SYSTEMATIC DECISIONS ON BANK’S NET INTEREST INCOME

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Abstract: Managerial decisions in commercial banks regarding net interest income formation are considered as a key factor in the processes of ensuring financial stability and profitability. However, managerial decisions should consider more comprehensive factors, not allowing too drastic increase for the tax burden of banks, or to reduce the opportunity for dividends payment. The article discusses the systemized management decision-making approaches of net interest income under the specified limitations.

Keywords: net interest income, profitability, systemized managerial decisions, financial analysis

JEL code: M40

Research objectives: the purpose of the research is to substantiate the essential for making systemized managerial decisions on net interest income of commercial banks.

Research novelty: presented approaches to systemized managerial decisions on the formation of interest income, based on limiting factors in commercial banks.
Introduction

Managerial decisions on the formation of net interest income have always been considered relevant for commercial banks. Striving to increase profitability, commercial banks have always pursued the growth of interest income and made managerial decisions on this, particularly increasing the interest margin [2. p: 651]. However, we consider it necessary to emphasize that the increase in net interest income is accompanied by a number of restrictions set by commercial banks. Therefore, there is a essential to make systemized management decisions regarding profit, which will take into account the limitations presented by commercial banks in terms of increasing the tax burden, ensuring stable financial reserves, and defining the minimum obligations for paying dividends [3, p:242].

Research results

In case of making managerial decisions on the formation of net interest income, mainly commercial banks use profitability indicators. In recent years, there has been a sharp increase in profitability indicators (ROA, ROE) in RA commercial banks (see chart 1). However, we believe that net interest income will also be subject to systematic analysis.

When making managerial decisions on the formation of net interest incomes of commercial banks, it is practically a problem to carry out a systemized analysis [4, p: 61]. First of all, it is due to the systemized presentation of financial information, such as, for example, reports on the financial situation or financial results of banks. As a rule, the following sequential steps are carried out during the system analysis:
Step one: the boundaries of the system and the financial components included in it are determined.

Step two: the goals, according to which the adopted decisions must be fulfilled, are presented.

Step three: the possibilities of achieving the set goals are analyzed.

Step four: quantitative and qualitative analytical conclusions are presented, which justify the realism of the decisions made.

Thus, the commercial bank presented a financial performance with the following breakdown (million AMD):

<table>
<thead>
<tr>
<th>Component</th>
<th>Value (million AMD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>400</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(250)</td>
</tr>
<tr>
<td>Net interest income</td>
<td>150</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(50)</td>
</tr>
<tr>
<td>Taxable profit</td>
<td>100</td>
</tr>
</tbody>
</table>
Based on the systematic reporting of financial results, a number of financial ratios were calculated.

Profitability = net profit / revenue = 82 / 400 = 0.205.
Profit divided by cost = operating profit / cost = 150 / 205 = 0.6.
Sustainable development = net profit / residual profit = 82/30 = 2.73.
Dividend compensation = net profit / dividends = 852 / 52 = 1.57.
Tax burden = profit tax / percentage yield = 18.400 / 0.045.
Overhead cost burden = overhead costs / operating profit = 50 / 150 = 0.33.

Based on the calculated financial ratios, the commercial bank sets a number of goals.

a/ to achieve an increase in profitability from 0.205 to 0.210 and more,
b/ to achieve an increase in the cost ratio from 0.60 to 0.70 and more,
c/ revise the possibilities of sustainable development from 2.73 to 2.50,
d/ to increase the level of attractiveness of the share environment from 1.57 to 1.70 or more,
e/ revise the tax burden from 0.045 to 0.06,
f/ revise the overhead cost burden from 0.033 to 0.30.
In order to achieve the listed objectives, first of all, a decision is made to review the range of possibilities for changing the income in such a way as to overcome the target milestones. In order to solve this problem, a system of inequalities is created, representing the interest income \( y \) as an unknown.

\[
\frac{(y - 250 - 50) \times 0.82}{y} > 0.2 \\
\frac{(y - 250)}{250} > 0.7 \\
\frac{[(y - 250 - 50) \times 0.82] \times [(y - 250 - 50) \times 0.82 - 52]}{[(y - 250 - 50) \times 0.82] / 52} < 2.5 \\
\frac{[(y - 250 - 50) \times 0.18]}{y} < 0.06 \\
\frac{50}{(y - 250)} < 0.3
\]

Based on above-mentioned inequalities, the following acceptable ranges of net interest income of a commercial bank will be obtained from the solution of the system, which take into account the defined goals:

\[
y > 403 \\
y > 425 \\
y > 406 \\
y > 408 \\
y < 450 \\
y < 450
\]

Therefore, in the reporting period, net interest income of commercial banks should be in the range of 403-450 million AMD in the case of the specified objectives.

It is possible to discuss the goals of commercial banks from a different perspective of systemic analysis, if other qualitative
characteristics are given to the existing structures. Thus, it is decided to set the tax burden at 4.0%, and the profit from the sale at 18%. In this case, denoting interest income by \( x \), and interest expenses by \( y \), we will create a system of two unknown probability systems.

\[
\frac{(x - y - 50) \times 0.82}{x} = 0.18
\]

\[
\frac{(x - y - 50) \times 0.18}{x} = 0.04
\]

\( x = 340 \text{ mln AMD}, \)

\( y = 216,2 \text{ mln AMD}: \)

**Conclusion**

In the process of planning of net interest income, commercial banks should not focus on ensuring profitability only, but ought to provide systemized solutions to this issue. In particular, in such a case, it is necessary to target managerial decisions parallely with cost-effectiveness of commercial banks' activities, the tax burden, the opportunity for dividends payments, as well as the potential of sustainable financial development. Systemized assessments of that incomes create an opportunity to make managerial decisions, which simultaneously contribute to strengthening the competitive positions of commercial banks in the financial market and consider prospective developments caused by various factors.
References:
վերջնականության բանական հարաբերություն կերպով, ունի նույնպես տարատեսակ ռաշակեցություն հարաբերակցության էջը: Հոդված-դրությունը եղել է գիտության եղանակի համակրության մասին զարգացման որոշումների աճման և իրագործման հարցերում.

Համաձայն մինչև ավելի տարածված սահմանափակումների բացումը և տարածված ֆինանսական պայմանների ռաշակեցությունը զրկում է զարգացման և իրավկան պայմանների աճման. Զուտ տոկոսային եկամուտների համակարգյան գնահատմամբ ներկայացվում են իրապատասխան քննարկումներ, որոնք նախատեսում են զուտ տոկոսային եկամտի համակարգյան կառավարական որոշումների կայացման մոտեցումը. Շահույթի մեծությունը պլանավորելու առաջարկությունները պետք է պայմանական համարվեն. Այս համարվեցին զարգացման անհրաժեշտությունները, ինչպես նաև ֆինանսական շահութաբերության ապահովման համար ներկայացվում է համակարգչային լուծումներ, որոնք նախատեսվում են զարգացման կայունական ուժը. Զուտ տոկոսային եկամուտների համակարգյան գնահատմամբ զարգացում ներկայացվում է իրապատասխան տարբեր գործոնների և զարգացման համակարգում.