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THE IMPACT OF OFF BALANCE RECORDS ON SELECTED FINANCIAL INDICATORS OF THE COOPERATIVE BANK ASSESSMENT

WPLYW EWIDENCJI POZABILANSOWEJ NA WYBRANE WSKAŹNIKI OCENY SYTUACJI FINANSOWEJ BANKU SPÓŁDZIELCZEGO

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Summary: Financial crisis, regardless of the geographical coverage, subjective or sector, can be assessed from the perspective of two most important elements initiated: damage (eg. the collapse of Lehman Brothers) and changes (regulating the balance of power in the financial markets). The analysis of indicators used in assessing the financial situation of the cooperative bank on the basis of the selected documents shows that there are areas in need of renovation. The purpose of this article is to propose changes to the design rate of effectiveness of the cooperative bank, expressed as the ratio of operating costs to income from banking operations (KDB/WNB). The developed solution will provide information about the real revenues and expenses related to the core business of cooperative banks and will enable the same objective assessment of the effectiveness in this area of activity. The research methods adopted in the article are based on studies of literature, review of legislation, analysis of financial statements of the cooperative bank and conclusions.

Keywords: financial crisis, off-balance records, assessment of the financial situation, a cooperative bank, indicator.

Streszczenie: Kryzys finansowy, bez względu na zasięg geograficzny, podmiotowy czy sektorowy, można oceniać z perspektywy dwóch najbardziej istotnych elementów: zniszczeń (np. upadek banku Lehman Brothers) oraz zmian (regulacyjnych, układu sił na rynkach finansowych), jakie zainicjował. Analiza wskaźników wykorzystywanych w ocenie sytuacji finansowej banku spółdzielczego na podstawie wybranych dokumentów pozwala stwierdzić, że istnieją obszary wymagające aktualizacji. Celem niniejszego artykułu jest zaproponowanie zmian w konstrukcji wskaźnika efektywności wyrażonego stosunkiem kosztów działania banku spółdzielczego do wyniku na działalności bankowej (KDB/WNB). Opracowane rozwiązanie dostarczy informacji o realnych przychodach i kosztach dotyczących działalności podstawowej banków spółdzielczych oraz umożliwi tym samym obiektywną ocenę efektywności tego obszaru działania. Przyjęte w artykule metody badawcze opierają się na studiach li-

teratury, przeglądzie aktów prawnych, analizie sprawozdania finansowego wybranego banku spółdzielczego i wnioskowaniu.

Słowa kluczowe: kryzys finansowy, ewidencja pozabilansowa, ocena sytuacji finansowej, bank spółdzielczy, wskaźnik.

1. Introduction

The issue of the loss of security by banks, which is a determinant of the phenomenon commonly known as the financial crisis, has existed since the creation of the first bank. These financial crises are characterized by the fact that the indicator is a general loss of confidence in the entities causing crises. In fact, banking crises occurring till the Great Depression resulted largely from the disorder issues related to the issuance of money [Iwanicz-Drozdowska, Bartkowiak 2002]. Without a detailed description of the origins and the course of the crises of 2008. and 2011, it can be assumed that the source of the crisis was the first financial innovation [Gradoń 2012]. Interpreting the content of the theory of business cycles formulated by Austrian economists, who assessed the situation and the impact of banks, the occurrence of another crisis is only a matter of time. The effects of crises, in particular the negative effects on the economies are subjected to analysis in order to determine the causes and mechanisms to detect them and prevent or limit side effects. It is significant that in spite of the technological advances, increasingly sophisticated measurement tools and science – it is still not possible today to provide theories or tools to effectively protect against the occurrence of financial crises. However, the individual observation of separate banks reveals the approaching crisis with the advance of time enabling to take effective preventive action [Bartkowiak 2002]. Superficial analysis of recent crises, which were initiated by banks and carried out the greatest impact on the sector, indicate a significant evolution is the assessment of the financial situation of banks. These include the issue related only to the capital, the increasing importance of liquidity, proper risk assessment and the specific information requirements. Due to the work of supervisors and governments of many countries two documents were created: CRD IV (Capital Requirements Directive IV) and Regulation CRR (Capital Requirements Regulation) aiming in the opinion of their creators to strengthen the security of the financial system. For the purposes of this study it should be noted that changes in the assessment of the financial situation of banks include not only the introduction of new assessment indicators, such as:

- Liquidity Coverage Ratio (LCR) – often called the “horizon of survival,” which describes the ability of the bank to use liquid assets liabilities associated with the potential outflow of funds within 30 days in case of shock [Kozuchowska 2011],
- Net Stable Funding Ratio (NSFR) – The introduction of an obligation to calculate this indicator was aimed to reduce the role of finance banking activities through short-term loans in the interbank market as well as better integrate the liquidity

risk profile instruments and increase the importance of funds acquired from retail clients and entrepreneurs [Oleszko 2011], but also the modifications and reconstruction of already used assessment indicators which include:

- leverage ratio,
- capital adequacy ratio,
- risk weights for individual exposures or sectors.

These indicators are essential as without making relativized assessment it is not possible to carry out a full analysis, and consequently the delivered assessment may be wrong [Marcinkowska 2012]. Regarding the circumstances invoked, the importance and direction of actions taken by the international supervisory authorities, the governments and national and international institutions bringing together financial institutions, including cooperative banks, this study analyzes the elements of a design of one of the indicators evaluating the economic-financial situation in a cooperative bank, i.e. the efficiency indicator of the cooperative bank, expressed as the ratio of operating costs to income from banking operations (KDB/WNB).

The purpose of the studies is to assess the correctness of the calculation method and develop changes to the design of the indicator in such a way that it enables a reliable assessment of the cooperative bank in the analyzed area of operations. For the purposes of the discussed considerations, the following hypothesis was adopted: the correction of the KDB/WNB components by the additional recognition of interest income on off-balance sheet exposures under WNB will improve the application value of the indicator, allowing for a more accurate and reliable assessment of the cooperative bank's performance in the analyzed area.

2. The role and the need for evolution in assessing the financial situation of the cooperative bank

The proper evaluation of a cooperative bank, which is an essential element of management, is not possible without the bank reporting, being absolutely anchored in the bank accounting. As a rule, it is assumed that accounting is a comprehensive and formal records system that functions in accordance with applicable rules and principles that are subjects to change. Accounting as such, not only determines that economic events are subjected to registration, but also shows the way of the processing, presentation and interpretation. The purpose of accounting is to ensure the proper, true and fair presentation of the financial position and financial performance, profitability of economic entity. For this purpose, accounting measures, registers, groups and makes interpretation on the basis of its transaction records. Seeing accounting as a dynamic process, it is possible to specify that it begins with the identification operations, and ends with the preparation of the financial statements and its research and presentation [Popowska, Wąsowski 2008]. Due to the directions

and objectives for the use of such information, we can say that bank accounting performs the following functions:

- information,
- control,
- analytical.

Formulated accounting principles characterise the reliability and usefulness of the information presented in the financial statements. The main principles include:

- principle of going concern,
- principle of accrual basis,
- principle of business continuity,
- principle of a comprehensive approach,
- principle of transparency,
- precautionary principle,
- principle of news,
- principle of subjectivity [Emerling et al. 2011].

For the purposes of this discussion some extremely important principles include: a comprehensive approach, transparency and timeliness. Their implementation should ensure the recognition of the assets of the bank as a whole, presenting the true picture and resources (balance sheet and off-balance sheet), clearly presenting complete accounting records to allow monitoring but also the diagnosis of the financial situation of the bank. However, the assessment should not be static. The development of the situation at the time ought to be taken into account. For the bank to keep accounts properly and in accordance with the above principles it is necessary to have a chart of accounts, the list of applied accounting records and the documentation of the data processing system (now using such tools as computers). In accordance with the provisions of the Ordinance of the Minister of Finance dated 11 August 2011, a model chart of accounts for banks was established (Dz. U. No. 181, item 1082). In a standard chart of accounts, bank accounts were grouped into ten sections including the name and a symbol in the form of numbers:

Section 0 – Fixed assets,

Section 1 – Operations involving cash and operations with financial entities,

Section 2 – Operations with non-financial entities,

Section 3 – Operations of government institutions and local authorities,

Section 4 – Securities,

Section 5 – Different operations,

Section 6 – Own funds,

Section 7 – Costs and losses,

Section 8 – Revenue and profits,

Section 9 – Commitments given and received.

These classifications allow to specify and analyze the impact of various factors on the financial position of the bank, development of the financial result, the risk associated with operations carrying out various components of assets and

liabilities of different subjects and determining the risk of the banking sector as well as determining monetary policy and finally making periodic assessments of the monetary state situation [Wielgórska-Leszczyńska 2012].

The accounting system as the most important information system of an enterprise provides information about the different economic categories in the form of financial statements. The role of financial statements in the market economy is unquestionable. They are an important information package helping both in assessing the activities of the operator, as well as making decisions by their users [Remlein 2015].

These elementary principles of accounting, including how to shape and book bank (the chart of accounts), drawn up on the basis, periodically, according to established formulas and principles, balance sheet, profit and loss, cash flow and financial statements – are the source of data for a comprehensive assessment of a cooperative bank. Data obtained ex post allow to assess the following aspects:

- banking supervision,
- bank owners,
- governing bodies of the bank,
- authorities supervising the work of the bank,
- rating agencies,
- potential investors and customers.

Each of these entities pays particular attention to the selected elements of analysis but using different methods of assessment. At this point it should be noted, however, that the assessment of the bank cannot be made in isolation from the environment in which the bank operates, because it shapes both operational and strategic plans of the bank. Rating cooperative banks as well as commercial banks may be preliminary, which is based on the analysis of the dynamics of change (i.e. horizontal analysis) and the analysis of the structure (referred to as vertical analysis), and deepened where various types of financial ratios are composed and evaluated.

Banks, like other commercial entities, are not free from the risk of bankruptcy, and therefore the search for warning tools seems appropriate. However, constructing such tools should be based on the results of the industry [Stefański 2011]. Taking into account the information on the crisis it seems evident that the analysis of this phenomenon has had far-reaching changes in the assessment of the financial situation in commercial banks and cooperative banks. The latter, though, did not affect the occurrence of the crisis, as well as its scope and strength. However, cooperative banks suffered from such consequences as crisis which significantly affected the banking sector in Poland. First of all, changes in the area of evaluation of the cooperative sector should be noticed followed by the dimension of control and consequently, the strategic approach (choice of operating model between the Institutional Protection System and the Integrated Association). Therefore, the objective of this article concerns the sphere of regulatory and selected indicators to assess cooperative bank. Later changes to this area will be under scrutiny. Regulatory accounting including financial reporting has been constantly transformed since

2010. International law balance (International Accounting Standards/International Financial Reporting Standards), which introduced significant changes to the concept of financial reporting has also changed the structure of financial statements. This caused a series of discussions regarding the validity of the changes. The last major changes were implemented in 2013-2014 in the Polish accounting law as a response to changes in EU regulations introduced in 2013 EP directive on financial reporting. Two kinds of changes in accounting regulations can be specified (sanctioned in recent years in Polish and international law):

- first, the changes (especially in international law) refer to the same purpose of financial reporting which determines the qualitative characteristics of information reporting,
- second, changes in accounting regulations concern the very structure of the financial statements, and thus the scope of the disclosure of information in it, especially by small and medium-sized enterprises [Rowińska 2015].

The above information is not only about the possibilities of change in the analysis and assessment of the financial situation but it also states that changes in this type have already taken place and are the starting point for further evolution in this area.

3. Selected issues of in-depth assessment of the financial situation of cooperative bank

The reliability of the financial statements of the bank is confirmed by the annual survey carried out by the auditors and once every three years by the cooperative revision unions. By analysing the statements of bank the management and its supervisory authority are given an opportunity to assess the efficiency and effectiveness of the adopted strategy including checking the degree of sufficient maintenance of financial liquidity and the extent of financial results satisfaction. It also helps to determine the phenomena which could threaten the future existence of the bank. Without a comprehensive analysis of the financial statements the synthetic assessment of the financial position of the bank is not possible. It is neither possible even on the basis of thorough knowledge of the course of ongoing operations conducted by the bank [Bień, Sokół 1998].

Cooperative banks, unlike commercial banks, operate primarily on the basis of:

- The Act of 29 September 1994 on Accounting (Dz. U. 2013, item 330, as amended.) [Ustawa o rachunkowości z dnia 29 września 1994...],
- The Act of 29 August 1997 on Banking Law (Dz. U. No. 128 of 2013, as amended) [Ustawa Prawo Bankowe z dnia 29 sierpnia 1997...],
- The Act of 15 February 1992 on Income Tax (Dz. U. 2014, item 851, as amended),
- The Regulation of the Minister of Finance dated 1 October 2010 on Specific Accounting Principles for Banks, as amended (Dz. U. 2013, pos. 329) [Rozporządzenie Ministra Finansów z dnia 1 października 2010...],

- The Regulation of the Minister of Finance of 16 December 2008 on the Creation of Provisions for Risk Related to Banking Activity (Dz. U. 2015, pos. 2066) [Rozporządzenie Ministra Finansów z dnia 12 listopada 2015...],
- The Regulation of the Minister of Finance dated 11 August 2011 on the Establishment of a Model Chart of Accounts for Banks (Dz. U. No. 181 of 2011, item. 1082),
- The Directive of the European Parliament and of the Council 2013/36 / EU of 26 June 2013. On the conditions of admission of credit institutions to the business and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC and repealing Directive 2006/48/EC and 2006/49/EC,
- The Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013. On prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012,

but are also based on the following acts, which significantly differentiate the scope of activities of the banks and the regarding risk:

- The Act of 7 December 2000. Operations of Cooperative Banks, their Affiliation and Associating Banks, as amended (Dz. U. 2014, item 109, as amended),
- The Act of 16 September 1982. Cooperative Law (Dz. U. 1982 No. 30, item 210, as amended).

This difference significantly affects the results of the analysis of the balance sheet, income statement, cash flow, financial statements and additional notes to banks and cooperative banks associations. It is evident that the primary risk is credit activity. It determines the level of financial performance as well as the range and selection of

Table 1. Areas of indicators to assess the financial situation of the cooperative bank

Capital adequacy	Asset quality	Efficiency	Liquidity
1. The total capital ratio	1. Asset quality indicator	1. ROA net	1. Liquidity ratio of assets
2. Tier 1 capital ratio	2. The share of assets with risk weight of 50% (inclusive) in total assets	2. Operating costs to income (C/I)	2. Liquidity coverage ratio (LCR)
3. Leverage	3. Coverage of impaired loans of specific provisions	3. General and administrative expenses to income from banking operations (KDB/WNB)	3. Net stable found ratio (NSFR)
4. Capital ratio of credit risk	4. Quality Loans Indicator	4. Profit before tax + net of specific provisions and revaluation/total assets	X

Source: study based on the author's analysis of the regulation and the financial statements of selected cooperative banks, affiliating bank and institutional protection scheme.

strategic actions, as individual banks, bank associations and all associations repeatedly suffer the consequences associated with the operation of associating banks (as their co-owners). This is confirmed in the supervisory body reports published periodically (quarterly), ie. The Office of the Financial Supervision Commission on the websites of the same office. Thorough analysis of the documents selected in some cooperative banks and one associating bank, as well as the regulation of institutional protection scheme which is based on the revised national regulation as a result of the current CRD IV, along with Regulation CRR, offers division into the following four areas of indicators assessing financial evaluation of cooperative bank.

The solutions described in Table 1 should be assessed as justified and useful in providing comprehensive and objective assessment of any cooperative bank. The experience of the banking sector related to the financial crises of the early twentieth century led to the fact that four areas of assessment are currently used by cooperative banks. The evolution of the applied tools and measures shows that the number of the areas assessed can probably increase in future including issues related to corporate governance, the adequacy of management, investor relations or co-owners, etc.

4. The analysis of selected indicators of cooperative bank cost effectiveness

Cooperative banking operating in Poland has taken a permanent and prominent place in the national banking system since the nineteenth century. Restructuring and consolidation of the sector carried out between the years 1990 and 2000 raised the level of equity and improved profitability. Such a situation of cooperative banks has allowed them to operate more safely after the global financial crisis consequent results revealed in Poland [Kozak 2010]. Despite the positive aspects of the restructuring in the previous years, the recent financial crisis, resulting in low interest rates and non-standard measures of central banks gave rise to the re-verification of existing methods and analysis of financial condition and assessed the functioning of cooperative banks.

For the purpose of further considerations two indicators in the area of operating efficiency have been selected. They include the ratio of operating expenses to income of the bank (hereinafter referred to as C/I) and the index describing the operating expenses to income from banking operations (hereinafter: KDB/WNB). According to these presented earlier accounting regulations of banks, the chart of accounts applied and the principles of creating and publishing financial statements, selected indicators of the effectiveness of cooperative bank are formed from the following data:

a. the operating costs for the bank's income (C/I): The ratio is the result of the quotient of administrative expenses including depreciation (presented in the numerator) with the result on banking operations together and the results of other

operating income and expenses (presented in the denominator). Taking into account the prior information on the bank accounts chart applied, this indicator can be obtained by dividing the cost of selected items from section 7 of the banking chart of accounts (presented in the numerator) and certain income items from sections 8 and 9 of the chart of accounts (presented in the denominator);

b. operating expenses to income from banking operations (KDB/WNB): this ratio is the result of the quotient of operating costs (presented in the numerator), with the result on banking operations (presented in the denominator). Taking into account the prior information on the bank chart of accounts applied, this indicator can be obtained by dividing the cost of selected items from section 7 of the banking chart of accounts (presented in the numerator) and selected items of income section 8 chart of accounts (presented in the denominator).

Both of these indicators provide information about the cost of the activity as one of the elements of early warning. The first of the selected indicators applies to the entire area of operations of the bank, while the task of the second indicator is to determine how much the core business of the bank is fraught with costs of the action or to answer the question whether the bank earns on its core business. As indicated in the first chapter, honestly prepared reporting provides recipients with information on its basic a strategy and its operational or supervisory actions are applied.

When analyzing these indicators it can be seen that the rate of KDB/WNB that is supposed to show the result of the load on the core business activities of the bank costs associated with it, not only does so but even misleads the recipients. Both indicators (a and b above), in terms of costs differ only (in the case of cooperative banks, this difference is of no practical significance) in apprehension by the first one with additional depreciation. However, in the recognition of revenue, the difference is fundamental and contains an error which is very important from the point of view of the influence on the final shape of revenue. The first of the indicators rightly applies to all income of the bank (both banking activities and other operating activities), the second indicator includes only revenue from banking activities – apart from interest income registered on off-balance sheet exposure. This solution is difficult to understand and doubtful in terms of logic. Since operating expenses also include costs related to the remaining operating activities generating certain revenues, the lack of recognition on the side of the result on income banking activity, generating the previously mentioned costs is completely incomprehensible. Based on the analysis of the accounting regulations, including those relating to the specific activities involving cooperative banks as well as the solutions adopted in terms of the applicable accounts plan, it seems that it is reasonable to introduce changes in the design of the KDB/WNB indicator. Under the current rules cooperative banks must meet certain conditions in order to write down credit exposures to off-balance sheet, in particular:

- exposure of this kind is classified in the category of “lost” for at least one year, and

- specific provision and commission created and settled over time is equal to the amount of outstanding debt, which means that the net debt is equal to zero [Rozporządzenie Ministra Finansów z dnia 1 października 2010...].

Given the conditions mentioned above and taking into account that suspended interest of impaired loans is removed from the income of the bank (classified in risk groups: sub-standard, doubtful and loss), the solution would be an additional correction in the WNB recognizing the interest income on credit exposure of registered off-balance sheet. This concept deserves consideration and application, because:

- bank's income related to credit exposures registered in balance sheet regarding the recovered capital (when specific provision is created in the amount of 100% of the outstanding) is part of the result on reserves thus not being the part of WNB,
- including credit exposures to off-balance sheet takes place in the weight of the provision and commissions settled in time (the so-called. ESP) to the amount of debt outstanding principal, so the subsequent recovery of the principal amount should be the other operating income because it is impossible to recognize such revenue to the result on reserves,
- bank's income related to credit exposures registered in balance sheet regarding the recovered costs is the additional operating income, which is not part of WNB, so the change in this respect is not justified,
- in the case of credit exposures with registered impaired balance sheets cooperative banks are obliged to draw suspended interest associated with them from WNB and only the interest paid on these loans is included in WNB,
- it follows that the only contentious issue with no logical justification in any analysis is a way of recognizing interest income on registered off-balance sheet exposure within WNB, which is part of the index KDB/WNB and an important element of the assessment of the financial situation of the cooperative banks.

This is extremely important from the point of view of making business decisions (strategic and operational), by the bank authorities (management and supervisory), but it also affects the financial assessment of cooperative bank made not only by the owners, but also the supervisory authorities.

Therefore, the primary risk of cooperative banks involves lending activity banks define in their strategies, credit policies and financial plans of action solving problems related to impaired credit exposures. According to predefined rules cooperative banks are required to establish specific provisions that are closely related to the timeliness of payments, economic and financial situation of debtors and any collateral permitting the use of deductions provisioning base. Depending on resources, cooperative banks can independently carry out activities related to the recovery of endangered remittances or conclude securitization or assignment agreements. The choice regarding the method has a direct impact not only on indicators of the quality of assets of a cooperative bank, but also the size of the

indicators of cost efficiency, i.e.: C/I, and in particular KDB/WNB which affects the subsequent assessment of the financial situation.

Considering the importance of the analyzed indicators from the point of view of operations associated with self-recovery of receivables by cooperative banks it can be concluded that these actions are the most desirable because of constant changes of the perception of the functioning of public institutions like bank as well as surveillance and regulatory direction of restructuring and orderly bankruptcy. With respect to securitization, which is known as one of the factors that influenced the occurrence of the financial crisis, there are the following limitations in application that seem important from the point of view of the cooperative bank:

- financial,
- organizational and legal,
- tax barriers,
- barriers concerning the preparation of the transaction,
- barriers to implementation the agreement.

These factors decide that despite the benefits of such a solution (to improve the indicators of asset quality, the lack of costs related to securitized loans, improvement in asset structure by replacing overdue receivables into cash or financial assets, the price obtained does not constitute taxable income to the amount of the unpaid part of the debts, the loss from the sale is tax deductible up to the amount previously established in specific provision included in the cost of doing business), this solution is practically not used in operations of banks from the cooperative sector [<http://www.knf.gov.pl...>]. Considering the other options, or sale (assignment) of receivables, we can conclude that it is a debt management instrument, increasingly popular among banks wanting to get rid of “bad” debts and improve the quality of loan portfolios [<http://www.alebank.pl/index.php?option...>]. Apart from the significant advantages of this solution such as the improvement of the quality of assets, reduction of costs associated with an independent investigation by the cooperative banks receivables and provisioning solution, it is worth paying attention to the negative aspect of such a decision. First, the prices that cooperative banks gain on the sale of selected parts of the loan portfolios, oscillate from approx. 1% to approx. 12% in loans unsecured by collateral and cash loans are the most common subject of the assignment. Second, the price that the cooperative banks gain is other operating income improving only the C/I ratio. One should note the fact that if the sale relates to loans classified in risk lost group, cooperative banks in accordance with applicable laws were to subtract interest income on such credit exposure of the bank’s results. Third, the bank selling selected credit exposures is deprived of opportunities to improve the future performance of the business of banking. The popularity and growing group of entities that deal with the purchase and recovery of debts (including mainly the banks), may indicate a considerable potential for recovery, which is in these assets.

The alternative for these activities is, however, after fulfilling the above conditions including bad debts to off-balance sheet and further recovering of

these exposures by bank cells engaged in debt collection and restructuring. On the basis of the financial statements and balance sheet, profit and loss account of a selected cooperative bank using the proposed solution, an analysis is conducted of the impact of including bad debts to off-balance sheet on the assessment of the financial situation of the cooperative bank, which is presented in Table 2. In the framework of selected items to be evaluated the results present a simulation involving the corrected construction of KDB/WNB cost index proposed in this article.

Table 2. Analysis of the impact of writing off bad debts to off-balance sheet

Indicator		2011	2012	2013	2014	2015
Execution	C/I	60.12	66.03	55.34	57.25	61.26
	KDB/WDB	75.49	90.73	92.02	70.2	91.85
Change	C/I	60.12	66.03	55.34	57.25	61.26
	KDB/WDB	54.88	77.15	79.48	61.12	77.94
The recovery, expressed as a percentage of total debt (on account of principal, interest and other expenses to be paid)		8.08	5.67	2.15	3.94	3.09

Source: study based on the author's analysis of the financial statements, the notes, the balance sheet, regulatory accounts submitted to the NBP and the profit and loss account of the cooperative bank.

Considering the data presented in Table 2 for proposed changes in the structure of KDB/WNB index, it is clear that the assessment of the financial situation of the cooperative bank changes significantly and preferably regarding the methods of operation and strategic solutions adopted by the authorities. First of all, it should be noted that the evaluation of the bank in the context of the core business clearly improved. KDB/WNB indicator takes the values that allow to conclude that running core business of the bank is not only profitable, but the bank has financial buffers to allow the development of business, provided that the other elements of the evaluation, including available resources, allow such activities. If, however, the indicator discussed has not been corrected in accordance with the proposal, the assessment of the situation in the same bank could attest to the fact that the principal business is insufficient to cover the costs of the action, and the suggested solution could be to prepare plans for reducing operating costs thus limiting the scale of operation. In addition, these data also show that as a result of vindictory-restructuring activities the bank recovers on average 4.59% of registered off-balance sheet receivables without incurring additional costs. The costs related to debt collection and restructuring were incurred in the same range when the bank registered balance sheet exposures. The

scope of the information obtained is interesting from the point of view of an in-depth analysis of the business model of cooperative banks in the recovery and restructuring of debts.

5. Conclusions

Changes in the financial reporting of business units made in recent years led to the discussions of accounting environments. The most important changes and their consequences relate to financial reporting, which in accordance with IFRS emphasizes the usefulness of the information, and not as yet the reliability of the data reported. Polish regulations in the wake of the provisions of the EU Directive on financial reporting left the principle of true and fair view as a starting point of financial reporting. Transformation of financial reporting (Polish and international) also led to some changes in the annual financial statements. The detail of the disclosures depends on the group to which the eligible entity belongs (small, medium, large entities) [Rowińska 2015].

The financial crisis at the turn of 2007 and 2008 gave rise to changes in terms of understanding the safety of banks and the assessment of their financial situation. We introduced a number of solutions without prior analysis of the impact of their smaller financial institutions in the cooperative banking sector. The failure to apply the principle of proportionality may have negative consequences for the existence of cooperative banks in Poland. Based on this analysis of data on the cooperative bank, it seems reasonable to re-make an in-depth analysis of the elements of the financial assessment of cooperative banks, introducing new elements of assessment or updating applied solutions, such as the one proposed in this article changing the structure of cost effectiveness evaluation of KDB/WNB index. This should have a positive impact on improving the quality of the assessment of the financial situation of the cooperative banks, as well as providing a basis for making business decisions by the governing bodies of these institutions on the basis of reliable information.

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