

**ОБЩЕСТВЕНИ КОМУНИКАЦИИ И ИНФОРМАЦИОННИ НАУКИ**  
**PUBLIC COMMUNICATIONS AND INFORMATION SCIENCES**

**EVALUATION AND COMMUNICATION OF THE DEGREE OF BALANCE SHEET  
POLICY MEASURES DURING THE 2022 FINANCIAL YEAR  
HISTORIC INTEREST RISE IN SPARDA/PSD/VOLKS/  
AND RAIFFEISEN BANKS IN BAVARIA**

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**Abstract:** *In the context of the empirical study, an extensive analysis of the balance sheet, profit and loss statement, notes, and management report of all Bavarian cooperative banks for the fiscal year 2022 is conducted through quantitative data analysis, and findings are presented in a condensed form. The legally standardized mandatory disclosures serve as the database and are publicly available and accessible in the company register. This article provides a transparent analysis and communication of the extent of balance sheet measures in the fiscal year 2022, despite the large number of cooperative banks in Bavaria. The sometimes substantial ranges in the extent of balance sheet measures and the associated “hidden” losses are highlighted. Based on empirically supported results, this article offers the public and stakeholders a new and central aspect of the 2022 financial performance of Bavarian cooperative banks. Banks have only partially informed the public about the extent of balance sheet measures and the associated hidden burdens for the fiscal year 2022 in their balance sheet press conferences. Despite very similar business models, the hidden losses of individual cooperative banks within Bavaria varied significantly in the fiscal year 2022.*

**Keywords:** *Balance sheet measures, Interest rate increase, Hidden losses, Communication, Transparency*

**INTRODUCTION**

In the sector of cooperative banks in the state of Bavaria, all 203 credit institutions were affected by the historically unprecedented interest rate rise in the fiscal year 2022. The interest rate increase in the Eurozone occurred extremely rapidly and was highly pronounced. Figure 1 (cf. Deutsche Bundesbank 2023a) depicts the interest rate from 2012 to 2022 set by the European Central Bank for the deposit facility:

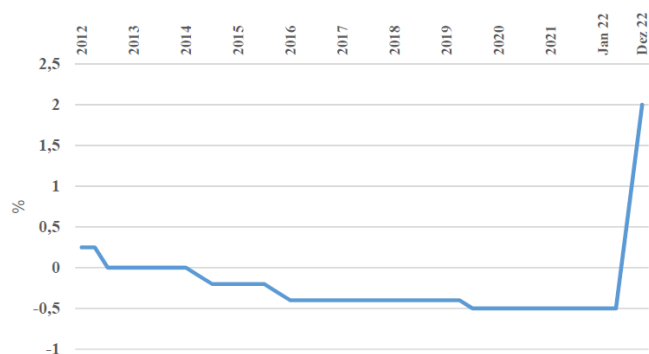


Fig. 1. Deposit Facility Interest Rate

The deposit facility, used here as a reference to illustrate the interest rate increase, allows banks to put or invest excess funds in the form of overnight deposits for one business day with the Deutsche Bundesbank (cf. Deutsche Bundesbank 2023b). To analyze the effects of the sharply rising interest rates in the fiscal year 2022 on Bavarian cooperative banks, Table 1 below sheds light on their balance sheet structure:

Table 1. Balance Sheet Structure of Bavarian Cooperative Banks

Figures in Million (EUR)	2022		2021	
Total Assets	208.875		200.999	
Liabilities:				
Customer Deposits	157.937	75,61%	151.523	75,38%
Deposits from Other Banks	25.537	12,23%	25.548	12,71%
Assets:				
Loans and Advances	136.820	65,50%	126.916	63,14%
Claims on Other Banks	18.457	8,84%	18.228	9,07%
<b>Securities/Custody Account A</b>	44.413	<b>21,26%</b>	46.426	22,99%

At first glance, it is evident that the customer deposits collected by Bavarian cooperative banks in the fiscal year 2022, accounting for over 75% of the total assets, could not be fully deployed or invested by the bank through loans in the form of advances, which represent nearly 66% of the total assets. Bavarian cooperative banks are thus characterized by a classic surplus of deposits (cf. Dahlmann 2022). These surplus funds are naturally invested by the banks in securities transactions as a substitute for loans. In the fiscal year 2022, amidst the significant interest rate increase, the proportion of securities investments amounted to a notable 21.26% of the total assets. These securities investments are largely made in the form of fixed-income securities or bonds, with the debtor typically being the government or corporations. The interest rate for the term of fixed-income securities is fixed and is usually paid out annually.

The fixed interest rate for the remaining term of the bonds was the reason for horrendous losses in transactions involving fixed-income securities in the fiscal year 2022. With the significantly increased interest rate environment, the bonds held in the portfolio with lower coupon rates became unattractive for investors or Bavarian cooperative banks. The lack of attractiveness of the existing

bonds was also reflected in the significantly declining market value of the bonds.

For cooperative banks in Bavaria, there were two alternatives regarding the fiscal year 2022 and the securities held in their own portfolio. Firstly, the bonds with immense losses in market value could have been sold. However, this approach would have incurred significant expenses and even losses in the Profit and Loss Statement (P&L) of the respective banks. Losses in the Profit and Loss Statement can only be offset by dissolving equity capital. Therefore, it can be assumed that significant portions of equity capital would have had to be dissolved when opting for this alternative.

The second option would be that cooperative banks could have continued to hold the bonds in their portfolio. Consequently, no sales with immediate losses would have been made. Nevertheless, even with this alternative, the prices of fixed-income securities declined significantly.

In general, securities purchased by credit institutions are assigned either to the investment assets or to the liquidity reserve. Short-term proprietary investments, usually allocated to the liquidity reserve, must be evaluated using the strict lower of cost or market principle. If the market price of a security on the balance sheet date is below the acquisition cost, according to § 253 (4) of the German Commercial Code (HGB), a write down and thus a recognition of losses in the Profit and Loss Statement must be made. In the case of the liquidity reserve, banks have no further action available.

Securities classified as investment assets, however, are evaluated according to the relaxed lower of cost or market principle as per § 253 (3) HGB. In the event of a permanent impairment, the treatment is identical to that of securities in the liquidity reserve. However, in cases of market-related price declines such as those seen in the fiscal year 2022, temporary impairments are assumed, as the bonds are expected to be repaid at 100% of their nominal value upon maturity. In the case of temporary impairments, credit institutions are not necessarily required to make a write-down. Banks can explicitly refrain from write-downs in these cases.

The allocation to investment assets or the liquidity reserve typically occurs when securities are purchased by decision-makers within a credit institution. Even during the term of a bond, a credit institution may reclassify it from circulating assets to investment assets if there is a documented intent to hold it for the long term (cf. Bacher 2022, 107–108).

With this balance sheet measure, accrued losses by banks can somewhat be hidden, as accrued market price declines do not need to be recognized as expenses through write downs.

## **RESEARCH METHODOLOGY**

For the analysis of the extent of balance sheet measures in the fiscal year 2022 and the associated hidden burdens, only quantitative data were collected. All balance sheets, profit and loss statements, notes, and management reports of the total of 203 cooperative banks in Bavaria were accessed online through the company register and subsequently analyzed. An evaluation and analysis were carried out for 100% of the defined population. Since the mentioned documents are audited by independent auditors and an analysis was conducted for 100% of the defined population, a maximally representative result is expected. The essential findings for this article were derived from the explanations provided by the credit institutions in the notes and management report. There, the unrecorded write-downs or hidden burdens are mentioned in a brief paragraph. These hidden burdens were analyzed in detail and then presented in relation to other (previously published) bank indicators for clarification.

## **RESULTS**

The results of the extensive data analysis, graphical representation, and condensation of the vast amount of data are elaborately presented in the following Figures 2 and 6. From Figure 2, it can be observed that the proportion of securities to total assets in the fiscal year 2022 among Bavarian cooperative banks is widely spread. The minimum value of 0% (no securities) contrasts with a maximum value of over 61%. The average value is 22.58%. The distribution of the proportion of

securities to total assets varies greatly across all cooperative banks in Bavaria. Since the balance sheet measures and the associated “hidden” losses largely depend on the proportion of securities to total assets, a very heterogeneous picture in the results can be expected.

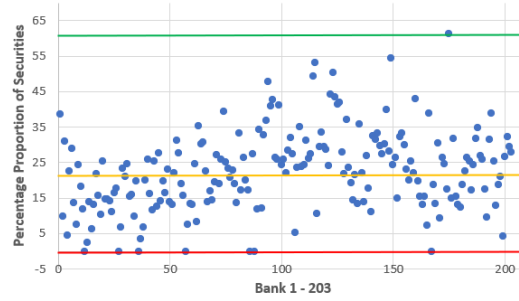


Fig. 2. Proportion of Securities to Total Assets in 2022

In the following Figures 3 and 4, the percentage distribution of the shares of securities in the investment assets for the fiscal years 2021 and 2022 are compared. It is clearly evident that the proportion of securities in the investment assets has significantly increased from 2021 to 2022. In the fiscal year 2022, the maximum value was 42.77% (compared to 36.19% in the previous year), and the average was 12.79% (compared to 2.02% in the previous year). The minimum value remains unchanged at 0% in both fiscal years. The numerical data empirically and unequivocally demonstrate that Bavarian cooperative banks have extensively reclassified securities from circulating assets to investment assets. The data, which previously clustered around the zero line in the fiscal year 2021, has noticeably shifted upwards in the fiscal year 2022.

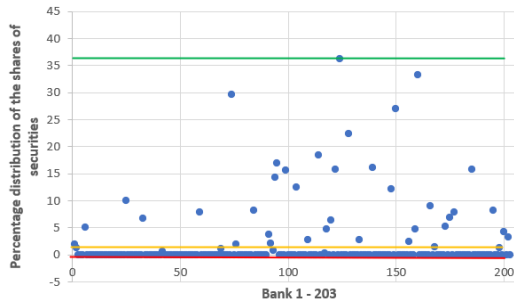


Fig. 3. Proportion of Securities in Investment Assets in 2021

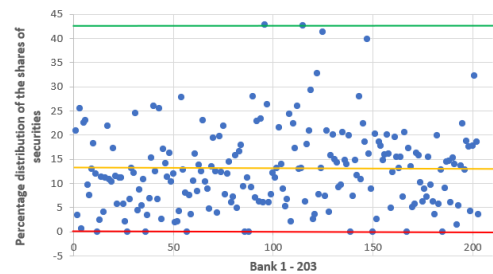


Fig. 4. Proportion of Securities in Investment Assets in 2022

In the following Figures 5 and 6, the percentage distribution of the burden on the securities portfolio with hidden burdens in the fiscal years 2021 and 2022 are compared. It is clearly evident that the percentage burdens on the securities portfolio with hidden burdens has crucially increased from 2021 to 2022 across the entire sample. In the fiscal year 2022, the maximum value was 14.00% (compared to 1.11% in the previous year), and the average was 4.54% (compared to 0.05% in the previous year). The

minimum value remains unchanged at 0% in both fiscal years. The empirically documented balance sheet measures by Bavarian cooperative banks in the fiscal year 2021, has noticeably shifted upwards in the fiscal year 2022. have, to some extent, produced significant hidden burdens. The data, which also clustered around the zero significant hidden burdens. The data, Z which also clustered around the zero.

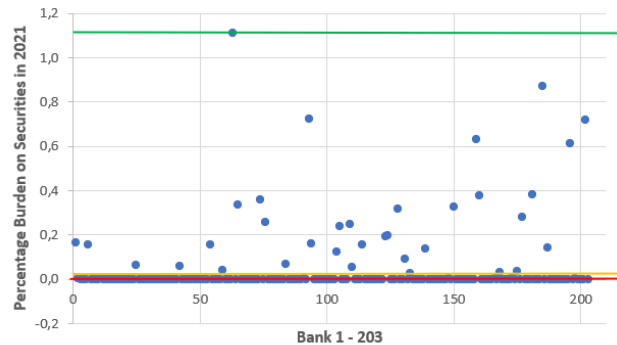


Fig. 5. Burden on Securities with Hidden Burdens in 2021

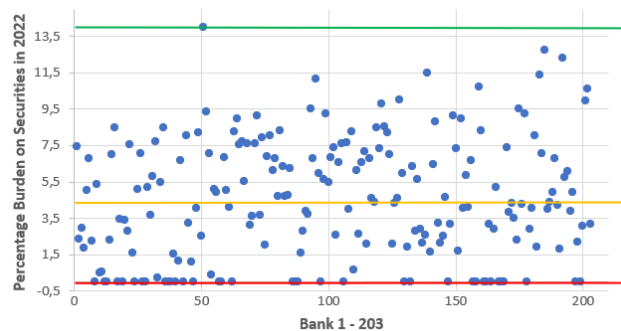


Fig. 6. Burden on Securities with Hidden Burdens in 2022

## CONCLUSION

In conclusion, it can be empirically demonstrated that balance sheet measures in the form of reclassification of securities from the liquidity reserve to investment assets by Bavarian cooperative banks have been extensively utilized. However, the ranges vary widely and are distributed heterogeneously. At its peak, the securities portfolio is loaded with 14% hidden burdens. These were consciously not recognized and communicated by the credit institutions. The analyses presented in this article have enabled a more informed and grounded information management for decision-making by stakeholders.

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**ОЦЕНКА И КОМУНИКАЦИЯ НА СТЕПЕНТА НА ВЗЕТИТЕ МЕРКИ ОТНОСНО  
БАЛАНСОВАТА ПОЛИТИКА ПРИ ИСТОРИЧЕСКОТО ПОВИШАВАНЕ  
НА ЛИХВЕНИТЕ ПРОЦЕНТИ ПРЕЗ ФИСКАЛНАТА 2022 Г.  
В ШПАРДА-/ ПСД-/ФОЛКС-/ И  
РАЙФАЙЗЕНБАНК В БАВАРИЯ**

***Резюме:** В рамките на емпиричното изследване са разчетени, анализирани и представени в съкратен вид под формата на количествен анализ на данните изчерпателният баланс, отчетът за приходите и разходите, бележките и докладът за дейността на всички баварски кооперативни банки за финансовата 2022 г. Законово стандартизираните задължителни публикации служат като публично достъпни база данни и могат да бъдат намерени в регистъра на дружествата. Обобщеното представяне на резултатите в тази специализирана статия дава възможност за прозрачен анализ и оповестяване на обхвата на мерките на балансовата политика през финансовата 2022 г. въпреки големия брой кооперативни банки в Бавария. Особено се подчертават понякога огромните диапазони в обхвата на мерките на балансовата политика и свързаните с тях „скрити“ загуби. Въз основа на емпиричните резултати тази специализирана статия предоставя на обществеността и заинтересованите страни нов и ключов аспект на резултатите от дейността на баварските кооперативни банки за 2022 г. На годишните си пресконференции банките предоставиха само ограничена информация за обхвата на мерките на балансовата политика и свързаните с тях „скрити“ загуби за финансовата 2022 г. Въпреки много сходния бизнес модел скритите загуби на отделните кооперативни банки през финансовата 2022 г. в Бавария като част от балансовата политика се различават значително.*

***Ключови думи:** балансова политика, повишаване на лихвените проценти, скрити загуби, комуникация, прозрачност*

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