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**The main factors affecting the financial stability of second-tier banks**

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**Основные факторы, влияющие на финансовую устойчивость банков второго уровня**

**Annotation**

*The article reveals the essence and role of financial stability in the bank's activities, as well as details the main factors affecting the financial stability of second-tier banks.*

**Key words:** *second-tier banks,* *financial stability, financial stability factors, bank's ability to pay, assessment of financial stability*

**Аннотация**

*В статье раскрывается сущность и роль финансовой устойчивости в деятельности банка, а также подробно рассматриваются основные факторы, влияющие на финансовую устойчивость банков второго уровня.*

**Ключевые слова:** *банки второго уровня, финансовая устойчивость, факторы финансовой устойчивости, платежеспособность банка, оценка финансовой устойчивости*

Financial instability and insolvency result from a complex set of various reasons. The most common reason is the inability to adequately respond to changes in the external environment. Financial stability represents the final outcome of autonomous actions, which can also be influenced by social processes. The causes of a bank’s financial insolvency can be conditionally divided into external and internal factors.

Currently, the main issue of sustainability is the overall instability of the national economy. The diversity of factors influencing the activities of both individual banks and the entire banking system determines the manifestation of this problem, which, in our opinion, is important to consider.

Moreover, the close interrelation of factors has various effects on a bank’s operations. Some factors have a positive impact, others a negative one, and some are neutral, meaning they do not influence the bank at all. These factors may be overlooked by some banks but must be considered by others, depending on the specifics of their activities. As a result, there is an opportunity for banks to adjust their strategies in financial markets.

The main factors affecting financial instability are shown in Figure 1.

Banks need to determine the optimal lower and upper limits of financial stability, as low stability leads to a lack of financial resources for further development, while excessive stability implies being burdened with unnecessary reserves and stocks.

Continuous financial stability analysis also involves developing measures aimed at improving a bank’s financial position. It should be noted that normal financial stability serves as a guarantee against unexpected market changes and the risk of bankruptcy.

The boundaries of financial and economic activities and their determination are directly related to several key economic challenges. A low financial stability indicator leads to a lack of funds for the continuation and development of financial and economic activities.

At the same time, excessive financial stability also slows down financial and economic development.

**Financial condition of the bank, including liquidity, solvency, profitability, and business activity**

Bank’s competitive position

in the market

Bank’s image and

business reputation

Information support of the bank

Bank’s credit history

State of marketing, bank’s product sales channels and services

Balance of the credit portfolio

and credit policy

Organization of risk management in the bank

Size of the bank and

its branch network

Organizational structure of

bank management

**Internal factors**

Development, sustainability of

the client base

State regulation of

banking activities

Conjuncture and state of

the financial market

Business activity, state of

the business environment

State of the world economy

and sipranational risks

Client solvency

State of the economy

**Internal factors**

**Figure 1. The main factors affecting the financial stability of the bank**

Note: Compiled by the author based on source [1].

This occurs due to the burdening of costs associated with excess reserves and stocks.

Ultimately, capital turnover slows down, and efficiency decreases. In conclusion, proper financial stability must meet both market requirements and the needs of the company itself.

Financial stability, depending on the influencing factors, can be classified as shown in Figure 2.

**Types of Bank Financial Stability**

The bank, as an economic institution, specializes in economic relations; therefore, its stability has a natural economic character.

**Economic stability**

The bank's activities largely depend on political relations and events.

**Political stability**

**Operational stability**

Stability arising from the process of carrying out banking operations and transactions.

**Personnel stability**

Stability related to the bank's ability to ensure qualified personnel.

**Figure 2. Types of Bank Financial Stability**

Note: Compiled by the author based on source [2].

If a bank is financially stable and solvent, it has several advantages over other banks in resource mobilization, investments, selecting counterparties, and recruiting more qualified personnel. The higher a bank's stability, the more independent and objective it remains in adverse economic situations, reducing the risk of bankruptcy [3].

Furthermore, the level of solvency and financial stability should be assessed as interdependent indicators of a bank’s financial condition.

It is worth noting that the stability of the banking system has both external and internal levels. The external level can be defined as the ability of the banking system to overcome crises in various economic sectors while continuing to function with sufficient client and creditor confidence to prevent the withdrawal of savings and investments. The internal level of stability represents the ability of a specific bank to fulfill its obligations to clients despite adverse influences [4].

Thus, a bank’s financial stability is its ability, shaped by the interaction of external and internal factors, to achieve financial balance and maintain key operational and developmental characteristics at an appropriate level over time.

Every bank must not only maintain its financial stability but also balance its internal capabilities with external environmental influences to attain a new quality necessary for further development.

According to the Financial Sector Development Concept of the Republic of Kazakhstan, banks aim to increase the current value of their businesses and maximize profitability, primarily by growing the volume of core services while managing risks and cost structures [5].

The task of financial stability analysis is determined by its functions and content, which include:

* Studying the impact of economic laws on bank activities, identifying patterns and trends in economic phenomena and processes under specific conditions;
* Monitoring the implementation of plans and management decisions to ensure operational bank management, eliminate errors, and address identified deficiencies;
* Searching for reserves to improve banking efficiency by studying best practices and achievements in banking practice;
* Assessing the bank's performance, plan fulfillment, level of development, and utilization of available opportunities to facilitate effective management and correct deviations;
* Developing measures to utilize identified reserves in banking operations and forming recommendations for adjusting the bank’s strategy.

It should be noted, that financial stability is the main characteristic of the bank's activities, and the inability to ensure it leads to serious problems in the activities of commercial banks [6].

Thus, it has become evident that at the current stage, one of the main financial stability issues for both individual commercial banks and the entire banking system of the Republic of Kazakhstan is the overall economic instability.

A bank’s response to negative influencing factors clearly demonstrates how well it can adapt to changes in the external and internal environment to continue operating stably in the banking sector. Ensuring the financial stability of commercial banks is the foundation for the effective functioning of the entire banking system. Therefore, the primary task of bank management and regulatory authorities is to establish a financial stability management system that is flexible, capable of mobilizing internal reserves, and responsive to all external factors.

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