Introduction

Following its accession to the European Union, Poland (and its financial market) has experienced a dynamic economic development and growth of competition. Under such circumstances, making the right decisions and responding to customers’ expectations is a matter of greatest importance. It is no less essential to control banking activities properly, considering that as a result of mistakes several banks have suffered serious losses that might lead to bankruptcies. With an ineffective bank credit risk management processes, it happens often that key decisions cannot be taken in the right time. Information sourcing has become a compulsory process in bank management, especially – in the period, when another global financial crisis has originated. Credit risk management is therefore the most important element of a bank’s integrated risk management system.

In the recent years, banks in Poland have diametrically changed their approach to assessment of individual and corporate customers’ ability to repay loans. This was largely caused by much-publicized bankruptcies of banks all over the world, as well as by financial scandals that affected the Polish banking sector too. Financial institutions were forced to implement new laws and organizational regulations concerning information sourcing, thereby ensuring credibility and transparency of their activities, while reducing the credit risk. Therefore, establishing a modern credit procedure, based on reliable information, has become a necessity.

The main purpose of the present paper is to highlight the role of information in bank management, in the aspect of credit risk that accompanies any banking activities.

Complete, reliable and up-to-date information is a prerequisite for developing correct risk analyses. Such information should be procured from numerous sources, by means of various techniques. Sources of information may be internal or external.

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1. Financial statements as an internal input to risk assessment

By internal information we mean the information based on data gathered in the bank, in particular – the history of the bank’s co-operation with potential lenders. With this end in view, banks examine – assess:

– personality of the company management members;
– reliability, professionalism and timeliness of information preparation and delivery to the bank;
– credibility of the company’s financial and investment forecasts;
– customer’s reliability based on payments into and out of the bank account (how regularly and timely are liabilities paid, the form of payments, payment of taxes, profit distribution, personal expenses).

External information includes mainly all data obtained by the bank from the customer, as well as that sourced from any third parties. This group may – and usually does – include public institutions, business information agencies, business chambers, customer’s and bank’s business partners, as well as all sort of recommendations (e.g., from other banks), opinions (issued by chief accountants), etc. It is worth stressing that this information is considered to be supplementary – important, yet not determining the final outcome of the credit risk analysis [Glassen, 1994, p. 101-104].

When making credit decisions, banks reach for various bases of information, depending on whether it is an individual customer or a company they are dealing with. In case of retail banking services, the amount of information and documents required to grant a loan is not that great. When collecting information about a potential lender, banks use documents attached to the loan application submitted by the customer mainly. These include for example: an employment certificate, a list of bills paid over the last three months, a salary certificate, any financial commitments, etc. Banks do not need to source any external information in this case, unless some specific, unusual situation requires them to do so.

The situation is entirely different, when it comes to a corporate client. With the diverse business portfolio, the size and the environment the client operates in, the information sourcing process is much more complex than in case of an individual customer. Making a decision is preceded by a laborious search of information, which involves overcoming various access barriers. Thereafter, analyses and studies are needed to reach the final conclusion.
The in-house source materials can be divided into two groups: statutory and non-statutory records (not required to be recorded in company’s formal statements). Statutory records are fundamental here and depend on the type of a business. They include accounting procedures and records, financial and non-financial reporting, previous economic analyses, plans, design and technology documentation, as well as any other documentation reflecting the company operations. The group of non-statutory source materials includes all other, supplementary (auxiliary) information. Despite their supplementary role, if missing or incomplete, they may affect the quality of analysis [Bednarski et al., 1993, p. 22].

The basic source material for economic analysis is to be found in financial statements, the objective of which is – as it has been provided for in the Framework for the Preparation and Presentation of Financial Statements published by the International Accounting Standards Committee – “to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.”

Financial statements include – although are not limited to [Leszczyński, Skowronek-Mielczarek, 2004, p. 33-36]:
- an introduction to the financial report,
- a balance sheet and an income statement (F-02) – formally drawn up once a year,
- a cash flow statement and changes in equity,
- a quarterly statement of income, cost and financial performance (F-01),
- any complementary information to supplement the statements.

Annual financial reports of major business entities are published in Monitor Polski B, the Polish Government’s official journal, while annual reports of larger co-operatives – in Monitor Spółdzielczy, a journal issued by the Polish Co-operative Council.

General rules for preparing and presenting a financial statement applicable in most countries of the world were provided for by the International Accounting Standards Committee in 1989. According to the Committee, financial statements should be prepared using the accrual basis accounting and they should follow the rule of continuity.

The accrual basis accounting requires the effects of business operations to be reported at the moment of their occurrence and recorded
in a report for the period to which they apply. The second of the rules referred to assumes continuity of the company operations, thereby requiring the same reporting rules to be applied, or – in case of any alterations – this fact to be duly reported. Any institutions using these data expect information presented in financial statements to be helpful in making management-related decisions, decisions concerning capital investments, credit policy and State’s fiscal policy, setting profit distribution and dividend policy rules, preparing and using the national income statistics [Kapuś, Więczłowski, 1998, p. 87-89].

Financial statements are the most important internal statutory sources, therefore they are used by such a large group of recipients.

This group includes:

- investors representing their own capital as well as the capital entrusted to them – here, the company existence and bankruptcy is at risk; investors contributing their capital are the last group whose claims are acknowledged if the company goes bankrupt; loan providers and any other creditors use the financial statements as a basis for assessing the company’s ability to pay its debt back together with the applicable interest [Yescombe, 2007, p. 76-77];
- financial analysts and consultants who use financial statements as a basis for making investment decisions;
- managers, when judging the company’s prospects for surviving and thriving on the competitive market, as well as when making any decisions concerning current operations and future developments;
- competitors, when building their market strategies and assessing the competition-related risk;
- government and self-government institutions;
- employees and trade unions, when evaluating their company ability to retain the employment level and to raise salaries.

But to provide a reference basis for any decision making, financial statements should bear certain quality features, i.e. they should be:

- comprehensible to users,
- relevant, i.e. contain information useful for making managerial decisions,
- reliable, i.e. provide data free from material errors and bias,
- comparable, i.e. enable identification of time-related trends.

To recapitulate the role of financial statements as a source of information, one may state that:
balance sheets and income statements provide a basis for statistic and dynamic assessment of the company standing and financial performance,

- cash flow statements indicate how effectively the company manages its finances.

Any supplementary information is also very important, as it contains some essential data and explanations clarifying individual items of the financial statement.

2. Information of external origin in credit risk assessment

Besides the internal inputs to analyses that have been presented above, with the financial statements playing a fundamental role, materials of external origin provide an important contribution to analytical studies too. They are mainly obtained from sources that are independent on the business unit being analysed and they essentially inform about its environment, although they may also refer to the company proper. The role of external sources is to provide information characterizing the conditions of operating on a certain market, as well as to enable comparisons against the performance of other market players (domestic or international) [Otta, 1998, p. 46-50].

Figure 1. Sources of inputs to the credit capacity assessment

![Diagram](source: [Kowalczyk, 1999, p. 71].)

This group includes, although is not limited to: data recorded in the National Court Register, statistical yearbooks and other statistical information (e.g., published by the Central Statistical Office), as well as studies and papers issued by other central and local administration
bodies, general and business information agencies, rating agencies, stock exchanges and business sector-related publications.

The National Court Register (KRS, Krajowy Rejestr Sądowy), established by the Act of 20 August 1997, is a very important source, playing two fundamental roles: it provides information and legalizes business. The first role enables interested parties to obtain reliable data about a business entity’s legal status and its financial standing, the second involves registration of a business entity, permitting it to operate on the territory of the Republic of Poland. It is an official source of information on companies. It consists of three various registers:

1) a register of companies;
2) a register of associations, other civic and professional organizations, foundations and public health care establishments;
3) a register of insolvent debtors.

Directors of all these entities, including business units, are responsible for submitting the following documents, within 15 days of approval, to their local court registers: an annual financial statement, a statutory auditor’s opinion (if the statement is subject to compulsory audit), a copy of the resolution adopting the financial statement and profit distribution or loss coverage. For banks and other institutions, the National Court Register is a source of basic data of any (even the smallest one) company operating on the market, therefore it plays a significant role in accessibility of information.

Countries with a developed market economy boast various institutions and companies collecting, processing and providing paid access to entities’ economic and financial standing information. Mostly, these institutions collect information in a legal manner, although agencies obtaining data in an illegal manner cannot be excluded. Bearing recipients’ various needs in mind, such institutions keep expanding the scope of their services, offering:

- a standard company standing report;
- company directories for a country, region or industry sector;
- up-to-date information services covering certain groups of companies;
- analyses ordered by clients.

Assessments developed by rating agencies are becoming increasingly valued as a source of information, as they influence investors’ decisions concerning capital investments, mergers and
strategic alliances. The one best known in Poland is the Central European Rating Agency (CERA S.A.). Its statutory goal is to develop and publish analyses of the economic situation of Poland, its banks and business entities from various sectors.

Comprehensive economic and financial information is provided by regular (continuous or cyclical), as well as occasional studies and expert opinions issued by consulting companies, brokerage firms and rating agencies.

Besides those listed above, essential external information is obtained from statistical offices, central and local administration bodies, stock exchange and banking institutions, as well as from press publications.

The Central Statistical Office – the counterpart of similar central statistical institutions in other countries of the world – publishes official statistics. A considerable volume of significant information is provided by the Gdańsk Institute for Market Economics, the Research Centre for Economic and Statistical Studies, the Ministry of Finance and the Centre for Social and Economic Research.

Also, listed companies’ papers are used as in input to economic analyses. These include not only documents the companies are bound to made available to the public, but also their presentations prepared for local and international markets.

Banks are another source of information collected and generated for their own needs. This includes client data, but also – analyses of business sectors prepared as an input to the bank’s credit policy.

Yet, all sort of press publications, both general newspapers and specialist magazines, are the most common external sources. The group of most renowned titles in Poland includes: “Rzeczpospolita” – a list of 500 largest companies operating in Poland, the Encyclopaedia of Banks in Poland, and globally: “The Financial Times”, “The Economist”, “The Guardian”, “Capital”, “Business Japa”. Moreover, electronic media are gaining increasing significance.

In the global economy of the XXIst century, information has become a commodity and it is often worth no less than a whole company. In case of commercial banks, information on clients’ economic and financial standing and reliability (including the prospects’ data) is particularly important, mainly as regards corporate and individual customers financing.
3. Information in credit risk management

A bank is not only a business, but also – an institution of public trust. Information entrusted to a bank is expected to be protected in a special manner, both from the competition and from any individuals who might wish to use it against the bank clients. Information protection is a continual process and it requires those working in the bank security area to demonstrate special qualifications and skills. The loan department personnel is a vital link in the client information security system – these employees are the most frequent users of the bank’s databases and of other accessible information which the clients are bound to provide [Janc, Matysek, 2002, p. 189-191].

There are many ways for the banks to obtain client financial information in the market economy countries. Therefore, five principal roles of financial information in banking activities have been distinguished:

- it is an element of the company performance assessment,
- it plays a crucial role in credit decision making processes, in financing various types of business activities,
- it facilitates the on-going monitoring of the lender’s financial standing,
- it enables active response to client’s unacceptable actions,
- it provides a basis for decisions concerning financing capital investments on the securities market.

The banks’ business partners (individuals or corporate bodies) financial standing is reflected by the following documents: company books, tax registers, prospectuses, annual statements and reports, a record of fixed and intangible assets, excerpts from land and mortgage registers, balance sheets, tax returns, bank opinions, tax clearance certificates and certificates of other compulsory liabilities clearance (social insurance), records of temporary attachment of property [Winiarska, 2009, p. 163-171].

This information and a proper selection thereof is a basis for identification and assessment of the client’s strategy, strategic activity directions and its future effects, as well as the client’s market position and share. This knowledge originates from the company and from its macro-environment. It is structured and presented in Table 1.

The process of collecting information should not be confined to data from one group only and it should not focus on a single level of analysis,
as it can easily distort the analyses being carried out. In order to obtain a complete picture of a client, one should begin with identifying the links between such aspects as e.g., financial and non-financial analysis.

**Table 1. Basic information-related needs**

<table>
<thead>
<tr>
<th>Specification</th>
<th>Evaluating the strategic direction</th>
<th>Analysing the financial statements</th>
<th>Identifying the position on the capital market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise/ company</td>
<td>1. Identifying and evaluating strategies of corporations and business units, managerial resources, market position, products, etc.</td>
<td>2. Evaluating current and future effects of the corporate strategy: sales, profitability, cash flows and other aspects.</td>
<td>3. Identifying the company’s position on the capital market.</td>
</tr>
<tr>
<td>Industry/ sector</td>
<td>4. Analysing the power of the competition, its strengths and strategy. Reviewing the sector’s most relevant and likely development factors and models.</td>
<td>5. Benchmarking, comparing against other companies in the same or similar product markets.</td>
<td>6. Identifying the company standing as compared to other companies in the sector. Reviewing the sector’s performance against the background of the market as a whole.</td>
</tr>
<tr>
<td>Macro-environment</td>
<td>7. Evaluating PEST, i.e. the main change factors: P – political, E – economic, S – social, T – technological</td>
<td>8. Analysing the options to increase the company capital, the expected interest rate and tax rate changes.</td>
<td>9. Identifying changes all over the capital market and forecasting future prices of shares.</td>
</tr>
</tbody>
</table>

Source: Own elaboration.
When taking up an analysis of the lender’s economic and financial standing information sources, one should note that this information is an element of the knowledge about the company and this in turn is a part of the economic and financial information in a broad meaning of the term [Kaczmarek, 2006, p. 178-180].

Figure 2 shows categories of information used in evaluation of a company standing.

**Figure 2. Bank information sources systematics**

![Diagram showing sources of information]

Source: Based on [Gwizdała, 2011, p. 246-248].

Typically, client and client-related product information covers the entire period of the relationship with the bank. Reaching for any external information makes sense only if it appears to be inconsistent or partly consistent with internal information (for the sake of verification) and using it will yields tangible benefits. One should remember, that both scarcity of information and its overload can be equally detrimental. In the first case, transaction risk can be assessed inadequately. In the second – the resultant information noise can cause the analysis to be too extensive, laborious and costly, thereby making the search of broad information unrewarding.

But in the recent period of dynamic development of tele-information technologies, those who are using the right tools, find analysis easier and
less labour-consuming. The problem should rather be sought in accurate design of these tools. Designing should be stage-structured as follows [Pałczyński, Wyżycki, 2004, p. 123]:

- problem identification stage,
- collecting information available on the market and needed to solve the problem,
- identifying the resources needed to solve the problem, including information assets,
- defining the needs and the capacity in terms of the existing resources.

The stage of analysing client information is a critical phase of credit risk assessment. Two various approaches can be distinguished in the way how banks analyse lender’s data [Pałczyński, Wyżycki, 2004, p. 130]:

- an analytical (individualized) approach, used in individual cases (e.g., when assessing transaction risk in crediting major corporations); the weakness of this approach is the long time needed to collect detailed information and to carry out all the analyses required;
- a statistical approach, used in repeatable cases. Here, analytical work involves finding a statistical model, feeding client information into it as an input and working over the case by means of the model. The disadvantage of this approach is that clients are categorized by features defined for the statistical model (with the subject’s individual perception strongly limited).

Considering both the strengths and the weaknesses of the banks’ analytical approaches referred to above one finds, that a combination of both is the best way to assess the situation. The statistical method allows all of the information to be reviewed instantly. Thereby, a decision can be made whether an individualized analysis is economically justifiable and if so – what scope should be covered [Pawełek et al., 2002, p. 26-35].

**Conclusion**

In the recent period, banks as loan providers are increasingly seeking to source data that would give them a better view of the client (lender) risk. Useful information can be found both in banks’ databases and in other, external sources as well, including the credit reference agency – an institution, which has collected the most extensive database of the customer credit history information. The purpose of the entire process is to prevent potential crime, to avoid granting a loan to an already insolvent
customer, as well as to analyse and assess the potential client’s creditworthiness and ability to pay back.

To access various sources of information, one needs to implement well-designed analytical tools that facilitate the loan decision process. Today, banks are using comprehensive solutions covering both internal and external sources and enabling them to improve the quality of their loan portfolios dramatically, thereby minimizing risk and hence – their bottom-line financial performance.

The close co-operation between the banking sector and the Polish credit reference agency (Biuro Informacji Kredytowej) in evaluation of customers’ credit worthiness reduces the volume of hazardous loans. A bank may use its own database to generate integrated customer information. The purpose of collecting information is to assess credit risk in four aspects:

- preventing crime that might be based on both internal and external databases;
- avoiding situations, where a loan would be provided to an already insolvent customer, whose valid, negative information might be obtained from the bank or from other, external sources;
- analysing the client’s ability to pay back based on his/her socio-demographic data;
- analysing client behaviour in his/her relations with various banks in terms of the current and past credit history.

Any professional information should be: up-to-date, accurate, complete, unambiguous, operational and continual – and these requirements apply equally to both internal and external information.

References
4. Janc A., Matysek A. (2002), Standardy kwalifikacyjne w bankowości polskiej na tle zmieniającej się roli kadr we współczesnym pośrednictwie
The role of Information in Bank’s Credit Risk Management (Summary)

The main purpose of the article is to present the role of information in bank management, in the aspect of credit risk accompanying the bank performance. To prepare relevant risk analyses, comprehensive, reliable and up-to-date information is needed. This should be obtained from numerous sources and by means of various techniques. Sources of information can be both internal and external. Any professional information should be up-to-date, accurate, complete, unambiguous, operational and continual – and these requirements apply equally to both internal and external information.

Keywords
information, risk assessment, analysis, statements, reports