FINANCIAL STATEMENTS

OF THE NATIONAL BANK OF POLAND

as at 31 DECEMBER 2011

BALANCE SHEET

PROFIT AND LOSS ACCOUNT

NOTES – GENERAL INFORMATION

TABLE OF CONTENTS

BALANCE SHEET OF THE NBP AS AT 31 DECEMBER 2011 5
PROFIT AND LOSS ACCOUNT OF THE NBP FOR THE YEAR ENDED ON 31 DECEMBER 2011 .. 7
NOTES – GENERAL INFORMATION 8
1. INTRODUCTION 8
1.1. Legal basis, scope of activities and bodies of the NBP 8
1.2. Legal basis of preparation of the financial statements 10
1.3. Period covered by the financial statements 10
1.4. Certified auditor and its selection 10
1.5. Information on the adoption and approval of the NBP financial statements for 2010 11
2. DESCRIPTION OF SIGNIFICANT ACCOUNTING PRINCIPLES 11
2.1. Basic accounting principles 11
2.2. Going concern 11
2.3. Recognition of transactions in the accounting books 12
2.4. Valuation as at the balance sheet date 12
2.5. Principles for recognition and valuation of assets, liabilities and off-balance sheet financial instruments and for recognition of income and expenses in the financial result 13
2.5.1. Gold 13
2.5.2. Foreign currency 13
2.5.3. Securities purchased by the NBP 14
2.5.4. Shares and equities 15
2.5.5. Repo / reverse repo transactions 15
2.5.6. Banknotes and coins in circulation 15
2.5.7. Securities issued by the NBP 16
2.5.8. Tangible and intangible fixed assets 16
2.5.9. Inventories 17
2.5.10. Impairment of assets 17
2.5.11. Provisions for future liabilities 17
2.5.12. Provision against the foreign exchange rate risk of the zloty 18
2.5.13. Gold revaluation account 18
2.5.14. Foreign exchange forward 18
2.5.15. Foreign exchange swap 18
2.5.16. Forward transactions in securities 19
2.6. Events after the balance sheet date 19
3. CHANGES IN ACCOUNTING PRINCIPLES 19
4. VALUES BASED ON PROFESSIONAL JUDGEMENT AND ESTIMATES 20
5. GENERAL OVERVIEW OF CHANGES AND STRUCTURE OF THE NBP BALANCE SHEET AND FINANCIAL RESULT 21
6. EXPLANATORY NOTES TO THE BALANCE SHEET 27
Note 1 Gold and gold receivables 27
Note 2 Receivables from the IMF 27

Note 3 Balances with foreign institutions, securities, loans granted and other foreign assets..... 28
Note 4 Claims on residents denominated in foreign currency..... 28
Note 5 Other claims on other domestic monetary financial institutions denominated in domestic currency 29
Note 6 Tangible and intangible fixed assets..... 29
Note 7 Other financial assets 29
Note 8 Off-balance sheet instruments revaluation differences..... 31
Note 9 Accruals and prepaid expenses..... 32
Note 10 Sundry..... 32
Note 11 Banknotes and coins in circulation..... 32
Note 12 Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency 33
Note 13 Other liabilities to other domestic monetary financial institutions denominated in domestic currency 33
Note 14 Liabilities to other residents denominated in domestic currency 34
Note 15 Liabilities to non-residents denominated in domestic currency 34
Note 16 Liabilities to residents denominated in foreign currency..... 34
Note 17 Liabilities to non-residents denominated in foreign currency..... 35
Note 18 Liabilities to the IMF 35
Note 19 Off-balance-sheet instruments revaluation differences 35
Note 20 Accruals and deferred income 36
Note 21 Sundry..... 36
Note 22 Provisions for future liabilities 36
Note 23 Revaluation accounts..... 36
Note 24 Capital and reserves 38
Note 25 Financial result..... 38
7. EXPLANATORY NOTES TO OFF-BALANCE-SHEET POSITIONS 38
Note 26 Spot transactions recognised on off-balance-sheet accounts 38
Note 27 Off-balance-sheet financial instruments 39
Note 28 Limits on loans in foreign currency extended to the IMF 39
Note 29 Other items recognised on off-balance-sheet accounts 39
8. EXPLANATORY NOTES TO PROFIT AND LOSS ACCOUNT 40
Note 30 Interest, discount and premium income..... 40
Note 31 Interest, discount and premium expenses 41
Note 32 Income on financial operations 42
Note 33 Expenses on financial operations 42
Note 34 Unrealised losses..... 43
Note 35 Income on transfers from risk provisions and on reversal of write-downs of financial assets 43
Note 36 Fees and commissions income..... 44
Note 37 Fees and commissions expenses..... 44

Note 38 Income on shares and equities ... 44
Note 39 Other income ... 44
Note 40 Salaries and social contributions ... 45
Note 41 Administrative expenses ... 45
Note 42 Depreciation and amortization expenses ... 45
Note 43 Cost of issue of banknotes and coins ... 46
Note 44 Other expenses ... 46
Note 45 Financial result for the current year and its allocation ... 46
9. OTHER EXPLANATORY NOTES ... 46
Note 46 Flexible Credit Line ... 46
Note 47 Foundation of the National Bank of Poland ... 47
Note 48 Events after the balance sheet date ... 47
10. FINANCIAL AND OPERATIONAL RISK ... 47
10.1. Financial risk ... 48
10.1.1. Credit risk ... 48
10.1.2. Liquidity risk ... 49
10.1.3. Interest rate risk ... 50
10.1.4. Foreign exchange rate risk ... 50
10.2. Operational risk ... 51

BALANCE SHEET OF THE NBP AS AT 31 DECEMBER 2011

ASSETS	Note	31.12.2010	31.12.2011
		PLN thousand	
1. Gold and gold receivables	1	13,831,663.5	17,804,260.4
2. Claims on non-residents denominated in foreign currency		263,380,105.3	316,654,533.9
2.1. Receivables from the IMF	2	*7,505,332.2*	*10,145,391.3*
2.2. Balances with foreign institutions, securities, loans granted and other foreign assets	3	*255,874,773.1*	*306,509,142.6*
3. Claims on residents denominated in foreign currency	4	448.7	0.0
4. Claims on non-residents denominated in domestic currency		0.0	0.0
5. Claims on other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency		0.0	0.0
5.1. Main refinancing operations		*0.0*	*0.0*
5.2. Long-term refinancing operations		*0.0*	*0.0*
5.3. Fine-tuning operations		*0.0*	*0.0*
5.4. Structural operations		*0.0*	*0.0*
5.5. Marginal lending facilities		*0.0*	*0.0*
6. Other claims on other domestic monetary financial institutions denominated in domestic currency	5	728,945.8	356,402.0
7. Securities of residents denominated in domestic currency		0.0	0.0
8. Claims on general government denominated in domestic currency		0.0	0.0
9. Items in course of settlement		0.0	0.0
10. Other assets		1,399,221.5	1,957,070.8
10.1. Tangible and intangible fixed assets	6	*885,615.4*	*873,744.9*
10.2. Other financial assets	7	*178,323.0*	*193,895.2*
10.3. Off-balance-sheet instruments revaluation differences	8	*2,919.3*	*72,111.0*
10.4. Accruals and prepaid expenses	9	*60,231.3*	*56,741.2*
10.5. Sundry	10	*272,132.5*	*760,578.5*
Total assets		**279,340,384.8**	**336,772,267.1**

LIABILITIES	Note	31.12.2010	31.12.2011
		PLN thousand	
1. Banknotes and coins in circulation	**11**	103,064,357.1	112,089,532.0
2. Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	**12**	111,703,477.5	119,823,979.6
2.1. Current accounts (including the required minimum reserve accounts)		*36,562,970.1*	*20,417,008.4*
2.2. Deposit facilities		*500,827.4*	*5,976,261.2*
2.3. Fixed-interest deposits		*0.0*	*0.0*
2.4. Other monetary policy operations		*74,639,680.0*	*93,430,710.0*
3. Other liabilities to other domestic monetary financial institutions denominated in domestic currency	**13**	71,135.0	169,616.1
4. Liabilities to other residents denominated in domestic currency	**14**	6,961,633.8	4,655,713.7
4.1. Liabilities to general government		*6,938,331.2*	*4,606,627.8*
4.2. Other liabilities		*23,302.6*	*49,085.9*
5. Liabilities to non-residents denominated in domestic currency	**15**	471,511.8	323,361.4
6. Liabilities to residents denominated in foreign currency	**16**	7,480,666.7	16,126,196.1
7. Liabilities to non-residents denominated in foreign currency	**17**	13,982,819.8	10,056,395.7
8. Liabilities to the IMF	**18**	5,995,355.5	6,844,178.1
9. Items in course of settlement		0.0	0.0
10. Other liabilities		299,341.2	862,282.6
10.1. Off-balance-sheet instruments revaluation differences	**19**	*44,199.7*	*547,786.7*
10.2. Accruals and deferred income	**20**	*204,510,8*	*200,961.9*
10.3. Sundry	**21**	*50,630.7*	*113,534.0*
11. Provisions for future liabilities	**22**	99,659.9	105,412.5
12. Revaluation accounts	**23**	19,830,056.2	54,667,609.7
13. Capital and reserves	**24**	14,309,163.3	13,868,759.7
13.1. Statutory fund		*1,500,000.0*	*1,500,000.0*
13.2. Reserve fund		*208,277.7*	*534,733.7*
13.3. Reserves		*12,600,885.6*	*11,834,026.0*
14. Financial result	**25**	-4,928,793.0	-2,820,770.1
14.1. Financial result for the current year		*6,529,118.7*	*8,637,141.6*
14.2 Loss of previous years		*-11,457,911.7*	*-11,457,911.7*
Total liabilities		**279,340,384.8**	**336,772,267.1**

DIRECTOR OF ACCOUNTING AND OPERATIONS DEPARTMENT
OF THE NBP

/-/ Grażyna Gielecińska

MANAGEMENT BOARD
OF THE NBP

/-/ Marek Belka
/-/ Piotr Wiesiołek
/-/ Witold Koziński
/-/ Eugeniusz Gatnar
/-/ Andrzej Raczko
/-/ Jakub Skiba
/-/ Zdzisław Sokal
/-/ Małgorzata Zaleska

Warsaw, 26 March 2012

PROFIT AND LOSS ACCOUNT OF THE NBP FOR THE YEAR ENDED ON 31 DECEMBER 2011

	Note	2010	2011
		PLN thousand	
1. Net result on interest, discount and premium		517,233.1	-1,275,714.6
1.1. Interest, discount and premium income	**30**	*6,197,387.4*	*6,427,078.2*
1.2. Interest, discount and premium expenses	**31**	*5,680,154.3*	*7,702,792.8*
2. Net result on financial operations		6,982,656.6	10,546,580.5
2.1. Income on financial operations	**32**	*6,772,009.6*	*11,121,839.0*
2.2. Expenses on financial operations	**33**	*2,114,850.7*	*1,341,839.5*
2.3. Unrealised losses	**34**	*1,465,581.1*	*278.6*
2.4. Income on transfers from risk provisions and on reversal of write-downs of financial assets	**35**	*3,791,078.8*	*766,859.6*
2.5. Expenses on transfers to risk provisions and on write-downs of financial assets		*0.0*	*0.0*
3. Net result on fees and commissions		-65,062.2	-902.1
3.1. Fees and commissions income	**36**	*31,191.4*	*35,488.9*
3.2. Fees and commissions expenses	**37**	*96,253.6*	*36,391.0*
4. Income on shares and equities	**38**	27,853.2	72,783.3
5. Other income	**39**	151,589.9	342,596.2
A. Total net income [1+2+3+4+5]		**7,614,270.6**	**9,685,343.3**
6. Salaries and social contributions	**40**	411,819.5	429,935.1
7. Administrative expenses	**41**	256,691.7	259,270.7
8. Depreciation and amortization expenses	**42**	81,312.3	77,345.0
9. Cost of issue of banknotes and coins	**43**	308,249.2	262,048.3
10. Other expenses	**44**	27,079.2	19,602.6
B. Financial result for the current year [A-6-7-8-9-10]	**45**	**6,529,118.7**	**8,637,141.6**

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Warsaw, 26 March 2012

NOTES – GENERAL INFORMATION

1. INTRODUCTION

1.1. Legal basis, scope of activities and bodies of the NBP

In accordance with Article 227 of the Constitution of the Republic of Poland, the central bank of the State shall be the National Bank of Poland, hereinafter referred to as the "NBP". It shall have the exclusive right to issue money as well as to formulate and implement monetary policy. The NBP shall be responsible for the value of Polish currency.

The NBP has a legal personality and is not subject to entry into the register of state enterprises. The NBP performs its activities in the territory of the Republic of Poland, and its registered office is in Warsaw.

The role, functions and tasks of the NBP are set forth in the following acts and regulations:

- the Act of 29 August 1997 on the National Bank of Poland (consolidated text: Journal of Laws of 2005, No. 1, item 2, as amended), hereinafter referred to as the "Act on the NBP",
- the Act of 29 August 1997 – Banking Law (consolidated text: Journal of Laws of 2002, No. 72, item 665, as amended),
- the Treaty on European Union (Journal of Laws of 2004, No. 90, item 864/30, as amended) and the Treaty on the functioning of the European Union (Journal of Laws of 2004, No. 90, item 864/2, as amended).

The basic objective of the activity of the NBP is to maintain price stability, while supporting the economic policies of the government, insofar as it does not constrain the basic objective of the NBP. The tasks of the NBP also include:

- organising monetary clearing,
- managing the foreign exchange reserves,
- conducting foreign exchange activities within the bounds stipulated by relevant laws,
- providing banking services to the State budget,
- regulating the liquidity of banks and providing them with refinancing facilities,
- establishing the necessary conditions for the development of the banking system,
- acting in favour of the stability of the domestic financial system,
- compiling monetary and banking statistics, the balance of payments and the international investment position,
- performing other tasks as specified by laws.

In accordance with the Constitution of the Republic of Poland and the Act on the NBP, the bodies of the NBP are:

1) President of the National Bank of Poland (appointed for a six-year term of office),
2) Monetary Policy Council (its members are appointed for a six-year, non-renewable term of office),
3) Management Board of the National Bank of Poland (its members are appointed for a six-year term of office).

The composition of the NBP bodies as at 31 December 2011 was as follows:

President of the NBP	Marek Belka – appointed on 10 June 2010 – the term began on 11 June 2010
Monetary Policy Council	
Chairperson	Marek Belka – from 11 June 2010
Members	Andrzej Bratkowski – from 10 January 2010
	Elżbieta Chojna-Duch – from 10 January 2010
	Zyta Gilowska – from 19 February 2010
	Adam Glapiński – from 19 February 2010
	Jerzy Hausner – from 24 January 2010
	Andrzej Kaźmierczak – from 19 February 2010
	Andrzej Rzońca – from 24 January 2010
	Jan Winiecki – from 24 January 2010
	Anna Zielińska-Głębocka – from 9 February 2010
Management Board of the NBP	
Chairperson	Marek Belka – from 11 June 2010
First Deputy President of the NBP	Piotr Wiesiołek – from 6 March 2008
Deputy President of the NBP	Witold Koziński – from 24 October 2008
Members	Eugeniusz Gatnar – from 25 March 2010
	Andrzej Raczko – from 7 September 2010
	Jakub Skiba – from 2 November 2007
	Zdzisław Sokal – from 13 March 2007
	Małgorzata Zaleska – from 3 August 2009

On 25 August 2011, Zbigniew Hockuba ceased to act as member of the Management Board of the NBP.

1.2. Legal basis of preparation of the financial statements

The financial statements of the NBP as at 31 December 2011 were prepared on the basis of the following provisions:

- the Act on the NBP,
- Resolution No. 16/2003 of the Monetary Policy Council of 16 December 2003 on the accounting principles, format of the balance sheet and the profit and loss account of the National Bank of Poland (NBP Official Journal of 2003 No. 22, item 38, as amended), hereinafter referred to as “Resolution No. 16/2003”,
- Resolution No. 12/2010 of the Monetary Policy Council of 14 December 2010 on the principles for creating and releasing the provision against the foreign exchange rate risk of the zloty at the National Bank of Poland (NBP Official Journal of 2010 No. 17, item 19), hereinafter referred to as the “Resolution No. 12/2010”,
- Resolution No. 63/2008 of the Management Board of the National Bank of Poland of 11 December 2008 on performing tasks in the area of accounting at the National Bank of Poland, as amended,
- Resolution No. 29/2007 of the Management Board of the National Bank of Poland of 25 October 2007 on the management of fixed assets in the National Bank of Poland, as amended.

1.3. Period covered by the financial statements

The financial statements cover the calendar year from 1 January 2011 to 31 December 2011.

1.4. Certified auditor and its selection

The NBP annual financial statements drawn up as at 31 December 2011 are subject to examination and evaluation by a certified auditor, PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw. The certified auditor was appointed by the Monetary Policy Council, hereinafter referred to as the “MPC”, in 2010 in accordance with Article 69 para. 1 of the Act on the NBP. The selection was made following an open tendering, pursuant to the Act of 29 January 2004 – Public Procurement Law (consolidated text: Journal of Laws of 2007 No. 223, item 1655, as amended), for a period of three years (audit of the financial statements for the years 2010, 2011 and 2012).

1.5. Information on the adoption and approval of the NBP financial statements for 2010

The annual financial statements of the NBP drawn up as at 31 December 2010 were adopted by the MPC by Resolution No. 3/2011 on 4 April 2011 and approved by the Council of Ministers by Resolution No. 101/2011 on 14 June 2011. The certified auditor in charge of auditing the financial statements – PricewaterhouseCoopers Sp. z o.o. – issued an unqualified opinion on the audited financial statements.

In the financial statements drawn up as at 31 December 2010, the NBP recorded a financial result in the amount of PLN 6,529,118.7 thousand. Consequently, in 2011 the NBP paid a contribution from profit to the State budget in the amount of PLN 6,202,662.7 thousand. In accordance with Article 62 of the Act on the NBP, 5% of the annual profit, i.e. the amount of PLN 326,456.0 thousand, was allocated to the reserve fund.

2. DESCRIPTION OF SIGNIFICANT ACCOUNTING PRINCIPLES

2.1. Basic accounting principles

The accounting principles of the NBP conform to the standards applied in the European System of Central Banks, the basis of which is the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20, as amended), hereinafter referred to as “the ECB Guideline”.

The following accounting principles are applied during the preparation of the NBP financial statements:

- true and fair view,
- going concern,
- prudence,
- materiality,
- comparability,
- accrual.

2.2. Going concern

The NBP financial statements were drawn up under the assumption of the going concern principle. In accordance with Article 58 of the Act on the NBP, the NBP cannot be declared bankrupt.

2.3. Recognition of transactions in the accounting books

All economic events of a given financial year are recognised in the accounting books for that year.

Assets and liabilities, income and expenses are recognised in the accounting books when:

– it is likely that any future economic benefits will flow in or obligations will be settled,
– risks or rewards related to an asset or a liability were transferred to the NBP,
– the value of an asset or a liability, and of income or expense can be measured reliably.

When recognising transactions in the accounting books, the NBP follows the so called economic approach as laid down in the ECB Guideline. Consequently, the NBP applies the following rules:

– foreign currencies and gold purchased or sold in a spot transaction or a forward transaction are recognised in the accounting books (on off-balance sheet accounts) on the trade date,
– interest, discount and premium on assets and liabilities as well as on off-balance-sheet instruments are taken to the profit and loss account at the end of each operating day[1].

Securities purchased or sold in a spot transaction are recognised in the NBP accounting books in accordance with the so called cash approach, i.e. on the settlement date.

2.4. Valuation as at the balance sheet date

In financial statements, for gold, foreign currencies, securities purchased by the NBP (except for securities held to maturity and non-marketable securities) and off-balance sheet financial instruments the principle of balance sheet valuation at market prices/exchange rates is applied. The results of the assets and liabilities valuation at market prices/exchange rates effective as at the balance sheet date are recognised in accordance with the following rules:

– unrealised losses (revaluation losses) are recognised in the financial result,
– unrealised gains (revaluation gains) are not recognised in the financial result – they are recognised on the liabilities side of the balance sheet as *Revaluation accounts*.

The remaining assets and liabilities are valued on the basis of historical cost.

[1] Except for:
- interest on nostro accounts balances, which are recognised as at the payment date,
- interest payable on the required minimum reserve and interest on assets and liabilities related to own administrative activities, which are recognised at the month-end.

2.5. Principles for recognition and valuation of assets, liabilities and off-balance sheet financial instruments and for recognition of income and expenses in the financial result

2.5.1. Gold

Gold purchased is recognised in the accounting books at purchase price while gold receivables and liabilities – at the average market price of gold as at the date of recognition of the economic event in the accounting books. Gold prices expressed in USD are translated into domestic currency according to the NBP average USD exchange rate effective as at the date of recognition of the economic event in the accounting books.

Assets and liabilities in gold, including spot transactions recognised on off-balance sheet accounts and off-balance sheet financial instruments in gold, constitute a holding of gold, for which the average cost is calculated. The average cost of gold holding which is the average cost of purchasing an ounce of gold by the NBP is used to calculate income and expenses arising from the sale of gold (realised foreign exchange gains or losses) and determine the results of balance sheet valuation. At the end of the operating day, the value in domestic currency of positions in gold is adjusted to the average cost of gold holding.

At the balance sheet date, gold is valued according to the average market price of gold, translated into domestic currency according to the NBP average USD exchange rate effective as at the balance sheet date. No distinction is made between the results of currency and price valuation of gold – they are treated jointly as currency revaluation differences. Unrealised losses, recognised in the financial result on the balance sheet date, change the average cost of gold holding.

2.5.2. Foreign currency

Foreign currency purchased or sold by the NBP for:

- domestic currency – is recognised in the accounting books at the exchange rate specified in an agreement or in a separate regulation,
- other foreign currency – is recognised in the accounting books in the amount of quoted foreign currency, which was translated into domestic currency at the average exchange rate effective as at the date of recognition of the economic event in the accounting books.

In other cases foreign currency is translated into domestic currency at the NBP average exchange rate effective as at the date of the economic event or at the NBP average exchange rate effective as at the date of recognition of the economic event in the accounting books.

Assets and liabilities in a foreign currency, including spot transactions recognised on off-balance sheet accounts and off-balance sheet financial instruments in that foreign currency, constitute a holding of foreign currency, for which the average cost is calculated. A holding of foreign

currency is formed for each foreign currency separately. The average cost of foreign currency holding which is the averaged cost of purchasing a unit of foreign currency by the NBP is used to calculate income and expenses arising from the sale of foreign currency (realised foreign exchange gains or losses) and determine the results of balance sheet valuation. At the end of the operating day, the value in domestic currency of positions in foreign currency is adjusted to the average cost of foreign currency holding.

At the balance sheet date, foreign currencies are valued at the average NBP exchange rates effective as at the balance sheet date. Unrealised losses related to a given holding of foreign currency (gold) are not netted with unrealised gains on any other holding of foreign currency (gold). Unrealised losses recognised in the financial result on the balance sheet date change the average cost of a foreign currency holding.

Special Drawing Rights (SDR) are treated as a separate foreign currency. Transactions that entail a change of the SDR position are either transactions denominated in SDR, or transactions in foreign currencies replicating the basket composition of the SDR (according to the respective basket definition and weightings). When recognising unrealised gains and losses at the balance sheet date, it is assumed that a holding of SDR includes individual designated foreign currency holdings underlying the SDR basket (see Chapter 3).

2.5.3. Securities purchased by the NBP

Securities purchased in a spot transaction are recognised in the accounting books at purchase price.

Discount and premium on securities purchased are recognised in the financial result at the end of each operating day in amounts calculated according to the internal rate of return. Interest on securities purchased is recognised in the financial result at the end of each operating day in amounts calculated pro-rata to the time elapsed between the purchase date and the end of each day.

Securities with the same code (ISIN), in relation to which the NBP has a defined business intention, constitute a holding of securities.

For marketable securities not classified as securities held to maturity the average cost of holding is calculated. The average cost of securities holding which is the average cost of purchasing by the NBP security of a given code (adjusted for the amortised discount and premium) is used to calculate income and expenses arising from the sale of securities (realised price gains or losses) and to determine the results of balance sheet valuation.

At the balance sheet date, marketable securities not classified as securities held to maturity are valued at the average market price effective as at the balance sheet date. Unrealised losses related to a given holding of securities are not netted with unrealised gains on any other holding

of securities. Unrealised losses recognised in the financial result on the balance sheet date change the average cost of securities holding.

Marketable securities held to maturity and non-marketable securities are valued as at the balance sheet date at purchase price, adjusted for the amortised discount/premium, less impairment.

2.5.4. Shares and equities

Shares and equities are recognised in the NBP accounting books at purchase price. As at the balance sheet date, the following are valued:

- non-marketable shares and equities – at purchase price less impairment,
- marketable shares – at average market price.

2.5.5. Repo / reverse repo transactions

A repo transaction is a contract under which an entity agrees to sell securities and, simultaneously, agrees to re-purchase these securities after a stated time, for an agreed price. This transaction is recognised in the NBP balance sheet liabilities as a received deposit collateralised with securities whose holding is not decreased on trade date.

A reverse repo transaction is a contract under which an entity agrees to purchase securities and, simultaneously, agrees to re-sell these securities after a stated time, for an agreed price. This transaction is recognised in the NBP balance sheet assets as a loan granted, collateralised with securities whose holding is not increased on trade date. Securities purchased in reverse repo transactions are not subject to valuation and no income or expense on these securities is recognised in the financial result.

The difference between the agreed selling and re-purchasing (purchasing and re-selling) price of securities that constitute a collateral of the repo/reverse repo transactions is taken to the profit and loss account at the end of each operating day in amounts calculated pro-rata to the time elapsed between the date of asset or liability recognition and the end of each day.

2.5.6. Banknotes and coins in circulation

Banknotes and coins in circulation are recognised in the NBP balance sheet liabilities at nominal value of banknotes and coins issued, decreased by nominal value of banknotes and coins:

- at the NBP cash points and vaults,
- deposited in vaults of other banks,
- that have been withdrawn from circulation due to being worn out or damaged.

The cost of issue of banknotes and coins is recognised in the financial result on the date it is incurred, regardless of the date banknotes and coins are put into circulation.

2.5.7. Securities issued by the NBP

Securities issued by the NBP are recognised in the NBP balance sheet liabilities at nominal value.

Discount and premium on securities issued by the NBP are recorded as accruals and recognised in the financial result at the end of each operating day in the amounts calculated for the period for which a given security was issued, pro-rata to the time elapsed between the date of liability recognition and the end of each day.

Interest on securities issued by the NBP is recognised in the financial result at the end of each operating day in the amounts calculated for the period for which a given security was issued, pro-rata to the time elapsed between the date of liability recognition and the end of each day.

2.5.8. Tangible and intangible fixed assets

Tangible and intangible fixed assets are recognised in the NBP balance sheet assets at:

- purchase price, increased by costs directly related to the purchase and adaptation of an asset to the condition enabling its use, or
- production cost (see Chapter 3).

Tangible and intangible fixed assets are depreciated/amortized according to the straight-line method beginning from the month which follows the month when the asset was made available for use. The table below presents the estimated depreciation/amortization period for particular groups of tangible and intangible fixed assets prevailing as at 31 December 2011.

Fixed assets	**Depreciation period (months)**
Land	Not subject to depreciation
including: right of perpetual usufruct of land	*800*
Buildings and premises	480-780
Land and water engineering objects	267-480
Boilers and energy machinery	86-300
General application machines, devices and appliances	48-144
Specialist machines, devices and appliances	86-192
Technical devices	36-240
Vehicles	78-180
Tools, technical instruments, movables and equipment	60-240
Intangible assets	**Amortization period (months)**
Copyrights, including the rights related to inventions, patents, trademarks, utility and ornamental patterns	120
IT software licences	72 or 144
IT software developed by the NBP	120

In specific cases individual depreciation/amortization periods are adopted for tangible and intangible fixed assets.

In the case of tangible and intangible fixed assets with a low initial value, i.e. below PLN 3,500[2], depreciation/amortization may be made on a one-off basis at the end of the month when the assets were made available for use.

As at the balance sheet date, tangible and intangible fixed assets are valued at initial value less depreciation/amortization and impairment.

2.5.9. Inventories

Inventories are recognised in the NBP balance sheet assets at:

- purchase price – materials and goods, gold not conforming to international standards of purity and other precious metals,
- production cost – products,
- nominal value – collector valuables (banknotes and coins) not in circulation.

As at the balance sheet date, inventories are valued at purchase price/production cost, less impairment; in the case of collector valuables (banknotes and coins) not in circulation – at nominal value.

2.5.10. Impairment of assets

Impairment of assets is determined on the balance sheet date by comparing the book value of assets with their value in use or market value, or if it is highly probable that a given asset will not generate expected economic benefits in the future.

2.5.11. Provisions for future liabilities

Provisions for future liabilities are recognised in the accounting books of the NBP when the NBP is under obligation arising from past events or from identified risk and when it is probable that the fulfilment of the obligation or the materialisation of the identified risk will reduce the economic benefits of the NBP, and the amount of this obligation and the amount adequate to cover the identified risk can be measured reliably. Provisions are created and recognised as expense in the amount that would have to be paid not later than on the balance sheet date to fulfil the above mentioned obligation or would be sufficient to cover the identified risk mentioned above.

As at the balance sheet date, provisions for future liabilities are updated. Provisions for future liabilities unused due to partial or full cessation of obligation or risk justifying their creation, are released as income.

[2] In 2010, the limit was PLN 4,000 respectively.

2.5.12. Provision against the foreign exchange rate risk of the zloty

The provision against the foreign exchange rate risk of the zloty is estimated on the basis of financial risk assessment methods which are generally accepted and consistently applied by the NBP (see Chapter 4).

The provision is created, used and released on the balance sheet date.

The provision is created and recognised as expense and must not lead to a negative financial result of the current year for the NBP.

The provision is used – by recognising it as income – exclusively to cover unrealised losses arising from changes in the foreign exchange rate of the zloty in the amount that could result in a loss.

The surplus of provision is released and recognised as income.

2.5.13. Gold revaluation account

Gold revaluation account is released as income in the amount:

- of unrealised gold revaluation losses taken to the profit and loss account on the balance sheet date,
- corresponding to the pro-rata decrease in gold holding as compared to its holding at the balance sheet date of the previous financial year.

2.5.14. Foreign exchange forward

Currency purchased or sold in a foreign exchange forward transaction is recognised from the trade date to the settlement date on off-balance sheet accounts at the agreed spot exchange rate. The difference between the agreed forward exchange rate and the spot rate is recognised in the financial result at the end of each operating day in the amounts calculated pro-rata to the time elapsed between the date commonly adopted for the settlement of a spot transaction and the settlement date of a foreign exchange forward transaction.

2.5.15. Foreign exchange swap

Purchased or sold and, respectively, re-sold or re-purchased currency in a foreign exchange swap transaction is recognised from the trade date to the settlement date on off-balance sheet accounts at the agreed spot exchange rate. The difference between the agreed forward exchange rate and the spot rate is recognised in the financial result at the end of each operating day in the amounts calculated pro-rata to the time elapsed between the settlement date of the spot transaction and the settlement date of the foreign exchange forward transaction.

2.5.16. Forward transactions in securities

Securities purchased or sold in a forward transaction are recognised from the trade date to the settlement date on off-balance sheet accounts at an agreed price. On the trade date securities purchased or sold in a forward transaction do not change the holding of securities.

Securities purchased or sold in a forward transaction are valued at the balance sheet date at the market price of such transactions effective as at the valuation date. The rules for recognition of unrealised gains and losses are applied to income and expenses arising from this valuation.

On the transaction settlement date, securities purchased in a forward transaction increase the holding of securities, while securities sold in a forward transaction decrease the holding of securities.

The result of transaction settlement is calculated:

- for securities purchased in a forward transaction – as the difference between the market price and the agreed price, adjusted for revaluation losses recognised at the balance sheet date,
- for securities sold in a forward transaction – as the difference between the agreed price and the average cost of securities holding, adjusted for revaluation losses recognised at the balance sheet date.

If more than one transaction for the forward purchase or sale of securities has been entered into, valuation and settlement of these transactions are carried out separately.

2.6. Events after the balance sheet date

The balance sheet and the profit and loss account contain the events about which the information was obtained after the balance sheet date and prior to the approval of the annual financial statements, if such events materially influence their content.

3. CHANGES IN ACCOUNTING PRINCIPLES

On 14 December 2010, Resolution No. 16/2003[3] was amended, effective from 1 January 2011. The amendments were aimed at:

- updating the provisions related to off-balance sheet financial instruments. The amendments were connected with the NBP's plans to extend its investment instruments portfolio with hitherto unused financial instruments (forward transactions in securities, futures, interest rate swaps, forward rate agreements). In 2011, the NBP started to carry out forward transactions in securities.

[3] Resolution No. 11/2010 of the Monetary Policy Council of 14 December 2010, amending Resolution No. 16/2003 of 16 December 2003 on accounting principles, format of the balance sheet and the profit and loss account of the National Bank of Poland (Official Journal of the NBP of 2010, No. 17, item 18).

- taking into account the amendments of the ECB Guideline of 2010 related to SDR – the amendments concerned introducing a definition of SDR, refining the definition of a foreign currency holding in relation to SDR, and identifying the approach for the recognition of transactions resulting in the change of the holding of this currency, primarily in the context of transactions hedging the SDR exchange rate risk. The above mentioned changes did not impact the amounts presented in the NBP financial statements as at 31 December 2011 – the NBP did not execute any transactions hedging the SDR exchange rate risk either in 2011 or in previous years.
- laying down the principles for recognition and valuation of intangible assets generated internally by the NBP – these amendments concerned extending the category of intangible assets with expenditure incurred by the NBP on development, if it meets the following conditions:
  - it is possible from the technical point of view to complete an intangible assets to be available for use or sale,
  - the intention to complete an intangible asset and to use or sell it,
  - the ability to use or sell an intangible asset,
  - manner in which an intangible asset will generate probable future economic benefits,
  - availability of adequate technical, financial and other resources to complete the development and to use or sell an intangible asset,
  - it is possible to measure reliably expenditure on development that may be assigned to a given intangible asset.

  By 31 December 2010, the expenditure on development had been expensed in the profit and loss account of the NBP at the date it was borne. In 2011, the NBP did not identify expenditure on development that would have met the above-mentioned conditions.

4. VALUES BASED ON PROFESSIONAL JUDGEMENT AND ESTIMATES

When preparing financial statements, the NBP makes specific estimates and assumptions that affect the amounts recognised in the financial statements. The estimates and assumptions are based, among others, on historical data and expectations about future events that are believed to be reasonable at the date of the financial statements preparation. As the existing circumstances and expectations about future events may change as a result of market changes or occurrence of factors beyond the NBP's control, the estimates made by the NBP are reviewed on a regular basis.

The key area where the NBP makes estimates is the calculation of the amount of the provision against the foreign exchange rate risk of the zloty.

In accordance with Resolution No. 12/2010, the estimated provision against the foreign exchange rate risk of the zloty is equal to the amount that would cover the potential change in the value of

foreign currency holdings due to identified foreign exchange rate risk of the zloty, decreased by estimated unrealised gains arising from changes in the foreign exchange rate of the zloty. The estimated provision must not be lower than the amount of uncovered accumulated loss from previous years, that has arisen from changes in the foreign exchange rate of the zloty.

At the NBP, to perform the analysis of changes in the foreign exchange rate risk of the zloty the Value at Risk (VaR) methodology is used. It estimates the loss expected due to fluctuations of the foreign exchange rate of the zloty, which in normal conditions and with an assumed probability should not be exceeded within the adopted time horizon. The Value at Risk is then decreased by the estimated unrealised gains on changes in the foreign exchange rate of the zloty. The unrealised gains are estimated based on their statistical distribution which is determined by taking into account the foreign currency holdings in the structure of foreign exchange reserves as at the balance sheet date and historical time series of the average cost of currency holdings and of the average NBP exchange rates for these currencies. Such an approach makes it possible to determine a stable level of unrealised gains and thus limits volatility of the provision.

Other areas in which the NBP makes estimates relate, in particular, to:

- setting the amount of provisions for liabilities due to retirement and disability severance payments and jubilee awards (provisions are estimated on the basis of actuarial assessment carried out periodically by an independent actuary),
- setting the periods of use of tangible and intangible assets,
- setting the amount of asset impairment.

5. GENERAL OVERVIEW OF CHANGES AND STRUCTURE OF THE NBP BALANCE SHEET AND FINANCIAL RESULT

The NBP balance sheet

The balance sheet total of the NBP as at 31 December 2011 amounted to PLN 336,772,267.1 thousand, which represents an increase by PLN 57,431,882.3 thousand (20.6%) as compared to 31 December 2010.

On the assets side, the increase was mainly related to the official reserve assets which amounted to PLN 334,447,194.3 thousand as at 31 December 2011 and increased by PLN 57,261,088.9 thousand compared to 31 December 2010.[4] The official reserve assets comprise: monetary gold, reserve tranche in the IMF, loans extended to the IMF[5], current accounts and term deposits abroad in foreign currency, foreign securities, reverse repo transactions in foreign currency and foreign currency in stock. The NBP actively manages most of the above mentioned instruments as part of its foreign exchange reserve management. The official reserve assets increase

[4] Expressed in euro, the official reserve assets amounted to EUR 75,721,607.1 thousand as at 31 December 2011, compared to EUR 69,991,188.9 thousand as at 31 December 2010.
[5] For statistical purposes, these loans are treated as part of reserve tranche in the IMF.

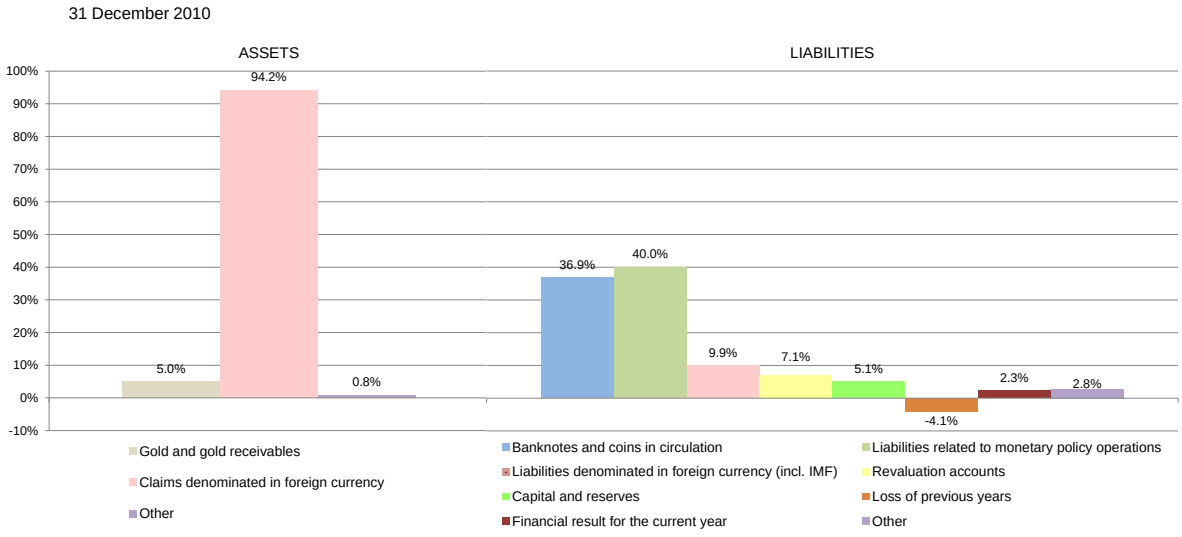
expressed in foreign currencies was due to: net inflows related to servicing State Treasury foreign debt by the NBP, inflows of the EU funds in euro and inflows of foreign currency from the NBP investment activities. At the same time, the increase in the PLN equivalent of the official reserve assets was affected by the currency revaluation carried out as at 31 December 2011.

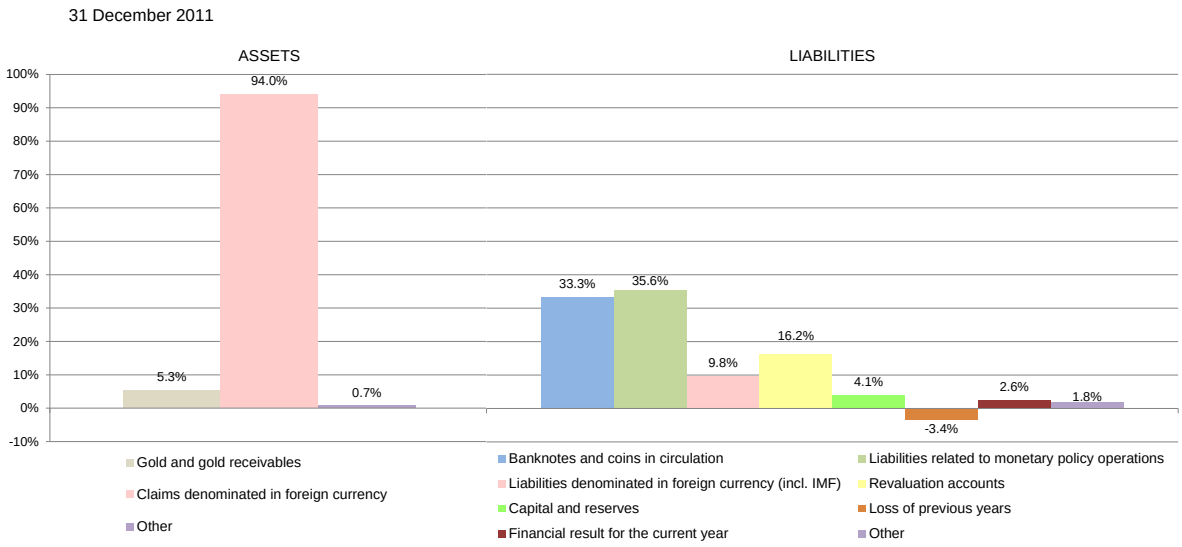
On the liabilities side, currency revaluation resulted in currency revaluation gains which amounted to PLN 49,399,729.5 thousand as at 31 December 2011, and increased by PLN 32,718,562.9 thousand compared to 31 December 2010. Furthermore, the increase on the liabilities side concerned mainly:

- liabilities due to banknotes and coins in circulation amounting to PLN 112,089,532.0 thousand as at 31 December 2011, which increased by PLN 9,025,174.9 thousand compared to 31 December 2010.
- liabilities to residents denominated in foreign currency (mainly government sector accounts) amounting to PLN 16,126,196.1 thousand as at 31 December 2011, which increased by PLN 8,645,529.4 thousand compared to 31 December 2010,
- liabilities related to monetary policy operations amounting to PLN 119,823,979.6 thousand as at 31 December 2011, which increased by PLN 8,120,502.1 thousand compared to 31 December 2010.

The dominant positions on the assets side of the NBP balance sheet are those in foreign currencies and gold. As at 31 December 2011, their combined share in the balance sheet total amounted to 99.3%, compared to 99.2% as at 31 December 2010. On the liabilities side, the share of liabilities in foreign currencies in the balance sheet total amounted to 9,8%, compared to 9,9% as at 31 December 2010. The main elements of the liabilities are banknotes and coins in circulation and liabilities related to monetary policy operations whose combined share amounted to 68.9% as at 31 December 2011, compared to 76.9% as at 31 December 2010. (See Figure 1).

Figure 1. The NBP balance sheet structure as at 31 December 2010 and 31 December 2011.





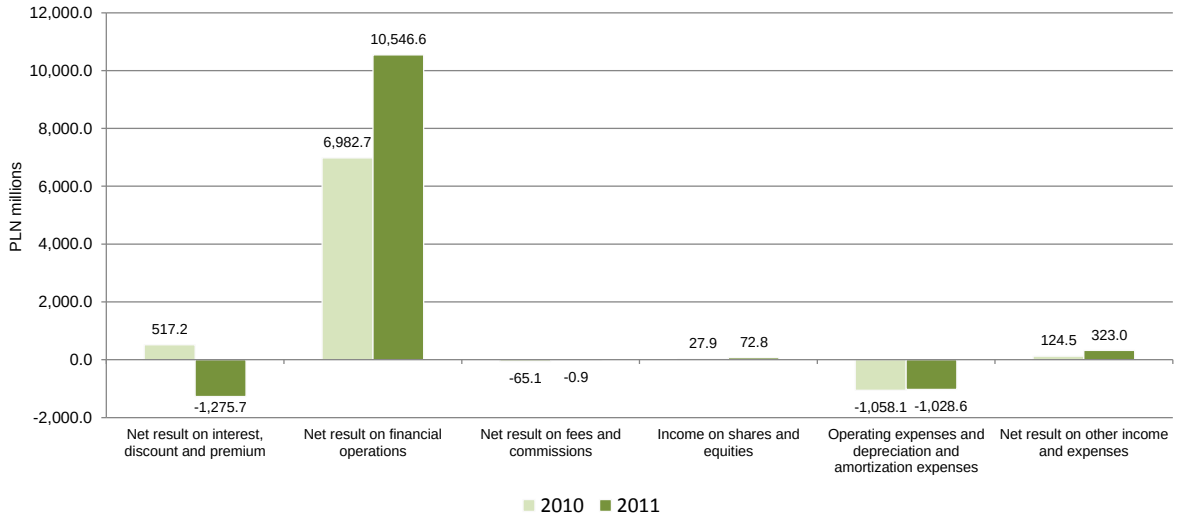
The NBP financial result

The NBP financial result for 2011 amounted to PLN 8,637,141.6 thousand and increased by PLN 2,108,022.9 thousand (32.3%) compared to 2010.

The increase in the financial result was mainly due to a higher net result on financial operations with a simultaneous decrease in net result on interest, discount and premium.

The structure of the NBP financial result for 2010 and 2011 is presented in Figure 2.

Figure 2. Structure of financial result, 2010-2011

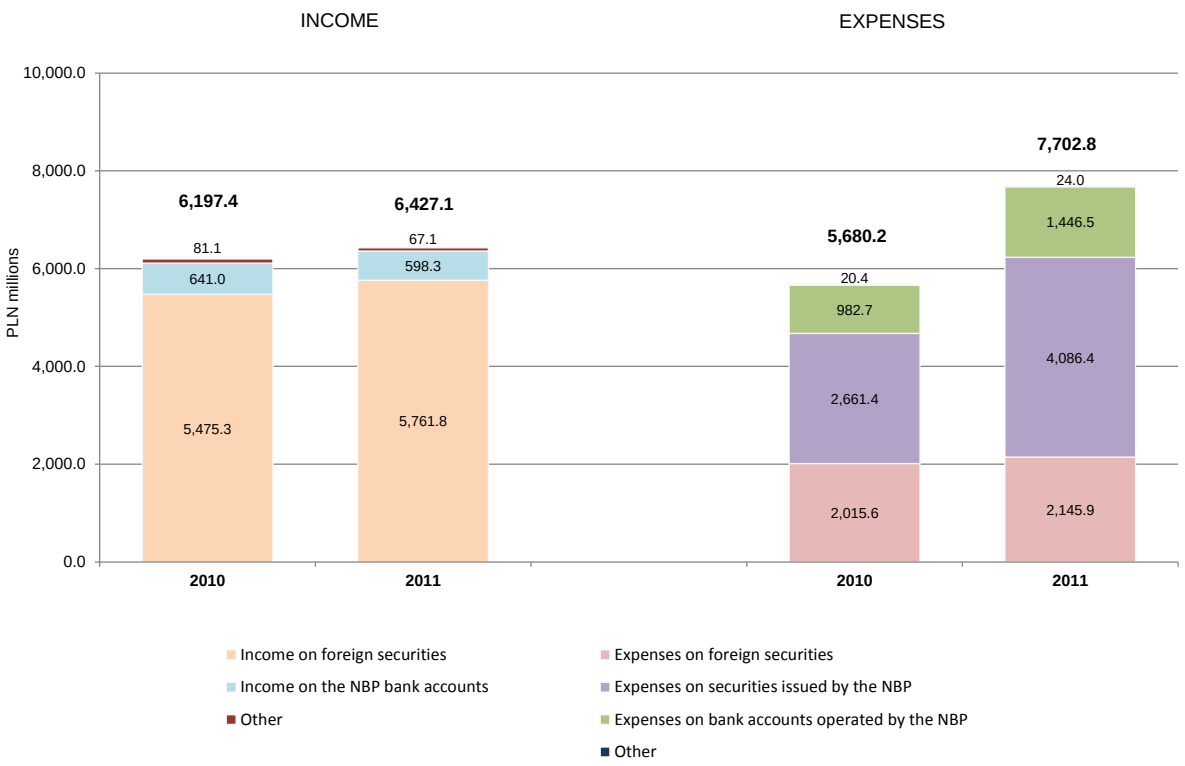


Net result on interest, discount and premium comprises mainly:

- interest, discount and premium income and expenses on investment instruments used for foreign exchange reserves management. These income and expenses are affected by: the level of foreign exchange reserves, its investment and currency structure, changes in interest and prices of investment instruments and changes in foreign exchange rates,
- interest and discount income and expenses on instruments used by the NBP under monetary policy operations (mainly expenses related to the issue of monetary bills),
- interest expenses on bank accounts operated by the NBP for the government sector.

The decline in the net result on interest, discount and premium by PLN 1,792,947.7 thousand was driven mainly by an increase in discount expenses on monetary bills issued by the NBP and interest expenses on bank accounts operated by the NBP (see Figure 3).

Figure 3. Structure of interest, discount and premium income and expenses, 2010-2011

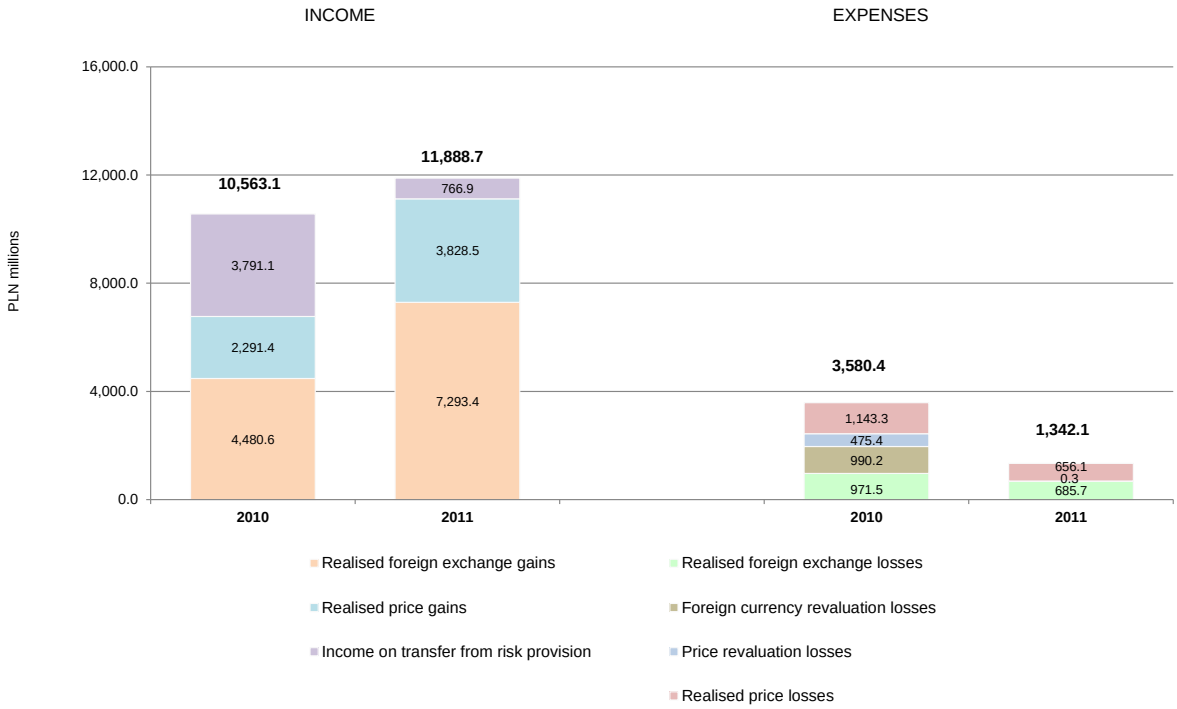


Net result on financial operations comprises mainly: realised foreign exchange and price gains and losses, foreign currency and price revaluation losses, and the effects of changes in the amount of provision against the foreign exchange rate risk of the zloty.

The increase in the net result on financial operations by PLN 3,563,923.9 thousand was mainly driven by:

- lower expenses on financial operations, mainly due to the non-occurance in 2011 of unrealised foreign currency revaluation losses and a decrease in realised price losses,
- higher income on financial operations due to an increase in realised foreign exchange and price gains with a simultaneous decrease in income on the release of the provision against the foreign exchange rate risk of the zloty (see Figure 4).

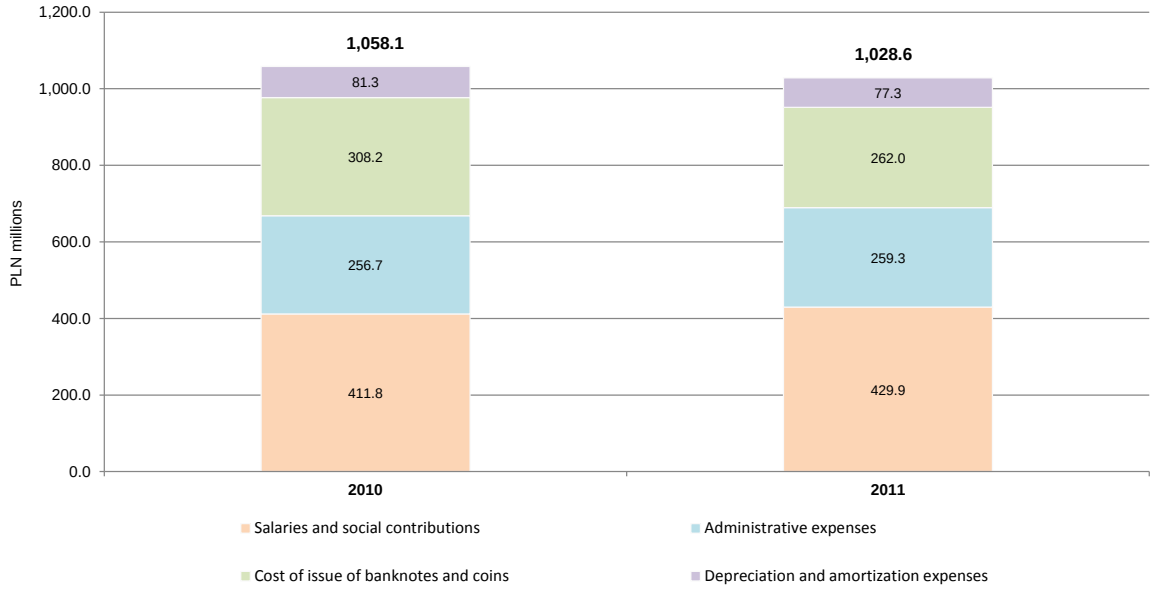
Figure 4. Structure of income and expenses included in net result on financial operations, 2010-2011



The NBP operating expenses include: salaries and social contributions, administrative expenses and cost of issue of banknotes and coins.

In 2011, operating expenses and depreciation and amortization expenses decreased as compared to 2010 by a total of PLN 29,473.6 thousand. The decrease in operating expenses resulted mainly from lower cost of issue of banknotes and coins (see Figure 5).

Figure 5. Structure of operating expenses and depreciation and amortization expenses, 2010-2011



6. EXPLANATORY NOTES TO THE BALANCE SHEET

Note 1 Gold and gold receivables

PLN thousand	31.12.2010	31.12.2011	Change	
Gold and gold receivables	**13,831,663.5**	**17,804,260.4**	**3,972,596.9**	**28.7%**
of which currency revaluation differences	*9,495,664.0*	*13,468,260.9*	*3,972,596.9*	*41.8%*

The position comprises gold stored at the NBP and deposited in a foreign bank account. As at 31 December 2011, the NBP held 3,308.9 thousand ounces of gold. The gold holding of the NBP remained unchanged as compared with the 31 December 2010.

The increase in the position resulted from the currency revaluation of gold (see Note 23).

Note 2 Receivables from the IMF

PLN thousand	31.12.2010	31.12.2011	Change	
SDR under the reserve tranche	1,484,809.6	3,052,762.1	1,567,952.5	105.6%
Current accounts with the IMF	5,988,035.6	6,142,978.4	154,942.8	2.6%
Term deposits with the IMF	32,487.0	37,097.7	4,610.7	14.2%
Loans extended to the IMF	0.0	912,553.1	912,553.1	-
Total	**7,505,332.2**	**10,145,391.3**	**2,640,059.1**	**35.2%**
of which currency revaluation differences	*393,249.6*	*987,103.0*	*593,853.4*	*151.0%*

The position comprises SDR-denominated:

- reserve tranche corresponding to the Republic of Poland's member quota in the IMF amounting to SDR 1,688,400.0 thousand reduced by liabilities due to the account operated by the NBP for the IMF in domestic currency (so-called Account No. 1) whose balance as at 31 December 2011 was PLN 5,865,203.7 thousand,
- current account of the NBP with the IMF on which, among others, funds received by the NBP under SDR allocation are recorded (see Note 18),
- term deposits of the NBP with the IMF,
- loans in foreign currency extended to the IMF under the New Arrangements to Borrow (NAB) (see Note 28).

Due to the entry into force on 3 March 2011 of Resolution No. 63-2 on the Reform of Quota and Voice in the IMF, pursuant to which selected countries, including the Republic of Poland, were entitled to increase their quotas in the Fund, on 18 March 2011 the NBP made payment in the amount equivalent to SDR 319,400.0 thousand; as a result, the Republic of Poland's quota in the Fund's capital increased from SDR 1,369,000.0 thousand to SDR 1,688,400.0 thousand.

The increase in the position resulted mainly from:

- increase in the reserve tranche in connection with the transfer to the IMF of foreign currency for other countries under the IMF's Financial Transactions Plans (FTP),
- loan extended by the NBP to the IMF under the NAB,
- currency revaluation of SDR.

Note 3 Balances with foreign institutions, securities, loans granted and other foreign assets

PLN thousand	31.12.2010	31.12.2011	Change	
Current accounts in foreign currency	1,279,830.3	9,764,676.7	8,484,846.4	663.0%
Term deposits in foreign currency	18,384,253.1	18,975,830.5	591,577.4	3.2%
Reverse repo transactions	14,529,072.8	9,900,277.8	-4,628,795.0	-31.9%
Securities in foreign currency (marketable securities other than held-to-maturity)	221,314,499.5	267,660,962.9	46,346,463.4	20.9%
Foreign banknotes and coins	367,117.4	207,386.0	-159,731.4	-43.5%
Other claims in foreign currency	0.0	8.7	8.7	-
Total	**255,874,773.1**	**306,509,142.6**	**50,634,369.5**	**19.8%**
of which				
- currency revaluation differences	*6,031,265.1*	*38,625,198.8*	*32,593,933.7*	*540.4%*
- price revaluation differences	*1,055,459.1*	*3,649,616.2*	*2,594,157.1*	*245.8%*

The position comprises assets denominated in foreign currency, mostly in USD, EUR, GBP, AUD and NOK. Securities, term deposit accounts, reverse repo transactions shown in this position are the main investment instruments of foreign exchange reserves.

The increase in the position resulted mainly from:

- currency revaluation,
- growth in foreign exchange reserves of the NBP[6] and thereby the bank's increased investment in selected financial instruments,
- price revaluation of securities (see Note 23 and Note 34).

Note 4 Claims on residents denominated in foreign currency

As at 31 December 2011 the position amounted to nil, which was the result of a repayment of receivables by Krajowa Izba Rozliczeniowa S.A. [National Clearing House] relating to the coverage of a portion of costs incurred by the NBP in connection with the participation in the TARGET2 system.

[6] Foreign exchange reserves constitute the main component of the official reserve assets (see Chapter 5).

Note 5 Other claims on other domestic monetary financial institutions denominated in domestic currency

The position comprises the NBP's claims on domestic banks unrelated to monetary policy operations. Its main component is the refinancing loan granted by the NBP for central investments.

As at 31 December 2011, the position amounted to PLN 356,402.0 thousand and was by PLN 372,543.8 thousand (51.1%) lower than as at 31 December 2010. The decrease in this position resulted mainly from the repayment to the NBP of the successive instalments of this loan, together with interest.

Note 6 Tangible and intangible fixed assets

PLN thousand	31.12.2010	31.12.2011	Change	
Gross tangible fixed assets	1,828,026.5	1,863,240.7	35,214.2	1.9%
Depreciation	-1,000,987.4	-1,043,262.0	-42,274.6	4.2%
Impairment	-16,122.5	-16,095.0	27.5	-0.2%
Net tangible fixed assets	*810,916.6*	*803,883.7*	*-7,032.9*	*-0.9%*
Gross intangible fixed assets	329,564.7	337,985.4	8,420.7	2.6%
Amortization	-254,865.9	-268,115.3	-13,249.4	5.2%
Impairment	0.0	-8.9	-8.9	-
Net intangible fixed asset	*74,698.8*	*69,861.2*	*-4,837.6*	*-6.5%*
Total	**885,615.4**	**873,744.9**	**-11,870.5**	**-1.3%**

The position comprises tangible fixed assets (including tangible fixed assets under construction) and intangible fixed assets (including intangible fixed assets under construction).

As at 31 December 2011 the balance-sheet value of the position comprised mainly real estates, machines, devices and IT software.

Note 7 Other financial assets

PLN thousand	31.12.2010	31.12.2011	Change	
Shares and equities in domestic entities	53,848.9	53,848.9	0.0	0.0%
Share and equities in foreign entities	124,474.1	140,046.3	15,572.2	12.5%
Total	**178,323.0**	**193,895.2**	**15,572.2**	**8.7%**

The position comprises shares and equities that the NBP holds in domestic entities (including Krajowy Depozyt Papierów Wartościowych S.A. [National Depository for Securities], Krajowa Izba Rozliczeniowa S.A. [National Clearing House], Bazy i Systemy Bankowe Sp. z o.o.) and in foreign entities (the Bank for International Settlements in Basel, S.W.I.F.T., the European Central Bank).

The increase in the position resulted mainly from the currency revaluation of shares and equities in foreign entities.

Since 1 May 2004, i.e. the day Poland joined the European Union, the NBP has had participating interest in the ECB capital. As at 31 December 2011, the amount of the capital paid up by the NBP to the ECB was PLN 87,250.1 thousand (EUR 19,754.1 thousand).

In accordance with Article 28 of the Statute of the European System of Central Banks and the European Central Bank, hereinafter referred to “Statute of the ESCB and ECB”, only the national central banks of the ESCB are entitled to subscribe the ECB capital. The ECB’s capital is subscribed according to the key determined in Article 29 of the Statute of the ESCB and ECB, i.e. shares of national central banks in the ECB capital are expressed in percentage and correspond to the shares of individual member states in the population and the combined gross domestic product of EU states (in equal consideration). As at 31 December 2011, the share of the NBP in the ECB’s subscribed capital amounted to 4.8954%, which corresponded to the amount of EUR 526,777.0 thousand.

The NBP as a central bank from outside the euro area, is required to pay up the minimum percentage of the ECB capital subscribed by it, which was specified by the ECB General Council (pursuant to Article 47 of the Statute of the ESCB and the ECB) and constitutes the NBP’s contribution to the operational costs of the ECB. The percentage has amounted to 3.75% since 29 December 2010. Unlike euro area central banks, the NBP has no right to participate in the ECB’s profits nor is required to cover its losses. Upon entry into the euro area, the NBP will be required to pay up the remaining 96.25% of the ECB’s capital subscribed by it, i.e. EUR 507,022.8 thousand.

On 29 December 2010, the subscribed capital of the European Central Bank was increased by EUR 5,000,000.0 thousand, from EUR 5,760,652.4 thousand to EUR 10,760,652.4 thousand. On 28 December 2011, the Eurosystem’s central banks, which were required to pay up capital to the ECB in three instalments, paid up the second instalment of EUR 1,166,175.0 thousand.
The weightings in the key for capital subscription and the amounts of capital subscribed and paid up by individual national central banks of the ESCB are presented below.

EUR	Key for capital subscription As at 31.12.2011	Subscribed capital Since 29.12.2010	Paid-up capital As at 31.12.2010	Paid-up capital As at 01.01.2011	Paid-up capital Since 28.12.2011
Oesterreichische Nationalbank	1.9417%	208,939,587.70	144,216,254.37	144,216,254.37	176,577,921.04
Nationale Bank van België	2.4256%	261,010,384.68	180,157,051.35	180,157,051.35	220,583,718.02
Central Bank of Cyprus	0.1369%	14,731,333.14	10,167,999.81	10,167,999.81	12,449,666.48
Eesti Pank/Bank of Estonia	0.1790%	19,261,567.80	722,308.79	13,294,901.14	16,278,234.47
Suomen Pankki/Finlands Bank	1.2539%	134,927,820.48	93,131,153.81	93,131,153.81	114,029,487.14
Banque de France	14.2212%	1,530,293,899.48	1,056,253,899.48	1,056,253,899.48	1,293,273,899.48
Bank of Greece	1.9649%	211,436,059.06	145,939,392.39	145,939,392.39	178,687,725.72
Banco de España	8.3040%	893,564,575.51	616,764,575.51	616,764,575.51	755,164,575.51
De Nederlandsche Bank	3.9882%	429,156,339.12	296,216,339.12	296,216,339.12	362,686,339.12
Central Bank of Ireland	1.1107%	119,518,566.24	82,495,232.91	82,495,232.91	101,006,899.58
Banque centrale du Luxembourg	0.1747%	18,798,859.75	12,975,526.42	12,975,526.42	15,887,193.09
Central Bank of Malta	0.0632%	6,800,732.32	4,694,065.65	4,694,065.65	5,747,398.98
Deutsche Bundesbank	18.9373%	2,037,777,027.43	1,406,533,694.10	1,406,533,694.10	1,722,155,360.77
Banco de Portugal	1.7504%	188,354,459.65	130,007,792.98	130,007,792.98	159,181,126.31
Národna banka Slovenska	0.6934%	74,614,363.76	51,501,030.43	51,501,030.43	63,057,697.10
Banka Slovenije	0.3288%	35,381,025.10	24,421,025.10	24,421,025.10	29,901,025.10
Banca d'Italia	12.4966%	1,344,715,688.14	928,162,354.81	928,162,354.81	1,136,439,021.48
National central banks in euro area total	*69.9705%*	*7,529,282,289.35*	*5,184,359,697.03*	*5,196,932,289.36*	*6,363,107,289.36*
Българска народна банка	0.8686%	93,467,026.77	3,505,013.50	3,505,013.50	3,505,013.50
Česka národni banka	1.4472%	155,728,161.57	5,839,806.06	5,839,806.06	5,839,806.06
Danmarks Nationalbank	1.4835%	159,634,278.39	5,986,285.44	5,986,285.44	5,986,285.44
Lietuvos bankas	0.4256%	45,797,336.63	1,717,400.12	1,717,400.12	1,717,400.12
Latvijas Banka	0.2837%	30,527,970.87	1,144,798.91	1,144,798.91	1,144,798.91
Narodowy Bank Polski	**4.8954%**	**526,776,977.72**	**19,754,136.66**	**19,754,136.66**	**19,754,136.66**
Banca Naţională a României	2.4645%	265,196,278.46	9,944,860.44	9,944,860.44	9,944,860.44
Sveriges Riksbank	2.2582%	242,997,052.56	9,112,389.47	9,112,389.47	9,112,389.47
Magyar Nemzeti Bank	1.3856%	149,099,599.69	5,591,234.99	5,591,234.99	5,591,234.99
Bank of England	14.5172%	1,562,145,430.59	58,580,453.65	58,580,453.65	58,580,453.65
National central banks outside euro area total	*30.0295%*	*3,231,370,113.23*	*121,176,379.25*	*121,176,379.25*	*121,176,379.25*
Total	**100%**	**10,760,652,402.58**	**5,305,536,076.28**	**5,318,108,668.61**	**6,484,283,668.61**

Note 8 Off-balance sheet instruments revaluation differences

PLN thousand	31.12.2010	31.12.2011	Change	
Currency revaluation differences	2,919.3	72,098.6	69,179.3	2,369.7%
Price revaluation differences	0.0	12.4	12.4	-
Total	**2,919.3**	**72,111.0**	**69,191.7**	**2,370.1%**

The position comprises currency revaluation differences on spot transactions recognised on off-balance-sheet accounts (see Note 26) and price revaluation differences on forward transactions in securities (see Note 23 and Note 27).

Note 9 Accruals and prepaid expenses

The position comprises accruals relating to securities issued in domestic currency and prepaid expenses relating to services.

As at 31 December 2011 the position amounted to PLN 56,741.2 thousand and was by PLN 3,490.1 thousand (5.8%) lower than as at 31 December 2010. The decrease resulted mainly from lower amount of discount to be amortized on monetary bills issued by the NBP (see Note 12).

Note 10 Sundry

The position comprises mainly balances arising from the adjustment of off-balance-sheet items in foreign currency to the average cost of foreign currency holding, inventories (including precious metals), credits and loans to employees and other receivables.

As at 31 December 2011 the position amounted to PLN 760,578.5 thousand and was by PLN 488,446.0 thousand (179.5%) higher than as at 31 December 2010. The increase in this position resulted mainly from higher balances arising from the adjustment of off-balance-sheet items in foreign currency to the average cost of foreign currency holding, which were due to a larger volume of spot transactions entered into by the NBP in the last days of 2011 (see Note 26).

Note 11 Banknotes and coins in circulation

PLN thousand	31.12.2010	31.12.2011	Change	
Domestic banknotes in circulation	99,916,230.6	108,807,688.4	8,891,457.8	8.9%
Domestic coins in circulation	3,148,126.5	3,281,843.6	133,717.1	4.2%
Total	**103,064,357.1**	**112,089,532.0**	**9,025,174.9**	**8.8%**

The position comprises banknotes and coins in circulation issued by the NBP, including collector banknotes and coins, whose value as at 31 December 2011 amounted to PLN 244,239.2 thousand as compared with PLN 251,306.4 thousand as at 31 December 2010.

The average level of banknotes and coins in circulation throughout 2011 amounted to PLN 106,357.0 million as compared with PLN 101,164.5 million in 2010.

In accordance with the Act of 7 July 1994 on the Redenomination of the Zloty (Journal of Laws No. 84, item 386 and of 1995 No. 16, item 79) banknotes and coins in circulation before 1 January 1995, were, without limitations, subject to exchange until 31 December 2010 in NBP branches and in other banks obliged by the President of the NBP to carry out this service. Banknotes and coins not returned until that date, with the value of PLN 172,093.0 thousand, were recognised by the NBP as income on 1 January 2011, thus decreasing the position *Banknotes and coins in circulation* (see Note 39).

Note 12 Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency

PLN thousand	31.12.2010	31.12.2011	Change	
Current accounts (incl. the required minimum reserve accounts)	36,562,970.1	20,417,008.4	-16,145,961.7	-44.2%
Deposit facilities	500,827.4	5,976,261.2	5,475,433.8	1,093.3%
Other monetary policy operations	74,639,680.0	93,430,710.0	18,791,030.0	25.2%
Total	**111,703,477.5**	**119,823,979.6**	**8,120,502.1**	**7.3%**

The position comprises liabilities to domestic banks related to monetary policy operations conducted by the NBP. They include:

– liabilities due to issue of securities – monetary bills issued by the NBP under open market operations (shown in the item *Other monetary policy operations*),
– balances on current accounts of domestic banks, used to make interbank settlements in zloty and to hold funds that correspond to the required minimum reserve,
– liabilities due to deposit facilities.

The increase in the position resulted mainly from the increase in the liabilities due to monetary bills issued and deposit facilities, with the simultaneous decrease in the liabilities due to current accounts.

Note 13 Other liabilities to other domestic monetary financial institutions denominated in domestic currency

The position comprises liabilities to domestic banks due to operations unrelated to monetary policy. Its main component is liabilities resulting from the payment orders of the NBP's customers submitted for settlement in the domestic payment system via Krajowa Izba Rozliczeniowa S.A. [National Clearing House], which were unsettled as at 31 December 2011.

As at 31 December 2011 the position amounted to PLN 169,616.1 thousand and was by PLN 98,481.1 thousand (138.4%) higher than as at 31 December 2010. The increase in this position resulted mainly from the increase in liabilities due to the above-mentioned orders.

Note 14 Liabilities to other residents denominated in domestic currency

PLN thousand	31.12.2010	31.12.2011	Change	
Liabilities to general government	6,938,331.2	4,606,627.8	-2,331,703.4	-33.6%
Other liabilities	23,302.6	49,085.9	25,783.3	110.6%
Total	**6,961,633.8**	**4,655,713.7**	**-2,305,920.1**	**-33.1%**

The position comprises mainly current accounts, auxiliary accounts and term deposit accounts in domestic currency operated by the NBP for the general government sector, including the state budget and social insurance funds.

The decrease in the position resulted mainly from the decrease in funds held on current accounts of government sector entities.

Note 15 Liabilities to non-residents denominated in domestic currency

The position comprises current accounts in domestic currency operated by the NBP for international financial and non-financial organisations and central banks, including the account in domestic currency operated by the NBP for the IMF, which is used for the Fund's administrative expenses (so-called Account No. 2).

As at 31 December 2011 the position amounted to PLN 323,361.4 thousand and was by PLN 148,150.4 thousand (31.4%) lower than as at 31 December 2010. The decrease in this position resulted mainly from the decrease in funds held on the account of the European Commission.

Note 16 Liabilities to residents denominated in foreign currency

PLN thousand	31.12.2010	31.12.2011	Change	
Accounts of the State budget	6,899,416.2	15,512,499.8	8,613,083.6	124.8%
Accounts of domestic banks for settlement in TARGET2	532,502.3	432,556.0	-99,946.3	-18.8%
Other	48,748.2	181,140.3	132,392.1	271.6%
Total	**7,480,666.7**	**16,126,196.1**	**8,645,529.4**	**115.6%**
of which currency revaluation differences	*-94,548.8*	*1,326,483.3*	*1,421,032.1*	*-1,503.0%*

The position comprises mainly funds held on accounts in foreign currency operated by the NBP for:

– the State budget – current, auxiliary and term deposit accounts,

– domestic banks – current accounts in euro used for settlements in TARGET2.

The increase in the position resulted mainly from:

– increase of funds in foreign currency held on the current accounts of the State budget,

– currency revaluation.

Note 17 Liabilities to non-residents denominated in foreign currency

PLN thousand	31.12.2010	31.12.2011	Change	
Repo transactions	13,735,376.5	9,899,942.3	-3,835,434.2	-27.9%
Other	247,443.3	156,453.4	-90,989.9	-36.8%
Total	**13,982,819.8**	**10,056,395.7**	**-3,926,424.1**	**-28.1%**
of which currency revaluation differences	*-30,339.0*	*1,224,845.0*	*1,255,184.0*	*-4,137.2%*

The position comprises mainly repo transactions in foreign currency carried out with foreign financial institutions. Under the NBP's investment policies these transactions are related to reverse repo transactions (see Note 3).

The decrease in the position resulted mainly from the NBP's reduced involvement in these transactions. Moreover, the value of this position was affected by currency revaluation.

Note 18 Liabilities to the IMF

PLN thousand	31.12.2010	31.12.2011	Change	
Liabilities to the IMF	**5,995,355.5**	**6,844,178.1**	**848,822.6**	**14.2%**
of which currency revaluation differences	*314,132.8*	*665,909.1*	*351,776.3*	*112.0%*

The position comprises liabilities due to the funds received by the NBP under the SDR allocation, including interest accrued thereon. SDR allocation was conducted in the second half of 2009. Under the general and special allocation, the Republic of Poland received a total of SDR 1,304,639.7 thousand.

The increase in the position resulted mainly from its adjustment to the average cost of SDR holding and currency revaluation of SDR.

Note 19 Off-balance-sheet instruments revaluation differences

PLN thousand	31.12.2010	31.12.2011	Change	
Currency revaluation differences	44,199.7	547,736.5	503,536.8	1,139.2%
Price revaluation differences	0.0	50.2	50.2	-
Total	**44,199.7**	**547,786.7**	**503,587.0**	**1,139.3%**

The position comprises currency revaluation differences on spot transactions recognised on off-balance-sheet accounts (see Note 26) and price revaluation differences on forward transactions in securities (see Note 27 and 34).

Note 20 Accruals and deferred income

The position comprises accruals (accruals in foreign currency) and deferred income.

As at 31 December 2011 the position amounted to PLN 200,961.9 thousand and was by PLN 3,548.9 thousand (1.7%) lower than as at 31 December 2010. The decrease in this position resulted mainly from the decrease in the balance of deferred income.

Note 21 Sundry

The position comprises mainly balances arising from the adjustment of off-balance-sheet items in foreign currency to the average cost of foreign currency holding, liabilities to public authorities, liabilities to suppliers and funds of the Employee Benefit Fund.

As at 31 December 2011 the position amounted to PLN 113,534.0 thousand and was by PLN 62,903.3 thousand (124.2%) higher than as at 31 December 2010. The increase in this position resulted mainly from higher balances arising from the adjustment of off-balance-sheet items in foreign currency to the average cost of foreign currency holding, which were due to a larger volume of spot transactions entered into by the NBP in the last days of 2011 (see Note 26).

Note 22 Provisions for future liabilities

The position comprises mainly provisions for future liabilities to employees due to retirement severance payments, disability severance payments, jubilee awards and untaken leaves.

As at 31 December 2011 the position amounted to PLN 105,412.5 thousand and was by PLN 5,752.6 thousand (5.8%) higher than as at 31 December 2010. The increase in this position resulted mainly from the increase in provisions for future liabilities to employees due to retirement severance payments.

Note 23 Revaluation accounts

PLN thousand	31.12.2010	31.12.2011	Change	
Gold revaluation account	1,618,023.2	1,618,023.2	0.0	0.0%
Currency revaluation gains, of which:	16,681,166.6	49,399,729.5	32,718,562.9	196.1%
- revaluation gains on gold	*9,495,664.0*	*13,468,260.9*	*3,972,596.9*	*41.8%*
- revaluation gains on foreign currencies	*7,185,502.6*	*35,931,468.6*	*28,745,966.0*	*400.1%*
Price revaluation gains, of which	1,530,866.4	3,649,857.0	2,118,990.6	138.4%
- revaluation gains on securities	*1,530,866.4*	*3,649,844.6*	*2,118,978.2*	*138.4%*
- revaluation gains on off-balance-sheet instruments	*0.0*	*12.4*	*12.4*	*-*
Total	**19,830,056.2**	**54,667,609.7**	**34,837,553.5**	**175.7%**

As at 31 December 2011 the value of the position resulted mainly from revaluation gains on gold and on the following foreign currencies: USD, EUR, AUD, GBP, NOK, SDR, CHF, CAD, JPY, DKK, SEK, CZK and HUF.

Revaluation gains are determined for:

- gold – by comparison of the average cost of gold holding with the average market price of gold expressed in PLN, which is higher than the average cost,
- foreign currencies – by comparison of the average cost of foreign currency holding with the average NBP exchange rate, which is higher than the average cost.

The average costs of holdings of individual foreign currencies and gold, the average NBP exchange rates and the average market price of gold are presented below.

	Average cost of holding	Average NBP exchange rate / Average price of gold	Average cost of holding	Average NBP exchange rate / Average price of gold
PLN	31.12.2010		31.12.2011	
AUD	2.4951134193	3.0177	2.7603790448	3.4670
CAD	2.9195067170	2.9691	2.9399527735	3.3440
CHF	2.9500312778	3.1639	3.1620769958	3.6333
CZK	0.1477682188	0.1580	0.1554457455	0.1711
DKK	0.5390868912	0.5313	0.5635496933	0.5941
EUR	4.0142685282	3.9603	4.0563069964	4.4168
GBP	4.5922079667	4.5938	4.6239904984	5.2691
HUF	0.0136439457	0.0142	0.0136698219	0.0142
JPY	0.0347231325	0.0364	0.0383764180	0.0441
NOK	0.4787569358	0.5071	0.4998587622	0.5676
SEK	0.4207589705	0.4415	0.4697496231	0.4950
USD	2.8754225618	2.9641	2.9027468377	3.4174
SDR	4.3519660165	4.5926	4.7341424263	5.2444
Ounce of gold*	1,310.3996257646	4,180.1220	1,310.3996257646	5,380.6963

* Price of an ounce of gold, expressed in USD, was USD 1,410.25 as at 31 December 2010 and USD 1,574.50 as at 31 December 2011.

Price revaluation gains on securities are determined by comparison of the average cost of securities holding with the average market price of these securities, which is higher than the average cost. As at 31 December 2011 price revaluation gains related mainly to interest-bearing securities in USD, AUD, GBP and EUR.

Price revaluation gains on off-balance-sheet instruments related to forward transactions in securities (see Note 27).

Because of the fact that as at 31 December 2011 there were:

- no unrealised gold revaluation losses,
- no decrease in gold holding as compared to the holding at the balance-sheet date of the previous financial year,

the NBP did not release the gold revaluation account.

Note 24 Capital and reserves

PLN thousand	31.12.2010	31.12.2011	Change	
Statutory fund	1,500,000.0	1,500,000.0	0.0	0.0%
Reserve fund	208,277.7	534,733.7	326,456.0	156.7%
Reserves	12,600,885.6	11,834,026.0	-766,859.6	-6.1%
Total	**14,309,163.3**	**13,868,759.7**	**-440,403.6**	**-3.1%**

The position comprises:

- statutory fund, whose amount is determined by Article 61 of the Act on the NBP,
- reserve fund, which in accordance with Article 62 of the Act on the NBP, is created from the transfer of 5% of the NBP annual profit until it reaches the amount equivalent to the statutory fund. Reserve fund may only be used to cover the NBP's balance-sheet losses,
- the provision against the foreign exchange rate risk of the zloty, created as laid down in Article 65 of the Act on the NBP.

The decrease in the position resulted from the adjustment of the provision – in the amount of PLN 766,859.6 thousand - and a simultaneous increase in the reserve fund due to the transfer from the profit for 2010 - in the amount of PLN 326,456.0 thousand.

Note 25 Financial result

The position comprises:

- financial result for the current year in the amount PLN 8,637,141.6 thousand (see Note 45),
- portion of the NBP's loss for the year 2007, which was not covered by the reserve fund; as at 31 December 2011 this position amounted to PLN 11,457,911.7 thousand and remained unchanged as compared with 31 December 2010.

7. EXPLANATORY NOTES TO OFF-BALANCE-SHEET POSITIONS

Note 26 Spot transactions recognised on off-balance-sheet accounts

PLN thousand	31.12.2010	31.12.2011	Change	
Receivables arising from spot transactions, of which	1,816,529.7	6,189,548.5	4,373,018.8	240.7%
- receivables denominated in domestic currency	*595,560.0*	*2,657,029.6*	*2,061,469.6*	*346.1%*
- receivables denominated in foreign currency	*1,220,969.7*	*3,532,518.9*	*2,311,549.2*	*189.3%*
Liabilities arising from spot transactions, of which	1,816,529.7	6,189,548.5	4,373,018.8	240.7%
- liabilities denominated in domestic currency	*2,961.6*	*673.1*	*-2,288.5*	*-77.3%*
- liabilities denominated in foreign currency	*1,813,568.1*	*6,188,875.4*	*4,375,307.3*	*241.3%*

The increase in the above items resulted from spot foreign exchange transactions carried out by the NBP towards the end of the year with domestic and foreign banks.

Note 27 Off-balance-sheet financial instruments

PLN thousand	31.12.2010	31.12.2011	Change	
Securities denominated in foreign currency purchased in forward transactions	0.0	165,292.1	165,292.1	-
Securities denominated in foreign currency sold in forward transactions	0.0	23,313.9	23,313.9	-

The recognition of the position as at 31 December 2011 was connected with the fact that in 2011 the NBP started to enter into forward transactions in securities.

Note 28 Limits on loans in foreign currency extended to the IMF

As of 15 November 2011, the NBP became a participant in the *New Arrangements to Borrow* (NAB), which can be joined by member states of the IMF or their central banks. As a participant in the NAB, the NBP has made a commitment to grant to the IMF an interest-bearing loan of up to SDR 2,528,590.0 thousand. The funds are transferred by the NBP at the request of the IMF.

In 2011, the NBP transferred SDR 174,000.0 thousand to the IMF and, therefore, as at 31 December 2011, the NBP's commitment to the NAB amounted to SDR 2,354,590.0 thousand (PLN 12,348,411.8 thousand according to the NBP average exchange rate as at the balance-sheet date)

Note 29 Other items recognised on off-balance-sheet accounts

As at 31 December 2011, other items recognised on off-balance-sheet accounts mainly related to:

– collaterals received by the NBP in the amount of PLN 21,462.3 thousand (as at 31.12.2010 – PLN 18,413.3 thousand),
– contingent assets claimed by the NBP in the amount of PLN 269.3 thousand (as at 31.12.2010 – PLN 271.2 thousand).

Interest due from Bank Handlowo-Kredytowy S.A. under liquidation accrued after the date of its liquidation (i.e. from 1 April 1992) amounted to PLN 1,183,103.7 thousand; its amount did not change as compared with 31 December 2010.

8. EXPLANATORY NOTES TO PROFIT AND LOSS ACCOUNT

Note 30 Interest, discount and premium income

PLN thousand	2010	2011	Change	
Interest and discount income on securities denominated in foreign currency	5,475,271.1	5,761,765.7	286,494.6	5.2%
Interest income on the NBP's bank accounts, of which	641,049.8	598,253.0	-42,796.8	-6.7%
- on accounts in foreign currency	*444,318.9*	*598,253.0*	*153,934.1*	*34.6%*
- on accounts in domestic currency	*196,730.9*	*0.0*	*-196,730.9*	*-100.0%*
Interest income on credits and loans	58,289.6	36,018.0	-22,271.6	-38.2%
Other income	22,776.9	31,041.5	8,264.6	36.3%
Total	**6,197,387.4**	**6,427,078.2**	**229,690.8**	**3.7%**

The position comprises mainly interest and discount income on basic investment instruments of foreign exchange reserves (see Note 3) and on the refinancing loan for central investments (see Note 5).

In 2011, the increase in the position resulted mainly from higher income on investment instruments of foreign exchange reserves, due to:

– increase in the average annual level of foreign exchange reserves (their average level amounted to EUR 62,734.0 million in 2011, as compared with EUR 57,501.7 million in 2010),
– changes in average annual exchange rates of the zloty – depreciation of the zloty against EUR, GBP, AUD and NOK (see table below presenting the average annual exchange rates).

At the same time:

– higher, by PLN 286,494.6 thousand, interest and discount income on securities denominated in foreign currency was caused by an increased share of fixed-interest securities in the structure of foreign exchange reserves and an increase in the average rate of return on discount securities denominated in EUR,
– higher, by PLN 153,934.1 thousand, interest income on the NBP's bank accounts in foreign currency was primarily caused by an increased share of term deposits in the structure of foreign exchange reserves and higher interest on deposit transactions in EUR, AUD and NOK.

The lower, by PLN 22,271.6 thousand, interest income on credits and loans resulted mainly from the decrease in receivables on the refinancing loan for central investments, following the repayment of loan instalments in 2011.

Moreover, no interest income on the NBP's bank accounts in domestic currency was recorded in 2011. In 2010, it amounted to PLN 196,730.9 thousand and related to interest on fine-tuning operations of *repo* type that temporarily provided liquidity to the banking sector.

The average annual exchange rates of the zloty against main foreign currencies in 2010-2011 are presented below.

	Average annual exchange rate			
PLN	2010	2011	Change	
USD	3.0157	2.9634	-0.0523	-1.7%
EUR	3.9946	4.1198	0.1252	3.1%
GBP	4.6575	4.7460	0.0885	1.9%
AUD	2.7687	3.0557	0.2870	10.4%
NOK	0.4986	0.5283	0.0297	6.0%

Note 31 Interest, discount and premium expenses

PLN thousand	2010	2011	Change	
Premium expenses on securities denominated in foreign currency	2,015,646.5	2,145,899.2	130,252.7	6.5%
Interest and discount expenses on issued securities denominated in domestic currency	2,661,416.3	4,086,416.0	1,424,999.7	53.5%
Interest expenses on bank accounts operated by the NBP, of which	982,722.7	1,446,470.6	463,747.9	47.2%
- on accounts in foreign currency	*138,009.8*	*187,202.4*	*49,192.6*	*35.6%*
- on accounts in domestic currency	*844,712.9*	*1,259,268.2*	*414,555.3*	*49.1%*
Other expenses	20,368.8	24,007.0	3,638.2	17.9%
Total	**5,680,154.3**	**7,702,792.8**	**2,022,638.5**	**35.6%**

The position comprises mainly interest, discount and premium expenses on instruments used by the NBP under monetary policy operations (see Note 12), on basic investment instruments of foreign exchange reserves (see Note 3 and Note 17) and on other bank accounts operated by the NBP.

In 2011, the increase in the position resulted mainly from:

– higher, by PLN 1,424,999.7 thousand, discount expenses on issued securities, denominated in domestic currency, due to:
  - increase in the issue of the NBP's monetary bills under open market operations; the level of main operations, on an average annual basis, amounted to PLN 93,870.4 million in 2011, as compared to PLN 75,012.2 million in 2010, and of fine-tuning operations – to PLN 1,407.1 million in 2011, as compared to PLN 48.1 million in 2010[7],
  - increase in the average annual level of the reference rate that determines the yield on monetary bills – from 3.50% in 2010 to 4.22% in 2011,

– higher, by PLN 414,555.3 thousand, interest expenses on bank accounts operated by the NBP in domestic currency; this change stemmed mainly from higher interest expenses on the required minimum reserves of the banks and the term deposits of the State budget,

[7] All calendar days from 1 January to 31 December of each year were taken into account to calculate average annual values.

– higher, by PLN 130,252.7 thousand, premium expenses on securities denominated in foreign currency, mainly as a result of:
  - a fall of yields on securities,
  - a larger share of fixed-interest securities in the structure of foreign exchange reserves,

  at the same time, higher premium expenses were also affected by:
  - increase in the average annual level of foreign exchange reserves (see Note 30),
  - changes in the average annual exchange rates of the zloty – depreciation of the zloty against EUR, GBP and AUD (see Note 30 – table presenting the average annual exchange rates).

Note 32 Income on financial operations

PLN thousand	2010	2011	Change	
Realised foreign exchange gains	4,480,631.5	7,293,367.6	2,812,736.1	62.8%
Realised price gains, of which	2,291,370.1	3,828,465.1	1,537,095.0	67.1%
- on spot transactions in securities	*2,291,370.1*	*3,224,720.1*	*933,350.0*	*40.7%*
- on off-balance-sheet financial instruments	*0.0*	*603,745.0*	*603,745.0*	*-*
Other income on financial operations	8.0	6.3	-1.7	-21.3%
Total	**6,772,009.6**	**11,121,839.0**	**4,349,829.4**	**64.2%**

The position comprises mainly:

– realised foreign exchange gains on foreign currency transactions,

– realised price gains on the sale of securities in spot transactions,

– realised price gains from the settlement of forward transactions in securities.

In 2011, the increase in the position resulted mainly from:

– higher realised foreign exchange gains on transactions in: EUR, AUD, GBP, USD and NOK,

– higher realised price gains on the spot sale of interest-bearing securities denominated in USD, GBP and AUD and of discount securities denominated in EUR,

– recognition of realised price gains on forward transactions in securities.

Note 33 Expenses on financial operations

PLN thousand	2010	2011	Change	
Realised foreign exchange losses	971,509.6	685,741.6	-285,768.0	-29.4%
Realised price losses, of which	1,143,339.3	656,085.4	-487,253.9	-42.6%
- on spot transactions in securities	*1,143,339.3*	*520,449.7*	*-622,889.6*	*-54.5%*
- on off-balance-sheet financial instruments	*0.0*	*135,635.7*	*135,635.7*	*-*
Other expenses on financial operations	1.8	12.5	10.7	594.4%
Total	**2,114,850.7**	**1,341,839.5**	**-773.011.2**	**-36.6%**

The position comprises mainly:

– realised foreign exchange losses on foreign currency transactions,
– realised price losses on the sale of securities in spot transactions,
– realised price losses on the settlement of forward transactions in securities.

In 2011, the decrease in the position resulted mainly from:

– lower realised foreign exchange losses on transactions in EUR, accompanied by higher foreign exchange losses on transactions in USD,
– lower realised price losses on the spot sale of interest-bearing securities in USD and AUD.

At the same time, in 2011, realised price losses on forward transactions in securities were recognised.

Note 34 Unrealised losses

PLN thousand	2010	2011	Change	
Foreign currency revaluation losses	990,173.8	0.0	-990,173.8	-100.0%
Price revaluation losses, of which	475,407.3	278.6	-475,128.7	-99.9%
- revaluation losses on securities	*475,407.3*	*228.4*	*-475,178.9*	*-100.0%*
- revaluation losses on off-balance-sheet instruments	*0.0*	*50.2*	*50.2*	*-*
Total	**1,465,581.1**	**278.6**	**-1,465,302.5**	**-100.0%**

In 2011, no foreign currency revaluation losses were recorded.

Currency revaluation losses are determined by comparison of the average cost of foreign currency holding with the average NBP exchange rate, which is lower than the average cost (see Note 23).

In 2011, the unrealised losses resulted from price revaluation losses on securities and off-balance sheet instruments recognised as at 31 December 2011.

Price revaluation losses on securities are determined by comparison of the average cost of securities holding with the average market price of these securities which is lower than the average cost. As at 31 December 2011, price revaluation losses related to securities denominated in USD and EUR.

Price revaluation losses on off-balance-sheet instruments related to forward transactions in securities (see Note 27).

Note 35 Income on transfers from risk provisions and on reversal of write-downs of financial assets

In 2011, income in the amount of PLN 766,859.6 thousand resulted from the adjustment of the provision against the foreign exchange rate risk of the zloty (see Note 24).

Note 36 Fees and commissions income

The position comprises mainly fees and commissions income relating to payment orders executed by the NBP, operating bank accounts and participation in the TARGET2 system.

In 2011, the position amounted to PLN 35,488.9 thousand and was by PLN 4,297.5 thousand (13.8%) higher as compared with 2010.

Note 37 Fees and commissions expenses

The position comprises mainly fees and commissions expensed by the NBP due to:

- substitution cash services provided by other banks to the State budget on behalf of the NBP (in cities and towns in which the NBP does not have its own branches),
- participation in the TARGET2 system,
- maintenance of the NBP's accounts in foreign currency abroad,
- execution of own payment orders.

In 2011, the position amounted to PLN 36,391.0 thousand and was by PLN 59,862.6 thousand (62.2%) lower as compared with 2010.

In 2010 a portion (in the amount of PLN 60,752.8 thousand) of prepaid expenses on the IMF fee for the access of the Republic of Poland to the Flexible Credit Line, expensed in May 2009, was recognised in this position. In 2011, the NBP did not record any expense related to the IMF fee (see Note 46).

Note 38 Income on shares and equities

PLN thousand	2010	2011	Change	
Income on shares and equities in domestic entities	1,437.5	62,502.5	61,065.0	4,248.0%
Income on shares and equities in foreign entities	26,415.7	10,280.8	-16,134.9	-61.1%
Total	**27,853.2**	**72,783.3**	**44,930.1**	**161.3%**

The position comprises income on dividends from shares and equities held by the NBP in domestic and foreign entities (see Note 7).

As at 31 December 2011, the income resulted from dividend proceeds from shares in the National Depository for Securities, the National Clearing House and in the Bank for International Settlements in Basel.

Note 39 Other income

The position comprises mainly income on the sale of collector coins and banknotes, rental of office premises and sale of IT services, and in 2011 also income on the non-returned banknotes and coins.

In 2011, the position amounted to PLN 342,596.2 thousand and was by PLN 191,006.3 thousand (126.0%) higher, as compared with 2010. The increase in this position resulted mainly from the income on the non-returned banknotes and coins (see Note 11).

Note 40 Salaries and social contributions

The position comprises salaries, social contributions as well as expenses for provisions for future liabilities to employees due to retirement and disability severance payments, jubilee awards and untaken leaves.

In 2011, the position amounted to PLN 429,935.1 thousand and was by PLN 18,115.6 thousand (4.4%) higher, as compared with 2010. The increase resulted mainly from higher, by PLN 7,886.0 thousand, costs of creating provisions for future liabilities to employees as well as higher by PLN 7,145.7 thousand costs of salaries, in line with the adopted Human Resources and payroll policy.

Note 41 Administrative expenses

PLN thousand	2010	2011	Change	
Materials and energy used	29,969.4	33,903.5	3,934.1	13.1%
Benefits for employees and other eligible persons	10,820.9	12,248.0	1,427.1	13.2%
Business travels	5,823.2	6,870.6	1,047.4	18.0%
Services from third parties	155,779.1	152,493.0	-3,286.1	-2.1%
Taxes and fees	14,472.6	15,234.6	762.0	5.3%
Transfers to special funds	4,582.6	4,759.6	177.0	3.9%
Other administrative expenses	35,243.9	33,761.4	-1,482.5	-4.2%
Total	**256,691.7**	**259,270.7**	**2,579.0**	**1.0%**

The increase in the position resulted mainly from higher expenses on materials and energy, employee benefits and business travels, while simultaneously the expenses on services from third parties and other administrative expenses declined.

Note 42 Depreciation and amortization expenses

PLN thousand	2010	2011	Change	
Fixed assets depreciation expenses	66,307.3	63,457.2	-2,850.1	-4.3%
Intangible assets amortization expenses	15,005.0	13,887.8	-1,117.2	-7.4%
Total	**81,312.3**	**77,345.0**	**-3,967.3**	**-4.9%**

In 2011 fixed assets depreciation expenses related mainly to the depreciation of buildings and premises, machines and devices, while intangible assets amortization expenses related to computer software.

Note 43 Cost of issue of banknotes and coins

The position comprises the cost of issue of banknotes and coins, including collector banknotes and coins.

In 2011 the position amounted to PLN 262,048.3 thousand and was by PLN 46,200.9 thousand (15%) lower, as compared with 2010. The decrease in this position resulted mainly from the beneficial prices the NBP received for the purchase of banknotes and coins, rationalisation of banknotes and coins inventories and from the bank's decrease in orders for the supply of collector coins.

Note 44 Other expenses

The position comprises mainly expenses corresponding to the nominal value of collector coins and banknotes sold, costs of creating provisions for future liabilities and costs of write-downs on other assets.

In 2011 the position amounted to PLN 19,602.6 thousand and was by PLN 7,476.6 thousand (27.6%) lower as compared with 2010. The decrease in this position resulted mainly from lower impairment losses on fixed assets.

Note 45 Financial result for the current year and its allocation

The NBP profit for 2011 amounted to PLN 8,637,141.6 thousand and was by PLN 2,108,022.9 thousand (32.3%) higher, as compared with 2010.

In accordance with Article 62 and 69 of the Act on the National Bank of Poland, the NBP profit will be allocated (within 14 days following the approval of the annual financial statements of the NBP by the Council of Ministers) to:

- the NBP reserve fund (5% of profit) – PLN 431,857.1 thousand,
- the State budget, as the NBP's contribution from profit – PLN 8,205,284.5 thousand.

9. OTHER EXPLANATORY NOTES

Note 46 Flexible Credit Line

Flexible Credit Line is an IMF instrument intended for countries with sound fundamentals and positive macroeconomic outlook. In the case of Poland, it is a precautionary facility.

On 2 July 2010, the Executive Board of the International Monetary Fund approved the Poland's request for access to the Flexible Credit Line arrangement in the amount of SDR 13,690,000.0 thousand. This IMF instrument was made available to the Republic of Poland for a period of 1 year. The Government of the Republic of Poland was an authorising entity of the FCL, while the NBP serviced it as the fiscal agency of the Government.

On 21 January 2011, the Executive Board of the IMF cancelled the Line extended to Poland on 2 July 2010 and granted access to the Flexible Credit Line arrangement under new rules: the amount was increased to SDR 19,166,000.0 thousand (PLN 100,514,170.4 according to the NBP average exchange rate as at the balance sheet date) and the access was granted for a period of 2 years (i.e. until 20 January 2013). Also in this case, the Government of the Republic of Poland is an authorising entity of the new Flexible Credit Line, while the NBP is the Government's fiscal agency.

Note 47 Foundation of the National Bank of Poland

On 10 August 2009, the NBP established the Foundation of the National Bank of Poland whose main statutory purpose is to support activities promoting the development of economics and economic education. On 31 August 2009, the Foundation was entered into the National Court Register. The registered capital of the Foundation amounts to PLN 1,500.0 thousand, of which PLN 750.0 thousand is earmarked for business activities. Income generated by the Foundation can be used for statutory purposes only.

Note 48 Events after the balance sheet date

By the day on which the financial statements were approved, no events had occurred the information of which was obtained after the balance sheet date and which could materially affect the content of the financial statements.

10. FINANCIAL AND OPERATIONAL RISK

The National Bank of Poland operates a risk management system which is a continuous and repeatable decision-making process that supports the attainment of NBP goals while using appropriate organisational, procedural and technical solutions.

Risk management system embraces three inherently connected levels:

- decentralised operational risk management in all departments and organisational units of the NBP, by directors of individual units, with the participation of the so-called "risk managers" responsible for risk monitoring;
- activities of specialised organisational units:
  - the Financial Risk Management Department responsible for financial risk management,
  - the Operational Risk and Compliance Department that develops, among others, draft rules and methodologies, analyses and monitors operational risk and compliance risk,
  - the Commission for Risk Management that assesses, among others, the effectiveness of operational risk management in the Bank as a whole and issues recommendations in this respect,
- strategic decision-making by the Management Board of the NBP.

Tasks carried out under the risk management system comprise:

- on-going identification and analysis of individual types of risk,
- measurement of risk level,
- selection and application of risk mitigation mechanisms,
- monitoring and day-to-day control of the efficiency of applied risk mitigation mechanisms,
- provision of periodical information about the results of risk management,
- acceptance/no acceptance of the existing risk level.

10.1. Financial risk

The main types of financial risk underlying the activities of the NBP are: credit risk, liquidity risk and market risk (interest rate risk and foreign exchange rate risk). The accepted level of financial risk is set through the system of investment limits and constraints, and exposure to various types of risk under the adopted constraints is monitored on an on-going basis by the Financial Risk Management Department. The analysis of exposure to financial risk is presented to the Management Board of the NBP on a regular basis.

10.1.1. Credit risk

Credit risk is related to potential financial losses arising from counterparty default, in particular, failure to repay, in full or in part, principal and interest within the agreed time, or due to a decrease in the market value of investment instruments arising from the deterioration in the creditworthiness of the issuer.

Credit risk in foreign exchange reserve management

In the process of foreign exchange reserve management, the NBP uses the following credit risk mitigation methods:

- limiting the share of term deposits and non-government securities transactions,
- counterparty selection criteria and on-going monitoring of their creditworthiness,
- limits imposed on counterparties of term deposit transactions and currency exchange transactions,
- limitation of the maturity of term deposit transactions,
- selection criteria for issuers of securities,
- limits for issuers of securities,
- entering into framework agreements with counterparties,
- collateral in reverse repo agreements.

Credit risk analyses are conducted by the NBP using both data related to the financial position of counterparties and assignments of ratings agencies as well as risk valuation reflected in market quotations.

The dominant portion of foreign exchange reserves is invested in government securities, characterised by the highest level of safety and liquidity – mainly U.S., German, British, French and Australian government securities. Non-government securities held in the investment portfolios are issued primarily by international institutions and government agencies. Due to the renewed increase in credit risk arising from the aggravating sovereign debt problems of some euro area countries, in 2011, a limited share of term deposits in foreign exchange reserves and the shortened investment horizon for term deposits was maintained to enable a quick response to a change in the counterparty financial situation.

Credit risk underlying domestic credit operations

The NBP makes the following instruments available to domestic banks under domestic credit operations:

- marginal lending facility,
- intraday credit in PLN,
- intraday credit in euro.

Risk management in the above mentioned operations concentrates on setting the list of securities that are eligible as collateral as well as setting the required level of risk, determined by its haircut rate. The purpose of applying the haircut is to reduce the probability of a drop in the market value of the collateral below the value of extended loan as a result of a decrease in the market price of securities and/or unfavourable exchange rate changes.

Treasury and NBP securities denominated in PLN are the primary collateral presented by banks in credit operations, though the list of securities accepted as collateral comprises also other securities deposited with the National Depository of Securities, including mortgage bonds, municipal bonds, corporate bonds, bonds issued by the European Investment Bank, denominated in PLN, as well as Polish Eurobonds.

The haircut rate for marginal lending facility and intraday credit in PLN is set on the basis of the ratio of securities market price to their nominal value. Intraday credit in euro is extended in accordance with the principles laid down by the ECB, and it may be only collateralised by liquid Treasury bonds participating in BondSpot S.A. fixing (in addition, haircut related to the exchange rate risk is taken into account).

10.1.2. Liquidity risk

Liquidity risk is related to the possibility of incurring additional expenses, if an urgent need arises to raise liquid funds.

Due to the fact that the National Bank of Poland has the exclusive right to issue banknotes and coins of the Republic of Poland, the NBP is capable of creating liquidity in domestic currency. It is, however, constrained by the responsibility of the National Bank of Poland for the stability of domestic currency. The assumptions of monetary policy are set annually by the Monetary Policy Council, which, based on the above assumptions, also approves the financial plan of the NBP.

In the process of foreign exchange management, the NBP ensures adequate liquidity of funds by matching current and expected cash flows. Investments are made in markets ensuring immediate funds availability – all reserve currencies and investment instruments exhibit high liquidity.

10.1.3. Interest rate risk

Interest rate risk is related to a potential decline in the market value of financial instruments due to an unfavourable change in their market yield.

The primary measure of interest rate risk applied by the NBP is *modified duration* that specifies the vulnerability of investment portfolios values to changes in the yield on financial instruments.

In the process of foreign exchange reserves management, the NBP applies the following interest rate risk mitigation methods:

– maximum level of *modified duration* of reserves,
– optimization of *modified duration* of reserves specified in the benchmark,
– benchmark volatility ranges of *modified duration* of foreign exchange portfolios.

Given the increased risk aversion of investors, in 2011 a significant decrease in yields on government securities occured, accompanied by a rise in yield volatility to the highest level since the subprime crisis.

10.1.4. Foreign exchange rate risk

Foreign exchange rate risk arises out of a potential decline in the value of foreign currency holdings as a result of unfavourable exchange rates fluctuations in the foreign exchange market.

The assessment of exposure to foreign exchange rate risk is carried out by the NBP based on parametric Value at Risk (VaR) methodology. The level of VaR calculated as at the balance sheet date is taken into account for calculating the amount of the provision against the foreign exchange rate risk of the zloty (see Chapter 4).

In addition, the following risk mitigation methods are applied by the NBP in the foreign exchange reserves management process:

– optimization of the benchmark currency composition,
– benchmark volatility ranges of currency composition.

In 2011, benchmark currency composition changed as compared to the structure applicable to 2010 and was the following: USD – 36% (decrease by 2 percentage points), EUR – 32% (decrease by 3 percentage points), GBP – 15% (increase by 2 percentage points), AUD – 10% (increase by 2 percentage points.), NOK – 7% (increase by 1 percentage point).

Since mid-2011, as investor sentiment deteriorated, the foreign exchange rate risk measured with the volatility of exchange rates has increased, running, however, much below the level observed during the subprime crisis.

10.2. Operational risk

Operational risk is the potential possibility of incurring financial or non-financial damages at the NBP, resulting from inappropriate management or malfunction of the NBP resources, including mainly IT systems, property, personnel or provisions of internal regulations, as well as damages caused by internal or external events, failure or failure of an employee. Operational risk encompasses the following risk sub-categories: safety risk, personnel risk, legal risk, technological risk and management risk.

Operational risk management embraces, in particular:

- day-to-day operational risk identification, analysis and measurement,
- selection and application of mechanisms eliminating, transferring or mitigating operational risk,
- acceptance of the existing operational risk level and – in absence of acceptance – seeking additional mechanisms eliminating, transferring or mitigating operational risk,
- making necessary changes to work organisation, creating conditions for full and timely task performance, managing own resources and setting internal procedures to eliminate, transfer or mitigate operational risk.

The NBP applies various methods of risk mitigation, prevention of incidents[8] and limiting their consequences. These mechanisms include, in particular:

- external and internal regulations,
- the scope of job responsibilities and division of duties,
- data reconciliation, and the “four-eyes” principle,
- the system of (financial, time) limits and restrictions,
- access control as well as IT and telecommunications, physical and electronic safeguards,
- backup copies, contingency and evacuation plans,
- insurance,
- internal audit.

[8] Incident - a one-off event of incorrect functioning of NBP resources or an external event that leads or may lead to negative financial or non-financial consequences for the NBP.

One of the methods for limiting the occurrence of incidents whose probability is low, but potential effects would be significant, is the Business Continuity Plan of the National Bank of Poland (BCP-NBP). It is applied to the critical functions listed below:

- settlement of payments in SORBNET and SORBNET-EURO systems (from 1 January 2012, when the SORBNET-EURO system was closed, payments are settled in SORBNET and NBP-PHA systems),
- foreign exchange reserve management,
- service provided to the account holder,
- implementing monetary policy and exchange rate policy,
- performing tasks of a securities issuing agent and keeping the securities register,
- providing banks with banknotes and coins.

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Warsaw, 26 March 2012.