on further improvement of supervision and control and to increase of their efficiency, including taking into account tendencies of the modern world in the field of financial supervision.

The following tasks are assigned to Committee:

- control and supervision of the financial market and financial organizations;
- use of measures for ensuring timely and full implementation with the financial organizations of the accepted obligations;
- concentration of resources of supervision on the areas of the financial market which are most subject to risks, for the purpose of maintenance of financial stability.

The National Bank of Kazakhstan shall, alone and (or) in cooperation with other state bodies within the scope of their competence, develop and implement measures aimed at ensuring the stability of the financial system.

For the purposes of assistance in ensuring the stability of the financial system, the National Bank of Kazakhstan shall:

- carry out regular monitoring of macroeconomic and macro-financial factors influencing the stability of the financial system;
- carry out macro-prudential regulation of the financial system;

- act as a lender of last resort to banks in accordance with procedures, subject to conditions and within terms established by the Board of the National Bank of Kazakhstan.

Macro-prudential regulation shall be understood as a complex of administrative, organizational and legal measures aimed at regulating systemic risks in the financial system.

Systemic risks shall be understood as risks in the financial system on the whole the occurrence of which results in its destabilization and undermines its stable functioning. Systemic risks in the financial system shall also include risks of system-forming financial organizations.

System-forming financial organizations shall be understood as financial organizations stable functioning of which is vital to the stability of the financial system on the whole.

For the purposes of carrying out macro-prudential regulation, the National Bank of Kazakhstan shall:

- on a regular basis, carry out the monitoring of systemic risks in the financial system;

- determine procedures for classifying financial organizations as system-forming ones;

- for the purposes of decreasing the level of systemic risks in the financial system and preventing their occurrence, have the right to establish prudential normatives and (or) other norms and limits for system-forming financial organizations mandatory for fulfillment;

- in case of occurrence or a threat of occurrence of a systemic financial crisis, alone or together with the Government of the Republic of Kazakhstan, impose restrictions on conduct of certain types of banking and other operations by financial organizations.

A distinction should be made between regulating and supervising markets. Regulators create rules aimed at financial institutions; their main objective is to foster financial stability and to protect those who use financial services. Overseeing compliance with regulations is the responsibility of supervisors. A supervisor which finds that a financial institution does not meet legal requirements may decide to enter into a dialogue or reprimand a noncompliant institution.

Regulation of the banking sector is primarily a matter within national jurisdictions. To a limited extend international regulation takes place. The Bank for International Settlements is an important example of an international regulator that operates by consensual agreement between central banks. Being a vehicle for central banks, the Bank for International Settlements produced the Basel II framework that describes the minimum standard for capital adequacy. These standards are expected to be implemented by national legislators and supervised by national authorities. The objective of Basel II is to tailor regulatory capital requirements to the underlying risks that banks face in market

operations. Closely related to the Bank for International Settlements is the Financial Stability Forum which keeps a small secretariat at the BIS headquarters. The Financial Stability Forum is an informal, non-institutionalized body, bringing together senior representatives of national financial authorities (e.g. central banks, other supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank. The Financial Stability Forum holds an unfocussed mandate. It is expected to assess vulnerabilities affecting the international financial system, identify and oversee action needed to address these and improve co-ordination and information exchange among the various authorities responsible for financial stability. In the Leader's Statement at the London Summit of 2 April 2009 the Financial Stability Forum was replaced by the Financial Stability Board . The Financial Stability Board was assigned to a number of tasks aimed at improving and harmonizing international regulation of financial markets, and strengthened collaboration amongst national supervisors, inter alia by the establishment of supervisory colleges. These proposals should improve macro-prudential oversight.

The Bank for International Settlements and comparable institutions only make a moderate contribution to the regulation of financial markets. Attempts to harmonize standards through non-binding instruments have had half-hearted results. Moreover, even if adequate legislation exists it is far from certain that domestic supervisors will effectively implement such legislation because domestic economic and political interests may warrant a distinctive approach.

In contrast to regulation, supervision is exclusively a domestic matter. The task of supervision may be in the hands of central banks, financial markets authorities or other institutions. While it is important to discern regulatory and supervisory powers, there is considerable spill-over in the exercise of these powers.

Tasks for self-studying

1. Describe the essence of financial regulation and supervision.
2. What is main difference between a financial regulation and a financial supervision?
3. What is the main aim of the National Bank of the Republic of Kazakhstan?

Tasks for research

1. Complete research about experience of the USA on regulation of the banking industry.
2. Complete research about experience of European countries on regulation of the banking industry.

3. Complete research about experience of the Russian Federation on regulation of the banking industry.

4. Complete the SWOT-analyze for activities of Committee for control and supervision of the financial market and financial organizations of National Bank of the Republic of Kazakhstan.

4. Complete the SWOT-analyze for activity of National Bank of the Republic of Kazakhstan.

Tests for self-checking

1. External regulation of the financial market is based on …

A. Financial market regulation by the authorized bodies of the government.

B. Financial market regulation by the authorized bodies of the non-state power.

C. Carries out legislative and normative acts of the country providing normal functioning of all institutes of the market.

D. Pass directly own normative documents (charter, rules, provisions) by the participant of the market.

E. National financial market regulation by the authorized bodies of the foreign states.

2. Internal regulation of the financial market is based on …

A. Accepted directly own normative documents (the charter, rules, provisions) by the participant of the market.

B. Carries out legislative and normative acts of the country providing normal functioning of all institutes of the market.

C. Financial market regulation by the authorized bodies of the government.

D. Financial market regulation by the authorized bodies of the non-state power.

E. National financial market regulation by the authorized bodies of the foreign states.

3. What ways can happen the state intervention in the financial market ?

A. Method of comparisons and analysis of data of development of the financial market.

B. Alternative and not alternative intervention.

C. The closed and opened intervention.

D. Direct intervention and indirect influence.

E. Legislative way and not legislative way.

4. The supreme body of management of National bank of the Republic of Kazakhstan:

A. General shareholder meeting.

B. Board.

C. Council of the bank.

D. Executive directors.

E. Auditing committee.

5. The main objective of National bank of the Republic of Kazakhstan is:

A. Regulation of the non-monetary address.

B. Ensuring internal and external stability of national currency.

C. Protection of interests of commercial bank clients.

D. Organization of calculations and cash service.

E. Protection of interests of bank.

6. Characteristic of function of National bank "bank of banks":

A. Carries out licensing to banking institutions.

B. Carries out a currency issue.

C. Regulates a rate of national currency to the foreign century.

D. Stores reserves of commercial banks, issues them loans, conducts supervision and control of activity of banks.

E. Issues loans to the governmental organizations.

7. What tool of a monetary policy is applied by National bank, urged to reduce risks of non-payment by banks according to their obligations, to protect interests of their clients, investors and shareholders of bank?

A. Operations in the open market.

B. Credits to banks.

C. Minimum reserve requirements.

D. Currency intervention.

E. Levels of rates of remuneration on the credits of National bank.

8. How is the tool of a monetary policy applied by National bank, characterizing purchase and sale of foreign currency in the interbank or exchange market for impact on a rate of tenge called?

A. Levels of rates of remuneration on the credits of National bank.

B. Currency intervention.

C. Minimum reserve requirements;

D. Operation in the open market.

E. Credits to banks.

9. What are the operations in the open market?

A. Purchase and sale of commercial bills, the state bonds and the other securities, carried out by the central bank.

B. Purchase and sale of treasury bills, notes, the state bonds and the other securities, carried out by the central bank.

C. Purchase and sale of treasury bills, the state bonds and the other securities, carried out by commercial banks.

D. Sale of commercial bills, commercial bonds and the other securities, carried out by the central bank.

E. Purchase of treasury bills, the state bonds and the other securities, carried out by the central bank.

10. What is the main activity of financial institution in the Republic of Kazakhstan the choice of forms of methods of monetary and credit regulation?

A. Committee on regulation of the financial markets and the NBRK financial organizations.

B. Ministry of Finance of the Republic of Kazakhstan.

C. National Bank of the Republic of Kazakhstan.

D. Ministry of Economy and budget planning of the Republic of Kazakhstan.

E. Committee on foreign investments.

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