THE MECHANISM OF COUNTING OF PROFIT OF COMMERCE BANK ON A BASE OF SPREAD-MODEL

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Spread-model is based on the suggestion that if main activity of commerce bank is a credits and investments so the profit can be counted as deferens (spread) in % on called resources.

For the best understanding of the economic essence of this model we can describe the structure of commerce bank what reflected the general characteristic peculiarities of businecc ib financial and credit spheres.

This scheme shows the interaction of main functions and its realization through market mechanism.

Deposit department of the bank connected with deposit market and through this market with bank clients. We call them client-depositors.

The bank trough the deposit department make a request on money resources. As a result of interaction between participant of the deposit market and bank the buy/sale of monetary resources happened.

Credit department of the bank connected with credit market and through it with different clients whom we will call clients-borrowers. Credit department offers through the credit market to its clients the monetary resources as a loan for percents in different types of credit and loans.

The notion of the market has many senses but as deposit and credit market we will understand the integrity of agreements and with it help bank and his clients contact in a process of money buy/sale.

According to the Figure the bank buy the money resources. And his economic interest is to buy the money resource of a low price. It is connected with that fact that with low deposit rate bank much easier can get a necessary profit and consequently the demand on such deposit will increase.

The relation between deposit rate and quantity of offerings is the following: with growth of deposit rate the bank will be offered bigger quantity of money then with lo rates. It is a rule of demand.

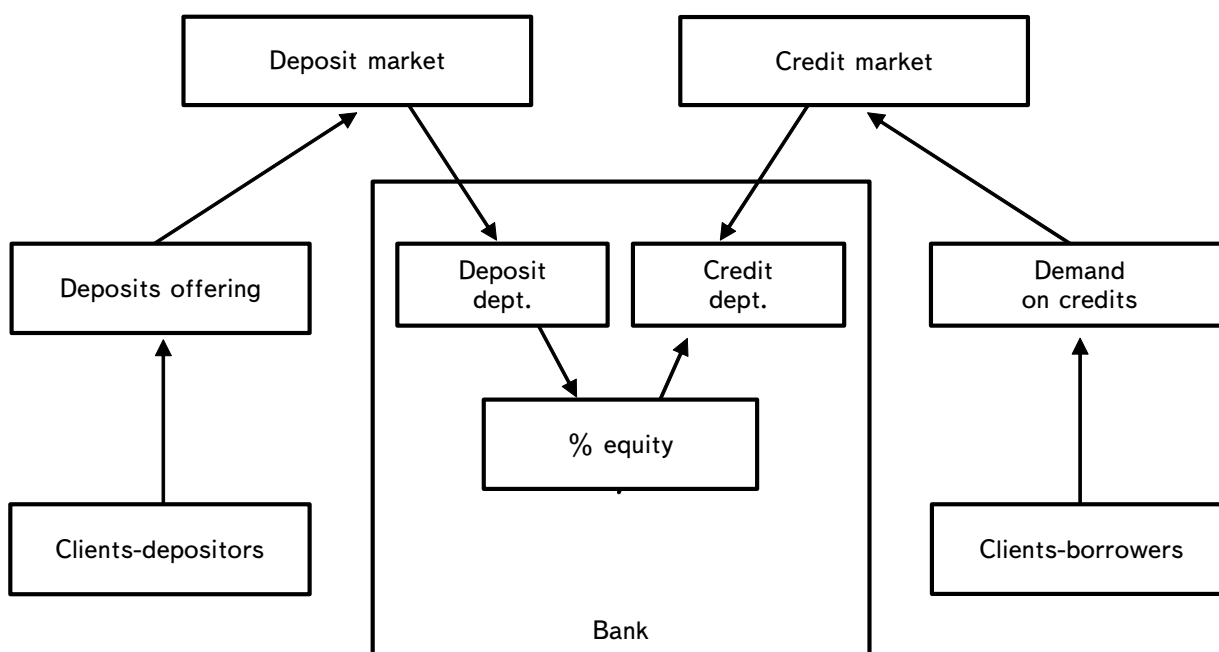The money demand of participant the credit market (Fugure) shows it.

Fig. **Commercial bank structure**

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Market rates on a deposit and credit markets are defined by general supply and demand of all commercial banks. It is a typical fact that when bank puts the percent rates on the different types of the deposits and credits as external rates.

From the figure follows that bank at the same time on a deposit market performs as a customer and on a credit market as a seller.

In a mechanism of market interaction of bank with its clients the main role in a model play the supply and demand and also percent rates.

So that is why we should take into account when we estimate a commerce bank the following:

♦ Organizational structure of commercial bank;
♦ Structure of assets and obligations;
♦ Structure of incomes and expenses;
♦ Forecasting and making a cash flow;
♦ Strong control from Central bank;
♦ Banking over risk.

Spread-model also performs that on the of the source of assets is own capital (OC) of the bank.

According to the spread-model the pure income of the bank should be counted:

$$NCI = \alpha Y - \beta X + \alpha OC + \gamma S - \Sigma P + \Sigma Д - \Sigma H, \quad (1)$$

where NCI - net cash income of the commerce bank; α - average percent rate of deposits; Y - sum of the credit deposits; $\hat{a}$ - average percent rate of credits; X - sum of money of deposits; OC - own capital; $\tilde{a}$ - central bank normative; S - FOR normative; ΣP - sum the otherc non percent rates; $\Sigma Д$ - sum of other non-percent rates; ΣH - tax sum.

So spread-model take into account the specific of the bank activity and placement of assets and intebanking turnover and credit of capital.

In Russian we use on a practice the spread-model for the estimation of the credit organizations with the following circumstances.

First of all the forecasting of net cash income is realized on a basis of the percent spreads what can be very low.

The second thing is that spread-model is made for banks who has in its structure passives the main part of it is for credit bag. The majority of Russian banks have such structure of assets.

Thirdly, spread-model is for the definition of the net cash income while in the structure of the majority of Russian banks the most income goes to non-percent incomes.

In this formule (1) NCI performs:

$\acute{a}Y - \hat{a}X + \acute{a}OC + \tilde{a}S$ - describes operation activity of the commerce bank where $(\acute{a}Y - \hat{a}X)$, is an operation income.

In expression (1) the same rate of the income б uses for placement id assets and own assets of commercial banks.

So the NCI we can present as :

$$NCI_{o\partial} = \acute{a}Y - \hat{a}X + \tilde{a}S \quad (2)$$

The income from non-operation activity:

$$NCI_{\text{нод}} = \Sigma Д - \Sigma P \quad (3)$$

And total sum of the operation income:

$$NCI = (NCI_{o\partial} - NCI_{\text{нод}}) (1 - H), \quad (4)$$

where H - tax rate.

The main component of the net cash income is a net cash income from the operation activity.

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