FINANCIAL RESULTS ANALYSIS IN COMMERCIAL BANKS

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Abstract: The article describes the process of analyzing financial results in commercial banks and the specific features of the methods applied in the analysis.

Key words: bank revenue, cost, analysis, typological grouping, structural grouping, analytical grouping.

The methods of analyzing income and expenses represent a combination of techniques and tools used to assess the bank's financial results. In the process of analyzing the income and expenses of commercial banks, a wide range of methods and analytical approaches are utilized. They include traditional techniques as well as mathematical methods and instruments. Both internal and external information sources are used during the analysis.

Among the most widely used traditional methods of analyzing bank income and expenses are:

- methods for calculating analytical indicators (time series analysis, methods of calculating analytical indicators, relative and average values);
- preliminary analysis methods (comparison techniques and grouping methods);

- factor analysis methods (chain substitution method, index method, balance method, etc.).

In addition to traditional methods, mathematical tools are also applied when analyzing the income and expenses of commercial banks. For example, the integrated factor analysis method of income and expenses. Considering the importance of methods used in financial analysis, it is necessary to examine them in more detail.

Time series methodology plays a significant role in analyzing analytical indicators. A time series represents data that reflects the development of a studied economic phenomenon over a certain period. The main requirement for drawing correct conclusions from time series analysis is to ensure comparability of its elements.

The main indicators of time series analysis include:

- **absolute growth**, determined by the difference between two levels of the series;
- **growth rate**, calculated by dividing the value of the reporting period by the value of the base (previous) period;
- **incremental growth rate**, calculated by dividing the difference between the reporting and previous (or base) period values by the value of the previous or base period.

Among preliminary analysis methods, comparison and grouping techniques are commonly applied.

The methodology for comparing actual indicators includes comparisons:

1. With the indicators of the previous period;
2. With the indicators of the base year;

3. With planned or normative indicators;
4. With improved (advanced) banking indicators;
5. With average productivity levels.

In most cases, the analysis of bank income and expenses is based on comparing the reporting year with the previous year. The comparison method allows identifying the achievements or shortcomings in banking performance.

Grouping method implies dividing indicators into homogeneous groups based on their characteristics in order to study them more thoroughly.

The following grouping methods are used:

- **typological grouping**;
- **structural grouping**;
- **analytical grouping**.

Typological grouping is applied to classify indicators by specific types. For example, in income analysis, revenues may be grouped into interest and non-interest income; similarly, expenses may be divided into interest and non-interest expenses.

Structural grouping is used to study the share and dynamics of each type of income within total income, and the share and trends of each type of expense within total expenses.

The objective of income structure analysis is to identify the main sources of income, evaluate their sustainability, and preserve their role in the future. The objective of cost structure analysis is to determine the main types of expenses and to identify the factors causing their growth.

The analysis is based on actual figures of previous years. In international practice, the analysis typically covers at least a three-year period. Based on general conclusions and structural analysis, more detailed examination of the main types of income and expenses is conducted.

Among factor analysis methods, the **chain substitution method** is widely used. Its essence lies in gradually replacing the base period values of certain indicators with reporting period values and calculating the effect of each replacement on the resulting aggregate indicator.

To illustrate the chain substitution method, we examine the impact of specific factors on changes in the return on assets indicator.

The total change in asset profitability is expressed as follows: (Formula retained as in the original text)

Where:

— return on assets;
— net profit amount;
— average asset value;
— changes;
— reporting period;
— base period.

1. The impact of net profit change on return on assets: (Formula retained)
2. The impact of average asset value change on return on assets: (Formula retained)

During analysis, the following methods and instruments are recommended:

- grouping bank income and expenses by economic characteristics;
- structural analysis;
- studying the dependence of indicators on specific factors;
- assessing the quantitative impact of different factors;
- comparison of obtained results with recommended standards in domestic and international practice.

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