

APPROACHES TO EVALUATION OF FINANCIAL RESULTS OF RA COMMERCIAL BANKS

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Abstract: The study evaluates the interaction of macroeconomic variables, regulatory changes and internal operations of banks in the context of financial results formation. The research applies certain approaches to the evaluation of financial results to create an appropriate framework, that reflects the dynamics of financial results of the RA banking sector. A wide range of factors including macroeconomic indicators, regulatory changes, market competition and strategies of Armenian banks are assessed to build a complete picture of financial performance that will also enable financial managers to make strategic and financial management decisions.

Keywords: commercial banks, evaluation of financial results, interest and non-interest income, managerial decisions, net interest margin

JEL code: G17

Research goals: The purpose of the research. to provide an adequate assessment of the dynamics of financial results of commercial banks and to offer financial managers strategic decision-making approaches that will play an important role in managerial decision-making.

Research novelty: The novelty of the research. in the context of the formation of interest and non-interest income, the factors of profitability dynamics in commercial banks of RA were evaluated in recent years, which were targeted for making effective managerial decisions.

Introduction

Since 2021, the RA banking system has recorded a significant increase in profitability, which is due to a number of key factors that contribute to the dynamics of financial results. The study is of primary importance for both the banking sector and the national economy. The above shift results from a confluence of factors including dynamic financial strategies, international geopolitical events and innovative approaches to banking operations.

The relevance of the research is highlighted by the changing methods of finance, where traditional banking operations are evolving to meet the challenges of an interconnected competitive world. Being at a geopolitical crossroads, RA is witnessing a unique confluence of events, such as the Russian-Ukrainian conflict, the growing flow of international visitors, which are important catalysts for unprecedented growth in profitability. Along with the developments, the banks employed innovative tactics such as "strategic forcing" of commissions, which further improved the dynamics of the banks' financial results. These events contributed to the unprecedented dynamism of the banking sector, giving rise to the critical need for in-depth analysis of the evolving financial behavior and performance of RA commercial banks.

Through the research, an attempt is made to assess and decipher not only banking competition, but also to develop a collective understanding of financial performance assessment in the context of the RA banking system, contributing to effective managerial decision-making for financial managers, developing

accurate strategies, as well as contributing to the ongoing dialogue in the global financial community. It is still in the focus of field experts and researchers and has not received an adequate evaluation.

Research results

A study of international experience. Although in recent years, foreign specialists and researchers have hardly expressed or express a clear and unambiguous position in the professional literature regarding the profitability generation of the Armenian banking sector, but even before the Covid times, some researchers and sector specialists such as Wolfgang Carl Herdle, Ming Dai, Stephen Cowie , Nair Grishn, Asish Shaha, Saif-Aliusfi, Eric Ota and many others, have brought their positions and solution proposals on the dynamics of financial results of banks, the role of tourists in their works and analytical articles.

The work provides an opportunity to understand the financial stability and efficiency of the RA banking system. Nair Grish in his paper "Dynamic Modeling of Financial Performance in Banking" provides a brief overview of financial performance evaluation in banking. Nair Grish's analysis lays the groundwork for understanding the importance of the latter's assessment in financial performance analysis. The research emphasizes the need for adaptive approaches to financial performance assessment that can capture emerging market dynamics [1].

"International Tourism and Bank Profitability. In the paper "Evidence from Developing Economies", the researchers of the Central Bank of Malaysia, namely Asish Shah and Saif-Aliusfi, study the relationship between international tourism and bank profitability, which they show with the example of their country and which is also relevant with the example of RA, which is relevant due to geopolitical events such as Also, due to the large inflow of

tourists, the sharp increase in the profit of commercial banks becomes quite noticeable, because the latter, arriving in the countries of their choice, bring with them a range of financial flows and use banking services. The Russian-Ukrainian conflict, which began in February 2022, brought with it a large influx of tourists, and along with the events, commercial banks applied the policy of banking services and commissions, and after some time, the unprecedented dynamics of banks' profitability became noticeable [2].

Generally, net interest income, net commissions and transaction costs are the main components of banking activities. Net interest incomes occupy a dominant position in the income sector of the banking system of states. Lately, net commission and commission income have gained in importance as low interest rates put pressure on interest income. Andersen and Berge used the concept of net interest income and commission income study, valuation in the context of the Norwegian banking system [3].

Herschel et al used simple ordinary least squares regression for adjusted operational assessment. The latter revealed that the change in annual adjusted operating profit has a positive impact on GDP growth as well as profitability [4].

It has become clear that foreign banks have higher margins and income than some banks in a number of developing countries, while the opposite picture is observed in developed countries. Many economists have also carefully studied the dynamics of the net interest margin. Thus, Aliga-Diaz and Olivero, studying data from the US banking system, found a countercyclicality in the net interest margin, that is, the margin is high during recessions and tends to be lower during economic booms [5].

Considering, that the interest income of the loan portfolio is the main component, in this context, the net interest income and the loan portfolio ratio are used in the evaluation processes, which

makes it possible to compare the interest income of banks with each other, regardless of their dependence on the loan portfolio. In addition, the research found that changes in short-term interest rates affect net interest income. The increase in interest rates, in turn, contributes to the increase in interest on loans, and therefore also has a positive impact on the interest income of a commercial bank. Albertatsi and Gambacorti [6] as well as Andersen [7] found positive effects of GDP and interest rate on net interest income in their research.

Recently, researches on the factors influencing the financial results of commercial banks and their planning have also been carried out by the Russian economics circles. Thus, Marina Hasanova, in her article "Visual-methodical approaches to planning financial results in commercial banks" refers to a number of problems in the Russian banking system as an example of banks operating in the territory of the Russian Federation, considering different approaches to planning financial results (budgeting with the participation of executors, directive budgeting, continuous budget, zero-based budget, etc.), Hasanova singles out ARIMA (SARIMA) estimation approaches, which are capable of accurate forecasting only for integrated or disaggregated time series. It is worth noting the usefulness of ARIMA-approaches, considering the seasonality of time series for analyzing the target attainable level of financial results [8].

Hasanova, in her other work, "Development of approaches to planning commission income in the corporate sector in a commercial bank", thoroughly presents the model of commission planning of banking business in the corporate segment, while offering her own author's approaches. Hasanova notes that it meets the requirements of the banking sector, as it contributes to the formation of long-term and mutually beneficial relations with clients. In order to increase the accuracy of planning, modern tools

are integrated into the evaluation approaches, which are able to supplement and complement traditional planning methods, such as dynamic classification, benchmarking, econometric method of financial forecasting, and correlation-regression analysis. The author's model proposed by Hasanova makes it possible to significantly increase the level of accurate forecasting of financial results of mediated income, to increase the value of the budget plan, to achieve the strategic initiative of the commercial bank, as well as to increase the flexibility of planning [9].

A study of the Armenian experience. As we mentioned, in recent years, RA commercial banks have recorded a significant increase in profitability, which was accompanied by consistently high profitability. Along with the development of the financial environment, the need for innovative approaches to evaluating the financial results of Armenian banks is becoming more obvious. The conducted research presents the new complex approaches, which are aimed at revealing the factors contributing to the financial results achieved by the RA commercial banks.

Commercial banks' income sources are created from various factors. Let's present the main factors that contribute to each of these categories of income:

Interest income is one of the main sources of profit for commercial banks and is generated from various interest-bearing assets on their balance sheets. In order to present the factors forming the bank's interest income, let's illustrate the presented information using tables and relevant indicators.

Below we present the factors that make up the commercial bank's interest income, which show the flow of income from one factor to another (see table 1 and table 2) [10].

Table 1. Factors forming the bank's interest income

Factor	Description
1. Loans	Interest income is generated from the loans to individuals and legal entities.
2. Investments	Income from interest on securities such as bonds and government securities.

Banking regulations, such as interest rate caps and reserve requirements, can affect a commercial bank's ability to earn interest income. Central banks in different countries often set benchmark interest rates that affect the interest rates paid on loans and deposits offered by commercial banks.

Table 2. Sources of interest income formation

Factor	Description
1. Interbank lending	Interest earned on loans offered to other banks in the interbank market.
2. Central bank interest rates	The impact of central bank policy.

It is important to note that commercial banks must carefully manage credit risk to protect their interest income, as the bank evaluates the borrower's creditworthiness to minimize defaults and non-performing loans.

Table 2 shows the sources contributing to the formation of interest income. The sources of interest income are interbank lending, customer deposits and Central Bank interest rates.

Central bank interest rates serve as a measure of the cost of funds for banks. When the central bank raises its interest rate, it

becomes more expensive for banks to borrow from the central bank, resulting in an increase in the cost of funds for commercial banks.

The factors affecting non-interest income, their characteristics and main indicators are presented in table 3.

Table 3: Sources of non-interest income formation

Non-interest income type	Characteristics	Main indicators
1. Service Fees	Fees for various banking services.	Total service revenue, fee per transaction
2. Investment services	Earning income from investment consultation and management	Net assets, consultation fees
3. Stock market	Profit (or loss) from trading in financial markets.	Trading income, investment gains/losses.
4. Asset management fees	Fees arising from the management of mutual funds and investment products.	Total value of managed assets, management fees
5. Merging and acquisitions	Fees for consultation services in mergers and acquisitions	Number of transactions, consultation fees
6. Insurance and Annuities	Insurance and annuity commissions	Insurance premiums, commissions.
7. Miscellaneous fees	Other sources of non-interest income	Total income of various fees, other categories of fees

From Table 3 it becomes clear that the sources of non-interest income formation are service fees, investment services, asset management fees, income from mergers and acquisitions, trade and investments, as well as insurance and annuity and other fees.

It is worth noting, that in 2022 the result registered by "Evocabank" CJSC for the ending year, which was unprecedented in the history of the RA banking system, because in 2021/2022 In comparison, interest and non-interest income has improved by approximately 25 times. Thus, in 2021, the profit of the reporting year of the bank: 1,128,026, in 2022: the profit of the reporting year: 25,724,399, in 2021: the income of the reporting year: 498,228, in 2022: 24,780,690. This is a unique case when a commercial bank exceeds its financial result of the previous year with a comparative position of 1 year, the main catalyst of which was the large influx of international visitors, as well as the most favorable conditions for mortgage lending, car loans and retail loans certified by many economists and researchers. to residents only, but also offering to non-residents.

From the financial reports published by RA commercial banks, it becomes obvious that in 2020-2022 "Ardshinbank" takes the leading position among the above three commercial banks in terms of both interest and non-interest incomes, followed by "ACBA Bank" and "Converse Bank". The choice of the above 3 commercial banks is based on the fact that before the beginning of the covid and the beginning of the Russian-Ukrainian conflict, these 3 commercial banks were in the first five in the scale of 17 commercial banks of RA for many years in terms of annual profitability and efficiency of the services provided. which have been awarded and are receiving

important international awards by a number of prestigious organizations since 2018. It is very important to note that in 2022, the net profit of "Ardshinbank", "ACBA Bank" and "Converse Bank" (91.5 billion AMD) was equal to the net profit of all RA commercial banks (256.2 billion AMD) about 35%.

The net profit of the three leading banks of the Republic of Armenia exceeds 1/3 of the total net profit of the entire banking system of the Republic of Armenia (17 commercial banks, excluding "Fast Bank" CJSC). Armenian banks concluded 2022 with a rather large increase in profits. Like the two-digit economic growth registered in Armenia, this indicator of banks' profit is primarily due to the services rendered to non-residents.

It becomes visible that among the three leading banks of RA, "Converse Bank" had a dynamic growth, whose interest incomes only had a stable growth, while the leading "Ardshinbank" and "ACBA Bank" had a certain decline in 2021. , which was caused by the financial and economic crisis caused by COVID-19. However, already in 2022, the dynamics of a sharp increase in the interest income of two leading banks was recorded, which was due to the activation of the banking sector in the post-epidemic period, as well as in 2022. due to the Russian-Ukrainian conflict at the end of February, large flows of citizens of the Russian Federation and Ukraine, which contributed to the revitalization of banking transactions. Let's also emphasize that based on the factors presented by us, there were also positive growth trends in the financial results of the remaining commercial banks, but the 3 commercial banks mentioned in this analysis were selected on the

basis of the fact that they recorded profit dynamics in recent years, being among the top five.

It should be noted, that "Ardshinbank" the leader of the RA banking sector in 2020-2021. In the period between 2012 and 2018, non-interest income had a slight increase, while in 2022, this indicator increased significantly, from 41.6 billion AMD to 125.9 billion AMD. A slightly different picture was in the case of "ACBA Bank" and "Converse Bank". 2020-2021 In terms of non-interest income, Converse Bank took the second place (according to the study of three commercial banks selected by us) in the period between 2016 and 2018, which lost its place to ACBA Bank only in 2022, when the latter had 21.1 billion, and "Converse Bank" - AMD 16.1 billion non-interest income. It is a fact that the significant increase in interest and non-interest income of the majority of RA commercial banks was and continues to be due to the flow of international visitors who arrived in RA as a result of the Russian-Ukrainian conflict, to whom strategic banking services commission approaches were applied, which continue to provide and contribute to this day to dynamic growth of commercial banks' profits.

Conclusion

The results of the research are related to the expansion and usefulness of both the Armenian and the international professional discourse, because the evaluation of financial results with new approaches not only has not yet received clear evaluations, but also the issues of improvement for the professional community remain current and debatable.

Due to the large influx of tourists, commercial banks adapt their financial services to serve tourists, which will provide additional income to the bank. They are, for example, foreign currency exchange, travel, insurance, international payment volumes. An increase in the number of tourists leads to an increase in the demand for banking services, thereby increasing the bank's sources of income through service fees, currency exchange rates and commissions, while banks also employ effective marketing strategies aimed at tourists, which also significantly affect the bank's profitability. In economies of countries heavily dependent on tourism, the profitability of local banks is significantly affected by the flow of tourists. As tourists increase their spending, they also stimulate economic activity in these areas, which leads to higher volumes of banking transactions, which in turn boosts the revenue dynamics of local commercial banks.

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ՀՀ ԱՌԵՎՏՐԱՅԻՆ ԲԱՆԿԵՐԻ ՖԻՆԱՆՍԱԿԱՆ ԱՐԴՅՈՒՆՔՆԵՐԻ ԳՆԱՀԱՏՄԱՆ ՄՈՏԵՑՈՒՄՆԵՐԸ

Զավեն Մարգարյան

Հայաստանի պետական տնտեսագիտական համալսարան,
հայցորդ

Բանալի բառեր - առևտրային բանկեր, ֆինանսական արդյունքների գնահատում, տոկոսային և ոչ տոկոսային եկամուտներ, կառավարչական որոշումներ, զուտ տոկոսային մարժա

Հետազոտությունում ֆինանսական արդյունքների ձևավորման համատեքստում գնահատվում է մակրոտնտեսական

փոփոխականների, կարգավորող փոփոխությունների և բանկերի ներքին գործառնությունների փոխազդեցությունը:

Հետազոտությունը ընդգրկում է ֆինանսական արդյունքների գնահատման որոշակի մոտեցումներ՝ ստեղծելու համապատասխան շրջանակ, որն արտացոլում է ՀՀ բանկային հատվածի ֆինանսական արդյունքների դինամիկան: Վերլուծվել են մակրոտնտեսական ցուցանիշները, կարգավորող փոփոխությունները, շուկայական մրցակցությունը և հայաստանյան բանկերի ռազմավարությունները՝ ֆինանսական կատարողականի ամբողջական պատկերը կառուցելու համար:

Հետազոտությունում, տոկոսային և ոչ տոկոսային եկամուտների ձևավորման համատեքստում գնահատվել են վերջին տարիներին ՀՀ առևտրային բանկերում շահութաբերության դինամիկայի գործոնները, որոնք թիրախավորվել են արդյունավետ կառավարչական որոշումների կայացմանը:

Հետազոտության արդյունքներն առնչվում են թ՛ե՛ հայաստանյան և թ՛ե՛ միջազգային մասնագիտական խոսույթի ընդլայնմանն ու օգտակարությանը, քանի որ ֆինանսական արդյունքների գնահատումը նոր մոտեցումներով ոչ միայն դեռևս չի ստացել հստակ գնահատումներ, այլև մասնագիտական համայնքի համար բարելավման հիմնախնդիրները մնում են արդի և քննարկելի:

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