**MINISTRY OF EDUCATION AND SCIENCE OF KAZAKHSTAN**

**DEPARTMENT OF “FINANCE”**

**COURSE WORK ON “ BANKING ”**

**Team: “Foreign banks on the financial market of Kazakhstan”**

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**Almaty 2010**

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**INTRODUCTION**

The banking system - one of the most important structure in the market economy. The banks conduct with cash transactions, lending to agriculture, acted as mediator in the redistribution of capital, significantly increase the overall efficiency of production, promotes the growth of productivity of labor.

Commercial banks of Kazakhstan are the single fastest developing a system. Banks' activities aimed at supporting the commercial interests of enterprises, to promote the introduction of new forms of management. Commercial banks - is an important area of national economy of any developed or developing country. Its practical role is operates in the state system of payments and settlements, most of their commercial transactions carried out through contributions, investment and lending operations, along with other financial intermediaries to direct the savings banks to firms and industrial structures. Commercial banks regulate the movement of cash flows, affecting the rate of turnover, emissions, total weight, including the amount of cash in circulation. In modern society, commercial banks are engaged in a wide variety of types of operations. They not only organize cash flow and credit relations, which are being financed through the national economy, insurance operations, buying and selling securities, and in some cases, brokerage and property management. Lending institutions act as consultants, participate in discussion of economic programs, keep statistics, have their own similar business.

Banks that are partly or wholly owned by foreign capital. Activities of foreign banks in the country are regulated by national legislation, which establishes a special regime for foreign banks to limit or enhance them, depending on the state of the economy and the direction of government policy.

Sufficiently prominent place in Kazakhstan's economy is played by foreign banks. Foreign banks are one of the largest banking entities in the country. This is due to overseas expansion of the companies are major customers of banks, with the unfolded process of deregulation and liberalization. The growing number of foreign banks depends on many factors such as: mode admittance of foreign banks and the regulation of their operations, the role of foreign trade and foreign direct investment in the economy, the presence of the country's international financial centers, including centers of operations with the euro, which determine the possibility of international expansion: the level of development of the national market, including credit and financial prospects, and expand local operations, the level of taxation of the quality and efficiency of the technological infrastructure. The main foreign partners and non-resident banks are the U.S., Saudi Arabia, Turkey, China, Netherlands, Liechtenstein, the Kingdom of Luxembourg, the Netherlands, Russia. Kazakhstan is assessed as highly attractive for foreign investment the country continued the process of attracting foreign capital in a bank. The activities of existing foreign banks is characterized by stability and balance. Activities of commercial banks contribute to stabilizing the financial situation in the country, raising production and development of fair competition.

Foreign banks are oriented primarily to their corporate customers, although individuals are interested in them too. For foreign banks is not so relevant small deposits, they needed wealthy clients, but private accounts they also open. Moreover, foreign banks have lower interest rates than domestic financial institutions: this means that at their expense to save inputs from inflation citizens of Kazakhstan do not succeed, but still on the banking crisis it will protect them.

In general, foreign banks associated with stability in the financial system. This is not surprising, because even if Kazakhstan once again break out the crisis, foreign banks have a guarantee of support from parent institutions. However, experts recommend that individuals do not rely too much on the power of foreign banks and, despite the perfect service and a lot of tempting offers, always check what might be lurking behind them, and how it will affect their personal financial well being of each client's foreign financial subsidiaries.

The main goal of course work is to understand influence and important of foreign banks in the financial market of Kazakhstan. The main goals of this course work :

- To analyze history of development of banking system on the territory of Kazakhstan;

- Analyze the activity of ATF Bank, as a foreign bank, the types and profitability of financial services in the bank;

- Identify the problems and perspectives of development of banking system of Kazakhstan;

Subject of course work is banking system and foreign banks on the financial market of RK. Object of study is ATF Bank.

Methodological and practical base for writing of course work is textbooks, academic economists, articles, financial reports of ATF Bank.

**CHAPTER 1 . HISTORY OF DEVELOPMENT OF BANKING SYSTEM OF KAZAKHSTAN**

Banking system of Kazakhstan appears after taking of sovereignty of country in December 1991. In January 1993 was done first law “on banks and bank activity in Kazakh SSR” , that was the first step in banking system of country. As in the Soviet era, the national bank continues to dominate the financial system, including currency management. Other commercial institutions have been established, but they play small roles in the country's financial life.

Since 1993, the Kazakh banking system has been formally arranged into two tiers, with the National Bank of Kazakhstan comprising the first tier and all commercial banks, both private and state-owned, comprising the second tier.

NBK acts as a regulator of monetary and credit policy. NBK is accountable directly to the President of the Republic of Kazakhstan. The National Bank of Kazakhstan is an independent financial institution. Its major objectives include control and prudential regulation of the banking sector and maintenance of a stable national currency. It is independent within the scope of its activity, identified by current legislation. Neither the Government, nor the Parliament or local authorities are authorized to interfere with the National Bank's operations. The National Bank coordinates its activities with the Cabinet of Ministers. It acts as a bank, a financial adviser, or an agent of the governmental bodies. The management bodies of the National Bank are the Council and the Board of Directors. The Kazakhstan banking system continues to be one of the strongest among the countries of the former Soviet Union.

Commercial banks concern a special category of the business enterprises which have received the name of financial intermediaries. They involve capitals, savings of the population and other free money resources liberated in the course of economic activities, and give them in time using to other economic agents who need the additional capital. Financial intermediaries carry out, thus, important economic function, providing a society the mechanism of inter branch and inter-regional redistribution of the monetary capital. Value of commercial banks in modern credit systems is so great that is necessary to stop especially on functions of these institutes. It designates "business" character of bank, it oriented on service of all kinds of economic agents irrespective of a sort of their activity. Today the commercial bank is capable to offer the client to 200 kinds of various bank products and services. The wide diversification of operations allows banks to keep clients and to remain profitable even at rather adverse economic conjuncture. Not casually in all countries with market economy they remain the main operational link of credit system. There is certain base "set" without which the bank can't normally function. Such constituting operations of bank concern:

· reception of deposits;

· realization of monetary payments and calculations;

· delivery of credits.

During the period of 1991-1993 Kazakhstan, as well as other CIS countries experienced the banking boom. In 1992, the number of banks grew from 155 to 204. Many of these structures were created for just one type of transactions. As specially popular scheme was the attraction of state loans of several millions dollars with the initial malicious plan to go bankrupt.[1]

Up to November 1993 Kazakhstan continued to use the Soviet ruble as currency. President of Kazakhstan intended to keep uniform currency with Russia. However Russia, having started replacement of the Soviet banknotes on new Russian, has ceased to provide with them Kazakhstan. In October 1993 president has agreed to put under control of Russia such major economic institutes, as the budget, the customs duties, taxes and the investment policy, in exchange for preservation of a ruble zone in Kazakhstan. However the Russian government has demanded, that Kazakhstan has transferred Russia and country gold reserves. Government has refused this offer, and Kazakhstan has entered own currency - tenge. The national currency, tenge, was introduced in November 1993. The National Bank itself took the helm of the country's monetary and credit systems. Its first action was strengthening requirements for the second-tier banks. In 1993 the National Bank withdrew first 15 banking licenses for non-compliance to these requirements. At the same time economic sanctions on possible defaults were introduced, as well as the requirement for the minimum charter capital. It should be noted that it took some time for banks to get accustomed to the new rules. During 1993 only 10% of the total number of banks met the new requirements. During the following years, the number of second-tier banks in Kazakhstan gradually decreased. Capitalization and liquidity requirements were also increased. Finally, all these measures had to ensure both the safety of deposits in Kazakhstan banks and the reliability of transactions and other banking operations.

In June 1994 Kazakstan instituted a fifteen-month program of financial and economic reform, tightening banking and credit laws, liberalizing price policies, and ending the granting of credits to state-owned institutions. In 1994 the national bank system included a State Export and Import Bank and a State Bank for Development, both of which functioned under full government control rather than as market institutions. Four large, state-owned banks controlled 80 percent of financial assets. The 200 small commercial bank’s operations in 1994,were attached to enterprises. About thirty private banks were licensed to deal in foreign exchange.[2]

Another short-term reform was introduced in March 1995, in part to tighten regulation of capital requirements and to increase the professionalism of the existing bank's operations. A system of partnership with foreign banks was introduced, pairing domestic banks with experienced foreign partners. Guidance for this bank reform is being provided by the IMF, as well as by international auditing firms such as Ernst and Young and Price Waterhouse. The aim of the 1995 reform was to create a republic-wide banking system, including ten to fifteen large banks with total capital of at least US$10 million, headquartered in Almaty and with branches throughout Kazakstan. In 1995 the NBK planned to release 80 percent of the credit funds it granted to an auction market, departing from the previous policy of rationing credit by directing it to designated enterprises. No stock exchange or capital markets existed as of 1995. In 1995 National bank of Kazakhstan terminate introduction and use of whole set of instruments of money-credit and exchange regulation. It determined to act legislation to account the correct using the economic incentives and improvements of the normative regulation and reinforcements of the checking to realize the qualitative improvement activity of all commercial banks with increasing level of their capitalization and shaping the group of banks, approaching to international standard by developments and deepening of interbank money, credit and exchange. Reached the qualitative new level of the operation named intermediate payment system in a part of safety, timeliness and efficiency of the realization of the payments between managing subject and unfold making the long-term national payment system. In 1995 NBK has provided the broad development a market government. Concept of control of gold reserve is approved in April 1995 ruled by NBK. In purpose of the increase of gold reserve NBK conducted such operations, as accommodation of currency in deposits and precious metals, buying and sale of currency and precious metals. The operations were conducted with government bonds in the different countries. In 1995 continued to consolidate interaction of National bank and Ministry of finance in deal of macroeconomic stabilization and coordination of money-credit and tax-budget policies in purpose of recovery of the economy of the country.

In 1995 have occurred the essential changes of system of the banks second level. Lasted the process of liquidation or merger of the banks. This promoted the reinforcement of the requirements on the part of NBK in capitalization and liquidity of the second level of banks. As a result amount of the banks for year grew shorter with 191 before 130. Greatly changed and their structure. There was created interstate bank and joint of the banks. [3]

In 1995 was beginning of development of market of precious metal. The edict of the President of the Republic Kazakhstan, having power of the Law "About government regulations of the relations, in accordance with precious metal and jewels" from July 20 1995 was allowed to free sale of all produced in country precious metals. Kazakhstan first from all republics former USSR has undertaken the steps on liberalization of market of precious metals. Seven banks have got the temporary license of undertaking operation. In purpose of the undertaking united politicians at building of the efficient payment system, answered to the international standard, founding on identical legislation and modern technical basis.

In 1995 was concluded an agreement "About cooperation in the field of buildings of the National payment system of the Republic Kazakhstan and making the National Payment Advice ". The Main trends to activity was participation in development of the project of the National payment system, answered to many-sided interest of its participant, development methodical recommendation, directed on stabilization of the functioning of the second level banks and improvement quality of service client, transition on united interstate standards with output on international bank systems, decision of the different problems, in accordance with safety of the system, technical and software, service and education specialist banks-participant of the National payment system.

For increasing of efficiency of the use in Republic Kazakhstan payment instrument in 1995 were prepared and approved by rule of the Federal reserve bank following normative documents: "Temporary position about bill system payment in Republic Kazakhstan", "Temporary position about bank service agency", "Temporary order payment in foreign exchange with use debit and credit cards on territory of the Republic Kazakhstan". Also work was conducted on introduction earlier confirmed normative acts: "Position about payment by checks in Republic Kazakhstan", "Position about clearing chamber of the Federal reserve bank of the Republic Kazakhstan for undertaking the clearing of the checks", "Position about interbank’s clearing in Republic Kazakhstan", "Position about undertaking operation on issue or return the on-call loans on organized market". The Provided Program of the measure on legal ensuring the reform and operating the bank system were practically completely executed. At last issued the law "About Federal reserve banks of Republic Kazakhstan" and law "About banks and bank activity in Republic Kazakhstan".

The new decree "On banks and banking activities in the Republic of Kazakhstan" has significant differences from the old Law of the Republic of Kazakhstan . It defines that the second tier banks are: the state, deposit, investment banks with foreign participation and inter-state banks, all banks, except State, created only in the form of joint stock companies; allowed to form unions of banks. Also quality of work of commercial banks provided new types of banking operations - clearing, Lombard, issuance of payment cards and others, has laid down certain requirements for employees holding leadership positions in the bank.

In 1998 National bank of RK accepted decisions "About questions of transition of banks of the second level to the international standards" according to which 30 banks of the second level should reach the international standards till the end of 2000.

According to the Decree of the President of the Republic Kazakhstan, valid The law, "About banks and bank activity in Republic Kazakhstan" on National bank function of licensing of bank audit is assigned. The NBK develops the standard document on licensing of banking audit in which high requirements will be established and responsibility of bank auditors is defined.

In the beginning of 2000 year, 16 banks of a steel and participants of system of collective insurance of fixed deposits of physical persons. Active attraction of savings of the population in banks has led finally to growth of volumes of active operations spent by banks, increase of their competitiveness, decrease in the cost price of bank services and finally their availability to republic various strata of society.

At the start of 2001, there were 48 banks, down from 71 at the end of 1998 and from over 200 at the peak in 1993. The 11 banks included in the first group were required to reach international standards by 1998. An audit is being conducted to verify whether these 11 banks have complied with these obligations. In addition, 24 banks belonging to the second group were expected to accomplish the same transition by the end of 2000. Further consolidation is expected as many remaining banks will have been unable to comply with the increased minimum capital requirement of KZT 1 billion.

In 2002 the bank system continues to become stronger: high rates of increase characterize such indicators, as cumulative actives of banks, population contributions to banks. In the conditions of proceeding growth of resource base and increase in terms of involved resources for banks crediting of real sector of economy remains the most priority kind of operations. Positive economy for development the proceeding tendency of growth of a share and long-term credits in total amount of credits to economy is. High rates the insurance market that substantially to a measure was promoted by realization of the government program of development of insurance in Republic Kazakhstan for 2000-2002 also developed.[4]

In 2004 Kazakhstan the first of the states CIS has received investment ratings from the best rating agencies recognized as the world community. So, on May, 20th the international rating agency Standard and Poor's has raised a sovereign rating of Kazakhstan under bonds in foreign currency with «ВВ +» to "VVV-". In october, 27th the same year the international rating agency Fitch Ratings has raised a long-term rating in foreign currency of Republic Kazakhstan with «ВВ +» to "VVV-". The short-term rating in foreign currency has been raised with "In" to «F-3», and a long-term rating in national currency - with "VVV-" to «ВВВ». The forecast of long-term ratings – "Stable".

In June, 2006 the third of rating agencies Moody's Invertions Service most known in the world also has raised investment credit ratings of Kazakhstan. In the subsequent all three leading world rating agencies have appropriated to Kazakhstan ratings of an "investment" class. As a result the republic has passed from "speculative" in "an investment" class that has provided access to it and the companies of its residents to the international market of the finance on more favorable conditions. Increase of credit status of Kazakhstan is connected and with development of oil and gas sector of the country, the high prices for oil. Not last role has played and expected increase in extraction of hydrocarbons, and that the republic is included into the six of the first countries where the increase in oil recovery throughout the next 10 years will be observed. Non-residents’ share in authorized capital of Kazakhstan banks increased twice and came to 23% in year 2006-2007. In the same period share of assets controlled by non- residents in aggregate assets of banking system increased, coming to almost 18%.

Emerging markets showed a national economy was sustainable developed. The good situation developed in the internal financial market. The Kazakhstan bank sector from the moment of finding by independence republic develops as a whole is forward and it is progress. Banks initiated many positive processes in economy, growth of scale of business. At undeveloped stock market in the country national banks search for access ways to the capital world markets. At the expense of a gain of foreign loans and active operations growth of banks, their actives and credit portfolios was abroad accelerated. At the same time availability of cheap money was generated abroad by almost uncontrolled demand for them that was negatively reflected in debt dependence of the country. In 2007 the total external debt of Kazakhstan has made 96,4 bln US dollar. From a total sum of a total external debt 2,1 bln dollars are necessary on the debt state and guaranteed by the state, and 94,3 bln on unwarranted the state a Considerable financial resources from the foreign markets, involved with the most active Kazakhstan banks, have made as a result half of total external debt of the country. On the end of 2007 the total external debt of banks has made nearby 46 bln dollars. So the financial crisis had come. On the one hand the crisis raised attractiveness of financial sectors of countries with emerging markets (including Kazakhstan) which came to be considered by foreign investors as “safe heavens” for some time. On the other hand, in the matter of crisis large transnational banks had to direct resources for saving their own financial stability. This led to limitation of their resources for international operations in the new countries and investment in development of international branches.

A new wave of the world financial crisis, which had begun in the third quarter of the year 2008, quickly turned “safe heavens” from the developing markets. The climate for banking business in these countries got worse dramatically. At the same time local bank valuation decreased manifold thereby it became easy for the global strategic investors to enter the domestic markets and come to the fore there. Under the assumption what local markets’ medium-term prospects are positive the latter term is even able to raise investment attractiveness of local banks. The exhaustion of liquidity and burdensome debts to the foreign countries had shaken stability and credit status of the Kazakhstan bank system. In November, 2008 the state has allocated $21 billion for support bank. They had been intended to provide liquidity of bank system, to buy bank actives suffering disaster, to provide with credits the withering building industry, to support agriculture, and also the enterprises of small and average business.

In the beginning of February, 2009 the government had bought a share at a rate of 78 % from BTA bank, the largest establishment on delivery of credits, and also that Samruk-Kazyna had bought 76 % shares of Alliance bank, 4th bank on size. The basic achievement of bank system on the results of 2009 consists in essential reduction of an external debt. [5]

**CHAPTER 2. ANALYSIS OF FOREIGN BANK IN THE FINANCIAL MARKET OF KAZAKHSTAN ( on example of ATF bank)**

Foreign banks expansion on Kazakhstan market was one of the most discussed themes in period before August 2008 which regards the development of domestic financial sector.

Banks that are partly or wholly owned by foreign capital. Activities of foreign banks in the country are regulated by national legislation, which establishes a special regime for foreign banks to limit or enhance them, depending on the state of the economy and the direction of government policy.

One may separate out three stages in the history of foreign direct investment to Kazakhstan banking sector for the last five-six years:

* before the middle of year 2006 – weak increase stimulated by general positive estimate of Kazakhstan economy and financial sector’s prospects;
* from the end of year 2006 to the middle of year 2007 – rapid growth acceleration, abrupt change to brand new level. This stage was stimulated by Kazakhstan stock market expansion which had lead to substantial reevaluation of Kazakhstan banks’ assets;
* from the middle of the year 2007 to the end of the year 2008 – foreign direct investment increase deceleration, conditioned by influence of the world financial crisis.

Though in the end of the third quarter of 2008 an increase of foreign direct investment to Kazakhstan banking sector had been continuing, however, it was undoubtedly under its own inertia and was caused by conclusion of previous deals.

Influence of the world financial crisis one may expect that new forth stage in the history of foreign investment to the Kazakhstan banking sector started from the beginning of the year 2009. It is characterized by multiple contraction of amount of investments, active re-allocation and consolidation of Kazakhstan banks’ shares between narrow group of global banking groups, growing role of profit capitalization in the own capital building sources of non-residents’ subsidiary companies.

Banks that controlled by foreign owned banks were among the first to develop such sectors of our financial market, as the issuance of housing loans, automobiles, consumer durables, other consumer loans. Foreign banks have successfully lend to small and medium businesses, not to mention their active role in the financial services to corporate clients.[5]

ATF bank is one of the banks with foreign participation in the financial market of Kazakhstan. It appears in 1995 as CJSC “Almaty trade-financing bank” and conduct operations in tenge and foreign exchange. In 1996 starts servicing of payment Visa, EuroCard or MasterCard, Diners Club, JCB, American Express payment cards. National bank of Kazakhstan included “Almaty trade-financing bank” into first group of banks acting accordingly to international standards in 1997. In September 1999 started to express money transfers by order of individuals without opening of bank accounts in 170 countries of the world in cooperation with Western Union. In October 2000 issued first coupon bonds in amount 5,000,000. Change in the name of “Almaty trade-financing bank” to “ATF bank” was done in 2002. Also in this year was signed memorandum of cooperation with Atyrau, Aktubinsk, Mangistau and western Kazakhstan regions. 2002 was successful year for bank, because they increased their capital by 31%, also they became shareholders of “ National saving bank of Kazakhstan” and started to issue VISA Virtuon cards. In 2003 the ATF bank enter in cooperation with the Kazakhstan Franchising Association, that was the first in Kazakhstan that started to realize the financing program for acquisition of wide-known world companies’ brands by local entrepreneurs. Since December 11, 2003 “ATF Bank” has implemented a new service for Visa Gold, Visa Business, Visa Classic, Visa Electron card holders. The new service allows receiving information on card account balance via ATM during staying abroad. In 2004 “ATF Bank” declares about implementation of a new service – “Partner” program conducted in cooperation with “ATF – POLIS” insurance company and “OTAN” Pension Fund. “Partner” program is dedicated for service quality increase of clients. In few month later they became one of the main shareholders of “Otan” “Open Pension Savings Fund”. In accordance with the law “On credit bureaus and preparation of credit histories” the first credit bureau was created in Kazakhstan. ”ATF Bank” JSC was one of the founders of “First Credit Bureau” LLP. Management of ”ATF Bank” JSC presented new approach to business conduction and introduced new brand style of the leading financial institute of the country: “ATF Bank” is the Bank for steady growth!”. 2005-2006 years were years of getting awards:

1. Leading world financial edition “EUROMONEY” admitted “ATF Bank” a leading financial institute of the Republic of Kazakhstan in corporate management and the best bank for SME in Kazakhstan.
2. The National League of consumers in Kazakhstan by results of its activities in 2005 awarded “ATF Bank” – a member of the Association of Perfect Business in Kazakhstan, with "Immaculate" People’s Quality Mark and Certificate "For assistance in SME development in Kazakhstan".
3. “Euromoney” leading world financial edition conferred “ATF Bank” on the award “The best bank in corporate management among developing countries of Europe".

On June 2007 bank Austria-Creditanstalt AG , who was sub-division of UniCreditGroup for commercial and bank operations in Central and Eastern Europe and private shareholders of ”ATF Bank” JSC signed the agreement on acquisition of majority stake of ”ATF Bank” JSC. It was the beginning of the new way of development of ATF bank on the territory of Kazakhstan and on the territory of other countries. [6]

Analysis of financial situation of ATF bank shows steps of development and change in it’s assets, liabilities and capital. It is the most important part for any commercial bank, so here we will see changes in horizontal and vertical analysis of balance sheet for 2007, 2008 and 2009 years. Analysis of structure of assets shows increase or decrease in the development or regress in it’s activity.

Table 1- Assets of ATF bank, million tenge, [7]

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2009 | 2008 | 2007 | Rate of increase  2009 | Rate of increase 2008 |
| Cash and cash equivalents | 187 766 665 | 95 590 527 | 57 759 513 | 96,42811 | 65,49746 |
| Obligatory reserves | 18 036 119 | 21 654 652 | 60 880 209 | (16,7102) | (64,4307) |
| Amounts due from credit institutions | 3 130 290 | 13 556 199 | 4 994 258 | (76,9088) | 171,4357 |
| Loans to customer | 778 889 753 | 799 054 021 | 783 253 258 | (2,52352) | 2,017325 |
| Current income tax assets | - | 3 580 027 | 1 063 011 | - | 236,7817 |
| Deferred income tax assets | 8 308 728 | 213 635 | - | 3789,217 | - |
| Property and equipment | 25 564 877 | 25 321 368 | 25 089 322 | 0,961674 | 0,92488 |
| Other assets | 9 466 360 | 11 363 223 | 4 968 772 | (16,693) | 128,6928 |
| Total assets | 1 031162792 | 970 333 652 | 938 008343 | 6,268889 | 3,446164 |

Source: Financial report of ATF bank 2007,2008, 2009

We can see increasing in the amount of total assets by 3,4% in 2008 and increase by 6,26% in 2009. It means that crediting, investments and other operations with money increased. Increase in cash and cash equivalents in 2008 was by 65%, past only 1 year after enter to UniCreditGroup, and we can see high results. In 2009 this number increased by 96%, so we can conclude, that economic policy of ATF bank in period of financial crisis is right and will bring better results in 2010. Loans to customer in 2009 decreased by 2,52% despite to decrease in interest rate for bank’s loans. But there was increase in property and equipment that bank purchased by 0,92% in 2008, and by 0,96% in 2009. Decrease in amounts due from credit institutions decreased by 77%, that means that amount of money in credit portfolio of ATF bank is enough to their operational work. Also we can see changes in other assets of ATF bank. If in 2008 there was increase in this point by 128%, in 2009 we see decrease in this item by 16%.

In structure of assets the biggest relative density is in loans to customers. It means that availability of credits was very high and interest for this loans were payable for Kazakhstan’s citizens. The second place in relative density takes cash and cash equivalents. It was a favorable result for ATF bank, because profit increased, so the main goal of any bank was achieved.

Table 2 – Liabilities of ATF bank, million tenge, [7]

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2009 | 2008 | 2007 | Rate of increase  2009 | Rate of increase  2008 |
| Financial instruments at fair value through profit or loss | - | 332 190 | - | - | - |
| Deposits and balances from banks | 33 960 324 | 168 206 178 | 296 755 417 | (79,81) | (42,7394) |
| Current accounts and deposits from customers | 501 639 782 | 343 421 095 | 380 605 239 | 46,0713 | (9,76974) |
| Debt securities issued | - | 204 988009 | 174 987 265 | - | 17,14453 |
| Current tax liabilities | 732,251 | - | 595 759 | - | - |
| Other liabilities | 2,966,250 | 2 018 771 | 2 292 648 | 46,9335 | (11,9459) |
| Total liabilities | 991,040,481 | 718667272 | 852236328 | 7,29 | (15,6728) |

Source: Source: Financial report of ATF bank 2007,2008, 2009

According to the table we can conclude that in 2008 were decrease in amount of liabilities by 15%. It means that there was decrease in number of deposits opened by ATF to physical faces, deposits from correspondent accounts of other banks. There were decrease in deposits and balances from banks by 43%, in current accounts and deposits from customers by 10%. Other liabilities also were in minus by 12%. Only amount of issued securities increased in 2008 by 17%. The biggest amount in operations of foreign bank belongs to current accounts and deposits from customers, second place take debt securities issued and at the third place deposits and balances from other banks.

In 2009 were changes in all items to the better side. There were decrease in deposits and balances from banks for 79%. It means that ATF bank didn’t use money from other commercial banks and rested for it’s own capital. Current accounts and deposits from customers increased by 46% and 10% increase in other borrowed funds , we can conclude, that work of deposit and credit departments was very high. There also was increase in other liabilities of bank by 46%. Also we can see increase of all items of liabilities: deposits and balances from banks by 3,4%; current accounts and deposits by 50%; other borrowed funds by 45%. Liabilities of ATF bank in 2009 increased by 7%, so we can conclude that trust to ATF bank, their credits and deposits increased.

Table 3 – Equity of ATF bank, million tenge, [7]

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2009 | 2008 | 2007 | Rate of increase  2009 | Rate of increase 2008 |
| Share capital | 106,878,518 | 89 170 492 | 57 897 607 | 19,86 | 54,01412 |
| Additional –in paid capital | 242,185 | 242 185 | 242 185 | - | - |
| General reserve | 15 181 181 | 15 181 181 | 333 799 | - | 4448,001 |
| Minority interest | - | 434 824 434 824 | 603 000 603 000 | - | (27,8899) |
| R/E | (61 674 996) | (6 899 432) | 15 823 873 | 793,9141 | (56,3986) |
| Total equity | 60 087 712 | 98 129 250 | 74 900 464 | (37,0531) | 31,01287 |

Source: Financial report of ATF bank 2007,2008, 2009

When ATF signed a contract with UniCreditGroup amount of their share capital was 57 897 607 tenge. But in 2008 we can see a shell increase by 54%. So, we can say that enter to this agreement was favorable for bank. Increase in share capital influenced to relative density in 2008, because of it there was increase the total equity of commercial bank by 31%. Also were decrease in returning earnings of bank by 56% and decrease in minority interest by 28%.

In 2009 the amount of share capital increased by 19,86%. It means that the inputs to this bank increased. It is connect with increase of credits, that bank gives, increase in amount of deposits and return of loans by physical and legal entities. There were no changes in additional-in paid capital and general reserve in 2009. Relative density in additional-in paid capital increased by 0,2266%, and general reserve increased by 14,20% in 2009. But we can see that there are also decrease in revaluation reserve and returning earning by 0,85% and 57,7%. According to R/E we can conclude, that the profit of bank increased according to the 2008, because of increase of operations of bank. We can see decrease in important for bank stages for it’s development and it brings the growth of capital of ATF bank. So we can conclude, that in 2009 ATF bank had better financial year than it was in 2008 and perspectives of development of this bank increase.[7]

Rating is the face for every commercial bank with foreign participation. Rating is assigned to an independent credit agency and is an expression of willingness of the banking institutions to fulfill their financial obligations. Ratings of banks have become a major information resource in the banking sector. The importance ratings, suggests not only that customers of banks and bankers are listening to these indicators. Rating agency is still the most important criterion for the reliability of the financial institution or financial and credit system of the whole state. Rating agencies tend to define the degree of riskiness of financial transactions in various markets, and banks are grouped in the rankings on the riskiness of deposits in them. Various rating agencies have different factors that determine the position of a bank in the ranking, as well as different calculate these or other economic indicators for assigning to the bank places in the ranking. Therefore, an experienced investor, lender or investor will never rely on only one rating, using just a few. First rating of ATF bank done by “Fitch Ratings” :

* Long-term issuer default rating in foreign currency: confirmed at level' BBB'; the prognosis is changed from negative to stable.
* Short-term issuer default rating in foreign currency: confirmed at level 'F3'
* Long-term issuer default rating in national currency: confirmed at level 'BBB'; the prognosis is changed from negative to stable.
* National long-term rating: confirmed at level‘ AAA’, The prognosis is stable
* Support rating: confirmed at level'2'
* Individual rating: confirmed at level 'D / E'
* Priority unsecured rating of debt obligations: confirmed at level ‘ BBB’
* National priority unsecured rating of debt obligations: confirmed at level "AAA".

Moody ' s rating :

* Rating of financial stability: ”E+”
* Deposit rating in local currency: ”Ba1”
* Rating of priority unsecured debt in foreign currency: ”Bа1”
* Rating of subordinated debt in foreign currency: was changed from Ba3 to B1.

“Negative” prognosis was changed to “stable”.

We can conclude that the presence of foreign subsidiary banks in Kazakhstan is a positive factor in creating the necessary Kazakhstan banks to compete in the market. National Bank of Kazakhstan created equal conditions of work for Kazakhstan banks and foreign subsidiaries on the territory of country. Kazakhstan banks, adopting the experience of foreign banks, must gradually become a transnational, first gaining the trust of its main customers, and then, with their growth beyond the borders of Kazakhstan.[8]

**CHAPTER 3. PROSPECTS OF THE DEVELOPMENT OF BANKING SYSTEM OF KAZAKHSTAN**

There are 31 banks with non-resident capital contribution were registered in the beginning of the year 2009.

There are 3 main types of strategy which determine positioning of foreign banks on internal market of banking services:

* Universal (multi-product or multi-clients). Bank tries to expand its presence in all promising sectors of banking activities. It may not have any key competitive advantages in any sector but it aims to achieve them in the future.
* Specialized (mono-product or mono-clients). Bank has key competitive advantage in some client or product niche (mortgages, auto credits, plastic cards etc). This market or client niche has promising growth prospects which justify bank’s narrow specialization. Once bank consolidated its position it is trying to save its competitive advantages in the future and this lets him to get maximum benefit from expected extension of the chosen segment;
* Mixed (either multi-product and mono-clients or mono-product and multi-clients). Bank either takes into account its present competitive advantages or focuses on one type of clients giving them wide range of services or it provides wide range of clients with one type of service. This choice is explained by the difficulty of identifying fast-growing narrow niches or by ineffectiveness of trying to embrace the unembraceable.

Universal strategy was the main field for competition among Kazakhstan and foreign banks at pre-crisis period. Approximately ¾ of foreign banks’ aggregate assets were held by banks following this strategy in Kazakhstan. As time went by more and more foreign banks chose the strategy. Among Kazakhstan banks this strategy was most popular as well. As a result presence expanding of foreign banks was accompanied by strengthening of competition with Kazakhstan private banks and mild crowd out of the latter including market of basic banking products and services for mass client. During pre-crisis period foreign banks primarily were sources of capital inflows to Kazakhstan market. For most of them net investment from abroad became important source of active operation funding for internal markets. It made the process of their expansion responsive to instability on foreign financial markets.

During the crisis period universal strategy oriented on standard products and wide range of clients may become inefficient. Mass markets are most inclined to contagion effects.

Banks with foreign capital which took universal strategy probably will have to choose among next decisions.

* «Freezing» expansion to internal markets, using funds accumulated on internal markets for net capital outflow to external markets (including support of the parent companies).
* Return to specialized and combined strategies, e.g. more active positioning as banks working with multinational companies doing business in Kazakhstan and with Kazakhstan business owned by foreigners.

New conditions will give Kazakhstan banks some respite from fight for borrowers with foreigners. At the same time fight for depositors and corporate clients may get tough. [5]

ATF bank, as a foreign bank made a strong strategy on its development. In the main directions of the bank's fixed strategy to achieve general goals, the main directions of its activity the Bank's lending strategy has been implemented in the reporting year, the two main lines of lending: lending to large businesses, and lending to small and medium businesses, focused on the implementation of consumer goods and services.

One of the strategic objectives of ATF Bank in 2007 continued to be a further development of lending to small and medium enterprises of the Republic of Kazakhstan, which was manifested in the facilitation of the review, approval and issuance of loans to create multi-level decision-making, increase efficiency making and improving the quality of loan portfolio management, diversion of the modified on subjects of credit relations, industry sector borrowers, the loan term and type of security provided. This problem was solved by careful pre-screening of credit applications, a comprehensive analysis of borrowers and credit transactions, continuous monitoring of changes in financial position of borrowers throughout the loan period, to identify early signs of problem loans, and work on their maturity, as well as by the existing system of risk control at each stage of the credit. Expanding the resource base has allowed the Bank is increasingly oriented to lending to the real economy. The growth of lending to the real sector of the economy caused by a combination of factors. On the one hand, this increase in demand from enterprises for loans to finance productive activity for the acquisition of fixed assets and working capital. On the other hand, this increase in credit supply due to the competitive environment in the banking market, expanding the scope and urgency of increasing the resource base of the Bank, reducing the systemic risk of lending to real sector enterprises in the relatively stable macroeconomic situation.

In 2007, the largest proportion of loans accounted for spheres: construction, wholesale trade, real estate and food industries, because of long-term credit policies in terms of portfolio diversification across different sectors of the economy. The basic principle of interaction with the Bank's corporate clients is to create long-term mutually beneficial relationship and full satisfaction of banking services at the highest level.

ATF is positioned on the financial market, retail business, as the largest universal bank offering the widest range of financial products and services throughout the Republic of Kazakhstan. Among them - the traditional deposit accounts, consumer, mortgage and car loans, servicing credit cards and more. This corresponds to the strategy of the Bank's activities in the development of retail business, a key element of which is the creation in all regions of the country's network of retail centers in which to introduce a single standard of service that offers its clients a wide range of high quality financial services. At present, in all branches of the Bank's standardized food bank and introduced a number of common competitive rates. According to the results of changes in the composition of the founders in 2007, ATF Bank has been able to offer its customers the highest quality of service level and is constantly working on improving existing products and services for compliance with European standards of quality.[9]

In 2007, the Bank improved the program of lending to individuals. The Bank currently provides loans to individuals:

* To purchase real estate;
* For consumer purposes, including: the purchase of cars, consumer durables, education, treatment, celebrations, holidays, repairs and other purposes.

It should be noted that in order to make loans more accessible to the public, the Bank is conducting a proactive policy of lowering interest rates and extend credit on loans to the population as a whole was carried out on the market of consumer loans. During 2007 a number of activities to implement the program of lending to individuals: the introduction of new products, implementation of joint programs with the construction companies . We can see some positive and negative factors of work and development of ATF bank.

Positive factors:

• good business opportunities in the domestic market;

• more dynamic and competent than the other Kazakh banks, the management team;

• well-developed system of risk management.

Negative factors:

• rapid growth in outstanding loans against the backdrop of high external risks;

• increased concentration of the resource base and loan portfolio;

• declining profitability;

• minimally adequate level of capitalization.

The ratings of Kazakhstan's ATF Bank is determined by the rapid growth of credit portfolio of the bank against the backdrop of high external risks, increased concentration of its resource base and loan portfolio, declining profitability and minimally sufficient level of capitalization. The negative effect of these factors partially neutralized good commercial position of the ATF in Kazakhstan, as well as the availability of a dynamic and competent management team and well developed risk management systems.

The fact that in the past three years, the volume of loans issued by AMB, has increased by an average of 92% per year, the bank is exposed to risks associated with a possible recession. However, in the medium term, this decline is not expected. ATF bank operates mainly with corporate clients and slower than other domestic banks, developing retail activities, the business has high concentration on the individual contractors. Standard & Poor's believes that the increase in business volumes will contribute to improving the profitability of ATF in the medium term. Regular contributions to the shareholders, as well as the capitalization of retained earnings can support the capital at a level ensuring business growth rates.

ATF strategy involves not only preservation of a strong position in the segment of banking services to corporate clients and the expansion of financial advisory entities, but also the development of services for customers. It is not excluded that the ATF will buy new assets, but in the Kazakh market, he plans to grow primarily by organic growth. According to the strategy of bank after five years the proportion of assets located in other CIS countries, should reach 15-20% of the total value of its assets.

According to Standard & Poor's, the bank is well positioned to implement its expansion strategy in the medium term, as he has the necessary infrastructure, professional and experienced management team and staff, and a well-developed methods and procedures for risk management. Although ATF is able to increase its market share at the expense of crowding out smaller players, it will be difficult to bridge the gap between himself and the three leading banks. To achieve medium-term strategic goal - to become one of the largest banks in Kazakhstan and expand operations in other CIS countries - it requires a significant infusion of capital, additional professional experience and advanced technologies.

Weak point of ATF is very prominent in its profile of risks is credit risk. The reasons for this risk lie in the peculiarities of the Kazakh economy, as well as a weak credit culture and people. Concern is the high concentration of ATF in the loan portfolio of individual borrowers and sectors, as well as a significant percentage of foreign currency loans. On the other hand, asset quality supported by factors such as sustained economic growth and the trend towards facilitation of credit protection and improve the repayment of loans issued.

For all the boldness of its strategic objectives of the bank adheres to a conservative lending policy and the choice of borrowers. All loans are granted to corporate clients at the head office. Approval process for loans to individuals and SMEs, carried out mainly in the branches, standardized and occurs with the participation of staff of risk management and collateral inspectors from the relevant branches

The system for managing market and operational risk management is well developed - in this respect ATF stands out against other Kazakh financial medium-sized organizations. Bank reduces interest rate risk by limiting the positions at risk and the calculating lending limits with technology Value-at-Risk (VAR), as well as hedges its operations through non-speculative nature. Most loans and deposits are at fixed interest rates, and a small portion of retail loans with floating rate financed using subordinated debt, indexed to inflation. However, as the average maturity of loans issued increased level of interest rate risk. The Bank implements the methodology of calculation of duration for all classes of assets and liabilities.

According to the whole banking system of Kazakhstan we can say that rating agency Moody `s Investors Service has left the forecast of the banking system of Kazakhstan at the level of " negative ". The agency believes that banking system is still has many serious problems with this view and agree to Kazakhstani experts.

According to the agency, the decision was taken due to a poor level of reserve funds and low capitalization of domestic banks, as well as the complexity of access to wholesale capital markets. This is despite the fact that the economy is showing signs of improvement, the agency predicts GDP growth in Kazakhstan at the level of 2,8% this year, compared to 1,2% in 2009, Kazakhstan's banking system remains vulnerable. [10]

Ratings agencies are based on the fact that, in it’s opinion, the current level of problem loans is 40% of total loans, as well as on expectations that the majority of problem loans final loss reached 60% of the unpaid balance. Overall, this assessment can agree: Kazakhstan's banking system is really experiencing now is not the best time.

The deputy director general KzRating Denis Rybalkin says that Kazakhstan's banking system is really experiencing and it is not the best time to it. This happens because of disparity of development and the impact of the global economic crisis. The problem of low capitalization and poor the level of redundancy in the present really exists. He not dramatize the question of lack of foreign funding and Kazakh banks are not experiencing a liquidity shortage. Denis Rybalkin think that the demand for bank loans is not low, the economy is still in need of credit resources. The first reaction of banks to deteriorating loan portfolio has stricter requirements for borrowers. It is a vicious circle: the companies in need for development funds, can not get money in banks, banks also can not find good clients. The situation in banking system of Kazakhstan is still far from normal, however, positive trends I have mentioned, in the medium term can make a difference for the better.

Trader of “Central Securities” Denis Kim think that now deteriorating quality of loan portfolio, provisions are still charged. Also there are problems with capitalization, it is a small problem, but it exists. A huge problem is a lack of long-term funding, placing bonds in recent years was not, while only paying for them. There is a deposit base, but increase it substantially does not happen. Now there is excess liquidity, but it is insufficient to fully deploy the new lending program, the fact that it is suitable only for operating on short-term instruments.

Sabit Hakimzhanov, director of research of “ Halyk Finance” believes that this estimate reflects the state of development prospects of the banking system in the next 2-3 years. He said that demand for bank loans now is down, but he added that there also exists, and unmet need. That it transformed into a high-quality demand, it is necessary that the debt to the banks of the population has declined by 10-15%, and that there are new companies capable of making these conditions.

The Agency believes that the second tier banks will be limited to making profits. In the short term, the ability of banks to increase their loan portfolios will be hindered low demand and lack of good borrowers. The agency also added that the liquidity of some big banks remain vulnerable due to heavy reliance on short-term funding from a small number of public or quasi-state companies.

Thabit Hakimzhanov told that after the losses in 2008 and 2009, large banks are either unwilling or unable to lend. Expectations of growth in lending in the first half did not materialize. Gross lending in the economy fell by 3%. Net loans decreased in almost all major banks, for than Bank Center Credit. He admitted that some second-tier banks in the first half of 2010 increased its loan portfolio by 10-20%, but they all have much better portfolio quality and greater stock of capital and a more reliable funding than the average for the system. Their loan portfolio by the end of the year may still grow, but at the sector and the economy, this growth will not have much impact. On the whole sector, he does not expect significant growth in lending due to a lack of borrowers with good credit risk due to lack of capital, without which it is impossible to turn liquid assets in loans, and partly because of lack of banks' long-cheap money.

Currently, the company is more positive about the prospects of the banking system than a year ago. The reasons for caution is the number of positive factors, such as: reducing the rate of deterioration in the loan portfolio, the state measures to support banking and real sectors, significant progress in restructuring troubled banks.

So we can sum up that there is no fundamental improvements in the banking system, second tier banks should to continue to develop, and it needs to improve the quality of the portfolio, the search for alternative funding, with a strong dependence on the international trends. [11]

**CONCLUSION**

Commercial banks are an integral part of the whole banking system, designed at the macro level to address the macroeconomic objectives of monetary circulation, providing full movement of money by bank-specific methods to promote the development of national economy. With a significant size of capital, potentially can become major investors, is most directly influence the development of national economy in general, to intervene in the restructuring and even define the term in many sectors of the economy. Buying in a fairly large scale joint stock status and legal form of government property and capital formation, commercial banks may become powerful financiers and significantly diversify its activities through the creation of numerous holdings of subsidiaries and businesses, as well as the development of different forms of participation. At the moment, the banking system is an important part of the domestic economy. It is due to the large accumulation of cash, banks may have a significant impact on the currency and the inflow of money into the coffers of the operations with government securities. In the ongoing debt crisis banking system is designed to keep the money supply in ensuring the functioning of the economy.

In the beginning of the year 2009 there were registered 31 banks with non-resident capital contribution in Kazakhstan. According to the foreign banks we can say, that there must not be more that 50% of foreign banks in the market. Because money to repay the loans will eventually be withdrawn abroad , so if the country has 80-90% of the banks owned by foreign entities, and all these banks have taken the decision to close limits, the future of the national financial system is easy to predict. This argument has some logic, and perhaps in some cases, foreign banks may even act to the detriment of the local economy due to political or other considerations. A number of foreign bank loans and refinances people and enterprises at their own expense, banks as HSBC and ATF. Strengthening their presence in Kazakhstan is likely to have a positive effect on competition in the banking sector and consequently on the cost and quality of financial services for consumers. Danger of complete absorption of the domestic banking sector by foreign investors, because there is a foreign equity participation of banks is low, and while the ratings of banks will be low indiscriminate entry of foreign investors should not expect.

According to the ATF bank policy we can say that they considered the foundation of its strategy move toward client's needs and interests. On the current position of the bank in the market, the benefits of its products and strategic plans for the near future.

Today we see an adequate margin of Kazakh banks to cope with the current period of tension with no particularly profound shocks to the economy. We hope that all market participants will draw from this phase of the right lessons that will contribute to the strengthening and prosperity of the banking system and economy of Kazakhstan. With all the tenderness of current changes in the long run they should help improve the financial sector, developing a more sustainable and viable business strategies, development of domestic sources of funding and a more conservative financial policy banks. Under current conditions, the greatest difficulties experienced relatively weak lenders. With regard to stronger banks, then they will have the opportunity to strengthen their market positions. Kazakhstan's banking system has become a victim of its own success, which allowed her in recent years to attract greater amounts of financing from the world market. Regulators and the banks themselves for a long time did not dare to tackle the growing structural problems associated with the seemingly unstoppable growth of the business. But now they have a unique opportunity to restore balance to ensure long-term stability and improve the development prospects of the banking system. Certainly, the development of Kazakhstan's banking sector can not be separated from the still ongoing turbulence in global financial markets. It is important to recognize that the world has changed. And what is especially worrying, change the world financial and economic realities have not yet fully completed.

Regarding the situation in the future, we think that the extent of foreign participation in Kazakhstan banking system, including through mergers and acquisitions, in the short term has improved markedly. Indeed, in recent years, the growth rate of investments of nonresidents in the authorized capital of credit institutions outpaced the growth rate of total registered capital of credit institutions.

So, we can say that Kazakhstan's banking market is open to all banks irrespective of their nationality. There are no restrictions of normative legal for foreign banks to enter the Kazakh market does not exist.

According to this course work, we can conclude, that the main goals and tasks were achieved, and we think that in future financing market of Kazakhstan will be strong and foreign banks will help us to achieve the best results in development of banking sector of Kazakhstan.

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