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**ACCOUNTING OF COMMERCIAL BANKS OPERATING IN POLAND  
AND THE MEASUREMENT AND ASSESSMENT OF THEIR PERFORMANCE  
IN THE FACE OF RAMPANT ECONOMIC GLOBALISATION**

**Introduction**

The 21st century has brought about accelerated changes in the global economy. This period, following the banking crises of the past few decades, has also led to more reflection regarding the quality of the operation of such important financial institutions as banks. Contemporary business literature increasingly points to the special role served by commercial banks, to their unique nature and corporate social responsibility. Of particular significance, in the author's opinion, is the fact that whenever the reasons behind the serious problems that occurred in commercial banks all over the world were analysed, the diagnosis always involved accounting irregularities or the lack of reliability or the poor quality of audits. This is why this paper aims to emphasize the importance of high quality commercial bank accounting. This importance will be discussed in the context of measuring and assessing the performance, in the broad sense of the word, of commercial banks in Poland, which came to operate in the global economy.

**Commercial banks in Poland in the face of rampant economic globalisation**

The place and role of Polish commercial banks in the economy have evolved and undergone substantial transformation over the past decades, due to the changing economic conditions. Since the 1980s the changes to commercial banks operating in Poland have been radical. First, until the late 1990s, they included reforms aimed at moving from central planning to economic calculation. Next, the banks began to search for their place in the global<sup>1</sup> free market economy. When mentioning globalisation it should be pointed out that business literature, especially after consecutive economic crises, often presents globalisation in a decidedly negative light. One may even encounter a claim that not only has globalisation

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<sup>1</sup> The globalisation phenomenon is widely discussed in business literature – cf. e.g. Z. Zawadzka: *Globalizacja a sektor bankowy w Polsce*, [in:] *Finanse, bankowość, ubezpieczenia wobec procesów globalizacji, tom I Bankowość wobec procesów globalizacji*, Katedra Finansów i Katedra Ekonomiki Przedsiębiorstw Uniwersytetu Gdańskiego, Instytut CeDeWu Sp. z o.o., Warszawa 2003, p. 421.

failed to cement the economies of individual countries and nations, but it has turned out to be an excellent machine for generating all kinds of irregularities, be it financial, economic, social or ecological.<sup>2</sup>

It should however be noted that globalisation is a phenomenon that has developed naturally and attracted nearly all world economies, and whose positive aspects may not be overlooked<sup>3</sup>. Therefore it seems unnecessary to condemn the globalisation process itself, which, after all, is irreversible; the focus should rather switch to developing solutions that will offset its potential adverse effects.<sup>4</sup>

Therefore, there is an ongoing process of Polish banks joining the global international or rather “supranational” economy, with all the consequences such a move entails. What makes operating in such a “supranational” economy special is the trans-border nature of banking activities<sup>5</sup>, which, unfortunately, entails an involvement in trans-border banking problems<sup>6</sup> and crises.

When you analyse business literature in terms of the transformations taking place in the 21<sup>st</sup> century on international financial markets and the changes to the banking environment and the banks themselves, you will notice the consequences reflected in the emergence of such phenomena as financial globalisation, deregulation and liberalization, technical and technological progress, quick development of new banking products, economic consolidation and expansion<sup>7</sup> or a particularly interesting phenomenon, i.e. disintermediation, i.e. the removal of intermediaries.<sup>8</sup>

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<sup>2</sup> P. Artus, M.-P. Virard: *Wielki kryzys globalizacji*, Instytut Wydawniczy Książka i Prasa, Warszawa 2010, p. 11

<sup>3</sup> The positive aspects of globalisation should not be overlooked. For instance, following the removal of barriers to international trade, the overall standard of living around the world has improved. Globalisation has kept the interest rates low and created a favourable climate for financial policies stimulating growth. Greater productivity and migration of human and technological resources have accelerated the development of common welfare. There was a shocking rise in supply. Nearly a billion people managed to overcome extreme poverty – cf. P. Artus, M.-P. Virard: *Wielki kryzys globalizacji*, Instytut Wydawniczy Książka i Prasa, Warszawa 2010, p. 13.

<sup>4</sup> A. Piechocka-Kaluźna: *Standaryzacja i harmonizacja rachunkowości banków komercyjnych jako determinanta bezpieczeństwa systemu bankowego w Polsce*, Zeszyty Naukowe Uniwersytetu Ekonomicznego w Poznaniu, Wydawnictwo Naukowe Uniwersytetu Ekonomicznego w Poznaniu, Poznań 2011, in press.

<sup>5</sup> M. Niewiadoma: *Perspektywy rozwoju polskiej rachunkowości bankowej w zakresie adekwatności kapitałowej*, [in:] S. Sojak: *Historia, współczesność i perspektywy rachunkowości w Polsce*, Wydawnictwo naukowe Uniwersytetu Mikołaja Kopernika, Toruń 2003, p. 465.

<sup>6</sup> The problems include irresponsible credit policy resulting in excessive exposure to credit risk.

<sup>7</sup> A. Ostalecka: *Kryzysy bankowe i metody ich przewycięzania*, Difin, Warszawa 2009, pp. 15–18.

<sup>8</sup> Cf. P. Marszałek: *Czy banki w Polsce tracą na znaczeniu?*, [in:] L. Dziawgo: *Współczesne finanse. Stan i perspektywy rozwoju bankowości*, Wydawnictwo naukowe Uniwersytetu Mikołaja Kopernika, Toruń, 2008, pp. 582–583. Disintermediation, removal of intermediaries – in the sense of commercial banks losing the position of a financial intermediary.

### **An attempt at identifying and classifying the notion of performance of commercial banks**

In the introduction to the section devoted to describing commercial bank accounting which serves as the source of data for performance measurement, it is worth specifying exactly the “performance” that puts commercial banks in positive or negative light. For the purposes of this publication the author will adopt a very broad definition of “commercial banks’ performance”. The performance will be defined as indicators and values reflecting the condition (position) of the bank. The author believes that thus defined bank performance may be classified as follows:

1. commercial banks’ performance in the strict sense (of the first degree) – derived from the consecutive levels of calculating the financial result in the profit and loss account<sup>9</sup>;
2. commercial banks’ performance based on the correlation of selected balance sheet items, off-balance sheet items or items derived from other sources with the commercial banks’ performance in the strict sense (bank performance of the second degree);
3. commercial banks’ performance based on selected balance sheet items, off-balance sheet items or based on other sources apart from the commercial banks’ performance in the strict sense (bank performance of the third degree).

Bank performance within this meaning may be the value of the net financial result alone or the effect of calculating the consecutive levels of the net financial result in the profit and loss account. It may also involve various indicators comprising one of the values from the mandatory profit and loss account or, finally, it may be a value entirely independent of the data presented in the profit and loss account provided for by the Accounting Act.

Such an approach, reflected in the broad definition of the notion of bank performance, is based on the position requiring departure from viewing commercial banks as regular business enterprises<sup>10</sup>, i.e. only through the prism of their commercial character, and moving towards fostering their role as public trust institutions that implement the idea of corporate social responsibility.<sup>11</sup> Nowadays, in the age of economic crises, instead of executing a short-sighted policy aimed at maximising gain, commercial banks should concentrate on developing long-term trust, which, as a substantial body of research suggests, is unfortunately proving far from satisfactory.<sup>12</sup>

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<sup>9</sup> Cf. Accounting Act of 29 September 1994 (DzU of 17 September 2009, No 152, item 1223, as amended), Schedule 2.

<sup>10</sup> K. Janowska, K. Baliński: *Rachunkowość bankowa*, Difin, Warszawa 2004, p. 11.

<sup>11</sup> M. Iwanicz-Drozdowska: *Ryzyko reputacji a społeczna odpowiedzialność biznesu w instytucjach finansowych*, [in:] L. Dziawgo: *Współczesne finanse, Stan i perspektywy rozwoju bankowości*, Wydawnictwo Naukowe Uniwersytetu Mikołaja Kopernika, Toruń 2008, p. 259.

<sup>12</sup> E. Kulińska-Sadłocha, G. Kotliński: *Zaufanie jako element rozwoju nowego systemu bankowego w Polsce*, [in:] A. Janc: *Stabilizowanie sektora bankowego w okresie kryzysu*, Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu, Poznań 2010, pp.154–159.

**Commercial banks' performance of the first degree.**

Data regarding the first type of performance is readily available to all interested parties. Performance in the strict sense may be analysed, for instance, on the websites of most commercial banks. Furthermore, the financial results are published by statutory journals, including, first and foremost, *Monitor Polski B*. Performance in the strict sense comprises the following items:

- net interest income;
- net fee and commission income;
- net income from financial operations;
- foreign exchange result;
- net income from banking activity;
- net provisions and revaluation
- operating profit/loss;
- net extraordinary gains (losses);
- gross profit (loss);
- net profit (loss).

Not only should the results be readily available, but they should also guarantee data comparability. Such comparability should concern financial statements from individual years in a given bank (and that is usually the case), but should also be reflected in the possibility to confront the results presented in the financial statements of different banks (and here such possibility is often lacking). Financial data comparability, in the context of spectacular difficulties experienced by many banks around the world, economic recession and the banks' corporate social responsibility, should be guaranteed by law. In Poland, financial performance in the strict sense comprises data taken from the mandatory<sup>13</sup> profit and loss account, as provided for by Schedule 2 to the Accounting Act. The question of reliability and comparability of the data presented by banks in the profit and loss account is discussed in Section 3 of this paper.

**Commercial banks' performance of the second degree**

Bank performance, within the meaning of the definition suggested in Section 2 hereof, is more than just the consecutive stages of calculating the financial result in the profit and loss account as provided for by Schedule 2 to the Accounting Act. Commercial banks' performance of the second degree involves all those performance indicators which are not the direct results of the profit and loss account, albeit are partially based thereon. An example of such results (indicators) could be the quotient below:

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<sup>13</sup> This does not concern banks which, mandatorily or optionally, base their financial reporting on IAS.

$$x = \frac{\text{net interest income}}{\text{gross working capital}},$$

where the net interest income is directly derived from Schedule 2 to the Accounting Act, while gross working capital means gross loans, i.e. not reduced by specific loan loss provisions (in banks operating under the Polish Accounting Act) or by impairment write-offs (in banks operating pursuant to international regulations, i.e. IAS International Accounting Standards, IFRS International Financial Reporting Standards and related interpretations as published by the European Commission).

Similarly, other stages of calculating the financial result in the profit and loss account may be compared, e.g.:

$$x = \frac{\text{net income from banking activity}}{\text{gross working capital}},$$

where, as in the previous quotient, the numerator is taken from the profit and loss account, while the denominator comes from other parts of the financial statements prepared by commercial banks under the Accounting Act.

Similar indicators may be achieved when analysing balance sheet liabilities against the data from the profit and loss account, for instance by calculating ROE, popular not only in the case of banks, i.e.:

$$ROE = \frac{\text{net profit (loss)}}{\text{equity}},$$

where the numerator is taken from the profit and loss account, while the denominator is a sum of relevant<sup>14</sup> items carried in the bank's balance sheet liabilities.

It is worth mentioning an indicator unique for banks, i.e. the crucial solvency ratio:

$$x = \frac{\text{equity} + \text{short term capital}}{\text{total capital requirement} \times 12,5},$$

where

- equity is defined in the Banking Law Act<sup>15</sup>
- short-term capital and total capital requirement are defined in a resolution.<sup>16</sup>

### Commercial banks' performance of the third degree

As defined in Section 2 of this paper, commercial bank performance of the third degree involves indicators that are not just the consecutive levels in the calculation of the financial result in the profit and loss account as provided for by the Accounting Act and

<sup>14</sup> i.e. the sum of liability items that are not obligations or provisions.

<sup>15</sup> Banking Law Act of 29 August 1997.

<sup>16</sup> Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed procedures for determining capital requirements for specific types of risk.

sometimes may not even be remotely connected to the data presented in the bank's financial statements. Such indicators may include RORAC, i.e. return on risk-adjusted capital, RA-ROC, i.e. risk-adjusted return on capital or other, completely different indicators such as the value of investment per employee, the number of branches versus the value of assets or even the number of cashpoints per customer, etc.

### **Commercial banks' accounting as a source of data for performance measurement and evaluation**

As discussed in Section 2 herein, there may be various indicators (results) reflecting the condition of commercial banks. We can continue to create new indicators, recommend data for their measurement, change the suggested ranges of reference values for the specified indicators, and search for data areas and indicators that best describe a bank. We may impose upon commercial banks a requirement to meet certain minimum or maximum values of various kinds of ratios – e.g. the solvency ratio or other, similar performance indicators.

However, we should perhaps question the cognitive value of indicators describing commercial banks, since they are based on accounting data, whose quality still (or, as others claim, already<sup>17</sup>) leaves a lot to be desired. The defectiveness<sup>17</sup> of accounting and, consequently, of the financial reporting of commercial banks operating in Poland can be attributed to three main factors:

- the wording of the accounting legislation in force (especially the liberalized approach to applying the prudence principle);
- the freedom to use alternative solutions (in terms of recognizing and measuring often the most crucial components);
- the lack of comparability of financial statements between individual banks, due to inconsistent implementation of IAS only by some banks<sup>18</sup>.

Therefore, if commercial banks' performance in the broad sense of the word is based on accounting data that is not entirely unequivocal, comparable or recognized as realistic (prudently measured) values, then a substantial degree of caution is advised with regard to the quality of the results that are expected to reflect the true and objective situation of commercial banks operating in Poland. This process is depicted in Fig. 1.

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<sup>17</sup> J. Wielgórska-Leszczynska: *Wybrane problemy wyceny składników aktywów i ich ujęcie w sprawozdaniach finansowych banków*, [in:] *Zeszyty Teoretyczne Rachunkowości*, Stowarzyszenie Księgowych w Polsce, Rada Naukowa, Warszawa 2010, pp. 284–291; A. Piechocka-Kałużna: *Selected problems regarding the quality of the financial statements by commercial banks operating in Poland*, in press.

<sup>18</sup> A. Piechocka-Kałużna: *The role of harmonisation of Polish regulations and IFRS/IAS in guaranteeing the security of operations of a commercial bank and the banking system*, [in:] J. Samelak: *ZN UE w Poznaniu*, Poznań 2010; J. Uryga, W. Magielski: *Rachunkowość banków komercyjnych z uwzględnieniem Międzynarodowych Standardów Sprawozdawczości Finansowej*, Interfin, Kraków 2006, p. 73.

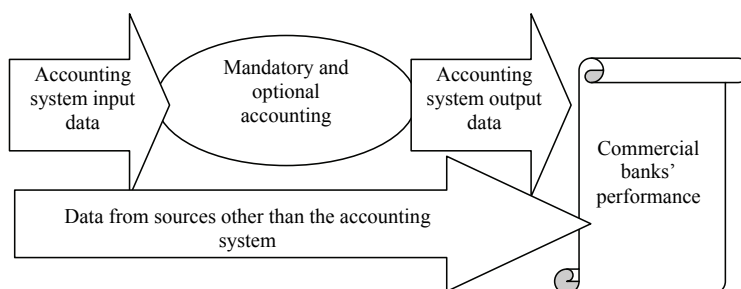


Figure 1. Accounting as the source of data for calculating commercial banks' performance

Source: own work.

Figure 1 shows that the source of data serving as the basis for calculating commercial banks' performance in the broad sense comprises both the accounting system, as well as other data sources. Accounting should be understood mainly as mandatory financial accounting, although naturally it may be supported by data taken from optional management accounting. It should be remembered, however, that management accounting is largely based on data taken from the financial accounting system, which makes the latter even more important. Apart from financial accounting other sources of data used to calculate bank performance were also listed. However, the author believes them to be of marginal significance. Therefore, only high-quality financial accounting that yields comparable and reliable data may guarantee adequate calculation of commercial banks' indicators (results).

### **Development directions of bank accounting as a source of data for measuring and evaluating commercial bank performance in the global economy**

Business literature<sup>19</sup> stresses that accounting should yield detailed, comprehensive and sufficient information about the entity it concerns. It should always be remembered that in order to obtain accurate output data, accurate input data needs to be used. In this case this concerns the calculation of commercial bank performance (output data), which, to a large extent, is based on the data derived from the accounting system (input data). Therefore we should consider what actions need to be taken for the accounting data to be reliable enough not to distort the real picture of the condition of commercial banks operating in Poland. The author believes that three main development directions may be identified here, correlated with the sources of deficiencies in accounting and financial reporting by commercial banks, as listed in Section 3 of this paper.

The first aspect is therefore connected with the issue of a liberalised approach to measurement. According to the author we should re-examine whether the growing trend to use

<sup>19</sup> J. Wielgórska-Leszczynska: *op.cit.*, p. 284.

measurement at market value or fair value has not contributed to the excessive bravado of managers (including bank managers) and whether the overly optimistically measured value of bank assets and boosting the results using accounting tricks has not led to managers taking unjustified risks. The author is of the opinion that the restrictive application of prudence principle, placing more emphasis on historical value (or reducing it due to impairment) would be of more benefit to the banking system security. It should be considered whether underestimation of certain items would not be better for the bank in the long-term than their overly optimistic measurement. In the age of economic crises it seems necessary to make the regulations more stringent and the financial accounting more restrictive. Today it is no longer viable to concentrate only on short-term “commerciality” of banks. A long-term perspective is required – although excessive exposure to risk caused by a misconceived belief in vast possibilities based on less than prudent measurement may result in a substantial one-off gain, in the long-term such actions may spur serious difficulties for banks, which, as public trust institutions, cannot afford such risk. Therefore the focus should shift to security, a kind of a “back to the roots” approach, thinking over the wording of the prudence principle, reconsidering the capital requirements, re-examining the manner in which provisions are calculated and actually secured etc. First and foremost, however, we should ensure the comparability of data presented by commercial banks in their financial statements.

Consequently, the second issue, listed as a source of accounting deficiencies, involves the need to re-examine the permissibility of alternative solutions that allow banks to create their image by selecting methods of recognizing data in the accounting system that are convenient for banks at a given juncture.

The third and final issue, similarly to the second one, stems from inadequate comparability of bank financial statements. In that case, however, this lack of comparability is attributable to legislation that allows inconsistent<sup>20</sup> implementation of IAS by commercial banks, which was expected to reflect the harmonisation of Polish and international law. Globalisation of problems should entail the unification and harmonisation of solutions regarding the recording and presentation of data in the financial statements by commercial banks. The discrepancies in the presentation of significant values in financial statements by banks that apply IAS and the banks that follow Polish regulations are the arguments in favour of a reasonably quick standardization of solutions in this respect.

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<sup>20</sup> Not all Polish banks are obliged to prepare their financial statements in accordance with International Financial Reporting Standards. This obligation has been imposed only on those banks, which prepare consolidated statements. The remaining banks may, in exceptional cases, as described earlier, choose to draw up their statements in accordance with IAS or, and that concerns the majority of them, they have no such choice – as provided for by Article 55 Sections 5-9 of the Accounting Act of 29 September 1994 (DzU of 17 September 2009, No. 152, item 1223 as amended).



## Conclusions

This paper emphasizes the importance of commercial bank accounting, which serves as the main source of data for calculating the broadly understood performance of commercial banks operating in Poland. The paper also points out that commercial banks, considered special entities and public trust institutions and expected to abide by the principles of corporate social responsibility, should not concentrate their efforts solely on delivering shareholder value and maximizing gain, but should rather focus on the process of inspiring public confidence in their operations and thus in the entire banking system.

Considering that banks that seize the opportunities provided by accounting legislation in force, create a misleading image of themselves, we should not be surprised that, according to a survey carried out by the Office of Competition and Consumer Protection (UOKiK), Poles put more trust in “The Great Orchestra of Christmas Charity”, a public charity organisation, rather than the banks<sup>21</sup>. The author believes nobody needs convincing that urgent action is needed with respect to improving the quality of accounting, so that the accounting itself and the results calculated based thereon can reflect the bank’s situation accurately and reliably and allow all interested parties to make the right decisions.

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<sup>21</sup> <http://www.networkmagazyn.pl/nie-ufamy-bankom>. Read 6.02.2011; [http://wyborcza.biz/biznes/1,101562,8752114,Trzymamy\\_pieniadze\\_w\\_bankach\\_\\_ale\\_im\\_nie\\_ufamy.html](http://wyborcza.biz/biznes/1,101562,8752114,Trzymamy_pieniadze_w_bankach__ale_im_nie_ufamy.html). Read 6.02.2011.

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### **Summary**

The paper attempts to define and classify the performance, in a broad sense, of commercial banks operating in Poland. The aim of the paper was to demonstrate that in the majority of cases the quality of performance calculation is largely determined by the quality of the data derived from an accounting system. Consequently, an attempt is made at diagnosing the main causes of poor accounting data quality and solutions to this situation are suggested.