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## FINANCIAL MANAGEMENT PERFORMANCE IN COMMERCIAL BANKS OF KAZAKHSTAN

*The article presents the expert statistical analysis of the effectiveness of financial management in commercial banks of Kazakhstan. The methodology of integral analysis of financial indicators is used. The conclusion made states that to estimate the effectiveness of financial management one has to take into account bank assets with the possibility of their subsequent detailing.*

**Keywords:** assets and liabilities; net liquidity position; financial management; commercial bank.

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## РЕЗУЛЬТАТИВНІСТЬ ФІНАНСОВОГО УПРАВЛІННЯ В КОМЕРЦІЙНИХ БАНКАХ КАЗАХСТАНУ

*У статті проведено експертно-статистичний аналіз ефективності фінансового менеджменту в комерційних банках Казахстану. Використано методологію інтегрального аналізу фінансових показників. Основним результатом є висновок про те, що оцінювання ефективності фінансового менеджменту повинне відштовхуватися від банківських активів з можливістю їх подальшої деталізації.*

**Ключові слова:** активи і зобов'язання; нетто-ліквідна позиція; ефективність фінансового менеджменту; комерційний банк.

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*В статье проведен экспертно-статистический анализ эффективности финансового менеджмента в коммерческих банках Казахстана. При этом использована методология интегрального анализа финансовых показателей. Основным результатом является вывод о том, что оценка эффективности финансового менеджмента должна отталкиваться от банковских активов с возможностью их последующей детализации.*

**Ключевые слова:** активы и обязательства; нетто-ликвидная позиция; эффективность финансового менеджмента; коммерческий банк.

**Problem statement.** In any economy commercial banks play the role of a major provider financial assets, thus allowing business entities use the resources accumulated by financial institutions.

Such a situation has a certain duality because on the one hand, free and therefore accumulated financial assets are being used, and on the other, these assets present an opportunity for the reversible return to owners.

Banks as an intermediate in the process of economic development receive a certain reward for the services rendered on accumulation of these assets, securing their growth and their full repayment.

Such duality creates the need to develop competitiveness of market services in qualitative and quantitative terms for the second level banks. These terms are understandable for consumers and being taken for their attractiveness and, therefore, competitiveness of price and tariff characteristics.

Hence, survival and the necessity for further development pushes banks implement the most active, rational and market efficient activities.

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Such activity is represented by the end results of financial management, which is characterised by effectiveness, and therefore competitiveness. This is reflected in the overall market valuation parameters, such as the level of interest deposit rates, tariffs for various banking transactions etc. (Polfreman and Ford, 2006).

Market also takes into account the changes in indicators of bank development that are published in media. These are the indicators estimated in the dynamics of a particular entity development, and refer to balance sheet, statement of profit and losses and cash flow, among which are the profitability of operations and income per share, assets growth, change in liabilities etc.

Therefore, the second level banks are practically forced to implement the real minimisation of their efforts represented in value terms, and maximisation of final result which has the effect of increasing all possible kinds of income of their activity.

This means that financial management of a particular bank is directly linked to the results of its activity, and therefore the level of its effectiveness could be defined and measured by the indicators of banks' financial reporting.

The traditional estimate of financial management is directly linked to the estimate of financial policy implemented by a particular entity, its financial planning, accounting data, operational budget, capital programming, defining the tools for implementing the given programme, income maximisation, constraining the cost level, managing debt and cash.

As seen from the directions mentioned above directly linked to financial management, which are both individually and in total, having a particular effect on entity competitiveness, which represents the real level of financial management.

Competitiveness as a parameter of financial management effectiveness may by its indicators define the level of implementation of each direction of bank's activity, both separately and combined.

For example, an estimate of financial management effectiveness on lending activities of a commercial bank could be the indicators linked directly to both the results of bank's functioning and the internal processes of credit and precredit activity.

These results reflect the effectiveness of financial management in such indicators as the volume of loans and the total value of the margin received by a bank.

Precredit and credit processes are reflected in the indicators of providing the quality of an implemented estimate of financial and economical capacity of a borrower. For example, by the terms of preparation and analysis of data necessary for the effective delivery of banking policies and strategy, in terms of reliability and profitability of loan portfolio, in achieving the planned indicators of assets and liabilities. Therefore, the corresponding figures will demonstrate the effectiveness of financial management of each division of a bank.

The results of loan activity represented in accounting and financial reporting could be taken as internal evaluative characteristics of financial management effectiveness. The effectiveness of financial management itself is reflected in the balance sheet and financial reports.

For this reason the real estimate of financial management effectiveness is possible from the point of view of current financial and accounting indicators, allowing the evaluation of the combined results, but not separate achievements.

This allows evaluating not just the level of financial management effectiveness by different levels, but suggests evaluating the conditions of existence, and therefore the need for regulation of banking environment for enhancing, for example, the attractiveness of conditions for further development of the banking sector.

The credit process demonstrates the results of financial management by the income received by a bank. Therefore, the effectiveness of financial management may, in the author's opinion, be evaluated, for example, by the indicators of reliability and profitability of loan portfolio, and the level of changes in assets and liabilities of commercial banks.

At the same time the qualitative side of the estimate of financial management effectiveness is defined from the viewpoint of depositary process, indicators of which allow defining the level of the existing means for accumulating bank resources.

It means that depositary activity has certain limitations in reducing income from credit when a bank becomes, for example, bankrupt. In this situation deposits are reimbursed by the external insurance fund which restricts the losses of depositor, although real deposit rates are determined by the bank independently within its own strategy.

So, in the author's opinion, duality leads to the understanding that the indicators of credit and deposit activities could be used for simultaneous characteristics of the financial bank management effectiveness.

Accordingly, the estimate of financial bank management effectiveness may be implemented on the basis of both indicators of credit and deposit activities.

**Latest research and publications analysis.** Generally complementing each other, credit and deposit processes indicate the possibility of combined comprehensive assessment of the financial management effectiveness.

Certainly, the additional characteristic of the level of financial management can be the profit of a commercial bank, which means "the excess of income over expenditures that reflects the final financial result of bank's functioning for a certain period of time" (Lapusta et al., 2002).

But according to the author, to estimate the effectiveness of financial management both the main indicators and their derivatives which in any context take into account the former main indicators could be used. The most important issue here is that the higher is the excess of income over expenditure, the more efficient and competitive financial management is.

This indicator, which is in fact the indicator of profitability level allows demonstrating the ability of the subject to gain capital. It characterizes the level of financial management that stimulates further efficiency enhancement. The higher the profitability is, the higher the possibility of increment will be, which means proper evaluation of financial management effectiveness and consistence with the results of the study.

Therefore, it can be argued that the higher the values of the presented indicators are, the higher would be the level of effectiveness of financial management implemented by a bank (Sinkey, 1994).

**The goal of the article.** While writing this article, the author had the purpose to demonstrate the effectiveness of financial management at commercial banks. To achieve this, the author has used necessary information from the real bank reports

published in media, statistical data and expert opinions to define the index of effectiveness.

**Key research findings.** The analysis of published reports of the banks in Kazakhstan is based on meaningful indicators of the balance sheet and the statements of income and expenditure.

The analysis of these indicators conducted by the author demonstrates that for these purposes the indicators of the aggregate type could be used. These indicators allow, at least in generalised terms, to evaluate the effectiveness of financial management.

To calculate the necessary indicators for further evaluation of financial management effectiveness, in the author's opinion, formula (1) connected with the definitions of supply and demand for liquid funds presented in (Rose, 1997) could be applied.

In generalised form it looks like the following:

**Net liquid position = Demand for liquid funds – Supply on liquid funds. (1)**

For the purpose of estimating the effectiveness of financial management in the value of liquidity, the following recommendations from (Rose, 1997) were included:

To the liquid funds (demand) by the same recommendations the following are referred to:

- withdrawals from customer accounts;
- loan applications;
- payment of expenses on attracting non-deposit funds;
- costs of other operations by bank;
- dividend payments to shareholders.

To estimate the effectiveness of financial management the criteria which allow matching the given indicators to calculated ones, are needed.

According to the author, these criteria might be the message and functional meaning of reports published in media, so to a certain extent the net liquidity position of banks is calculated, on the basis of which the assessment of financial management effectiveness is carried out.

This implies that the demand for liquidity aggregately includes all assets of bank, and also its obligations.

Thus, even in the case of publishing differed indicators one can still obtain a relatively reliable indicator to assess the financial performance of bank to further evaluate the effectiveness of financial management (Redhead and Hughes, 2007).

Therefore, by summing up the values of the relevant indicators and the balance sheet published in press it is possible to obtain the corresponding values of the net liquidity position to assess the current financial management of commercial banks (Table 1).

As seen from Table 1, by the index of the net liquidity position the financial management of all these banks has a large surplus of liquid funds, which forces solving the problems related to their effective placement.

This result demonstrates that restrictive policy measures in the banking sector might be not effective enough, because estimated efficiency by net position of these banks during the study period might be considered depending on market demand.

**Table 1. Net liquidity positions of commercial banks in Kazakhstan, 2004–2014, *ths KZT* ([www.nationalbank.kz](http://www.nationalbank.kz))**

#	Name of the bank	Assets <sup>1)</sup>	Liabilities <sup>1)</sup>	Net liquidity position
1	JSC "Kazkommertsbank"	3,955,357,961	3,686,979,174	268,378,786
2	JSC "Halyk Bank of Kazakhstan"	1,627,171,864	1,428,970,341	198,201,523
3	JSC "ATF Bank"	852,922,183	789,264,191	63,657,992
4	JSC "Bank CenterCredit"	861,291,787	794,232,511	67,059,276
5	JSC "Alliance Bank"	648,917,766	639,387,307	9,530,459
6	JSC "Kaspi Bank"	346,223,589	309,361,191	36,862,399
7	JSC "Temirbank"	216,524,620	187,097,376	29,427,244
8	JSC "Citibank Kazakhstan"	182,404,193	162,840,680	19,563,513
9	JSC "Eurasian Bank"	289,952,801	262,843,060	27,109,741
10	SB "HSBC Bank Kazakhstan"	121,841,533	109,510,746	12,330,787
11	JSC "Nurbank"	230,965,404	186,606,170	44,359,234
12	JSC "Tsesna Bank"	270,389,624	245,349,764	25,039,860

<sup>1)</sup> Average values during the last 11 years are shown.

Apart from this, the net position in Kazakhstan does not allow the implementation of financial management effectiveness estimation from the point of view of specific consequences. Therefore, this indicator cannot be sufficient.

The author thinks that the estimate of financial management effectiveness based on the indicator of instant liquidity and prudential constraints, which are compulsory for implementation, will not be real and authentic enough (Brigham and Gapenski, 2008).

Market interest of the second-tier banks to implement prudential standards does not reflect the real effectiveness of financial management, and is not reliable enough, as practice shows.

The values of normative prudential variables cannot be considered sufficient for a realistic assessment of financial management effectiveness, as they reflect mostly the actual activities of banks in the short period of time, while limitations themselves monitor mainly average monthly changes.

The effectiveness of financial management is mainly determined by long-term changes. This parameter is significant, since it corresponds to the notion of the required level of financial management of a particular bank for its security from the point of view of bank customers, and therefore the need for appropriate regulation of banking activities (Buevich, 2005).

Prudential norms for evaluating the effectiveness of bank's financial management can be applied in the case when prudential regulations based on operational data for commercial banks, become necessary for the operational evaluation of financial management.

This is important in the case when, for example, it is required to evaluate the effectiveness in the process of rehabilitation or other activities needed for a particular bank.

This situation, in the author's view, suggests that the regulatory indicators of banking activities to a certain extent allow the evaluation of financial management effectiveness of commercial banks only in terms of their minimum urgency, but with a greater coverage of dynamics. These aggregate indicators most accurately reflect the real state of financial management.

In other words, prudential regulations are considered from the viewpoint of purposes to limit the possibility of bank failure, and not to evaluate the financial management effectiveness.

In such cases to estimate of effectiveness of financial management of banks the received here results could be used, in particular, the coefficients of net liquidity indicators.

Taking into account net liquidity indicators and the relations between them and the assets and liabilities of banks allows weighing of banks' effort and get some estimated value, characterizing the efficiency of financial management. The results of this calculation are shown in Table 2.

**Table 2. The ratio of net liquidity position with respect to assets and liabilities of banks, calculated by the author**

#	Name of the bank	Net liquidity position, <i>ths KZT</i>	NLP/Assets	NLP/Liabilities
1	JSC "Kazkommertsbank"	268,378,786	0.068	0.073
2	JSC "Halyk Bank of Kazakhstan"	198,201,523	0.122	0.139
3	JSC "ATF Bank"	63,657,992	0.075	0.081
4	JSC "Bank CenterCredit"	67,059,276	0.078	0.084
5	JSC "Alliance Bank"	9,530,459	0.015	0.015
6	JSC "Kaspi Bank"	36,862,399	0.106	0.119
7	JSC "Temirbank"	29,427,244	0.136	0.157
8	JSC "Citibank Kazakhstan"	19,563,513	0.107	0.120
9	JSC "Eurasian Bank"	27,109,741	0.093	0.103
10	SB "HSBC Bank Kazakhstan"	12,330,787	0.101	0.113
11	JSC "Nurbank"	44,359,234	0.192	0.238
12	JSC "Tsesna Bank"	25,039,860	0.093	0.102

The resulting coefficients can be diametrically opposite in value, depending on market conditions at a given time (for example, the lack of financial resources or their excess).

If currently there is an excess of funds, then, for example, lower coefficient of NLP/Assets and larger value of NLP/Liabilities mean higher efficiency of financial management.

In addition, financial management effectiveness can be observed through the ratio of net liquidity position to assets and liabilities, both individually and in combination.

For the comparison of the estimates of financial management effectiveness among the banks (Table 3) the ranking of all analysed parameters has been performed.

To determine the effectiveness of financial management, it is necessary to use the summarizing or integral index, which is possible on the basis of the average value of the ranks assigned to the obtained coefficients (Urlanis, 1993).

For example, by the arithmetic mean or average weighted parameter by the value of all assets the following result was obtained.

The formula for calculation of average value (Morsman, 2004):

$$\bar{x} = \frac{\sum_{i=1}^{i=n} x_i}{n}, \quad (2)$$

where  $x_i$  – values of the indicators of net liquidity positions of each bank;  $n$  – quantity of used indicators for defining the average value.

The results of the average value calculation according to formula (2) are shown in Table 4.

**Table 3. Ranking comparison of the estimates of financial management effectiveness at commercial banks by net liquidity positions,**  
*calculated by the author*

#	Name of bank	Comparison of ranking		
		By net liquidity position	By the ratio of NLP/Assets	By the ratio of NLP/Liabilities
1	JSC "Kazkommertsbank"	1	11	11
2	JSC "Halyk Bank of Kazakhstan"	2	3	3
3	JSC "ATF Bank"	4	10	10
4	JSC "Bank CenterCredit"	3	9	9
5	JSC "Alliance Bank"	12	12	12
6	JSC "Kaspi Bank"	6	5	5
7	JSC "Temirbank"	7	2	2
8	JSC "Citibank Kazakhstan"	10	4	4
9	JSC "Eurasian Bank"	8	7	7
10	SB "HSBC Bank Kazakhstan"	11	6	6
11	JSC "Nurbank"	5	1	1
12	JSC "Tsesna Bank"	9	8	8

**Table 4. Ranking comparison of the estimates of the financial management effectiveness of commercial banks by the average value,**  
*calculated by the author using the formula (2) based on data from Table 3*

#	Name of bank	Average weighted value
1	JSC "Kazkommertsbank"	7.7
2	JSC "Halyk Bank of Kazakhstan"	2.7
3	JSC "ATF Bank"	8.0
4	JSC "Bank CenterCredit"	7.0
5	JSC "Alliance Bank"	12.0
6	JSC "Kaspi Bank"	5.3
7	JSC "Temirbank"	3.7
8	JSC "Citibank Kazakhstan"	6.0
9	JSC "Eurasian Bank"	7.3
10	SB "HSBC Bank Kazakhstan"	7.7
11	JSC "Nurbank"	2.3
12	JSC "Tsesna Bank"	8.3

The calculation of average integral value for one of the banks, for example, Kazkommertsbank shows the value:

$$\bar{x}_{ККВ} = \frac{1+11+11}{3} = 7.7.$$

From the calculated it follows that the smallest values will match the higher ranking of financial management of the bank. The best financial management is demonstrated by JSC "Nurbank", its indicator is equal to 2.3. The second place belong to JSC "Halyk Bank of Kazakhstan" with the average value of 2.7. Next goes

JSC "Temirbank" with the average 3.7. At the end of the list are JSC "Alliance Bank" with the average value of 12.

However, for a more objective assessment of financial management it is necessary to calculate the ranking of management for all banks. This will by allow assessing performance and the effectiveness of financial management by such indicators with longer dynamics.

**Conclusions.** Calculations of the weighted integral index, which is more realistic in the case of linking all assets with the received weights, requires the consideration of all assets derived from the published balance sheets of the banks.

The author suggests the calculating formula of the average weighted value (Uralnis, 1993) with the consideration of assets and weights from the position of their real weight:

$$\bar{x} = \frac{\sum a \times b}{\sum c / 100}, \quad (3)$$

where  $\sum a \times b$  – the sum of weight values of assets;  $\sum c / 100$  – the sum of weights.

The results of the average weighted values calculation by formula (3) are shown in Table 5.

**Table 5. Ranking comparison of the results of the estimate of the effectiveness of financial management of commercial banks by the average weighted value of assets**

#	Name of the bank	Assets, <i>ths KZT</i>	Average weighted value of assets, <i>points</i>
1	JSC "Nurbank"	230,965,404	700
2	JSC "Halyk Bank of Kazakhstan"	1,627,171,864	800
3	JSC "Temirbank"	216,524,620	1100
4	JSC "Kaspi Bank"	346,223,589	1600
5	JSC "Citibank Kazakhstan"	182,404,193	1800
6	JSC "Bank CenterCredit"	861,291,787	2100
7	JSC "Eurasian Bank"	289,952,801	2200
8	SB "HSBC Bank Kazakhstan"	121,841,533	2300
9	JSC "Kazkommertsbank"	3,955,357,961	2300
10	JSC "ATF Bank"	852,922,183	2400
11	JSC "Tsesna Bank"	270,389,624	2500
12	JSC "Alliance Bank"	648,917,766	3600

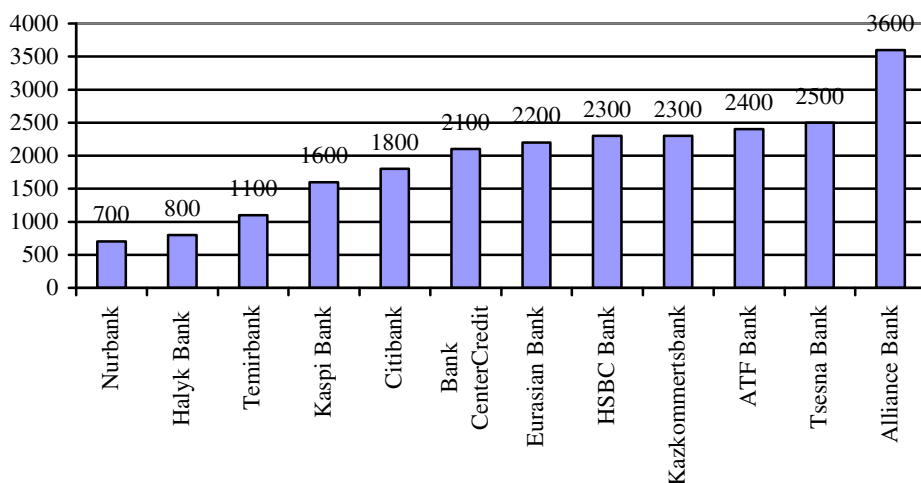
Note: Bank assets are shown in *ths KZT*; indicators have been calculated by the author according to formula (2).

For the demonstration of the results the example of the calculation for Kazkomertsbank is given. This integral weighted indicator was produced as follows:

$$\bar{x}_{\text{KKB}} = \frac{3955357961 \times 1 + 3955357961 \times 11 + 3955357961 \times 11}{3955357961 / 100} = 2300.$$

According to the results based on the average weighted integral value by bank assets it is shown that the lowest value of numerical score will correspond to the best effectiveness of financial management.

Therefore, the best financial management by the weighted value of assets belongs to Nurbank with the scored indicator of 700 points, next go Halyk Bank of Kazakhstan (800 points) and Temirbank (1100 points).



*Figure 1. Average weighted value of assets, points, constructed by the author on the data from Table 5*

Estimates for the average and the weighted in comparison are equal. Thus, the author was able to derive the efficiency estimation of financial management as sufficiently reliable and proven by calculations.

Possible applications of this index are, in the author's opinion, quite significant, as it allows assessing commercial banks of different size, as demonstrated above.

For the purpose of comparing the effectiveness of financial management in the banking environment as a whole, it is necessary to know the average market value of this indicator to assess the management of each commercial bank.

Of specific interest are the banks with 100% state participation, such as the Development Bank of Kazakhstan.

However, published financial statements lack the necessary indicators in their balance sheets. Therefore, there is a need to bring financial reports to an acceptable form for comparison.

From the point of view of this study, the effectiveness of financial management tends to decrease, although the subject itself generally shows good financial results.

However, it should be noted that this bank performs a completely different function in the economy as compared to other commercial banks and in fact falls outside the commercial banking sector.

Hence, there are its corresponding coefficients, which in their orientation and value cannot be considered specific of the second-tier banks, although they are of some interest for the analysis of financial security for future development of the economy.

Thus, we can make a conclusion that the assessment of financial management effectiveness of the second-tier banks is possible with the group of separate indicators of liquidity, calculated by a common scheme. For a reliable comparison, a uniform approach to calculation of compared endpoints is required.

To evaluate the effectiveness of financial management an appropriate grouping of financial statements for all banks in Kazakhstan is required. It is possible to observe

different management approaches in strategies of major, medium and even small banks.

To do this it is necessary to determine in which direction the financial management in the banking sector in general is developing, how exactly its strengths and weaknesses impact the entire economy, which groups of banks can maximize the relative flexibility of a stronger impact on the economy and have a market outlook.

This latter point may be associated with market evaluation and securities. Since it is known that commercial banks are associated with the securities market, and the latter is an indicator of the economy as a whole, it allows determination of prospects for its participants.

In the author's opinion, the level of effectiveness of bank's financial management could be assessed by the proposed integral indicator as a weighted average value of commercial banks assets.

This means a clearer approach to assessing the level of financial management for each group of banks based on the weighting of assets, theoretical justification and explanation of possibilities of such a process, as well as a more objective comparison of banks.

From the abovementioned, it follows that the evaluation of financial management effectiveness should be built on the indicators of bank assets with the possibility of their subsequent detailing.

Thus, the evaluation of financial management effectiveness can be implemented based on the proposed generalised weighted average value, obtained by calculation in terms of overall and instant liquidity, as well as consideration of the net position of a bank that would, in the author's opinion, relate these figures for later market comparison of the end results.

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