

**FINANCIAL STATEMENTS
OF THE NATIONAL BANK OF POLAND**

as at 31 DECEMBER 2012

**BALANCE SHEET
PROFIT AND LOSS ACCOUNT
NOTES – GENERAL INFORMATION**

TABLE OF CONTENTS

BALANCE SHEET OF THE NBP AS AT 31 DECEMBER 2012	5
PROFIT AND LOSS ACCOUNT OF THE NBP FOR THE YEAR ENDED ON 31 DECEMBER 2012. 7	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 2011	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. <i>Gold</i>	13
2.5.2. <i>Foreign currency</i>	13
2.5.3. <i>Securities purchased by the NBP</i>	14
2.5.4. <i>Shares and equities</i>	15
2.5.5. <i>Repo / reverse repo transactions</i>	15
2.5.6. <i>Banknotes and coins in circulation</i>	15
2.5.7. <i>Securities issued by the NBP</i>	16
2.5.8. <i>Tangible and intangible fixed assets</i>	16
2.5.9. <i>Inventories</i>	17
2.5.10. <i>Impairment of assets</i>	17
2.5.11. <i>Provisions for future liabilities</i>	17
2.5.12. <i>Provision against the foreign exchange rate risk of the zloty</i>	17
2.5.13. <i>Gold revaluation account</i>	18
2.5.14. <i>Foreign exchange forward</i>	18
2.5.15. <i>Foreign exchange swap</i>	18
2.5.16. <i>Forward transactions in securities</i>	18
2.6. Events after the balance sheet date	19
3. CHANGES IN ACCOUNTING PRINCIPLES	19
4. VALUES BASED ON PROFESSIONAL JUDGEMENT AND ESTIMATES	19
5. GENERAL OVERVIEW OF CHANGES AND STRUCTURE OF THE NBP BALANCE SHEET AND FINANCIAL RESULT	20
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	Other claims on other domestic monetary financial institutions denominated in domestic currency	28
Note 5	Tangible and intangible fixed assets.....	29
Note 6	Other financial assets.....	29
Note 7	Off-balance sheet instruments revaluation differences.....	32
Note 8	Accruals and prepaid expenses.....	32
Note 9	Sundry	32
Note 10	Banknotes and coins in circulation.....	32
Note 11	Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	33
Note 12	Other liabilities to other domestic monetary financial institutions denominated in domestic currency	33
Note 13	Liabilities to other residents denominated in domestic currency	34
Note 14	Liabilities to non-residents denominated in domestic currency	34
Note 15	Liabilities to residents denominated in foreign currency	35
Note 16	Liabilities to non-residents denominated in foreign currency.....	35
Note 17	Liabilities to the IMF	35
Note 18	Off-balance sheet instruments revaluation differences.....	36
Note 19	Accruals and deferred income	36
Note 20	Sundry	36
Note 21	Provisions for future liabilities	37
Note 22	Revaluation accounts.....	37
Note 23	Capital and reserves	38
Note 24	Financial result	39
7.	EXPLANATORY NOTES TO OFF-BALANCE-SHEET POSITIONS	39
Note 25	Spot transactions recognised on off-balance-sheet accounts	39
Note 26	Off-balance-sheet financial instruments	40
Note 27	Limits on loans in foreign currency extended to the IMF	40
Note 28	Other items recognised on off-balance-sheet accounts	40
8.	EXPLANATORY NOTES TO PROFIT AND LOSS ACCOUNT	41
Note 29	Interest, discount and premium income	41
Note 30	Interest, discount and premium expenses	42
Note 31	Income on financial operations	43
Note 32	Expenses on financial operations	44
Note 33	Unrealised losses.....	44
Note 34	Income on transfers from risk provisions and on reversal of write-downs of financial assets.....	45
Note 35	Fees and commissions income.....	45
Note 36	Fees and commissions expenses.....	45
Note 37	Income on shares and equities	45

Note 38	Other income.....	46
Note 39	Salaries and social contributions	46
Note 40	Administrative expenses	46
Note 41	Depreciation and amortization expenses.....	47
Note 42	Cost of issue of banknotes and coins	47
Note 43	Other expenses.....	47
Note 44	Financial result for the current year and its allocation	47
9.	OTHER EXPLANATORY NOTES.....	48
Note 45	Flexible Credit Line	48
Note 46	Foundation of the NBP.....	48
Note 47	Events after the balance sheet date	48
10.	FINANCIAL AND OPERATIONAL RISK.....	49
10.1.	Financial risk	49
10.1.1.	<i>Credit risk</i>	50
10.1.2.	<i>Liquidity risk</i>	51
10.1.3.	<i>Interest rate risk</i>	51
10.1.4.	<i>Foreign exchange rate risk</i>	52
10.2.	Operational risk	52

BALANCE SHEET OF THE NBP AS AT 31 DECEMBER 2012

ASSETS	Note	31.12.2011	31.12.2012
		PLN thousand	
1. Gold and gold receivables	1	17,804,260.4	17,066,498.7
2. Claims on non-residents denominated in foreign currency		316,654,533.9	320,541,064.4
2.1. <i>Receivables from the IMF</i>	2	10,145,391.3	9,584,003.4
2.2. <i>Balances with foreign institutions, securities, loans granted and other foreign assets</i>	3	306,509,142.6	310,957,061.0
3. Claims on residents denominated in foreign currency		0.0	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. <i>Main refinancing operations</i>		0.0	0.0
5.2. <i>Long-term refinancing operations</i>		0.0	0.0
5.3. <i>Fine-tuning operations</i>		0.0	0.0
5.4. <i>Structural operations</i>		0.0	0.0
5.5. <i>Marginal lending facilities</i>		0.0	0.0
6. Other claims on other domestic monetary financial institutions denominated in domestic currency	4	356,402.0	0.7
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		1,957,070.8	1,311,880.9
10.1. <i>Tangible and intangible fixed assets</i>	5	873,744.9	896,858.6
10.2. <i>Other financial assets</i>	6	193,895.2	182,496.9
10.3. <i>Off-balance sheet instruments revaluation differences</i>	7	72,111.0	5,971.9
10.4. <i>Accruals and prepaid expenses</i>	8	56,741.2	49,400.0
10.5. <i>Sundry</i>	9	760,578.5	177,153.5
Total assets		336,772,267.1	338,919,444.7

LIABILITIES	Note	31.12.2011	31.12.2012
		PLN thousand	
1. Banknotes and coins in circulation	10	112,089,532.0	113,666,844.1
2. Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	11	119,823,979.6	153,632,729.7
2.1. Current accounts (including the required minimum reserve accounts)		20,417,008.4	48,815,544.9
2.2. Deposit facilities		5,976,261.2	4,975,374.8
2.3. Fixed-interest deposits		0.0	0.0
2.4. Other monetary policy operations		93,430,710.0	99,841,810.0
3. Other liabilities to other domestic monetary financial institutions denominated in domestic currency	12	169,616.1	229,233.6
4. Liabilities to other residents denominated in domestic currency	13	4,655,713.7	4,797,701.0
4.1. Liabilities to general government		4,606,627.8	4,742,282.3
4.2. Other liabilities		49,085.9	55,418.7
5. Liabilities to non-residents denominated in domestic currency	14	323,361.4	149,356.3
6. Liabilities to residents denominated in foreign currency	15	16,126,196.1	15,819,629.3
7. Liabilities to non-residents denominated in foreign currency	16	10,056,395.7	10,864,085.8
8. Liabilities to the IMF	17	6,844,178.1	6,218,885.5
9. Items in course of settlement		0.0	0.0
10. Other liabilities		862,282.6	262,126.6
10.1. Off-balance sheet instruments revaluation differences	18	547,786.7	2,815.7
10.2. Accruals and deferred income	19	200,961.9	202,447.2
10.3. Sundry	20	113,534.0	56,863.7
11. Provisions for future liabilities	21	105,412.5	113,734.8
12. Revaluation accounts	22	54,667,609.7	25,157,432.7
13. Capital and reserves	23	13,868,759.7	13,924,502.4
13.1. Statutory fund		1,500,000.0	1,500,000.0
13.2. Reserve fund		534,733.7	966,590.7
13.3. Reserves		11,834,026.0	11,457,911.7
14. Financial result	24	-2,820,770.1	-5,916,817.1
14.1. Financial result for the current year		8,637,141.6	5,541,094.6
14.2. Loss of previous years		-11,457,911.7	-11,457,911.7
Total liabilities		336,772,267.1	338,919,444.7

DIRECTOR OF THE 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
/-/ Małgorzata Zaleska

Warsaw, 28 March 2013

PROFIT AND LOSS ACCOUNT OF THE NBP FOR THE YEAR ENDED ON 31 DECEMBER 2012

	Note	2011 PLN thousand	2012
1. Net result on interest, discount and premium		-1,275,714.6	-3,164,885.1
1.1. Interest, discount and premium income	29	6,427,078.2	6,314,610.7
1.2. Interest, discount and premium expenses	30	7,702,792.8	9,479,495.8
2. Net result on financial operations		10,546,580.5	9,724,521.0
2.1. Income on financial operations	31	11,121,839.0	10,676,334.2
2.2. Expenses on financial operations	32	1,341,839.5	493,100.8
2.3. Unrealised losses	33	278.6	834,826.7
2.4. Income on transfers from risk provisions and on reversal of write-downs of financial assets	34	766,859.6	376,114.3
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		-902.1	-109,484.2
3.1. Fees and commissions income	35	35,488.9	34,626.1
3.2. Fees and commissions expenses	36	36,391.0	144,110.3
4. Income on shares and equities	37	72,783.3	21,226.6
5. Other income	38	342,596.2	148,958.2
A. Total net income [1+2+3+4+5]		9,685,343.3	6,620,336.5
6. Salaries and social contributions	39	429,935.1	457,198.0
7. Administrative expenses	40	259,270.7	269,259.1
8. Depreciation and amortization expenses	41	77,345.0	68,848.3
9. Cost of issue of banknotes and coins	42	262,048.3	267,436.2
10. Other expenses	43	19,602.6	16,500.3
B. Financial result for the current year [A-6-7-8-9-10]	44	8,637,141.6	5,541,094.6

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/-/ Jakub Skiba
/-/ Małgorzata Zaleska

Warsaw, 28 March 2013

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 2012, item 1376, 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 2012 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 Winięcki – 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 13 March 2013, Zdzisław Sokal 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 2012 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),
- 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 to 31 December 2012.

1.4. Certified auditor and its selection

The NBP annual financial statements drawn up as at 31 December 2012 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 2011

The annual financial statements of the NBP drawn up as at 31 December 2011 were adopted by the MPC by Resolution No. 1/2012 on 4 April 2012 and approved by the Council of Ministers by Resolution No. 92/2012 on 12 June 2012. 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 2011, the NBP recorded a financial result in the amount of PLN 8,637,141.6 thousand. Consequently, in 2012 the NBP paid a contribution from profit to the State budget in the amount of PLN 8,205,284.5 thousand. In accordance with Article 62 of the Act on the NBP, 5% of the annual profit, i.e. the amount of PLN 431,857.1 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 is 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 is 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.

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.

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 2012.

Fixed assets	Depreciation period (months)
Land	Not subject to depreciation
<i>including: right of perpetual usufruct of land</i>	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, 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.

2.5.12. 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

In 2012, the NBP did not change the accounting principles.

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 2012 amounted to PLN 338,919,444.7 thousand, which represents an increase by PLN 2,147,177.6 thousand (0.6%) as compared to 31 December 2011.

On the assets side, the increase was mainly related to the official reserve assets which amounted to PLN 337,591,719.7 thousand as at 31 December 2012 and increased by PLN 3,144,525.4 thousand as compared to 31 December 2011.² The official reserve assets comprise: monetary gold, reserve tranche in the IMF, loans extended to the IMF³, current accounts and term deposits

² Expressed in EUR, the official reserve assets amounted to EUR 82,577,104.8 thousand as at 31 December 2012, compared to EUR 75,721,607.1 thousand as at 31 December 2011.

³ For statistical purposes, these loans are treated as part of the reserve tranche in the IMF.

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 under the foreign exchange reserve management. The official reserve assets increase expressed in foreign currencies was due to: inflows of the EU funds in euro, net inflows related to servicing State Treasury foreign debt by the NBP, and inflows of foreign currency from the NBP investment activities. The change in the PLN equivalent of the official reserve assets was also affected by the currency revaluation carried out as at 31 December 2012.

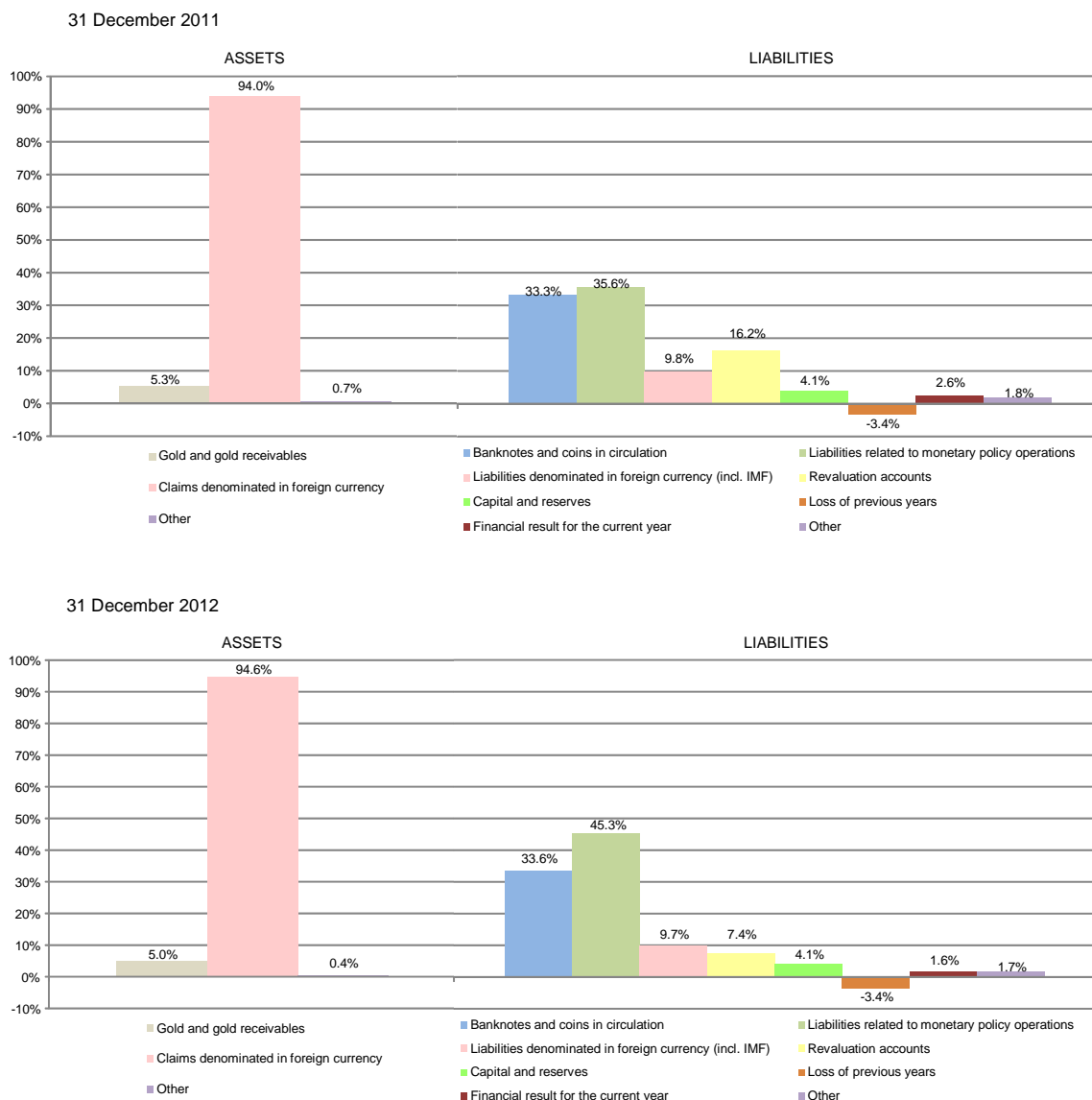
On the liabilities side, currency revaluation resulted in lower currency revaluation gains which amounted to PLN 21,698,967.0 thousand as at 31 December 2012, and decreased by PLN 27,700,762.5 thousand as compared to 31 December 2011.

At the same time, the increase on the liabilities side concerned mainly:

- liabilities related to monetary policy operations which increased by PLN 33,808,750.1 thousand, amounting to PLN 153,632,729.7 thousand as at 31 December 2012,
- liabilities due to banknotes and coins in circulation which increased by PLN 1,577,312.1 thousand, amounting to PLN 113,666,844.1 thousand as at 31 December 2012.

The dominant positions on the assets side of the NBP balance sheet are those in foreign currencies and gold. As at 31 December 2012, their combined share in the balance sheet total amounted to 99.6%, compared to 99.3% as at 31 December 2011. On the liabilities side, the share of liabilities in foreign currencies in the balance sheet total amounted to 9.7% as at 31 December 2012, compared to 9.8% as at 31 December 2011. The main elements of the liabilities are liabilities related to monetary policy operations and banknotes and coins in circulation whose combined share amounted to 78.9% as at 31 December 2012, compared to 68.9% as at 31 December 2011 (See Figure 1).

Figure 1. The NBP balance sheet structure as at 31 December 2011 and 31 December 2012.



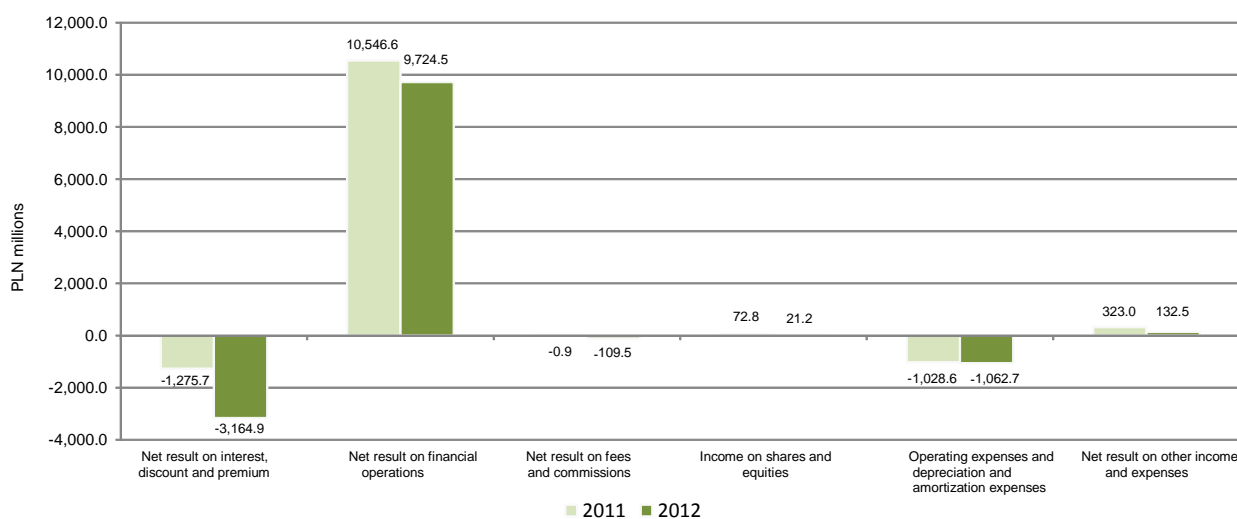
The NBP financial result

The NBP financial result for 2012 amounted to PLN 5,541,094.6 thousand and decreased by PLN 3,096,047.0 thousand (35.8%) as compared to 2011.

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

The structure of the NBP financial result for 2011 and 2012 is presented in Figure 2.

Figure 2. Structure of financial result, 2011-2012.

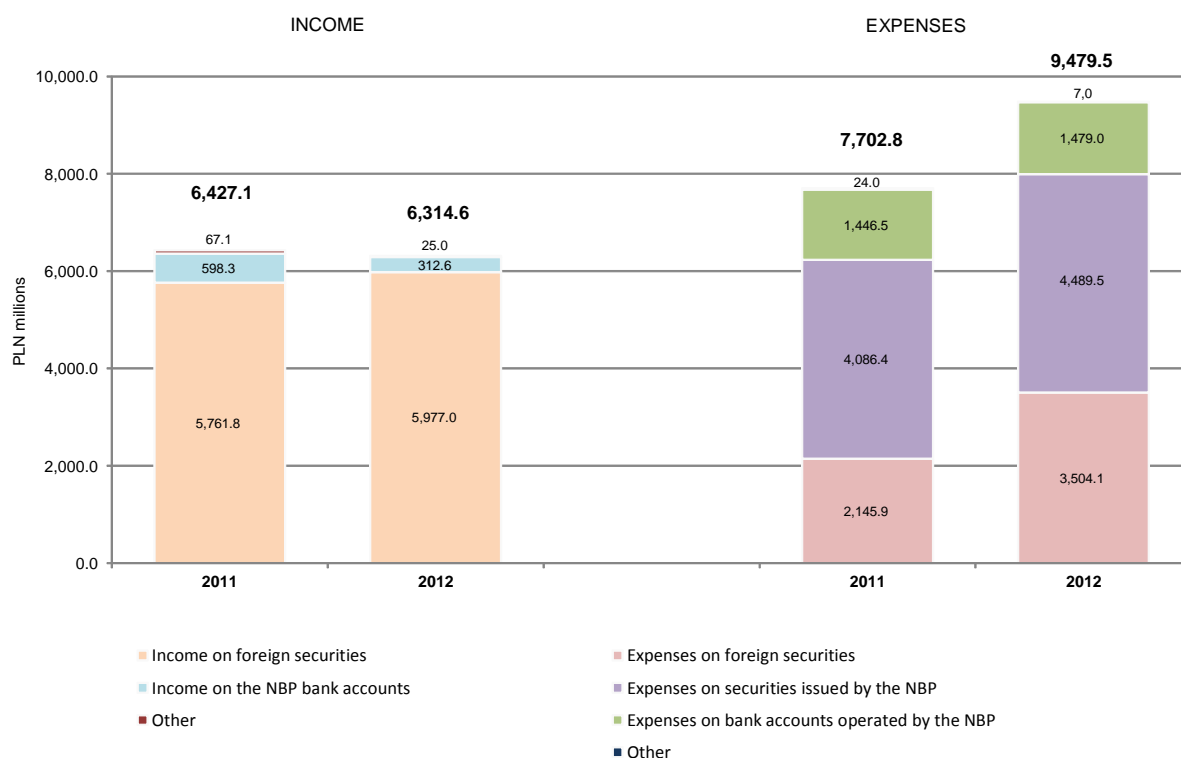


Net result on interest, discount and premium comprises mainly:

- 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, their investment and currency structure, changes in interest on 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 1,889,170.5 thousand was driven mainly by an increase in the premium expenses on securities denominated in foreign currencies and in the discount expenses on monetary bills issued by the NBP (see Figure 3).

Figure 3. Structure of interest, discount and premium income and expenses, 2011-2012.*

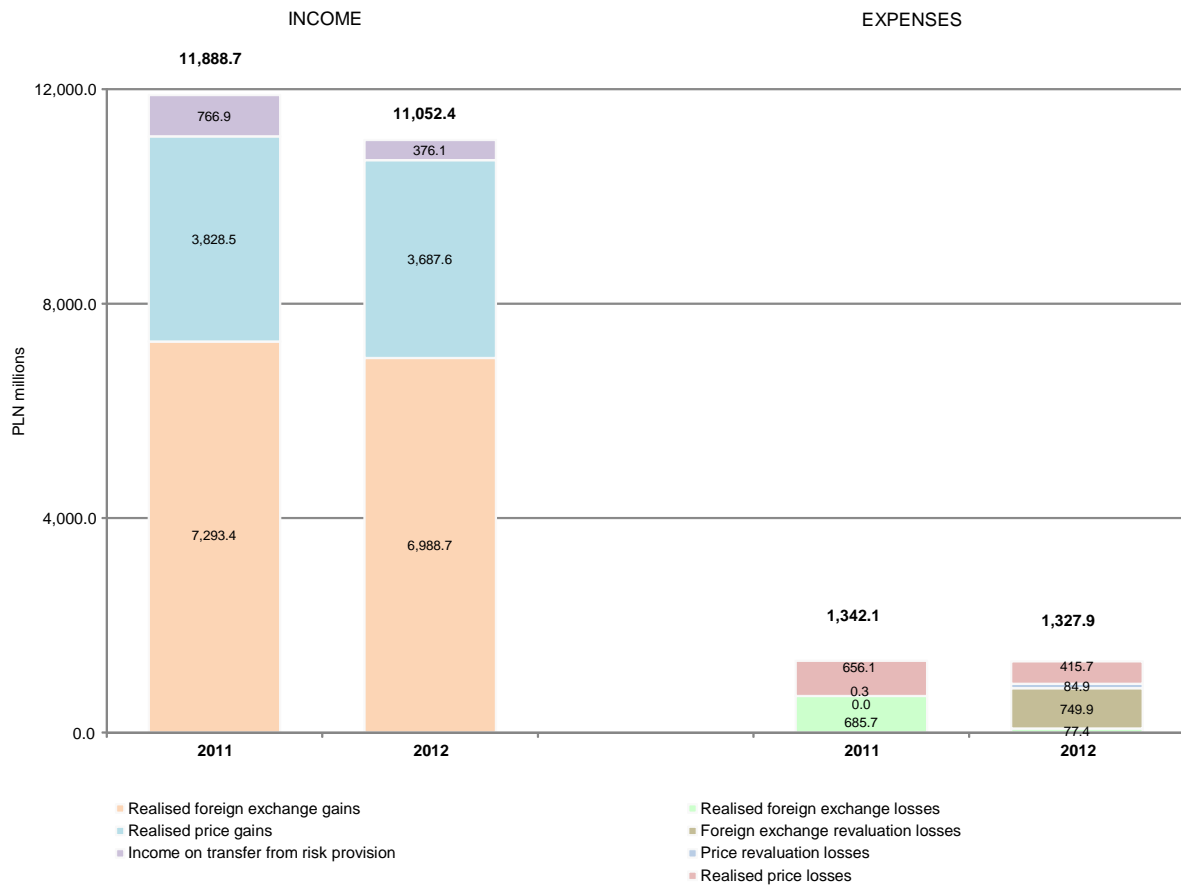


* Due to rounding, individual values may not add up to totals.

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

The decrease in the net result on financial operations by PLN 822,059.5 thousand was mainly driven by: lower income on financial operations due to lower income on realised foreign exchange and price gains and lower income on the release of the provision against the foreign exchange rate risk. In 2012, the expenses making up the result on financial operations remained at the level close to the 2011 level. Yet, their structure changed: expenses on realised foreign exchange and price losses decreased by PLN 848,728.2 thousand, with a simultaneous increase in unrealised losses on foreign exchange and price revaluation by PLN 834,548.1 thousand (see Figure 4).

Figure 4. Structure of income and expenses included in net result on financial operations, 2011-2012.*

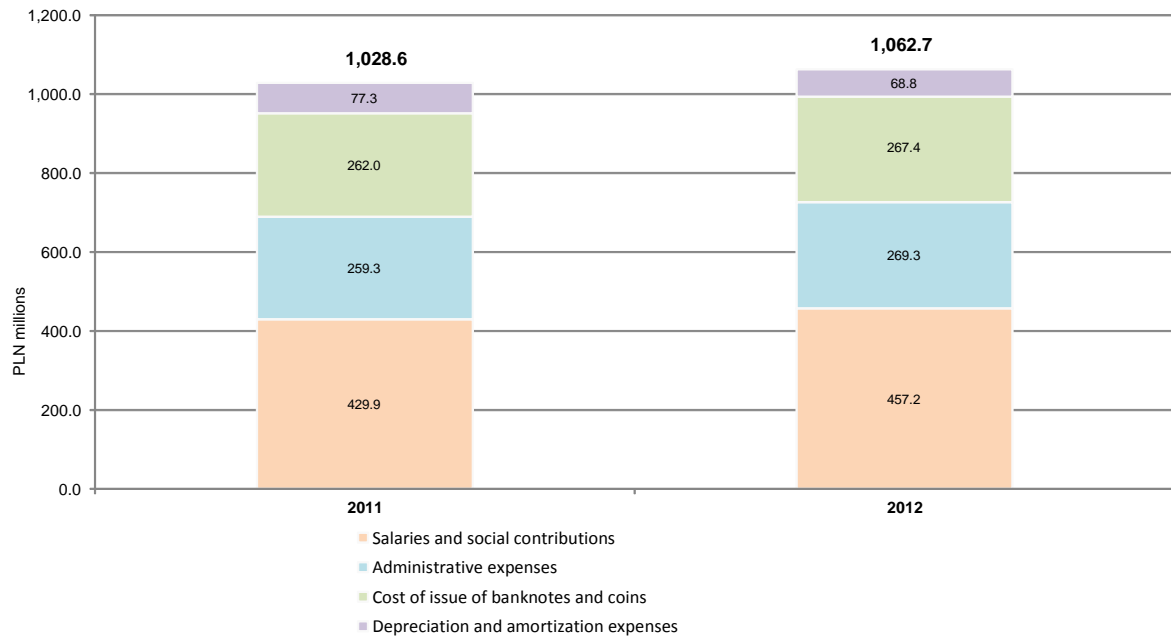


* Due to rounding, individual values may not add up to totals.

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

In 2012, operating expenses and depreciation and amortization expenses increased by a total of PLN 34,142.5 thousand as compared to 2011. The increase in operating expenses resulted mainly from higher salaries together with social contributions and higher administrative costs (see Figure 5).

Figure 5. Structure of operating expenses and depreciation and amortization expenses, 2011-2012. *



* Due to rounding, individual values may not add up to totals.

6. EXPLANATORY NOTES TO THE BALANCE SHEET

Note 1 Gold and gold receivables

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Gold and gold receivables	17,804,260.4	17,066,498.7	-737,761.7	-4.1%
<i>of which currency revaluation differences</i>	<i>13,468,260.9</i>	<i>12,730,499.2</i>	<i>-737,761.7</i>	<i>-5.5%</i>

The position comprises gold stored at the NBP and deposited in a foreign bank account. As at 31 December 2012, the NBP held 3,308.9 thousand ounces of gold (102.9 tonnes). The gold holding of the NBP remained unchanged as compared with the 31 December 2011.

The decrease in the position resulted from the currency revaluation of gold (see Note 22).

Note 2 Receivables from the IMF

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
SDR under the reserve tranche	3,052,762.1	2,759,364.9	-293,397.2	-9.6%
Current accounts with the IMF	6,142,978.4	5,368,053.3	-774,925.1	-12.6%
Term deposits with the IMF	37,097.7	33,715.1	-3,382.6	-9.1%
Loans extended to the IMF	912,553.1	1,422,870.1	510,317.0	55.9%
Total	10,145,391.3	9,584,003.4	-561,387.9	-5.5%
<i>of which currency revaluation differences</i>	<i>987,103.0</i>	<i>-13,624.5</i>	<i>-1,000,727.5</i>	<i>-101.4%</i>

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 No. 1 Account) whose balance as at 31 December 2012 was PLN 5,262,422.9 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 17),
- 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 27).

The decrease in the position was mainly due to the currency revaluation of SDR. At the same time, there was an increase in receivables on the loans extended to the IMF as in 2012 the NBP made subsequent payments under NAB.

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

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Current accounts in foreign currency	9,764,676.7	3,867,549.1	-5,897,127.6	-60.4%
Term deposits in foreign currency	18,975,830.5	16,971,321.4	-2,004,509.1	-10.6%
Reverse repo transactions in foreign currency	9,900,277.8	13,075,900.2	3,175,622.4	32.1%
Securities in foreign currency (marketable securities other than held-to-maturity)	267,660,962.9	276,880,850.6	9,219,887.7	3.4%
Foreign banknotes and coins in stock	207,386.0	161,439.7	-45,946.3	-22.2%
Other claims in foreign currency	8.7	0.0	-8.7	-100.0%
Total	306,509,142.6	310,957,061.0	4,447,918.4	1.5%
<i>of which</i>				
- currency revaluation differences	38,625,198.8	8,747,413.4	-29,877,785.4	-77.4%
- price revaluation differences	3,649,616.2	1,755,094.6	-1,894,521.6	-51.9%

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.

In addition, in 2012 the NBP started investing in government securities denominated in the currencies of developing countries (Brazilian real – BRL, Mexican peso – MXN).

The increase in the position resulted mainly from growth in foreign exchange reserves of the NBP⁴ and thereby the NBP increased investment in selected financial instruments. The change in the said position was also the result of currency and price revaluation (see Note 22 and Note 33).

Note 4 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.

As at 31 December 2012, the position amounted to PLN 0.7 thousand and was by PLN 356,401.3 thousand (99.9%) lower than as at 31 December 2011. The decrease in this position resulted mainly from the repayment to the NBP of the last instalments of the refinancing loan for central investments, together with interest.

⁴ Foreign exchange reserves constitute the main component of the official reserve assets (see Chapter 5).

Note 5 Tangible and intangible fixed assets

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Gross tangible fixed assets	1,863,240.7	1,899,667.7	36,427.0	2.0%
Depreciation	-1,043,262.0	-1,063,513.3	-20,251.3	1.9%
Impairment	-16,095.0	-16,137.8	-42.8	0.3%
<i>Net tangible fixed assets</i>	<i>803,883.7</i>	<i>820,016.6</i>	<i>16,132.9</i>	<i>2.0%</i>
Gross intangible fixed assets	337,985.4	352,579.3	14,593.9	4.3%
Amortization	-268,115.3	-275,728.4	-7,613.1	2.8%
Impairment	-8.9	-8.9	0.0	0.0%
<i>Net intangible fixed assets</i>	<i>69,861.2</i>	<i>76,842.0</i>	<i>6,980.8</i>	<i>10.0%</i>
Total	873,744.9	896,858.6	23,113.7	2.6%

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 2012, the balance-sheet value of the position comprised mainly real estates, machines, devices and IT software.

Note 6 Other financial assets

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Shares and equities in domestic entities	53,848.9	53,848.9	0.0	0.0%
Shares and equities in foreign entities	140,046.3	128,648.0	-11,398.3	-8.1%
Total	193,895.2	182,496.9	-11,398.3	-5.9%

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 (Bank for International Settlements in Basel, S.W.I.F.T., European Central Bank).

The decrease 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's capital. As at 31 December 2012, the amount of the capital paid up by the NBP to the ECB was PLN 80,758.8 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's 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's 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 2012, 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's 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 27 December 2012, the Eurosystem's central banks, which were required to pay up capital to the ECB in three instalments, paid up the third 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.

FINANCIAL STATEMENTS OF THE NBP AS AT 31 DECEMBER 2012

EUR	Key for capital subscription	Subscribed capital	Paid-up capital	Paid-up capital
	As at 31.12.2012	Since 29.12.2010	Until 26.12.2012	Since 27.12.2012
Oesterreichische Nationalbank	1.9417%	208,939,587.70	176,577,921.04	208,939,587.70
Nationale Bank van België	2.4256%	261,010,384.68	220,583,718.02	261,010,384.68
Central Bank of Cyprus	0.1369%	14,731,333.14	12,449,666.48	14,731,333.14
Eesti Pank/Bank of Estonia	0.1790%	19,261,567.80	16,278,234.47	19,261,567.80
Suomen Pankki/Finlands Bank	1.2539%	134,927,820.48	114,029,487.14	134,927,820.48
Banque de France	14.2212%	1,530,293,899.48	1,293,273,899.48	1,530,293,899.48
Bank of Greece	1.9649%	211,436,059.06	178,687,725.72	211,436,059.06
Banco de España	8.3040%	893,564,575.51	755,164,575.51	893,564,575.51
De Nederlandsche Bank	3.9882%	429,156,339.12	362,686,339.12	429,156,339.12
Central Bank of Ireland	1.1107%	119,518,566.24	101,006,899.58	119,518,566.24
Banque centrale du Luxembourg	0.1747%	18,798,859.75	15,887,193.09	18,798,859.75
Central Bank of Malta	0.0632%	6,800,732.32	5,747,398.98	6,800,732.32
Deutsche Bundesbank	18.9373%	2,037,777,027.43	1,722,155,360.77	2,037,777,027.43
Banco de Portugal	1.7504%	188,354,459.65	159,181,126.31	188,354,459.65
Národná banka Slovenska	0.6934%	74,614,363.76	63,057,697.10	74,614,363.76
Banka Slovenije	0.3288%	35,381,025.10	29,901,025.10	35,381,025.10
Banca d'Italia	12.4966%	1,344,715,688.14	1,136,439,021.48	1,344,715,688.14
<i>National central banks in euro area total</i>	<i>69.9705%</i>	<i>7,529,282,289.35</i>	<i>6,363,107,289.36</i>	<i>7,529,282,289.35</i>
Българска народна банка	0.8686%	93,467,026.77	3,505,013.50	3,505,013.50
Česka národní banka	1.4472%	155,728,161.57	5,839,806.06	5,839,806.06
Danmarks Nationalbank	1.4835%	159,634,278.39	5,986,285.44	5,986,285.44
Lietuvos bankas	0.4256%	45,797,336.63	1,717,400.12	1,717,400.12
Latvijas Banka	0.2837%	30,527,970.87	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
Banca Națională a României	2.4645%	265,196,278.46	9,944,860.44	9,944,860.44
Sveriges Riksbank	2.2582%	242,997,052.56	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
Bank of England	14.5172%	1,562,145,430.59	58,580,453.65	58,580,453.65
<i>National central banks outside euro area total</i>	<i>30.0295%</i>	<i>3,231,370,113.23</i>	<i>121,176,379.25</i>	<i>121,176,379.25</i>
Total	100%	10,760,652,402.58	6,484,283,668.61	7,650,458,668.60

Note 7 Off-balance sheet instruments revaluation differences

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Currency revaluation differences	72,098.6	5,248.6	-66,850.0	-92.7%
Price revaluation differences	12.4	723.3	710.9	5,733.1%
Total	72,111.0	5,971.9	-66,139.1	-91.7%

The position comprises currency revaluation differences on spot transactions recognised on off-balance-sheet accounts (see Note 25) and price revaluation differences on forward transactions in securities (see Note 22 and Note 26).

Note 8 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 2012, the position amounted to PLN 49,400.0 thousand and was by PLN 7,341.2 thousand (12.9%) lower than as at 31 December 2011. The decrease resulted mainly from lower amount of discount to be amortized on monetary bills issued by the NBP (see Note 11) and from lower accruals and prepaid expenses concerning the NBP's own administrative activities.

Note 9 Sundry

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

As at 31 December 2012, the position amounted to PLN 177,153.5 thousand and was by PLN 583,425.0 thousand (76.7%) lower than as at 31 December 2011. The decrease in this position resulted mainly from balances arising from the adjustment of off-balance-sheet items in foreign currency to the average cost of foreign currency holding, which were lower, by PLN 541,489.8 thousand, due to a lower volume of spot transactions entered into by the NBP in the last days of 2012 (see Note 25).

Note 10 Banknotes and coins in circulation

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Domestic banknotes in circulation	108,807,688.4	110,186,242.4	1,378,554.0	1.3%
Domestic coins in circulation	3,281,843.6	3,480,601.7	198,758.1	6.1%
Total	112,089,532.0	113,666,844.1	1,577,312.1	1.4%

The position comprises banknotes and coins in circulation issued by the NBP, including collector banknotes and coins, whose value as at 31 December 2012 amounted to PLN 252,197.8 thousand as compared with PLN 244,239.2 thousand as at 31 December 2011.

The average level of banknotes and coins in circulation throughout 2012 amounted to PLN 112,274.5 million as compared with PLN 106,357.0 million in 2011.

Note 11 Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Current accounts (incl. the required minimum reserve accounts)	20,417,008.4	48,815,544.9	28,398,536.5	139.1%
Deposit facilities	5,976,261.2	4,975,374.8	-1,000,886.4	-16.7%
Other monetary policy operations	93,430,710.0	99,841,810.0	6,411,100.0	6.9%
Total	119,823,979.6	153,632,729.7	33,808,750.1	28.2%

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 current accounts and the increase in the liabilities due to monetary bills, with a simultaneous decrease in the liabilities due to deposit facilities.

Note 12 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 are liabilities resulting from:

- the payment orders of the NBP 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 2012,

- funds in the trust account operated by the NBP for Krajowa Izba Rozliczeniowa S.A. [National Clearing House], which is used to settle payment orders on an ongoing basis in Express ELIXIR.⁵

As at 31 December 2012, the position amounted to PLN 229,233.6 thousand and was by PLN 59,617.5 thousand (35.1%) higher than as at 31 December 2011. The increase in this position resulted mainly from the increase in liabilities due to the above-mentioned items.

Note 13 Liabilities to other residents denominated in domestic currency

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Liabilities to general government	4,606,627.8	4,742,282.3	135,654.5	2.9%
Other liabilities	49,085.9	55,418.7	6,332.8	12.9%
Total	4,655,713.7	4,797,701.0	141,987.3	3.0%

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 increase in the position resulted mainly from the increase in funds held on current accounts and term deposit accounts of government sector entities, with a simultaneous decrease in funds held on their auxiliary accounts.

Note 14 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 No. 2 Account).

As at 31 December 2012, the position amounted to PLN 149,356.3 thousand and was by PLN 174,005.1 thousand (53.8%) lower than as at 31 December 2011. The decrease in this position resulted mainly from the decrease in funds held on the account of the European Commission.

⁵ Express ELIXIR was launched on 12 June 2012.

Note 15 Liabilities to residents denominated in foreign currency

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Accounts of the State budget	15,512,499.8	12,455,989.2	-3,056,510.6	-19.7%
Accounts of domestic banks for settlements in TARGET2 system	432,556.0	2,788,043.4	2,355,487.4	544.6%
Other	181,140.3	575,596.7	394,456.4	217.8%
Total	16,126,196.1	15,819,629.3	-306,566.8	-1.9%
<i>of which currency revaluation differences</i>	<i>1,326,483.3</i>	<i>-22,592.5</i>	<i>-1,349,075.8</i>	<i>-101.7%</i>

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 EUR used for settlements in TARGET2 system.

The decrease in the position resulted mainly from:

- decrease of funds in foreign currency held on the current accounts of the State budget,
- currency revaluation.

At the same time, there was an increase in funds held on the accounts by domestic banks for TARGET2 settlements.

Note 16 Liabilities to non-residents denominated in foreign currency

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Repo transactions in foreign currency	9,899,942.3	10,711,629.5	811,687.2	8.2%
Other	156,453.4	152,456.3	-3,997.1	-2.6%
Total	10,056,395.7	10,864,085.8	807,690.1	8.0%
<i>of which currency revaluation differences</i>	<i>1,224,845.0</i>	<i>548,980.9</i>	<i>-675,864.1</i>	<i>-55.2%</i>

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 in foreign currency (see Note 3).

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

Note 17 Liabilities to the IMF

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Liabilities to the IMF	6,844,178.1	6,218,885.5	-625,292.6	-9.1%
<i>of which currency revaluation differences</i>	<i>665,909.1</i>	<i>-8,840.7</i>	<i>-674,749.8</i>	<i>-101.3%</i>

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 decrease in the position resulted mainly from SDR currency revaluation.

Note 18 Off-balance sheet instruments revaluation differences

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Currency revaluation differences	547,736.5	2,541.8	-545,194.7	-99.5%
Price revaluation differences	50.2	273.9	223.7	445.6%
Total	547,786.7	2,815.7	-544,971.0	-99.5%

The position comprises currency revaluation differences on spot transactions recognised on off-balance-sheet accounts (see Note 25) and price revaluation differences on forward transactions in securities (see Note 26 and Note 33).

Note 19 Accruals and deferred income

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

As at 31 December 2012, the position amounted to PLN 202,447.2 thousand and was by PLN 1,485.3 thousand (0.7%) higher than as at 31 December 2011. The increase in this position resulted mainly from the increase in the balance of accruals, with a simultaneous decrease in deferred income.

Note 20 Sundry

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

As at 31 December 2012, the position amounted to PLN 56,863.7 thousand and was by PLN 56,670.3 thousand (49.9%) lower than as at 31 December 2011. The decrease in this position resulted mainly from balances arising from the adjustment of off-balance-sheet items in foreign currency to the average cost of foreign currency holding, which were lower due to a lower volume of spot transactions entered into by the NBP in the last days of 2012 (see Note 25).

Note 21 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 2012, the position amounted to PLN 113,734.8 thousand and was by PLN 8,322.3 thousand (7.9%) higher than as at 31 December 2011. The increase in this position resulted mainly from the increase in provisions for future liabilities to employees due to jubilee awards.

Note 22 Revaluation accounts

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Gold revaluation account	1,618,023.2	1,618,023.2	0.0	0.0%
Currency revaluation gains, of which	49,399,729.5	21,698,967.0	-27,700,762.5	-56.1%
- revaluation gains on gold	13,468,260.9	12,730,499.2	-737,761.7	-5.5%
- revaluation gains on foreign currencies	35,931,468.6	8,968,467.8	-26,963,000.8	-75.0%
Price revaluation gains, of which	3,649,857.0	1,840,442.5	-1,809,414.5	-49.6%
- revaluation gains on securities	3,649,844.6	1,839,719.2	-1,810,125.4	-49.6%
- revaluation gains on off-balance-sheet financial instruments	12.4	723.3	710.9	5,733.1%
Total	54,667,609.7	25,157,432.7	-29,510,177.0	-54.0%

As at 31 December 2012, the value of the position resulted mainly from revaluation gains on gold and on the following foreign currencies: USD, AUD, GBP and NOK.

Currency 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.

PLN	Average cost of holding	Average NBP exchange rate / Average price of gold	Average cost of holding	Average NBP exchange rate / Average price of gold
	31.12.2011		31.12.2012	
AUD	2.7603790448	3.4670	2.9296905375	3.2183
BRL	-	1.8314	1.8802178382	1.5138
CAD	2.9399527735	3.3440	3.2109572868	3.1172
CHF	3.1620769958	3.6333	3.4056860912	3.3868
CZK	0.1554457455	0.1711	0.1603999993	0.1630
DKK	0.5635496933	0.5941	0.5596031137	0.5480
EUR	4.0563069964	4.4168	4.1048445547	4.0882
GBP	4.6239904984	5.2691	4.7494707457	5.0119
HUF	0.0136698219	0.0142	0.0136803907	0.0140
JPY	0.0383764180	0.0441	0.0401640074	0.0360
MXN	-	0.2440	0.2463190782	0.2380
NOK	0.4998587622	0.5676	0.5161671035	0.5552
SEK	0.4697496231	0.4950	0.4768318808	0.4757
USD	2.9027468377	3.4174	3.0205903233	3.0996
SDR	4.7341424263	5.2444	4.7729755923	4.7662
Ounce of gold*	1,310.3996257646	5,380.6963	1,310.3996257646	5,157.7344

* Price of an ounce of gold, expressed in USD, was USD 1,574.50 as at 31 December 2011 and USD 1,664.00 as at 31 December 2012.

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 2012, price revaluation gains related mainly to interest-bearing securities in AUD, USD, EUR and GBP.

Price revaluation gains on off-balance-sheet instruments related to forward transactions in securities (see Note 26).

Because of the fact that as at 31 December 2012 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 23 Capital and reserves

PLN thousand	31.12.2011	31.12.2012	Change	
Statutory fund	1,500,000.0	1,500,000.0	0.0	0.0%
Reserve fund	534,733.7	966,590.7	431,857.0	80.8%
Reserves	11,834,026.0	11,457,911.7	-376,114.3	-3.2%
Total	13,868,759.7	13,924,502.4	55,742.7	0.4%

The position comprises:

- the statutory fund, whose amount is determined by Article 61 of the Act on the NBP,
- the 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 increase in the position resulted from the increase in the reserve fund due to the transfer from profit for 2011 in the amount of PLN 431,857.0 thousand and a simultaneous adjustment of the provision in the amount of PLN 376,114.3 thousand.

Note 24 Financial result

The position comprises:

- financial result for the current year in the amount of PLN 5,541,094.6 thousand (see Note 44),
- portion of the NBP's loss for the year 2007, which was not covered by the reserve fund; as at 31 December 2012 this position amounted to PLN 11,457,911.7 thousand and remained unchanged as compared with 31 December 2011.

7. EXPLANATORY NOTES TO OFF-BALANCE-SHEET POSITIONS

Note 25 Spot transactions recognised on off-balance-sheet accounts

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Receivables arising from spot transactions, of which	6,189,548.5	299,559.7	-5,889,988.8	-95.2%
- receivables denominated in domestic currency	2,657,029.6	0.0	-2,657,029.6	-100.0%
- receivables denominated in foreign currency	3,532,518.9	299,559.7	-3,232,959.2	-91.5%
Liabilities arising from spot transactions, of which	6,189,548.5	299,559.7	-5,889,988.8	-95.2%
- liabilities denominated in domestic currency	673.1	0.0	-673.1	-100.0%
- liabilities denominated in foreign currency	6,188,875.4	299,559.7	-5,889,315.7	-95.2%

The decrease in the above items resulted from a lower volume of spot foreign exchange transactions carried out by the NBP towards the end of the year with foreign banks.

Note 26 Off-balance-sheet financial instruments

<i>PLN thousand</i>	31.12.2011	31.12.2012	Change	
Securities denominated in foreign currency purchased in forward transactions	165,292.1	1,254,158.7	1,088,866.6	658.8%
Securities denominated in foreign currency sold in forward transactions	23,313.9	5,435,135.7	5,411,821.8	23,212.9%

The increase in the position as at 31 December 2012 was related to a higher volume of forward transactions in securities carried out by the NBP towards the end of the year.

Note 27 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.

As at 31 December 2012, the NBP's commitment to the NAB amounted to SDR 2,230,090.0 thousand (PLN 10,629,055.0 thousand according to the NBP average exchange rate as at the balance-sheet date) in relation with:

- transferring SDR 301,000.0 thousand by the NBP to the IMF in the years 2011-2012 (in 2011: SDR 174,000.0 thousand and in 2012: SDR 127,000.0 thousand, respectively),
- receiving a loan repayment of SDR 2,500.0 thousand by the NBP in 2012.

Note 28 Other items recognised on off-balance-sheet accounts

As at 31 December 2012, other items recognised on off-balance-sheet accounts mainly related to:

- collaterals received by the NBP, related to the NBP's own administrative activities, in the amount of PLN 21,760.3 thousand (as at 31.12.2011 – PLN 21,462.3 thousand),
- contingent assets claimed by the NBP in the amount of PLN 219.4 thousand (as at 31.12.2011 – PLN 269.3 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 2011.

8. EXPLANATORY NOTES TO PROFIT AND LOSS ACCOUNT

Note 29 Interest, discount and premium income

<i>PLN thousand</i>	2011	2012	Change	
Interest and discount income on securities denominated in foreign currency	5,761,765.7	5,976,974.8	215,209.1	3.7%
Interest income on the NBP's bank accounts in foreign currency	598,253.0	312,588.0	-285,665.0	-47.7%
Interest income on credits and loans, of which	36,018.0	15,411.9	-20,606.1	-57.2%
- in foreign currency	27.4	1,252.9	1,225.5	4,472.6%
- in domestic currency	35,990.6	14,159.0	-21,831.6	-60.7%
Other income	31,041.5	9,636.0	-21,405.5	-69.0%
Total	6,427,078.2	6,314,610.7	-112,467.5	-1.7%

The position comprises mainly interest and discount income on the main investment instruments of foreign exchange reserves (see Note 3) and on the refinancing loan for central investments (see Note 4).

In 2012, the decrease in the position resulted mainly from:

- lower, by PLN 285,665.0 thousand, income from interest on the NBP's bank accounts denominated in foreign currency, which resulted mainly from reducing the share of term deposits and reverse repo transactions in the investment structure of foreign exchange reserves, as well as a decrease in annual average interest rates on these transactions in NOK, AUD and EUR, respectively,

and:

- higher, by PLN 215,209.1 thousand, income from interest and discount on securities denominated in foreign currencies, which was mainly the result of an increase in the share of securities with fixed interest rates in the investment structure of foreign exchange reserves.

At the same time, the change in income from interest, discount and premium on investment instruments of foreign exchange reserves was driven by:

- increase in the average annual level of foreign exchange reserves (their average level amounted to EUR 66,384.8 million in 2012, as compared with EUR 62,734.0 million in 2011),
- changes in average annual exchange rates of the zloty – depreciation of the zloty against USD, EUR, GBP, AUD and NOK (see table below presenting the average annual exchange rates).

The lower, by PLN 21,831.6 thousand, interest income on credits and loans in domestic currency, resulted mainly from the decrease in receivables on the refinancing loan for central investments, following the repayment of loan instalments in 2012.

Moreover, in 2012 there was a decrease in interest income on the current account with the IMF and on the reserve tranche by PLN 20,738.2 thousand, recognised as *Other income*. At the same

time, the NBP recorded an increase in interest income on the loans extended to the IMF under the NAB, by PLN 1,225.5 thousand, recognised as *Interest income on credits and loans* (see Note 2).

The average annual exchange rates of the zloty against main foreign currencies in 2011-2012 are presented below.

PLN	Average annual exchange rate				
	2011	2012	Change		
USD	2.9634	3.2570	0.2936	9.9%	
EUR	4.1198	4.1850	0.0652	1.6%	
GBP	4.7460	5.1597	0.4137	8.7%	
AUD	3.0557	3.3712	0.3155	10.3%	
NOK	0.5283	0.5597	0.0314	5.9%	

Note 30 Interest, discount and premium expenses

PLN thousand	2011	2012	Change	
Premium expenses on securities denominated in foreign currency	2,145,899.2	3,504,051.9	1,358,152.7	63.3%
Interest and discount expenses on issued securities denominated in domestic currency	4,086,416.0	4,489,497.3	403,081.3	9.9%
Interest expenses on bank accounts operated by the NBP, of which	1,446,470.6	1,478,994.2	32,523.6	2.2%
- on accounts in foreign currency	187,202.4	82,694.1	-104,508.3	-55.8%
- on accounts in domestic currency	1,259,268.2	1,396,300.1	137,031.9	10.9%
Other expenses	24,007.0	6,952.4	-17,054.6	-71.0%
Total	7,702,792.8	9,479,495.8	1,776,703.0	23.1%

The position comprises mainly interest, discount and premium expenses on instruments used by the NBP under monetary policy operations (see Note 11), on the main investment instruments of foreign exchange reserves (see Note 3 and Note 16) and on other bank accounts operated by the NBP.

In 2012, the increase in the position resulted mainly from:

- higher, by PLN 1,358,152.7 thousand, premium expenses on securities denominated in foreign currency, due to:
 - lower yields on securities,
 - increased share of securities with fixed interest rate in the structure of foreign exchange reserves;
- at the same time, higher premium expenses were affected by:
 - increase in the average annual level of foreign exchange reserves (see Note 29),
 - changes in the average annual exchange rates of the zloty – depreciation of the zloty against USD, EUR, GBP and AUD (see Note 29 – table presenting the average annual exchange rates).

- higher, by PLN 403,081.3 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 94,343.4 million in 2012, as compared to PLN 93,870.4 million in 2011, and of fine-tuning operations – to PLN 1,626.8 million in 2012, as compared to PLN 1,407.1 million in 2011,⁶
 - increase in the average annual level of the reference rate that determines the yield on monetary bills – from 4.22% in 2011 to 4.61% in 2012,
- higher, by PLN 32,523.6 thousand, interest expenses on bank accounts operated by the NBP. This change stemmed mainly from higher interest expenses on the required minimum reserves of the banks, with a simultaneous decrease in interest expenses on current accounts denominated in foreign currency of the general government sector.

Moreover, in 2012 there was a decrease of PLN 17,068.3 thousand in interest expenses on liabilities towards the IMF due to the SDR allocation, recognised as *Other expenses* (see Note 17).

Note 31 Income on financial operations

<i>PLN thousand</i>	2011	2012	Change	
Realised foreign exchange gains	7,293,367.6	6,988,671.8	-304,695.8	-4.2%
Realised price gains, of which	3,828,465.1	3,687,649.7	-140,815.4	-3.7%
- on spot transactions in securities	3,224,720.1	3,152,671.4	-72,048.7	-2.2%
- on off-balance-sheet financial instruments	603,745.0	534,978.3	-68,766.7	-11.4%
Other income on financial operations	6.3	12.7	6.4	101.6%
Total	11,121,839.0	10,676,334.2	-445,504.8	-4.0%

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 2012, the decrease in the position resulted mainly from:

- lower realised foreign exchange gains on transactions in EUR and AUD, with simultaneously higher gains on USD and GBP transactions,
- lower realised price gains on the spot sale of interest-bearing securities denominated in USD, with simultaneously higher gains on transactions of the same type in EUR and AUD,

⁶ To calculate average annual values all calendar days from 1 January to 31 December of each year were taken into account.

- lower realised price gains on forward transactions in securities denominated in GBP, with simultaneously higher gains on transactions of the same type in AUD.

Note 32 Expenses on financial operations

<i>PLN thousand</i>	2011	2012	Change	
Realised foreign exchange losses	685,741.6	77,392.3	-608,349.3	-88.7%
Realised price losses, of which	656,085.4	415,706.5	-240,378.9	-36.6%
- on spot transactions in securities	520,449.7	333,059.2	-187,390.5	-36.0%
- on off-balance-sheet financial instruments	135,635.7	82,647.3	-52,988.4	-39.1%
Other expenses on financial operations	12.5	2.0	-10.5	-84.0%
Total	1,341,839.5	493,100.8	-848,738.7	-63.3%

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 2012, the decrease in the position resulted mainly from:

- lower realised foreign exchange losses on transactions in USD and EUR,
- lower realised price losses on the spot sale of interest-bearing securities in EUR, GBP and USD,
- lower realised price losses on forward transactions in interest-bearing securities in GBP.

Note 33 Unrealised losses

<i>PLN thousand</i>	2011	2012	Change	
Foreign currency revaluation losses	0.0	749,928.2	749,928.2	-
Price revaluation losses, of which	278.6	84,898.5	84,619.9	30,373.3%
- revaluation losses on securities	228.4	84,624.6	84,396.2	36,951.1%
- revaluation losses on off-balance-sheet instruments	50.2	273.9	223.7	445.6%
Total	278.6	834,826.7	834,548.1	299,550.6%

In 2012, the amount of expenses was mainly the effect of currency revaluation losses as at 31 December 2012.

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 22). As at 31 December 2012, currency revaluation losses mainly related to the following currencies: BRL, EUR, MXN and SDR.

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 2012, price revaluation losses mainly related to securities denominated in GBP, EUR, USD and NOK.

Price revaluation losses on off-balance-sheet instruments related to forward transactions in securities (see Note 26).

Note 34 Income on transfers from risk provisions and on reversal of write-downs of financial assets

In 2012, income in the amount of PLN 376,114.3 thousand resulted from the adjustment of the provision against the foreign exchange rate risk of the zloty (see Note 23).

Note 35 Fees and commissions income

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

In 2012, the position amounted to PLN 34,626.1 thousand and was by PLN 862.8 thousand (2.4%) lower as compared with 2011.

Note 36 Fees and commissions expenses

The position comprises 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.

Moreover, in 2012, the position included the expenses on fees charged on the financial markets of developing countries (see Note 3).

In 2012, the position amounted to PLN 144,110.3 thousand and was by PLN 107,719.3 thousand (296.0%) higher as compared with 2011. The increase in the position was mainly the result of the expenses related to the above mentioned fees charged on the financial markets of developing countries.

Note 37 Income on shares and equities

<i>PLN thousand</i>	2011	2012	Change	
Income on shares and equities in domestic entities	62,502.5	8,673.0	-53,829.5	-86.1%
Income on shares and equities in foreign entities	10,280.8	12,553.6	2,272.8	22.1%
Total	72,783.3	21,226.6	-51,556.7	-70.8%

The position comprises mainly income on dividends from shares and equities held by the NBP in domestic and foreign entities (see Note 6).

As at 31 December 2012, the income comprised mainly the total of dividend proceeds from shares in Krajowy Depozyt Papierów Wartościowych S.A. [National Depository for Securities], Krajowa Izba Rozliczeniowa S.A. [National Clearing House] and in the Bank for International Settlements in Basel.

Note 38 Other income

The position comprises mainly income on the sale of collector coins and banknotes, rental of office premises and sale of IT services. In 2012, the position also comprised income on the due share of the profit from sale of a portion of gold holdings by the IMF.

In 2012, the position amounted to PLN 148,958.2 thousand and was by PLN 193,638.0 thousand (56.5%) lower, as compared with 2011. The higher income in 2011 was mainly the result of income on the non-returned banknotes and coins in the amount of PLN 172,093.0 thousand in connection with the Act of 7 July 1994 on the denomination of the zloty (Dz. U. No 84, item 386 and of 1995, No 16, item 79).

Note 39 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 2012, the position amounted to PLN 457,198.0 thousand and was by PLN 27,262.9 thousand (6.3%) higher, as compared with 2011. The increase resulted mainly from higher, by PLN 16,753.8 thousand, costs of salaries as well as higher by PLN 5,992.9 thousand costs of social contributions, in line with the adopted Human Resources and payroll policy.

Note 40 Administrative expenses

<i>PLN thousand</i>	2011	2012	Change	
Materials and energy used	33,903.5	34,593.2	689.7	2.0%
Benefits for employees and other eligible persons	12,248.0	13,812.6	1,564.6	12.8%
Business travels	6,870.6	7,430.9	560.3	8.2%
Services from third parties	152,493.0	158,082.9	5,589.9	3.7%
Taxes and fees	15,234.6	20,985.4	5,750.8	37.7%
Transfers to special funds	4,759.6	4,723.9	-35.7	-0.8%
Other administrative expenses	33,761.4	29,630.2	-4,131.2	-12.2%
Total	259,270.7	269,259.1	9,988.4	3.9%

The increase in the position resulted mainly from higher expenses on taxes and fees, as well as expenses on services from third parties, with a simultaneous decline in other administrative expenses.

Note 41 Depreciation and amortization expenses

<i>PLN thousand</i>	2011	2012	Change	
Fixed assets depreciation expenses	63,457.2	56,259.8	-7,197.4	-11.3%
Intangible assets amortization expenses	13,887.8	12,588.5	-1,299.3	-9.4%
Total	77,345.0	68,848.3	-8,496.7	-11.0%

In 2012, 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 42 Cost of issue of banknotes and coins

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

In 2012, the position amounted to PLN 267,436.2 thousand and was by PLN 5,387.9 thousand (2.1%) higher, as compared with 2011. The increase in this position resulted mainly from:

- higher costs of issuing coins due to an increase in orders for general circulation coins, arising from the need to ensure liquidity of settlements by supplying coins with the nominal value from 1 grosz to 1 zloty to circulation,

with a simultaneous:

- reduction of the costs of issuing banknotes due to the rationalisation of inventories of general circulation banknotes and the decrease in orders for the banknotes supplies.

Note 43 Other expenses

The position comprises mainly expenses corresponding to the nominal value of collector coins and banknotes sold.

In 2012, the position amounted to PLN 16,500.3 thousand and was by PLN 3,102.3 thousand (15.8%) lower as compared with 2011. The decrease in this position resulted mainly from lower expenses mentioned above, due to lower sales of collector banknotes and coins.

Note 44 Financial result for the current year and its allocation

The NBP profit for 2012 amounted to PLN 5,541,094.6 thousand and was by PLN 3,096,047.0 thousand (35.8%) lower, as compared with 2011.

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 277,054.7 thousand,
- the State budget, as the NBP's contribution from profit – PLN 5,264,039.9 thousand.

9. OTHER EXPLANATORY NOTES

Note 45 Flexible Credit Line

The 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.

The Flexible Credit Line of SDR 19,166,000.0 thousand as at 31 December 2012 was granted to Poland on 21 January 2011 by the Executive Board of the IMF for two years (i.e. until 20 January 2013). The Government of the Republic of Poland was the authorising entity of the FCL, while the NBP serviced it as the fiscal agency of the Government.

On 18 January 2013, the Executive Board of the IMF approved Poland's another request for access to the Flexible Credit Line of SDR 22,000,000.0 thousand. The Republic of Poland was granted access to the IMF instrument for a period of two years (i.e. until 17 January 2015). As it was in the case of the instrument granted in 2011, the Government of the Republic of Poland is the authorising entity of the new Flexible Credit Line, while the NBP is the Government's fiscal agency.

Note 46 Foundation of the NBP

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.

Note 47 Events after the balance sheet date

On 15 March 2013, a bilateral loan agreement was concluded between the NBP and the IMF, according to which the NBP is ready to extend an interest-bearing loan to the IMF to the amount which is the SDR equivalent of EUR 6.27 billion. The funds will be provided by the NBP at the request of the IMF.

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 the NBP goals while using appropriate organisational, procedural and technical solutions.

The 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”,
- 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 concerning operational risk, analyses and monitors operational risk and compliance risk at the NBP, introduces new tools, reports on operational risk and compliance throughout the bank,
 - 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.

The 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 or 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. Non-government securities held in the investment portfolios are issued primarily by international institutions and government agencies. In 2012, the NBP started small-scale investment on the market of corporate bonds denominated in USD. The share of term deposits in foreign exchange reserves is low – transactions are concluded for short periods with banks having high creditworthiness.

Credit risk underlying domestic credit operations

To support the liquidity of the financial system, the NBP makes marginal lending facility, intraday credit in PLN and intraday credit in euro available to domestic banks.

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 the 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 covered 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 NBP 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 availability of funds – 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.

To mitigate the interest rate risk in the process of managing foreign exchange reserves, the NBP defines the benchmark modified duration of foreign exchange reserves, along with admissible fluctuation bands.

Given the fiscal crisis in the euro area and weaker prospects of the global economy, in 2012 there was a decrease in yields on government securities, yet less severe than in 2011.

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 the process of foreign exchange reserves management the NBP defines the currency structure of the strategic benchmark, along with admissible fluctuation bands.

In 2012, the benchmark currency composition of 2011 remained unchanged and was the following: USD – 36%, EUR – 32%, GBP – 15%, AUD – 10% and NOK – 7%. At the same time, investments were started on the market of Brazilian and Mexican government securities (a total of 1% of foreign exchange reserves as at the end of 2012).

In 2012, as the European mechanisms of financial support for countries facing fiscal problems developed, the volatility of exchange rates decreased, returning to the level observed before the subprime crisis in the case of the majority of currency pairs.

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 incidents⁷ and limiting their potential 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,
- control and internal audit.

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 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.

DIRECTOR OF ACCOUNTING AND OPERATIONS DEPARTMENT
OF THE NBP:

/-/ Grażyna Gielecińska

MANAGEMENT BOARD
OF THE NBP:

/-/ Marek Belka
/-/ Piotr Wiesiołek
/-/ Witold Kosiński
/-/ Eugeniusz Gatnar
/-/ Andrzej Raczko
/-/ Jakub Skiba
/-/ Małgorzata Zaleska

Warsaw, 28 March 2013

⁷ 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.