

THE MINISTRY OF EDUCATION AND SCIENCE
OF THE REPUBLIC OF KAZAKHSTAN

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MODERN METHODS OF CREDITING

Educational manual

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The educational manual “Modern methods of Crediting” in an accessible form outlines the main issues of the course “Modern methods of crediting”, giving the basic professional knowledge of the concept, types and organization of credit operations by banks.

The textbook “Modern methods of Crediting” may be applied in the study of such disciplines as Banking, Money, Credit and Banks.

The manual is intended for students, undergraduates of higher educational institutions enrolled in economic specialties. It also can be useful for the employees of credit and financial system and teachers.

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INTRODUCTION

One of the most dynamic sectors of the financial system is banking sector. The development of the payment system of the state, stability of the national currency depends on its condition and reliability of operations. The most developed, popular and at the same time risky operation of banks is crediting, which affects the growth of the economy and welfare of the population. This makes it necessary to improve the quality of training and level of qualification of banking specialists.

The manual consistently and in an accessible form outlines the main issues of the course "Modern methods of crediting", giving the basic professional knowledge on crediting to legal entities and individuals.

The manual describes the concept of loan, loan activities, loan collateral, loan agreements, leasing, factoring and forfeiting.

The issues of the nature and types of loan interest, calculations of interest rates on loans in Kazakhstan banks, as well as the factors taken into consideration when setting the loan fee, are underlined.

Particular attention is paid to the organization of the credit process: the principle of Bank crediting; crediting methods; opening forms of loan accounts; credit policy of the Bank; stages of the crediting process.

The methods of assessing the creditworthiness of the Bank's client, classification of models of assessing the creditworthiness of borrowers, methods of complex analysis of assessment of creditworthiness of borrowers, the method of financial ratios used by domestic banks, assessment of creditworthiness of small businesses and individuals are described in sufficient detail.

The concepts and classification of the types of security of Bank loans such as pledge, pledge of goods in circulation, guarantee and surety, insurance of loans, mortgage insurance, assignment and transfer of ownership are presented.

The manual also focuses on coverage of certain types of crediting: corporate clients, mortgage, consumer and small business crediting.

The training manual includes the issues revealing the essence of leasing, factoring and forfeiting as modern types of crediting, classification of leasing factoring and forfeiting operations, discloses the features of their development in Kazakhstan and the legal framework of functioning, international experience of the development.

In the preparation of the textbook the laws and regulations of the National Bank of the Republic of Kazakhstan, materials and websites of the National and commercial banks, as well as the works of well-known domestic and foreign economists Abdilmanova Sh. R., Khamitova N. N., Seitkasymova G. S., Iskakova U. M., Makysh S. B., Ilyasova A. O. and Lavrushina, Z G., Shirinskaya, E. F., Zhukov and many other documents were used.

CHAPTER 1 ECONOMIC BASIS OF CREDITING

1.1 The nature of the loan

Credit (from Latin *creditum* – loan, debt) is one of the most complex economic categories. The premise of its historical genesis was the property stratification of society in the period of decomposition of the primitive communal system. However, the emergence of conditions that gave the credit a character of objective necessity influenced the formation and development of commodity-money relations.

Credit could be rather commercial or banking. They differ in composition of participants, objects of loans, dynamics, and size of interest and sphere of functioning. The most widely spread in Kazakhstan is a bank loan, a commercial loan is less developed due to its specific features.

Commercial credit is a credit provided by some functioning entrepreneurs to other entrepreneurs in the form of sale of goods with deferred payment. It is issued under the obligation of the debtor (buyer) to repay it in a certain period, as well as the amount of principal and accrued interest.

The use of commercial credit requires the seller to have sufficient reserve capital in the event of a slowdown in a debtor income.

There are five main ways to provide commercial credit:

- 1) promissory note method;
- 2) open account;
- 3) discount subject to payment within a specified period;
- 4) seasonal credit;
- 5) consignment.

In most cases, the provision of a commercial credit is carried out using the promissory note method. *A promissory note is an unconditional monetary obligation of the Issuer to pay a certain amount of money to the holder of the promissory note upon the maturity date.*

The object of the commercial credit is the commodity capital. It directly serves the circulation of industrial capital, the movement of

goods from production to consumption. The peculiarity of commercial credit is that the loan capital is merged with the industrial capital. The purpose of a commercial loan is to accelerate the sale of goods and the profits contained in them. The interest on it, included in the price of goods and in the amount of the promissory note, is lower than on a Bank loan, whose task is to make a profit on loans.

The size of this loan is limited by the amount of reserve capital of industrial and commercial entrepreneurs. The transfer of these capitals is possible only in the directions determined by the terms of the transaction: from entrepreneurs, whose enterprises create means of production, to entrepreneurs, in whose enterprises they are consumed, or from producers of goods to trading firms, implementing them.

Bank credit is a credit provided by credit and financial institutions (banks, funds, associations) to any business entities (private entrepreneurs, enterprises, organizations) in the form of cash loans. Bank credit is one of the most common forms of credit relations in the economy, the object of which is the process of transferring money to the loan.

Bank credit is a form of loan capital movement. In Bank crediting there are economic (monetary) relations during which temporarily free money of the state, legal entities and physical persons accumulated by credit institutions are provided to economic entities (and also citizens) on the terms of repayment.

Bank crediting creates conditions under which it is possible to compensate for the lack of own funds at the expense of other entities for various needs that require additional capital investments.

Crediting is usually carried out on the consolidated objects. Such enlarged objects, for example, for enterprises of industry, transport, communications, construction, consumer services are inventories and production costs to be included in the normalized current assets: the items are shipped, the payment deadline has not come; we issue letters of credit etc. Crediting on extended objects greatly expands the rights of the company, allows it to fit your needs to maneuver the borrowed funds within the total amount of the loan.

The Bank credit, however, should not cover the financial needs of the enterprise caused by losses, minimum inventories and production costs, which should be covered by its own working capital, produced super-planned products with limited sales, super-planned and unused balances of inventory.

The company has the right to receive a loan both with the Bank where he opened a checking account, and with any other Bank. This procedure gives the company the opportunity, focusing on its own interests, to choose a Bank where the credit policy is more flexible, operation are performed faster and more accurately, the information is better, the range of services – wider. The Bank receives income from crediting in the form of loan or Bank interest.

Credit operations are the most profitable item of the banking business, due to which the main part of the banks ' net profit is formed. However, the main risks of banks are also associated with credit operations, in particular, the risk of the borrower's default on the principal and interest on the loan.

1.2 Forms of credit

Bank credit can be classified according to various criteria (figures):

1. By maturity.

Short-term loans are issued to fill the temporary shortage of the borrower's own working capital. The period is one year. The interest rate on these loans is inversely proportional to the loan repayment period. Short-term loan serves the sphere of circulation.

Long-term loans are used for investment purposes. They serve the movement of fixed assets, characterized by large amounts of transferred credit resources. They are used in crediting for reconstruction, technical re-equipment, and new construction at the enterprises of all fields of activity. Special development of long-term loans is achieved in capital construction, fuel and energy complex. The average maturity is over 3 years.

Call money loans to be repaid within a fixed period after receipt of official notice from the lender (maturity is not initially specified).

2. By repayment methods.

Loans repaid in a single installment by the borrower. This traditional form of repayment of short-term loans is optimal because it does not require the use of differential interest.

Loans repayable in installments during the entire term of the loan agreement. Specific conditions of return are determined by the contract. These are always used for long-term loans.

3. By the methods of charging interest.

Loans, the interest on which is paid at the time of its total repayment.

Loans, the interest on which is paid in equal installments of the borrower during the term of the loan agreement.

Loans, the interest on which is withheld by the Bank at the time of direct issuance of the loan to the borrower.

4. By the methods of provision of credit.

Compensatory loans are directed to the settlement account of the borrower to compensate the latter for its own costs, including advance.

Fee based loans. In this case, loans are received directly for payment of settlement and monetary documents presented to the borrower for repayment.

5. By the methods of crediting

One-time loans are issued on time and in the amount stipulated in the contract between the parties.

A credit line is a legally formalized obligation of the Bank to the borrower to provide him / her with loans within the agreed limit within a certain period.

Credit lines are:

– a renewable line is a firm commitment of the bank to issue a loan to a client who is experiencing a temporary shortage of working capital. The borrower, by repaying part of the loan, can expect to receive a new loan within the established limit and the term of the contract;

– a seasonal credit line is provided by the Bank if the company periodically needs working capital related to seasonal cycles or needs to form stocks in the warehouse.

6. By the types of interest rates.

Loans with a fixed interest rate set for the entire loan period and not subject to revision. In this case, the borrower undertakes to pay interest at a constant agreed rate for the use of the loan, regardless of the changes in the market conditions or interest rates. Fixed interest rates apply to short-term crediting.

Floating interest rate. They are constantly changing depending on the situation in the credit and financial market.

Step rates are reviewed periodically. These are used in a period of strong inflation.

7. By the number of creditors.

Loans provided by one Bank.

Syndicated loans issued by two or more syndicated lenders to a single borrower.

Parallel loans. In this case, each Bank conducts negotiations with the client separately, and then, after agreeing with the borrower the terms of the transaction, a general agreement is concluded.

8. By the availability of security.

Unsecured (blank or trust) credits and secured ones, which in turn are divided into different types:

Unsecured credits:

– *Trust loans*, where the only form of ensuring their return is a loan agreement. This type of a loan does not have a specific security, so it is usually provided to first-class creditworthy customers with whom the Bank has a long-standing relationship and has no claims on previously issued loans.

– *Contract-based loans* are issued where a contract-based account is opened with the customers with whom the Bank has a long-term trust relationship, to enterprises with an exceptionally high credit reputation.

Classification of Bank loans

Secured:

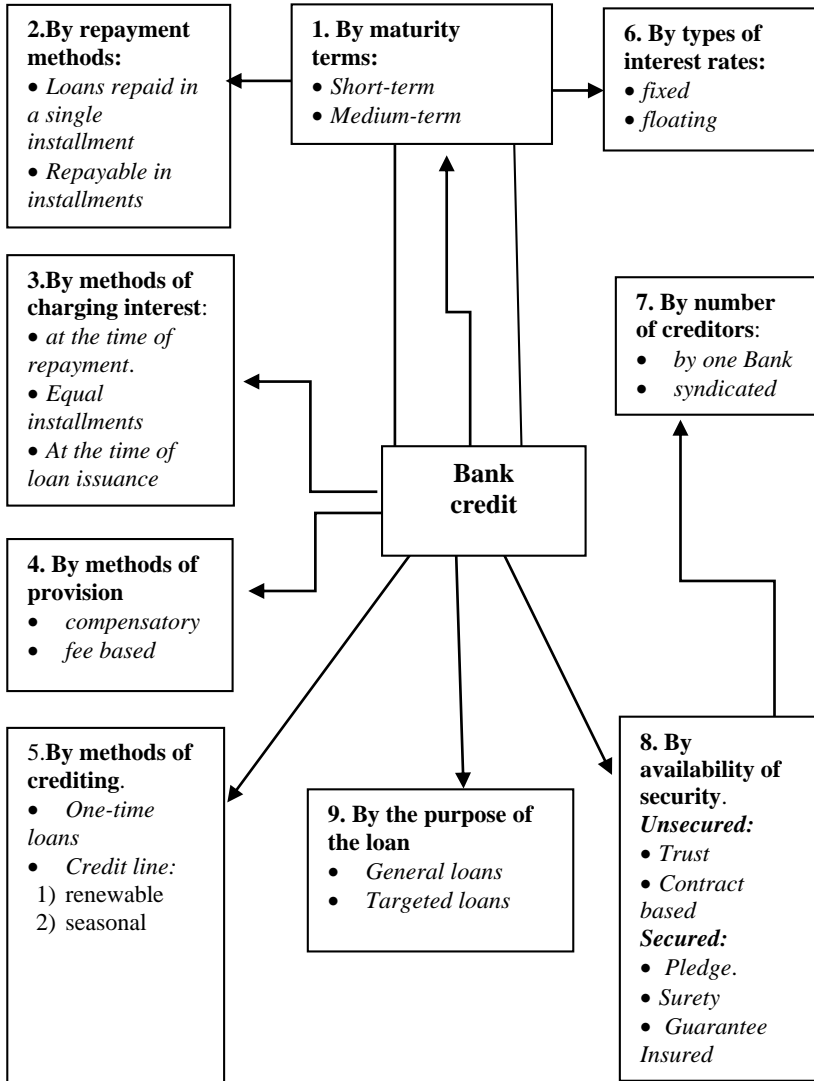
– *By pledge.* Pledge of property (movable and immovable) means that the creditor – pledgee – has the right to sell this property if the obligation is not fulfilled. The pledge must ensure not only the repayment of the loan, but also the payment of the relevant interest and penalties under the contract, provided in case of non-performance.

– *By surety.* Under it, the sponsor is obliged to the creditor of another person (the borrower, the debtor) to be responsible for the performance of the obligations by the latter. The borrower and the sponsor are liable to the lender as joint and several debtors.

– *By guarantee.* This is a special type of guarantee agreement for securing an obligation between legal entities. A guarantor can be any legal entity that is financially stable.

– *By credit risk insurance.* The company-borrower enters into an insurance contract with the insurance company, which provides that

in case of non-repayment of the loan within the prescribed period, the insurer shall pay to the Bank that issued the loan a compensation in the amount of 50 to 90% of the loan amount not repaid by the borrower, including interest for its use.



9. By the purpose of the loan.

General loans are used by the borrower at its discretion to meet any need for financial resources.

Targeted loans, which imply the need for the borrower to use the resources allocated by the Bank exclusively to solve the problems defined by the terms of the loan agreement.

Mortgage loan. It is issued for the purchase or construction of housing or purchase of land. This loan is provided by credit banks and specialized credit and financial institutions. The loan is issued in installments. The interest rate varies from 15 to 30% per annum.

Consumer credit is a *form of commercial credit (sale of goods with deferred payment through retail stores) and Bank credit (consumer loans)*. Its object is usually durable goods, a variety of services. The maximum term of a consumer loan is 3 years. This loan has become an integral element of realization at the expense of future incomes of the population, since the effective demand of the population is limited, and the sale of goods is associated with chronic difficulties. As a rule, high interest rates are charged for the use of consumer credit.

Consumer credit is also provided in the form of long-term Bank loans to individuals for the purchase or construction of housing (housing loan).

1.3 The essence and types of interest rate

Loan interest is the payment received by the lender from the borrower for the use of borrowed funds. It is determined by the size of the loan, its term and the level of interest rate.

The history of interest is centuries-old. Yet for two thousand years before our era it was used for numerous kinds of loans to pay interest in kind – livestock, grain, etc. Cash loans are accompanied by the monetary form of interest. In the market economy, the payment of interest is the transfer of part of the profit (income) by the borrower to its lender. The fee for the borrowed funds is required by the lender because he transfers a part of its capital (property) and is deprived of the opportunity to obtain his own profit during the period of the credit transaction.

There are the following types of interest rates:

- fixed interest rate – it remains unchanged during the entire term of the loan;
- floating interest rate – it can change during the term of the loan and deposit agreement, depending on the state of the money market, the emerging supply and demand for credit resources, as well as the state of the economy and finance of the borrower.

According to the method of calculating interest, they are divided into simple and complex interest rates.

The technique of calculation of simple interest. Simple interest is interest accrued on the amount of the loan debt. The following formula is used to calculate it:

$$S_p = \frac{P \times I \times t}{K \times 100},$$

where S_p is the sum of interest (income);

I – annual interest rate;

t – number of interest days;

K – number of days in a calendar year (365 or 366);

P – the original amount of the loan.

Technique of accrual of compound interest. Compound interest is the interest that is accrued not only on the amount of the loan debt (loan), but also on the amount of the income from accrued interest. To calculate interest payments on loans, the following formula is used:

$$S_p = S - P = P \times \left[1 + \frac{I \times j}{100 \times k} \right]^n - P,$$

where I is the annual interest rate;

j – number of calendar days in the period following which the Bank capitalizes accrued interest;

k – number of days in a calendar year (365 or 366);

P – the original amount of the loan (deposit);

n – the number of transactions, capitalization of the interest accrued during the total period;

S_p – amount of interest (income).

In calculation of interest in Kazakhstan, the number of days and months is conditionally taken as 30, and the number of days in a year is 360. In a month with 31 days, 31 days are not taken into account, and in February the balance for the last day is repeated as many times as the number of days missing to 30.

Complex interest charges may be required for a variety of reasons. For the National Bank, it was important to exclude the receipt of effective income by second-tier banks when refinancing auction loans issued at one interest rate, but for different terms. To this end, the national Bank, prior to the introduction of accrued interest on the method of compound interest, was forced to establish several official different refinancing rates on loans for 1, 3 and 9 months. With the transition to compound interest, a single refinancing rate is established.

The amount of loan interest stems from the prices of credit and margin, i.e., allowance required for the formation of revenues of the credit institution. At the same time, the amount of interest is affected not by the market cost of attracting resources, but by the real one. Deviations between the market and the real cost of resources are explained by the fact that for commercial banks the required reserves rate is established and special methods of assigning interest to the cost price are used, as well as by the peculiarities of the current tax system.

Interest margin the Bank needs to cover the Bank costs and provide adequate profit. This takes into account the impact of inflation and banking risks.

Credit institutions use interest on passive and active transactions. Passive operations are intended to attract customer funds to Bank accounts. Banks pay interest on such transactions.

In active operations, banks charge interest for loans. Of course, the amount of interest received by credit institutions is greater than the amount of interest paid by them on passive transactions. The difference is the income of credit institutions from which their costs are recovered and profits are generated.

1.4 Calculation of the effective interest rate in Kazakhstan banks

The law of the Republic of Kazakhstan dated August 31, 1995 "On Banks and Banking Activities in the Republic of Kazakhstan" and

the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated March 26, 2012 № 137 "On Approval of the Rules for calculating interest rates in reliable, annual, effective, comparable (real) value on loans and deposits" establish the procedure for calculating interest rates by banks in reliable, annual, effective, comparable (real) value on loans and deposits.

Banks indicate the annual effective interest rate:

1) when disseminating the information on the amount of remuneration for services, including its publication;

2) in contracts for the provision of services concluded with customers.

In contracts for the provision of services concluded with customers, the annual effective interest rate is printed using computer equipment devices in one sentence in digital terms, as well as in the same size and style of fonts (italics, bold, color, size) form as other interest rates.

If the general conditions are reflected in the service agreement in a table, the annual effective interest rate is indicated in a separate line (column) following the other interest rates.

The calculation of the annual effective interest rate is made:

1) on the date of conclusion of the service agreement;

2) upon oral or written request of the client;

3) in the case of amendments and additions to the Bank loan agreement by concluding an additional agreement to the principal agreement, which entail a change in the amount of monetary obligations of the client and the term of their payment.

The annual effective interest rate on the loan is calculated by the following formula:

$$D - k + \sum_{j=1}^n \frac{S_j}{(1 + APR)^{j/365}} = \sum_{i=1}^m \frac{P_i}{(1 + APR)^{i/365}}$$

where:

D is the amount of the first loan;

k is the total amount of the client's payments to the Bank related to the receipt of loans as of the date of the first loan;

n is the sequence number of the last payment to the client;

j is the sequence number of payment to the client after the date of the first loan;

S_j is the amount of the j -th payment to the client, including regular loans;

APR is the annual effective interest rate;

T_j is the period of time from the date of the first loan to the moment of j -th payment to the client (in days);

M is the sequence number of the customer's last payment;

Σ is the sequence number of the customer payment;

P_i is the amount of the i -th payment of the client after the date of receipt of the first loan, including payments in accordance with paragraph 8 of the Rules;

t_i is the period of time from the date of the first loan to the moment of the i -th payment of the client (in days).

The calculation of the annual effective interest rate on the loan includes the customer's payments under the Bank loan agreement related to the conclusion and execution of this agreement, the amount and terms of payment of which are known by the date of the Bank loan agreement, including:

- 1) repayment of the principal amount;
- 2) payments of the interest on the loan;
- 3) a fee for the consideration of the application and documents of the client for a loan and (or) opening Bank accounts for a loan;
- 4) a fee for a loan;
- 5) payments to other organizations (intermediaries) providing services for obtaining and servicing loans;
- 6) payments of the client in favor of the insurance company, if in the event of an insured case under the insurance contract the beneficiary is the Bank;
- 7) customer payments to the guarantor for the acquisition of a guarantee (collateral) and to the evaluator for the evaluation of the property pledged;

8) other payments, including the commission for opening and maintenance of the Bank account, and also the commission for transfer of the loan for the purpose defined by the agreement of the Bank loan.

The list of commissions and other payments that affect the amount of the annual effective interest rate, the amount and procedure for determining them are specified in the Bank loan agreement.

In case the interest rate on the loan depends on the basic indicators (inflation rate, official refinancing rate of the National Bank of the Republic of Kazakhstan, LIBOR rate, foreign exchange rate, etc.), the Bank uses the value of the basic indicator as of the date of calculation of the annual effective interest rate.

When granting loans under credit lines, the annual effective interest rate is specified in the agreement on the opening of the credit line and in each agreement concluded under this agreement, based on the conditions established therein.

The calculation of the annual effective interest rate is carried out by the algebraic method and successive approximations using computer programs.

Payments made by the client to the Bank and payments made by the Bank to the client are recorded on the date of their actual payments, future payments – according to the payment schedule.

If, in the calculation of the annual effective interest rate, the resulting number has more than one decimal place, it shall be rounded to tenths as follows:

1) if the hundredth part is greater than or equal to 5, the tenth part is increased by 1, all signs following it are excluded;

2) if the hundredth part is less than 5, the tenth part remains unchanged, all signs following it are excluded.

1.5 The factors to be taken into account in determining the loan fee

The determination of an acceptable Bank loan fee is associated with the establishment of interest rates and the required compensation balance (especially for firms), and in some cases with the remuneration of loan fees.

Factors taken into account in the process of determining the payment for the loan:

- Interest rate set by the national Bank of Kazakhstan.
- Average interest rate on interbank loans.
- Average interest rate on attracted deposits or deposits.
- Ratio of own and borrowed funds: the higher the share of borrowed funds, the more expensive the loan.

- Demand for credit: the higher the demand, the more expensive the credit.
- The term for which the loan is requested, the degree of the risk on the loan.
- Financial stability in the country: the higher the inflation rate, the more expensive the credit.
- Differentiation of credit
- There should be a different approach to each potential borrower depending on the particular conditions of its activities.

Rates on loans to businesses are usually the lowest of all the Bank charges, mainly because of the short-term nature of these loans. This is particularly true for the loans to commercial and industrial companies, as they carry relatively little risk. Loans for current production activities are usually issued for a period of less than a year and, as a rule, are provided with fast-selling goods, such pledges are recommended by many firms operating in the crediting environment and providing business-consulting services. Therefore, they are among the most liquid and desirable types of loans.

Self-test questions

1. What forms of credit do you know?
2. What are the factors taken into account when setting the fee for the loan?
3. What types of interest rates do you know?
4. How do I calculate compound interest?
5. In some cases, how to calculate compound interest?
6. What are the main factors affecting the interest rate?

2.1 Principles of Bank crediting

Bank crediting is carried out in strict compliance with **the principles of crediting**; they are the basis of the credit process, because they reflect the nature and content of the loan, as well as the requirements of objective economic laws in the field of credit relations.

The principles of crediting include:

1. – urgency;
2. – density;
3. – recurrency;
4. – security;
5. – differentiation;
6. – target character.

The principle of urgency means that the loan must be returned by the borrower to the Bank within the period specified in the loan agreement. In case of violation of the principle of urgency, the Bank makes financial claims to the borrower. The loan term is the period of use. It is calculated from the moment of the receipt of the loan (transfer to the borrower's account or settlement of payment documents from the borrower's loan account) to its final repayment.

The principle of payment means that the loan must be returned by the borrower to the Bank with the appropriate payment for its use. Credit as a commercial operation must bring the lender a certain income in the form of interest. The Bank requires the borrower not only to return the loan, but also to pay interest for its use.

The principle of repayment means that the loan must be returned by the borrower to the Bank. Bank institutions can grant a delay in repayment by setting an increased interest rate. This principle is considered to be the main one in the system of Bank crediting. It follows from the essence of credit relations, because if the loan is not returned, the economic content of the loan is lost.

The principle of security of the loan means that the Bank has the right to protect its interests, to prevent losses from non-repayment of the debt through the insolvency of the borrower. The purpose of this principle is to reduce the risk of credit transactions. The property interests of the lender shall be fully protected in the event of any breach by the borrower of the obligations taken on. The loan is provided under a certain real security-pledge, guarantee, guarantee, or insurance certificate.

A Bank loan that is not backed by real values is granted as an exception to individual borrowers who have long-standing business ties with the Bank and high solvency.

The principle of the target orientation of the loan provides for the investment of borrowed funds for specific purposes, due to the loan agreement. The borrower cannot spend the loan for other purposes. Targeted crediting means the direction of the loan for a certain economic subject. The Bank must distinguish between the objects of crediting, primarily those that are associated with capital investments or with the main production activities.

The principle of differentiation of credit means a different approach to borrowers depending on their real ability to repay the loan.

The principle of differentiated approach to borrowers depending on their real ability to repay the loan involves the division of borrowers into first-class and doubtful ones. Within these groups, a more detailed differentiation is usually applied using a credit rating system. Within credit ratings, debtors are differentiated in sufficient detail, taking into account a set of criteria.

Credit rating is a system of differentiation of borrowers on the basis of solvency.

In the specific conditions of the commercial Bank, taking into account the peculiarities of financial and economic activities of its clients (borrowers), the set and content of the rules of Bank crediting are changing. These rules mainly and exclusively determine the standard requirements and guidelines for the Bank's credit employees. We are talking about a clear structuring, systematization, programming, algorithmization, standardization of methods and techniques of credit operations.

Consequently, the principles of crediting show stable and proven banking guidelines, natural links and regularities of the organization

of the credit process. The principles of crediting stimulate the economic interest of the subjects of credit relations in the best results of their activities.

The principles of Bank credit are not immutable once and for all. The development of the economy, the change in the nature of economic relations entail both the emergence of new principles that meet new conditions, and the change in the essence of traditional crediting principles.

2.2 Methods of crediting

Crediting methods are the methods of issuance and repayment of the loan in accordance with the principles of crediting, which determine the nature of the connection of the loan movement with the process of circulation of the borrower's funds.

In the pre-reform period (1991), domestic banking practice developed two methods of crediting:

- on the balance of commodity and material costs and production costs;
- on turnover.

Consider each of the crediting methods:

1. When **crediting on turnover**, the loan follows the movement, turnover of the object of crediting. The credit advances the expenses of the borrower till the moment of releasing its resources. The amount of the loan increases as the need for the loan increases and is repaid as the need decreases. Here, the loan is of a payment nature, since the issuance of loans was made directly to the payment and, most importantly, at the time of the need for borrowed funds. Repayment of the loan was carried out upon completion of the full cycle of the borrower's funds in accordance with the implementation plan (turnover).

2. The essence of the method of crediting **on the balance** is that the issuance and repayment of it is linked to the presence of the balance of creditable values: raw materials, spare parts, goods, as well as work in progress.

Crediting on the balance of the loan is interrelated with the balance of inventory and costs that caused the need for a loan. For example, the company may have to purchase the necessary values at the expense

of their financial sources and only then, to apply to the Bank for a loan under their provision, thereby offsetting the expenses incurred. Credit in this case is issued for the balance of inventory in order to compensate, rather than advance the cost (already made in this case) for the purchase of necessary materials.

The method of credit on the balance has lost its practical importance in the transition period, as during the first stage of the banking reform of the 80-ies the objective process of transition from crediting to numerous, disparate crediting facilities to crediting an enlarged object on a single unified scheme, and only on turnover was completed.

At present, commercial banks use other crediting methods, based on existing foreign experience, which is also based on two methods of crediting, crediting on a simple loan account and an open credit line.

The essence of the first method is that the issue of granting a loan is solved each time individually. The loan is granted to meet a specific target need for funds. This method is used when granting loans for specific periods, i.e. fixed-term loans.

In the second method, loans are provided within the range of the credit limit set by the Bank for the borrower in advance, which is used by the borrower as required by paying against the payment documents submitted to him / her within a certain period. This form of loan is called *opening of a credit line*. Open credit line allows you to pay for the loan any settlement and monetary documents provided for in the loan agreement. The credit line is opened mainly for one year, but can be opened for a shorter period. The credit line is issued, as a rule, to clients with a stable financial position and good reputation. At the request of the client, the credit limit may be revised. The credit line can be renewable and non-renewable, as well as target (framework) one.

The method of crediting determines the form and type of the loan account used to issue and repay the loan, depending on the needs of the client and the interests of the Bank.

2.3 The loan account forms

A loan account is an account that reflects the debt of the client to the Bank on the loans received, the issuance and repayment of loans.

All loan accounts are characterized by their general design: the loan is issued by their debit, repayment on the loan, the customer's debt to the Bank is always on the left, debit, side of the loan account.

In each case, the client can have:

- ordinary (simple) loan account;
- special loan account;
- correct (settlement and loan) account.

Consider the features of each type of loan account.

1. *Ordinary (simple) loan accounts* are used in banking practice mainly for issuing one-time (term) loans. Repayment of debt on these accounts is carried out in the terms agreed with the borrower on the basis of fixed-term obligations or loan agreement.

Several simple loan accounts can be opened for an enterprise at once if it simultaneously uses a loan for several objects and, if they are issued on different conditions, for different terms and at different interest rates. Such separate accounting of loans is important for the implementation of Bank control over their timely repayment by the borrower.

2. A *special loan account* is opened, as a rule, by a borrower who has a constant need for a Bank loan, when the loan mediates most of the borrower's payment turnover. The specifics of the loan under this account is that the issuance of loans each time is not documented, and is based on the statement of obligation, which is provided to the Bank by the borrower. This account is opened in crediting on turnover.

When you open a special loan account of the credit the payment of the settlement documents is performed as required, and the repayment occurs through the payment of referral revenue directly to a special loan account, bypassing checking. The current account serves as a support account, as it carries out a limited number of operations related mainly to the distribution of profits and payment of salaries. For this purpose, the planned share of intangible costs and profits contained in the revenue is periodically transferred from the special account to the customer's current account.

Only one special loan account can be opened for the client in the Bank, which provides loans for many facilities. Nevertheless, it does not exclude the possibility of opening it in parallel with simple loan accounts, if the Bank deems it necessary to lend to the company conducting any operations separately.

3. In using a single settlement and loan (Assets and liabilities) of accounts called in banking practice a **contract**, there is a crediting first-class payment and credit-worthy borrowers. This account is the highest form of trust of the Bank to the client.

On the debit of this account there are all customer payments associated with its productive activity and the distribution of profit and the credit shall be credited the revenues and all other revenues to the benefit of the company.

The credit balance of the account indicates the presence of the company's own funds in circulation at the moment, and the debit balance indicates the attraction of a Bank loan for which interest is charged. A contract account does not exclude the client from issuing other types of Bank credit (mainly medium – and long-term) to the Bank, which are provided from simple loan accounts, but are credited either to the credit of the contract account, or sent directly to the payment of suppliers ' accounts.

The basis for opening a contract account is the conclusion of a contract with the client for the provision of contract credit, which fixes the amount of the maximum loan debt, the loan term, the maximum allowable period of the debit balance on the contract account, the interest rate for the use of the loan, the amount of the turnover commission (as a percentage of the amounts of debit and credit), as well as other conditions at the discretion of the Bank and the client. Interest on the balance on the current account in favor of the Bank significantly exceeds the amount of interest accrued in favor of customers.

Contract accounts are widely used in foreign countries. In Kazakhstan, it was banned in the 1930s and replaced by separate settlement and loan accounts until the banking system experienced the reform in 1987, and now it has been used by a number of commercial banks for a limited number of customers for opening a credit line.

In the modern period, up to now the banks of Kazakhstan have various options of crediting methods and forms of loan accounts, all these methods of crediting do not disappear, but are present with some changes and new approaches. For example, simple loan accounts with different modes of use may be preferred; a contract account has worked well, but it is limited.

2.4 Credit policy of a commercial bank

Law of the Republic of Kazakhstan No. 2444 of 31 August 1995 “On banks and banking activities in the Republic of Kazakhstan (with amendments and additions as of 17.07.2015), and the resolution of the Board of the National Bank of Kazakhstan No. 29 dated 26.02.2014 g. "On approval of rules of forming risk management system and internal control for STB" (With amendments dated 27.08.2014) noted that the banks' loan operations are carried out in accordance with the rules on internal credit policy approved by the management body of the Bank, mortgage or credit institution.

The credit policy of a commercial bank is a set of factors, documents and actions that determine the development of a commercial Bank in the field of crediting to its customers. The credit policy defines the objectives and priorities of the Bank's credit activities, the means and methods of their implementation, as well as the principles and procedure of the credit process. It creates the basis for the organization of the Bank's credit work in accordance with the overall strategy of its activities.

The credit policy is stated in the form of a written document, in the form of provisions that should contain standards and instructions governing the preliminary work on the loan and the crediting process, and represent a methodological support for its implementation. Responsibility for the development of credit policy lies with the top management of the Bank, which formulates the general principles of credit policy and distributes the functions of crediting in practice to the responsible departments. The body implementing the internal credit policy is the Credit Committee of the Bank,

Based on the domestic and international experience of the requirements of credit policy optimization, the following scheme of commercial Bank credit policy formation is recommended:

1. Definition of the purpose and objectives of credit policy.
2. Creation of the credit operations management apparatus and empowerment of the Bank's employees.
3. Organization of the credit process at various stages of the loan agreement.
4. Implementation of Bank control and credit process management.

Consider these sections in more detail.

1. Determination of the purpose and objectives of credit policy. At the first stage of the credit policy implementation it is based on the macroeconomic situation in the country as a whole, the region of potential borrowers ' work in particular, the analysis of the branch dynamics of the selected crediting directions, readiness of the Bank's staff to work with different categories of borrowers, the adoption of a number of internal regulatory documents. The work carried out is out of the scope of activity of the direct Credit Department and relates more to the work of analytical and marketing services of the Bank, but the presence of these necessary elements of the analysis make the crediting process meaningful and prepared.

Based on the research, the Bank's management adopts a Memorandum of credit policy for a specific period (usually 1 year).

This document sets out:

The main directions of the Bank's credit work for the coming period, specific indicators of credit activity (standards and limits), providing the necessary level of profitability and protection from credit risks, for example:

- loan to deposit ratio;
- ratio of equity and assets;
- limits of the segments of the Bank's asset portfolio as a whole;

Limits of loan portfolio segments (limits on crediting to enterprises of one industry, one form of ownership, one type of crediting, etc.). Usually, the limit includes no more than 25% of the total loan portfolio.

1. The General purpose of the credit policy, as the element of banking policy is to make a profit from the issuance of loans to customers, individuals and legal entities. Dynamic development in the direction of increasing the range and volume of services at the same time guarantees the stability and growth of the Bank's profit.

Therefore, the purpose of the Bank's credit policy is to maximize profits with a minimum level of risk.

Private goals include:

1. Determination of the main activities of the Bank on the market of credit products.

2. Establishment of the basic principles of internal banking regulation of the credit process

3. System procedures for consideration of customer complaints and decision-making on the possibility of providing credit products in order to minimize the risks of operations.

4. Diversification of risks in the process of forming the Bank's loan portfolio and determining priorities in the consideration of credit projects.

5. Carrying out operations in compliance with the mandatory standards of the National Bank of Kazakhstan.

6. Formation of a high-quality loan portfolio through crediting to sustainable business entities and financing of promising projects.

7. Ensuring the optimal structure and size of the loan portfolio, off-balance sheet liabilities.

8. Ensuring a high level of security and profitability of the Bank's assets placement.

Based on the possible correlation of goals, credit policy should be aimed at solving the following tasks:

- to allow only the nature of risk that makes possible the creation of high-quality assets and ensure a constant target level of profitability;

- to create a highly professional team of loan officers, ensuring high quality of the Bank's loan portfolio;

- to provide loans to finance economically promising, profitable projects that meet the strategic objectives of the Bank;

- to promote long-term relationships with revenue-generating customers;

- to avoid highly competitive but unjustified crediting methods.

The basis of credit policy rest on two main principles: the reliability and profitability of the placement of funds. The Bank's conservative credit policy and experience in the credit services market will allow the Bank to combine the increase in the loan portfolio with a high level of its reliability.

1. Management personnel credit transactions and powers of employees of the Bank

Along with the development of the main directions of the credit process, an important element of the credit policy is the organization of the credit process. The implementation of the credit policy is based on the system of granting the authority to issue loans developed by the Bank.

The loan approval system is usually multi-stage. The level at which each loan service is approved depends on the customer's credit-worthiness and the degree of credit risk.

The use of the system of credit powers allows increasing the efficiency of banks' credit departments, to determine the level of competence of employees, giving them certain rights and controlling the responsibility of each employee.

1. Organization of the credit process at various stages of the loan agreement. Organization of the credit process is carried out by the Credit Department of the Bank. At the same time, credit workers should be familiar with the Bank's credit policy, especially with the requirements for filling in and maintaining documentation and methods of crediting. The credit policy of a commercial Bank can be divided into two directions: for working with legal entities and individuals.

Credit policy in the work with legal entities. As a rule, the credit policy of banks when working with legal entities is aimed at the development of long-term relations with borrowers. At the same time, it is based on the defined criteria for the selection of customers for cooperation. Usually, the following requirements are imposed: transparency of the company's revenue schemes, stability and profitability of the business, successful experience in various economic conditions, the availability of equity, the possibility of providing security.

When interacting with small businesses and individual entrepreneurs, the personality of the Manager, his reputation and credit history play an important role.

Credit policy in relation to individuals. Based on the credit policy, Bank employees build their work with retail customers, choose a particular scoring model, and develop credit products.

At the same time, based on the credit policy, the Bank can focus on such segments as retail crediting in retail chains (POS-crediting), car loans in cooperation with dealers, mortgage loans, etc.

Credit policy determines the requirements for borrowers: age, minimum work experience, income level and other indicators.

In addition, it affects the banking products offered: secured or unsecured, targeted or non-targeted loans, credit terms, etc.

Based on the credit policy, the Bank determines the interest rates corresponding to the risk of a borrower. At the same time, the credit policy of different banks may differ significantly. For example, some

financial institutions focus primarily on the provision of loans at the point of sale.

Interest rates on such loans are higher, but banks also take higher risks.

Other credit institutions, on the contrary, focus mainly on customers with large account balances.

The main work on the organization of the credit process in the Bank can be presented as the stages (*which will be discussed in Chapter 3.5 "Stages of the crediting process"*).

2. Banking control and management of the credit process

Currently, domestic banks pay attention to the matter of quality control of the loan portfolio, which determines the need to pay special attention to the following issues:

- analysis of the credit market and development of measures to attract and select the most profitable loan applications for the Bank;
- analysis of borrowers' financial condition;
- analysis of collateral and other security for loan repayment;
- organization of management and liquidation of pledge and collateral;
- compliance with crediting principles;
- periodic testing of the issued loan for its repayment (monitoring of the borrower, target markets, economic situation, etc.);
- analysis of the loan portfolio structure;
- identification of problem loans and development of measures to eliminate debt;
- crediting in other economic regions;
- crediting in the context of the risk associated with the economic crisis, inflation, etc.

Thus, it can be concluded that the role of the Bank's credit policy determines the priority directions of development and improvement of banking activities in the process of accumulation and investment of credit resources, development and improvement of the efficiency of the credit process and maintenance of the optimal balance between loans, deposits and other liabilities and equity of the Bank.

However, the ultimate goal of the credit policy of any Bank is the formation of an optimal credit portfolio.

2.5 Stages of the crediting process

The process of granting a Bank loan is called a credit process or crediting process. The crediting process can be divided into stages, each of which specifies the characteristics of the loan, methods of its issuance and repayment.

The following stages can be distinguished in the crediting process:

1. Consideration of an application for a loan interview with a potential borrower
2. Assessment of the applicant's creditworthiness
3. Study of loan security
4. Credit project review
5. Conclusion of loan agreement and execution of documents
6. The loan
7. Loan service
8. Repayment of loan

Step 1. Consideration of an application for a loan interview with a potential borrower.

The so-called preliminary information about the potential borrower, which is partially reflected in the loan application, and is mainly in supplemented and argued by the client during the conversation (interview), is designed to find out the primary data about the client and his motives for applying to the Bank for credit support.

The loan application must contain the following initial information about the required loan:

- the purpose of the loan, which does not contradict the statutory purpose of the borrower;
- amount and currency of the loan;
- the type and term of the loan;
- repayment of the loan and payment of interest;
- proposed collateral (pledge of property; guarantees of individuals, legal entities with funds to repay the loan; guarantee; – deposits; liquid securities, etc.).

The interview method assesses the reasons that prompted the client to make an application, the purpose of crediting, the planned sources of repayment of the loan, the scope of activities and other issues that allow forming a preliminary opinion about the applicant. Only at

a personal meeting with the client, the Credit Department employee can acquaint him with the procedure of granting loans in this Bank and with the list of documents necessary for the continuation of the credit process. The client's application is registered with the Bank's Credit Department. The head of the Credit Department receives the application and records it in the registration book, after which the Manager responsible for customer service is determined.

When processing an application for a loan, the loan manager establishes its compliance or non-compliance with the primary criteria, i.e. the general rules of crediting and the internal regulations of the Bank on credit policy. In case of non-compliance of the loan application with the primary criteria of the Bank, the loan manager prepares an opinion on the impossibility of granting the loan, agrees it with the head of the credit Department and sends the applicant a written notice of refusal of the loan. If the loan is deemed appropriate for the Bank, the Manager proceeds to the second stage of the credit process.

Step 2. Assessment of the applicant's creditworthiness

This stage begins with the consideration of the documents of a potential borrower. To obtain a loan, the client provides the Bank with the documents that can be divided into two groups:

- 1) documents confirming the legal competence of the client to conduct the relevant activities;
- 2) documents confirming financial guarantees of the repayment of the loan.

The first group includes:

- 1) Memorandum of Association;
- 2) Charter;
- 3) Certificate of Registration;
- 4) information about the company's management;
- 5) a contract for the supply of products;
- 6) export license.

The second group includes:

- 1) balance sheet;
- 2) profit and loss reporting;
- 3) extracts from personal accounts;
- 4) feasibility study;
- 5) an agreement to lease warehouse premises;
- 6) invoices for supply of goods;

- 7) loan agreements with other banks;
- 8) guarantees, sureties, insurance policies.

Based on the first group of documents, the legal status of the applicant is determined, business reputation, credit history are assessed with the participation of the security service. Such actions are especially important if the customer is new to the Bank or is serviced by another Bank. In the case of crediting when the client has a long history of his relationship with the Bank, additional information about the reputation of the borrower is not required, the loan manager proceeds to financial analysis.

The source of information for financial analysis is the data of the second group of documents. Based on the recommendations of the National Bank on the assessment of the borrower's creditworthiness and the Bank's methodology for calculating financial indicators, the financial condition and prospects of its change for the crediting period are assessed. Often, when assessing the creditworthiness in general and financial condition in particular, the methods of rating are used, the main purpose of which is to unify the analysis procedures and create an information base for comparing different categories of borrowers. In addition to quantitative analysis of financial ratios, a qualitative analysis of the level of management at the enterprise-borrower, as well as external market factors is becoming increasingly common in the banking crediting practice. There is no doubt that these two main areas of analysis should not be contrasted to each other, but should organically complement each other and strengthen the validity of credit decisions. If the results of the assessment of the borrower's creditworthiness are recognized satisfactory, the loan manager proceeds to the consideration of the use of certain forms of performance of obligations under the loan.

Step 3. Study of the collateral.

The main forms of performance of obligations under the loans are a pledge of tangible and intangible assets, financial guarantees from the government, enterprises and organizations, representations of individuals. *Types of security for Bank loans will be discussed in Chapter 6.*

The credit officer checks the presence of the guarantor in the list of organizations-guarantors, approved by the Credit Committee. In case of insufficiency of the guarantee amount or its unacceptability in

general, the loan officer informs the potential borrower and requires additional security. Guarantees of individuals as a form of performance of obligations under the loan are most often used in crediting to the population. In the practice of crediting, various forms of performance of obligations under the loan can be simultaneously applied (for example, the pledge of property can be supported by the surety of individuals or the guarantee can be accompanied by the provision of collateral). Assessment of collateral is performed by the expert of the respective credit divisions of the Bank, as well as most of the service for the valuation of collateral. After the conclusion of the expert on the acceptability of collateral or other forms of performance of obligations under the loan, the loan manager proceeds to the stage of consideration of the loan project.

Step 4. Consideration of the loan project.

The main task at this stage is to conclude on the possibility of granting a loan based on a comprehensive assessment of the creditworthiness of the borrower and the facility. (*Methods of assessing the creditworthiness of the borrower will be discussed in Chapter 5*).

There are two ways to decide on a loan: centralized and decentralized. The centralized method is used in a small or medium – sized Banks, decentralized – in large Banks.

The centralized credit process is much more strictly regulated. In this case, the decision is made by the Central Body (Credit Committee, risk management unit, etc.), the participation of the representatives of the branch network is minimized. As a rule, the functions of branches are reduced to attracting customers and initiating an approval of the credit limit.

In a decentralized method, the decision to issue a loan may be made by a branch of the Bank in one the following ways:

- 1) through consistent approval;
- 2) through the approval by the Credit Committee.

In the first case, the issue is consistently resolved first at the level of the Credit Department, and then at the level of the top management of the Bank. In case of consideration at the meeting of the Credit Committee, the issues related to the terms of crediting are worked out in advance. Often credit committees are required to review only large-scale credit projects.

When a commercial Bank makes a positive decision on the loan, the stage of conclusion of the loan agreement starts.

Step 5. The conclusion of the loan agreement and paperwork.

In case of a positive conclusion of the Bank on the loan, the following documents are issued:

- (1) a contract;
- (2) a fixed-term commitment;
- 3) a pledge agreement;
- 4) a card with samples of signatures and seal of the client.

The loan agreement is the most important document determining the rights and obligations of the participants of the loan transaction. It stipulates the economic and legal responsibility of the parties. *The loan agreement is drawn up according to a certain scheme and will be discussed in Chapter 8*

The process of preparation of the loan agreement involves reaching agreement between the subjects of the credit transaction (the lender and the borrower) on the following fundamental issues: *the object of crediting, the purpose of crediting, the size of the loan, the timing of issuance and repayment of the loan, interest rate, security, liability of the parties for non-performance of contractual obligations, economic sanctions by the Bank for the misuse of the loan.*

The fixed-term obligation is drawn up in a strictly defined form and contains the obligation of the borrower to repay the loan in a certain amount and within a certain period.

The pledge agreement is concluded if the creditor insists on securing the loan. It is drawn up in a certain form and is designed to guarantee the return of borrowed funds.

In addition, the card with samples of signatures of executives of the company is filled in and a sample seal of the enterprise-borrower is recorded.

Drafts of the loan agreement, pledge agreement, fixed-term obligation and samples of signatures and the seal of the client are submitted for approval to the legal service department – to the lawyer of the Credit Department. The work of the lawyer is carried out for the purpose of clarification and confirmation of compliance of the form and the contents of the submitted documents with the current legislation, as well as clarification and confirmation of the legal capacity of the borrower, competence of the staff of the credit divisions who signed the documents on the credit transaction. A specialist of the legal service approves the documents or returns them for revision to the loan

manager. Then, depending on the level of delegation of authority, the loan manager signs a loan agreement with the head of the Credit Department or the relevant management of the Bank. The loan manager proceeds to the next stage of the loan process.

Step 6. Granting a loan.

Granting a loan is accompanied by opening of a loan account, the correct establishment of the type of which determines largely the success of the loan transaction. In this case, the following types of loan accounts are usually applied: separate (simple), special, contract accounts.

After determining the type of loan account, the loan manager prepares and sends to the Operations Department an order to open a loan account and issue a loan.

The order specifies to whom, in what amount and on what account the loan should be issued.

There are three ways to issue a loan from a loan account:

- 1) the loan is credited to the client's current account;
- 2) the loan, bypassing the current account, is immediately sent to pay against various payment documents for commodity and non-commodity transactions;
- 3) the loan comes to repay other previously issued loans.

In all these cases, the loan account is debited and the loan is credited to:

- 1) the current account of the client (first direction);
- 2) accounts of other enterprises and organizations (second direction);
- 3) another loan account, the debt on which is subject to repayment in due time (the third direction).

The client can also refuse to receive a loan, despite the loan agreement. The amount fixed in the loan agreement is the maximum amount that the client can count on, i.e. the credit limit.

The credit process moves to a new stage of servicing the already granted loan.

Step 7. Maintenance and control of the loan.

Often the financial capacity of the borrower and the level of risk of the loan transaction change over the period from the loan to its final repayment. Therefore, the maintenance procedure of the loan is directed, first and foremost, to the implementation of the manager credit control functions. There are the following areas of control:

- over the intended use of the loan;
- over the sufficiency of loan security;
- over timely repayment of principal and interest;
- over the payment documents of the borrower.

When issuing a loan, the Bank pays considerable attention to the previous control over the activities of a potential borrower, determining its creditworthiness and forecasting credit risk.

Subsequently, the credit manager also provides monitoring of the financial condition of the borrower and the trends of the changes in the borrower's activities, periodically examines the creditworthiness of the customer. He discusses with the borrower, if necessary, the issues of the changes and amendments to the loan agreement relating to the changes in interest rates, extension of credit, etc., maintains credit record of the borrower. Credit dossier is essentially a comprehensive set of credit documentation, which is composed by the client and the Bank documents that have, as a rule, the legal status and accompany the credit transaction from the moment the client applies to the Bank to repay the loan (*maintenance of the credit dossier will be discussed in Chapter 7*).

Step 8. Repayment of loan.

Transition to the last stage – repayment of the loan and successful completion of the credit process is possible only with the correct organization of all previous stages. Most loans are repaid on time and in full in accordance with the terms of the loan agreement.

There are several ways to repay the loan:

- 1) one-time repayment of the loan;
- 2) occasional repayment on the basis of fixed-term liabilities;
- 3) systematic repayment based on pre-fixed amounts (planned payments);
- 4) payment deferment (extension);
- 5) transfer of overdue debts to a special account “Overdue loans”;
- 6) write-off of overdue debts at the expense of the Bank's reserves, etc.

1. One – time repayment of the loan means one-time repayment of the client's debt obligations to the Bank in full.

2. Occasional repayment of the loan is usually made on the basis of fixed-term liabilities. Upon maturity of the loan provided for in the loan agreement or term obligation, the Bank shall write off the respective amounts to repay the loan debt.

3. Systematic repayment of the loan on the basis of pre-fixed amounts is used in cases of systematic receipt of the loan in the form of planned (pre-determined for a quarter or month) payments. The amount of the planned payment must be provided in the loan agreement.

4. The postponement (prolongation) can be granted both for a part and for the entire amount of the loan. As a rule, it is provided for a period of 15 to 30 days.

5. Transfer of overdue debts to a special account” Overdue loans» occurs if the delay is impossible or has already been used. In this case, the loan manager begins the procedure of claiming outstanding interest and principal. Accounts of overdue loans are opened, collection orders are issued, and measures of influence on the borrower are discussed together with the legal service and security service. The ultimate goal of the Bank's credit department is to ensure the return of the borrowed funds and the planned return on investments.

Overdue debts are recorded in the accounts of the second order, depending on the organizational structure and form of ownership of borrowers.

6. Write-off of overdue debts at the expense of the Bank's reserves is made in the case when the client's debts were hopeless, when the Bank for a long time does not receive payment for previously granted loans, and the return itself is not visible at all. In this case, the client's debts are written off at the expense of the Bank's funds accumulated in the form of its reserves.

The loan debt recognized as unreal for collection by the decision of the Board of Directors or the Supervisory Board of the Bank is written off from the balance sheet of the Bank at the expense of the provision for possible losses on loans, and at its deficiency is written off for losses of the reporting year.

The decision to write off the loan debt from the balance sheet of the credit institution at the expense of the reserve for possible loan losses must necessarily be confirmed by a procedural document (definition, resolution) of judicial, notarial bodies, indicating that at the time of the decision repayment (partial repayment) of the debt at the expense of the debtor is impossible.

The Bank regularly, at least once a quarter, sends to the client-debtor statements confirming the existence of overdue debts of the Bank's clients on the principal and accrued debt and not received on

time interest. These statements (along with documents) are the basis for collection of overdue debts from the client.

The sources of repayment of the loan may be:

- 1) client's own funds;
- 2) issuance of a new loan;
- 3) withdrawal of funds from the guarantor's account;
- 4) receipt of the funds from the account of another organization;
- 5) budget revenue;
- 6) realization of pledge.

The most common source of repayment is the borrower's own funds. If it is not enough, the source of repayment of the previously issued loan may be the issuance of a new one. If the borrower cannot repay the loan from its own funds, the Bank may use the provisions of the loan agreement providing for the possibility of repayment of the loan by writing off the funds from the guarantor's account. The Bank receives the guarantee obligation from the guarantor at the time of preparation of the loan agreement. The funds may be received from the debtors of the borrower who have overdue the payment. Repayment of the loan through the sale of collateral is based on the loan agreement and the pledge agreement.

2.6 Bank Loan Agreement

Crediting by commercial banks is made on the basis of a loan agreement.

All issues that arise in connection with crediting are resolved on a contractual basis directly between the Bank and the borrower. According to the agreement, each of the subjects of credit relations assumes certain obligations. The loan agreement is concluded by the Bank for each borrower individually.

The agreement defines the rights and obligations of the borrower company and the Bank, taking into account the nature of the loan and the financial condition of the company, establishes the responsibility of the parties for violation of the agreement. The loan agreement also defines as the necessary conditions: the purpose of the loan, the amount of the loan; the terms and basic conditions for the issuance and

repayment of the loan; methods of securing the loan obligation; interest rates for the loan; the list of calculations and information required for crediting, as well as the timing of their submission.

According to the Civil Code of the Republic of Kazakhstan (special part) (with amendments and additions as of 17.07.2015), Chapter 36, under the loan agreement, one party (the lender) transfers or undertakes to transfer to the other party (the borrower) money or things, and the borrower undertakes to return to the lender the same amount of money or an equal number of things of the same kind and quality.

Legal entities and citizens are prohibited from raising money in the form of a loan from citizens as a business activity, and such agreements are recognized as invalid from the moment of their conclusion.

This prohibition does not apply to the cases where the borrowers are banks licensed by the National Bank of Kazakhstan to accept deposits, as well as to the cases of receiving money in exchange for securities, the issue of which is registered in accordance with the legislation.

According to article 727, under the Bank loan agreement, the lender undertakes to transfer the loan money to the borrower on the terms of payment, maturity, repayment.

The Bank loan agreement has the following features:

1) the lender is a Bank or other legal entity licensed by the National Bank to provide loans in cash;

2) the subject of the contract is money that can be provided in the future. In the latter case, the contract shall be deemed to have entered into force upon its conclusion unless otherwise provided by the contract;

3) the contract must be concluded in writing. Failure to comply with the written form shall entail the invalidity of the Bank loan agreement;

4) the agreement may not contain a condition providing for the right of a Bank or other legal entity licensed by the authorized state body to provide loans in cash, to unilaterally change the terms of the agreement, unless otherwise provided by legislative acts of the Republic of Kazakhstan.;

5) the case of violation by the borrower of the term established for the return of the next part of the subject of the loan and (or) payment of remuneration for more than forty calendar days.

Banks are prohibited from issuing loans secured by shares issued by the Bank or loans for the purchase of such shares.

Self-test questions

1. What are the basic principles of Bank crediting?
2. What credit methods do you know?
3. List modern methods of crediting.
4. What forms of loan accounts do you know?
5. Who develops the credit policy of the Bank?
6. What are the main issues taking into account the credit policy of the Bank?
7. How often is credit policy developed?

Chapter 3

CREDIT HISTORY OF THE BORROWER

3.1 Borrower's Credit history

The active development of crediting to the population in our country in recent years has led to an increase in the risk of non-repayment of loans that can damage not only individual banks, but also the entire financial system as a whole.

Analysis of credit histories of potential borrowers is one of the ways to minimize the risks of banks and other credit institutions.

Credit history is the information about the performance of the borrower, both legal and natural person, their obligations under credit agreements, collected and stored by specialized organizations.

The procedure for the formation, storage and provision of credit histories to users is regulated by the law "On credit bureaus and formation of credit histories in the Republic of Kazakhstan" of July 6, 2004.

The purpose and objectives of the credit Bureau are the formation of information base on borrowers and the provision of these reports to creditors. On the one hand, the credit Bureau will allow banks to adequately assess their risk, taking into account the available information about the potential borrower. On the other hand, it will facilitate access and conditions for obtaining a loan to bona fide borrowers with a good credit history.

In addition, it is also of practical importance for the banks themselves, which will now be able to reduce the costs of the administrative apparatus, procedures for issuing and processing loans, which, ultimately, will lead to a decrease in interest rates and make loans more accessible to customers with positive credit histories.

The Credit Bureau in Kazakhstan provides banks with full information about potential customers, which reduces the risks when issuing loans. Now the credit Bureau forms a database and credit histories of all borrowers.

E – Government portal of Kazakhstan has launched a service – "Obtaining a personal credit report". To obtain or verify the credit history is possible for every user of the portal egov.kz. Service is found under the heading "Taxes and Finance", section "Economy and Finance".

To receive the report, you must have a payment card of any Kazakh Bank and an electronic digital signature (EDS).

According to paragraph 2 of article 21 of the law on credit bureaus and formation of credit histories in the Republic of Kazakhstan, the subject of credit history has the right to receive a credit report for free once within a calendar year.

In case of repeated application for this service to the portal within a calendar year, the payment will make 500 tenge (400 tenge is the tariff of the Credit Bureau and 100 tenge – Bank commission for payment through the payment gateway of the portal).

The personal credit report contains all information about the borrower and the performance of its obligations, which comes to the Credit Bureau from second-tier banks, leasing and other companies offering goods and services in installments.

The report allows you to see the number of requests for the borrower's credit history received from banks and other credit institutions.

Specialists of JSC "National information technologies together with LLP «First Credit Bureau» implemented the service of providing a credit report.

3.2 Kazakhstan Credit Bureau

Together with the Association of financiers of Kazakhstan, the National Bank and the Agency for regulation of the financial market (now The Committee for financial supervision), the law "On credit bureaus and formation of credit histories in the Republic of Kazakhstan" was developed, and President of Kazakhstan Nursultan Nazarbayev signed it on July 6, 2004. In this law, the basic rules of the Credit Bureau in Kazakhstan were stated: on the establishment and termination of the Credit Bureau, the rights and obligations of all stakeholders, the framework of state control and regulation, the mechanisms of the Credit Bureau, etc. A major role in the preparation of the law was played by commercial banks, which were primarily interested in

creating a Credit Bureau. Thus, the financiers had the main document, which designated the "rules of the game" in the system of credit information exchange.

The official date of the establishment of Credit Bureau is July 29, 2004. The founders of the Bureau were seven major banks of Kazakhstan: BTA Bank, Kazkommertsbank, Halyk Bank of Kazakhstan, Alliance Bank, ATF Bank, Bank CenterCredit and Tsesnabank.

To date, the credit Bureau has about 3 million credit histories. Of these, only 20 of the thousands of histories belong to the organizations, the rest ones are the histories of individuals. In addition, the number of contracts in the database is more than 6 300 000.

Credit Bureau is a commercial organization, the income of which is formed from the payment of financial institutions for information. According to the law, all commercial banks are obliged to provide information to the Credit Bureau, and can receive it only on a fee basis.

In this case, the Bank or other financial institution may request or send information to the Credit Bureau only with the consent of the client. The Bank needs to get two consents from the client. The first one – to make a request to the Credit Bureau to provide the information about the potential borrower, and the second consent (in the case of a loan) – to provide the information to the Credit Bureau on the progress of the loan repayment. The second condition is usually prescribed in the loan agreement and is a prerequisite for borrowers, that is, without this consent, you simply will not be given a loan.

If banks are required to send information to the Credit Bureau, other financial institutions (insurance companies, micro-credit, leasing organizations, etc.) may provide information on a voluntary basis. In addition, individual entrepreneurs or legal entities that sell goods and services on credit or provide deferred payments can cooperate with the Bureau. These include companies that provide communication, utilities, satellite and cable TV services, and so on. It may also be state-owned enterprises that register real estate transactions. Today, the Credit Bureau has about 80 clients-recipients of information.

If an organization or enterprise does not provide the credit Bureau with the information it has, it will simply not be able to obtain information from the Credit Bureau. The very principle of operation is important here.

Credit report. This is the document, which reflects the information about the past and current loans of the company or person. It can

also show whether you know anything about the borrower being brought to the court, if he was arrested or if he declared bankruptcy.

The credit report does not reflect any personal information about the client-his religious affiliation, nationality, political commitment, etc. Also it does not contain information regarding his savings accounts, deposits and any other information not related to the client's obligations. The report contains the following information.

- Information required to establish the identity of the loan applicant.
- Full name
- Address.
- Marital status.
- Number of dependents.
- Information on identity documents.
- IIN.
- SIC.
- Date of birth, etc.
- Information about current and past obligations to creditors.
- Loan amount.
- Type of credit.
- Number of existing debts and their amount.
- Late payments (quantity and amount).
- Information on credit limits.
- Repayment schedules, etc.
- Information on how many requests, when and for what purposes the borrower has sent to the Credit Bureau and at what stage processing of the applications currently is. It should be noted that the personal requests of the borrower and third parties about him, received on the basis of his consent, are separated.
- Additional information from public and private sources, with the exception of the information described at the beginning.

3.3 The problem of establishing a Credit Bureau in Kazakhstan

If we recall the history, the appearance of the first credit bureaus falls on the end of the XIX century. Then such bureaus first appeared in Austria, the USA and Sweden.

However, the real boom in the creation of credit bureaus has occurred relatively recently. A survey of private credit bureaus, conducted in 2002 by the World Bank, showed that the launch of approximately half of the organizations occurred in the late 80's – early 90-ies of the XX century. Similar data are found for Latin America: about 14 out of 30 firms were organized in 1989. The data for Eastern Europe show that most firms were opened in 1992. In Western Europe, there is also a rapid development of credit bureaus; opening of new firms was noted in Italy, Austria and Spain.

In the Republic of Kazakhstan, credit bureaus have appeared recently, and most potential borrowers do not and cannot have a long-term credit history. Therefore, the client must provide the Bank with the certificate of income for the last year, and this is only part of the information that allows the Bank to assess the borrower's credit-worthiness and solvency.

The main developers of the law "on credit bureaus and formation of credit histories", signed on July 6, 2004 by the President of Kazakhstan N. Ah. Nazarbayev, were the national Bank of Kazakhstan and the Agency for regulation and supervision of the financial market and financial institutions. The work preceding the adoption of the Law, as well as the establishment of the first credit Bureau in Kazakhstan, was carried out in close cooperation with the Pragma/USAID Corporation and the Association of financiers of Kazakhstan. The NBK is the founder of the Credit Bureau for legal entities. Credit bureaus that collect information on individuals will be able to create the banks themselves.

The common idea of a credit Bureau is very simple: it is a database that collects information about borrowers, or rather, information on their credit histories. Let us say people start with a loan for education, and then take a loan to buy a car, then to buy a house, open credit cards and so on. In addition, if the credit history of a person is good, then the access to borrowed money is simple: minimal collateral, quick registration procedure. If the credit history is bad, it is very difficult to correct it. Thus, the banking system increases the availability and efficiency of credit for the population.

Through the credit Bureau, you can reduce the risk of loan default, because the Bank will have enough information about the borrower. Credit history will allow you to make the right decision in favor of the Bank.

Credit Bureau is a step to the future; it is a modern approach to crediting, the right database, and modern electronic analysis system. In the end, it allows to expand the population's access to credit products.

The national Bank and the market surveillance Agency initiated the establishment of the credit Bureau. The project was funded by the United States Embassy. For Kazakhstan, this is an important step in the development of financial institutions, according to experts.

One of the founders is "Creditinfo group". This Icelandic company helped to form the technical and methodological basis. Experts note that the structure and work of the First credit Bureau meet the international standards.

The establishment of the institution of formation and storage of borrowers' credit histories is a positive circumstance both for creditors who have received the opportunity to insure themselves against doubtful customers and for bona fide borrowers. The presence of a positive credit history of a potential borrower speeds up and facilitates the process of making an approval decision on the loan application, which in certain life situations can be very important.

Self-test questions

1. List the sources of credit risk minimization
2. What are the main sources of credit history?
3. When the credit Bureau in Kazakhstan was founded?
4. Who is the shareholder of the credit Bureau?
5. How can an individual obtain credit history information?
6. How can commercial banks obtain information about the borrower's credit history from a credit Bureau?

Chapter 4

ASSESSMENT OF THE CREDITWORTHINESS OF BORROWERS

4.1 Methods of assessing the creditworthiness of the Bank's client

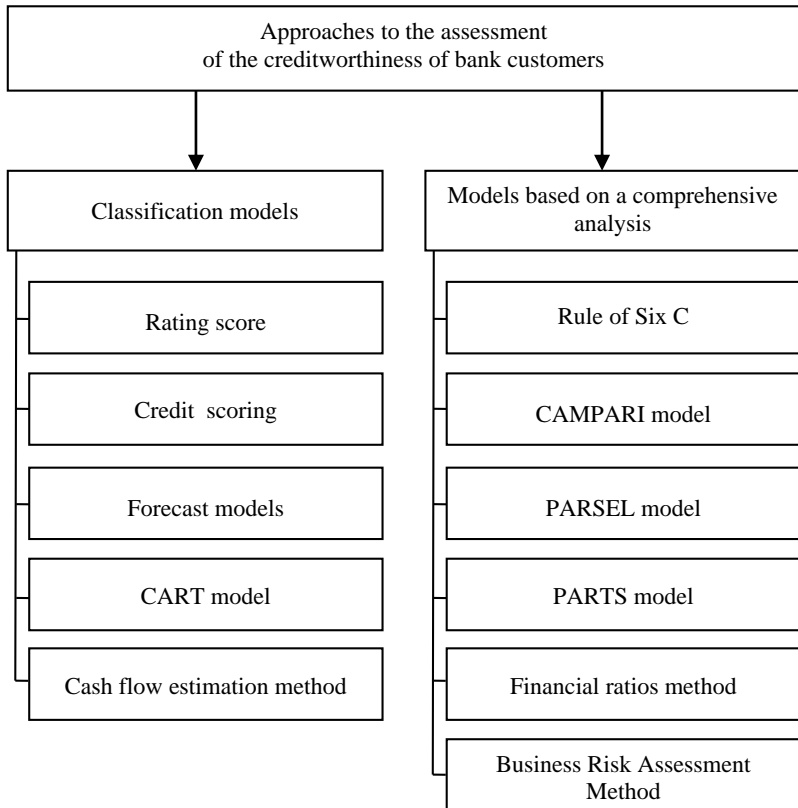
Under market conditions, lenders need to have an accurate picture of their partner's creditworthiness. To achieve this goal, commercial banks are developing their own methods of determining creditworthiness.

Creditworthiness of the borrower is its complex legal and financial characteristics, represented by financial and non-financial indicators, allowing the assessment of its ability to pay off its debt obligations to the lender in full and within the period stipulated in the loan agreement, as well as the determination of the degree of risk of the Bank when crediting to a particular borrower.

The creditworthiness of the Bank's client depends on many factors, so it is not easy to evaluate and calculate each of them. Most of the indicators of creditworthiness analyzed in practice are based on the data for the past period or as of some reporting date. However, they are all subject to the distorting effects of inflation. It is difficult to identify and quantify certain factors, such as the reputation of the borrower. A variety of methods and approaches are used to solve this problem, not excluding each other, but complementing and making possible the assessment of the borrower's creditworthiness. In 1998, the Basel Committee on banking policy, which includes the Central banks of the leading countries of the world, allowed the use of internal methods for assessing Bank risks, including credit risks. In this regard, there are quite a lot of different methods of credit risk assessment based on mathematical methods.

According to the classification proposed by Professor I. V. Vishnyakov, approaches to assessment of the creditworthiness of borrowers can be divided into two groups of models (figure):

- 1) Classification models;
- 2) Models based on complex analysis.



Classification of methods for the assessment of the creditworthiness of the Bank's client

Classification models make it possible to group the borrowers; predictive models allow to differentiate them in dependence on the probability of bankruptcy; rating models – in dependence on their category, established with the help of a group of calculated financial ratios and assigned significance levels.

4.2 Classification models for assessment of the creditworthiness of borrowers

Classification models include the following methods:

1. Rating score (total score) is calculated by multiplying the value of the indicator by its weight (significance factor) in the integral indicator. In world practice, when assessing creditworthiness on the basis of a system of financial ratios, the following five groups of ratios are mainly used: liquidity, turnover, financial leverage, profitability, debt service.

The American scientist E. Reid proposed the following metrics that measure different characteristics of a company's creditworthiness: liquidity, turnover, funding and profitability. This system makes it possible to predict the timeliness of future payments, the liquidity and reality of current assets, to assess the overall financial condition of the company and its stability, as well as the ability to determine the boundaries of reducing the amount of profit in which the repayment of part of the fixed payments is performed.

Another group of scientists (J. Shim, J. Sigel, G. Anderson, D. Coldwell) suggested to use groups of indicators that characterize liquidity, profitability, long-term solvency and indicators based on market criteria. In contrast to the method of E. Reed, this approach allows to predict long-term solvency taking into account the degree of protection of creditors from non-payment of interest (interest coverage ratio). Factors based on market criteria include the ratio of share price to income, dividend amount, and market risk. They are used to determine the ratio of the current exchange rate of shares to earnings per share, the current profit of their owners, and variability of the company's shares relative to the share prices of other firms. However, calculation of some coefficients is complicated and requires the use of special statistical methods. In practice, each commercial Bank chooses certain coefficients and resolves issues related to the method of their calculation. This approach allows us to characterize the financial condition of the borrower on the basis of a synthesized indicator-rating, calculated in points assigned to each value of the coefficient. In accordance with the points, the class of the organization is established: first-class, second-class, third-class or insolvent. The class organization is taken by the Bank into account in the development of the scale

of interest rates, definition of credit conditions, the regime of credit (loan type, size, and type of credit line, etc.), the assessment of the quality of the loan portfolio, analysis of financial stability of the Bank.

2. Credit scoring is a technique that is a modification of the rating and it was proposed in the early 40-ies of XX century by American scientist D. Duran for the purpose of selection of borrowers for consumer credit. The difference between credits is reflected in rating formula that uses its private score instead of the value of the indicator. For each indicator, several value intervals are defined, each interval is assigned a certain number of points or a class is defined. If the rating granted to the borrower is lower than the value set in advance by the Bank's employees, such borrower will be refused a loan, and if it meets the standards, the loan application will be satisfied. The advantages of the rating model are simplicity (since it is enough to calculate the financial ratios and, taking into account the coefficients of their importance, to determine the class of the borrower), the possibility to calculate the optimal values for private indicators, the possibility to rank organizations by results, an integrated approach to assessing creditworthiness (since the indicators that reflect different aspects of the organization). However, when using this technique, a number of problems should be considered:

- the need for careful selection of financial indicators (required to use indicators describing the different aspects of the borrower, in order to better characterize its position);

- the importance of substantiation of threshold values of indicators (in our country it is quite difficult to implement such an approach, since there is not enough information about the actual state and levels of these indicators in the economy of Kazakhstan, as well as the degree of participation of banks in the formation of such a database);

- the need to justify the significance factors for each group of indicators in accordance with the industry of a particular borrower;

- determination of the degree of deviations in the border areas, referring borrowers to different classes;

- the rating assessment takes into account the levels of indicators only relative to the optimal values corresponding to certain established standards, but does not take into account the degree of their implementation or non-performance;

- financial ratios reflect the situation in the past on the basis of the data on remaining amounts;

- calculated coefficients show only certain aspects of the activity;
- the system of calculated coefficients does not take into account many factors – the reputation of the borrower, the prospects and features of the market situation, evaluation of manufactured and sold products, prospects for investment, etc.

German banks apply the credit rating methodology, which includes an assessment of the creditworthiness of the company concerned and the guarantees it provides. The creditworthiness of the client in one of the German banks is determined by 17 criteria divided into 5 groups:

1. Management: quality of management, competence of financial documentation;
2. Market (industry): market development and industry, the influence of changes in environment, geography of recipients of products and suppliers, import and export risks, the severity of competition, products and range standards;
3. Customer relationship: account management, customer openness and willingness to provide information about their activities;
4. Economic conditions: assessment of the annual balance sheet, general property conditions;
5. Development prospects of the company: development after the publication of the last annual balance sheet, production planning, profitability planning and future maintenance of capital, specific production risks.

For each of these criteria, the assessment is made by a 6-point scale ("6" is the worst indicator).

French banks also apply credit rating methodology. To determine the level of creditworthiness of the company the data of a special card file of the Bank of France are also used.

3. **Predictive models** derived from statistical methods are used to assess the quality of potential borrowers. Multiple discriminant analysis (MDA) uses a discriminant function (Z) that takes into account some parameters (regression coefficients) and factors that characterize the financial condition of the borrower (including financial ratios). Regression coefficients are calculated as a result of statistical processing of data on a sample of firms that either went bankrupt or survived for a certain time. If the firm's Z -score is closer to the average bankrupt

firm, it will go bankrupt if its position continues to deteriorate. If the firm's managers and the Bank make an effort to resolve financial difficulties, bankruptcy may not occur. Thus, the Z-score is a signal to prevent the bankruptcy of the company. The application of this model requires an extensive representative sample of firms in different industries and scales of activity. The difficulty lies in the fact that it is not always possible to find a sufficient number of failed firms within the industry to calculate the regression coefficient.

The most well-known MDA models are the Altman and Chesser models, which include the following indicators: the ratio of own working capital to the amount of assets; the ratio of reinvested profit to the amount of assets; the ratio of the market value of shares to borrowed capital; the ratio of sales (proceeds from sale) to the amount of assets; the ratio of gross profit (profit before interest and taxes) to the amount of assets.

The organization belongs to a certain class of reliability based on the values of the Z-index of the Altman model. The five-factor Altman model is based on the analysis of the state of 66 firms and allows us to give a fairly accurate forecast of bankruptcy for two or three years ahead. In later works, the scientist studied factors such as capitalized lease obligations, applied data smoothing to eliminate random fluctuations. The new model predicts bankruptcy with a high degree of accuracy for two years ahead and with a lower probability (about 70%) – for five years ahead. The construction of such models in Kazakhstan is quite difficult due to the lack of statistical data on the bankruptcy of organizations, constant changes in the regulatory framework in the field of bankruptcy and bankruptcy recognition of the organization on the basis of the data that can not be accounted for.

The Chesser model allows predicting the client's failure to fulfill the terms of the loan agreement. Non-performance implies not only non-repayment of the loan, but also any other deviations that make the relationship between the lender and the borrower less favorable compared to the original terms. The linear combination of independent variables (Z) used includes the ratio of cash on hand and the value of readily realizable securities to the amount of assets; the ratio of net sales (excluding VAT) to the amount of cash on hand and the value of readily realizable securities; the ratio of gross income (profit before interest and taxes) to the amount of assets; the ratio of total debt to the

amount of assets; the ratio of fixed capital to net assets (or applied capital equal to equity and long-term loans); the ratio of working capital to net sales (net sales). The resulting indicator can be considered as an assessment of the probability of non-fulfillment of the terms of the loan agreement. Chesser used the data from a number of banks for 37 "satisfactory" and 37 "unsatisfactory" loans and took the balance sheets of borrowers for the year before the loan. Substituting the calculated parameters of the model in the formula of the probability of violation of the terms of the contract, Chesser correctly identified three out of every four cases studied.

4. The CART model (Classification and regression trees) is a non-parametric model, the main advantages of which are the possibility of wide application, accessibility for understanding and ease of calculations, although complex statistical methods are used in the construction. In the "classification tree", firms-borrowers are located on a certain

"branch" depending on the values of the selected financial ratios; then "branching" of each of them depending on the following coefficients is applied. Classification accuracy in using this model is about 90%.

5. The method based on the analysis of cash flows allows using not the data on the balances of assets and liabilities, but the coefficients determined by the data on the turnover of liquid assets, reserves and short-term debt obligations, by calculating the net balance of various income and expenditure of funds for a certain period. The difference between inflows and outflows shows the total net cash flow. Short-term excess of outflow over inflow indicates a shortage of funds (lower rating of the client). Systematic excess of outflow over inflow of funds characterizes the client as non-creditworthy. The current average value of the total cash flow can be set as a limit for the issuance of new loans, as it shows the amount of funds with which the client is able to repay debt obligations. Based on the ratio of the total cash flow and the size of the client's debt obligations is determined by its class of creditworthiness. The analysis of cash flow allows us to draw a conclusion about the weaknesses of the enterprise management. When deciding on the issue of a long-term loan, the analysis of cash flow is carried out not only on the basis of the data for the expired period, but also on the basis of forecast data for the planned period. [2]

4.3 The models of complex analysis of borrowers' creditworthiness assessment

In the case of mathematical models, the influence of "qualitative" factors in the provision of loans by banks is not taken into account. These models only partly allow the Bank's credit experts to draw a conclusion about the possibility of granting a loan. The disadvantages of classification models are their "isolation" on quantitative factors, the arbitrariness of choosing a system of quantitative indicators, high sensitivity to the unreliability of the original data, cumbersome when using statistical inter-sectoral and sectoral data. Within the framework of complex models of analysis, it is possible to combine quantitative and qualitative characteristics of the borrower. The following methods can be distinguished:

1. The rule of "six C" used by the US banks. It is based on the use of six basic principles of crediting, designated by words beginning with the English letter "C": Character, Capacity, Cash, Collateral, Conditions, and Control.

1. *Character of the borrower (Character)*: responsibility, reliability, honesty, decency and seriousness of the client's intentions.

2. *Ability to borrow funds (Capacity)*: the credit inspector must be sure that the client requesting a loan has the legal right to apply for a loan and sign a loan agreement, i.e. that the head or representative of the company (Bank) applying for a loan has the appropriate authority granted to him by the founders or the Board of Directors to negotiate and sign a loan agreement on behalf of the company (Bank).

3. *Cash*: an important aspect of any loan application is to determine whether the borrower is able to repay the loan with funds received from the sale or liquidation of assets, cash flow or borrowed resources.

4. *Collateral*: when assessing collateral for a loan application, it is necessary to establish whether the borrower has sufficient capital or quality assets to provide the necessary collateral for the loan; unsecured loans are provided to first-class borrowers with qualified management and excellent credit history.

5. *Conditions*: the credit inspector must know how the borrower is doing, what is the situation in the relevant industry, as well as how changes in economic and other conditions in the country can affect the process of repayment of the loan.

6. *Control* is aimed at finding out whether changes in legislation, legal, economic and political situation can negatively affect the borrower's activity and his / her creditworthiness

2. English clearing banks also assess the possible risk of non-payment of the loan using the **models of PARSEL and CAMPARI**.

The PARSEL model includes:

- Person – information about the person of the potential borrower, his reputation;
- Amount-justification of the requested loan amount;
- Repayment – possibility of repayment;
- Security – security assessment;
- Expediency-expediency of the loan;
- Remuneration – remuneration of the Bank (interest rate) for the risk of granting a loan.

The **CAMPARI's model** consists in alternately separating the most significant factors determining the client's activity from the credit application and the attached financial documents, in their evaluation and clarification after a personal meeting with the client. The name CAMPARI is formed from the initial letters of the following words:

C (Character) – reputation, characteristics of the client;

A (Ability) – ability to repay the loan;

M (Margin) – margin, yield;

P – Purpose) – purpose of the loan;

A (Amount) – loan amount;

R (Repayment) – loan repayment terms;

I (Insurance) – insurance risk of default on the loan.

Despite the unity of criteria and methods of evaluation, there is a specificity in the analysis of creditworthiness of legal entities and individuals, large, medium and small customers. This specificity lies in the combination of the methods used for evaluation, as well as in their content.

3. The "PARTS" model is used by the UK banks and consists of the initial letters of the following words:

P (Purpose) – purpose, purpose of the loan;

A (Amount) – amount, loan amount;

R (Repayment) – payment, repayment (debt and interest);

T (Term) – the term of the loan;

S (Security) –loan repayment security.

Complex methods of assessing the creditworthiness of the borrower are used by many commercial banks, but these methods are not sufficiently developed theoretically and they have little use of the mathematical apparatus. The main drawbacks of the system of selection of borrowers by commercial banks today are:

- subjectivity – often decisions made by credit inspectors are based only on intuition and personal experience;

- inflexibility and instability – the quality of the assessment is a random variable that cannot be improved or worsened, and depends on the emotional state and preferences of the expert;

- lack of training, knowledge transfer and advanced training – before becoming a highly qualified specialist, it is necessary to accumulate a certain level of knowledge based on the acquisition of sufficient experience in this field, and the training of credit analysts is usually at a high level due to the lack of effective methods of analysis and training technologies;

- limitation of the number of applications, which is due to the limited physical resources of the person, as a result – a missed benefit from the limitation of the number of applications under consideration.

4. The methodology based on the analysis of business risks uses qualitative factors in assessing the borrower. Business risk is associated with the continuity of the circulation of working capital, with the probability of not effectively complete this cycle. The analysis of such risk allows to predict sufficiency of sources of repayment of borrowed funds.

It is possible to single out the following factors: business risk: the reliability of suppliers; diversity of suppliers; the seasonality of supply; the duration of storage of raw materials; the availability of storage facilities and the need for them; the procedure for the acquisition of raw materials; environmental factors; fashion of raw materials; the level of prices for purchased values and their transportation; transportation according to the nature of the cargo; the risk of entry of restrictions on the export and import of raw materials. In addition, business risk is associated with the shortcomings of the legal framework for the execution and completion of the loan transaction, as well as with the specifics of the borrower's industry. It is necessary to take into account the impact on the development of the industry related industries, systematic risk compared to the situation in the economy as a whole, the

industry's exposure to cyclical demand, the constancy of results in the industry, etc. Most of these factors can be formalized, i.e. for these factors point estimates can be developed.

4.4. Financial ratios.

Method used by domestic banks

In Kazakhstan the National Bank of Kazakhstan being guided by the experience of other countries developed the instruction of 27.10.1994 N 26 "Methodical instructions on the analysis by banks of creditworthiness of the borrower". However, every commercial Bank in our country is currently developing its own methodology for performing the borrower's creditworthiness analysis. Although in Kazakhstan banking practice is widely used world experience in assessing the creditworthiness of the client, which is based on the definition of the class of creditworthiness of the borrower is not spread to a required extent.

At the heart of determining the class of creditworthiness of the borrower there is the criterion level of indicators and their rating. Depending on the value of the main coefficients, borrowers are divided into three classes of creditworthiness.

Three main indicators are used to assess the creditworthiness of the borrower:

- Liquidity ratio (hereinafter LR);
- Coverage ratio (CR);
- Indicator of self-sufficiency (ISS).

The liquidity ratio characterizes the client's ability to promptly release funds from circulation to repay the debt. It is calculated as follows:

$$R_l = \frac{\text{Marketable assets}}{\text{Amount of current liabilities}}$$

The higher the ratio, the more reliable the borrower is.

The coverage ratio makes it possible to determine the sufficiency of all types of funds of the borrower to repay the debt. This indicator can be determined by the formula:

$$R_c = \frac{\text{Marketable assets} + \text{liquid assets}}{\text{Amount of current liabilities}},$$

The indicator of availability of own working capital characterizes the size of the borrower's own funds.

The higher the value of this coefficient, the more reliable the borrower is.

$$I_{ISS} = \frac{I \text{ asset section} - (I \text{ asset section} + \text{loss})}{II \text{ asset section}},$$

To calculate liquidity and coverage indicators, it is necessary to determine the amount of short-term liabilities. It includes:

- long-term loans and borrowings
- short-term loans and borrowings
- settlements with creditors
- advances received from buyers and customers
- other short-term liabilities
- deferred revenue

The described financial creditworthiness ratios are calculated based on the balance sheet data as of the reporting dates. As you know, the Bank's borrowers are divided into three classes according to the degree of creditworthiness:

- Class 1 – first-class borrower (reliable);
- Class 2 – ordinary borrower (unstable);
- Class 3 – unreliable borrower.

The class of the borrower can be determined by the following table, taking into account the industry.

Table

Industry level of coefficients to determine the class of the borrower

Industry name	Balance liquidity ratio			Balance coverage ratio			Indicator of availability of own working capital		
	1 cl.	2 cl.	3 cl.	1 cl.	2 cl.	3 cl.	1 cl.	2 cl.	3 cl.
1	2	3	4	5	6	7	8	9	10
Industry	More than 1,5	1,0-1,5	Less than 1,0	More than 2,0	1,5-2,0	Less than 1,5	More than 0,7	0,5-0,7	Less than 0,5

1	2	3	4	5	6	7	8	9	10
Agriculture	More than 1,2	1,0-1,2	Less than 1,0	More than 2,0	1,5-2,0	Less than 1,5	More than 0,3	0,2-0,3	Less than 0,2
Trade	More than 1,2	1,0-1,2	Less than 1,0	More than 2,0	1,0-1,2	Less than 1,0	More than 0,5	0,2-0,5	Less than 0,2
Transport and roads	More than 1,5	1,0-1,5	Less than 1,0	More than 2,0	1,5-2,0	Less than 1,0	More than 0,7	0,5-0,7	Less than 0,5
Construction	More than 1,5	1,0-1,5	Less than 1,0	More than 2,0	1,5-2,0	Less than 1,5	More than 0,7	0,5-0,7	Less than 0,5
Communication	More than 1,5	1,0-1,5	Less than 1,0	More than 2,0	1,5-2,0	Less than 1,5	More than 0,7	0,5-0,7	Less than 0,5
Material and technical supply	More than 1,2	1,0-1,2	Less than 1,0	More than 1,2	1,0-1,2	Less than 1,0	More than 0,4	0,2-0,4	Less than 0,2

The overall credit rating is given in points. Points are the sum of the products of each indicator's rating per credit class.

- 1 class is assigned at 100-150 points;
- 2 class – at 151-250 points;
- 3 class – at 251-300 points.

An example of scoring is given in the following table

Example of determining the amount of points

Indicators	Rating of indicators, %	Version 1		Version 2		Version 3	
		class	score	class	score	class	score
R _l	40	1	40	2	80	3	120
R _c	30	1	30	2	60	3	90
I _{ISS}	30	1	30	2	60	3	90
Total		1	100	2	200	3	300

As for coefficients and indicators, all values of which correspond to class 1, the number of points is 100, class 2 – 200 and class 3 – 300 (options 1, 2, 3). Therefore, with an intermediate value of points from 100 to 150, 1 class (reliable borrower), from 151-250 – 2 class (unsustainable borrower), from 251-300 – 3 class (unreliable borrower) is assigned. In option 4, the value of indicators 180 points allows you to assign class 2, in option 5 at 280 points- class 3 and in option 6 at 140 points-class 1.

It is important for banks to calculate additional indicators for determining the creditworthiness of the borrower (Annex 1). The table shows additional indicators of creditworthiness of customers recommended by the National Bank of the Republic of Kazakhstan

Thus, at present there is no universal method of assessing the borrower's creditworthiness in banking practice. The regulatory documents of the National Bank of Kazakhstan prescribe a method for determining the borrower's risk category, according to which the Bank is obliged to create a reserve for possible losses. However, this instruction does not exclude the possibility of determining the categories of borrowers by banks on their own. The Basel Committee on banking supervision also allows banks to use internal risk assessment methods. The development of our own methods is based on two approaches: rating methods based on mathematical estimates of the probability of risk, or the scoring method, that is, risk assessment by analyzing the creditworthiness and assigning a certain rating to the borrower on this basis. The first approach requires a large database that reveals the credit ratings of the company, its credit history. Therefore, its application is effective if the borrower is a large company operating in the market for a long time.

As mentioned above, in modern conditions, commercial banks develop and use their own methods of assessing the creditworthiness of borrowers, taking into account the interests of the Bank. We have provided a methodology for analyzing the creditworthiness of the borrower of one of the domestic commercial banks (see Annex 2)

Chapter 5 CREDIT HISTORY

5.1. The content of the credit history

According to the resolution of the Board of the Agency of the Republic of Kazakhstan “On regulation and supervision of the financial market and financial institutions” of February 23, 2007 № 49, "Rules of documentation on crediting" Chapter 2 for each loan granted, a credit history must be opened in the Bank on the day of signing the loan agreement and closed only at the time of its termination. Each Bank develops and approves its own internal rules.

Each credit history should contain a separate list of documents contained in the credit history. The documents contained in the credit history after its closure must be numbered and stitched.

Credit dossier on loans (including blank ones) should contain the following **basic documentation**:

1) an application signed by the borrower and registered in the Bank's subdivision that registers incoming documentation, containing an indication of the purpose of the loan and a description of the intended collateral, other security that may be provided to ensure the fulfillment of the borrower's obligations to the Bank;

2) the decision of the authorized body of the borrower-legal entity to obtain a loan;

3) the decision of the authorized body of the pledger-legal entity to provide the collateral to ensure the performance of the borrower's obligations;

4) notarized copies of constituent documents or the register of shareholders owning ten or more percent of ordinary shares of the borrower, disclosing information about all owners of the share in the authorized capital of the borrower owning ten or more percent of ordinary shares to the ultimate owners of ordinary shares in the authorized capital of the borrower;

5) notarized card with samples of signatures and seal of the legal entity, as well as a copy of the document certified in accordance with the requirements of the Bank, confirming the powers of the person authorized to sign credit and collateral documentation on behalf of the borrower;

6) a copy of the loan agreement on payment cards with the provided credit limit, other document confirming the conclusion of the transaction, the original of which is to be stored in the Bank on the terms and in the manner prescribed by the internal documents of the Bank;

7) original business plan of the borrower-legal entity or feasibility study of the loan;

8) a copy of the financial statements of the borrower-legal entity for the last quarter and the last reporting year with the attachment to the financial statements for the last reporting year, a copy of the tax return and / or information posted on the websites, allowing to make an analysis of the financial condition of the borrower-legal entity;

9) certificate of the servicing Bank on turnover, indicating the incoming and outgoing balance of money at the beginning and end of the month, respectively, on the Bank account of the borrower – a legal entity that is a non-resident of the Republic of Kazakhstan for the last twelve months;

10) conclusion (expertise) of the relevant divisions of the Bank, on the basis of which the authorized body of the Bank makes a decision on granting a loan in the amount of more than 0.02 percent of the Bank's equity, including:

- conclusion of the credit division of the Bank, containing an assessment of the borrower's ability to implement the goals and objectives defined in its business plan and disclosing the sources of repayment, as well as the volume and timing of cash flows;

- conclusion (expertise) of credit risk management, economic security, collateral management and legal department.

Internal credit policy of the Bank provides for the requirements for the examination (conclusions) of the structural units of the Bank, including on the basis of which the credit Committee of the Bank makes a decision to change the terms of crediting or granting a loan in the amount of less than 0.02 percent of the Bank's equity.

The credit Committee of the Bank on the basis of these conclusions (expertise) makes a decision on granting a loan or on amendments

to the terms of crediting or refuses to grant a loan or make amendments to the terms of crediting;

11) stitched and sealed, one file at a time numbered and duplicated in electronic form a copy of or extract from the decision of the credit Bureau of the Bank approval of the loan (credit limit on charge cards) registered (by number and date of the decision) in a special register of the account of authorized body of the Bank;

12) documents confirming the purpose of the loan, except for loans for working capital and homogeneous loans;

13) a copy of the document of the established form issued by the registration authority confirming the fact of state registration (re-registration) for individual entrepreneurs;

14) a copy of the document certifying the status of a non – resident legal entity issued by the authorized body of the borrower's state (if the borrower is a non-resident of the Republic of Kazakhstan);

15) for the loans issued in foreign currency – the availability of financial and / or other reporting of the borrower – legal entity, which allows determining the currency of incoming revenue and instruments for hedging currency risks;

16) a copy of the identity document of the individual borrower (co – borrower) supported by the original document with a note about it;

17) documents reflecting and confirming wages and (or) other income of the borrower (co – borrower) – an individual. For loans issued under the educational crediting system, the presence of this document is not required;

18) the copy of the document in the established form issued by registering body confirming the fact of the statement of the borrower (co-borrower) on tax accounting;

19) the document defining credit scoring and assessment of creditworthiness of the borrower (co-borrower);

20) credit report on the borrower (co-borrower) received from the Credit Bureau;

21) the statement of the Accumulative Pension Fund from the individual pension account of the borrower (co – borrower) – a physical person – for the last six months. On the credits issued within the system of educational crediting, and also on the credits of physical persons which according to the legislation of the Republic of Kazakhstan on pension provision are exempted from payment of obligatory

pension contributions to accumulative pension funds in the presence of the documents confirming the release from payment of obligatory pension contributions, availability of this document is not required;

22) certificate of absence (availability) of the borrower – legal entity of any tax debt, arrears of mandatory pension contributions and social contributions and the act of reconciliation issued by the tax authorities, confirming the absence (presence) of tax arrears and other mandatory payments to the budget by the borrower – legal entity, before the date of consideration of the application for crediting by the authorized body of the Bank;

23) a copy of the consent of the credit history entity to provide information about it to the credit bureaus (the original of which is to be stored in the Bank on the terms and in the manner established by the internal documents of the Bank);

24) a copy of the consent of the subject of credit history to issue a credit report to the recipient of the credit report (the original of which is to be stored in the Bank's storage on the terms and in the manner established by the internal documents of the Bank).

The business plan of the borrower or the feasibility study of the loan, or other documents that allow assessing the creditworthiness of the borrower, should include, but are not limited to the following information:

- description of activities with indication of the purposes of the loan;
- markets and marketing strategy of the borrower;
- risk assessment and management;
- detailed annual financial plan (financial performance of the business plan by year, sources and amounts of the business plan financing and repayment of the loan) and cost estimates.

5.2 Credit history

for the loans of a small business entity

According to the Resolution of the Board of the Agency of the Republic of Kazakhstan on regulation and supervision of the financial market and financial institutions of February 23, 2007 № 49 "Rules of

documentation on crediting". Credit dossier on loans provided to small businesses, should contain in addition to the list of basic documentation, the following documents:

1) an application signed by the borrower and registered with the Bank's subdivision that registers incoming documentation, containing an indication of the purpose of the loan and a description of the intended collateral, other security, which is provided to ensure the fulfillment of the borrower's obligations to the Bank;

2) notarized copies of the constituent documents of the borrower (for a legal entity) or a copy of the identity document (for an individual) verified with the original document with a note about it, or a copy of the document of the established form issued by the relevant authorized body confirming the fact of the state registration (re-registration) (for individual entrepreneurs); in the presence in the Bank of the specified documents – the copies of such documents;

3) a notarized card with samples of signatures and seal of the legal entity, as well as a copy of the document certified in accordance with the requirements of the Bank, confirming the authority of the person authorized to sign credit and collateral documentation on behalf of the borrower; in the presence in the Bank of the specified documents – the copies of such documents;

4) a copy of the loan agreement, the original of which is to be stored in the Bank's vault, on the terms and in the manner prescribed by the Bank's internal documents;

5) a copy of the financial statements of the borrower – legal entity for the last reporting year and / or information posted on the WEBSITES, allowing to make an analysis of the financial condition of the borrower-legal entity;

6) the copy of the document of the established form issued by registering body confirming the fact of statement of the borrower (co-borrower) on tax accounting;

7) credit report on the borrower (co-borrower) received from the credit Bureau;

8) a copy of the consent of the credit history subject to provide information about it to the credit bureaus (the original of which is to be stored in the Bank's storage on the terms and in the manner established by the internal documents of the Bank);

9) a copy of the consent of the subject of credit history to issue a credit report to the recipient of the credit report (the original of which is to be stored in the Bank's storage on the terms and in the manner established by the internal documents of the Bank).

10) conclusion (expertise) of the relevant divisions of the Bank, on the basis of which the authorized body of the Bank makes a decision on granting a loan in the amount of more than 0.02 percent of the Bank's equity, including:

- conclusion of the credit division of the Bank, containing an assessment of the borrower's ability to implement the goals and objectives defined in its business plan and disclosing the sources of repayment, as well as the volume and timing of cash flows;

- conclusion (expertise) of credit risk management, economic security, collateral management and legal department.

Internal credit policy of the Bank provides for the requirements for the examination (conclusions) by the structural units of the Bank, including those on the basis of which the authorized body of the Bank makes a decision to change the terms of crediting or granting a loan in the amount of less than 0.02 percent of the Bank's equity.

The authorized body of the Bank on the basis of these conclusions (expertise) makes a decision on granting a loan or on amendments to the terms of crediting or refuses to grant a loan or make changes to the terms of crediting.

5.3 Credit history secured by pledge of immovable property

If the loan provided is secured by a pledge in the form of real estate, the credit history, in addition to the list of basic documentation, must contain the following documents:

- 1) a copy of the real estate mortgage agreement with a note of its state registration, the original of which is subject to storage in the Bank, on the terms and in the manner prescribed by the internal documents of the Bank;

- 2) the report of the independent appraiser on the valuation of real estate (determining and proving its market value) at the time of granting the loan, as well as the Bank's opinion on collateral, drawn up in

accordance with the requirements established by the internal documents of the Bank;

3) copies of the documents confirming the rights for real estate with a mark of their state registration (original documents of title to real estate shall be stored in the Bank's storage);

4) a copy of the marriage certificate and a document confirming the consent of the spouse(s) of the borrower – an individual to transfer the real estate as collateral and its extrajudicial implementation (in cases provided for by legislative acts of the Republic of Kazakhstan);

5) a document confirming the permission (consent) of the guardianship authorities for the transfer of real estate as collateral and its alienation (if the owners of real estate are minors or persons recognized by the court as incapable (with limited legal capacity));

6) a notarized document confirming the consent of all adult owners to the transfer the property as collateral and the consent for its extrajudicial implementation.

5.4 Credit history for loans secured in the form of pledge of movable property

The credit dossier on loans provided on the condition of ensuring the fulfillment of the borrower's obligations in the form of a pledge of movable property, in addition to the list of basic documentation, should contain:

1) a copy of the pledge agreement containing, in the cases provided for by the legislation of the Republic of Kazakhstan, a note confirming its registration with the relevant authorized bodies (the original of which shall be stored in the Bank's storage on the terms and in the manner established by the internal documents of the Bank);

2) copies of the documents confirming the right for movable property with a mark of their state registration in the cases provided for by legislative acts of the Republic of Kazakhstan;

3) the report of the independent appraiser on the assessment of movable property pledged (except for money and securities), determining and proving its market value at the time of the loan, as well as the Bank's opinion on the collateral, drawn up in accordance with the requirements established by the internal documents of the Bank;

4) a copy of the marriage certificate and a document confirming the consent of the spouse(s) of the borrower – an individual to the transfer the movable property as collateral and the consent for its extrajudicial implementation (in cases provided for by legislative acts of the Republic of Kazakhstan);

5) a document confirming the permission (consent) of the guardianship authorities for the transfer of movable property as collateral and the consent for its extrajudicial sale (if the owners of movable property are minors or persons recognized by the court as incapable (with limited legal capacity)).

5.5 Credit history for loans secured by a guarantee or a surety

The following additional documents shall be attached to the credit history in addition to the list of the main documentation for the loan, the performance of obligations under which is secured by a guarantee or surety, including a Bank guarantee or Bank surety:

1) copies of guarantee agreements, sureties or guarantee agreements, sureties transferred in the form of an electronic document received through the communication channel, confirming of the authenticity of the transmitted message and used in international banking practice (the originals of which are to be stored in the Bank's storage on the terms and in the manner established by the internal documents of the Bank);

2) the decision of the authorized body of the guarantor of a legal entity to issue a guarantee or warranty to the creditor Bank to ensure the performance of the borrower's obligations;

3) duly certified documents confirming the authority of the person to sign the guarantee agreement on behalf of the guarantor;

4) a copy of the financial statements of the guarantor or guarantor – legal entity for the last reporting year with a copy of the tax return and / or the information posted on the web-sites that allows analyzing the financial condition of the guarantor or guarantor -legal entity;

5) documents reflecting the salary and/or other income of the guarantor or guarantor – natural person;

6) the statement of the Accumulative Pension Fund from the individual pension account of the guarantor or the guarantor – natural

person for the last six months (if the guarantor is the natural person who, according to the legislation of the Republic of Kazakhstan on pension provision, is exempted from payment of obligatory pension contributions to accumulative pension funds, in the presence of the documents confirming the release from payment of obligatory pension contributions, availability of this document is not required));

7) credit report on the guarantor received from the Credit Bureau.

Self-test questions

1. What is a credit history?
2. Do all borrowers need to have a credit history?
3. List the contents of the credit history.
4. How long is credit history?
5. What is the list of documents stored in the credit history of small businesses?

Chapter 6 TYPES OF BANK LOAN SECURITY

According to the Law of the Republic of Kazakhstan dated August 31, 1995 № 2444 On Banks and Banking Activities in the Republic of Kazakhstan (amended and supplemented as of 17.07.2015) **Article 3**, and the Civil Code (General part), the repayment of loans may be secured by **pledge, guarantee, surety** and other means provided by the legislation of the Republic of Kazakhstan or by the agreement.

6.1 Pledge

A **pledge** is such a way to enforce an obligation, whereby a creditor (pledgee) has the right in case of a debtor's failure to fulfill an obligation secured by a pledge, to obtain satisfaction from the value of the pledged property primarily to other creditors of the person who owns this property (pledger), with certain exceptions. The pledge arises by virtue of the contract.

Subject of pledge. The pledge can be any property, including things and property rights (claims), with the exception of items withdrawn from circulation of claims that are inseparably connected with the identity of the lender, in particular claims for alimony, compensation for harm caused to life or health, and other rights, the assignment of which to another person is prohibited by legislative acts.

Types of pledge:

1. **Mortgage** – a type of pledge in which the mortgaged property remains in the possession and use of the mortgagor or a third party.

The subject of a mortgage may be enterprises, buildings, constructions, structures, apartments in an apartment building, vehicles, space objects, goods in circulation, and other property not withdrawn from civil circulation.

2. **Mortgage (pledge)** – a type of pledge in which the mortgaged property is transferred by the pledger to the possession of the pledgee.

With the consent of the pledge holder, the subject of the pledge may be left with the pledger under lock and seal of the pledge holder. The subject of the pledge may be left in the possession of the pledger with the application of signs indicating the pledge (firm pledge).

In pledging rights, the pledged subjects are property rights that can be alienated, in particular, rental rights to enterprises, buildings, constructions, structures, the right to a share in the property of a business partnership, debt claims, copyright, inventive and other property rights.

The debtor of the pledged right must be notified of the pledge.

If the pledged right is confirmed by a document, the pledge agreement may be executed by transfer of the title document.

In pledging a bank deposit, the rights of the depositor under the bank deposit agreement are granted. The pledger-investor is obliged to notify the bank in writing about the pledge of the bank deposit, indicating the information about the pledgee.

The pledge of securities is carried out in accordance with the legislation on the securities market.

Money, which is the subject of a pledge, is placed in the bank.

The interest due for this money belongs to the pledger.

Money can be transferred to the pledgee subject to the conditions that restrict the possibility of using the pledged money by this person (transfer to storage in a bank safe, safe box, separate storage room). Non-fulfillment by such a person of restrictions on the use of the pledged money is the basis for his responsibility for unjust enrichment from the moment of transfer of money to him.

Pledge of property in common ownership. Property constituting common property may be pledged only with the consent of all owners. The right to a share in the common property may be an independent subject of pledge.

Pledged property insurance. The contract or legislative acts on the mortgagee may oblige to insure the pledged property transferred to the pledgee's possession. Insurance of the pledged property, which remains in the use of the mortgagor, is assigned to the latter. Upon the occurrence of an insured event, the right to claim under the pledged property insurance contract by the mortgagor arises only in the event that the mortgagee waives it.

The content and form of a pledge contract. The pledge agreement must indicate the subject of the pledge and its assessment, the

substance, the amount or the maximum amount and the maturity date of the obligation secured by the pledge. It should also contain an indication of which of the parties owns the mortgaged property and state the permissibility of its use. By the agreement of the parties, movable property and certain categories of movable property (including machinery and inventories) that are the subject of a pledge may have a general description of the pledged item without requiring a specific description of the pledged security. The valuation of the collateral is expressed in tenge and may be determined by the agreement of the parties. The valuation of the collateral subject to the obligation in a foreign currency is expressed in tenge and the currency of the obligation at the market exchange rate on the date of the conclusion of the pledge agreement. The pledge agreement must be concluded in writing.

Registration of the pledge. The pledge of the property subject to registration must be registered with the authority that registers this property.

The pledge of immovable property is subject to state registration by the body that registers the rights to immovable property.

Maintenance and safety of the pledged property. The pledger or pledgee, depending on the fact which of them has the pledged property, is obliged to:

- 1) take the measures necessary to ensure the safety of the pledged property, including protection of it from encroachments and claims by third parties;

- 2) immediately notify the other party of the threat of loss or damage to the pledged property.

The pledgee and the pledger have the right to check the documents and the actual existence, size, condition of the pledged property and conditions of storage of that provided by the other party.

Use and disposal of the pledged property. The pledger has the right to use the pledged subject in accordance with its purpose, including gaining profit and income from it.

The procedure for foreclosure on the subject of pledge. Satisfaction of the pledge holder's claim from the value of the pledged property is made in court.

In the cases provided for in the pledge agreement, the pledgee has the right to independently sell the pledged property bypassing the

court by bidding (auction). The same right is granted to the pledgee bank for the sale of the pledge securing the loan.

Realization of the pledged property. Disposition (sale) of the pledged property is made by sale from public auction in the order established by the procedural legislation. Any legal entities and citizens, including the pledger and the pledgee, have the right to participate in the auction.

Before bidding, a court or Trustee may require each bidder to pay a guarantee fee. Guarantee fees are refundable at the end of the auction. The guarantee fee of the winning bidder is counted towards the final price.

Termination of the pledge. Pledge is terminated:

- 1) with the termination of the secured obligation;
- 2) in case of loss of the pledged thing or termination of the pledged right;
- 3) in the case of sale from public auction of the pledged property, as well as in the case when its realization was impossible.

The termination of the pledge shall be recorded in the register in which the pledge agreement was registered. Upon termination of the pledge as a result of the performance of the obligation secured by the pledge or at the request of the pledger, the pledgee, who had the pledged property, shall immediately return it to the pledger.

Pledge of goods in circulation. Pledge of goods when leaving them with the pledger and granting to the pledger the right to change the structure and natural form of the pledged property (commodity stocks, raw materials, semi-finished products, etc.) provided that their total cost does not become less than specified in the pledge agreement is recognized as pledge of goods in circulation.

Reduction in the value of the pledged goods in circulation is allowed in proportion to the fulfilled part of the secured obligation, unless otherwise provided by the contract.

The pledger of goods in circulation is obliged to keep the book of records of pledges in which records on the conditions of the pledge of goods and about all transactions involving change in structure or a natural form of the pledged goods, including their processing, on the day of the last operation are made.

If the pledger violates the terms of the pledge of goods in circulation, the pledgee has the right to suspend operations by imposing his marks and seals on the pledged goods until the violation is eliminated.

6.2 Guarantee and surety

Guarantee (surety) is the obligation of a third party to repay the debt of the borrower in case of insolvency. The guarantee (surety) is issued as an independent obligation of the guarantor or by means of a transfer inscription (endorsement). Banks can act as a guarantor (guarantor).

According to the Civil Code of the Republic of Kazakhstan (General part) by virtue of the guarantee, the guarantor is obliged to the creditor of another person (debtor) to be responsible for the performance of the obligation of this person in full or in part in solidarity with the debtor.

A guarantee contract may also be concluded to secure an obligation that arises in the future.

Surety. By virtue of a surety, the guarantor undertakes to the creditor of another person (the debtor) to be responsible for fulfilling the obligation of this person in full or in part (subsidiary).

The terms of the obligation between the creditor and the debtors may stipulate that if the principal debtor does not satisfy the creditor's demand for the fulfillment of the obligation, this requirement may be drawn in the unexecuted part to another debtor (subsidiary debtor).

Guarantee and surety arise on the basis of contracts of guarantee or surety. Contracts of guarantee or surety must be made in writing.

Second-tier banks may issue bank guarantees and sureties based on the license of the National Bank of Kazakhstan.

Responsibility of the guarantor and surety. The guarantor is liable to the creditor in the same amount as the debtor, including payment of penalties, interest, legal costs to recover the debt and other losses of the creditor caused by the non-performance or improper performance of the obligation by the debtor.

The surety shall be liable to the creditor within the amount specified in the surety. Before filing a claim on a surety bearing subsidiary liability, the creditor must take reasonable measures to satisfy this claim by the debtor, in particular, by offsetting the counter claim and repossessing the debtor's property in the established manner.

The rights of the guarantor and surety who performed the obligation. All rights of the creditor under this obligation and the rights belonging to the creditor as a pledgee, to the extent to which the

guarantor satisfied the creditor's claim, shall be transferred to the guarantor who performed the obligation. The guarantor also has the right to demand from the debtor payment of a penalty and interest for the amount paid to the creditor and compensation of other losses incurred in connection with the liability to the debtor.

Upon the performance by the guarantor of the obligation, the creditor is obliged to hand over to the guarantor the documents certifying the claim against the debtor and transfer the rights securing this claim.

The surety acquires the same rights in the part in which he fulfilled the debtor's obligations to the creditor.

The guarantee and surety shall cease with the termination of the obligation secured by it. The guarantee and surety shall be terminated upon expiry of the period for which they are given, that is specified in the guarantee or surety agreement.

Subsidiary responsibility. Prior to filing a claim against a person who, under the law or the terms of an obligation, is liable in addition to the liability of another person who is the principal debtor (subsidiary liability), the creditor must make a claim against the principal debtor.

6.3 Insurance of issued loans

Credit insurance is a set of types and categories of insurance that provide for the payment of compensation by the insurance company in cases where the debtor does not fulfill its obligations to repay the loan or pay interest on the loan for the reasons specified in the insurance contract. The purpose of credit insurance is the complete elimination of credit risk or its reduction, protection of the interests of the seller of the credit product in case of insolvency of the debtor or non-repayment of the debt for any other reason. Insurance here is as a form of a loan security.

The types of insurance, protecting the interests of borrowers and guaranteeing the repayment of loans are as follows:

- Insurance of property taken by the bank as collateral for the loan.
- Life and health insurance of the borrower.
- Commercial credit insurance.

The policyholder can be both the creditor bank and the borrower. The objects of collateral for the loan, and hence the objects of insurance, can be buildings, finished products, equipment, vehicles. Insurance

risks are common, people insure against fire, theft of property, damage to property, malicious acts of third parties, etc.

The insurance indemnity can be received by the pledgee (bank) in the following cases:

a) non – repayment of the loan – in whole or in part;

b) damage to the pledged property, i.e., the occurrence of an insured event.

If the loan is repaid and an insured event occurs, the payment for the damaged collateral will be received by the borrower, the owner of the property.

When issuing a loan to an individual or a private entrepreneur, contracts may include life insurance of the borrower, health insurance of the borrower. The beneficiary of credit life insurance (this is the name of this type of insurance is the creditor bank. The term of the contract lasts until full repayment of the loan.

Insurance of credit risk as a form of security for the repayment of a loan is a win-win deal for everyone involved. For example, the borrower-policyholder is guaranteed against the loss of business reputation due to untimely repayment of the loan, the creditor bank receives high guarantees of repayment of the loan, although it is not a direct participant in the insurance transaction. The insurance company receives a reward for its services in the form of an insurance tariff.

Mortgage loan insurance. With a mortgage loan, it is important to not only insure the life and health of the borrower, but also effect a policy of title insurance.

According to the law, the bank cannot oblige the borrower to insure his life and health, however, this practice is widespread, in addition, it is mutually beneficial. As mentioned above, the bank protects itself in this way from the risks associated with the loan for a significant period, if the borrower dies, someone has to pay the debt, e.g. his family, a legacy for which is significant debt. If there was a concluded contract of insurance by mortgage crediting, and then the "protection of the family and relatives" is switched, then an insured event occurs and in this case, the insurance company is to pay. Therefore, mortgage insurance is also about taking care of the family and protecting them from the debt burden.

In addition, if there is the above-mentioned type of insurance for a mortgage loan, it is title insurance. This is the insurance of the risk

associated with the loss of "title" – ownership or its limitation in terms of ownership (use). The peculiarity of this type of insurance is that it protects not only from the events that can theoretically occur, but also from the events that have already occurred at the time of insurance, but unknown to the insured and yet do not manifest themselves.

Example 1. A person, who turned out to be mentally abnormal, however, recognized by the court as capable, sold the apartment. Forensic psychiatric examination can confirm that the citizen did not realize his actions and then the apartment, if a lawsuit is filed by a court decision, will be returned to the owner.

Example 2. A minor, without the consent of the parents concluded a transaction. In this case, this sale will be illegal.

Example 3. Having purchased an apartment in a newly built house, when you move in you find out that an unscrupulous developer managed to sell the place several times to a number of people. The transaction can be recognized as void (invalid), but in this case, the money is lost.

It is obvious that mortgage loan insurance is a very prudent decision on the part of the borrower, although it is not obligatory.

However, it should be remembered that title insurance for the purchase of apartments in the primary market does not always work. Not always, at the time of payment of money for housing under construction, the buyer has the right of ownership and the subject of insurance in this case is not present.

6.4 Assignment and transfer of ownership

In practice, in some countries with a market economy as a form of security for the repayment of the loan most commonly assignment (cession) of claims and the transfer of ownership is used.

An assignment (cession) is a document of the borrower (assignor) in which he assigns his claim (receivables) to the creditor (bank) as a security for the repayment of the loan.

In practice, two types of assignment are used: open and quiet. An open assignment involves the information of the debtor (the assignor's buyer) of the assignment of the claim. In this case, the debtor repays its obligation to the bank and not to the borrower of the bank (assignor). In a quiet assignment, the bank does not inform a third party

about the assignment of the claim, the debtor pays the assignor, and he is obliged to transfer the amount received to the bank. The borrower prefers a quiet assignment, so as not to undermine its credibility. But for the bank, a quiet assignment is associated with a high risk, since, firstly, the funds on the assigned claims held in other banks can be transferred to the borrower's accounts; secondly, the borrower can assign the claim several times; thirdly, the borrower can assign non-existent claims.

In addition to the assignment of individual claims, German banks, for example, use a general and global assignment.

General assignment means that the borrower regularly assigns the requirement to the bank for the supply of goods or services for a certain amount. In this case, the bank's right to receive funds to repay the loan does not arise at the time of completion of the general assignment agreement, but from the date of transfer to the bank of claims or a list of debtors.

In the case of a global assignment, the borrower is obliged to cede to the bank all existing requirements to specific customers and newly arising within a certain period. This type of assignment of claims is considered preferable. In order to reduce the risk in using this form of loan repayment, the bank requires the assignment of claims for the amount significantly greater than the amount of the loan issued. With the general and global assignment, the maximum loan amount is 20-40% of the value of the assigned claims. For movable property to be in the use of the borrower and at the same time serve as a guarantee of repayment of the loan, the transfer of ownership for it to the creditor in securing the existing debt is used.

Self-test questions

1. List the types of security bank loans.
2. Expand the content of the concept of pledge of goods in circulation.
3. What types of insurance do you know?
4. What is the difference between guarantees and surety?
5. Can I issue a guarantee for a legal entity?
6. List the types of assignment

7.1 Features of corporate crediting

Short-term financing of working capital, medium-term and long-term financing for investment purposes is carried out within the framework of crediting to corporate clients. Borrowers are given the opportunity to use a wide range of financial instruments such as bank loans, overdrafts, guarantees and letters of credit.

The investment nature of long-term crediting involves the provision of bank loans for more than 3 years to corporate clients.

The purpose of long-term crediting is financing of fixed capital (investment).

The main feature of long-term crediting is crediting to the investment project. The provision of credit in this case is not so much related to the current financial situation of the borrower, as to the nature and quality of the financed project, the presence of a business plan.

An investment project is a comprehensive program of investing funds in a production facility in order to generate income in the future.

The basis for the long-term loan is the investment (project) analysis. The task of the project analysis is to determine its socio – economic efficiency and value.

The organization of work on crediting the investment projects takes place within the framework of the above-described credit process and does not differ fundamentally. However, there are some specific features, mainly due to a higher level of credit risk and the need to divert banking resources for a long time. At the same time, it is quite difficult to meet two similar investment projects.

Each of them requires an individual approach, taking into account the peculiarities of business planning, state regulation of investment activities and so forth.

7.2 Stages of crediting to corporate clients

The process of crediting investment projects may be presented in the form of certain stages of crediting

Step 1 reflects the procedure of submission, receipt and processing of the client's application. The loan manager checks the availability of the necessary documents to continue the credit process and the correctness of their registration. In contrast to short-term crediting, the client must provide, among other documents, a description of the investment project and a business plan for its implementation. In addition, already at this stage, the possibility of conducting independent research by credit departments at the enterprise is stipulated. It is also a fundamentally new operation performed by the employees of the collateral assessment service or the appraisers of the bank service.

Step 2 is aimed at developing a preliminary opinion on the creditworthiness of the client on the basis of the submitted documents.

Step 3 involves a detailed study of the business plan for the implementation of the investment project. At this stage, the compliance of the data in the business plan, investment project and financial documentation is checked. Particular attention is paid to the determination of market needs in a particular product, the level of competition in the business of the client, the level of qualification of the management of the borrower, etc.

Step 4 – is used to prepare a detailed conclusion about the client's business plan and its development prospects.

Step 5 – ensures development of the survey program of the enterprise taking into account the conclusions of the expert analysis of the business plan. A survey of the enterprise is carried out.

Step 6 indicates that the results of the study of the experts in the evaluation of the business plan and the survey of the enterprise are discussed together. The project is then evaluated and a joint opinion signed.

Step 7 provides for the assessment of the investment creditworthiness of the enterprise, i.e. the possibility of repayment of investment loans as a result of the successful implementation of the investment project.

Step 8 involves the development of the most effective credit scheme, taking into account the conclusions of all the specialists involved in the preliminary procedures.

Step 9 is dictated by the need to coordinate the parameters of the investment loan with the client.

Step 10 is considered as a necessary stage of approval and preparation of credit documentation for the final decision of the Credit Committee of the bank.

Step 11 means that the Credit Committee of the bank makes a final decision on the possibility of granting an investment loan to the client.

In the implementation of this technological scheme, if during the execution of any procedure the experts have a negative impression of the project, based on specific documents and facts, the question of granting a loan is not considered further, and the documents are transferred to the head of the credit Department to inform the bank's management.

Annexes № 2-3 contain application forms and questionnaires required for corporate borrowers to submit to the bank.

7.3 Standard package of documents provided by corporate clients

Standard package of documents requested from the client by the employee of the service for working with corporate clients:

1. Application for the provision of a financial instrument.
2. Profile of the Borrower/Co-Borrower.
3. Information about the project participants. Annual report, partner's advertising materials, questionnaire, recommendations.
4. Notarized copies of the organization's documents:
 - Articles of Association;
 - Memorandum of Association (at the request of the legal or security service);
 - certificate of registration (re-registration) with the judicial authorities;
 - certificate of the taxpayer;
 - the document with samples of signatures and a seal;
 - documents confirming the payment (contribution) of the authorized capital (if requested by the legal service);

– founding documents or the register of the shareholders owning ten and more percent of ordinary shares of the Borrower/ Co-Borrower disclosing information about all owners of the share in the authorized capital of the Borrower / Co-Borrower owning ten or more percent of ordinary shares (participation shares) to the ultimate owners of ordinary shares (participation shares) in the authorized capital of the Borrower/Co-Borrower;

– power of attorney of the Borrower's/Co-Borrower's/third party representative (if the documents submitted to the bank are signed by the representative of the organization acting under the power of attorney). If the power of attorney is provided outside the territory of the Republic of Kazakhstan, the bank is provided with a power of attorney issued in accordance with the legislation of the Republic of Kazakhstan, issued by a non-resident of the Republic of Kazakhstan to the authorized person to manage a legal entity (Borrower/Co-Borrower);

– identity certifying document of the participant (shareholder) of the Borrower/Co-Borrower (in cases where the participant (shareholder) of the Borrower/Co-Borrower is an individual).

When the application is under consideration, the client shall submit notarized copies only in case of amendments to the constituent documents.

5. Original of the power of attorney of the Borrower's/ Co-Borrower's/ third party

representative (if the documents submitted to the bank are signed by the representative of the organization acting under the power of attorney).

6. A copy of the identity document of the founder/shareholder of the Borrower/Co-Borrower, in cases where the founder (shareholder) of the Borrower/co-Borrower is a natural person.

7. Certificate of absence or presence of tax arrears, arrears of mandatory pension contributions and social contributions and (or) the act of reconciliation issued by the tax authorities, confirming the absence or existence of arrears of taxes and other mandatory payments to the budget, on the current date preceding the date of submission of the loan application.

8. References from servicing banks:

– availability/absence of a loan debt (on the bank's letterhead);

– average monthly turnover of bank accounts for the last year by month.

9. Title and identification documents for collateral items (according to the Rules of work with collateral items of the bank) and warranty documents. In providing a guarantee and surety, additionally submit documents on the guarantor or surety in accordance with paragraphs 4-6, 9, 10 and 15 of this Annex.

10. Business plan for the project (including cash flow forecast, profit and loss forecast for the requested period in the case of new production and for the previous two years, if there was a similar production/service provision – the calculation of production costs, structure of the requested financing, structure of the company (group of companies), characteristics of management personnel, experience in the implementation of such transactions, information about consumers and competitors, suppliers, pricing and sales strategy, production process and technology, about the company's business).

11. Reporting of the organization (group of companies):

– accounting and financial statements of the company (group of companies) for the last 3 years and the last quarter of the reporting year, including those prepared on a consolidated basis (if the group of companies consists of several companies);

– interpretation of accounts receivable and payable as of each reporting date;

– the interpretation of the major items of the balance sheet, explanation of significant changes on the balance sheet, statement of profit and loss.

12. Contracts with suppliers and buyers, including specifications, technical documentation, customs declarations, certificates of conformity, payment documents.

13. For the citizens of Kazakhstan:

– copies of identity cards and personal information of the first Manager and chief accountant;

For foreign citizens :

– a copy of the work permit issued in the Republic of Kazakhstan;

– a copy of migration card with a registration stamp.

14. For non-residents of the RK:

– for a non-resident – individual – a residence permit;

- for a non-resident – legal entity operating in the Republic of Kazakhstan on a permanent basis – a document confirming the registration of a legal entity in the judicial bodies of the Republic of Kazakhstan.

15. Documents of the organization related to the approval of the transaction:

- decision of the authorized body on election (appointment) of the first head/power of attorney to another person, replacing the first head with the right to sign all documents on behalf of the Borrower/Co-Borrower /mortgagor/guarantor/guarantor;

- decision of the authorized body on attraction of a financial instrument and pledge of a specific property/ provision/ guarantee/ surety;

- decision of the authorized body with an application to third parties for the provision of collateral for a specific property/guarantee/ surety (if necessary);

- decision of the authorized body on the extrajudicial procedure for the sale of collateral;

- the decision of the authorized body to empower the first head with the authority to conclude relevant agreements with the bank;

- in case of financing several legal entities within the framework of the agreement on opening a credit line concluded with the Borrower – the decision of the Supreme Body of the Borrower to accept full joint and several liability for all third parties receiving financing under the agreement, as well as the relevant decisions of such third parties.

16. If a legal entity acting as a Borrower/Co-Borrower /pledger operates as a joint-stock company, the following documents must be submitted:

- notification of creditors of a legal entity acting as a Borrower/Co-Borrower/ pledger on a major transaction / transactions in the printed edition ("Kazakhstanskaya Pravda" newspaper), if the transaction amount exceeds the ratio of the transaction amount to the book value of assets of the joint-stock company established by the legislation;

- notifications on approval of the report on the results of issue and placement of securities duly signed by an authorized person and affixed to the register of shareholders or an extract from the register;

- certificate of registration of securities issue (if necessary);
- ballot paper;
- decision of the Supreme Body on the election of the Board of Directors.

17. If the Borrower/ Co-Borrower, pledger, guarantor / guarantor is an individual, the following documents must be submitted:

- identity document of the Borrower/ Co-Borrower, Pledger, Guarantor;
- document of the established form, issued by the registration authority confirming the fact of registration of the Borrower/ Co-Borrower, Mortgagor, Guarantor for tax accounting;
- a document reflecting and confirming the salary and / or other income of the Borrower/ Co-Borrower, Guarantor / Guarantor – an individual;
- document (book of citizens, book of tenants, etc.) confirming the place of residence of the Borrower/ Co-Borrower, Guarantor;
- documents confirming the will of the Borrower/Co-Borrower, Mortgagor, real guarantor to dispose of the property when transferring the property to the Bank as collateral (including notarized consent of all adult property owners (family members, other persons) to pledge and extrajudicial sale of collateral if the property offered as collateral is in joint ownership), as well as the documents confirming the right of ownership of the mortgagor to the property, offered to the Bank as collateral (documents are determined in accordance with the rules of work with the collateral of the Bank).

18. Consent of the subject of credit history to provide information about it to the Credit Bureau – the Borrower/Co – Borrower (including the cases when he is the mortgagor), the Mortgagor – the real guarantor, the guarantor, the guarantor at the initial appeal to the Bank in order to provide financial instruments.

19. Consent of the subject of credit history to issue a credit report to the recipient of the credit report-the Borrower / co – Borrower (including when he is the pledger), the pledger-the real guarantor, the guarantor at the initial appeal to the Bank for the purpose of providing financial instruments.

For information: in the process of consideration of the above documents, additional questions may arise, and the Bank may request additional documents and references for a full analysis.

Chapter 8
CREDITING TO SMALL BUSINESSES

8.1 The features of small business crediting

The following types of crediting to micro and small enterprises and private entrepreneurs of the Republic of Kazakhstan are presented within the framework of small business crediting:

Type of credit	Amount in USD	Amount in tenge	purpose	term	pledge security	review period
Express loans	From \$100 to \$5,000	From 18,500 tenge to 925,000 tenge	working capital replenishment, investment purposes	From 3 to 12 months	Movable property	Within 2 working days
Microcredit	Over \$5,000 to \$10,000	Over 925,000 to 1,850,000 tenge	working capital replenishment, investment purposes	From 3 to 48 months	Movable and immovable property	
Small loan	From \$10,001 to \$200,000	From 1,850,185 tenge to 37,000,000 tenge	working capital replenishment, investment purposes	From 3 to 84 months		Within 5 working days
Medium credit	From \$200,001 to 1,000,000\$	From 37,000,185 tenge to 150,000,000 tenge	working capital replenishment, investment purposes	From 3 to 120 months		
Commercial auto – crediting	Up to \$1,000,000	Up to 185,000,000 tenge	car purchase	From 3 to 60 months	Acquired property and / or existing real estate	
Commercial mortgage	Up to \$1,000,000	Up to 185,000,000 tenge	acquisition of commercial real estate, land plots	From 3 to 120 months		

With these types of financing the replenishment of working capital for trading activities is allowed for a period of not more than 24 months. A business plan is not required.

Express micro loans are provided with a movable property: goods in circulation (including perishable goods), equipment, personal property (household appliances, furniture, etc.), and vehicles. Additional security may be provided in the form of personal guarantees. In exceptional cases, real estate is taken as security.

Real estate, equipment, vehicles, inventories and other personal property secure micro, small and medium loans.

Commercial auto loans and commercial mortgages are secured by the acquired property or existing real estate.

If necessary, additional liquid collateral may be required.

8.2 List of documents for obtaining a loan

I. The list of documents provided by an individual entrepreneur:

1.1. ID card or passport.

1.2. A document of the established form issued by the registering body, *confirming the fact of the state registration (re-registration)* of individual entrepreneurs (Patent, Certificate of State Registration of an individual entrepreneur)

1.3. Identity card or spouse's passport (if available), marriage certificate / divorce certificate, etc.

II. For the credit-worthiness analysis:

2.1. Sample signature card, stamp imprint (if available)

2.2. License – if the activity is licensed

2.3. Financial statements or accounts, depending on the method of accounting for the past financial year (6 months) and as of the last reporting date

2.4. Certificate of rental of a trading place, one-time vouchers, or receipts or certificates from the market administration on regular payments and other documents available to the borrower confirming the availability of the active business

2.5. Statements on settlement and currency accounts as of the last date with the indication of account balances and claims to the account (if there is an account with another bank)

2.6. Certificate from the tax authorities on the gross annual income, income declaration for the previous reporting year (if any), certified by the tax authority, or other documents confirming the existence of permanent cash income (at least in the last 12 months)

2.7. Evidence of the absence of loan debt and filing number 2 form (if you have an account in another bank)

2.8. The act of reconciliation with the tax authorities on mandatory payments to the budget

2.9. Certificate from the tax authorities on the absence of debt on mandatory payments to the budget (provided by the borrower after the reconciliation act)

The list of documents is minimal and, if necessary, each commercial bank may request additional documentation.

8.3 Assessment of creditworthiness of small businesses

The creditworthiness of small businesses is also assessed based on financial credit ratios, cash flow analysis and business risk assessment.

The Bank's use of financial ratios and the cash flow analysis method is difficult due to the accounting and reporting status of these Bank customers. Small businesses usually do not have a licensed accountant. Audit costs for these clients of the Bank are not available, there is no audit confirmation of the borrower's report, and therefore the assessment of the client's creditworthiness is based not on his financial statements, but on the knowledge of the Bank's employee about the business. The latter involves constant contacts with the client: personal interviews with him, regular visits to the company.

During a personal interview with the head of a small enterprise, the purpose of the loan, the source and the term of repayment of the debt are clarified. The client must prove that the credited inventory will decrease by a certain date, and the credited costs will be written off to the cost of sales.

Another feature of small enterprises is that their managers and employees are often the members of the same family or relatives; the owner's personal capital is often mixed with the capital of the enterprise. In the assessment of the creditworthiness of a small client,

the financial position of the owner is taken into account, as determined by the personal financial report.

The system of the Bank's assessment of the creditworthiness of small borrowers consists of the following elements:

- business risk assessment;
- monitoring of the work of the client;
- interview of the banker with the owner of the enterprise;
- assessment of the owner's personal financial situation;
- analysis of the financial position of the company based on the primary documents.

Self-test questions

1. What are the features of crediting to small businesses?
2. What enterprises are small businesses?
3. What documents should be provided by small businesses to obtain a loan?
4. How is the creditworthiness of small businesses assessed?

9.1 Classification of consumer loans

One of the types of retail crediting includes consumer loans. Consumer loans in our country are called loans provided to the population. The consumer nature of loans is determined by the purpose (object of credit) of the loan.

Consumer loans include all types of loans to the population, including loans for the purchase of durable goods, mortgages, loans for urgent needs, etc.

Classification of consumer loans of borrowers and objects of credit can be carried out on a number of grounds, including the type of the borrower, types of security, maturity, methods of repayment, the target direction of use, objects of credit, its volume, etc.

Consumer loans are divided into:

- emergency loans;
- secured loans;
- housing construction and acquisition loans;
- loans for major repair of individual residential houses, gas supply, and connection to networks of water supply and sanitation. Citizens living in rural areas are also granted loans for the construction of outbuildings for livestock and poultry and the purchase of small-scale mechanization for the work in the personal economy. Members of horticultural cooperatives and partnerships are provided with long-term loans for the purchase or construction of garden houses and for the improvement of garden plots. Banks also issue long-term loans for the purchase of cars, other durable goods, the purchase of cow- heifers, economic acquisition for certain categories of citizens

By the subjects of the credit transaction (in the form of the lender and the borrower) the loans are divided into:

- bank consumer loans;

- loans granted to the population by trade organizations
- consumer loans of non-bank credit institutions (pawnshops, rental offices, mutual aid organizations, credit cooperatives, construction companies, pension funds, etc.);
- personal or private consumer loans provided by individuals;
- consumer loans provided to borrowers directly at the enterprises and organizations where they work.

By the terms of crediting the consumer loans are divided into:

- short-term (from 1 day to 1 year);
- medium-term (from 1 to 3-5 years);
- long-term (over 3-5 years).

At present, due to the general economic instability, the division of consumer loans by the terms is conditional. Banks, providing loans, usually divide them into short-term (up to 1 year) and long-term (over 1 year). Short-term loan can be issued for a certain period (within a year) or on demand. The demand loan has no fixed term and the Bank may demand repayment at any time. In the provision of demand loans, it is often assumed that the borrower is relatively liquid and the assets in which the borrowed funds are invested can be converted into cash as soon as possible.

By provision, the consumer loans are divided into target and non-target (for urgent needs, overdraft, etc.).

By security there are unsecured loans and secured (by pledge, guarantees, insurance). The main reason the Bank requires collateral is the risk of incurring losses in the event of the borrower's unwillingness or inability to repay the loan on time and in full. The security does not guarantee repayment of the loan, but reduces the risk, as in the case of liquidation the Bank has an advantage over other creditors in respect of any type of assets that serve as the security for the Bank loan.

Direct and indirect bank crediting to consumer needs of the population has its advantages and disadvantages. The first thing that distinguishes direct from indirect Bank crediting is the simplicity of the credit process, which allows you to accurately assess the object of crediting, find out the economic feasibility of issuing loans and organize effective control over its use and repayment. All this, undoubtedly, has a positive effect on the organizations of credit relations between the Bank and the borrower.

On the other hand, the negative factors from the point of view of the Bank, related to direct Bank crediting, usually include a slightly higher level of risk than indirect Bank crediting. What is the reason for this conclusion?

First of all, the fact that in our country the modern practice of crediting to individual borrowers has a number of difficulties:

a) not all commercial banks carry out credit analysis of individual clients at the pre-loan stage;

b) credit analysis methods do not always meet the requirements of practice;

c) the availability of security for the loan is often formal.

Indirect bank crediting to consumer needs of the population allows the Bank to reduce the impact of risks (credit, interest, currency, market, etc.), since loans provided, for example, to legal entities (trade organizations, enterprises at which borrowers work, firms, etc.) allow determining with a greater degree of reliability and reality the creditworthiness of the borrower (legal entity), the possibility of repayment of the loan on time and in full, organizing an effective control at all stages including the stage of repayment of the loan.

From the client's point of view, it is also important that he receives a loan at the time when it is required (in a trade organization when buying durable goods, for example, by a credit card). There is no need for the client to apply to the Bank for a loan.

The main types of loans are long-term and short-term. Long-term loans are mainly investments by nature and are related to meeting the needs of the population in housing construction and economic establishment.

The loan should be used by the borrower during the period of the development of the land plot. However, these terms should not exceed 2 years from the date of the receipt of the loan from the Bank. After the expiration of the loan term, the borrower is obliged to submit to the Bank a report on the intended use of funds. In the event that the loan has not been spent by the borrower in full, the head of the Bank has the right to extend the term of use of the loan to 1 year on the basis of the borrower's personal application. In case of failure to submit a report within the prescribed period, the Bank has the right to recover the loan issued ahead of schedule with the payment of increased interest.

Loan payments are made to the Bank's cash department quarterly in equal installments. At the request of the borrower, it is possible to

pay a larger amount, a multiple of the quarterly payment. In case of non-receipt of payments in due time, the credit officer of the Bank shall transfer the amounts not paid in due time to the overdue loans not later than the 15th day of the first month of the next quarter.

Interest for the use of the loan is accrued and collected in accordance with the established procedure. Interest accrued for the first period from the date of issue of the loan shall be paid simultaneously with the first payment on the loan, and for subsequent periods – with the next payments on the balance of the loan itself.

9.2 Stages of consumer crediting

The process of providing various types of loans to the population is not different from the issuance of standard loans to legal entities or mortgage crediting. The process of granting a retail loan consists of the following standard stages:

- Consultation of the Applicant
- Provision of the Applicant with the documents necessary for making decisions on the loan application
- Credit analysis
- Formation of the credit file
- Standard loan application
- Consideration of the loan application by the Credit Committee
- Making a positive decision on the loan application (or negative – a refusal)
- Preparation of documents required for the implementation of the decision
- Loan disbursement
- Loan monitoring
- Loan repayment

9.3 Assessment of creditworthiness of individuals

The ratio of personal income and the requested amount, general, assessment of the borrower's financial position and the value of all his property, personal characteristics, family composition, the credit history, the assessment of creditworthiness of individuals.

There are three main methods of assessing the creditworthiness of an individual:

- 1) scoring assessment;
- 2) examining your credit history;
- 3) assessment of financial indicators of solvency.

Resolution of the Board of the National Bank of the Republic of Kazakhstan No. 29 of 02.26.2014. “On Approval of the Rules for the Formation of a Risk Management and Internal Control System for the Secondary Bank” (Amended on 27.08.2014). Commercial banks use the scoring model for consumer crediting.

Table

Risk Management Organization Requirements

Title requirements	Criterion requirements
1	2
The bank has a credit scoring model for consumer loans.	<ul style="list-style-type: none"> • automation of the registration process of processing applications for a consumer loan; • availability of a historical database of consumer loans for the last five years; • availability of internal policies that define the conditions for granting, approval procedure and monitoring of consumer loans; • availability of an internal automated mathematical or statistical model of scoring assessment of borrowers and rating system; • an annual review of the quality of the applied scoring models
The Bank has an internal policy defining the terms of granting, approval procedure and monitoring of consumer loans approved by the Board of Directors of the Bank	<p>The policy determines the order:</p> <ul style="list-style-type: none"> • assessment of the borrower's creditworthiness using credit scoring based on qualitative and quantitative characteristics, including: • the presence of a permanent and sufficient income of the borrower; • place of work and position; • the duration of the current profession; • availability of real estate acceptable as collateral; • the availability of loan debt, including that to other banks; • payment discipline on bank loans;

Title requirements	Criterion requirements
1	2
	<ul style="list-style-type: none"> • availability of credit history; • setting the borrower's internal credit rating; • determining the reliability of the data submitted by the borrower; • monitoring and classification of consumer loans; • formation of provisions for consumer loans

In the scoring assessment, a system of criteria and corresponding indicators of the ability of the borrower to return the main debt and interest to the bank are determined, the indicators are evaluated in scores within the maximum overall credit rating set by the bank. There are various models of the scoring credit rating of an individual.

In the model built on a score in the system of individual indicators, the significance of a person's creditworthiness indicators is determined through the differentiation of the level of maximum score.

Model, grouping information on indicators of creditworthiness of an individual.

For example, Paris Credit singles out three sections in the scoring assessment of the expediency of issuing a consumer loan:

- 1) loan information;
- 2) customer's data;
- 3) the financial position of the client.

The credit class of an individual can be determined based on the model containing a scale of points, which is based on the value of the credit rating.

Depending on the class, the bank determines the scale of the deadlines and the loan amount (% of the client's annual income).

When evaluating in points, the system of individual indicators at the first stage provides a preliminary assessment of the possibility of issuing a loan, based on the data from a client's test questionnaire. According to the results of filling in the test questionnaire, the number of points scored by the borrower is determined and a protocol is signed to assess the possibility of obtaining a loan. If the sum of points is less than 30, the refusal to issue the loan is recorded in the protocol. With the score of more than 30 in the second stage, the risk is assessed more carefully, taking into account additional facts.

Credit rating based on the study of the credit history of an individual.

In the US, the basis for assessing the creditworthiness of an individual is the analysis of his credit history associated with the purchase of goods on credit. The bank uses the information contained in the loan application: name, address of residence, social security card number. Based on these parameters, the data are collected from banks, credit card organizations, homeowners on cases of non-payment, duration of the delay, the method of debt repayment, and a credit history is prepared.

For the banks to obtain the information about the credit history of an individual, it is necessary to contact the Credit Bureau.

Assessment of the creditworthiness of an individual based on financial indicators of solvency

The basis of solvency indicators are the data on the income of the individual and the degree of risk of losing this income. Many banks, when issuing a one-time loan, calculate the solvency of an individual borrower based on a database of average monthly income for the preceding six months, which is determined by a salary certificate or a tax return. Income is reduced by mandatory payments and adjusted by the coefficient that differentiates depending on the amount of income (from 0.3 to 0.6). The more income, the more adjustment is required.

Self-test questions

1. What is retail crediting?
2. What types of consumer loans do you know?
3. What documents are provided for crediting to individuals?
4. Do interest rates differ in retail crediting and crediting to legal entities?
5. In what cases does retail crediting increase in the country?
6. What are the evaluation criteria in the analysis of the creditworthiness of the individuals?

Chapter 10 MORTGAGE CREDITING

10.1 Establishment of a Mortgage Company in Kazakhstan

In order to create mechanisms for financing housing construction, solving housing problems of the population, reducing housing prices and encouraging housing construction, the Government of the Republic of Kazakhstan by the regulation No. 1290, dated August 21, 2000, approved the Long-Term Financing of Housing Construction and Mortgage Crediting System in the Republic of Kazakhstan.

In accordance with the Concept of the National Bank of the Republic of Kazakhstan, it was decided to create an operator of the secondary market of mortgage loans, refinancing creditors issuing long-term mortgage loans to the population. The Kazakhstan Mortgage Company, the only shareholder of which today is the National Bank, played the role of such an operator.

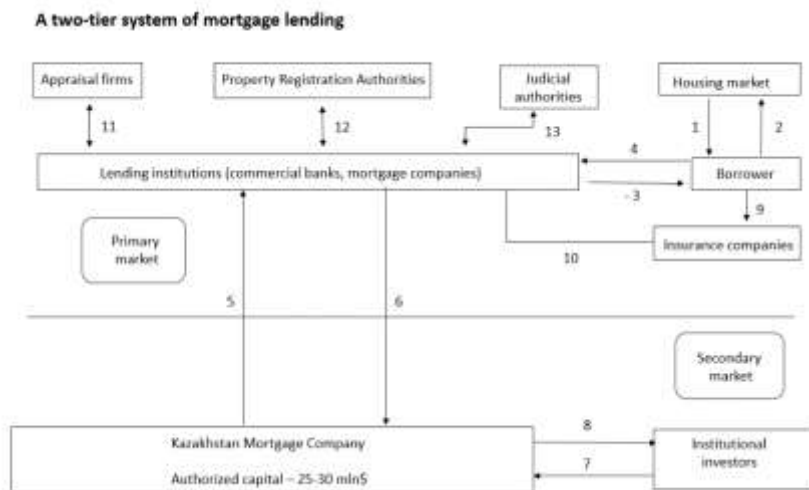
As the first stage of mortgage crediting the period from 1995 to 2001 can be considered, that is, the period from the entry into force of the Decree of the President of the Republic of Kazakhstan, having the force of law, “On the mortgage of real estate”. In this regard, Kazakhstan Mortgage Company CJSC (hereinafter – KMG) was established. The purpose of the KMG is to refinance second-tier banks by acquiring the rights of claims on mortgage loans to increase the volume of mortgage loans provided by second-tier banks. Thus, the reduction of credit resources for a final consumers is achieved, which should be a priority when making decisions within the framework of this market.

It should also be noted that the system of guaranteeing (insuring) mortgage loans plays an important role. The mortgage loan guarantee system is aimed at creating favorable conditions for increasing the availability of mortgage loans by sharing credit risks on the loan between second-tier banks and organizations insuring mortgage loans.

In this regard, in 2003, the Kazakhstan Fund for the Guarantee of Mortgage Deposits (hereinafter referred to as KFGMD) was established. In April 2003, the Government of the Republic of Kazakhstan established the JSC “Housing Construction Savings Bank of Kazakhstan) with a hundred percent state participation in the authorized capital.

The mortgage crediting market is divided into primary and secondary ones.

In the primary market, mortgage loans are issued and can be sold. In the secondary market, the rights to receive interest income on loans through the issuance of special securities, the acquisition of which gives this right, are sold. The two-tier system of mortgage crediting is presented in the figure.



Primary market

- 1 – cash transfer for housing;
- 2 – transfer of ownership of housing;
- 3 – mortgage crediting;
- 4 – mortgage;
- 9 – mortgaged property and borrower's life insurance;
- 10 – payment of insurance indemnity in the event of an insured event;
- 11 – independent appraisal of the pledged property;

12 – verification of the legal status of the real estate and registration of mortgages;

13 –foreclosure on the pledged property in case of default by the borrower of its obligations.

Secondary market

- the assignment of rights to the requirement for a mortgage loan;
- cash for mortgage loans;
- placement of mortgage bonds;
- cash for mortgage bonds.

An important activity of the Kazakhstan Mortgage Company is the standardization of procedures for issuing and servicing mortgage loans. The interaction of participants in the mortgage market is carried out according to the following scheme:

1. The creditor Bank issues the borrower a mortgage secured by the pledge.

2. The company acquires from the creditor Bank the rights of claim on mortgage loans and issues mortgage securities secured by these rights of claim.

3. Institutional investors (pension funds, banks, insurance companies, etc.) acquire mortgage-backed securities on the secondary market, thereby financing the mortgage market and ensuring the inflow of money for mortgage crediting.

4. The investors ' money attracted in this way in the financial market is again directed to the expansion of mortgage crediting.

10.2 Mortgage organizations

A mortgage is a pledge of real estate (land, fixed assets, buildings, housing) for the purpose of obtaining a loan.

If the loan is not repaid, the creditor becomes the owner of the property. Thus, mortgage is a special form of loan security.

The legal basis of mortgage crediting in Kazakhstan is regulated by the Civil Code of the Republic of Kazakhstan, the law "On banks and banking activities in the Republic of Kazakhstan" dated August 31, 1995 and the Law of the Republic of Kazakhstan № 2723 dated December 23, 1995 "On mortgage of real estate" (as amended and supplemented as of 17.07.2015).

The law regulates the relations arising from the application of property mortgage as the way of securing obligations. General rules on pledge contained in the civil code of the Republic of Kazakhstan shall apply to the mortgage of property.

Mortgage organizations must obtain a license to conduct banking operations. Mortgage organization is created in the form of a joint stock company in accordance with the legislative acts of the Republic of Kazakhstan. The name of the mortgage organization shall contain the words "mortgage organization". A legal entity that is not registered in accordance with the legislation of the Republic of Kazakhstan as a mortgage organization may not be called a mortgage organization.

Mortgage organization is a commercial organization that carries out certain types of banking operations based on a license issued by the authorized body.

The main activity of the mortgage organization is the provision of a mortgage loan based on a license of the authorized body for banking loan operations.

The mortgage organization has the right to carry out the following additional operations:

1) trust operations: management of rights of claim on mortgage loans in the interests and on behalf of the principal;

2) factoring operations: acquisition of the rights to demand payment from the buyer of goods (works, services) with acceptance of the risk of non-payment;

3) forfeiting operations: payment of debt obligations of the buyer of goods (works, services) by the purchase of promissory note without recourse to the seller;

4) leasing activity.

Mortgage organization has the right to carry out the following activities:

1) investment activity;

2) publication of special literature on mortgage crediting in all types of media;

3) sale of own property;

4) sale of the pledged property;

5) provision of consulting services on issues related to its activities;

6) issue and placement of securities, including bonds;

7) implementation of specialized software used to automate the activities of mortgage organizations;

8) arrangement and conduct of training in order to improve the skills of specialists in the field of mortgage crediting.

The mortgage organization has the right to use sources of financing not prohibited by the legislation of the Republic of Kazakhstan to ensure its activities.

10.3 Terms of a mortgage loan

Mortgage loans are provided by the Kazakhstan Mortgage Company, a partner Bank or a real estate company.

On the basis of information about the amount of permanent income and personal data, you can get a preliminary conclusion about the possibility of obtaining a loan, its maximum amount and the amount of monthly payments on the loan.

Loans for the purchase of housing are provided in the amount of up to 70% of the cost of housing, and the remaining 30% are paid by the borrower. In the absence of the necessary amount, the Company provides an opportunity to get a loan with the introduction of only 15% of the cost of housing under the condition of the insurance of the remaining 15% in the insurance company.

Loans for housing repairs are provided in the amount of up to 50% of the cost of renovated housing. Initial savings are not required in this case.

Loans for the purchase and repair of housing are provided for a period of 3 to 15 years, which allows you to evenly distribute the repayment of the loan for the long term. The method of repayment of the loan is designed in such a way that the amount of monthly payments will be less when the loan is received for a longer period. This makes housing affordable and increases the opportunity to purchase housing.

The interest rate on the loan (interest rate) is variable and is revised every 6 months depending on the change in the inflation index in annual terms (for the last 12 months).

Based on international experience, the company has developed a mechanism to protect against uncontrolled increase in the interest rate, using the upper limit of the interest rate.

The upper limit of the interest rate is the maximum value of the rate that can be set, regardless of how the situation in the economy develops.

In accordance with the Methodology approved by the National Bank of the Republic of Kazakhstan, the interest rate may not be increased by more than 4.5 per cent during the calendar year.

Loan repayments must not exceed 50% of the borrower's net monthly income (net of taxes). Co-borrowers can be a spouse, as well as close relatives – a son, daughter, mother, father, siblings.

The loan is repaid in equal monthly amounts, which include a fee for the use of the loan and part of the principal.

Early full and partial repayment of the loan is allowed without limitation of the term.

At the same time, the schedule of payments is revised at the request of the borrower, under the following conditions:

- without an additional agreement to the loan agreement, while maintaining the original term and reducing the amount of monthly repayment;
- by entering into an additional agreement to the loan agreement, while reducing the initial period, provided that the amount of the monthly annuity payment under the new schedule does not exceed the amount of payment under the current schedule.

The principal difference of the loans issued under the program of the Kazakhstan Mortgage Company is that these are provided only in tenge without reference to foreign currency. At present, only a small part of the working population has the income indexed by the foreign exchange rate, while the majority of workers receive income in tenge.

In this regard, all loans under the Company's projects are provided in tenge.

The borrower has the right to purchase at his discretion a separate apartment in an apartment building, an individual house with a land plot or an apartment in a cottage for several families. The minimum loan amount is 300 thousand tenge, and the maximum – 23 million tenge.

The borrower is free to choose housing when buying it. However, it must meet the minimum quality requirements set by the Company.

Since the purchased or repaired housing is the key to a mortgage loan, the Company will pay considerable attention to the evaluation of housing. This is a prerequisite for obtaining a loan, and the evaluation is to be made by an independent appraiser. In addition, this will provide a real idea of the cost of housing and the prospects for future demand for it (liquidity).

One of the conditions for obtaining a loan is insurance of purchased or repaired housing against the risks of damage, as well as life insurance and disability insurance. This is a generally accepted international practice, which has justified itself even in the conditions of the global financial crisis. The corresponding services will be provided by insurance companies, which, upon the occurrence of an insured event, will transfer the amount necessary for the loan to the bank or non-bank organization.

One of the advantages of mortgage crediting is the acquisition of the ownership of the purchased housing and at the same time the receipt a loan.

After the final choice of purchased housing, as well as the loan amount, the borrower concludes the following contracts:

- the loan agreement between the borrower and the Bank or non-Bank organization, which will specify all the conditions for obtaining and repayment of the loan;
- the agreement of purchase and sale of housing between the borrower and the seller;
- the agreement of pledge of the acquired housing (mortgage contract);
- the agreement of insurance,
- the agreement of personal insurance and insurance against disability.

In the process of registration of the loan, the borrower makes an initial payment to a special account in a Bank or non-Bank organization that provides the loan. After the loan is granted, the full cost of housing is transferred to the seller.

The next stage is the registration of ownership of the housing acquired by the borrower and its transfer to the Bank as collateral. From the moment of registration of the contract of sale, the borrower becomes the owner of the property.

The main characteristics of crediting:

Loan currency	The loan is granted and repaid in tenge
1	2
Loan amount	For the purchase of housing: in Almaty and Astana – more than 450 000 tenge, in the regions – more than 300 000 tenge, but not more than 23 million tenge. For housing repair: more than 300 000 tenge, but not more than 3 million tenge, and not more than 50% of the estimated value of the collateral.
Term	from 3 to 15 years
Loan repayment	Monthly payments are equal in amount and include repayment of the principal and interest on the loan that provides an opportunity for rational budget planning.
Interest on the loan	It is determined by the Bank issuing the loan and can be adjusted in accordance with changes in interest rates on the market. The interest rate on the loan is floating, i.e. it is revised every 6 months depending on the inflation rate. There is a system of limiting the upper limit of the rate. Therefore, during each year the rate can not grow by more than 4.5 %, regardless of the inflation increase.
Loan security	The security of the borrower's obligations under the loan is a pledge -housing purchased with credit funds, which is issued to your property immediately after the acquisition. The loan is granted in the amount not exceeding 70% of the cost of housing (or 85% – with insurance of the remaining amount). Loans for housing repairs are provided on the security of existing housing.
Insurance	The borrower shall insure his / her life and purchased housing at his / her own expense for the entire term of the loan agreement. The insurance premium is paid once a year.
Borrower's expenses and income	In calculation the average monthly income of a family, the income for the last 6-12 months is taken and only documented (declared) family income is considered. Family income refers to the income of spouses or close relatives. Sources of income, which are taken into account when calculating the maximum allowable amount of the loan, are: – wages at the main place of work, – part-time and part-time income, – income in the form of dividends, – income in the form of remuneration (interest) on deposits and permanent insurance payments,

Loan currency	The loan is granted and repaid in tenge
1	2
	<ul style="list-style-type: none"> – pension payments and scholarships, – net rental income, – alimony and allowances for children; – other income <p>Also, a special attention is paid to constant monthly expenses: Monthly housing expenses include monthly loan payments (repayment of principal and payment of remuneration), Fixed monthly expenses not related to the purchased housing:</p> <ul style="list-style-type: none"> – monthly insurance payments (life insurance of the borrower, apartment insurance), – monthly payments on property tax (on purchased real estate), – monthly payments for utilities; – monthly alimony payments, – repayment of other loans (except for this mortgage loan), – mandatory tax payments (tax on other property, tax on vehicle owners), – other mandatory monthly expenses (rental of housing; car maintenance; education fee; maintenance, maintenance, insurance of other movable and immovable property; additional medical insurance). <p>The ratio of housing costs to income should not exceed 50%.</p>

It should be borne in mind that each bank has its own procedures for issuing a loan, which may differ slightly from the scheme described above.

10.4 Stages and procedure for mortgage crediting

Step 1 – application by the borrower and pre-approval of the loan.

Many commercial banks have a pre-approval procedure. The procedure of pre-approval of the loan is very convenient if the borrower has not yet chosen the option of the purchased property, as well as the fact that the borrower will need to provide a minimum of documents for such approval. These documents include:

- *a copy of the identity card;*
- *a certificate from the address bureau or a copy of a household register;*
- *salary certificate (issued by your employer);*

- *certificate of employment (issued by your employer);*
- *extract from the pension fund (issued by the Pension Fund with which you have a contract on pension contributions);*
- *marriage certificate, children's birth certificates (if necessary).*

Pre-approval is usually given for a certain period and in case the borrower and the Bank has verified his solvency. The detailed processing of the borrower's application by the Bank is quite complicated, because it consists of a large number of indicators, reports, conclusions and submission of a more extended package of documents listed in the following table:

Table

List of documents required for mortgage crediting

The list of documents provided by the borrower for registration and issuance of a mortgage loan	
1	2
1	Documents required before signing the loan agreement:
1.1	application form signed by the borrower, presented in a prescribed form
1.2	Information about the family of the borrower (form № 3)
1.3	Identity cards of the borrower / co-borrower (copy)
1.4	Identity cards of all adult family members living together with the borrower (copy)
1.5	Birth certificate of all minor family members (copy)
1.6	Certificate of TRN (copy)
1.7	The certificate of marriage (or divorce) (copy) or a notarized statement of the borrower that at the time of filing the application he/she is not married, has no children.
1.8	Marriage contract (if available) (copy)
1.9	An employment contract, or a copy of the borrower's employment record book (co-borrower), if any, certified by the personnel department at the place of work
1.10	Reference from the place of the main and additional work of the borrower (co-borrower) (if any), or the document stating other income available to the borrower (co-borrower), certified at the place of their receipt

The list of documents provided by the borrower for registration and issuance of a mortgage loan	
1	2
1.11	Permission of guardianship and trusteeship agencies for sale in the interests of minor members of the family of the seller of housing who are the owners (co-owners) of housing
1.12	Documents certifying the rights to the subject of the mortgage, including the following ones: – the contract of purchase and sale, the plan of the apartment or house (available from the seller); - State act on the right of ownership (right of use) for a land plot with a cadastral number (for individual housing construction); - Certificate of state registration of real estate (from the Center for Real Estate); - Act of appraisal of an apartment or house - Information note No. 2 with an extract from the registration list of the legal cadaster (from the Center for Real Estate). (The seller of housing is responsible for it , this document is necessary on the day of sale)
1.1	Agreement (policy) for personal insurance and insurance against disability
2	Documents required for submission after signing a loan agreement:
2.1	Original mortgage agreement with a mark of its state registration
2.2	The original contract of sale of housing purchased at the expense of credit funds registered by the Center for Real Estate and executed in the name of the borrower, as well as other legal documents on housing and land (individual housing construction)
2.3	The notarized consent of the spouse and other adult family members, as well as the guardianship and trusteeship bodies in the interests of the minor family members for the pledge and extrajudicial sale (in cases stipulated by law) of housing purchased using credit funds and served in the name of the lender.
2.4	Insurance contract for housing purchased through a loan, as well as personal insurance of the borrower, documents confirming the payment of insurance payments. In the case of making a down payment in an amount below 30% – a legal liability insurance contract for the payment of down payment
3.	Additional documents with a guarantee or surety
	Other additional documents for mortgage loan:
3.1	Guarantees/sureties of individuals or legal entities
3.2	A copy of the identity card of the guarantor (guarantor)

	The list of documents provided by the borrower for registration and issuance of a mortgage loan
1	2
3.3	If the guarantor/guarantor is an individual – certificates of family composition, employment and income stability (similar to documents provided by the borrower)
3.4	If a guarantor is a legal person –the copies of the Charter and constituent documents certified with the notary, and notarized copies of balance sheets, statements of profit and loss and breakdown of receivables and payables as of the last reporting date before the provision of the loan.
3.5	Guarantee agreement, decision of the competent authority of the guarantor (legal entity) to provide the Bank with a guarantee to ensure the performance of the borrower's obligation
3.6	Notarized samples of signatures of guarantors who signed the contract of guarantee, surety
3.7	If necessary, the request of the company – notarized samples of signatures of borrowers and certificates of the pension contributions from the Pension Fund
4.	Documents required to be provided if the pledgee is not the borrower (real guarantor)
4.1	Documents establishing the right for mortgage, including <ul style="list-style-type: none"> – contract of sale, apartment or house plan (available from the seller); – the state act on the property right (right of use) for the land plot with cadastral number (on individual housing construction); – Certificate of state registration of rights for real estate (from the Center for Real Estate); – The act of evaluation of the apartment or house – Information certificate № 2 with the extract from the registration sheet of the legal cadaster (from the Center for Real Estate)
5	Documents required where the borrower is an entrepreneur without a legal entity
5.1	Certificate on the total annual income from the Tax Committee
5.2	Certificate of registration of the entrepreneur (patent)
5.3	Licenses for certain licensed activities
5.4	Documents confirming the presence of a trading place or the of production site
5.5	Documents confirming the ownership of the trading place, place of production or lease agreement for the premises used by the private entrepreneur

	The list of documents provided by the borrower for registration and issuance of a mortgage loan
1	2
5.6	Decoding of accounts receivable and accounts payable with indication of date of its formation
5.7	Documents on payment of taxes for the previous year

Step 2 – credit analysis. Creditworthiness (solvency) is the ability to timely and fully fulfill financial obligations. The coefficient is calculated as the ratio of the monthly mortgage payment + monthly payments on other loans to the monthly net income of the borrower. Net income – income on hand, i.e. after deduction of pension contributions and tax deductions.

Example: monthly mortgage payment amount = 50 000 tenge. The amount of the monthly payment by credit card = 20 000 tenge. Salary amount = 180 000 tenge $(50\,000 + 20\,000) / 180\,000 = 0.38$. In the world practice, the most acceptable coefficient is the value below 0.35, but banks can allow a higher coefficient. Calculate this ratio yourself to determine your own solvency.

Step 3 – calculation of the ratio of the loan to the pledge (L/P): L / P shows the level of security of the loan and is calculated as the ratio of the market value (specified in the evaluation report or determined by the Bank) of the purchased property to the amount of the loan requested by the borrower. It determines the initial payment that the borrower will have to have to make payments to the seller of the property. The most common value of the coefficient L / P is 70%. This means that the loan amount can be 70% of the market value of the property or below this value. Banks also offer crediting programs where the ratio may be higher than 70%, e.g. 85%, but provided that the 15% difference will be insured through The Kazakhstan Mortgage Guarantee Fund (KMGF). The difference between the loan amount and the market value is necessary for the Bank to reduce the risk of falling real estate prices, because if the borrower does not pay the loan, the Bank will start the procedure for the sale of housing. And this is the risk that is insured by KMGF.

Step 4 – legal review of the transaction. The Bank verifies the legality of the seller's ownership of the property, the presence of any errors and violations in the documents of title to the property, whether

there are encumbrances or arrests imposed on the property. This is necessary to reduce the risk that the Bank will remain without collateral for the loan, and the borrower – without housing. This type of risk is covered by title insurance. If any violations are found in the documents, the Bank may recommend eliminating these violations or accepting documents with existing violations.

Stage 5 – credit history – this is all the information about the payments on the loan of an individual (legal) person. The information is reflected in the Credit report, which is provided by the company "First Credit Bureau" (PCB). If the borrower has ever received a loan (or is currently paying the loan), the Credit report will reflect all information about the borrower's payment discipline, the amount and types of loans. The borrower can independently obtain a Credit report and see the credit history of the borrower. The Bank will necessarily consider the borrower's credit history, and in case of any overdue payments in the present or in the past, the borrower may be refused a loan. In addition, from the Credit report the Bank learns about all the current monthly payments of the borrower, the amount of which can significantly affect the solvency ratio, as a result of which the loan amount may be decreased, or the loan will be refused.

Informing the Bank in advance about past problems with the credit history will help the borrower to avoid unnecessary delays and problems with obtaining a loan or an unexpected refusal.

Step 6 – getting a loan. Once the borrower has approved the loan, the borrower must:

1. Get a letter from the Bank, which will indicate the approved amount of the loan. As a rule, banks issue such a letter to the seller (owner) of the property. The letter should also specify the terms of the loan.

2. Inform the seller about the approval of the loan and send him a letter from the Bank. Agree on the date of the transaction and prepare the amount of the down payment, since the transaction consists of several stages described below.

3. On the day of the transaction, a contract of sale of real estate is concluded. On this day there is a transfer of that part of money, which the borrower pays independently. The notary can reflect in the contract how much the borrower has paid, and what amount will be issued to the seller by the Bank.

4. After the conclusion of the contract of sale (if the borrower will make further steps on registration), he will need to go to the PSC at the location of the property and submit the contract of sale for registration. The borrower will become a full owner of the property only after the registration of the contract of sale, which will take 56 days.

5. After receiving the registered contract of sale, the borrower transfers it to the Bank. The Bank will provide the borrower with a loan agreement and a pledge agreement, which will need to be registered in the same PSC. Registration of the pledge Agreement takes about 56 days. As a rule, the loan is issued after the registration of the pledge agreement, but in some banks – before registration.

6. The borrower submits the registered pledge agreement to the Bank, after which he will wait for the day of the loan. Prior to the date of issue, the borrower will need to execute all necessary insurance contracts required by the Bank. He has to notify the seller of the date of the loan, as his presence will be necessary.

7. On the day of the loan, the borrower and the seller go to the Bank, where the seller writes a receipt that he has received the entire amount in full. Then the borrower goes to the cashier and makes a full payment to the seller.

10.5 Mortgage agreement and mortgage certificate

The mortgage agreement shall be concluded in writing and signed by the pledger and the pledgee.

The mortgage agreement is the basis for the registration of the mortgage. The right to mortgage arises from the moment of its registration. The rights of the pledgee may be confirmed (issued) by the issuance of a mortgage certificate. General rules on pledge contained in the civil code of the Republic of Kazakhstan shall apply to the mortgage of property. The mortgage contract must include:

1) the name (name) and place of residence (location) of the pledger and the pledgee, as well as the debtor, if the pledger (real guarantor) is not a debtor under the principal obligation;

2) the essence of the main obligation, its size and terms of performance;

3) inventory and location of mortgaged real estate;

4) the name of the right by virtue of which the real estate, which is the subject of the mortgage, belongs to the mortgagor (ownership, right of economic management and so on);

If the principal obligation is to be performed in instalments, the mortgage agreement shall specify the terms or frequency of the respective payments and their amounts.

Mortgage certificate. Mortgage certificate is an order security certifying the right of its rightful owner:

- 1) to receive performance under the principal obligation;
- 2) for the foreclosure of the mortgaged real property in order to obtain the fulfillment of the underlying obligation.

The certificate of mortgage shall be drawn up in one copy and handed over to the pledgee. Mortgage certificate may be supplemented by an Annex, which is issued in the form of additional sheets, which are an integral part of it. On all copies of the mortgage agreement, the mark on issue of the mortgage certificate is to be made. It is not allowed to draw up more than one mortgage certificate in respect of the same real estate, which is the subject of a mortgage on a mortgage loan, or part of it.

The mortgage certificate must contain:

- 1) the words "Mortgage certificate" included in the title of the document;
- 2) name and place of residence (location) of the pledger;
- 3) name and place of residence (location) of the pledgee;
- 4) name and place of residence (location) of the debtor, if the debtor under the principal obligation is not the pledger;
- 5) date and place of conclusion of the mortgage agreement;
- 6) indication of the amount of the principal obligation and the amount of remuneration, if they are payable;
- 7) an indication of the term of payment of the principal obligation and remuneration, if they are payable, and if this amount and/or remuneration are payable in parts – the timing or frequency of the respective payments and the amount of each of them or the conditions allowing them to be determined;
- 8) inventory and location of mortgaged real estate;
- 9) the name of the right by virtue of which the property which is the subject of the mortgage belongs to the mortgagor;
- 10) an indication of whether there are other mortgage certificates on real estate that is the subject of a mortgage or part of that property,

with the exception of mortgage certificates under mortgage loan agreements, irrespective of whether the real estate or part of it has been leased, encumbered or not otherwise encumbered;

11) signature of the pledger;

12) the date of issuance of the certificate of mortgage;

13) Annex to the mortgage certificate.

The validity of the mortgage certificate is terminated:

1) in the exercise of the rights arising therefrom;

2) upon its voluntary transfer to the pledger;

3) if the claims arising from it are not submitted to the debtor under the principal obligation before the expiration of the month after the maturity of the principal obligation;

4) in case of loss of the mortgage subject.

10.6 Methods of mortgage implementation

Foreclosure on the mortgaged property to meet the requirements of the pledgee may be made in the event of default by the debtor secured by the mortgage obligation for which he is responsible.

The pledgee may satisfy his / her claims by:

1) realization of mortgage in the judicial procedure;

2) implementation of the mortgage out of court, if it is provided by the laws of the Republic of Kazakhstan or in the mortgage agreement or subsequent agreement of the parties;

3) appeals to his own property of pledged assets in case of the declaration of the auction invalid.

The implementation of the mortgage in the judicial procedure shall be in accordance with the decision of the court at the suit of the mortgagee. In this case, the sale of real estate, which is the subject of a mortgage, is made by selling at public auction in the manner prescribed by procedural law.

Foreclosure on property pledged under a mortgage agreement may be refused if the violation of the principal obligation committed by the debtor is extremely insignificant and the amount of the pledgee's claims as a result is clearly disproportionate to the value of the pledged property.

Making decisions on foreclosure on real estate pledged under the mortgage agreement, the court must determine and specify in the decision:

1) all amounts payable to the pledgee from the value of the pledged property, except for the amounts of expenses for the protection and sale of immovable property, which are determined upon the completion of its sale. For the amounts calculated as a percentage, the amount for which the remuneration is accrued, the amount of remuneration and the period for which they are to be accrued shall be specified;

2) what is the mortgaged real property, the cost of which satisfied the claims of mortgagee;

3) the initial selling price of the pledged real estate at its realization;

4) measures to ensure the safety of immovable property until its sale, if necessary.

Self-test questions

1. What features of mortgage crediting do you know?
2. When was the Kazakhstan Mortgage Company established?
3. List the functions of the Kazakhstan mortgage company.
4. List the stages of mortgage crediting.
5. What is a mortgage certificate?

Chapter 11 LEASING

11.1 Essence of leasing

Leasing is the word of English origin, derived from the verb “to lease” – to take and give the property for temporary use.

Traditionally, leasing is considered to be an American invention, foreign researchers take 1877 as a starting point for leasing operations, when the American company Bell Phone company decided to lease the phones instead of selling them. A powerful impetus to the development of leasing gave the creation of special leasing companies, for which leasing has become not only a means of trade policy, but also the subject of activity. The first leasing company “United States Leasing Corp.” was established in 1952 in San Francisco. In the early 60-ies, American entrepreneurs “transported” leasing across the ocean to Europe, where the first leasing company – “Deutsche Leasing GmbH” appeared in 1962 in Dusseldorf. Since 1972, there is a European leasing market. One of the first leasing laws was the Wales Act of 1284.

The leasing transaction, in turn, is a set of contracts necessary for the implementation of the lease agreement between the lessor, the lessee and the seller (supplier) of the leased asset.

The subject of leasing can be buildings, structures, machinery, equipment, inventory, vehicles, land and any other non-consumable things.

In the developed countries, the objects of financial leasing are the following groups of equipment:

- Transport (transport aircraft, cars, ships, rail cars, etc.)
- Communication equipment (radio stations, satellites, postal equipment, etc.)
- Agricultural equipment
- Construction (cranes, concrete mixers, etc.)

- and many other things.

The subject of the lease may not be securities and natural resources.

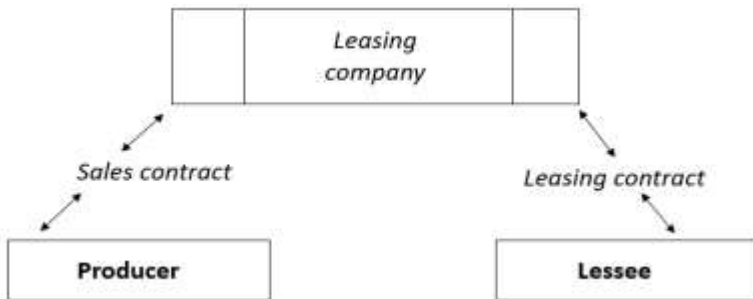
Legislative acts may establish other restrictions on the use of certain categories of things and land plots as the subject of leasing.

A typical leasing transaction is as follows.

1. The user (after entering into the leasing relationship with the lessee) informs the leasing company what equipment he needs.

2. The leasing company, convinced of the liquidity of the project, buys this equipment from the manufacturer, or other legal entity or individual selling the property that is the object of leasing.

3. The leasing company (lessor), having become the owner of the equipment, transfers it for temporary use with the right of further redemption (determined by the agreement) to the lessee, receiving lease payments in return.



Alongside with the adopted in our country types of leasing, in the world in addition to equipment leasing there is the leasing of grain, lease of the workforce and many other types, so that the potential of this form of economic relations in our country is very high.

The leasing transaction usually involves several entities:

– Lessor – a natural or legal person who, at the expense of borrowed or own funds, acquires property in the course of the leasing transaction and provides it as a leased asset to the lessee for a fee, for a certain period and under certain conditions for temporary possession and use with or without the transfer of ownership of the leased asset to the lessee.

– Lessee – a natural or legal person who, in accordance with the lease agreement, is obliged to accept the leased object for a certain fee, for a certain period and under certain conditions for temporary possession and use in accordance with the lease agreement.

– Seller of property (supplier) – a natural or legal person who, in accordance with the contract of sale with the lessor, sells to the lessor, within a specified period, the property produced (purchased) by him / her that is the subject of leasing. The seller (supplier) is obliged to transfer the leased asset to the lessor or lessee in accordance with the terms of the contract of sale.

– A Bank (or other credit institution) that provides funds for the purchase of the subject of the agreement.

11.2 Classification of leasing operations

Leasing is widely used in many countries of the world and is considered to be the most appropriate way of business organization.

The types of leasing relations differentiate depending on: the forms of organization of transactions, their duration, and the amounts of the obligations of the parties; features of the object of leasing and their depreciation; types of leasing payments; relationship to tax incentives; sector of the market.

Leasing is divided into two main types – financial and operational. All other types of leasing are the varieties of the two basic forms of leasing – operational or financial. The classification of the main types of leasing is given in the following table.

Table

Classification of the main types of leasing

Features	Forms of leasing and technology
1	2
Leasing object	Movable and immovable property
Duration of the transaction	Financial leasing with a standard term of use of the object, operational leasing with a period less than the standard term of use

Features	Forms of leasing and technology
1	2
Depreciation conditions	With full (accelerated) depreciation, with incomplete depreciation
Scope of the market	Domestic, international, transit.
Type of transaction organization	Direct, indirect, returnable
Scope of service	Clean, complete and incomplete, comprehensive, general
Type of lease payments	Cash, compensation, mixed
Attitude to tax benefits	Valid, fictitious

Financial (capital) leasing is a long-term agreement providing for the full depreciation of the leased equipment at the expense of the fee paid by the tenant. Since such agreements do not allow the possibility of early termination of the lease, the correct determination of the value of the periodic fee provides the owner with a full refund of the costs incurred for the purchase and maintenance of equipment, as well as the required rate of return. In this form of leasing, all costs for installation and maintenance of the property are charged, as a rule, to the tenant. Often, such agreements provide for the right of the tenant to repurchase the property after the expiration of the contract at a reduced or residual value.

Objects of financial leasing include real estate (land, buildings and structures), as well as long-term means of production.

Financial leasing is characterized by some features, which are listed in the table:

Table

Relationship of financial leasing participants

Relationship content	Approach to implementation
1	2
Choosing a property for leasing and its manufacturer/producer (seller)	Carried out by the lessee
Property acquisition	Full or partial financing is provided by the lessor with the notification of the

Relationship content	Approach to implementation
1	2
	manufacturer (seller) of the property of its transfer to the lessee.
Relationship of participants in the leasing process (manufacturer (seller), lessor, lessee)	Joint participants
Responsibility for the terms of delivery of the property	Responsibility to the lessee is borne by the manufacturer (seller) of the property, unless the lessor chooses the manufacturer (seller)
Property Redemption Right	This right has the lessee before the expiration of the contract
Service and property insurance	To be performed by the lessee
Risk of accidental death, loss, damage to property	Is transferred to the lessee from the moment the property is transferred to him
Duration of the leasing period	Close to the standard service life and payback
The amount of lease payments for the period of the contract	The total value of the leased property in the prices at the time of conclusion of the contract
Accounting for property leasing	On the balance sheet of the lessor and on the off-balance account 001 of the lessee or by agreement between them

Alternatively to operational financial leasing significantly reduces the risk of the owner of the property. In fact, its terms are in many ways identical to those of the contracts concluded when obtaining long-term Bank loans, as they provide for the full repayment of the cost of equipment (loan); payment of a periodic fee, including the cost of equipment and the owner's income (loan payment – the main and interest parts); the right to declare the tenant bankrupt in case of his inability to fulfill the agreement, etc.

Operational (service) leasing is an agreement on the current lease. As a rule, the term of such agreement is less than the period of full depreciation of the leased asset. Thus, the rent provided for in the contract does not cover the full value of the asset, which makes it necessary to lease it several times.

The most important distinctive feature of operational leasing is the right of the lessee to early terminate the contract. Such agreements

may also specify various services for the installation and maintenance of leased equipment. Hence, the second, often used name of this form of leasing is service leasing. In this case, the cost of services is included in the rent or paid separately. Distinctive features of operational leasing are given in the table:

Table

Features of the operational leasing

The content of the relationship	Approach to the implementation of
Property for leasing	Movable and immovable property is the property of the lessor
Lessee's right	To prematurely terminate the agreement and return the property to the lessor
With the return of property	The lessee shall compensate the difference in the value of the property agreed in the contract on a certain date (the difference between the estimated residual and liquidation value of the property)
Lease payment rates	High, because these include all the costs and maintenance carried out, as a rule, by the lessor
The term of the lease agreement	Much shorter than the period of physical depreciation of property (one-time, seasonal, etc.).)
The preference of operational leasing	In the absence of funds, the lessee uses the property effectuating payments in installments
Lessor's risks	Compensation for the value of property in case of damage or loss
Warranties of the lessee	Assurance of the established residual value of the property by the end of the contract period

The main objects of operational leasing are rapidly aging types of equipment (computers, copying and multiplying equipment, various types of office equipment, etc.) and technically complex, requiring constant service vehicles (trucks and cars, airliners, rail and sea transport).

It is easy to see that in general, the conditions of operational leasing are more favorable for the tenant. In particular, the possibility of early termination of the lease allows getting rid of obsolete equipment timely and replace it with more high-tech and competitive

one. In addition, in case of adverse circumstances, the lessee can quickly terminate this type of activity by returning the appropriate equipment to the owner ahead of time, and significantly reduce the costs associated with the liquidation or reorganization of production.

The use of various services provided by the lessor or equipment manufacturer often reduces the cost of routine maintenance and support of the relevant personnel.

Disadvantages of operational leasing are as follows: the rent is higher than in other forms of leasing; requirements for making advances and prepayments; the presence of contractual clauses on payment of penalties in case of early termination of the lease; other conditions designed to reduce and partially compensate for the risk of property owners.

Depending on the country of residence of the main participants, the leasing transactions are divided into domestic and international ones. In case of domestic leasing, all participants of the leasing transaction are legal entities (or citizens) of the same country. If the place of residence of the lessor and the lessee is in different countries, the lease is considered international. At the same time, according to the country of residence of the lessee, international leasing is called import leasing if the property of the contract is purchased abroad. If the property is acquired in the lessor's country of residence, the lease is considered export.

There is a direct international leasing, which is a transaction where all transactions are made between commercial organizations (with the right of a legal entity) from two different countries. Its peculiarity is that the lessor has the opportunity to obtain an export credit in the country of permanent residence and thereby expand the market for its property or services; the lessee provides full financing of the use of this property and accelerated re-equipment of the enterprise.

The difference between **export and import leasing** is determined by the country of location of the lessor and the lessee. In case of import leasing, the manufacturer (seller) is located abroad, and in case of export – the foreign partner is the lessee.

In foreign practice, there is another type of international leasing – **transit leasing**, when the lessor, the lessee and the manufacturer (seller) are in different countries.

Depending on the form, organization and technique of operations the following types are distinguished: direct leasing, indirect leasing, leaseback, "leverage-leasing".

Direct leasing takes place when one person performs the functions of the lessor and the manufacturer.

Indirect leasing involves the transfer of property through intermediaries.

Leaseback includes transactions in which the lessee and the supplier (seller) are one person: the lessee (manufacturer) sells to the lessor its equipment or the enterprise as a whole and simultaneously leases it, retaining the right to own and use it. The lessee for any production and even investment purposes can use the money received for the sold property, and under the lease agreement, he will make lease payments in the usual manner. Leaseback is of some interest for companies that usually do not have sufficient working capital, since the lessor gives a loan secured by the property.

Leverage leasing belong to leasing transactions that, due to their size, cannot be invested by one or even two lessors (leasing companies) and for investing which funds of five to seven or more lessors (leasing companies) are attracted. The main lessor (leasing company) at the same time pays only part of the value of the property, and it attracts other lessors for the rest of the amount required for its acquisition. Accordingly, the main lessor (leasing company) becomes the owner of the leased property, with all the ensuing consequences, but it can give its lenders the preferential right to receive leasing payments.

In accordance with the third feature of the classification of leasing – the volume of service rendered to the lessee – leasing can be clean, complete, with an incomplete set of services and general.

Net leasing means that the lessor is not obliged to provide any services to the lessee, including maintenance or repair of the property.

Full leasing includes transactions involving a comprehensive system of maintenance, repair, insurance, as well as training of personnel, marketing and advertising services. The lessor, pertaining the right of ownership for the property, also pays tax on it during the entire period of the transaction. The lessor, as a rule, is interested in close cooperation with the lessee and during the validity of the contract exercises control over the correct use of the transferred property.

Comprehensive leasing, in which, in addition to paying for the transferred property, the lessor invests additional capital funds in the leased asset (purchase of the initial volume of raw materials, components, etc.) necessary for the lessee to start organizing production.

In foreign practice, transactions that relate to the so-called **general leasing** are often performed, in the contract of which the lessee has the right to supplement the property application for leasing without entering into new contracts. General leasing allows, with the continued cooperation of the lessee with the lessor, to conclude a general agreement on the provision of a leasing line, according to which the lessee can, if necessary, take additional property without concluding a new contract each time.

By the nature of the lease payments there are cash, compensation and mixed leasing.

In this case, **cash leasing** takes place if all payments are made in cash; compensation leasing provides for payments in the form of delivery of products manufactured on the property used or in the form of the provision of counter services; mixed leasing is based on a combination of cash and compensation payments in which there are elements of a barter transaction.

On the basis of tax and amortization benefits, leasing is divided into real and fictitious.

Real leasing in legal terms corresponds to the current legislation and the economic content of the leasing form of business activities.

Based on the Law on Leasing and other regulatory documents, the following indicative signs of real leasing can be distinguished: the lessor remains the legal owner of the property for the entire duration of the transaction; leased property is used only for business purposes; as a general rule, the lessor bears all the risk, enjoys the established benefits, partially or fully finances the initial value of the property (unless otherwise provided in the contract); when leasing is extended, the market value of the property at the time of the prolongation of the transaction is taken into account; the lessee can only repurchase the property at the market price and is not entitled to participate in financing the purchase of the property by the lessor; the cost of additional services to the lessee is included in leasing payments (insurance, repairs, etc.); The lessee is given the opportunity to deduct leasing payments from income when drawing up a declaration for the tax service.

Fictitious leasing is speculative in nature and is designed to make a profit at the expense of tax and other benefits operating in the country. At the same time, purchase and sale transactions with installment

payments instead of leasing are used, if its conditions provide for a complete depreciation with the sale of property to the lessee on the conditions determined by it; the acquisition of non-expendable property with a preliminary test of it during the contract period.

In terms of leasing transactions, in practice there are small, standard (medium) and large leasing transaction.

Small leasing (up to 100 – 200 thousand tenge.) It is widespread in many countries. The subject of such transactions is usually non-production (not involved in the production process) property – computers, office equipment, telephone exchanges, security systems, etc.

The **average leasing** is in the range of 200 thousand tenge up to 2.5 million tenge, which corresponds to the price of the most popular types of property – mini-plants for various purposes, process equipment, etc. Customers are selected by lessors (leasing companies) mainly through the branch network of a related (financing) bank. Working with clients of their “own” bank, lessors (leasing companies), on the one hand, gain access to a large number of clients, and on the other hand, optimize the crediting process through the use of special pricing techniques and protection against credit risks.

Major leasing deals (over 20.0 million tenge) are focused on such a property as airplanes, ships, power equipment, etc. The work in this sector of the market requires large financial resources, as well as serious training of leasing specialists (leasing companies), able to design special financial schemes for individual customers.

However, in Kazakhstan, in contrast to the countries with a developed leasing infrastructure, the market for large leasing transactions is very insignificant, since these are not concluded for a short period, since expensive equipment cannot pay for itself in a short time, so for the time being the market is mainly dominated by small and medium leasing.

Leasing can be composite and include several types of the above.

11.3 Legal framework for leasing operations in Kazakhstan

Leasing in Kazakhstan is regulated by the following regulations of the Civil Code of the Republic of Kazakhstan (Special Part): the Law of the Republic of Kazakhstan “On Financial Leasing” of July 5,

2000, the Code of the Republic of Kazakhstan “On Taxes and Other Mandatory Payments to the Budget”, 2001.

The legal regulations of leasing relations in Kazakhstan began to develop rapidly after the adoption of the Law of the Republic of Kazakhstan “On Financial Leasing”. Prior to that, in the period from the beginning of the 90s, there was no special legal regulation of leasing. The Civil Code of the Kazakh SSR contained the concept of property rental (lease), the concept of "leasing" was not included in it.

Paragraph 2 of Chapter 29 (“Leasing”) of the Special Part of the Civil Code of the Republic of Kazakhstan gives a description of leasing transactions. It consists of eight articles in which the definition of a leasing contract, the subject of the contract, the procedure for transferring the subject of the contract, the transfer to the lessee of the risk of accidental death, the responsibility of the seller are given.

The Law “On Financial Leasing” discloses the basic concepts and definitions inherent in leasing operations, defines the participants of leasing relations. The rights and obligations of the parties are stated there, as well as the basic terms of the leasing agreement; insurance of leased property, the procedure for resolving disputes between the parties, including international leasing, the structure and composition of lease payments is established; licensing requirements for leasing activities are described. This draft law provides for the state guarantees for the implementation of leasing projects, the provision of the right to independently determine equipment depreciation periods for leasing operation participants, exemption from tax payments within 1 year after the company establishment, a number of tax benefits for leasing companies operating in certain industries.

The Tax Code of the Republic of Kazakhstan also considers leasing, but in terms of taxation. Thus, Chapter 13 deals with the specifics of tax accounting for certain types of operations, and Article 74 – specifically financial leasing; chapter 15 “Taxable income” describes how the tax on income derived from leasing activity is charged.

Leasing, as a new direction in the entrepreneurial activity of Kazakhstan, requires constant maintenance of the adopted legal acts and their systematic adjustment, taking into account continuous monitoring of the current system of regulatory documents, identifying regulations that impede the development of leasing for their timely elimination.

Article 3 of the Law of the Republic of Kazakhstan dated July 5, 2000 No. 78-II on financial leasing identifies the following main forms and types of leasing.

1. Forms of leasing:

1) *domestic leasing*. In case of domestic leasing, the lessor and the lessee are the residents of the Republic of Kazakhstan;

2) *international leasing*. In case of international leasing, the lessor or lessee is a non-resident of the Republic of Kazakhstan.

2. Types of leasing:

1) *leaseback* is a type of leasing where the seller sells the leased asset to the lessor on the condition of receiving the leased asset as a lessee;

secondary leasing is a type of leasing where the leased asset remaining in the ownership of the lessor in the event of termination or termination of the lease agreement is leased to another lessee;

2) *bank leasing* is a type of leasing where a bank acts as a lessor;

3) *full leasing* is a type of leasing where the maintenance of the leased asset and its renovation are carried out by the lessor;

subleasing is a type of leasing where the lessee (sub-lessor) transfers to third parties (sub-lessee) in temporary possession and use for business purposes for a fee and for a period in accordance with the terms of the subleasing agreement the property received from the lessor under the leasing agreement and constituting the subject of leasing;

4) *net leasing* is a type of leasing, where the maintenance of the leased asset and its renovation are carried out by the lessee;

5) *Islamic leasing* is a type of leasing, carried out taking into account the peculiarities of operation of Islamic banks on the basis of the license of the National Bank of the Republic of Kazakhstan, as well as other legal entities created in the organizational and legal form of a joint-stock company not being banks.

Subject of leasing. The subject of leasing can be buildings, structures, machinery, equipment, inventory, vehicles, land and any other non-consumable things. The subject of the lease may not be securities and natural resources.

The lessor may use the leased asset remaining in the property of the lessor for subsequent transfer to another lessee in the event of termination of the lease agreement.

Ownership of the leased asset. The right of ownership of the leased property transferred to the lessee for temporary possession and use shall be retained by the lessor for the duration of the lease agreement, except for the cases of transfer of the leased property to the lessee before the expiration of the lease agreement (if such transfer is provided for in the lease agreement) if the lessee fulfils all its monetary obligations under the lease agreement.

In case of liquidation or bankruptcy of the lessee, the leased asset shall be returned to the lessor.

Subleasing. The lessee shall have the right to sublease the leased asset with the written consent of the lessor. In this case, the sub-lessor and the sub-lessee acting as the lessor and the lessee have the rights and bear the obligations defined by this Law for these participants in the leasing transaction.

At the same time, the transfer to the lessee of its obligations to cover lease payments under the lease agreement is allowed only with the written consent of the lessor.

The subleasing agreement may not be concluded for a period exceeding the term of the lease agreement.

Transfer of the leased asset to the property of the lessee. The lease agreement, with the exception of the Islamic lease agreement, may provide for the right or obligation of the lessee to acquire the leased asset at a predetermined price.

Licensing of leasing activities. Licensing of leasing activity of banks as a lessor is carried out by the National Bank of the Republic of Kazakhstan.

Responsibility of leasing participants. The liability of the lessor, the lessee and the seller shall be established by the lease agreement, the contract of sale and legislative acts of the Republic of Kazakhstan.

Leasing contract. Under the lease agreement, the lessor undertakes to transfer the leased asset acquired from the seller and agreed with the lessee to the lessee for a temporary possession and use for business purposes for a fee.

The lease agreement must contain the following essential conditions:

- 1) subject of the contract;
- 2) the name of the seller of the leased asset and an indication who has chosen the seller and the leased asset;

- 3) conditions and terms of transfer of the leased asset to the lessee;
- 4) the amount and frequency of lease payments;
- 5) the cost of the leased asset;
- 6) duration of the contract;
- 7) conditions of transfer of the leased asset to the lessee's ownership, if such transfer is provided for by the agreement;
- 8) description of the leased asset.

In the absence of these conditions, the lease agreement is considered not concluded.

The lease agreement is to be concluded in writing. Failure to comply with the written form of the lease agreement shall entail its invalidity.

Transfer of the leased asset to the lessee. The object of lease is transferred by the seller directly to the lessee at the location of the latter, unless otherwise provided by the lease agreement or the contract of sale. The leased asset is transferred to the lessee together with all its accessories and related documents (documents certifying completeness, safety, quality, installation, commissioning, operation, etc.).

Property risks associated with the leased asset. The lessee shall be liable for the safety of the leased asset, as well as for the risks associated with its destruction, loss, damage, premature failure, theft and errors in the installation, assembly or operation of the leased asset, which led to the impossibility of its use in the volume provided for in the technical documentation, and for other property risks from the moment of actual acceptance of the leased asset.

The lease agreement may provide for the obligation of the lessor or lessee to insure the leased asset.

If the party obligated to insure the leased asset has not insured it in accordance with the terms of the lease agreement, the other party shall be entitled to insure the leased asset and demand from the obligated party the reimbursement of the expenses in the form of insurance payments.

Destruction, loss, damage, theft of the leased object or loss by the leased object of its functions or if the property due to circumstances for which the lessee is not responsible, will be in a condition not suitable for use, do not release the lessee from the obligations under the lease agreement and are not the grounds for early termination of the lease agreement at the request of the lessee.

Leasing payments are periodical payments under the lease agreement for the entire term of this agreement, which is calculated taking into account the compensation for all or a substantial part of the cost of the leased asset at the price at the time of conclusion of the lease agreement and ongoing throughout the term of the lease agreement, which include:

1) reimbursement to the lessor of the costs for the acquisition of the leased asset and any other costs directly related to the acquisition, delivery of the leased asset and bringing it into working condition for its intended use in accordance with the lease agreement;

2) the fee for leasing.

Return of the leased asset. The lessee shall return the leased asset, if the lease agreement does not provide for the right or obligation of the lessee to acquire the property of the leased asset or he did not use the right to purchase the leased asset, or the lease agreement was terminated prematurely in court, as well as in other cases provided for in the lease agreement and legislative acts of the Republic of Kazakhstan.

1. The leased asset must be returned in the condition in which it was received by the lessee, taking into account normal wear and tear, or in the condition stipulated by the lease agreement.

2. If the state of the returned leased asset does not comply with the conditions specified in paragraph 2, the lessee shall compensate the lessor for the damage caused, unless otherwise provided by the lease agreement.

11.4 Development of leasing in Kazakhstan

The concept of leasing was introduced into the Kazakhstan financial system at the turn of 1989–1990, when leasing was included in licenses of commercial banks for the right to conduct banking operations as a type of banking activity for the provision of banking services. Leasing began to be reflected in some regulatory documents governing banking activities. Banks assessed the expediency of using leasing operations in their practice in different ways.

At the first stage, most banks were characterized by attempts to carry out leasing transactions in which they directly acted as the lessee.

This introduced changes to the structure of the banks – independent subdivisions or leasing sectors in their investment departments and offices were established. However, leasing was not widely developed at this stage.

An analysis of the half-century history of the global leasing market development allows us to speak of four main options for the organization of leasing:

- leasing services created in the structure of banks;
- universal leasing companies created by banks;
- specialized leasing companies created by major manufacturers of machinery and equipment, and leasing part of their products;
- leasing companies created by large firms specializing in the supply and maintenance of equipment.

In Kazakhstani conditions, there are two more options for leasing.

Leasing companies established as subsidiaries of second-tier banks (BTA Leasing, Halyk Leasing, etc.)

Leasing companies created by foreign investors.

In Kazakhstan, the organization of leasing, in which the lessor acts as a bank, was characteristic of the stage of formation of the leasing services market. However, leasing has not yet been widely developed at this stage. This is due to several reasons:

1. For the banks (mostly medium and small), it is always burdensome to introduce a new department into its already complex organizational structure.

2. The specifics of leasing activity hardly fits into the bank's activities. We need special qualified expertise, new marketers, and managers.

3. Inconvenience in accounting, related to the compilation of information on leasing property, depreciation of leased property, leasing payments.

Nevertheless, the attractiveness of leasing as a tool for investing in risk reduction continues to interest financial institutions, which have begun to look for optimal ways and forms of its application.

The primary problem to be solved by any leasing company is the search for stable sources of financial resources for the purchase of leased equipment. This problem is automatically solved in leasing companies created with the participation of commercial banks.

Leasing activities in Kazakhstan are not subject to licensing. There is no single body regulating this market. Only leasing companies

affiliated with banks are controlled by the National Bank of Kazakhstan. Therefore, the statistics of the leasing market in the context of companies is not complete. Accordingly, the leaders of the industry can only be determined by experts.

In particular, the Expert RA Kazakhstan rating agency conducted an analysis of the development of the leasing market in Kazakhstan, which showed that the leasing market in 2014 shows the growth primarily due to government lessors.

The volume of new business of leasing companies in 2014 increased by about 18% and reached 85 billion tenge. The growth was provided by some state lessors, mainly due to large transactions in the industry.

The volume of the current portfolio of Kazakhstan leasing companies at the end of the year increased by 15% and reached 215.7 billion tenge. At the same time, the dynamics of changes in the indicators of individual companies remains extremely volatile, which indicates the instability of the market and dependence on individual successful transactions.

The sectors financed by state leasing companies continue to retain the main share **in the structure of the leasing market**. This is primarily farm equipment and livestock, machinery and metallurgical machinery and medical equipment.

The number of new transactions of leasing companies in 2014 exceeded 3,300. There are only about a dozen active players in the market, and this large number of transactions is provided by "KazAgroFinance" due to the volume of the company's business and the specifics of the target audience of customers.

Three companies with the state participation are represented **in the ranking of leasing companies**: "BRK-Leasing", "KazAgroFinance" and "Kazmedtech". In terms of new business volumes, these three companies became the leaders in 2014. At the same time, state lessors mainly work in sectors where the activity of private leasing companies remains low. The task is set, in particular, with the help of leasing tools to support certain sectors of the economy. At the same time, it can be stated that, despite the potential, leasing financing of private companies plays an extremely modest role in the country's economy.

The drivers of the leasing market are state-owned leasing companies, while private lessors are trying to solve the difficulties arising

from the difficult economic situation. Market participants are looking for levers for qualitative changes, but so far, they are not found

The volume of new business of leasing companies in 2014 increased by about 18% and reached 85 billion tenge. The growth was provided by some state lessors, mainly due to large transactions in the industry. State-owned companies, working within the framework of business and social support programs through leasing financing, continue to play a key role in the market, determining its dynamics and structure – this has already become the norm for Kazakhstan leasing. Private lessors have significantly smaller volumes of business, and in recent years often show uncertain growth or decline in the volume of new transactions. (See table 1)

The total portfolio of Kazakhstan leasing companies at the end of last year increased by 15% and reached 215.7 billion tenge. At the same time, the leasing portfolio of banks has significantly decreased – by about 40%. The downward trend in Bank leasing operations remained for several years. This tool has not been very popular in the banking environment before, and now it seems to become less and less popular.

Three companies with the state participation are represented in the ranking of leasing companies: "BRK-Leasing", "KazAgroFinance" and "Kazmedtech". In terms of new business volumes, they became the leaders in 2014. At the same time, state lessors mainly work in sectors where the activity of private leasing companies remains low. The task is also to support certain sectors of the economy with the help of leasing tools. KazAgroFinance remains the undisputed market leader. Now it is the only company with large volumes of new leasing transactions in the field of agriculture.

KAF accounts for about 70% of new business in 2014 and 74% of the total current portfolio. At the end of 2014, the growth of the leasing portfolio of KAF was about 30% compared to the previous year.

"Every year there is a tendency to increase the volume of purchase of agricultural machinery and equipment of JSC "KazAgroFinance" for leasing. In total, in 2015 the company plans to invest about 69.7 billion tenge in the development of the agro-industrial complex of Kazakhstan, to direct more than 5 billion tenge to the financial recovery of its borrowers, as well as to ensure the purchase of breeding highly productive livestock in the amount of more than 5 thousand heads of cattle.

"BRK-Leasing" provides business support within the framework of the program "Productivity-2020", the company is focused on investing in large-scale projects that correspond to the strategy of industrial and innovative development of the country. At the same time, priority is given to the manufacturing industry, projects in the field of production and transport infrastructure. "BRK-Leasing" largely ensures the representation of the industry segment in the structure of the leasing market, especially the sector of machine-building and metallurgical equipment.

Kazmedtech finances the purchase of medical equipment by hospitals. This segment of the leasing market is still underdeveloped by other players. The increase in the company's leasing portfolio in 2014 amounted to 70% after a twofold growth in 2013 partly due to the fact that the company operates in the market relatively recently. "The growth of the leasing portfolio was due to a steady high demand for financial leasing of medical equipment, as well as due to financial support from the state." At the same time, in 2015 the company expects a decline in the market of financial leasing of medical equipment due to the reduction of budget expenditures in this area.

Now, we can say that leasing financing plays a rather modest role in the country's economy. In Russia in 2014, the share of leasing in GDP, even taking into account the decline in the market in recent years, was about 1%, while in Kazakhstan it is symbolic 0.2%.

The market will become even less important if we do not take into account the state instruments to support the economy, primarily through state-owned companies, which now have too strong an impact on the performance of leasing financing. If the market conditions do not change, leasing in Kazakhstan may not receive incentives for development.

11.5 International leasing development experience

Analysis of the world experience shows that in the recent years leasing operations have become a significant factor in the stabilization and development of the economy in many countries. The growth rate of leasing in them is much higher than the growth rate of private investment in the production of machinery and equipment. Leasing is

widely used in the marketing of products both in domestic and foreign market.

In the practice of Western countries, leasing operations with production assets are usually divided into three types: rating or rental – short-term lease for a period of up to a year (it can sometimes be several days or even hours); hiring – medium term lease – from one to three years and leasing – rent – from three years and more, sometimes for 20 – 30 years.

The growth rates of volumes and expansion of leasing operations in different countries do not correlate with the degree of detailing of state regulation of forms of leasing transactions. On the contrary, the leaders in the development of leasing operations are the United States, where leasing is not generally recognized as an independent legal form of the transaction, and the repurchase of property (or option to repurchase) is not considered a mandatory sign of leasing relations. Among the leaders is the United Kingdom, where leasing transactions are governed by the usual rules of law applicable to contracts of sale and lease.

In many countries, the issue of the subjects of leasing relations has been solved. For example, in France, leasing transactions can only be carried out by banks and related specialized financial organizations (which reflects the position of the French authorities, who consider leasing to be a type of crediting). In Belgium, companies that have received special permission from the Ministry of Economy can be engaged in leasing. In Italy, leasing is considered a type of financial activity, and the company-lessor must have a certain amount of capital. Ireland has established special benefits for technical and professional services and in recent years has become a recognized center for international leasing. There are no such restrictions in the USA, and in principle any enterprise can lease both its own and specially acquired property for this. In fact, many manufacturers of expensive industrial and office equipment instead of selling give it for rent. In some industries, the share of leased equipment reaches 30% or more. The share of rental operations in the sale of heavy aircraft, trucks and containers, computer equipment is especially large. In the total volume of leasing operations (leases for long periods), the share of computers and office equipment exceeds 40%, industrial equipment – more than 20%. At the same time, the practice of short and ultra-

short rent (sometimes the rent for just a few days or even hours) is widespread in the USA – in construction, trade, tourism, show business, etc. In the US, large manufacturing firms often open their own specialized leasing firms – often in the countries closer to sales markets or in convenient economic zones. Thus, Boeing has its own specialized aircraft leasing company in the area of preferential taxation – in Ireland. Large banks sometimes form their leasing units in order to develop product crediting programs.

With a certain simplification, all countries with regard to the procedure for regulating leasing relations in them can be divided into two groups. In the first group, leasing relations are determined by the fact – by the presence or absence of a certain set of features in the relations between the parties that are recognized as key, determining the nature of the transaction (and the set of these signs in different countries is not necessarily the same). In the second group of countries, the form of a leasing transaction is determined by law (a special law or by inclusion of leasing activities into the composition of transactions governed by civil law); leasing requires special registration or licensing.

The first group of countries includes the USA, Great Britain, Germany, Italy, Denmark, Austria, etc. The second group includes France, Belgium, Portugal, and Sweden.

With regard to international leasing transactions, the unification of mutually recognized rules has progressed somewhat further – when some of the developed countries signed the international UNIDROIT Convention on International Financial Leasing, while others try to adhere to its norms in practice.

In the tax sphere, almost all countries allocate leasing operations as a separate tax regulation object. The tax law of each country gives a clear set of signs defining the leasing transaction, and establishes a special procedure for establishing (or agreeing) tax obligations of all parties recognized as participants of leasing relations. If these signs are present, the tax authorities provide for the participants in a leasing transaction the tax regime foreseen for such transactions; if there is insufficient evidence of the presence of leasing relationships or the tax authorities have reasons to believe that these signs are created artificially (for example, to cover a transaction of a different nature), then they have the right to apply a different tax regulation more

appropriate to the economic substance of the transaction being audited.

With regard to international leasing transactions, tax regulation is carried out either by way of joint coordination between partner countries of tax regimes for leasing transactions carried out with the participation of economic entities based in these countries (in the form of tax agreements), or by unilaterally establishing tax rules governing international leasing transactions (in the form of national tax regimes). Kazakhstan has tax agreements with almost all developed countries of the world; therefore, the rules of the relevant tax agreement apply in relations with them.

In international tax relations, depending on the type of taxation, there is a regulation on direct taxes (taxes on leasing objects and on payments on leasing transactions), indirect taxes (excise taxes, VAT and other taxes) and customs duties (fees levied on the objects of leasing when crossing state borders).

Chapter 12 FACTORING

12.1 The essence of factoring

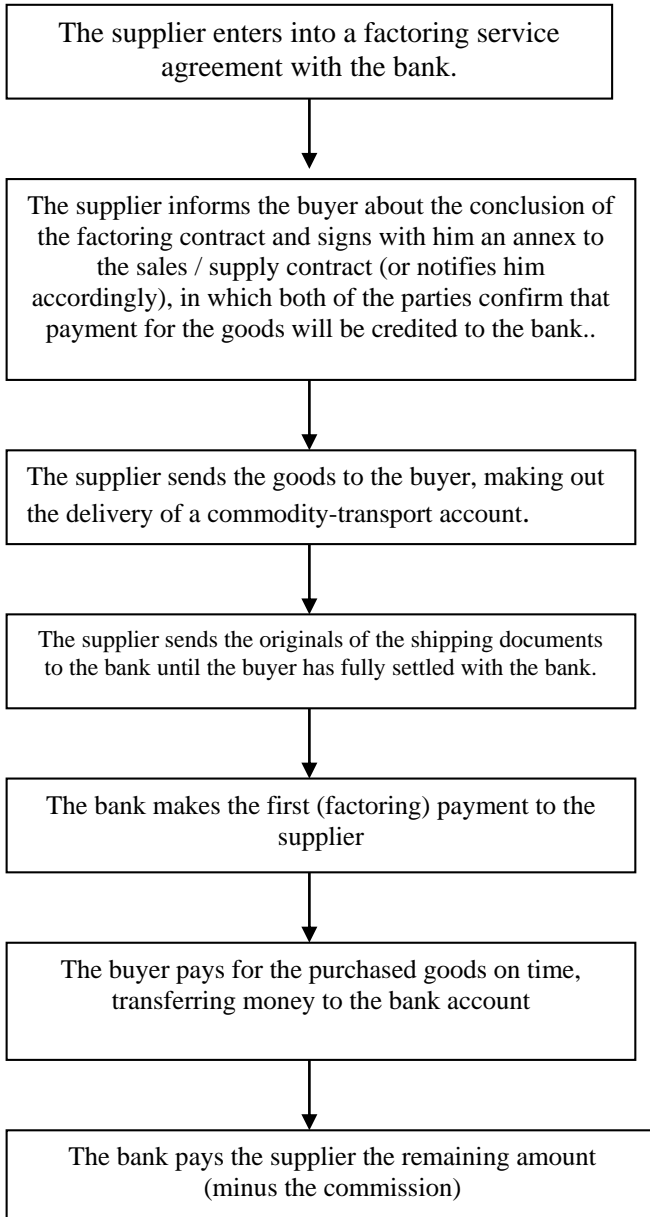
In international practice, circulation of bills is mainly associated with the provision of deferred payment, as an additional service to the buyer as a result of increasing competition. This service takes the form of a simple or transfer bill. However, with the ever-increasing volumes of deliveries, firms are no longer able to receive money on bills of exchange in a timely manner, and in case of problems with paying bills of exchange they suffer losses. For help firms came factoring and forfeiting firms.

According to Article 729 of the Civil Code of the Republic of Kazakhstan (special part) of July 1, 1999 N 409 -1, under the agreement of financing under a concession of the monetary requirement one party's financial agent, transfers or undertakes to transfer the money at the disposal of another party – the customer, and the customer transfers or undertakes to yield to the financial agent his money claim to the third party arising out of relations of the client – the lender – that is the third party debtor. The monetary claim against the debtor may be assigned by the client to the financial agent also in order to ensure the fulfillment of the client's obligation to the financial agent. [1]

Obligations of the financial agent under the contract of financing under a concession of the monetary requirement can include maintaining accounting for the client and presentation of documents concerning money requirements (invoicing the accounts on money requirements), which are the subject of concessions, as well as providing the client with other financial services related to these requirements.

According to the legislation, factoring is financing under the assignment of a monetary claim.

Factoring is also sometimes called a supplier's credit.



Factoring operations can be carried out by a credit or commercial organization that has a license to carry out such operations. However, only banks are engaged in factoring in our country – they have the right to carry out these operations on the basis of art. 30 of the Law "On Banks and Banking".

Usually factoring operations are carried out according to the following scheme (see figure). An enterprise concludes an agreement on the provision of factoring services with a financial agent – a factor (from English. factor – an agent, an intermediary). According to such an agreement, the supplier (seller) sells the goods, but does not receive payment from the buyer for it, but gives the financial agent the right to demand it from the buyer. In this case, the supplier is not responsible for the agent receiving money from the buyer (Art. 732 of the Civil Code of the Republic of Kazakhstan).

Figure 8

FACTORING TRANSACTION STAGES

The supplier submits documents to the bank confirming the fact of delivery of the goods or the provision of services on the terms of installment payment (invoice, bill of exchange), and on the same day receives from the bank 60-90% of the contract value. The percentage of the value of the contract that the customer will receive immediately after the delivery depends on the category of reliability that the bank assigns to the purchasing company: the more solvent the buyer, the larger the amount is received by the supplier.

The seller must knowingly inform the buyer about the use of factoring and sign with him the appropriate annex to the contract. At maturity, the buyer transfers the money directly to the bank. If the buyer does not do this, the bank undertakes efforts to collect funds from the buyer-debtor (debtor).

The cost of services paid by an enterprise to the bank includes a commission that is set as a certain percentage of the amount of payment documents (0.5–3%) and a monthly interest for an advance of 1–2%.

Thus, the supplier company provides the buyer with the opportunity to buy goods with a deferred payment, but at the same time does not lose most of its working capital. As a rule, the bank and the client sign an indefinite factoring service agreement. Having concluded it once, they work in the "transaction – money" mode without drawing up a new contracts.

In practice, the seller assigns the right to claim payment of bills of exchange or other debt obligations to the company by means of an endorsement. As a result, the seller is calm for his goods, which are guaranteed to be paid approximately 90%, and the company takes a risky responsibility and earns the bill surely demanding the whole amount of money.

What features concerning the bills have factoring operations? Usually, such transactions are executed by promissory notes, since it is easy to use the clause "without circulation on me" when transferring the bill of

exchange. Since loans are often substantial and long, a breakdown into several bill amounts with a term of about 6 months is rather usual.

A factoring firm (bank) can profitably use its temporarily free resources buying up promissory notes left as a deferment of payment under a supply contract to a client company. The factoring firm usually keeps records of all customer receivables.

When participating in such operations, it is necessary to know the subtleties of the international circulation of a bill, for example, to take into account the company's belonging to a country, since the world adheres to UBL or English law, which has some peculiarities. For example, under the English law, a bill of exchange must contain an unconditional order to pay a certain sum of money, the due date, the name of the payer, the name of the payee or an indication that the bill is paid to the bearer, the signature of the drawer. Thus, unlike UBL p.1.3., English law permits the absence of a bill of exchange label, date, place of issuance of a bill of exchange or place of payment, but foreign trade relations require an indication of the contract.

Extensive use of factoring in international trade has led to the need to unify these relations, and therefore in 1988 in Ottawa (Canada), the International Factoring Convention (UNIDROIT Convention on International Factoring) was prepared in the framework of the International Institute for the Unification of Private International Law (UNIDROIT). The convention is signed by 14 states, ratified by Italy, Nigeria and France. On January 31, 2002, the UN General Assembly adopted Resolution No. 56/81 on the regulation of the transfer of receivables in international trade. Activities within the framework of international factoring are also governed by the "General Rules for International Factoring" (GRIF), adopted by the members of the FCI and IFG.

In accordance with Article 1 of the Convention, a factoring agreement is an agreement concluded between a supplier and a factor according to which: 1) the supplier entrusts or assumes the obligation to entrust the factor with the collection of receivables under the contracts for the sale of goods concluded between the supplier and his customers (debtors). (At the same time, goods or other property acquired, primarily for personal, family or household use, cannot be used as a commodity under these contracts); 2) the factor should fulfill at least two of the following functions: financing the supplier, including financing by provision of a loan or prepayment; account management (accounting) related to the receipt of receivables; collection of

receivables; protection against non-payment of the amount of the debt by debtors. 3) debtors must receive written notice of the transfer of the right to receive receivables.

12.2 Types of factoring

Consider the main types of factoring used in world practice. Domestic / export factoring.

Domestic factoring was discussed above, so we will go straight to export factoring.

"In international factoring, export factoring plays a significant role, which is the sale by the exporter to his factor of short-term receivables (usually up to 90 days) on export basis." Usually the factor enters into a contract with the exporter for the purchase of export debts of all buyers in one or several countries of export. Export factoring includes, as a rule, a full set of factoring services: financing the exporter immediately after shipment of the goods, insurance against the risk of non-payment, credit management, collection of receivables, information services, etc. At the same time, servicing their exporting clients, factoring companies (export factors) often operate in conjunction with foreign factoring companies operating in importing countries (import factors). Import factors help Export Factors to obtain information about an existing or potential debtor in their country, provide insurance against the risk of non-payment of a foreign debtor, collect receivables, etc. "The classic form of international factoring involves the participation of four parties: the exporter, the export factor, the importer, the import factor." The procedure of classical international factoring with a full range of services is shown in Figure 9.

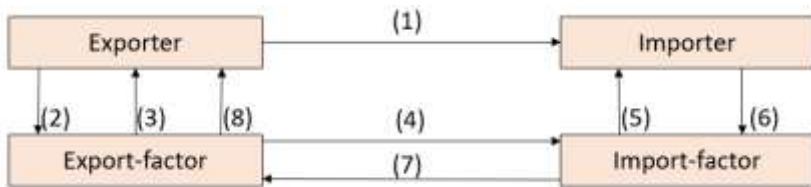


Figure. The procedure of classical international factoring

(1) Exporter delivers goods to importer. The x-invoices of the exporter contain an inscription stating the importer that he must make payment in favor of the import factor.

(2) Copies (one of the originals) of the invoice and transport documents are sent to the export factor.

(3) The export factor pays the exporter up to 85% of the amount of the delivery for the acquired receivables.

(4) The export factor assigns the receivables to the import factor.

(5) The import factor, as the owner of the receivable, must recover the amount of the debt and, in the event of default by the importer, take on the risk of default and pay the export factor.

(6) The importer makes payment for the import factor.

(7) The import factor transfers the payment by the importer to the export factor, or, in case of non-payment of the importer, makes a guaranteed payment.

(8) The export factor credits the exporter with the remaining part of the delivery amount (15%), minus factoring fees. The significant advantage of international factoring is seen from its procedure: foreign debts become domestic debts, significant problems and risks associated with conducting international business, such as foreign language, unknown legislation, unfamiliar receivables collection procedures and trade practices, are resolved.

In some cases, the Export Factor can work with the importer directly, bypassing the Import Factor, and this is classified as direct export factoring. This practice can be used in cases where the exporter (export factor) is geographically close to the importer, or in transactions with trusted supplier buyers who have shown themselves to be accurate payers. In this case, the factoring operation will take place according to the scheme shown in Figure 10.

1 Exporter delivers goods to the importer under acceptance of bills of exchange;

2 Exporter submits promissory notes to a factoring company;

3 The factor pays the exporter up to 85% of the delivery amount;

4 When the due date comes, the factoring company submits promissory notes to the importer for payment;

5 Importer pays bills of exchange;

6 The export factor credits the exporter with the remaining part of the delivery amount (15%), minus factoring fees. Substantial international advantage is seen.

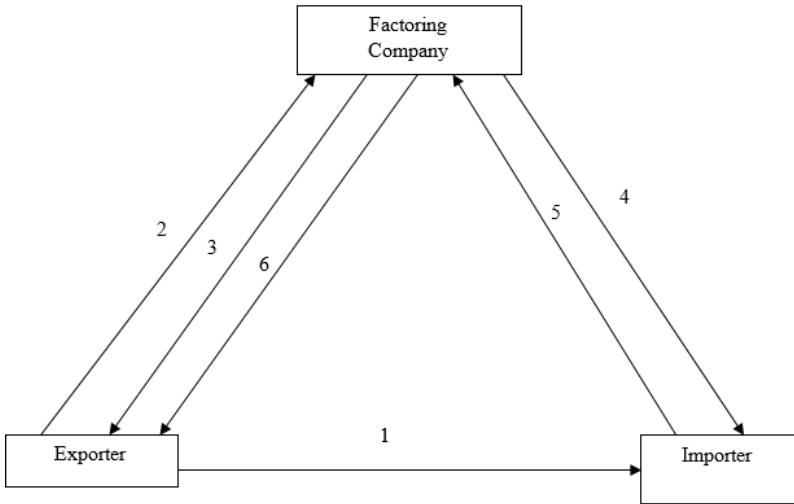


Figure 10. Direct export factoring

Open / closed factoring. "An open type of factoring is an operation in which the buyer of the supplier is informed about the participation of the factoring company in the transaction." Such notification is usually made using a special inscription on the invoice indicating that the receivables for this account were fully assigned to the Factor, who is the sole legal payee, with the payment details of the Factor. In addition, the supplier usually sends a special letter to its buyer informing the buyer of the assignment of all receivables to the Factor.

With a closed (confidential) type of factoring, the contract between the supplier and the Factor is not disclosed to the buyer until the buyer violates the terms of the contract, unreasonably refusing to pay. In this case, the supplier authorizes the Factor to notify the buyer of the fact of the assignment.

Thus, in case of confidential factoring, the buyer is not initially aware of the fact of the assignment and of the factor's participation in the transaction (the supplier's invoice does not contain a special inscription informing the buyer of the assignment) and all payments are sent directly to the supplier. Only if the buyer does not pay after the maturity date, the Factor informs him about the fact of the assignment.

In international practice, such notification usually occurs 60 days after the due date. From this date, the buyer is obliged to pay the Factor, and in case of non-payment and in the presence of credit risk insurance by the Factor, the latter is obliged to pay the supplier (in international practice, usually 90 days after notifying the acquirer of the transfer).

“With confidential factoring, the Factor provides only funding and / or protection against the risk of non-payment, while the administrative management of the receivables lies with the provider, who must perform these services on behalf of the new owner of the Debt Factor.

Factoring with recourse/without recourse.

These terms are related to the risk arising if the buyer is unable to meet its payment obligations, i.e. credit risk (non-payment risk). In recourse factoring, the supplier bears credit risk in respect of receivables transferred to the Factor. In the event of non-payment by the buyer for any reason, including financial insolvency, the Factor will require payment from the supplier.

In international practice, all of the factoring transactions have the force of recourse against the supplier if the accounts receivable are void and in case of occurrence between the supplier and the buyer the disputes concerning the number of goods, quality, terms of delivery, etc. However, the buyer shall be entitled to return delivered goods and to cancel any payment obligation.

In non-recourse transactions, the Factor assumes the risk of non-payment by buyers and is solely responsible for the buyer's financial inability to make payment.

Factoring with full service (open type, without recourse),

"Full-service factoring is a contract, usually on a regular and long-term basis, under which the supplier undertakes to sell its receivables to the Factor as they arise, i.e. when, having delivered goods or rendered services, it invoices its customers." By means of a special inscription on the invoice, the supplier notifies its buyer that the debt has been assigned to the Factor and payment, respectively, should be made in favor of the Factor (an element of open factoring).

The supplier, therefore, turns receivables arising in the course of transactions with several buyers into receivables of only one buyer – Factor, so the supplier needs to keep records of sales only transactions with the Factor that assists him in this. For its part, the Factor

undertakes to pay the supplier for the purchased receivables by the agreed date. At the same time, the Factor agrees to bear losses arising in case of non-payment by buyers due to their financial insolvency, but only for those buyers who were approved by the Factor for credit purposes, i.e. for whom the limits were opened (factoring element without recourse).

Thus, the supplier significantly reduces its tasks of sales accounting and accounts receivable management. It eliminates the need to send out numerous reminders, extracts and letters, to start trials. In addition, the supplier replaces the risks of non – payment for each of its customers with one credit risk Factor, and if the right Factor is chosen, the credit risk may be considered non-existent.

Suppliers using full-service factoring describe the latter as a type of service in which the Factor, in addition to financing, administers the accounts receivable of suppliers. The agreement reached between the supplier and the factor exempts the Former from these tasks, while the Factor performs these functions for a fee and for its own benefit, in order to better control the situation with the purchased receivables. The nature of the relationship between the supplier and the Factor is such that it is preferable to consider the Factor as an agent working on behalf of the supplier. However, the Factor is only the Trustee of buyers, they also continue to be customers of the supplier, without whom the business of the latter will not survive. In this connection, the Factor is extremely responsible for maintaining inseparable links between the supplier and the buyer. Only in exceptional circumstances can the Factor take steps that may affect the relationship between the supplier and its customers. After all, the stronger the connection between the supplier and the buyer, the more orders the buyer will place with this supplier and the more commissions the Factor will eventually earn when servicing future receivables.

Factors buy receivables and at some point have to pay the supplier for them. World practice knows various options of agreements concerning the moment of receipt of early payment, Agreements vary from Factor to Factor, but there are several options of standard conditions. In one case, the Factor pays the supplier the amount of early payment immediately after the delivery of the goods and the receipt of documents confirming the shipment of the goods. "Many factoring companies operating without recourse offer conditions under which

they guarantee payment to the supplier after a certain number of days after the purchase of receivables. This agreement is known as a fixed payment period agreement. The factor checks the accounting records of its prospective customer-supplier and determines the average number of days required for buyers to repay their debts. The factor undertakes to pay to the supplier the amount of the purchased receivables (net of commission fees) at a fixed period of time (RMR) regardless of whether the buyers have paid to the Factor or not, provided that these receivables have been approved by the Factor and are not subject to dispute by the buyers. Since the RMR is an average value, in the usual situation some buyers will pay before this period, other buyers – later. For a supplier, the benefit of a fixed payment period transaction is that he can know exactly when the payment will come from the Factor and therefore he is able to plan payments on its own obligations with greater accuracy. For the Factor, these terms of payment of early payment are also beneficial because he will be able to better plan his cash flows.

However, it is not always possible to determine the average maturity of receivables, for example, in industries that are seasonal or where the supplier sells the goods to buyers on different payment terms. In such cases, the Factor may offer an ‘pay-as-paid’ transaction in which he pays the supplier at the receipt of payments from the buyers. The meaning of early payment in such transactions is lost for those suppliers who lack working capital and are primarily interested in financing as an element of factoring.

In terms of the Factor, managing the entire turnover of the supplier avoids the situation where the supplier chooses only risky debts for factoring services. For a supplier, factoring with full service has the advantage that there is no need to keep separate records of sales and manage receivables for those deliveries that have not been transferred to the Factor for service.

Factoring with full service (open type, with recourse).

This type of factoring has much in common with factoring with credit coverage (without recourse). The main difference is that Factor does not assume the credit risk of the buyer, which remains with the supplier. All other factors of factoring with regress and factoring without recourse are similar, but the service already loses a number of characteristic and attractive features due to the fact that Factor has the

right to debit his supplier for any amount not paid by the buyer (usually 90 days after the due date).

Some foreign factoring companies, when carrying out transactions with recourse, charge a refactoring commission, similar to a normal factoring commission, for all debts unpaid more than 90 days from the date of payment. This practice usually takes place if the supplier requests the Factor not to apply the right of recourse and to continue the procedure of the usual investment or requests to begin legal actions to recover the debt (in this case, the supplier will cover all legal costs).

Agency factoring (open type),

Agency or mass factoring is a full service factoring type. A modern and developed enterprise can perfectly perform the functions of sales and credit management accounting and Factor recognizes the fact that these two elements of full factoring often do not bring any direct or indirect benefits to the supplier. However, an enterprise may nevertheless need non-payment risk and financing. In this case, the Factor may offer the agent or mass factoring to the supplier. With such an agreement, the Factor buys the supplier's receivables and appoints the latter as its agent for the administration of receivables. The inscription on the invoice shows the buyer the participation of the Factor, but instead of instructing him to pay the Factor, the buyer is asked to pay the supplier in favor of the Factor. Thus, the supplier acts as an agent of the Factor.

"With agent factoring, the amount of Factor's work decreases due to the increased role of the supplier, who independently administers accounts receivable, reducing, accordingly, the Factor's commission." Analysis of the economic situation in our country shows that the demand for factoring services continues to exceed supply. This is easily explained by the problem of the shortage of working capital from suppliers of goods and services, which has become aggravated as a result of the depreciation. At the same time, a complete rejection of commodity crediting of their counter-agents can lead (and already leads) to the final undermining of their liquidity and, thus, to a noticeable decrease in the circle of their potential buyers, and therefore to a decrease in sales. Obviously, there is also a significant narrowing of the circle of potential consumers of factoring services.

The most significant problem is the unpreparedness of the overwhelming majority of domestic credit institutions to develop factoring

services. The main problem here is purely methodological: factoring is attributed either to the credit, then to discount, or to other banking operations. Meanwhile, factoring is a permanent service, but not a one-time deal. All this requires special decision-making procedures and risk management.

The second problem is the unwillingness of the overwhelming majority of the country's banks to make medium-term investments in a new field of activity for them. The main obstacle here is not the factoring financing itself – it is by definition “short” money, but rather a long and relatively expensive “zero cycle” associated with the case, which even with a professional team of performers takes 6 to 12 months.

Sellers of consumer goods – furniture, textiles, clothing, footwear, uncomplicated industrial equipment, usually resort to mediation of factoring companies. In these markets, the cost of individual batches of goods is relatively small and the debt is usually low. All this corresponds to the conditions of factoring.

Therefore, the value of a factoring agreement is obvious. This type of contract allows creditors who are constantly dealing with a large number of debtors to get rid of the laborious work of receiving payments from them by selling or transferring the relevant requirements to a specialized firm – a financial agent for a commission or other fee. In conclusion, I would like to note that factoring, which is widely developed in the west and makes only the first steps in Kazakhstan, is one of the few banking products to date, aimed at the real support and development of the real sector of the country. This business is at the junction of the interests of the banking and real sectors of the economy.

12.3 History of the emergence and development of factoring

Subjects, called "factors", were known in the XIV century, and the term "factor" was used in English colonial trade as a synonym for the term "agent" and "commission agent." In the XVIII century, the British in the process of colonization of East India used this term in the field of trade factors, whose duty was not only to mediate in the sale of goods, but also to receive advances against future deliveries of

goods from England. However, a rapid development of factoring was observed only in North America in the second half of the XIX century. At the same time, initially, American factors merely took from manufacturers the goods for sale, that is, there was a deal similar to a commission agreement in the continental law system. This was particularly pronounced in the field of textile trade. However, over time, due to the introduction of high customs duties on textiles in Europe, manufacturers began to create their own systems for marketing their products in Europe, which also included the elements of production. As a result, American factors were forced to change the form of their activities. If earlier they were intermediaries in the sale of goods (agent factoring), now they have been transformed into institutions that finance goods factoring (credit factoring). They also developed their know-how of how to finance clients, which included the discount and execution of the claims received from clients, as well as taking on financial risks. Factors were engaged also the in bookkeeping of producers, the introduction of cash advances against future earnings from counterparties and the provision of loans for the purchase of raw materials and financing production. Thus, American factors began to carry out activities typical of banking organizations. This scheme has taken root in the United States, and 90% of textile manufacturers currently use a factoring scheme. In the countries of Western Europe, the factoring institution appeared only in the second half of the 50s of the 20th century; however, it immediately began to play a prominent role in the financial turnover, with the result that factoring banks and specialized factoring societies were created.

Now factoring is one of the fastest growing sectors of the global economy. About a thousand companies are operating in the market, and the amount of receivables assigned to them in 1998 amounted to 450 billion euros, but by 2002, it had reached 749 billion euros, which indicates a steady increase in their activities. Factoring companies work with millions of customers located in North and South America, Europe, Asia, Australia and North Africa. When the service first appeared, the main clients of factoring companies were companies operating in the textile industry. Over time, factoring began to be used in other industries, including the service sector. Approximately 66% of the factoring turnover falls on Europe, 22% on America, 11% on Asian countries, 1% on Australia and Oceania, and 1% on Africa.

At the initial stage of market development, factoring companies acted as "lenders of last resort". As a rule, factoring was considered only as one of the ways to solve short-term financial problems, often associated with an acute shortage of working capital. That is why factoring was used only by companies whose financial condition was relatively fragile. Attitudes toward factoring have changed dramatically with the dynamic development of the market. Now, even very large companies use a factoring scheme to finance their growth, facilitate their work with receivables and insure financial risks.

Europe accounts for 66% of the world factoring turnover, of which British factoring companies account for 33%. Meanwhile, 30% of accounts receivable in Europe fall on Italy, 16% on France, 7% on Germany, 6% on Spain.

In the mid-twentieth century, international factoring began to develop. In 1960, the first factoring association appeared – the International Factors Group (IFG), which today unites more than 60 companies from 38 countries of the world. The association has developed a unique electronic information transfer system between factoring companies – IFEXchange (IFG), which is used to very quickly assess the credit-worthiness of debtors around the world, to set credit limits and monitor supply status and payment discipline of customers. In 1968, Factors Chain International (FCI) was organized, which became the world's largest factoring association with 150 members from 53 countries. Like IFG, it developed its data transmission system – EDIFAC Toring.

Throughout its history, the factoring market has developed dynamically. The economic crises of the last decades had practically no effect on the growth rates of the market volume, which during 1995-2002 exceeded 10% per annum. Along with the growth in the turnover of the receivables transferred to factoring companies, the product line is also developing: complex customer service, including factoring with and without recourse, international factoring and invoice discounting are steadily developing. The number of industries that use the factoring mechanism is also increasing.

According to the indicator "the ratio of factoring turnover to GDP", Estonia ranks the first among the CIS countries, with this ratio being equal to 25%. In Russia, this figure is 0.1%, which is significantly below the average for Eastern Europe (1.4%). In Kazakhstan, it is approximately on par with the Russian one.

The main problems in the development of factoring in the CIS countries are the lack of market infrastructure, in particular, the categories of agents for attracting clients, whose role is played by commercial banks, as well as the underdevelopment of national legislation in the field of financing for the assignment of monetary claims, currency control, licensing of certain types of activities.

Self-test questions

1. Can you relate factoring to crediting operations?
2. Do I need to make a deposit for factoring?
3. What types of factoring do you know?
4. What enterprises mainly resort to factoring?
5. List the benefits of factoring.

Chapter 13
FORFEITING

13.1 Essence of forfeiting

In modern practice, a commercial loan in its pure form practically does not occur, it is included in the category of indirect bank financing as its initial component. The most common method of refinancing a commercial loan is forfeiting.

Forfeiting is a term commonly used to refer to the purchase of liabilities, the repayment of which occurs at some time in the future and which arise in the process of supplying goods and services (most of export operations) without recourse to any previous debtor. The word "a forfeit" is of a French origin and expresses a waiver of rights, which is the very essence of forfeiting operations. This is a credit and settlement service, which consists in that the exporter transfers his right to demand money from the importer to forfeiter, the role of which, as a rule, is played by a commercial bank. According to Art. 30 of the Law "On Banks and Banking in the Republic of Kazakhstan" forfeiting operation (forfeiting) is the payment of the debt obligation of the buyer of goods (works, services) by buying a bill without turnover to the seller.

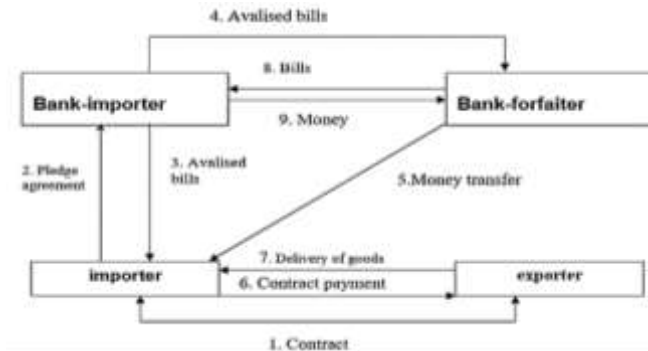


Figure 11. Diagram of the forfeiting operation

Today in Kazakhstan, this operation is applied in small volumes; only fairly large banks are engaged in them. Thus, BankTuranAlem OJSC began to apply forfeiting since 1998, although its application for domestic buyers could solve the problem of financing. For forfeiting, the non-regressive operation is important for the seller, i.e. forfeiting is usually accepted to call an acquisition without the right of a return claim to the seller of payment obligations, mainly in the form of commercial transfer or promissory notes arising from specific transactions. A feature of the proposed mechanism is the use of promissory notes. When making an “forfait” transaction, the person acquiring payment obligations (i.e., the buyer) certainly renounces his legal right to make return claims against any of the previous owners of the debt serving the subject of the transaction, which is achieved by including in the clause “without turnover” the clause "on me ", without the right of the return requirement ". The seller of forfeitable commercial transferable or promissory notes is usually the seller who accepted these payment obligations in full or partial payment of the value of the goods supplied by him and who is willing to transfer all risks and liability for collection of the existing debt to the financial intermediary (forfeiter) on the terms of cash payment. The scheme of the forfeiting operation is shown in Figure 11.

The buyer enters into a commercial contract with the seller, where the terms of payment stipulate that payment will be made by means of buyer's bills of exchange availed by the bank.

1. For the avalization of promissory notes in the bank, the importer prepares the collateral in the form of a financing limit or other agreements.

2. The bank avalizes the buyer's bills of exchange within the framework of the security provided on the basis of each individual application with the execution of the aval agreements. It carries out a search for forfeiter bank (or negotiates with the exporter's bank), which offers its rate on financing this transaction, taking into account the features of the project.

3. The importing bank sends the originals of the avalized bills to the forfeiter bank.

4. The forfeiter bank transfers “cash” to the importer’s account and keeps the originals of bills of exchange until the due date for them.

5. The importer, having received the financing, makes payment under the contract in favor of the beneficiary.

6. The exporter, having received payment under a commercial contract, performs the shipment of products.

7. When the maturity date for the promissory notes is reached, the forfaiting bank sends the original bills of exchange to the importer bank for payment and the latter makes payments through its correspondent or other accounts.

The advantages of forfeiting operations are obvious. For exporters:

- quick settlement, purposeful management;
- non-regressive;
- fixed interest rates;
- increase in sales;
- receiving as payment a liquid financial instrument;
- increase in profitability of bill transactions due to receipt of accrued interest during the tenure of the bill;
- the ability to pay bills with their counterparties without the diversion of working capital.

For importers:

- deferment of payment;
- financing purchases without diverting working capital;
- the use of a reliable and convenient financial instrument;
- high liquidity of bills of exchange, as there are obligations of the operating bank to take into account and pay off bills;
- no need to provide the bank with confirming shipping documents.

The disadvantages for the exporter boil down to the possible relatively higher costs of risk transfer to the forfeiter. Of course, resorting to forfeiting, the exporting company proceeds from strategic considerations, and from this point of view, forfeiting can be very beneficial to it.

Usually, trade drafts or simple promissory notes are subject to forfeiting, although theoretically any debt in any form could be forfeited.

If the importer is not a first-class borrower with an undoubted reputation, any forfeit debt must be guaranteed in the form of an aval or an unconditional and irrevocable bank guarantee acceptable to the forfeiter.

The fulfillment of this condition is especially important if we consider the deal from the point of view of its irreversibility, since in

the event of default by the debtor, the forfeiter, as its sole guarantee, can rely only on this form of bank guarantee.

Forfeiting transactions have significantly lengthened the exporter's loan terms on the basis of a bill of exchange loan, bringing them up to five, and sometimes eight or more years, because taking on risk with a solid forfeiter bank increases investor interest in long-term placement of their funds. However, each forfeiter sets its own timeframe, based mainly on market conditions for a particular transaction.

The source of funds for banks involved in forfeiting operations is the Eurocurrency Market. Therefore, the forfeiting discount rate is closely related to the level of interest on medium-term loans in this market.

When forfeiting, purchase of bills of exchange is carried out minus (discount) interest in advance for the entire loan period. The size of the discount depends on the solvency of the importer, the term of the loan, market interest rates in a given currency. Forfeiting is more expensive for an exporter than a bank loan. Forfeiting is a form of transformation of a commercial bill into a bank bill.

The exporter thus actually turns his credit transaction on a trade transaction into a cash transaction. In this case, he is responsible only for the satisfactory production and supply of goods and the proper paperwork for obligations. This last circumstance, together with the presence of a fixed interest rate charged for the entire operation at the very beginning, makes forfeiting a quite acceptable service for the exporter and a relatively inexpensive alternative to other modern forms of commercial refinancing.

The normal condition of the loan is a regular repayment of its parts. The lender's risks are reduced by a reduction in the average term. Where debt is in the form of a bill of exchange or a bill of exchange, this is achieved by issuing a series of bills of exchange for a specific period, usually for up to 6 months. Therefore, when forfeiting for a period of up to 5 years, it is possible to operate with 10 promissory notes issued for the same amount and each for a period of 6 months after the regular shipment of goods, successively.

IOUs and bills of exchange are issued, as a rule, in US dollars, euros, although you can, in principle, consider a bill in any currency. In practice, forfeiters usually use these currencies due to their widespread circulation on the European markets and with the purpose to

avoid difficulties with conducting operations in other currencies. Moreover, since the cost of forfeiting operations is determined mainly by the basic costs of the forfeiter, the risks associated with weak or volatile currencies would greatly increase the cost of such operations. Of course, it is important that payments be made in a freely convertible currency. To ensure this, IOUs or bills of exchange always include this useful clause when they are expressed in a currency other than the currency of the place of payment.

Accounting (discounting), i.e. deduction of the agreed discount for the relevant period from the nominal amount of the bill, takes place after the forfeiter has received the bill of exchange. As a result of discounting, the exporter receives a certain amount of cash for the accounted bill. From the point of view of the exporter, the operation was completed at this point, since he had already received payment for the delivered goods in full, and, according to the terms of the agreement with the forfeiter, the transaction concluded with him is not retroactive. Forfeiting operations are rarely performed at floating discount rates.

As mentioned above, a huge number of obligations subject to forfeiting take the form of either promissory notes or transfer notes issued to the debtor by the beneficiary and accepted by the debtor. The following two considerations determine the prevalence of these forms of debt instruments:

- the fame, because these kinds of commitments have been going around the world since the middle ages. Years of experience in handling such documents lead to a significant facilitation of communication between the parties involved and, as a rule, contribute to the speedy and smooth implementation of operations;

- the internationally agreed legal framework laid down by the International Convention on Commercial Bills of Exchange adopted by the Geneva Conference in 1930. This convention is a clear code of practical action. Although the convention was signed only by the representatives of the participating countries, it developed the principles later adopted by the legislation of most of the trading countries.

Returning to the two most common types of negotiable documents, it should be noted that in forfeiting between promissory notes and bills of exchange there is a difference in the interests of participants from a legal point of view. This refers to the “no turnover” clause

and is reflected in the International Convention on Commercial Bills of Exchange, which states that an endorser of a promissory note has a legitimate right to free itself from any obligation on the basis of a clause on the absence of a return requirement in its endorsement. In the case of a bill of exchange, the lender acts as a breeder, and therefore, from the point of view of law, is always responsible, regardless of whether he writes any order excluding this rule on the bill. In practice, this creates several problems.

Since the drawer is usually satisfied by the forfeiter's written undertaking not to act against it in the event of default, it becomes nonetheless essential for the exporters to deal with forfeiters with an unblemished reputation that they can rely on to fulfill the terms of the agreement. It is for this reason that exporters prefer promissory notes as payment documents making it easier to transfer risks.

Simple or exchange bills, accepted upon forfeiting nearly always accompany banking insurance in the form of conventional guarantees or aval. The guarantor, as a rule, is a Bank operating on the international market and known to the forfeiter, which is a resident in the country of the union and is able to confirm the solvency of the importer. Such a guarantee is important not only to reduce the risk of forfeiture, but also to be able to re-account liabilities in the secondary loan markets, if necessary. Guarantees and avals are essentially simple: both types in their simplest form act as a promise to pay a certain amount on a certain date in the event of non-payment of the original debtor. The application of the "buergschaft" (surety) obligations as security is somewhat more complicated.

When issuing a guarantee, the promise takes the form of an independent document signed by the guarantor, fully stating the conditions relating to the transaction. It is important that the guarantee specifically states not only the full amount, but also each payment term and the amount of the repayment attributable to this date, since it is based on the data on the grounds of which the cost of discounting is calculated. Moreover, the guarantee must be completely transferable, which is understood by itself, unless the guarantee contains otherwise. Finally, it is essential that the warranty be abstract, i.e. was completely isolated from the main transaction. Sometimes, in practice, guarantees are issued, relying on the economic situation of the importer, but the forfeiter, as a rule, insists on the clear irrevocable and unconditional

obligations of the guaranteeing bank or prefers to buy documents without a turn to the exporter, but only based on the contract the guaranteeing bank will declare the debt unconditional. Aval in international practice can be viewed as an irrevocable and unconditional guarantee of payment on a specific date, issued by the guarantor, as if he himself were a debtor. This is the most suitable and preferred form of insurance for forfeiter.

Aval is written out directly on each bill or bill of exchange, for which it is enough to make the inscription “reg aval” and subscribe to it (you must also indicate on the bill of exchange the name of the original debtor, in favor of which the aval is made). Its inherent isolation and transferability makes it possible to avoid many complications associated with the provision of a guarantee. It is for this reason that when insuring forfeit avals as a form of guarantee, preference is given to these. However, it should be borne in mind that by the legislation of some countries aval is not recognized.

Buergschaft (surety) – declaration of an obligation tied to a specific contract. Due to the dependence on the legal basis of the following contract, this form of guarantee for forfeiting is less common. As a rule, the forfeiter neglects the need to verify the legality of all sorts of documents, accepting the buergschaft only after confirming that the delivery of goods is appropriately completed. This circumstance significantly reduces the scope of application of this form of guarantee. In addition to the above, forfeiter usually requires the guaranteeing bank to confirm its lack of counterclaims, invariability of amounts and terms, consent to the transfer of rights and requirements to the new owner, as well as to confirm that the bank bureaucracy acts unconditionally and irrevocably. This overwhelming confirmation significantly limits the use of the buergschaft and contributes to the fact that the forfeited buergschaft becomes an ordinary guarantee, i.e. detached performance obligation, in no way associated with the main operation.

Often interested exporters turn to forfeiter at the very early stage of the transaction. The exporter, being often unable to independently offer the importer a medium-term loan, long before the conclusion of the export contract will want to find out whether there is, in principle, the possibility of organizing forfeited financing to cover the export costs. On the other hand, the forfeiter, unfamiliar with all the necessary details, will not be able to make a final offer, but instead will tell you

whether or not such funding is possible and give approximate discount rates. Following this, the exporter will be able to continue negotiations on this basis and, if necessary, agree on the costs of framing his receivables. Finally, the forfeiter makes an offer to the exporter, pledging to provide the necessary funds at a fixed rate, although it may take some time before the exporter accepts this offer. This option period (selection period), during which no commission is charged, usually does not exceed 48 hours. A longer (up to 1-3 months) option period is also possible, but in this case, the option fee is withheld.

Much more important is the period from the agreement on the purchase of bills to the actual delivery, since the preparation of financing usually takes place from the shipment of goods. During this period, the forfeiter is pledged to forfeit obligations at a fixed rate for the entire term or up to the fixed date, while the exporter is obliged to submit agreed documents. The exporter can accumulate a contract with forfeiter only by mutual agreement with him, while paying the penalty due to the forfeiter.

13.2 Risks in forfeiting operations

In commercial crediting of a foreign trade transaction, the exporter has a whole system of risks that the exporter assumes. This system traditionally includes commercial, currency, political risks associated with the transfer of currencies from country to country. Commercial risks are associated with the inability or unwillingness of the debtor or guarantor to pay. The threat of non-fulfillment of the obligation inevitably entails the need in each case to assess the creditworthiness of the importer or guaranteeing bank. Commercial risk associated with the failure to fulfill the obligation of a state organization falls into the category of political risks. In addition to them, this category includes other emergency measures of the state: political conflicts (war, revolution, intervention, or civil unrest), which may cause losses to the exporter.

Among the most serious risks are the risks associated with making payments in foreign currency. When converting the buyer's currency into the seller's currency, floating rates of foreign currencies can lead to a significant change in the value of the goods purchased under the contract and, therefore, to losses for the exporter.

Transfer risks are usually caused by the inability or unwillingness of the state or other specialized body to make payments in the currency of the contract, as well as with the introduction of a moratorium on the transfer of payments in foreign currency abroad.

All these types of risks are applicable to forfeiting. Taking into account the bills, the forfeiter assumes without recourse all the risks of the exporter. Therefore, when forfeiting, you must comply with the basic rules of risk insurance.

When insuring against commercial risks, the exporter must ensure that the borrower belongs to a first-class company, although in most cases, the exporter's claims are covered by an aval or bank guarantee of the debtor's country. Most forfeiting companies take the obligations only during the period when risks arise for the forfeiter.

Forfeiter covers the risk of currency transfer from country to country. Before concluding a forfeit transaction, it is he who determines the ability of the importing country to fulfill its currency obligations. When covering currency risks, most forfeiting companies buy only in certain currencies, which, based on the demand for this currency, can be easily and quickly refinanced. Such currencies primarily include the US dollars, German marks and Swiss francs.

Table

Comparative characteristics of factoring and forfeiting operations

Comparison options	Factoring	Forfeiting
1	2	3
1. Object of the transaction	Promissory notes, more often – other debt obligations	Transferable promissory notes – rarely
2. Conclusion of the contract	One indefinite (subsequent transactions are carried out without a contract)	Single
3. The term of the transaction (the duration of the installment payment)	From 6 months to 1 year	Up to 5-8 years
4. Risks	Mostly with recourse	Without recourse
5. Sphere of use	Small and medium enterprises (furniture,	Large enterprises (engineering,

Comparison options	Factoring	Forfeiting
1	2	3
	textile, sewing, shoemaking, etc.)	shipbuilding, wholesale companies, etc.)
6. Security	Without security	in the form of an aval, guarantee or burgshchaft
7. Experience of use	Since the beginning of the 20th century	From the Middle Ages

Analyzing the main conditions of the forfeiting transaction, the main attention should be paid to the repayment mechanism, currency, discounting, types of forfeit documents, types of bank guarantee and additional conditions.

Based on the above, we can conclude that forfeiting is the most legally developed method of refinancing a foreign trade commercial loan. The advantages of forfeiting for the exporter, primarily due to the full transfer of currency, commercial, political, transferable and other types of risks to the forfeiter (bank), make forfeiting the most preferable for the seller.

As we can see, forfeiting and factoring operations are similar to each other, although they have the differences that we have shown in Table 4.

13.3 International experience in forfeiting development

The emergence of the forfeiting market is determined by changes in the structure of the global economy that occurred in the late 50s and early 60s, when the market for the seller of industrial goods was gradually transformed into the market for the buyer of these goods. The significant development of international trade was accompanied by an increasing trend of growing requirements of importers to extend the term of the traditional 90-180-day commercial loan. This time was characterized by a decrease in the level of customs opposition, formed as a result of the post-war depression and the Cold War. The revival of trade relations between the countries of Western and Eastern Europe and the growing importance of the countries of Asia, Africa

and Latin America in world trade created many financial difficulties, primarily for Western European exporters. Moreover, the emergence of these new markets came at the time when the burdensome investment obligations of exporting firms prevented them from financing their medium-term supplier credits at their own expense, and existing banks were unable to offer the services expected by exporters. Thus, forfeited funds appeared in response to unmet and ever-growing demand for international loans.

A pioneer among the largest banks in the forfeiting market was Credit Suisse, and Switzerland was the first major bank center for fortifying.

It soon became apparent that forfeiting is a rapidly developing industry that requires the creation of a special unit within the framework of the traditional functional structure of the bank. In addition to the growing volume of transactions, there was a need to expand activities in other areas and offer financing services outside of banking practice. Therefore, since 1965, the first specialized organization dedicated exclusively to forfeiting has started its operations – Finance AG, Zurich, a branch of the largest Swiss bank.

The Swiss championship in forfeiting has not been surpassed so far, although forfeiting operations have spread to other financial centers in Western Europe.

Self-test questions

1. What types of risks are taken by forfeiter?
2. What types of insurance are used in forfeiting? Why?
3. What types of forfeiting do you know? What are their features?
4. What are the main advantages of forfeiting for both the importer and exporter?
5. What normative act regulates forfeiting operations?

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Additional indicators of the creditworthiness of the borrower

№	Name of an indicator		Economic content	Algorithm of calculation
1	2	3	4	5
1.	Return on invested capital	R _{IC}	Characterizes the efficiency of the borrower's fixed and working capital.	$R_{IC} = \frac{\text{Balance profit}}{\text{Total assets}}$
			If P.I.K. more than 1, it indicates the sufficiency of the borrower's own working capital	
2.	Gross profit margin	M _{GP}	Shows the profit share of income. The higher this figure, the more profitable the borrower.	$M_{GP} = \frac{\text{Balance profit}}{\text{Proceeds from sales of products} - \text{VAT}}$
3.	Net profit margin	M _{NP}	Shows the share of net profit in income. The higher this figure, the more reliable the borrower.	$M_{NP} = \frac{\text{Profit after interest and tax}}{\text{Revenue from sales of goods} - \text{VAT}}$
4.	Asset turnover ratio	R _{AT}	Characterizes the efficiency of assets. The higher this indicator, the greater the turnover of invested capital	$R_{AT} = \frac{\text{Revenue from sales of goods} - \text{VAT}}{\text{Investment capital}}$
5.	Fixed asset turnover ratio	R _{FAT}	Characterizes the effectiveness of the borrower's use of the basics-funds. The higher this figure, the greater the	$R_{FAT} = \frac{\text{Revenue from sales}}{\text{Fixed assets}}$

№	Name of an indicator		Economic content	Algorithm of calculation
1	2	3	4	5
			turnover of fixed assets	
6.	Period of creditors' turnover	P _{CT}	Shows how much time the borrower needs to pay suppliers for goods and services. The turnover of accounts payable will improve if the accounts payable decrease due to the increase in the volume of sales.	<p><i>The average value of accounts payable for the reporting period</i></p> $P_{CT} = \frac{\text{(number of days in the reporting period)}}{\text{costs of production of goods sold}}$
7.	Ratio of own and borrowed funds	O. B.	Characterizes the financial independence of the borrower from borrowed sources. The lower this figure, the more reliable the borrower	$O. B. = \frac{\text{Borrowed funds}}{\text{Own funds}}$
8.	Turnover period of debtors	P _{DT}	Characterizes the period of time during which the borrower is able to receive payments for the sold goods, i.e. to ensure cash flow and fulfill debt obligations	<p><i>The average value of accounts receivable for the reporting period</i></p> $P_{DT} = \frac{\text{(number of days in the reporting period)}}{\text{Proceeds from sales}}$

№	Name of an indicator		Economic content	Algorithm of calculation
1	2	3	4	5
9.	The period of circulation of inventory	P _{IC}	Characterizes the turnover of commodity pass. The lower this figure, the more reliable the borrower.	$P_{IC} = \frac{\text{Average stocks (number of days in the reporting period)}}{\text{Costs of production of goods sold}}$
10.	Accounts payable turnover	T _{AP}	Shows changes in the state of accounts payable, reflects the dynamics for a certain period	$T_{AP} = \frac{\text{Revenue from sales for the year}}{\text{The average value of accounts payable for the year}}$
11.	Turnover of working capital	T _{WC}	Characterizes the efficiency of working capital. The higher the turnover of working capital, the more reliable the borrower	$T_{WC} = \frac{\text{Revenue from sales for the year}}{\text{The average amount for the year}}$
12.	Accounts receivable turnover	T _{AR}	Shows changes in the state of accounts receivable for the analyzed period	$T_{AR} = \frac{\text{Revenue from sales for the year}}{\text{The average amount accounts receivable for the year}}$

**Methods of analysis of the financial condition of the borrower
on the example of a commercial bank of Kazakhstan**

As an example, we would like to cite a methodology for assessing the financial condition of borrowers of one of the major commercial banks in Kazakhstan, which we call Bank A (hereinafter referred to as the Methodology).

The technique is applied at the stage of consideration of clients' loan applications, as well as at the stage of further monitoring the loan provided (at least once a quarter) and considering issues related to changes in credit terms.

Assessment of the borrower's ability to repay loan obligations involves a comprehensive analysis of his financial condition and the general economic situation in the industry, region and other factors determining the borrower's creditworthiness.

Financial analysis is based on the analysis of financial statements and other available information. The information on the basis of which this analysis is made is standardized in the form of generally accepted reporting forms. The tax authorities must confirm the credibility of the statements.

In analyzing the financial condition of the borrower, standard methods of financial analysis are used: horizontal and vertical analysis, as well as comparison with standard values.

The method of assessing the financial condition of borrowers involves the calculation of a more or less wide range of financial ratios, the central place among which is occupied by liquidity indicators, which refer to the ability of an enterprise to quickly release from economic circulation the funds necessary for normal financial and economic activities and repay its obligations.

The methodology contains the following key indicators calculated taking into account the specifics of the industry, seasonality (cyclicality) of production, the scope of the borrower (debtor, co-borrower):

1) solvency – reveals the ability of the borrower, debtor, co-borrower to serve their obligations, calculated on the basis of a corresponding set of coefficients;

2) financial stability – reveals the capital structure, the level of profitability (in dynamics for the last calendar year), profitability (in dynamics), absence (presence) of overdue debts, access of the borrower (debtor, co-borrower) to the capital market, availability of other significant information that allows assessing the financial stability of the borrower (debtor, co-borrower), calculated on the basis of the appropriate set of coefficients established by the Methodology;

3) debt servicing ability, cash flow forecast;

4) the composition and dynamics of receivables and payables (for the last reporting and current years);

5) the cost of production (in dynamics);

6) credit history (repayment of credit debt in the past, the presence of existing loans);

7) the borrower (debtor, co-borrower) relation to financial groups and holdings;

8) dependence on one /several suppliers and /or customers;

9) measures taken by the borrower, debtor, co-borrower to improve their financial situation;

10) involvement of the borrower (debtor, co-borrower) in legal proceedings that may worsen his financial condition;

11) other subjective factors that characterize the market position of the borrower (debtor, co-borrower), its dependence on cyclical and structural changes in the economy (type of industry, assessment of the attractiveness of goods (services) that are manufactured (provided) by the borrower (debtor, co-borrower), the market of such goods (services), the level of competition in the field of activity of the borrower (debtor, co-borrower), the duration of activity in a particular market).

Assessment of the financial condition of the borrower

The information base for the financial analysis of the borrower's activity is its financial statements for the two previous reporting years and for the last reporting date of the current year (Balance Sheet, Profit and Loss Report or financial and business results, Cash Flow Report).

In most cases, the official financial statements submitted by the client to the bank do not provide a complete picture of the borrower's assets, therefore, for a more complete analysis, it is necessary to clarify the data of the client's reports or to compile an "own" balance sheet that more accurately reflects the borrower's financial situation.

To get a more realistic picture of the borrower's finances, a loan officer in analyzing the financial condition of the borrower in addition to official financial statements analyzes the primary documents confirming the accuracy of the reporting data and considering these, reflects the full and real financial situation of the borrower in the expert opinion. To do this, it is necessary to verify the accuracy of the reporting balance sheet data submitted by the borrower along with his turnover balance sheet maintained in the accounting department as a mandatory internal reporting with daily balances. The data of current statements on the 1st day is compared with the data for a few days before the end of the month and several days at the beginning of the next month in order to identify whether the company's management has taken any actions to embellish the balance (short-term loans for 2-3 days, accumulation of funds until the balance sheet date, delay in shipment of goods or the return of funds to creditors, etc.).

If during the verification of the reliability of the borrower's reported data, facts of distortion or embellishment of these data, or facts of incomplete reflection of the turnovers were revealed, the credit officer should take them into account in a condensed balance sheet with explanations.

1. Analysis of the No. 2 financial statement "Balance"

This form of financial reporting shows the structure of assets of the enterprise and the sources of their formation. An increase in the balance sheet during the reporting period indicates an increase in the business activity of the borrower.

To compile a compacted balance sheet (the loan officer compiles an "own" compacted balance taking into account the reconciliation of all indicators with the real situation), all homogeneous indicators of the Assets and Liability should be combined and summarized in aggregated items in order to facilitate the analysis and make sound estimates on it.

In drawing up a compacted balance sheet it should be borne in mind that:

- The item “Fixed assets” in accordance with the applicable accounting standards includes land, buildings and structures, machinery and equipment, vehicles, other types of fixed assets of the borrower. Fixed assets in this case should be valued at residual value;

- In the article “Other long-term assets” intangible assets (patents, trademarks, software products, etc.), long-term investments (investments in subsidiaries or affiliates), long-term receivables (accounts receivable, promissory notes received, etc.), prepaid expenses (more than one year) are included;

- In the article “Accounts receivable” receivables from buyers and customers, which will be received within one year from the reporting date (advance payments for the purchase of current assets, accounts receivable, promissory notes received and other receivables) are included;

- In the article “Inventories” materials (raw materials and materials, semi-finished products, fuel, containers, spare parts, etc.), work in progress (main production, auxiliary production, other), goods (finished goods, purchased goods and other) are included;

- In the article “Other assets” deferred expenses (insurance policy, rent, etc.) are included;

- In the article “Authorized capital” ordinary and preferred shares, deposits and shares are included;

- In the article “Retained earnings” retained earnings (uncovered loss) of the reporting year and previous years are included;

- In the article “Other sources of own funds” unpaid capital, withdrawn capital, additionally paid up capital, reserve capital are included;

- In the article “Accounts payable” settlements with suppliers and contractors, debt to subsidiaries and affiliates are included;

- In the article “Other current liabilities” – settlements on budget and extra-budgetary payments, salary payments, lease obligations, interest payable, current portion of long-term loans to be repaid within one year, etc., are included;

- In the section “Long-term liabilities” there are all bank loans, deferred taxes and other payables (except for the part repaid within one year).

Note: If the borrower has been in business for less than three years, the compiled balance sheet is presented for the actual time of its operation (for one or two years).

There are the following methods of analysis of balance:

- horizontal balance sheet analysis – shows the trend of changes in indicators: for example, an increase or decrease in current assets, an increase or decrease in receivables and payables, based on the results of a horizontal analysis, estimates of these changes are given and necessary explanations are presented;

- vertical (structural) analysis shows the share of items in the balance sheet (the sum of individual balance sheet items in the balance currency is calculated and their changes are assessed). For example, a high proportion of the company's own capital is positive, and an increase in the share of accounts payable is negative, etc. by all major indicators of balance.

Note: For changes in the balance sheet indicators, comments must be made. They should be based on the results of the analysis of indicators according to the following scheme:

– first, using the horizontal analysis method, the considered balance indicators of the last reporting date are compared with a number of previous periods and the trend is determined, i.e. the main trend of changes in the dynamics of the analyzed indicators: for example, an increase or decrease in current assets, an increase or decrease in receivables and payables, and estimates of these changes are given, indicating the main reasons (purchasing raw materials before the season, etc.) Similarly, deviations are determined for other balance sheet indicators, explanations are given for significant changes;

– then, by vertical (structural) analysis of the asset and liability balance, the shares of individual balance sheet items are calculated as a result of the (currency) balance and their changes are assessed. For example, a high proportion of capital and reserves, i.e. the company's own sources are positive, and the increase in the share of payables is negative, and in this manner all major indicators of balance **are assessed**.

Fixed assets

The structure of fixed assets is analyzed in order to:

– Obtain information for further calculations (including those using Project Expert software – for large projects) and the analysis of the liquidity of the Borrower company;

- Analyze the infrastructure necessary for the business of the Borrower;
- Obtain the information on the availability of a possible collateral base.

The analysis of the growth or decline of individual articles and groups of balance sheet items suggests some changes that are likely for a particular situation of the borrower and his business. For example:

1. A significant increase in the “Cash” item may indicate that:

- a) consumers began paying their obligations on time;
- b) the company began to sell products for prepayment;
- c) the company has increased sales;

d) there was a reduction in investment activity carried out at the expense of net profit – the company reduced capital investments, keeping cash in accounts;

e) there was an acceleration of the passage of payments.

2. A significant increase in the item “Accounts Receivable” may indicate:

a) deterioration of the situation of consumers (consumers have not paid on time)

– if the receivables are long-term;

b) an increase in demand for goods – if the receivables are short-term;

c) deterioration of work with consumers (the company has reduced control over the course of payments and continues to ship on credit);

d) collusion between the buyer and the supplier (money from the sale is not officially transferred to the company – loss of capital).

The analysis of accounts receivable (for the two previous reporting years and for the last reporting date of the current year) assesses the composition, dynamics, causes and duration of formation, the terms of payments and the measures taken by the borrower to collect them. To analyze the structure of receivables, a breakdown of the amounts of receivables by liquidity groups is recommended depending on the timing of formation in the following table:

Accounts receivable			
Liquidity group		Amount (thousand tenge)	Specific weight
Up to 90 days			
90 to 180 days	2		
180 to 365 days	3		
Ave.365 days	4		
TOTAL			100%

Note: the amount of receivables in the table and balance sheet must be specified adjusted for the adjustment **ratio**.

Recommended receivables adjustment ratios:

Liquidity group	Correction ratio	Amount adjusted (thousand tenge)	Specific weight
Up to 90 days	1,0		
90 to 180 days	0,9		
180 to 365 days	0,6		
Ave.365 days	0,2		
			100%

(For large projects, in the case of the duration of the borrower's operating cycle, these ratios should be coordinated with the Credit Risk Department for major projects of the Credit Risk Department).

Note: the amount of the difference between the provided and adjusted receivables must reduce the amount of net profit (by increasing general and administrative expenses) in the Profit and Loss Report, and it is necessary to reflect in the comments the reason for these adjustments.

The loan officer has to give his comments on financial capability and timely repayment of receivables, including the information on the work done and the prospects for repayment of doubtful debts. In this case, if there are transactions (receivables) in an amount exceeding 25% of the balance sheet in total, it is necessary to request the relevant supporting documents (contracts, invoices, invoices, reconciliation acts) and the permission of the relevant competent authorities of the enterprise for these transactions depending on the Charter (for example, the decision of the founders / shareholders of the company).

In the analysis of accounts payable (for the two previous reporting years and for the last reporting date of the current year), its composition, dynamics, causes and duration of education, settlement terms and measures taken by the borrower to repay it are analyzed. For an optimal analysis of the structure of accounts payable, a

breakdown of accounts payable depending on the timing of its formation is recommended in the following table:

Accounts payable			
Liquidity group		Amount (thousand tenge)	Specific weight
Up to 90 days	1		
90 to 180 days	2		
180 to 365 days	3		
Ave.365 days	4		
TOTAL			100%

A significant increase in the item “Accounts payable” may indicate:

- a) deterioration of the company's solvency – in case of long-term payables;
- b) increase in supply of credit by suppliers – in case the accounts payable are short-term;
- c) collusion of buyer and supplier.

4.8.9. A significant increase in the item “Inventories” may indicate:

- a) an increase in the volume of purchases of raw materials with the forecast of an increase in sales in the market;
- b) deterioration in sales of the company's products.

The loan officer should keep in mind that the analysis of the borrower's balance sheet is ineffective in cases where:

- some firms have undeveloped (incomplete) balance. In this case, it is necessary to analyze specific transactions carried out by this economic entity, confirming its reliability, efficiency and profitability. Such an analysis requires the involvement of a multitude of data not related to the subject under consideration; it is necessary to additionally verify the reliability and financial stability of the partners involved in the transaction;

- companies perform specific functions. Individual firms perform only the functions of a settlement account for other firms and companies, especially for parent companies, not engaging in their main activities under the Charter, serve as an intermediary in trading operations or live by renting out their property, etc. These and other specific features in the borrower's activities make the coefficient analysis of its financial condition unreliable, since good or bad financial condition may not be related to ordinary economic conditions, be random, artificial, etc.;

- companies or firms are in specific conditions. Today's conditions in Kazakhstan affect all companies and firms, **but in varying degrees**. Moreover, the measure of this impact depends on the specific conditions created for a particular company, e.g., the presence of some benefits, quotas, licenses, various forms of “artificial” monopoly as a result of lobbying or corruption. In this case, the balance analysis does not identify specific success factors that are not related to the structure

of the asset or liability. Therefore, such firms will need a special analysis of resistance to abrupt changes (calculation of the minimum break-even point, sensitivity analysis to changes in support factors, etc.).

2. Analysis of the No. 2 financial statement "Report on Profit and Loss"

This form of financial reporting shows the profitability of the borrower's activity, the trend of changes in the dynamics of indicators (for example, an increase or decrease in the level of profitability, production costs) and includes:

- Proceeds from sales of products (works, services) – this is the income from sales minus VAT and excise taxes;
- The cost of goods sold (works, services) includes the cost of production – variable costs (raw materials and materials, wages of workers, depreciation of fixed assets, etc.);
- Gross profit minus general and administrative expenses should be greater than the amount of interest on the requested loan;
- Expenses of the period reflect fixed costs that do not depend on the volume of production (general and administrative expenses, expenses on sales, expenses on interest payments);
- Profit (loss) from the main activity – it shows the profitability of the business and is a source of repayment of the loan under the investment project;
- Profit (loss) from non-core activities – income arising from the sale of fixed assets, revaluation of securities, exchange rate difference, etc.

To analyze the *structure of the formation of profit*, it is necessary to decipher the income and cost of business by types (areas) of activity.

Note:

1. It is necessary to separately indicate the amount of accrued depreciation for the period (included in expenses / cost price) – this addition is required in calculation of the payback of investment projects at the expense of current activities (in the initial analysis of the requested loan for the purchase of fixed assets it is possible to divide the amount of the requested loan with allowance for net profit + depreciation).

2. The amount of net profit (by increasing general and administrative expenses) in the Profit and Loss Report must be reduced by the amount of the difference between the provided and adjusted receivables.

The amount of retained earnings in the income statement equals the change in the retained earnings item in the balance sheet. In case of discrepancies, it is recommended to request from the borrower Form No. 4 of the financial document "Statement of Capital Flows" with the mandatory verification of changes in this form with the balance sheet and income statement:

3. Analysis of the No. 2 Profit Usage Report

№	Name	01.01.0X	01.01.0Y	01.01.0Z
1	2	3	4	5
1	Net profit for the reporting period			
2	Retained earnings of the previous period			

1	2	3	4	5
3	Profit to distribution (p. 1 + p. 2)			
4	Dividends on ordinary shares for the reporting period			
5	Dividends on preferred shares for the reporting period			
6	Deductions to reserves for the reporting period			
7	Retained earnings of the current and previous periods (p. 3 – p. 4 – p. 5 – p. 6)			

Comment:

- Page 1 (Net profit) is taken from the Profit and Loss Statement (profit) of the reporting period.
- Page 2 (Retained earnings of the previous period) is taken from the balance sheet section under the heading “Retained earnings of the previous period” at the beginning of the period.
- On page 4 and page 5 (Dividends on ordinary and preferred shares) the amount of dividends paid is shown. It is taken from the explanatory note to the financial (accounting) statements.
- On page 6 (Deductions to reserves) the amount of retained earnings is shown, aimed at replenishing the reserve capital. The amount is taken from the explanatory note to the financial (accounting) statements. It is necessary to indicate whether the share of allocations to reserves corresponds to the statutory goals of the company. If not, indicate why.
- The amount on page 7 (Retained earnings of the current and previous periods) should correspond to the difference between the retained earnings at the beginning and end of the company's balance sheet.

4. Analysis No. 3 of the financial statement "Report on cash flows"

In order to properly disclose the actual cash flow at the enterprise, to assess the synchronization of the inflow and outflow of funds (the presence of a gap in payments), it is necessary to check from which sources the enterprise receives funds and what are the directions of their spending. The main goal for the loan officer is to assess the borrower's ability to earn money **in the amount and within the time** required for him to incur expenses for running a normal current business and, most importantly, for servicing the debt and repaying the debt to the Bank in full on time.

In cases where the business cycle fluctuates (is seasonal) or in an investment project, there is a large interval between purchases, large investments in the past period, as well as other situations in the business, it is required for a clearer picture of the borrower's cash flows in the last 6–12 months. It is advisable to analyze the cash flows by each type of activity separately.

The cash flow statement reflects:

- operational (ongoing) activity;
- investment activity;
- financial activities.

a) Current activity is the main business of the borrower.

The influx of money occurs due to:

- revenue from sales (including VAT, excise taxes, etc.);
- debtors;
- advances received for the supply of inventory and the provision of services;
- interest, dividends and royalties, various rewards and other income.

The outflow of money occurs due to:

- payment to suppliers;
- advances issued for the supply of inventory;
- payroll;
- settlements with the budget;
- interest payments;
- settlements with creditors.

b) Investment activity is the acquisition and sale of long-term property (fixed assets, securities for sale).

c) Financial activity is the attraction of borrowed funds (bank loans, placement of own securities) and their repayment.

Cash flow analysis shows:

- volumes and sources of cash inflows and the main directions of their use;
- the ability of the borrower as a result of his current activities to ensure the profitability of the business and its stability;
- whether the borrower is able to pay his current obligations.

If the borrower's operating activities incur permanent losses without paying off accounts payable with constant borrowing, then the borrower covers his losses with bank loans.

Cash balances at the beginning and end of the period for the DDS Report should be equal to the item "cash" in the balance sheet.

It must be remembered that in the form of cash flow the direct method is used, according to which the absolute amount of income (inflow) and expenditure (outflow) of funds is revealed. This is due, primarily, to the fact that the Ministry of Finance of the Republic of Kazakhstan has approved a single form of reporting on cash flows, where the direct method is used and the inflows and outflows are expressed in the absolute amount.

In the course of the analysis, it is advisable to check the accuracy of the data on actual flows presented by the borrower (on turnover balance sheets, in the cash and G / L, etc.): in particular, you can selectively check the receipts and expenditure of money in the Cash Book and compare its results with the data in the general ledger, etc.

Taking into account the results of the analysis of cash flow, a cash flow forecast is prepared for the entire crediting period, based on the forecast estimates:

- revenue from sales in general and by main types of products (goods),
- sales (selling) prices,
- terms of settlements with customers and suppliers,
- cash transactions (taxes, salary, interest),
- receipt and / or repayment of loans, etc.

5. Analysis of financial ratios

The analysis of financial ratios is given in expert opinions in tabular form, with brief conclusions.

In banking practice, four main groups of financial ratios are taken to assess the borrower's creditworthiness:

- liquidity ratios;
- leverage ratios (leverage) for analyzing the effectiveness of managing the sources of funds;
- turnover ratios for analyzing the efficiency of the use of the company's resources;
- profitability ratios.

Liquidity ratios

a) Current ratio = current assets: current liabilities.

– **Current assets** are cash in hand and cash in bank accounts, net receivables, inventories, other current assets (deferred expenses, investments in highly liquid securities, etc.). The debt is determined by deducting the allowance for bad debts from the balance of receivables, i.e. accounts receivable are short-term. Inventories should have a relatively fast turnover (within a year).

– **Current liabilities** – loans of the nearest maturity (within a year), unpaid claims (suppliers, budget, salary to their employees, etc.), other current liabilities.

– The current liquidity ratio is also known as the coverage ratio. This ratio characterizes the overall liquidity and shows the extent to which current liabilities are secured by current assets.

– The recommended value of this indicator is from 0,70 to 1,20. For example:
– if the current liquidity ratio is high, more than 1,20, then this may be due to a
– slowdown in the turnover of funds invested in inventories, with an unjustified increase in receivables;

– a permanent reduction in the ratio will mean an increasing risk of insolvency.

b) quick ratio = (current assets – inventories): current liabilities.

This indicator helps to make an assessment of the ability of the borrower to repay short-term liabilities in the event of its critical situation, when it will not be possible to quickly sell the inventory.

The value of this coefficient is recommended in the range from 0,4 to 0,6. In retail trading companies and firms, it can be reduced to 0,3 – 0,4, but it can be very high due to an unjustified increase in accounts receivable.

Leverage ratios for analyzing the effectiveness of managing the sources of funds

Analysis of the coefficients of this group will allow to assess the degree of security of the borrower (debtor, co-borrower) with own capital and its overall relative dependence on attracted sources, access to the capital market. Below is the method of their calculation and the content:

a) The ratio of liabilities to assets = the average amount of debt during the period: the average amount of assets for the period.

In calculation of this and the following ratio, the total amount of debt (short-term and long-term) to banks, suppliers, budget, etc. is taken.

b) The ratio of liabilities to equity = the average amount of debt during the period: the average amount of equity for the period

This ratio shows the ratio of total debt and equity. For example, a ratio of 2.0 means that for every 2 tenge of debt there is 1 tenge of equity, i.e. the assets are financed by 67% at the expense of debt and by 33% at the expense of equity. Ideally, the amount of borrowed funds should not be greater than the amount of equity (risk sharing, as well as the availability of own assets to repay loans in case of default).

For reference: the normative levels of this indicator, established in the world banking practice:

- Class I – 0.66,
- Class II – 1.00,
- Class III – 1.10,
- Class IV – 1.25,
- V class – 1.75,
- Class VI – 2.00.

In the expert opinions in the column “Comments” of the table of analysis of financial ratios the dynamics of their changes should be analyzed.

Turnover ratios for analyzing the effectiveness of the use of company resources.

To analyze the effectiveness of the use of the resources of the company, the following factors are applied:

- period of receivables turnover (in days)
- payables turnover period (in days),
- period of turnover of Materials and Stocks (in days).

a) The period (duration) of the turnover of accounts receivable in days = (average amount of accounts receivable during the period: sales revenue) x number of days in the period.

The longer the repayment period, the higher the risk of non-repayment. Therefore, when considering this indicator, it is necessary to analyze:

- structure and quality of receivables for each legal and physical person;
- causes and duration of arising problems and repayment of debt;
- the procedure and terms of payment (currency, barter).

In addition, it is advisable to determine the share (amount) of receivables in the total volume of working capital (the higher this share, the less mobile the company's property structure).

In calculation of the indicator, it is also necessary to take into account the share of doubtful and bad debts in the composition of receivables. It characterizes the "quality" of receivables (the tendency to its growth indicates a decrease in liquidity).

For analysis, it is necessary to use turnover balance sheets for relevant accounts -receivable accounts, and for large and long-term amounts – primary documents (contracts, payment orders, waybills, etc.).

b) Period (duration) of accounts payable turnover in days = (average amount of accounts payable during the period: sales proceeds) x number of days in the period.

In analyzing this indicator, it is necessary to carry out the same analysis as with receivables.

With a greater turnover of accounts receivable compared to accounts payable from the companies, as a rule, there is a temporary gap between receipts and cash

outflows. In this case, it is advisable to use the crediting limit tool to finance this gap with the repayment of each loan when money is received from debtors (the use of this repayment schedule will contribute to the discipline of borrowers).

c) The period (duration) of the turnover of Materials and Stocks = (the average amount of Materials and Stocks during the period x number of days in the period): cost of sales.

The growth of this indicator shows an increase in Materials and Stocks. The reasons for this may be certain difficulties with sales and overstocking of finished products due to reduced demand, or the creation of surplus stocks of inventories, which causes an increase in storage costs and unjustified diversion of funds from useful turnover.

Sometimes the increase in the duration of turnover of Materials and Stocks is justified, for example, with the expected increase in prices for raw materials and supplies or seasonal purchase of raw materials.

For the most objective analysis of the turnover of Materials and Stocks, it is necessary to visit the borrower, check its storage facilities and make sure that the data on the stocks correspond to the goods condition, storage conditions, their compliance with consumer demand and real possibilities for sales or processing.

Profitability ratios.

These coefficients characterize the level of profitability and efficiency and look like a ratio between different profit options and sales revenue, including:

- gross profit margin;
- net profit margin.

a) Gross profit margin = gross profit: sales revenue

b) Net profit margin = net profit: sales revenue

The calculated net profit rate is called profitability of sales and is compared with the figures of previous periods, and then a conclusion is made about the profitability of the borrower's sales. *The decrease in this indicator may, first of all, indicate a decrease in the competitiveness of the borrower, since it suggests a reduction in demand for the products, goods or services, or a decrease in business profitability.*

6. Borrower's credit history

In analyzing the credit history of the borrower (debtor, co-borrower), it is necessary to provide the information on the repayment of credit debt in the past and the availability of existing loans. In this case, it is necessary to indicate the debt in all banks and other financial institutions, as well as the debt of the founders and other persons affiliated with the borrower. For existing liabilities, it is necessary to reflect the target use – monitoring of current liabilities. This analysis allows us to characterize the borrower's payment discipline. The loan officer must necessarily reflect in the expert opinion and / or in the monitoring report the information about the borrower, in particular, about his reliability, presence or absence of overdue debts to banks, and (or) debts written off at a loss, as well as payment documents not paid on time at the Bank (form number 2).

In order to obtain the information on the availability of loans from other banks, their state and other additional information on the borrower, affiliated companies, founders and other persons affiliated with the borrower, it is necessary to contact the Credit Bureau with an application.

One of the indicators characterizing the financial condition of the borrower (debtor, co-borrower) is the presence or absence of prolongations, restructurings (change in the repayment schedule of the principal debt and / or remuneration). The loan officer should reflect in his report the information on the presence or absence of prolongations, restructurings (change in the schedule of repayment of the principal debt and / or remuneration), if any, indicate the number, timing and reasons for their provision.

7. Analysis of other aspects of financial activities

In analyzing the financial condition of the borrower (debtor, co-borrower), it is necessary to analyze his activities from the point of view of possible involvement in legal proceedings, the presence of large collection requirements of third parties for his account, blocking or arresting accounts for third parties, and other negative information that may entail the deterioration of the financial condition of the borrower.

Other subjective factors (market position, level of competition, activity in a particular market, dependence on suppliers and / or customers, etc.) that can have a negative impact on the financial condition of the borrower are analyzed in accordance with the Methodologies presented in the Compendium of Expert Crediting Criteria.

8. Assessment of the financial condition of the borrower (debtor, co-borrower)

Based on the analysis of the financial condition of the borrower (debtor, co-borrower), the loan officer prepares an expert opinion in accordance with the typical structure given in the Compendium of typical expert opinions on crediting and assesses the financial state of the borrower (debtor, co-borrower) in accordance with the following criteria given in the Rules for the FS Classification:

1) **stable** – the financial state of the borrower (debtor, co-borrower) is stable; the borrower (debtor, co-borrower) is solvent; cash flow allows him to service the debt; the favorable value of the coefficients is calculated in accordance with the Methodology; positive market conditions for business development, the borrower has a good competitive position in the market; free access to resources and the capital market, no dependence on a limited number of suppliers, no external or internal factors that could significantly worsen the financial condition of the borrower (debtor, co-borrower) during the term of the contract; the possibility of the borrower (debtor, co-borrower) to settle accounts with the Bank according to the obligation is not doubted; the maturity of the assets and liabilities of the borrower (debtor, co-borrower) are commensurate; the borrower (debtor, co-borrower) has a positive credit history;

2) **satisfactory** – the financial condition of the borrower (debtor, co-borrower) of this category is close to the characteristics of “stable”, but the probability of maintaining it at this level for a long time is low; decrease in the income, level of solvency; *(for investment loans – the level of income, solvency, losses from the beginning of crediting are at the level provided for by the debtor’s business plan, the other indicators correspond to all indicators given in this subparagraph)*, in the dynamics there is a slight decrease in cash flows; the borrower (debtor, co-borrower) takes measures to improve his financial condition; there are minimal risks of concentration of suppliers of goods, services and consumers of the borrower’s

products (debtor, co-borrower); the possibility of the borrower (debtor, co-borrower) to settle accounts with the Bank under his obligations is not doubted due to the fact that there is the access to additional resources; there was one prolongation;

3) **unsatisfactory** – there is a certain probability that the borrower (debtor, co-borrower) will not pay to the Bank for its obligations due to the following factors:

- there are signs of a permanent and significant deterioration in the financial condition of the borrower (debtor, co-borrower);
- the duration of growth of losses in the dynamics for the previous period is at least twelve months;
- the unfavorable value of the coefficients calculated in accordance with the Methodology, low level of solvency, a large dependence on borrowed funds;
- the borrower (debtor, co-borrower) has a negative equity capital;
- a steady decline in market share, there is no certainty that the measures taken by the borrower (debtor, co-borrower) are effective for stabilizing the financial condition;
- provision of a loan to a borrower (debtor, co-borrower) in order to repay a loan that was previously granted, due to the deterioration of the financial condition of the borrower (debtor, co-borrower);
- *(for investment loans – the financial condition of the borrower (co-borrower) of this category is close to the characteristics of “stable”, but the probability of supporting such borrower at this level is low; the level of income, solvency and losses from the start of crediting has an insignificant, adverse deviation from the level stipulated by the debtor’s business plan; a slight decrease in cash flows is observed in the dynamics, while the flows make it possible to cover the bulk of the debt;) measures are taken by the borrower (co-borrower to improve the financial condition, there are minimal risks of concentration of suppliers of goods, services and consumers of the borrower’s products (co-borrower); the ability of the borrower (co-borrower) to settle accounts with the bank is not in doubt due to the fact that there is the access to additional resources; the other indicators correspond to the below in this sub-clause);*
- the borrower (debtor, co-borrower) has an overdue obligation and (or) debts written off at a loss (overdue debts on loans from other banks, confirmed by an annual certificate from the credit bureau, as well as payment documents not paid on time to the Bank (card number 2));

- there are two extensions;

4) **unstable** – the financial condition of the borrower (debtor, co-borrower) of this category differs from the “unsatisfactory” one by the following factors:

- the borrower (debtor, co-borrower) violated all indicators determined by the Methodology;
- *(for investment loans – there is a certain probability that the borrower (co-borrower) will not pay the bank for its obligations due to the following factors:*
- *there are signs of a permanent and significant deterioration in the financial condition of the borrower (co-borrower): the level of income, solvency and losses from the start of crediting have significant adverse deviations from the level provided for by the business plan of the debtor, and may affect the implementation of the business plan;*
- *decline in market share;*
- *there is no certainty that the measures taken by the borrower (co-borrower) are effective for stabilizing the financial condition; the rest of the indicators correspond to the below in this sub-clause);*

- the debtor (co-borrower) has declared a reorganization for a period not exceeding 1 year;

- there are force majeure circumstances, as well as other circumstances that caused the borrower (co-borrower) material damage, but did not result in the termination of his activities;

- the borrower (debtor, co-borrower) has an overdue obligation and (or) debts written off at a loss (overdue debts on loans from other banks, confirmed by an annual certificate from the credit bureau, as well as payment documents not paid on time in the Bank (card number 2));

- there are three extensions;

5) **critical** – there is a full probability that the borrower (debtor, co-borrower) will not settle the obligations with the Bank due to the following factors:

- **the** borrower (debtor, co-borrower) is insolvent;

- the debtor (co-borrower) has declared a reorganization for a period of more than 1 year;

- the borrower (debtor, co-borrower) is declared bankrupt;

- the borrower (debtor, co-borrower) has force majeure circumstances that caused him material damage, the loss of market positions and (or) prevent him from continuing his activities;

- the borrower does not carry out activities, there are no cash flows on his current bank accounts and on hand, which reflect the results of his activities (except for turnovers related to the use of borrowed funds and financial assistance);

- there are significant discrepancies in the indicators of the financial (including managerial) reporting of the borrower (debtor, co-borrower) and (or) in the financial analysis of the borrower (debtor, co-borrower), compiled by the Bank's loan officer in accordance with the Methodology, there are significant discrepancies with the financial (including managerial) reporting of the borrower (debtor, co-borrower) and, in general, the accuracy of the assessment of the financial condition of the borrower (debtor, co-borrower) and the indicators used for its calculation;

- there is no documentation on credit monitoring in accordance with the requirements for maintaining documentation on crediting in the manner prescribed by the regulatory legal acts of the authorized body;

- *(for investment loans – a permanent deterioration in the financial condition of the borrower (co-borrower) has reached a critical level: insolvency, loss of market positions; the borrower (co-borrower) performed reorganization during the period of more than one year; the borrower (co-borrower) is declared bankrupt; major circumstances that caused the borrower (co-borrower) material damage and (or) prevent him from the continuation of his activities, there is no credit file from the borrower (debtor, co-borrower), and other indicators are also included in this sub-clause);*

- there are four or more prolongations.

Application for the provision of a financial instrument

(loan, line of credit, guarantee, letter of credit and other banking services)

Applicant	<i>(Name of company, organization)</i> SNT: □ □ □ □ □ □ □ □ □ □ □ □	
Credit amount:	currency:	
Intended use		
Requested term		
Proposed collateral (collateral)		
Chief executive	<i>position,</i> full name	
Average composition		
Legal address, the actual location of the organization	<i>(zip code, city, street, office number)</i> <i>(telephone and fax number,)</i>	
Date of registration (re-registration)	Certificate of Registration No. _____, issued by _____ <i>Date of re-registration</i> _____ <i>date of first registration</i>	
Type of ownership		
Branches and Affiliates		
Authorized capital:	<i>declared (under the Charter):</i>	<i>actually paid for:</i>
Founders and owners	<i>List:</i>	<i>Contribution (share):</i>
(indicating equity)		
Main activities		
Experience in implementing similar projects		

Please consider the possibility of granting a loan (credit line, bank guarantee, etc.). We guarantee the timely submission of documents required by the Bank for the consideration of our application, and the payment of all commission, insurance and other payments related to the consideration of the application and the receipt of (credit, line of credit, bank guarantee, etc.).

I, _____, acting on behalf of the interests of the Applicant, bear responsibility in accordance with the legislation of the Republic of Kazakhstan for the accuracy and completeness of the information provided in this Application _____

(Signature)

The first head signature Seal

Date

Application Form Borrower / Co-Borrower

The borrower / co-Borrower guarantees accuracy and validity when completing this questionnaire and providing information. The borrower / co-Borrower is not obliged to pay any person or entity who helped him / her to prepare this questionnaire.

1. Information about the Borrower / Co-Borrower

1. General information

In the line "bank details" specify the exact bank data where your organization is served.

Full name of the organization	
Legal address	
Phone, fax	
Bank details, current accounts (in tenge, currency)	

2. Addresses of officials

In the table, specify the home address (place of residence), phone number, passport data

Head (Full Name)	
Chief accountant (full name)	

3. Description of organization

3.1. In the line "activities" indicate what activities the organization has the right to be engaged in, emphasize which of them the organization is currently engaged in

Activities	1.
	2.

3.2. Owners of the organization (indicate the percentage)

Owner	%
1.	
2.	

3.3. Enter the following company information

Organization establishment date	
Number of employees to date	

2. The financing structure of the project

4.1. Specify all sources of funding for the project. In the line "own funds "specify the amount of funds that have been invested or can be invested in the project and the source of their education

Source of financing	Amount
1. Loans of the serviced Bank	
2. Loans from other banks	
4. Own funds	
The total amount of financing	

If the sources of financing of the project include loans from other banks and / or other borrowed funds, then specify your Creditors, the purpose, conditions and guarantees of their repayment.

3. Credit security

Specify in the table the proposed security, indicating the amount of security. If the security is the pledge of goods, then specify the type, grade, quantity of the unit of goods and the amount of goods.

Type of security (pledge)	Quantity	Amount
1.		
2.		
Subtotal:		

Assessment of collateral (collateral) and cost will be made by a specialist of the Bank. The amount of 60% of the estimated value of the collateral will be the amount of the loan and the amount of accrued interest.

4. Credit history

Indicate in the table all Bank loans used in the operation of the company and loans currently used and outstanding.

Creditor	Amount	Repayment period under the loan agreement	Prolongations	Actual maturity date
1.				
2.				

By signing, you confirm that you are familiar with the content of the application and guarantee the accuracy of the information provided.

Head: _____
 Chief accountant: _____
 Seal
 Date

Educational issue

M.T. Zholamanova
R.D. Doszhan

MODERN METHODS OF CREDITING

Educational manual

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