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Analysis of audited financial statements for stakeholders on the example of "ForteBank" JSC and Silicon Valley Bank

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Abstract

Today, banking assets account for ½ of Kazakhstan's GDP. Looking at economic stability and sustainability, the banking system plays a key role. This thesis examines one of Kazakhstan's leading banks, Fortebank, and specifically its financial performance over the past 5 years. Of particular importance of this project in the light of the new realities is comparative analysis with one of the leading Silicon Valley Bank (SVB) in the United States, whose management has failed to manage the risk management.

The target audience of this paper is shareholders and depositors, that's why profitability and liquidity were the basis of the bank's analysis for each of the participants in the target audience, respectively. Horizontal analysis, descriptive statistics and correlation analysis were used as the key methods of analysis in this paper.

The results of the study indicate the importance of the asset and liability portfolio and the analysis of external economic factors, which banks need to take into account to ensure the sustainability of their operations.

Analysis of audited financial statements for stakeholders on the example of "ForteBank" JSC and Silicon Valley Bank

Introduction

Topic relevance. In the economic landscape, the banking sector has a distinctive role in maintaining financial stability and facilitating the flow of financial resources to the economy. Aarma et al (2003) stated that the achievement of a thriving financial sector within an economy relies on the noteworthy consideration of bank performance. In order to maintain market confidence and protect depositors' interests, regulators pay special attention to ensuring stability of the banking system and increasing safety and stability of individual banks. Therefore, one of the key indicators of improving the effectiveness of supervision is the quality of external inspections conducted by auditors. Establishing a solid relationship with external auditors can strengthen the supervision process and improve efficiency.

Effective corporate governance requires strong internal controls, including an internal audit function and an independent external audit. These controls are crucial for ensuring the safety and soundness of banking operations and promoting constructive interactions between bank management and supervisory authorities. Effective communication among bank personnel and internal and external auditors can enhance the efficiency of the audit. (Basel Committee on Banking Supervision, 2013).

Independent external auditors of banks plan and perform audits of financial statements to obtain reasonable assurance that the statements are free from material misstatement, that can be attributed to fraud or error, and that they comply with applicable international financial reporting standards. The 2008 financial crisis demonstrated weaknesses in banks' risk management, internal controls and governance processes and highlighted the necessity to improve the performance of external audits. Quality bank audits can ensure market confidence in banks' financial statements and facilitate financial stability. Investors are more willing to trust audited financial statements when making their decisions. The Basel Committee on

Banking Supervision aims to raise prudential supervision and financial stability by improving the quality of external audits of banks (BCBS,2013).

The BCBS (Basel Committee on Banking Supervision) serves as the key international entity for establishing global standards for the prudent regulation of banks and facilitating ongoing cooperation among supervisory bodies in matters related to banking supervision.

According to the latest data as of February 1, 2022, the financial market of the Republic of Kazakhstan consisted of 22 second-tier banks with total assets of 36,975.9 billion tenge (equivalent to about 74 billion US dollars) (SZP, 2022). Over the past few years, there has been a distinguishable trend of bank consolidation in Kazakhstan through mergers, leading to a reduction in the number of banks operating in the country. Kazakhstan has a two-tier banking system. The upper or first level is represented by the National Bank as the central bank of the country, and all other banks form the lower or second level. The Kazakhstan banking system is distinguished by the fact that it includes only commercial banks operating in the market of banking services (Yermakovich & Irishev,1996).

Auditing plays a critical role in shaping the trustworthiness and credibility of banks. Thus, the relevance of the thesis is determined by the fact that all stakeholders - market participants want to obtain timely and objective information to assess the financial condition based on published statements with a sufficient degree of reliability.

However, in order to make informed decisions and draw conclusions based on audit results, it is necessary to correctly interpret these results. Thuswise, the analysis of financial ratios is one of the methods of interpreting audit results. Financial ratios make it possible to assess the financial condition of a company, its liquidity, profitability, solvency and other aspects of its activities. The use of financial ratios helps identify trends, anomalies, and problem areas that may require additional analysis.

The purpose of the thesis:

- To present an overview of “ForteBank” JSC
- To interpret the financial statements
- To analyze financial ratios

Research objectives:

- To study the writings of domestic and foreign authors on the topic of research;
- To analyze the main indicators of financial reports and outcomes of the performance of “ForteBank” JSC.

The object of the study is “ForteBank” JSC.

The theoretical and methodological basis of the study served as the works of Kazakhstani and foreign scientists, set out in periodicals, articles, educational and reference literature, etc.

In the course of the study, comparative, analytical, economic-statistical, and graphical methods were used.

The novelty of the work is to conduct a comprehensive and comparative analysis of financial statements in “ForteBank” JSC and liquidated SVB .

Structure of the Diploma Project. Diploma project consists of the introduction, the main part, the conclusion, and a list of references. The volume of the main text is 25 pages.

Literature review

An auditor's opinion is a report prepared for the users of financial statements that contains the opinion of the individual auditor on the reliability of the financial statements of the audited entity. This opinion ensures stakeholders that the financial statements properly reflect the company's financial position, results of its activity, cash flows, and that they are free from material errors, fraud, or misstatement. In fact, the importance of audit opinions lies in its capability to provide valuable information for all participants: stakeholders, investors, lenders, regulators, and company management.

However, for a more accurate interpretation of financial information, one of the methods can be the measurement of financial performance. Prastovo (2015) states that financial ratios are indicators that depict the financial state of a company through the examination of the connections among different elements in the financial statements. Thus, the use of financial ratios clarifies and offers a comprehensive assessment of the positive and negative aspects of a company's financial position.

The banking system in Kazakhstan.

Banks in Kazakhstan have the option to be established as private, mixed, collective, or joint stock companies, based on the type of ownership, as well as state-funded banks engaged in commercial activities. The enactment of the Law on the National Bank of the Republic of Kazakhstan and the Law on Banks of the Republic of Kazakhstan in 1993 established a two-tier banking system and defined the mutual relations between the National Bank of the Republic of Kazakhstan and second-level banks (Begaliyev, 2006). After that, the Association of Banks of the Republic of Kazakhstan was founded to help banks solve their issues and contribute to the country's economic development through more effective operations (Ordabayeva, 2007).

Reforms of the end of the 20th century were implemented to bring the banking supervision process and techniques in line with international standards. Begaliyev (2006) notes that the establishment of the

Kazakhstan Deposit Insurance Fund in 1999 was aimed at safeguarding individuals' deposits in the event of banks involved in a guarantee system being compulsory liquidated, which means assets of the company are sold off and proceeds are divided among its creditors based on the court decision. The global financial crisis of 2008 revealed the need for modifying bank supervision principles and regulations, as stated by Salina (2017).

The National Bank of Kazakhstan plays a pivotal role in the regulation and supervision of the country's banking system and also exercises control over the auditing activities of banks. In accordance with requirements of the National Bank of Kazakhstan, all banks are obliged to undergo an annual external audit conducted by a licensed firm. Audits include the examination of financial statements, risk management and internal controls of banks.

In general, auditing is important for Kazakhstan's banking sector. It promotes compliance with regulatory requirements, ensures stability of the financial system and provides stakeholders with accurate and reliable information about the financial condition and performance of banks.

Research Methodology

Various theoretical research methods were used to obtain the necessary primary information for this study. This study describes various theoretical methods and research techniques that are commonly used to analyze the financial and economic condition of commercial banks. These methods include content analysis, statistical and economic data retrieval and analysis, and ratio and comparative analysis. In addition, analysis and synthesis were used to examine the object of study both individually and as a whole in order to draw general conclusions.

The study also used the method of financial analysis and horizontal analysis to analyze the financial report and related disclosures of the bank under study. Horizontal analysis was performed by comparing financial indicators of the current period with indicators of previous periods in order to identify trends in the financial activity of the bank.

Overall, the present study provides a comprehensive overview of the theoretical research methods and techniques used in analyzing the financial and economic conditions of commercial banks.

The research was conducted over the period from 2017 to 2022.

3. Analysis of "ForteBank" JSC

3.1 Background of "ForteBank" JSC

ForteBank JSC which is ranked as the fifth largest bank in Kazakhstan based on assets, operates as a universal financial institution with a primary focus on the retail market and small and medium-sized enterprise (SME) lending. The bank was founded in July 1993 as Irtysh Business JSC in Pavlodar, Kazakhstan. In 1999, Irtysh Business Bank OJSC was formed following the merger with Semipalatinsk City Bank. However, in 2013, the bank had limited access to international capital markets and was unable to grow a sufficient loan portfolio due to limited funds. Moreover, the announcement of Samruk-Kazyna's intention to exit the union of the capital of second-tier banks in Kazakhstan and sell its stakes in ForteBank harmed the bank's liquidity position, triggering a deposit outflow of approximately KZT 30 billion in 2013. This led to the downgrade of the bank's credit ratings from "CCC" to "C" by Fitch Ratings and Standard & Poor's (S&P). Based on this situation, the new management decided that the bank's balance sheet structure was not generating sufficient returns and economic and regulatory capital. In order to prevent further deterioration of the bank's financial position and recovery of capital, the bank's liabilities have to be restructured.

This in turn restructuring of an insolvent bank's obligations refers to a series of measures designed to improve the bank's financial position by applying one or more measures such as complete or partial write-off of obligations, conversion of securities, and other monetary obligations into ordinary shares, modification to terms/interest rates on obligations (including temporary suspension of payment obligations), etc.

To this end, on 1 January 2015, ForteBank JSC merged with Temirbank JSC and ABC Bank JSC following a joint extraordinary general meeting of shareholders of both banks held on 10 November 2014, as part of the reorganization. As a result, all the property rights, and obligations of both banks were transferred to the new entity, ForteBank JSC.

Bulat Zhamitovich Utemuratov is the major shareholder of the Bank, owning 82.56% of its ordinary outstanding shares.

3.2 Ratings of "ForteBank" JSC for 2022

Standard & Poor's:	Moody's:	Fitch:
Long-term credit rating: 'B+'	Long-term deposit rating: 'Ba2'	Long-term issuer default rating: 'B+'
Short-term credit rating: 'B'		Short-term issuer default rating: 'B'
National scale rating: 'kzBBB+'		Long-term national scale rating: 'kzBBB+'
Outlook: 'Positive'	Outlook: 'Stable'	Outlook: 'Positive'

Table 1: Company ratings (source: Company Official website)

S&P Global Ratings increased ForteBank's long-term credit rating from 'B+' to 'BB-' in 2022, with a "Stable" outlook on the rating. Furthermore, the agency upgraded the bank's Kazakhstan national scale rating from 'kzBBB+' to 'kzA-'. S&P Global Ratings explained that the bank's market position is supported by a well-balanced loan and deposit portfolio, which is diversified across retail and corporate customers, as well as sustainable new business generation, with a projected loan growth rate of 10-15%. (Forte, 2022) In 2021, the bank achieved a net income of KZT 64 billion, resulting in a return on average common equity (ROAE) of roughly 23.7%. As per the national accounting standards, the bank reported net income of about KZT 30 billion during the first five months of 2022. (Forte, 2022) S&P Global Ratings forecast that the bank will continue generating robust earnings throughout 2022, with a Return on Average Equity of approximately 20%, according to its publication. Despite facing a rise in the proportion of non-performing loans attributable to the economic downturn in 2020 following the outbreak of the pandemic, the bank is projected by the agency to observe a gradual improvement in its asset quality from 2022 to 2023. In 2021, the volume of non-performing loans (NPL) decreased. This is evidenced by the decrease in the percentage of loans with Stage 3 (impaired credit) characteristics, which constituted approximately 11% of the loan portfolio, in contrast to the previous year-end figure of 26%. It is anticipated that ForteBank's provisioning expenses will remain elevated in the year 2022, albeit within the banking sector's average range, which reflects challenging operational circumstances and a possible weakening in borrowers' creditworthiness.

3.3 Analysis of Balance Sheet

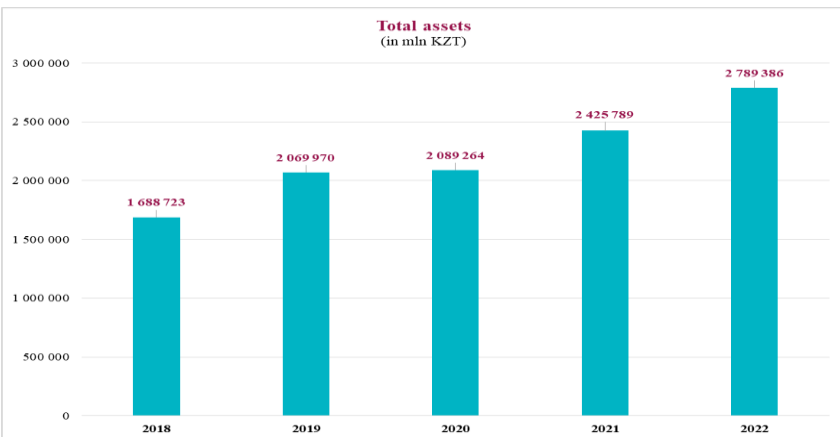


Figure 1.1: Total assets of the Bank for 2022 increased by **KZT 363.6 billion.**

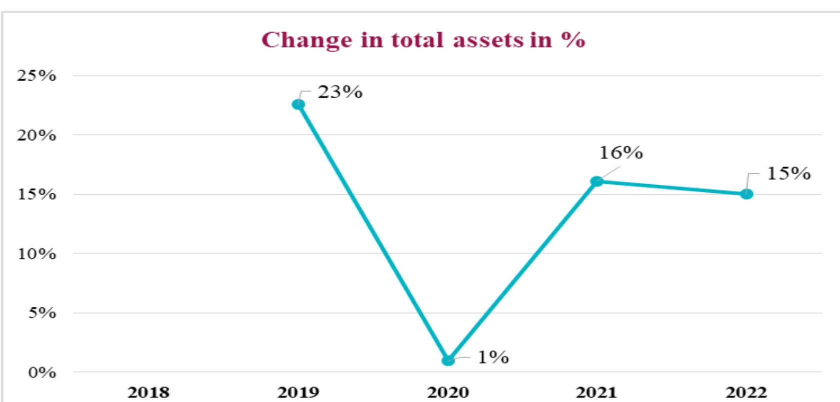


Figure 1.2: **15%** increase at the end of the reporting year.

According to the report, in 2021 the increase in assets was due to the bank's participation in "reverse repo" transactions, which were concluded on the Kazakhstan Stock Exchange. “Reverse repo” is a financial instrument that involves the selling securities to a counterparty with an agreement to repurchase them on a future date. Reverse repos lead to a temporary reduction in the availability of reserve balances in the banking system. However, in 2022 the “reverse repo” amount decreased by 33 %.

These were bonds issued by the Ministry of Finance of the Republic of Kazakhstan, JSC Kazakhstan Fund for Sustainable Development, Eurasian Development Bank, as well as shares in JSC Halyk Savings Bank of Kazakhstan and National Bank of Kazakhstan (NBK) notes. Cash and cash equivalents increased significantly by 38%, amounting to 121 billion KZT in 2021. And in 2022, cash and cash equivalents increased slightly only by 5.7%.

Moreover, the observed increase in the bank's assets is correlated with the bank's active involvement in government-sponsored funding programs aligned at supporting the small and medium-sized enterprises (SME) sector.

Dragota et al. (2008) demonstrated that bank loans are the primary external source of funding, surpassing the role of the capital market. The largest component of the asset structure is loans, with the loan portfolio to customers amounting to KZT 808.9 billion by the end of 2021. This represents an increase of KZT 59.2 billion (8%) from the previous year-end figure of 2020.The change amounting to KZT 54.7 billion (before ECL) relates to loans to large corporate entities, which accounted for 36% of the loan portfolio for 2021. In 2022, the loan share increased by 8.8% mainly due to the corporate loan growth by 102.5% and SME loan portfolio share growth by 27.2% because of the simplified way to get a loan through a mobile application.

Table 2 : Loan portfolio of “ForteBank” JSC:

	2018	2019	2020	2021	2022
Individually significant corporate loans					
Loans to large entities	252 639	234 366	249 627	304 386	513 167
Total	252 639	234 366	249 627	304 386	513 167
Individually insignificant corporate loans and loans to individuals					
Corporate loans	115 129	152 850	163 579	182 207	235 175
Mortgage loans	77 778	68 198	55 363	31 089	24 998
Consumer loans	132 300	191 067	201 607	227 549	378 849
Car loans	3 526	1 955	5 147	4 762	13 385
Credit cards	2 387	5 691	5 479	4 461	4 282
Other loans secured by collateral	179 039	203 227	152 225	92 685	68 752
Total of individually insignificant loans	510 159	622 988	583 400	542 753	725 441
Total loans before ECL	724 634	762 798	857 354	833 027	1 238 608
ECL	(52 783)	(73 153)	(72 286)	**(83 285)**	**(65 066)**
Loans to customers	671 851	689 645	785 068	749 742	1 173 142

(source: Company Official website)

The government has urged banks to maintain social solidarity initiatives during these tough times and to ease the credit burden on citizens and small and medium-sized enterprises affected by lockdown measures. Banks implemented a "loan payment holiday" for these borrower groups from March 16 to June 15. As of June 2020, 41.5% of Small and Medium-sized Enterprises (SMEs) and 34% of individual borrowers had received payment deferrals, according to data compiled by Astana International Financial Centre (AIFC). This initiative has been extended for SMEs for an extra 60 days from August 3 to October 1 (Sputnik, 2020) .

Due to the COVID-19 pandemic, relaxations regarding the acceptance of credit impairment have become common practice across jurisdictions. In this regard, standard setters, such as the Basel Committee on Banking Supervision (BCBS) and the International Accounting Standards Board (IASB), recognised that the concept of expected credit losses should not be applied mechanically and that deferral of payments should not automatically increase credit risk. (Tazetdinova , 2020)

In 2020, the Group converted and forgave foreign currency loans under a government program designed to refinance mortgage and housing loans for customers. The carrying amount of these loans at the time of conversion and forgiveness was 23,768 million tenge, and all of them were classified as Stage 3 loans. Loans that were previously written-off but still had the right to be claimed were also included in the conversion and forgiveness program. The Group incurred a loss of 15.6 billion tenge due to the derecognition of these loans to customers.

Moreover, in 2021, as part of the same program, the Group forgave loans for socially vulnerable segments of the population. The value of these loans at the time of forgiveness was 14.2 billion tenge, resulting in a loss of 10 billion tenge due to the derecognition of these loans.

As at 1 January 2023 there was an increase in total liabilities and equities by 297.5 billion tenge (13.8%) and 66 billion tenge (23.7%) respectively. The growth of liabilities associated with an inflow of customer deposits by 16%..

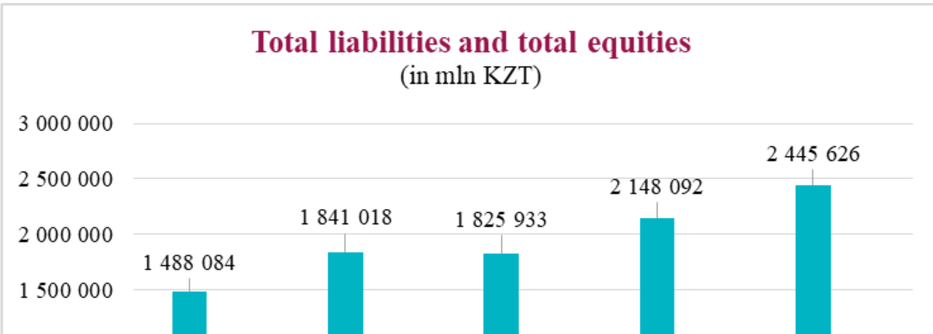


Figure 3.1

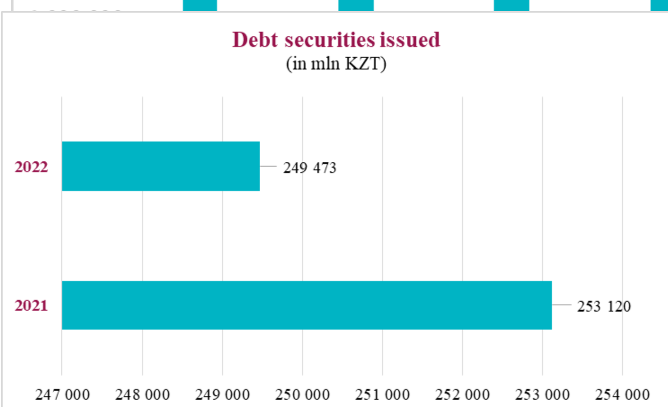


Figure 3.2

Figure 3.3

3.4 Analysis of Profit and Loss Statement of ForteBank

	2018	2019	2020	2021	2022
Interest revenue calculated using effective interest rate	122 542	163 249	184 078	191 897	258 780
Interest income	395	304	1 426	1 144	1 961
Interest expenses	-73 543	-85 259	-90 475	-97 109	-132 108
Net interest income	49 394	78 294	95 029	95 935	128 633

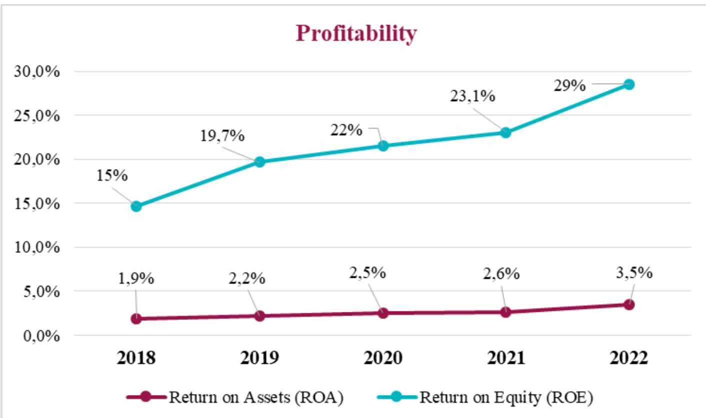
Table 3: Net Interest (source: Company Official website)

In 2022, the majority of the bank's revenue, amounting to 52% of the total, is derived from interest income. This can be attributed to the bank's proactive approach to lending. The escalation observed in 2019 is a consequence of an increase of loans disbursed to customers and an upsurge in the valuation of investment securities computed at amortized cost.

3.5 Financial ratios analysis

Bennaceur & Goaied (2008) evaluated the banks' performance by using net interest margin (NIM) and return on asset (ROA) and concluded that NIM, cost efficiency, and profitability are important factors in measuring the performance of banks. Figure 6 shows the profitability performance of ForteBank for the period 2017-2022. Profitability is measured in terms of ROA and ROE.

Figure 6



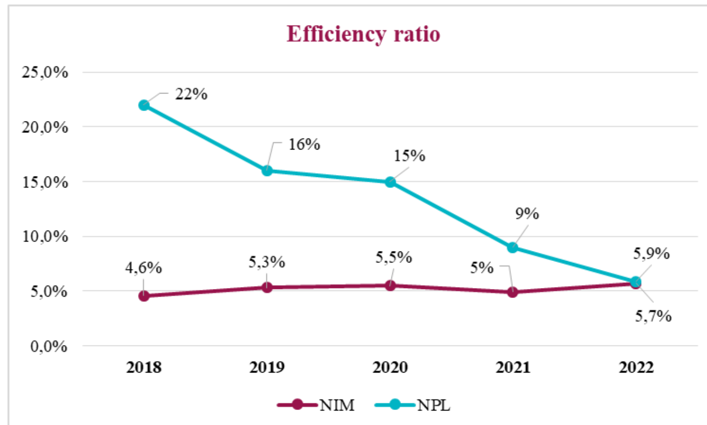


Figure 7

The return on assets (ROA) is a financial metric that assesses a company's effectiveness in using its assets to produce earnings. It is obtained by dividing the net income of the firm by its total assets. ROA is denoted as a percentage and conveys the level of profitability a company can generate per dollar of its asset holdings. A larger ROA reflects greater efficiency in the utilization of assets to produce profits. In 2022, the Bank experienced an improvement in its profitability ratios compared to the previous year. The return on assets (ROA) rose from 2.6% to 3.5%, while the return on equity (ROE) increased from 23.1% to 29%. Similar to 2021, these increases were driven by a higher growth rate in net profit compared to assets and equity. Specifically, the net profit grew by 21.0% and 53% in 2021 and 2022 respectively, whereas assets grew by 16.1 % and 15% in 2021 and 2022 years respectively, whereas equity experienced growth rates of 5.5% and 23.7% in 2021 and 2022 years respectively. Nonetheless, in 2021 the Bank's operating income declined by 15.5% to KZT 137.5 billion in the same period, mainly due to a reduction in non-interest income by 38.6%.

Table 4: Non-interest income

	2021	2022
Net fee and commission income	37 293	36 210
Net (losses)/gains on derecognition of investment securities at fair value through other comprehensive income	-195	311
Net gains from foreign currencies	11 025	49 862
Net gains on derecognition of financial assets measured at amortized cost	4 079	-4 477
Net gains on derecognition of financial liabilities as a result of modifications	-	-
Other income	4 123	3 744
Non-interest income	40 362	75 419

(source: Company Official website)

The law mandates that banks disclose their non-performing loan (NPL) ratio, which is a gauge of the quality of outstanding loans and credit risk of the bank. A high NPL ratio implies a greater risk of loss for the bank if it fails to recover the owed amounts, whereas a low ratio indicates that outstanding loans pose a minimal threat to the bank. NPLs can severely affect the bank's profitability, resulting in significant losses that can impair its overall performance. Additionally, a high level of NPLs hinders banks from lending to households and businesses.

Recently, ForteBank has prioritized enhancing the quality of its loan portfolio and Heritage portfolio, which comprises problematic loans inherited from Alliance Bank and Temirbank. During 2021, the bank was successful in reducing the volume of overdue loans from KZT 135.95 billion to KZT 66.26

billion and the amount of overdue debt from KZT 76.50 billion to KZT 38.91 billion. As of January 1, 2022, the percentage of overdue loans in the loan portfolio stood at 6.9%. This decrease was accompanied by the recovery of provisions made for expected credit losses from KZT 76.50 billion to KZT 38.91 billion. After the merger, the bank has implemented a proactive approach to decrease its past-due loan portfolio. The primary goals were to minimize the legacy portfolio, divest non-core assets, and resolve liabilities associated with restructuring. Moreover, the total volume of non-performing loans decreased from KZT 59.80 billion to KZT 47.61 billion, and their proportion in the loan portfolio reduced from 7.2% to 4.9%.

Table 4: Dynamics of quality of the Bank's loan portfolio*

	1 Jan 2020	1 Jan 2021	1 Jan 2022
Loan portfolio, KZT bln	751,47	835,22	967,84
Overdue loans, KZT bln	76,03	135,94	66,26
Share of overdue loans in the loan portfolio	10,1%	16,28%	6,9%
NPLs, KZT bln	45,11	59,77	47,61
Share of NPLs in the loan portfolio	6%	7,16%	4,9%
Amount of overdue debt, KZT bln	56,69	76,50	38,91
Provisions for loan portfolio, KZT bln	59,71	85,60	39,47

*****According to data from the regulatory reports submitted to the AFR and NBRK (on non-consolidated standards). Loan portfolio, Overdue loans, NPLs are shown on a gross basis.

The net interest margin is a gauge of profitability utilized by financial institutions and banks. It measures the gap between the amount of interest earned and the amount paid. A favorable net interest margin signifies efficient investment, whereas an unfavorable net interest margin implies investment inefficiency.

The bank's NIM shows a positive trend as its interest income rose by 4.1% from KZT 185.5 billion in 2020 to KZT 193.0 billion in 2021. The main components contributing to this increase were the payment of interest on loans, which amounted to KZT 108.7 billion, and the return on investment securities, which amounted to KZT 52.9 billion. However, interest expenses also increased by 7.3%, totaling KZT 97.1 billion. The most significant items of interest expense were related to the payment of return on customer deposits and securities, accounting for 58.0% and 30.6% of the total interest expenses in 2021.

LIQUIDITY PERFORMANCE

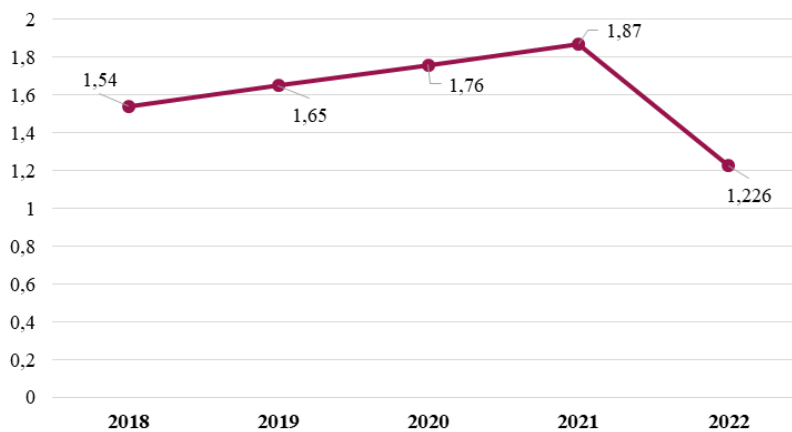


Figure 8

Liquidity ratio reflects ensuring timely and full settlement of the bank's liabilities. In 2018, according to the bank's statements, current liabilities increased due to deposits, which caused the liquidity ratio to fall to 154%. In subsequent years, the ratio started to grow by an average of 11%. Also, the graph indicators show that from 2021 to 2022, there will be a decrease of 0.644.

LEVERAGE PERFORMANCE

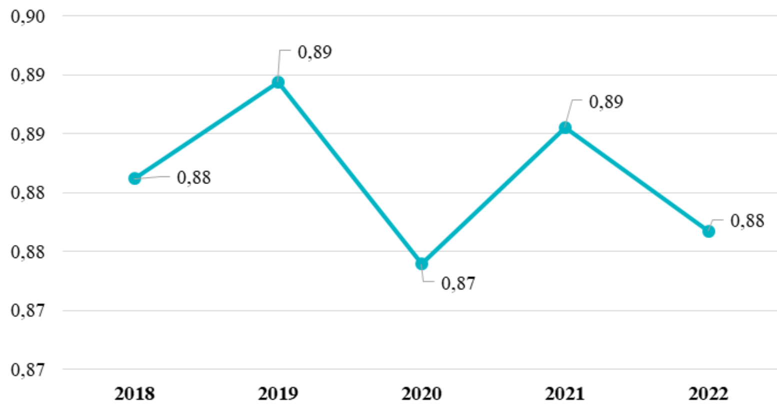


Figure 10

Typically, if the leverage ratio ranges from 0.87 to 0.89, it indicates that the bank's debt relative to its total assets is quite low. This ratio is a financial indicator that assesses the amount of debt a bank has relative to its equity or assets. If the ratio is between 0.87 and 0.89, this indicates that the bank is using less debt financing in its capital structure, which in turn may indicate a lower risk of default and bankruptcy.

Comparison analysis of ForteBank with SVB bank

For a comparative analysis of financial performance was selected American commercial bank "SVB", which was founded in 1983 and ranked 16th in the list of the largest banks in the United States in terms of consolidated assets, compiled by the Federal Reserve System. Silicon Valley Bank has specialized in serving technology companies, venture capitalists, and startups since its inception.

In March 2023, SVBF Bank Holding Company declared bankruptcy due to inadequate risk and liquidity management, resulting in substantial unrealized losses. The Company failed to establish an appropriate risk management system commensurate with its rapid growth and business model risks. From 2020 to 2021, the Company's size increased threefold due to an influx of uninsured deposits during the boom in venture capital and technology sectors. However, the Company invested these deposits in long-term securities, exacerbating liquidity risks. Additionally, senior management's compensation packages incentivized short-term earnings and return on equity, rather than risk indicators, further emphasizing profits over proper risk management (Barr, 2023).

Year	2022	2021	2020	2019
Total assets (in millions dollars)	211 793	211 308	115 511	71 004

UNINSURED DEPOSITS

	Uninsured deposits	Foreign uninsured deposits	Long-term securities
2020	88,6	8,4	16,5
2021	166	16,1	98,5
2022	151,5	13,9	91,3

Until 2022, management's compensation packages prioritized holding onto profits over risk management, leading to deficiencies in liquidity risk management and inadequate evaluation and management of interest rate risks associated with its securities portfolio. The slowdown in activity in the technology sector and a rise in interest rates in 2022 and 2023 adversely affected the company, leading to reduced net interest income and a decline in the value of securities. Internal risk assessment indicators were limited, and the company's management was primarily focused on short-term profits, leading to a lack of visibility into vulnerabilities.

Financial ratios (2022)	
ROA	0,7%
ROE	9%
Liquid assets (in million dollars)	39 872
LCR	21%
NPL	0,18%
D/E ratio	11,9
D/A ratio	0,92
NIM	2,16%
NPA	0,065%
Leverage	1,15

Table: Financial Performance of Silicon Valley Bank for 2022

In 2022, the ROE of Fortebank reflects threefold figures than SVB which is 29% and 9% respectively. A ROE of 9% indicates that the SVB is not effectively using its own capital to generate profits. This could be due to low interest margins or high risk management and regulatory compliance costs. In 2022, the U.S. federal funds rate ranged from 0.5% to 4.5%, which was significantly lower than the 16% rate in Kazakhstan. In addition, The loan-to-deposit ratio was less than 50%, as the SVB had more than twice as many deposits as loans. The low interest margin explains why SVB's income is lower than ForteBank's.

Moreover, in 2022, Fortebank shows higher performance in terms of ROA amounted to 4% where SVB's ROA is just 0.7%. It could be an indicator for SVB that it is not effectively utilizing its assets. As it was written before, the SVB decided to invest 75% in held-to maturity securities of the total security portfolio. That means SVB needed to wait till the maturity to receive a predictable income. As for Fortebank, it has a more stable portfolio of assets, which are mainly occupied by loans to medium and small businesses, which is a constant income for the bank; that's why it is showing a higher ROA.

In 2022 the liquidity coverage ratio (LCR) of SVB bank was higher than the ForteBank's (21% and 20% respectively). That means that both banks have almost the similar ongoing ability to meet short-term obligations.

During the tech boom of the pandemic, the bank increased its deposits dramatically and decided to invest a significant portion of these funds in mortgage bonds and the US Treasury. But with the end of the pandemic period, the US Federal Reserve began to sharply raise interest rates, which hurt the bank's margins. The bank tried to sell its long-term bonds and buy short-term bonds with higher yields. But due to the difference between the current portfolio and the purchase price, the bank suffered losses of $1.8 billion. In connection with this situation, the bank's depositors began to panic and they abruptly began to withdraw all their funds from their accounts. As a result, the bank was unable to meet the short-term obligations.

Why would Fortebank have a better position in case of such a situation? Forte Bank's portion of equity is higher than svb's debt-to-equity ratio. This means that if they find themselves in such a situation, they will be able to pay all their obligations from their own funds and provisions. This reflects the better performance in leverage of ForteBank compared with SVB which is 0.88 and 1.15.

METRIC	**SVB**	**FORTE**
Loans as a percentage of total assets	35%	42%
Securities as a percentage of total assets	55%	36%
Held-to-maturity as a percentage of total securities	78%	22%
Total deposits as a percentage of total liabilities	89%	82%
Uninsured deposits as a percentage of total liabilities	94%	90%
Common equity tier 1 capital as a percentage of total risk-weighted assets	12%	20%

Source: (Barr, 2023)

SVB and ForteBank have high shares of loans in their total assets (35% and 42%, respectively), but SVB has a slightly lower percentage. However, too high a proportion of loans could increase risks for the bank. SVBFG has a much higher proportion of securities (55%) than Forte Bank (36%), which may increase the bank's profitability but also the risks. SVB has invested funds received from customers in debt securities with maturities of 5-10 years, with an approximate rate of about 1.5%.

Both banks have a rather high share of deposits in total liabilities, which suggests that the banks actively attract deposits from their clients. SVBFG has a higher share of total liabilities related to deposits than Forte Bank.

Common equity tier 1 capital as a percentage of total risk-weighted assets is a key indicator of banks' financial strength. Forte Bank has this indicator higher than SVBFG - 20% versus 12%. This suggests that Forte Bank has a higher level of capitalisation and a more robust financial base, making it more resilient to potential risks. The difference in this indicator may be due to the banks' different strategies with respect to risk management and equity growth.

The proportion of securities the bank intends to hold to maturity in total securities reflects the bank's investment strategy. SVBFG has a higher ratio than Forte Bank, 78% versus 22%. This ratio should be low enough to allow the bank to manage its investments freely.Since about mid-2022, SVBFG has had problems withdrawing deposits due to the downturn in the tech start-up industry. By the end of 2022, about $50 billion of the $130 billion of deposits had been withdrawn.

The risks that faced SVB bank after investing in held- to- maturity securities the following :

- Liquidity risk: Held-to-maturity securities are not liquid investments and may be difficult to sell quickly if the bank needs to raise cash.
- Interest rate risk: If interest rates rise, the value of held-to-maturity securities could fall and the bank could suffer a loss.
- Inflation risk: Inflation can reduce the purchasing power of income from held-to-maturity securities.

Thus, it can be concluded that both banks have their advantages and disadvantages, however Forte Bank looks more resilient because of its higher Common equity tier 1 capital as a percentage of total risk-weighted assets. Moreover, ForteBank, compared to SVB Bank, is more traditional in terms of specialization and client base, which makes it risk averse.

Conclusion

In this research paper, we made a comprehensive analysis of the financial performance of ForteBank JSC and a comparative study with a Silicon Valley Bank.

The analysis shows that ForteBank has higher ROE and ROA due to a more stable asset portfolio, consisting mainly of loans to medium and small businesses, which provides the bank with a constant income. At the same time, SVB has invested 75% in held-to-maturity securities, which led to bankruptcy. In addition, ForteBank has a higher level of capitalization and a stronger assets and liabilities portfolio.

Overall, this project demonstrates that ForteBank has the potential for growth and stability by focusing on retail and SME lending, actively working to improve the quality of its loan portfolio and having a more stable asset portfolio.

The paper concludes that the findings are of great importance to Kazakhstan's banking industry. It notes that ForteBank's approach to improving the quality of its loan portfolio, given its more stable asset portfolio and higher capitalization, could serve as an example for other banks in the industry.

The SVB case once again proves the need for proper risk management and transparency in financial reporting. Risks of Kazakhstan should include this case in their risk base and take into account SVB's mistakes when making decisions, and, once again, it is necessary to analyze the interrelation of various factors affecting banks' assets and liabilities - inflation is an example.

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