A SYSTEM OF INDICATORS FOR EXTERNAL AND INTERNAL PERFORMANCE EVALUATION OF A COMMERCIAL BANK

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Keywords: efficiency evaluation, commercial bank activity, assets profitability, the system of index activity, *Cost-Income* index.

The article considers the indices of evaluating the efficiency of commercial bank activity taking into account both external (*ROE*, *ROA*) and internal (*Cost-Income*) factors.

Performance evaluation of commercial banks is traditionally linked with calculating the qualitative indicators, which represent the ratio between the financial results of the bank, or its net profit, and the costs of achieving this result. The majority of experts believe the return on equity (*ROE*) and the return on assets (*ROA*) to be the key indicators in this sphere.

ROE is the ratio of the bank's net profit to the average net worth (*NW*) of the bank for the given period of time:

$$ROE = \frac{Net\ profit}{\overline{\overline{NW}}}.$$

This formula characterizes the performance of the net worth of the bank (made up by the shareholder capital, the added capital, the reserve fund and the paper profit) invested in the bank's operations. The essence of *ROE* is the calculation of the gain (in the form of net profit) on the invested shareholder means, as well as the paper profit spent on the development of the bank

ROA is the ratio of the net profit of the bank to the average assets of the bank for the given period of time:

$$ROA = \frac{Net\ profit}{\overline{\overline{Bank's\ assets}}}.$$

ROA allows estimating the efficiency of the bank's current operations: how much is the net income per ruble, invested in its assets, both in the financial ones (individual and legal persons' crediting, ban-to-bank lending, shares), and the non-financial ones (fixed assets). By using this indicator, the bank can estimate the performance of investment in its assets.

Both indicators are connected with the evaluation of the overall activity of the bank as a managing subject. However, good performance evaluation requires evaluating the influence of the external and internal factors in the form of their systemic interrelation.

The external factors are the conditions that affect the size of the bank's net profit, that are not directly related to the managerial decisions of the bank's executives: the amount of attracted resources (interest rates in client deposits markets, bank-to-bank lending, refinancing rate of the Central Bank, currency exchange rates, and tax burden). The internal factors are: the payroll expenses, administration costs, advertising and promotional costs, depreciation of fixed assets, or the factors that can be changed by the bank through managerial decisions.

Good evaluation of the dependence of the bank's financial results on the internal factors requires the calculation of the indicator that will allow comparing the level of internal operational costs of the bank to the bank's profit from operations. One of the most suitable indicators for such evaluation is the indicator of Cost-Income.

The indicator of Cost-Income represents the ratio between the operational costs of the bank for the given period of time to the bank's profit from operations (notwithstanding the reserves).

$$Cost - Income = \\ = \frac{Operational_costs}{Profit_from_operations_(without_the_reserves)}.$$

However, the more precise performance evaluation requires the exclusion of interest rate costs for the attracted resources from the sum total of the bank's operational costs.

Thus, the Cost-Income indicator characterizes the ratio between the operational costs of the bank for its regular operations to the profit from those operations. The calculation of this indicator gives the bank an opportunity to evaluate the performance of the funds, earned by its employees and its material assets, and find

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the ways to increase performance through cutting costs (payroll expenses, overheads, fixed assets maintenance) or increasing the profit.

Thus, the general system of performance indicators for a commercial bank requires the analysis of the indicators able to account for both the external (*ROE, ROA*), and the internal (Cost-Income) factors. The first group of indicators is of higher interest for the external users of the banking reports, such as the investors, the analysts, the regulators of banking activity. The second indicator - the Cost-Income one - is of high interest for the internal users of the bank's reporting, mostly its executives, as it allows evaluating the bank's potential for cutting its costs and helps draw up the plans for increasing its performance.

Still, more efficient performance evaluation needs systemic approach to the calculation of the above-mentioned indicators, as it account for the influence of both the external and the internal factors, allowing to make suitable managerial decisions.

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Received for publication on 17.11.2010