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Analysis of selected elements of the financial statements as an element of the bank's financial management

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ABSTRACT

The subject of consideration of the following are the most important issues related to the bank's financial management, with particular emphasis on the analysis and assessment of banks' financial activities. The Bank is a specific organization against which high requirements are placed, and the management of banking activities involves many challenges of a multi-faceted nature. The theoretical part focuses on issues related to the financial management of a banking enterprise, with particular emphasis on the role of financial statements in shaping the bank's operations. The empirical part contains an analysis of elements of the X bank financial report in 2013-2015.

***Keywords*:** Financial statements, analysis of financial statements, financial management, bank financial management, bank management

1. INTRODUCTION

Banks operate under certain economic, social, political and legal conditions (Reinhart, Rogoff, 2009, pp. 466-7). The constantly growing competition of banks and other financial institutions forces managers to take specific actions that lead to expanding the product offer of banks, and thus to acquire new clients. Loan activity is the most profitable activity in banks,

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however it is limited by external legal regulations (Hung, 2000, pp. 401-420). Institutions that belong to the financial sector like (banks, insurance companies) offer products tailored to the specifics of business, operate in a changing market environment (Pettersen-Sobczyk, 2015, p. 137-138), which involves the occurrence of risk. In organizations of this type, it is important to implement the risk management process in all areas of activity, with particular emphasis on activity regarding sold banking and insurance products and services. Enterprises that manage their business risk and place great emphasis on this aspect even in a difficult and changeable environment retain leading positions (Godfrey, P. C., Merrill, C. B., & Hansen, J. M., 2009, pp. 425-445).

In the subject literature, both in the field of banking and finance, we often find that the bank is an institution of public trust. However, the date of the institution of public trust has not been regulated in statutes or other provisions of Polish law. Nevertheless, it is widely used and shaped by doctrine and jurisprudence. According to many authors, public trust institutions are entities whose activities are subject to statutory regulations. Commentators of the Banking Law emphasize that the fact that banks have a special status requires the legislator to introduce many restrictions on their business operations, which is why it is so important for the banks to provide reliable information to clients.

In today's market economy, consumers' expectations regarding information provided by banks are increasing. More and more often they require the provision of more detailed data that enable accurate and reliable assessment of the financial situation by both potential investors and bank customers. The applicable reporting standards must ensure comparability of banks on both national and international scale, which is a challenge for modern financial reporting (Efendi, J., Srivastava, A., & Swanson, E. P., 2007, pp. 667-708.).

Conducting a banking activity requires the involvement of specific resources for this type of organization, whose consumption expressed in terms of value is a cost of activity for the bank. As a result of its operations, the Bank provides certain services and sells banking products that bring specific effects, which are reflected in the revenues generated. Conducting a banking activity requires obtaining an appropriate relationship between the revenues achieved and the costs incurred, which is the financial result reflecting the differences between revenues and costs. This is a basic measure of the effectiveness of banking operations, and banks strive to maximize it (Nenova, 2003, pp. 325-351). A positive financial result is identified with profitability and profitability. Keeping profit at a sufficiently high level allows the bank to function safely, develop, maintain credibility and maintain a stable situation for both employees and owners. Profit at a high level indicates not only the entrepreneurship and effectiveness of the bank's management, but also the strengthening of its position on the financial services market. Profit illustrates the results of the bank's operations, which makes it possible to assess the effectiveness and efficiency of the operation (Bonin, J. P., Hasan, I., Wachtel, P, 2005, pp. 31-53).

2. ANALYSIS OF SELECTED ELEMENTS OF THE X BANK FINANCIAL STATEMENTS IN THE YEARS 2013-2015

The bank's financial statements are used to assess the bank's condition. It consists of individual elements, the analysis of which makes it possible to get to know the financial situation of a given institution. The basic element of the financial statements is the balance sheet. In banks, balance sheet assets are ranked according to the criterion of decreasing liquidity, and liabilities according to the criterion of decreasing maturity. As the first one, the most liquid assets are presented in the balance sheet (cash in hand), and tangible fixed assets and assets for sale are presented in subsequent items. In liabilities, the most-payable ones are listed in the first place, while the basic ones and the financial result are presented as the last (Barth, M. E., Beaver, W. H., & Landsman, W. R., 2001, pp. 77-104).

Table 1 presents the balance sheet of bank X in the years 2013-2015 and a table 2 shows analyzes it.

Table 1. X Bank balance in 2013-2015
[Source: Own study based on X Bank financial materials]

Assets	2013	2014	2015
I Cash and balances with the Central Bank	5879281,98	6153495,84	7123016,62
II Debt securities eligible for rediscounting with the Central Bank	0,00	0,00	0,00
III Receivables from the financial sector	86284878,00	73371038,44	89777693,31
IV Receivables from the non-financial sector	197754857,31	231999119,01	245318284,68
V Receivables from the public sector	5092402,82	8453907,03	7276918,05
VI Receivables under repurchase agreements	0,00	0,00	0,00
VII Debt securities	603876,16	604420,60	1155882,80
VIII Shares in subsidiaries	50000,00	50000,00	50000,00
IX Shares in jointly controlled entities	0,00	0,00	0,00
X Shares in affiliates	0,00	0,00	0,00
XI Shares in other entities	2229350,00	2229350,00	2479350,00
XII Other securities and other financial assets	1831866,08	3222166,55	402520,06
XIII Intangible assets	42604,19	86785,36	72481,45
XIV Tangible fixed assets	11956874,23	11704158,29	10858692,36
XV Other assets	4782388,21	5254418,85	10818511,28
XVI Prepayments	757902,84	763225,95	913928,03
TOTAL ASSETS	317266281,82	343892085,92	376247278,64
Liabilities and equity	**2013**	**2014**	**2015**
I Liabilities to the Central Bank	0,00	0,00	0,00
II Liabilities to the financial sector	245692,71	332967,49	340851,74

III Liabilities to the non-financial sector	246480149,21	268825624,44	289908772,54
IV Liabilities to the public sector	30576436,24	29333498,67	37359508,73
V Liabilities under repurchase agreements	0,00	0,00	0,00
VI Debt securities issued	0,00	0,00	0,00
VII Other liabilities due to financial instruments	0,00	0,00	0,00
VIII Special-purpose funds and other liabilities	2358739,01	2630259,21	2791314,19
IX Accruals, deferred and reserved income	1993638,20	1515565,24	3123788,33
X Provisions	1565932,24	1828306,87	1653742,88
XI Subordinated liabilities	0,00	0,00	0,00
XII Share capital	9431341,94	11246700,00	10970700,00
XIII Called up share capital (negative value)	-7533,20	-7070,23	-3794,94
XIV Treasury shares	0,00	0,00	0,00
XV Statutory reserve	18760548,05	21920156,11	25760728,04
XVI Revaluation reserve	56095,59	56095,59	56095,59
XVII Other reserves	1685000,00	1835000,00	1835000,00
XVIII Retained earnings	0,00	0,00	0,00
XIX Net profit (loss)	4120241,83	4374982,53	2450571,54
TOTAL LIABILITIES AND EQUITY	317266281,82	343892085,92	376247278,64

Table 2. The structure of X Bank assets in 2013-2015
[Source: Own study based on X Bank financial materials]

Assets	Structure		
	2013	2014	2015
I Cash and balances with the Central Bank	1,853%	1,789%	1,893%
Tutaj brakuje wiersza z pozycją II Dłużne papiery wartościowe uprawnione do redyskontowania w Banku Centralnym II Debt securities eligible for rediscounting with the	???	????	???

Central Bank			
III Receivables from the financial sector	27,196%	21,335%	23,861%
IV Receivables from the non-financial sector	62,331%	67,463%	65,201%
V Receivables from the public sector	1,605%	2,458%	1,934%
VI Receivables under repurchase agreements	0,000%	0,000%	0,000%
VII Debt securities	0,190%	0,176%	0,307%
VIII Shares in subsidiaries	0,016%	0,015%	0,013%
IX Shares in jointly controlled entities	0,000%	0,000%	0,000%
X Shares in affiliates	0,000%	0,000%	0,000%
XI Shares in other entities	0,703%	0,648%	0,659%
XII Other securities and other financial assets	0,577%	0,937%	0,107%
XIII Intangible assets	0,013%	0,025%	0,019%
XIV Tangible fixed assets	3,769%	3,403%	2,886%
XV Other assets	1,507%	1,528%	2,875%
XVI Prepayments	0,239%	0,222%	0,243%
TOTAL ASSETS	100,000%	100,000%	100,000%

Tabele 3. Horizontal analysis of X Bank assets in 2013-2015
[Source: Own study based on X Bank financial materials]

Assets	**One-base indexes**		**Chain indexes**	
	2014/2013	**2015/2013**	**2014/2013**	**2015/2014**
I Cash and balances with the Central Bank	104,66%	121,15%	104,66%	115,76%
II Debt securities eligible for rediscounting with the Central Bank	0,00%	0,00%	0,00%	0,00%
III Receivables from the financial sector	85,03%	104,05%	85,03%	122,36%
IV Receivables from the non-financial sector	117,32%	124,05%	117,32%	105,74%
V Receivables from the public sector	166,01%	142,90%	166,01%	86,08%

VI Receivables under repurchase agreements	0,00%	0,00%	0,00%	0,00%
VII Debt securities	100,09%	191,41%	100,09%	191,24%
VIII Shares in subsidiaries	100,00%	100,00%	100,00%	100,00%
IX Shares in jointly controlled entities	0,00%	0,00%	0,00%	0,00%
X Shares in affiliates	0,00%	0,00%	0,00%	0,00%
XI Shares in other entities	100,00%	111,21%	100,00%	111,21%
XII Other securities and other financial assets	175,90%	21,97%	175,90%	12,49%
XIII Intangible assets	203,70%	170,13%	203,70%	83,52%
XIV Tangible fixed assets	97,89%	90,82%	97,89%	92,78%
XV Other assets	109,87%	226,22%	109,87%	205,89%
XVI Prepayments	100,70%	120,59%	100,70%	119,75%
TOTAL ASSETS	108,39%	118,59%	108,39%	109,41%

Table 4. Dynamic of changes in X Bank assets in 2013-2015
[Source: Own study based on X Bank financial materials]

ASSETS	The rate of changes with a fixed basis		The rate of change with a variable basis	
	2014/2013	2015/2013	2015/2013	2015/2014
I Cash and balances with the Central Bank	4,66%	21,15%	4,66%	15,76%
II Debt securities eligible for rediscounting with the Central Bank	0,00%	0,00%	0,00%	0,00%
III Receivables from the financial sector	-14,97%	4,05%	-14,97%	22,36%
IV Receivables from the non-financial sector	17,32%	24,05%	17,32%	5,74%
V Receivables from the public sector	66,01%	42,90%	66,01%	-13,92%
VI Receivables under repurchase agreements	0,00%	0,00%	0,00%	0,00%

VII Debt securities	0,09%	91,41%	0,09%	91,24%
VIII Shares in subsidiaries	0,00%	0,00%	0,00%	0,00%
IX Shares in jointly controlled entities	0,00%	0,00%	0,00%	0,00%
X Shares in affiliates	0,00%	0,00%	0,00%	0,00%
XI Shares in other entities	0,00%	11,21%	0,00%	11,21%
XII Other securities and other financial assets	75,90%	-78,03%	75,90%	-87,51%
XIII Intangible assets	103,70%	70,13%	103,70%	-16,48%
XIV Tangible fixed assets	-2,11%	-9,18%	-2,11%	-7,22%
XV Other assets	9,87%	126,22%	9,87%	105,89%
XVI Prepayments	0,70%	20,59%	0,70%	19,75%
TOTAL ASSETS	8,39%	18,59%	8,39%	9,41%

In all analyzed years, the largest share in the bank's assets were receivables from the non-financial sector, which were the largest in 2014 and amounted to 67.46% of all assets, in 2013 they amounted to 62.33%, and in 2012 65.2%. The second item with the largest share in the bank's assets are receivables from the non-financial sector, and they were 27.2% in 2013, 21.34% in 2014, 23.86 in 2015. The third place includes tangible fixed assets, which in the analyzed period, from year to year, they decreased from 3.77% in 2013 to 2.89% in 2015. Subsequent asset items had a small share in the structure of all bank's assets.

Table 5. The structure of the X Bank liabilities in the years 2013-2015
[Source: Own study based on X Bank financial materials]

LIABILITIES AND EQUITY	**Structure**		
	2013	**2014**	**2015**
I Liabilities to the Central Bank	0,0000%	0,000%	0,000%
II Liabilities to the financial sector	0,0774%	0,097%	0,091%
III Liabilities to the non-financial sector	77,6887%	78,172%	77,053%
IV Liabilities to the public sector	9,6375%	8,530%	9,930%
V Liabilities under repurchase agreements	0,0000%	0,000%	0,000%
VI Debt securities issued	0,0000%	0,000%	0,000%

VII Other liabilities due to financial instruments	0,0000%	0,000%	0,000%
VIII Special-purpose funds and other liabilities	0,7435%	0,765%	0,742%
IX Accruals, deferred and reserved income	0,6284%	0,441%	0,830%
X Provisions	0,4936%	0,532%	0,440%
XI Subordinated liabilities	0,0000%	0,000%	0,000%
XII Share capital	2,9727%	3,270%	2,916%
XIII Called up share capital (negative value)	-0,0024%	-0,002%	-0,001%
XIV Treasury shares	0,0000%	0,000%	0,000%
XV Statutory reserve	5,9132%	6,374%	6,847%
XVI Revaluation reserve	0,0177%	0,016%	0,015%
XVII Other reserves	0,5311%	0,534%	0,488%
XVIII Retained earnings	0,0000%	0,000%	0,000%
XIX Net profit (loss)	1,2987%	1,272%	0,651%
TOTAL LIABILITIES AND EQUITY	100,0000%	100,000%	100,000%

Table 6. Horizontal analysis of X Bank liabilities in 2013-2015
[Source: Own study based on X Bank financial materials]

LIABILITIES AND EQUITY	**Indeksy jednopodstawowe**		**Indeksy łańcuchowe**	
	2014/2013	**2015/2013**	**2014/2013**	**2015/2014**
I Liabilities to the Central Bank	0,00%	0,00%	0,00%	0,00%
II Liabilities to the financial sector	135,52%	138,73%	135,52%	102,37%
III Liabilities to the non-financial sector	109,07%	117,62%	109,0658%	107,84%
IV Liabilities to the public sector	95,93%	122,18%	95,9350%	127,36%
V Liabilities under repurchase agreements	0,00%	0,00%	0,00%	0,00%
VI Debt securities issued	0,00%	0,00%	0,00%	0,00%
VII Other liabilities due to financial instruments	0,00%	0,00%	0,00%	0,00%

VIII Special-purpose funds and other liabilities	111,51%	118,34%	111,51%	106,12%
IX Accruals, deferred and reserved income	76,02%	156,69%	76,02%	206,11%
X Provisions	116,76%	105,61%	116,76%	90,45%
XI Subordinated liabilities	0,00%	0,00%	0,00%	0,00%
XII Share capital	119,25%	116,32%	119,25%	97,55%
XIII Called up share capital (negative value)	93,85%	50,38%	93,85%	53,67%
XIV Treasury shares	0,00%	0,00%	0,00%	0,00%
XV Statutory reserve	116,84%	137,31%	116,84%	117,52%
XVI Revaluation reserve	100,00%	100,00%	100,00%	100,00%
XVII Other reserves	108,90%	108,90%	108,90%	100,00%
XVIII Retained earnings	0,00%	0,00%	0,00%	0,00%
XIX Net profit (loss)	106,18%	59,48%	106,18%	56,01%
TOTAL LIABILITIES AND EQUITY	108,39%	118,59%	108,39%	109,41%

The largest share in the liabilities of the bank were liabilities to the non-financial sector, which stood at 77.69% in 2013, 78.17% in 2014, 77.05% in 2015. The next item among liabilities was liabilities to the public sector, which occupied second place in the percentage structure and amounted to 9.64% in 2013, 8.53% in 2014, 9.93% in 2015.

The capital (fund) of resources increased each year and amounted to 5.91 in 2013 %, in 2014, 6.37%, and in 2015 6.85%. The declining share of net profit in liabilities is not the best situation for the bank, which in 2013 was 1.3%, in 2014 it was 1.27%, in 2015 only 0.65%.

The structure of individual assets and liabilities of the bank in the analyzed years is similar. In all analyzed periods, the largest share in the bank's assets were receivables from the non-financial sector, while liabilities in the non-financial sector had the largest share in liabilities.

The general situation of the Bank can be assessed as good. Net profit in 2013 amounted to PLN 4120241.83. In 2014, compared to 2013, it increased by 6% and amounted to PLN 4374982,53, the absolute change amounted to PLN 254740.70. Worrying, however, is the significant drop in net profit in 2015. Profit is lower than the result of 2015 by 44% and amounts to PLN 2450571,54. The absolute change amounted to PLN 19,24410,99.

3. CONCLUSIONS

An important part of the financial market are commercial banks. These are entities often present in the modern economy due to the need for extensive financial services. These are institutions with high capital and wide access to market information, which constantly allocate capital and try to maintain the dominant position on the market. In this way, they influence the shaping of economic processes and market conditions. Dynamic changes in the environment and the market cause banks to perform complex operations and increasingly use alternative instruments of the capital and insurance market. The constantly increasing competition means that banks are exposed to the risk of losing their previous inflows and must increasingly adapt to the challenges of the modern market, which is characterized by the desire to develop outside of banking institutions and financial instruments. This applies to a large extent to the banks' offer, which is transformed under the influence of the environment in which the bank operates. The increase in consumer expectations and requirements affects the implementation of modern customer service methods and the introduction of changes in the field of financial management. The need to maintain liquidity and profitability forces banks to orientate themselves to new markets and products (Zhang, Z. Y., Jun, W. U., & Liu, Q. F., 2008, pp. 183-189).

Achieving stability in the banking system is also highly dependent on the applicable law and banking supervision as well as the deposit guarantee system. In view of the above, various studies emphasize that a sound and well-functioning banking sector plays an important role in shaping macroeconomic equilibrium. Thus, the close links between financial markets and the real sphere are noticed, which is evident in times of crisis.

The events that initially took place in the United States in 2008 and then spread to Europe have forever changed the way banks assess and treat banks as institutions of public trust. Banks, as well as supervising institutions, in general opinion, are entities that should safeguard the security of the financial system and ensure its uninterrupted functioning.

The globalization process has led to four freedoms:

- the flow of people,
- capital flow,
- the flow of goods and services.

Thanks to this last freedom, banks around the world offer the same products at the same time. This has contributed to the attractiveness of banking products and, at the same time, their development by creating very complex and complicated structures, which is why it is important to provide customers with constant access to information.

Reducing the risk associated with banking operations depends to a large extent on the method of verification and analysis of data presented, among others in financial statements. It is responsible for financial analysis, which should affect the effectiveness of the bank or other financial institution in which it is performed, and more rational use of resources and matching the expectations of the market, customers and owners. The purpose of the financial analysis is to support the decision-making process and the implementation of specific tasks. The financial analysis is used to assess the level of specific phenomena and their dynamics, analyze the bank's financial processes and study the relationships between variables and indicate their impact on the course of phenomena and processes (Feroz, Ehsan, Sungsoo, Raymond, Raab, 2003, pp. 48-58).

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