



NBP

Narodowy Bank Polski

**Financial statements
of Narodowy Bank Polski
as at 31 December 2014**

Balance sheet, Profit and loss account,
Notes – general information

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Balance sheet of NBP as at 31 December 2014

Assets	Note	31.12.2013	31.12.2014
		<i>PLN thousand</i>	
1. Gold and gold receivables	1	11,974,687.8	13,918,505.3
2. Claims on non-residents denominated in foreign currency		307,978,156.0	338,369,553.3
2.1. <i>Receivables from the IMF</i>	2	8,757,032.0	8,437,237.1
2.2. <i>Balances with foreign institutions, securities, loans granted and other foreign assets</i>	3	299,221,124.0	329,932,316.2
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	1.6	271.3
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		1,302,579.2	1,316,827.2
10.1. <i>Tangible and intangible fixed assets</i>	5	915,051.9	894,666.0
10.2. <i>Other financial assets</i>	6	182,202.7	193,493.4
10.3. <i>Off-balance-sheet instruments revaluation differences</i>	7	460.4	38,829.6
10.4. <i>Accruals and prepaid expenses</i>	8	31,990.2	16,217.7
10.5. <i>Sundry</i>	9	172,874.0	173,620.5
Total assets		321,255,424.6	353,605,157.1

Liabilities	Note	31.12.2013	31.12.2014
		PLN thousand	
1. Banknotes and coins in circulation	10	126,142,763.3	142,928,806.0
2. Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	11	155,466,510.1	133,620,004.4
2.1. <i>Current accounts (incl. the required minimum reserve accounts)</i>		38,125,710.1	47,218,516.7
2.2. <i>Deposit facilities</i>		0.0	1,740,047.7
2.3. <i>Fixed-interest deposits</i>		0.0	0.0
2.4. <i>Other monetary policy operations</i>		117,340,800.0	84,661,440.0
3. Other liabilities to other domestic monetary financial institutions denominated in domestic currency	12	157,721.9	166,764.2
4. Liabilities to other residents denominated in domestic currency	13	3,553,663.8	4,397,053.4
4.1. <i>Liabilities to general government</i>		3,484,639.9	4,380,658.1
4.2. <i>Other liabilities</i>		69,023.9	16,395.3
5. Liabilities to non-residents denominated in domestic currency	14	517,006.3	334,379.3
6. Liabilities to residents denominated in foreign currency	15	5,928,209.0	17,077,974.6
7. Liabilities to non-residents denominated in foreign currency	16	16,341,845.1	13,373,829.9
8. Liabilities to the IMF	17	6,046,345.7	6,623,949.5
9. Items in course of settlement		0.0	0.0
10. Other liabilities		256,533.4	318,729.5
10.1. <i>Off-balance-sheet instruments revaluation differences</i>	18	4,208.5	233.1
10.2. <i>Accruals and deferred income</i>	19	199,558.3	195,261.9
10.3. <i>Sundry</i>	20	52,766.6	123,234.5
11. Provisions for future liabilities	21	123,579.7	163,958.6
12. Revaluation accounts	22	10,739,224.9	34,573,585.7
13. Capital and reserves	23	7,439,933.1	11,484,033.7
13.1. <i>Statutory fund</i>		1,500,000.0	1,500,000.0
13.2. <i>Reserve fund</i>		1,243,645.5	1,243,645.5
13.3. <i>Reserves</i>		4,696,287.6	8,740,388.2
14. Financial result	24	-11,457,911.7	-11,457,911.7
14.1. <i>Financial result for the current year</i>		0.0	0.0
14.2. <i>Loss of previous years</i>		-11,457,911.7	-11,457,911.7
Total liabilities		321,255,424.6	353,605,157.1

Director of the Accounting and Finance Department of Narodowy Bank Polski:
-/ Grażyna Gielecińska

Management Board of Narodowy Bank Polski:

-/ Marek Belka
-/ Piotr Wiesiołek
-/ Anna Trzecińska
-/ Jacek Bartkiewicz
-/ Eugeniusz Gatnar
-/ Andrzej Raczko
-/ Paweł Samecki
-/ Katarzyna Zajdel - Kurowska
-/ Małgorzata Zaleska

Warsaw, 25 March 2015

Profit and loss account of NBP for the year ended 31 December 2014

	Note	2013	2014
		PLN thousand	
1. Net result on interest, discount and premium		-1,926,742.9	-355,097.3
1.1. Interest, discount and premium income	29	6,112,240.2	5,965,143.5
1.2. Interest, discount and premium expenses	30	8,038,983.1	6,320,240.8
2. Net result on financial operations		2,851,648.4	1,354,585.1
2.1. Income on financial operations	31	6,889,069.6	6,897,433.2
2.2. Expenses on financial operations	32	2,525,194.1	628,051.5
2.3. Unrealised losses	33	8,273,851.2	870,696.0
2.4. Income on transfers from risk provisions and on reversal of write-downs on financial assets	34	6,761,624.1	0.0
2.5. Expenses on transfers to risk provisions and on write-downs on financial assets	34	0.0	4,044,100.6
3. Net result on fees and commissions		-3,840.9	145.6
3.1. Fees and commissions income	35	33,736.1	34,919.0
3.2. Fees and commissions expenses	36	37,577.0	34,773.4
4. Income on shares and equities	37	17,742.9	9,688.4
5. Other income	38	176,782.0	175,323.4
A. Total net income [1+2+3+4+5]		1,115,589.5	1,184,645.2
6. Salaries and social contributions	39	477,628.0	483,021.5
7. Administrative expenses	40	260,282.6	303,723.4
8. Depreciation and amortisation expenses	41	79,520.8	80,897.3
9. Expenses on issue of banknotes and coins	42	268,792.1	290,786.9
10. Other expenses	43	29,366.0	26,216.1
B. Financial result for the current year [A-6-7-8-9-10]	44	0.0	0.0

Director of the Accounting
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/-/ Paweł Samecki
/-/ Katarzyna Zajdel - Kurowska
/-/ Małgorzata Zaleska

Warsaw, 25 March 2015

Notes – general information

1. Introduction

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

In accordance with Article 227 of the Constitution of the Republic of Poland, “the central bank of the State shall be Narodowy Bank Polski”, hereinafter referred to as “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”.

NBP has a legal personality and is not subject to entry into the register of state enterprises. 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 NBP are set forth in the following acts and regulations:

- the Act of 29 August 1997 on Narodowy Bank Polski (consolidated text: Journal of Laws of 2013, item 908, 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 2015, item 128),
- 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 NBP is to maintain price stability, while supporting the economic policies of the government, insofar as it does not constrain the basic objective of NBP.

The tasks of 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 NBP are:

1. President of Narodowy Bank Polski (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 Narodowy Bank Polski (its members are appointed for a six-year term of office).

The composition of NBP bodies as at 31 December 2014 was as follows:

President of NBP

Marek Belka

Monetary Policy Council

Chairperson

Marek Belka

Members

Andrzej Bratkowski

Elżbieta Chojna-Duch

Adam Glapiński

Jerzy Hausner

Andrzej Kaźmierczak

Jerzy Osiatyński

Andrzej Rzońca

Jan Winięcki

Anna Zielińska-Głębocka

Management Board of NBP

Chairperson	Marek Belka
Vice President of NBP – First Deputy President of NBP	Piotr Wiesiołek
Vice President of NBP	Anna Trzecińska
Members	Jacek Bartkiewicz
	Eugeniusz Gatnar
	Andrzej Raczko
	Paweł Samecki
	Katarzyna Zajdel - Kurowska
	Małgorzata Zaleska

In 2014, President of the Republic of Poland Bronisław Komorowski appointed the following persons:

- Paweł Samecki – as a member of the Management Board of NBP – on 17 February;
- Piotr Wiesiołek, following the termination of the previous term on 6 March – for another term of office as a member of the Management Board of NBP and for the position of the Vice President of NBP – First Deputy President of NBP – on 7 March;
- Anna Trzecińska – as a member of the Management Board of NBP and for the position of the Vice President of NBP – on 3 November.

The term of office of Witold Koziński – a member of the Management Board of NBP and Vice President of NBP ended on 24 October 2014.

1.2. Legal basis of preparation of the financial statements

The financial statements of NBP as at 31 December 2014 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 Narodowy Bank Polski (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

Narodowy Bank Polski (NBP Official Journal of 2010, No. 17, item 19), hereinafter referred to as “Resolution No. 12/2010”,

- Resolution No. 45/2013 of the Management Board of Narodowy Bank Polski of 12 December 2013 on performing tasks in the area of accounting at Narodowy Bank Polski, as amended.

1.3. Period covered by the financial statements

The financial statements cover the calendar year from 1 January to 31 December 2014.

1.4. Certified auditor and its selection

The annual financial statements of Narodowy Bank Polski prepared as at 31 December 2014 are subject to audit and evaluation by the 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 2013 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 2010 No. 113, item 759, as amended), for a period of two years (audit of the financial statements for the years 2013 and 2014).

1.5. Information on the adoption and approval of NBP financial statements for 2013

The annual financial statements of NBP prepared as at 31 December 2013 were adopted by the MPC by Resolution No. 1/2014 on 8 April 2014 and approved by the Council of Ministers by Resolution No. 136/2014 on 15 July 2014. 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 prepared as at 31 December 2013, NBP recorded a zero financial result. Consequently, in 2014 NBP did not pay a contribution from profit to the State budget.

2. Description of significant accounting principles

2.1. Basic accounting principles

The accounting principles of 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 NBP financial statements:

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

2.2. Going concern

NBP financial statements were prepared under the assumption of the going concern principle. In accordance with Article 58 of the Act on the NBP, 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 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, NBP follows the so-called economic approach as laid down in the ECB Guideline. Consequently, the following rules are applied:

- 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 recognised in the profit and loss account at the end of each operating day¹.

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

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,
- interest on initial margins related to futures, which is recognised in the financial result on the payment date.

2.4. Valuation as at the balance sheet date

In financial statements, for gold, foreign currencies, securities purchased by 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.

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 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 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 average NBP exchange rate effective as at the date of the economic event or at the average NBP 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 average cost of purchasing a unit of foreign currency by 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 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 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 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 NBP a 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 a 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 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 NBP balance sheet liabilities as a received deposit collateralised with securities whose holding is not decreased on the 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 NBP balance sheet assets as a loan granted, collateralised with

securities whose holding is not increased on the 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 NBP balance sheet liabilities at nominal value of banknotes and coins issued, decreased by nominal value of banknotes and coins:

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

Expenses on issue of banknotes and coins are recognised in the financial result on the date they are incurred, regardless of the date banknotes and coins are put into circulation.

2.5.7. Securities issued by NBP

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

Discount and premium on securities issued by 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 NBP is recognised in the financial result at the end of each operating day in the amount 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 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/amortised 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 periods of use for particular groups of tangible and intangible fixed assets prevailing as at 31 December 2014.

Fixed assets	Periods of use (in months)
Land	Unlimited
<i>including: right to 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	48-240
Specialist machines, devices and appliances	86-192
Technical devices	36-240
Vehicles	72-180
Tools, technical instruments, movables and equipment	60-240
<i>including: objects of art, museum exhibits, collector objects</i>	Unlimited
Intangible assets	Periods of use (in months)
Copyrights, including the rights related to inventions, patents, trademarks, utility and ornamental designs	120
IT software licences	72 or 144
IT software developed by NBP	120

In specific cases, individual periods of use 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 3.5 thousand depreciation/amortisation 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/amortisation and impairment.

2.5.9. Inventories

Inventories are recognised in 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 NBP when 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 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 adjusted. Provisions for future liabilities unused due to full or partial 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 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 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 with 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

Currency purchased or sold and, respectively, re-sold or re-purchased 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.

2.5.17. Futures

Futures transactions are recognised on off-balance-sheet accounts, from the trade date to the settlement date, at nominal value of the purchased or sold underlying instrument.

The initial margin related to futures, deposited in cash, is recognised on balance sheet accounts as an asset. The initial margin deposited in securities does not change their holding.

Daily changes in market prices of futures are recognised in the financial result on a daily basis, including the day of closing the open position in futures.

If, on the closing day of the open position in futures, the actual supply of the underlying instrument takes place, its purchase or sale is recognised at a market price.

2.6. Events after the balance sheet date

The balance sheet and the profit and loss account contain the events about which 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 2014 NBP did not change the accounting principles.

4. Values based on professional judgement and estimates

When preparing financial statements, 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 an occurrence of factors beyond NBP's control, the estimates made by NBP are reviewed on a regular basis.

The key area where 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 NBP, the Value at Risk (VaR) methodology is used to perform the analysis of changes in the foreign exchange rate risk of the zloty. 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 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 in and structure of NBP balance sheet and financial result

NBP balance sheet

The balance sheet total of NBP as at 31 December 2014 amounted to PLN 353,605,157.1 thousand, which represents an increase by PLN 32,349,732.5 thousand (10.1%) as compared with 31 December 2013.

On the assets side, the increase in the balance sheet total resulted mainly from:

- increase by PLN 30,391,397.3 thousand in claims on non-residents denominated in foreign currency, which amounted to PLN 338,369,553.3 thousand as at 31 December 2014 (the growth was mainly related to securities denominated in foreign currency and funds on term deposit accounts in foreign currency),
- increase by PLN 1,943,817.5 thousand in gold and gold receivables, which amounted to PLN 13,918,505.3 thousand as at 31 December 2014.

The increase in the value of the aforementioned items was mainly a result of currency revaluation (including gold) and price revaluation which were carried out as at 31 December 2014.

On the liabilities side, currency and price revaluation resulted in higher price and currency revaluation gains which amounted to PLN 32,955,562.5 thousand as at 31 December 2014, and were higher by PLN 23,834,360.8 thousand as compared with 31 December 2013.

The increase of the balance sheet total on the liabilities side was also affected by:

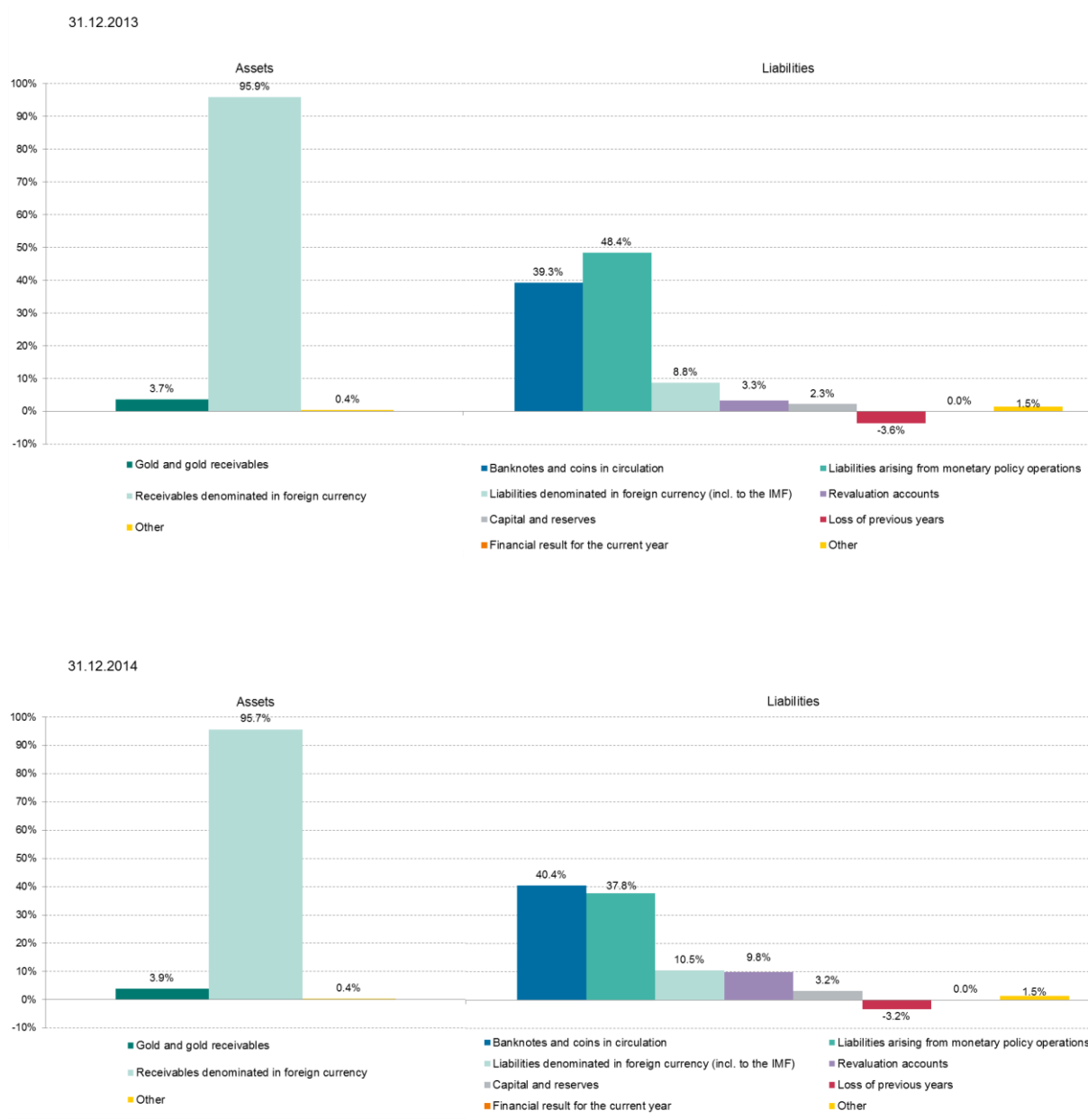
- liabilities due to banknotes and coins in circulation, which were higher by PLN 16,786,042.7 thousand and amounted to PLN 142,928,806.0 thousand as at 31 December 2014,
- liabilities to residents denominated in foreign currency, which were higher by PLN 11,149,765.6 thousand and amounted to PLN 17,077,974.6 thousand as at 31 December 2014,
- the provision against the foreign exchange rate risk of the zloty, which was higher by PLN 4,044,100.6 thousand and amounted to PLN 8,740,388.2 thousand as at 31 December 2014.

The increase in the balance sheet total on the liabilities side was partly offset by:

- liabilities related to monetary policy operations, which were lower by PLN 21,846,505.7 thousand and amounted to PLN 133,620,004.4 thousand as at 31 December 2014,
- liabilities to non-residents denominated in foreign currency, which were lower by PLN 2,968,015.2 thousand and amounted to PLN 13,373,829.9 thousand as at 31 December 2014.

The dominant items on the assets side of NBP balance sheet are those in foreign currencies and gold. As at 31 December 2014, their combined share in the balance sheet total amounted to 99.6% and did not change when compared with 31 December 2013. On the liabilities side, the share of liabilities in foreign currencies amounted to 10.5% as at 31 December 2014, as compared with 8.8% as at 31 December 2013. The main elements of the liabilities are banknotes and coins in circulation and liabilities related to monetary policy operations, whose combined share in the balance sheet total amounted to 78.2% as at 31 December 2014, as compared with 87.7% as at 31 December 2013 (see Figure 1).

Figure 1. NBP balance sheet structure as at 31 December 2013 and 31 December 2014



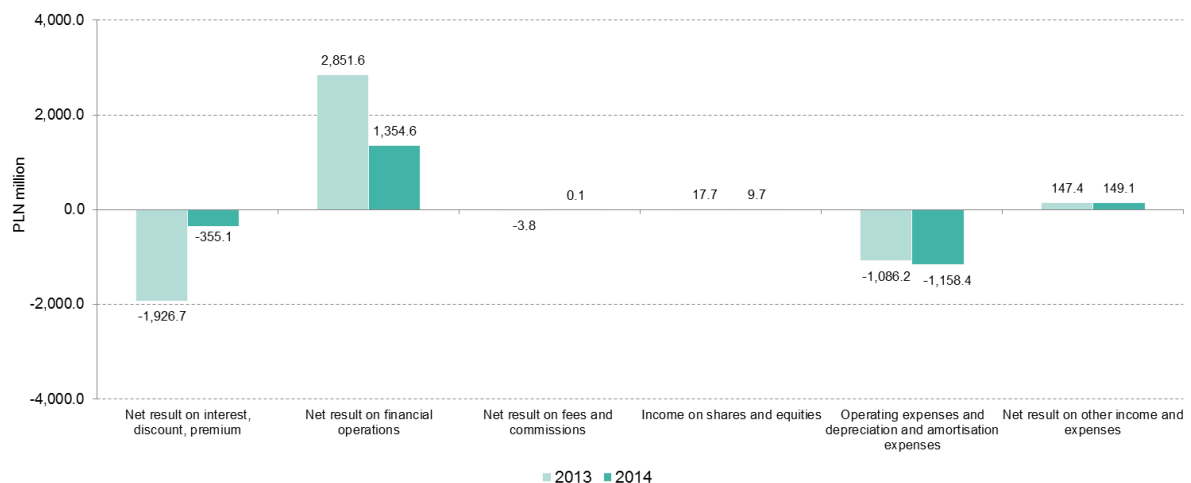
NBP financial result

Similar to 2013, NBP financial result for 2014 amounted to zero, whereas, compared with the previous year, the following changes occurred:

- decrease in the negative net result on interest, discount and premium,
- decrease in the positive net result on financial operations,
- increase in operating expenses and depreciation and amortisation expenses.

The structure of NBP financial result for 2013 and 2014 is presented in Figure 2.

Figure 2. Structure of financial result, 2013-2014.

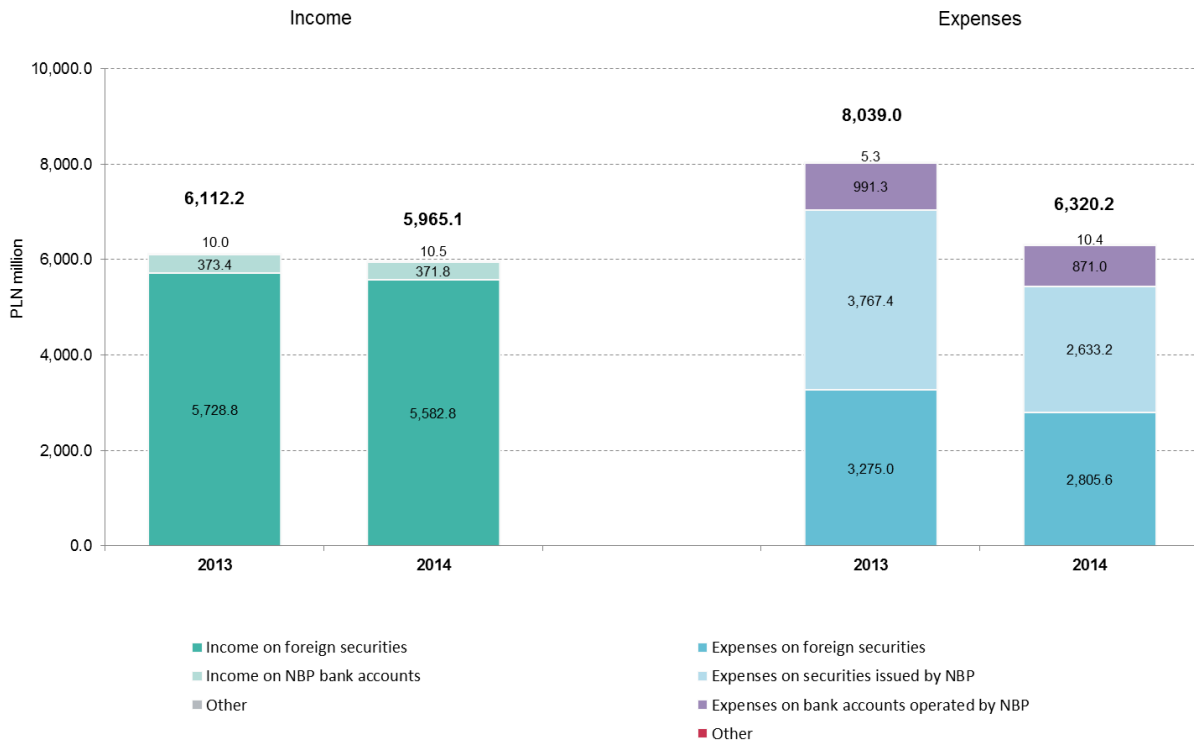


Net result on interest, discount and premium comprises mainly:

- 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 NBP under monetary policy operations (mainly expenses related to the issue of monetary bills),
- interest expenses on bank accounts operated by NBP for the general government.

As in the previous year, net result on interest, discount and premium was negative but its level was higher by PLN 1,571,645.6 thousand as compared with 2013. The increase in the net result was mainly driven by a decrease in discount expenses on monetary bills of NBP by PLN 1,134,193.5 thousand and in premium expenses on foreign securities by PLN 469,442.8 thousand (see Figure 3).

Figure 3. Structure of interest, discount and premium income and expenses, 2013-2014*



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

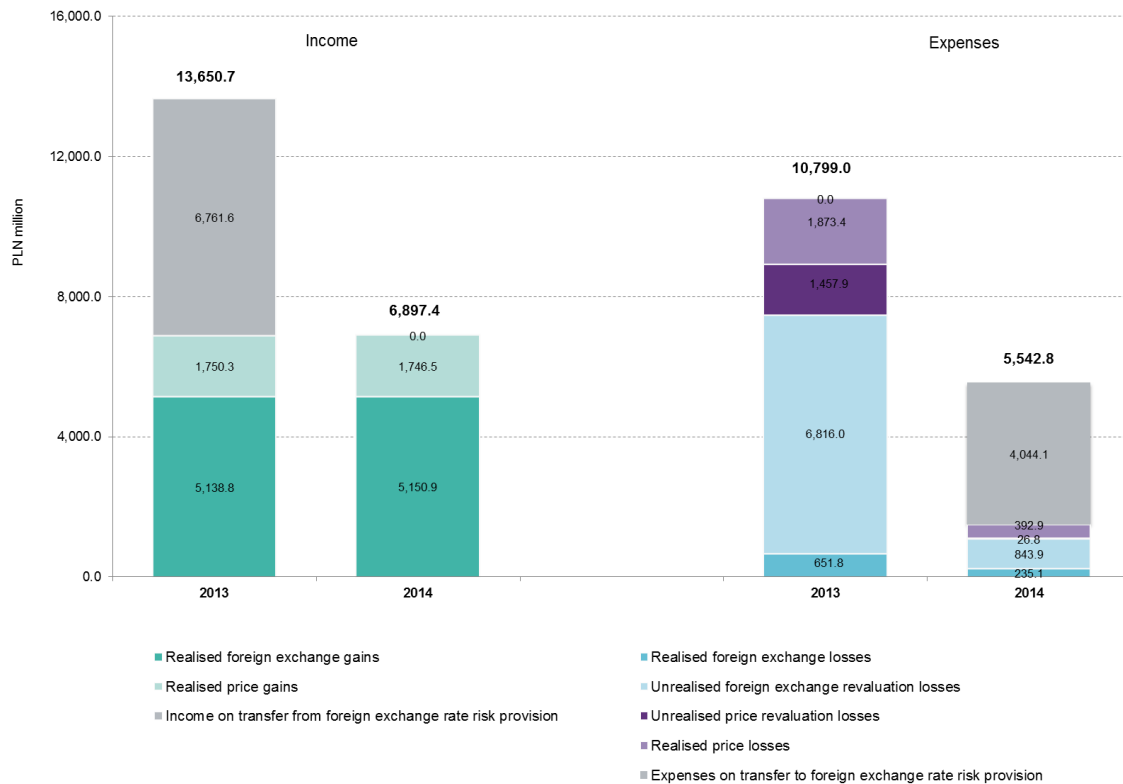
Net result on financial operations comprises mainly: realised foreign exchange and price gains and losses, unrealised foreign exchange and price losses, and the effects of changes in the amount of provision against the foreign exchange rate risk of the zloty.

The decrease in the net result on financial operations by PLN 1,497,063.3 thousand was mainly driven by the update of the provision against the foreign exchange rate risk. Whereas in 2013 income on the release of the provision in the amount of PLN 6,761,624.1 thousand occurred (associated with the unrealised foreign exchange losses in the amount which could generate loss), in 2014 NBP incurred expenses on the replenishment of the provision against the foreign exchange rate risk in the amount of PLN 4,044,100.6 thousand.

At the same time, in 2014, as compared with 2013, the decrease was recorded in:

- unrealised foreign exchange and price losses by PLN 7,403,155.2 thousand, and
- realised foreign exchange and price losses by PLN 1,897,144.4 thousand (see Figure 4).

Figure 4. Structure of income and expenses included in net result on financial operations, 2013-2014*

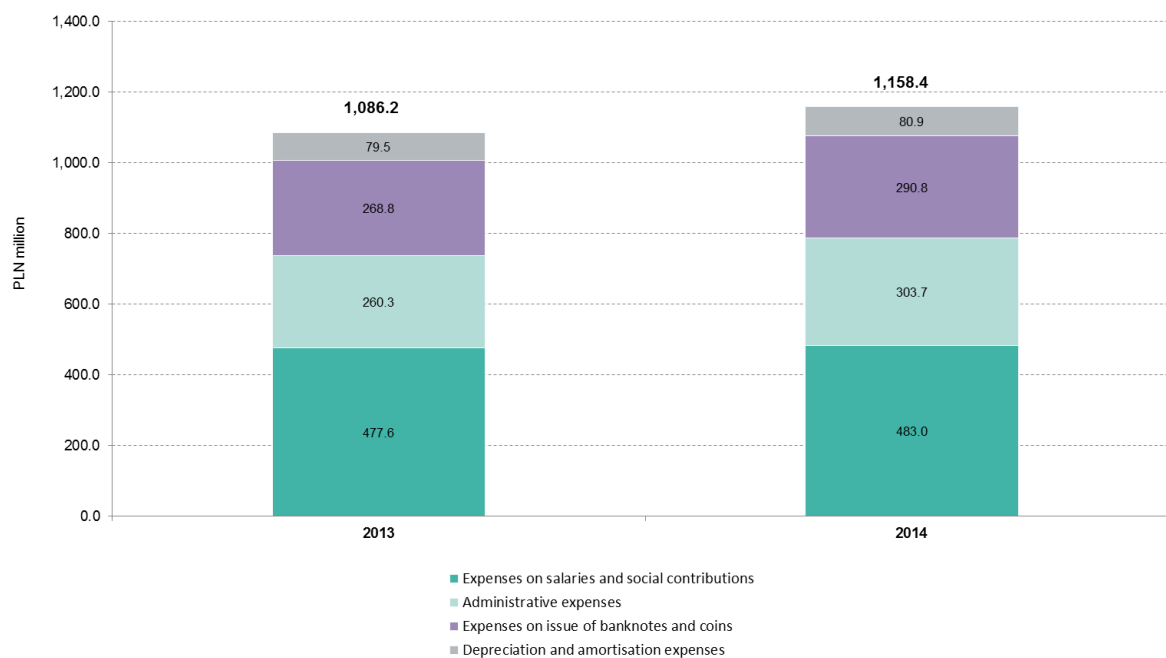


* Due to rounding, individual values may not add up to totals.

NBP operating expenses include: expenses on salaries, administrative expenses and expenses on issue of banknotes and coins.

In 2014 operating expenses and depreciation and amortisation expenses increased by a total of PLN 72,205.6 thousand as compared with 2013. The increase in operating expenses resulted mainly from higher expenses on issue of banknotes and coins and administrative expenses (see Figure 5).

Figure 5. Structure of operating expenses and depreciation and amortisation expenses, 2013-2014*



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

6. Explanatory notes to balance sheet

Note 1 Gold and gold receivables

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Gold and gold receivables	11,974,687.8	13,918,505.3	1,943,817.5	16.2%
<i>of which currency revaluation differences</i>	7,638,688.3	9,580,871.8	1,942,183.5	25.4%

The item comprises gold holding, which as at 31 December 2014 amounted to 3,309.2 thousand ounces of gold (102.9 tonnes) and was higher by 0.3 thousand ounces compared with 31 December 2013.

The gold holding is stored at NBP as well as deposited in foreign bank accounts: on the current account and, since 2014, on term deposit accounts, in connection with the relaunch by NBP of investment of gold in the interbank market.

Interest on term deposits in gold is accrued and paid in USD.

The increase in the item resulted mainly from the currency revaluation of gold (see Note 22).

Note 2 Receivables from the IMF

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
SDR under the reserve tranche	2,300,493.0	1,842,983.0	-457,510.0	-19.9%
Current accounts with the IMF	4,927,287.5	5,012,458.8	85,171.3	1.7%
Term deposits with the IMF	32,777.8	35,912.2	3,134.4	9.6%
Loans extended to the IMF	1,496,473.7	1,545,883.1	49,409.4	3.3%
Total	8,757,032.0	8,437,237.1	-319,794.9	-3.7%
<i>of which currency revaluation differences</i>	-257,821.8	720,978.8	978,800.6	-379.6%

The item 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 in domestic currency operated by NBP for the IMF (so-called No. 1 Account), whose balance as at 31 December 2014 was PLN 6,492,343.1 thousand,
- current account of NBP with the IMF on which, among others, funds received by NBP under SDR allocation are recorded (see Note 17),

- the NBP term deposit in the PRG-HIPC Trust (Poverty Reduction and Growth – Heavily Indebted Poor Countries Initiative), administered by the IMF,
- loans in foreign currency extended to the IMF under the New Arrangements to Borrow (NAB) (see Note 27).

The decrease in the item in the original currency was due to a reduction of:

- the reserve tranche, which mainly resulted from the repayments made by the member states in favour of the IMF to the IMF No. 1 Account held with NBP, exceeding the payments made by the IMF from this account in favour of the member states,
- receivables due to loans extended to the IMF under NAB, which resulted from the partial repayment of the debt towards NBP by the IMF, in the amount exceeding payments transferred by NBP in 2014,
- the balance of funds denominated in SDR on the current account with the IMF.

The domestic currency value of the item was also affected by the currency revaluation of SDR.

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

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Current accounts in foreign currency	2,582,073.1	6,562,775.3	3,980,702.2	154.2%
Term deposits in foreign currency	20,404,028.6	31,072,016.2	10,667,987.6	52.3%
Reverse repo transactions in foreign currency	16,196,929.1	13,223,762.9	-2,973,166.2	-18.4%
Securities denominated in foreign currency (marketable securities other than held-to-maturity)	259,924,722.6	278,948,631.1	19,023,908.5	7.3%
Foreign banknotes and coins in stock	113,370.6	124,138.5	10,767.9	9.5%
Other claims in foreign currency	0.0	992.2	992.2	-
Total	299,221,124.0	329,932,316.2	30,711,192.2	10.3%
<i>of which</i>				
- currency revaluation differences	-5,093,486.9	21,158,239.6	26,251,726.5	-515.4%
- price revaluation differences	-1,113,427.9	2,776,390.5	3,889,818.4	-349.4%

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

In addition, in 2014 NBP continued investing in government securities denominated in the currencies of developing countries (Brazilian real – BRL, Mexican peso – MXN).

The increase in the item mainly resulted from the foreign exchange and price revaluation (see Note 22 and Note 33).

Note 4 Other claims on other domestic monetary financial institutions denominated in domestic currency

The item comprises NBP's claims related to settlements with banks due to purchase transactions of domestic banknotes and coins as well as interest due to breaching of the obligation to maintain the required minimum reserve.

As at 31 December 2014 this item amounted to PLN 271.3 thousand and was by PLN 269.7 thousand (16,856.3%) higher as compared with 31 December 2013. The increase in the item resulted mainly from the occurrence of claims on interest due to breaching of the obligation to maintain the required minimum reserve as at 31 December 2014.

Note 5 Tangible and intangible fixed assets

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Gross tangible fixed assets	1,912,999.9	1,839,983.0	-73,016.9	-3.8%
Depreciation	-1,056,414.7	-1,010,035.0	46,379.7	-4.4%
Impairment	-26,985.9	-27,014.0	-28.1	0.1%
<i>Net tangible fixed assets</i>	<i>829,599.3</i>	<i>802,934.0</i>	<i>-26,665.3</i>	<i>-3.2%</i>
Gross intangible fixed assets	376,423.7	390,924.2	14,500.5	3.9%
Amortisation	-290,962.2	-299,183.3	-8,221.1	2.8%
Impairment	-8.9	-8.9	0.0	0.0%
<i>Net intangible fixed assets</i>	<i>85,452.6</i>	<i>91,732.0</i>	<i>6,279.4</i>	<i>7.3%</i>
Total	915,051.9	894,666.0	-20,385.9	-2.2%

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

As at 31 December 2014, the balance sheet value of the item comprised mainly real estates, machines, devices and IT software.

Note 6 Other financial assets

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Shares and equities in domestic entities	53,848.9	53,848.9	0.0	0.0%
Shares and equities in foreign entities	128,353.8	139,644.5	11,290.7	8.8%
Total	182,202.7	193,493.4	11,290.7	6.2%

The item comprises shares and equities that NBP holds in domestic entities (including the Central Securities Depository of Poland [Krajowy Depozyt Papierów Wartościowych S.A., KDPW S.A.], the National Clearing House [Krajowa Izba Rozliczeniowa, KIR S.A.], 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 increase in the item resulted mainly from the change in NBP's participating interest in the ECB's capital as well as from the currency revaluation of shares and equities in foreign entities.

Since 1 May 2004, i.e. the day of Poland's accession to the European Union, NBP has had participating interest in the ECB's capital. As at 31 December 2014, the amount of the capital paid up by NBP to the ECB was PLN 88,639.6 thousand (EUR 20,796.2 thousand).

In accordance with Article 28 of the Statute of the European System of Central Banks and the European Central Bank, hereinafter referred to as the "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). The subscription key of the ECB capital is regularly updated at five year intervals, as well as at the moment of accession of a new country to the European Union. The last regular update of the key took place on 1 January 2014. As a result, the share of NBP in the ECB's subscribed capital increased from 4.8581% to 5.1230%, which corresponded to the increase in participating interest from EUR 525,889.7 thousand to EUR 554,565.1 thousand.

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 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, NBP has no right to participate in the ECB's profits nor is required to cover its losses. As a result of the last update of ECB capital subscription key on 1 January 2014, the level of the capital paid up by NBP to the ECB increased from EUR 19,720.9

thousand to EUR 20,796.2 thousand. Upon entry of Poland into the euro area, NBP will be required to pay up the remaining 96.25% of the ECB's capital subscribed by it, i.e. EUR 533,768.9 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.

in EUR	Capital subscription key		Subscribed capital		Paid-up capital	
	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014
Oesterreichische Nationalbank	1.9370%	1.9631%	209,680,386.94	212,505,713.78	209,680,386.94	212,505,713.78
Nationale Bank van België	2.4176%	2.4778%	261,705,370.91	268,222,025.17	261,705,370.91	268,222,025.17
Central Bank of Cyprus	0.1333%	0.1513%	14,429,734.42	16,378,235.70	14,429,734.42	16,378,235.70
Eesti Pank/Bank of Estonia	0.1780%	0.1928%	19,268,512.58	20,870,613.63	19,268,512.58	20,870,613.63
Suomen Pankki/Finlands Bank	1.2456%	1.2564%	134,836,288.06	136,005,388.82	134,836,288.06	136,005,388.82
Banque de France	14.1342%	14.1792%	1,530,028,149.23	1,534,899,402.41	1,530,028,149.23	1,534,899,402.41
Bank of Greece	1.9483%	2.0332%	210,903,612.74	220,094,043.74	210,903,612.74	220,094,043.74
Banco de España	8.2533%	8.8409%	893,420,308.48	957,028,050.02	893,420,308.48	957,028,050.02
De Nederlandsche Bank	3.9663%	4.0035%	429,352,255.40	433,379,158.03	429,352,255.40	433,379,158.03
Central Bank of Ireland	1.1111%	1.1607%	120,276,653.55	125,645,857.06	120,276,653.55	125,645,857.06
Banque centrale du Luxembourg	0.1739%	0.2030%	18,824,687.29	21,974,764.35	18,824,687.29	21,974,764.35
Latvijas Banka*	-	0.2821%	-	30,537,344.94	-	30,537,344.94
Central Bank of Malta	0.0635%	0.0648%	6,873,879.49	7,014,604.58	6,873,879.49	7,014,604.58
Deutsche Bundesbank	18.7603%	17.9973%	2,030,803,801.28	1,948,208,997.34	2,030,803,801.28	1,948,208,997.34
Banco de Portugal	1.7636%	1.7434%	190,909,824.68	188,723,173.25	190,909,824.68	188,723,173.25
Národná banka Slovenska	0.6881%	0.7725%	74,486,873.65	83,623,179.61	74,486,873.65	83,623,179.61
Banka Slovenije	0.3270%	0.3455%	35,397,773.12	37,400,399.43	35,397,773.12	37,400,399.43
Banca d'Italia	12.4570%	12.3108%	1,348,471,130.66	1,332,644,970.33	1,348,471,130.66	1,332,644,970.33
<i>National central banks in the euro area total</i>	<i>69.5581%</i>	<i>69.9783%</i>	<i>7,529,669,242.48</i>	<i>7,575,155,922.19</i>	<i>7,529,669,242.48</i>	<i>7,575,155,922.19</i>
Българска народна банка	0.8644%	0.8590%	93,571,361.11	92,986,810.73	3,508,926.04	3,487,005.40
Croatian National Bank	0.5945%	0.6023%	64,354,667.03	65,199,017.58	2,413,300.01	2,444,963.16
Česka národní banka	1.4539%	1.6075%	157,384,777.79	174,011,988.64	5,901,929.17	6,525,449.57
Danmarks Nationalbank	1.4754%	1.4873%	159,712,154.31	161,000,330.15	5,989,205.79	6,037,512.38
Lietuvos bankas	0.4093%	0.4132%	44,306,753.94	44,728,929.21	1,661,503.27	1,677,334.85
Latvijas Banka*	0.2742%	-	29,682,169.38	-	1,113,081.35	-
Narodowy Bank Polski	4.8581%	5.1230%	525,889,668.45	554,565,112.18	19,720,862.57	20,796,191.71
Banca Națională a României	2.4449%	2.6024%	264,660,597.84	281,709,983.98	9,924,772.42	10,564,124.40
Sveriges Riksbank	2.2612%	2.2729%	244,775,059.86	246,041,585.69	9,179,064.74	9,226,559.46
Magyar Nemzeti Bank	1.3740%	1.3798%	148,735,597.14	149,363,447.55	5,577,584.89	5,601,129.28
Bank of England	14.4320%	13.6743%	1,562,265,020.29	1,480,243,941.72	58,584,938.26	55,509,147.81
<i>National central banks outside the euro area total</i>	<i>30.4419%</i>	<i>30.0217%</i>	<i>3,295,337,827.14</i>	<i>3,249,851,147.43</i>	<i>123,575,168.51</i>	<i>121,869,418.02</i>
Total	100.0%	100.0%	10,825,007,069.61	10,825,007,069.61	7,653,244,410.99	7,697,025,340.21

* On 1 January 2014 Latvia joined the euro area.

Note 7 Off-balance-sheet instruments revaluation differences

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Currency revaluation differences	73.9	38,707.2	38,633.3	52,277.8%
Price revaluation differences	386.5	122.4	-264.1	-68.3%
Total	460.4	38,829.6	38,369.2	8,333.9%

The item 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 item comprises accruals on discount expenses related to securities issued in domestic currency and prepaid expenses related to services.

As at 31 December 2014 this item amounted to PLN 16,217.7 thousand and was by PLN 15,772.5 thousand (49.3%) lower as compared with 31 December 2013. The decrease in the item resulted from lower amount of discount to be amortised on monetary bills issued by NBP (see Note 11) and balance of prepaid expenses related to services concerning NBP's own administrative activities.

Note 9 Sundry

The item comprises mainly current assets (including precious metals), 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 2014 this item amounted to PLN 173,620.5 thousand and was by PLN 746.5 thousand (0.4%) higher as compared with 31 December 2013. The increase in the item resulted mainly from the increase in the stock of precious metals with a simultaneous decrease of the balance arising from the adjustment of off-balance-sheet items in foreign currency to the average cost of foreign currency holding and other receivables.

Note 10 Banknotes and coins in circulation

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Domestic banknotes in circulation	122,450,701.2	138,955,416.2	16,504,715.0	13.5%
Domestic coins in circulation	3,692,062.1	3,973,389.8	281,327.7	7.6%
Total	126,142,763.3	142,928,806.0	16,786,042.7	13.3%

The item comprises banknotes and coins in circulation issued by NBP, including collector banknotes and coins, whose value as at 31 December 2014 amounted to PLN 267,769.5 thousand as compared with PLN 258,932.3 thousand as at 31 December 2013.

The average level of banknotes and coins in circulation throughout 2014 amounted to PLN 132,291.9 million as compared with PLN 120,083.2 million in 2013.

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

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Current accounts (incl. the required minimum reserve accounts)	38,125,710.1	47,218,516.7	9,092,806.6	23.8%
Deposit facilities	0.0	1,740,047.7	1,740,047.7	-
Other monetary policy operations	117,340,800.0	84,661,440.0	-32,679,360.0	-27.8%
Total	155,466,510.1	133,620,004.4	-21,846,505.7	-14.1%

The item comprises liabilities related to monetary policy operations conducted by NBP. They include:

- liabilities to domestic banks due to the issue of securities – monetary bills issued by 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,
 - accounts of the required minimum reserve of banks not holding the current account with NBP,
 - account of the required minimum reserve of the National Association of Credit Unions [Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa, KSKOK], used for maintaining funds representing the required minimum reserve of credit unions and KSKOK,
- liabilities to domestic banks due to deposit facilities.

The decrease in the item resulted mainly from the decrease in liabilities due to issue of monetary bills, with a simultaneous increase in liabilities due to current accounts and deposit facilities.

Note 12 Other liabilities to other domestic monetary financial institutions denominated in domestic currency

The item comprises liabilities to banks due to operations unrelated to monetary policy. Its main component are liabilities resulting from:

- payment orders of NBP's customers submitted for settlement in the domestic payment system ELIXIR via KIR S.A., which were under settlement as at 31 December 2014,
- funds in the trust account operated by NBP for KIR S.A., which is used to settle payments in Express ELIXIR system.

As at 31 December 2014 this item amounted to PLN 166,764.2 thousand and was by PLN 9,042.3 thousand (5.7%) higher as compared with 31 December 2013. The increase in the item resulted mainly from the increase in liabilities due to the aforementioned titles.

Note 13 Liabilities to other residents denominated in domestic currency

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Liabilities to general government	3,484,639.9	4,380,658.1	896,018.2	25.7%
Other liabilities	69,023.9	16,395.3	-52,628.6	-76.2%
Total	3,553,663.8	4,397,053.4	843,389.6	23.7%

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

The increase in the item resulted mainly from the increase in the balance of funds held on auxiliary accounts of social insurance funds and the State budget accounts as well as the balance of term deposits of the State budget.

Note 14 Liabilities to non-residents denominated in domestic currency

The item comprises current accounts in domestic currency operated by NBP for international financial and non-financial organisations and central banks, including the account in domestic

currency operated by NBP for the IMF, which is used for the Fund's administrative expenditures (so-called No. 2 Account).

As at 31 December 2014 this item amounted to PLN 334,379.3 thousand and was by PLN 182,627.0 thousand (35.3%) lower as compared with 31 December 2013. The decrease in the item resulted mainly from the decrease in funds held on the accounts of international organisations.

Note 15 Liabilities to residents denominated in foreign currency

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
State budget accounts	4,203,008.0	16,238,494.7	12,035,486.7	286.4%
Accounts of domestic banks for settlements in the TARGET2 system	1,530,042.7	344,115.2	-1,185,927.5	-77.5%
Other	195,158.3	495,364.7	300,206.4	153.8%
Total	5,928,209.0	17,077,974.6	11,149,765.6	188.1%
<i>of which currency revaluation differences</i>	<i>-4,545.9</i>	<i>432,614.7</i>	<i>437,160.6</i>	<i>-9,616.6%</i>

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

- the State budget – current, auxiliary and term deposit accounts,
- domestic banks – current accounts in EUR used for settlements in the TARGET2 system.

The increase in the item resulted mainly from the increase in funds in foreign currency held on the accounts of the State budget, with a simultaneous decrease in the balance of funds on the accounts of domestic banks used for settlements in the TARGET2 system.

Note 16 Liabilities to non-residents denominated in foreign currency

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Repo transactions in foreign currency	16,195,752.7	13,221,902.6	-2,973,850.1	-18.4%
Other	146,092.4	151,927.3	5,834.9	4.0%
Total	16,341,845.1	13,373,829.9	-2,968,015.2	-18.2%
<i>of which currency revaluation differences</i>	<i>504,086.4</i>	<i>1,197,822.9</i>	<i>693,736.5</i>	<i>137.6%</i>

The item comprises mainly repo transactions in foreign currency carried out with foreign financial institutions. Under NBP's investment policies, these transactions are usually executed simultaneously with reverse repo transactions in foreign currency (see Note 3).

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

Note 17 Liabilities to the IMF

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Liabilities to the IMF	6,046,345.7	6,623,949.5	577,603.8	9.6%
<i>of which currency revaluation differences</i>	-178,014.6	566,029.7	744,044.3	-418.0%

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

The increase in the item resulted mainly from SDR currency revaluation.

Note 18 Off-balance-sheet instruments revaluation differences

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Currency revaluation differences	4,155.1	0.0	-4,155.1	-100.0%
Price revaluation differences	53.4	233.1	179.7	336.5%
Total	4,208.5	233.1	-3,975.4	-94.5%

The item 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 item comprises accruals and deferred income.

As at 31 December 2014 this item amounted to PLN 195,261.9 thousand and was by PLN 4,296.4 thousand (2.2%) lower as compared with 31 December 2013. The decrease in the item resulted mainly from the decrease in the balance of deferred income.

Note 20 Sundry

The item 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 2014 this item amounted to PLN 123,234.5 thousand and was by PLN 70,467.9 thousand (133.5%) higher as compared with 31 December 2013. The increase in the item resulted mainly from higher balances arising from the adjustment of off-balance-sheet items in foreign currency to the average cost of foreign currency holding (see Note 25).

Note 21 Provisions for future liabilities

The item comprises mainly provisions for future liabilities to employees due to retirement severance payments, disability severance payments, jubilee awards and untaken leaves as well as severance payments and additional benefits.

As at 31 December 2014 this item amounted to PLN 163,958.6 thousand and was by PLN 40,378.9 thousand (32.7%) higher as compared with 31 December 2013. The increase in the item resulted mainly from the increase in provisions for severance payments and additional employee benefits, in connection with the commencement of implementation of the *Programme of employment optimisation in NBP* in 2014.

Note 22 Revaluation accounts

PLN thousand	31.12.2013	31.12.2014	Change	
Gold revaluation account	1,618,023.2	1,618,023.2	0.0	0.0%
Currency revaluation gains, of which	8,776,418.2	30,152,500.2	21,376,082.0	243.6%
- on gold	7,638,688.3	9,580,871.8	1,942,183.5	25.4%
- on foreign currencies	1,137,729.9	20,571,628.4	19,433,898.5	1,708.1%
Price revaluation gains, of which	344,783.5	2,803,062.3	2,458,278.8	713.0%
- on securities	344,397.0	2,802,939.9	2,458,542.9	713.9%
- on off-balance-sheet financial instruments	386.5	122.4	-264.1	-68.3%
Total	10,739,224.9	34,573,585.7	23,834,360.8	221.9%

As at 31 December 2014, the value of the item resulted mainly from currency revaluation gains on gold and foreign currencies, in particular: USD, GBP, EUR and AUD.

Currency revaluation gains are determined for:

- gold – by comparing 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 comparing 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
	31.12.2013		31.12.2014	
AUD	2.9664699547	2.6864	2.7589624338	2.8735
BRL	1.5097846268	1.2753	1.2827101828	1.3197
CAD	3.0279148071	2.8297	2.9077736326	3.0255
CHF	3.4035020298	3.3816	3.5054219646	3.5447
CZK	0.1606971177	0.1513	0.1512647539	0.1537
DKK	0.5564783132	0.5560	0.5578631243	0.5725
EUR	4.1447379246	4.1472	4.1658064400	4.2623
GBP	4.8180689389	4.9828	4.9752598745	5.4648
HUF	0.0141905208	0.0140	0.0138589620	0.0135
JPY	0.0304371447	0.0287	0.0292789021	0.0294
MXN	0.2497819256	0.2302	0.2305324942	0.2382
NOK	0.5252774756	0.4953	0.4934243647	0.4735
NZD	2.5826789367	2.4741	2.5911742231	2.7500
SEK	0.4781631214	0.4694	0.4594143867	0.4532
USD	3.0693482142	3.0120	3.0697564838	3.5072
SDR	4.7701239618	4.6337	4.6429772859	5.0768
ounce of gold*	1,310.3996257646	3,618.9180	1,310.7821428807	4,206.0096

*Price of an ounce of gold expressed in USD was, respectively: USD 1,201.50 as at 31.12.2013 and USD 1,199.25 as at 31.12.2014.

Price revaluation gains on securities are determined by comparing 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 2014, price revaluation gains related mainly to interest-bearing securities denominated in AUD, GBP, USD, EUR and NOK.

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

Due to the fact that as at 31 December 2014:

- no unrealised gold revaluation losses occurred,

- no decrease in gold holding as compared with the holding at the balance-sheet date of the previous financial year was recorded,
NBP did not release the gold revaluation account.

Note 23 Capital and reserves

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Statutory fund	1,500,000.0	1,500,000.0	0.0	0.0%
Reserve fund	1,243,645.5	1,243,645.5	0.0	0.0%
Reserves	4,696,287.6	8,740,388.2	4,044,100.6	86.1%
Total	7,439,933.1	11,484,033.7	4,044,100.6	54.4%

The item 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 NBP's annual profit until it reaches the amount equivalent to the statutory fund. Reserve fund may only be used to cover NBP's balance sheet losses,
- the provision against the foreign exchange rate risk of the zloty, created as provided for in Article 65 of the Act on the NBP.

The increase in the item resulted from the replenishment of the provision against the foreign exchange rate risk of the zloty in the amount of PLN 4,044,100.6 thousand.

Note 24 Financial result

The item comprises:

- financial result for the current year, which was zero (see Note 44),
- portion of NBP's loss for the year 2007, which was not covered by the reserve fund; as at 31 December 2014 the item amounted to PLN 11,457,911.7 thousand and remained unchanged as compared with 31 December 2013.

7. Explanatory notes to off-balance-sheet items

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

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Receivables arising from spot transactions, of which	127,080.5	1,726,409.7	1,599,329.2	1,258.5%
- receivables denominated in foreign currency	127,080.5	1,726,409.7	1,599,329.2	1,258.5%
Liabilities arising from spot transactions, of which	127,080.5	1,726,409.7	1,599,329.2	1,258.5%
- liabilities denominated in domestic currency	965.2	1,726,409.7	1,725,444.5	178,765.5%
- liabilities denominated in foreign currency	126,115.3	0.0	-126,115.3	-100.0%

The increase in individual items resulted from a higher volume of spot foreign exchange transactions carried out by NBP towards the end of the year.

Note 26 Off-balance-sheet financial instruments

<i>PLN thousand</i>	31.12.2013	31.12.2014	Change	
Securities denominated in foreign currency purchased in forward transactions	369,883.9	269,408.5	-100,475.4	-27.2%
Securities denominated in foreign currency sold in forward transactions	0.0	1,290,305.7	1,290,305.7	-
Futures denominated in foreign currency - sales	0.0	87,582.7	87,582.7	-

The item comprises off-balance-sheet financial instruments used by NBP under foreign exchange reserves management.

As at 31 December 2014 the increase in the item was related to:

- a higher volume of forward transactions in securities carried out by NBP towards the end of the year,
- commencement of the execution of bond futures in the second half of 2014.

Note 27 Limits on loans in foreign currency extended to the IMF

As of 15 November 2011, 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, NBP has made a commitment to extend to the IMF an interest-bearing loan of up to SDR 2,528,590.0 thousand. The funds are transferred by NBP at the request of the IMF.

As at 31 December 2014, NBP's commitment under the NAB amounted to SDR 2,224,117.5 thousand (PLN 11,291,399.7 thousand according to the average NBP exchange rate as at the balance sheet date) as a result of:

- transferring SDR 407,000.0 thousand by NBP to the IMF in the years 2011-2014 (in 2011: SDR 174,000.0 thousand; in 2012: SDR 127,000.0 thousand; in 2013: SDR 51,600.0 thousand; and in 2014: SDR 54,400.0 thousand, respectively),
- receiving a loan repayment of SDR 102,527.5 thousand by NBP from the IMF in the years 2012-2014 (in 2012: SDR 2,500.0 thousand; in 2013: SDR 27,200.0 thousand; and in 2014: SDR 72,827.5 thousand, respectively).

On 15 March 2013, NBP and the IMF concluded a bilateral loan agreement, in accordance with which NBP committed to extend an interest-bearing loan to the IMF up to the amount of the SDR equivalent of EUR 6,270,000.0 thousand. The funds are to be transferred by NBP at the request of the IMF. The IMF will be able to use these funds provided that it exhausts other available resources originating from member countries' quotas and loans under the NAB.

As at 31 December 2014, NBP's commitment to the bilateral loan agreement with the IMF amounted to EUR 6,270,000.0 thousand (PLN 26,724,621.0 thousand according to the average NBP exchange rate as at the balance sheet date) as the IMF did not use any of these funds in 2014.

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

As at 31 December 2014, other items recognised on off-balance-sheet accounts mainly related to:

- collateral received by NBP, related to NBP's own administrative activities, in the amount of PLN 28,374.3 thousand (as at 31 December 2013 – PLN 27,961.8 thousand),
- contingent assets claimed by NBP in the amount of PLN 124.4 thousand (as at 31 December 2013 – PLN 126.5 thousand).

Interest due from Bank Handlowo-Kredytowy S.A. in 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 2013.

8. Explanatory notes to profit and loss account

Nota 29 Interest, discount and premium income

<i>PLN thousand</i>	2013	2014	Change	
Interest and discount income on securities denominated in foreign currency	5,728,837.3	5,582,841.0	-145,996.3	-2.5%
Interest income on NBP's bank accounts denominated in foreign currency and gold	373,436.1	371,755.6	-1,680.5	-0.5%
Interest income on credits and loans, of which	1,854.6	1,819.6	-35.0	-1.9%
- in foreign currency	1,219.4	1,326.9	107.5	8.8%
- in domestic currency	635.2	492.7	-142.5	-22.4%
Other income	8,112.2	8,727.3	615.1	7.6%
Total	6,112,240.2	5,965,143.5	-147,096.7	-2.4%

The item comprises mainly interest and discount income on the main investment instruments of foreign exchange reserves (see Note 3).

In 2014 the decrease in the item resulted mainly from:

- lower by PLN 145,996.3 thousand income on securities denominated in foreign currency, which was caused by:
 - a decline in interest income by PLN 238,667.0 thousand, arising mainly from the lower average annual interest rate on securities denominated in AUD, GBP, NOK,
 - an increase in discount income by PLN 92,670.7 thousand;
- lower by PLN 1,680.5 thousand interest income on NBP's bank accounts, which was caused by:
 - a decrease in interest income on term deposits denominated in foreign currency by PLN 33,103.9 thousand,
 - recognition of interest income on term deposits in gold in the amount of PLN 15,840.5 thousand (see Note 1),
 - an increase in interest income on reverse repo transactions denominated in foreign currency by PLN 15,566.9 thousand.

The change in interest, discount and premium income on investment instruments of foreign exchange reserves in 2014 was significantly affected by:

- a decrease in the average annual level of foreign exchange reserves (their average level amounted to EUR 66,035.1 million in 2014 as compared with EUR 69,759.4 million in 2013),
- a change in average annual exchange rates of the zloty – appreciation of the zloty against USD, EUR, AUD, NOK, BRL and MXN, and a simultaneous depreciation of the zloty against GBP and NZD (see table below presenting the average annual exchange rates).

Moreover, in 2014 there was a decrease in interest income on the current account with the IMF and on the reserve tranche by PLN 206.0 thousand recognised in the item *Other income*. At the same time, an increase was recorded in interest income on the loans extended to the IMF under the NAB, by PLN 107.5 thousand, recognised in the item *Interest income on credits and loans* (see Note 2).

The average annual exchange rates of the zloty in 2013-2014 are presented below.

PLN	Average annual exchange rate			
	2013	2014	Change	
USD	3.1608	3.1551	-0.0057	-0.2%
EUR	4.1975	4.1852	-0.0123	-0.3%
GBP	4.9437	5.1934	0.2497	5.1%
AUD	3.0587	2.8437	-0.2150	-7.0%
NOK	0.5383	0.5009	-0.0374	-6.9%
NZD	2.5914	2.6165	0.0251	1.0%
BRL	1.4711	1.3420	-0.1291	-8.8%
MXN	0.2478	0.2370	-0.0108	-4.4%

Note 30 Interest, discount and premium expenses

PLN thousand	2013	2014	Change	
Premium expenses on securities denominated in foreign currency	3,275,046.9	2,805,604.1	-469,442.8	-14.3%
Interest and discount expenses on issued securities denominated in domestic currency	3,767,401.6	2,633,208.1	-1,134,193.5	-30.1%
Interest expenses on bank accounts operated by NBP in foreign currency	52,752.7	67,190.9	14,438.2	27.4%
Interest expenses on bank accounts operated by NBP in domestic currency, of which	938,499.8	803,854.2	-134,645.6	-14.3%
- on required minimum reserve	877,957.3	763,929.4	-114,027.9	-13.0%
- on deposit facilities	6,063.7	3,029.9	-3,033.8	-50.0%
Other expenses	5,282.1	10,383.5	5,101.4	96.6%
Total	8,038,983.1	6,320,240.8	-1,718,742.3	-21.4%

The item comprises mainly interest, discount and premium expenses on instruments used by 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 NBP.

In 2014 the decrease in the item resulted mainly from:

- lower by PLN 1,134,193.5 thousand discount expenses on issued securities denominated in domestic currency, due to a decrease in the issue of NBP monetary bills under open market operations (the level of main operations in average annual terms² in 2014 amounted to PLN 107,190.6 million as compared with PLN 124,280.4 million in 2013, and the level of fine-tuning operations amounted to PLN 1,238.2 million in 2014 as compared with PLN 1,845.9 million in 2013), as well as due to a decrease in the average annual level of reference rate that determines the yield on monetary bills, from 2.94% in 2013 to 2.38% in 2014,
- lower by PLN 469,442.8 thousand premium expenses on securities denominated in foreign currency, mainly due to the decrease in the average annual level of foreign exchange reserves (see Note 29) and appreciation of the zloty against USD, EUR, AUD, NOK and MXN in average annual terms (see Note 29 – the table of average annual exchange rates),
- lower by PLN 134,645.6 thousand interest expenses on bank accounts operated by NBP in domestic currency. This change stemmed primarily from lower interest expenses on the required minimum reserves, which mainly resulted from the decline in the average annual interest rate on the required minimum reserve from 2.87% in 2013 to 2.32% in 2014³, with a simultaneous increase in the average level of the required minimum reserve from PLN 30,585 million in 2013 to PLN 32,991 million in 2014⁴,
- higher by PLN 14,438.2 thousand interest expenses on bank accounts operated by NBP in foreign currency, which mainly resulted from the increase in interest expenses on repo transactions in foreign currency by PLN 14,203.5 thousand.

Moreover, in 2014 there was an increase by PLN 305.8 thousand in interest expenses on liabilities to the IMF due to the SDR allocation recognised in the item *Other expenses* (see Note 17).

² To calculate average annual values, all calendar days from 1 January to 31 December of each year were taken into account.

³ In accordance with the *Resolution No. 7/2014 of the MPC of 8 October 2014 amending the resolution concerning the required minimum reserve ratio, credit unions, the National Association of Credit Unions and the remuneration of the required minimum reserve* as of 9 October 2014, funds of the required minimum reserve bear interest of 0.9 of the NBP reference rate. Until 8 October 2014 the interest rate on funds of the required minimum reserve amounted to 0.9 of rediscount rate.

⁴ Amounts calculated taking into account the reserve periods weighted by the number of days in the period.

Note 31 Income on financial operations

<i>PLN thousand</i>	2013	2014	Change	
Realised foreign exchange gains	5,138,756.2	5,150,923.0	12,166.8	0.2%
Realised price gains, of which	1,750,310.7	1,746,508.8	-3,801.9	-0.2%
- on spot transactions in securities	1,502,492.0	1,466,344.1	-36,147.9	-2.4%
- on off-balance-sheet financial instruments, of which	247,818.7	280,164.7	32,346.0	13.1%
* on forward transactions in securities	247,818.7	276,902.5	29,083.8	11.7%
* on futures	0.0	3,262.2	3,262.2	-
Other income on financial operations	2.7	1.4	-1.3	-48.1%
Total	6,889,069.6	6,897,433.2	8,363.6	0.1%

The item comprises mainly:

- realised foreign exchange gains on foreign currency transactions,
- realised price gains on the sale of securities in spot transactions,
- realised price gains on the settlement of forward transactions in securities,
- realised price gains on daily revaluation of bond futures denominated in foreign currency.

In 2014 the increase in the item resulted mainly from:

- higher realised price gains on forward transactions in securities denominated in AUD and EUR, with simultaneously lower gains on forward transactions in securities denominated in GBP,
- higher realised foreign exchange gains on transactions in USD, NZD and AUD, with simultaneously lower gains on transactions in EUR, NOK and GBP,
- recognition of realised price gains on revaluation of bond futures denominated in GBP, USD and EUR (see Note 26),
- lower realised price gains on the spot sale transactions of interest-bearing securities denominated in EUR and AUD, with simultaneously higher gains on the spot transactions in USD and GBP.

Note 32 Expenses on financial operations

PLN thousand	2013	2014	Change	
Realised foreign exchange losses	651,799.9	235,124.4	-416,675.5	-63.9%
Realised price losses, of which	1,873,391.4	392,922.5	-1,480,468.9	-79.0%
- on spot transactions in securities	1,627,679.8	240,704.2	-1,386,975.6	-85.2%
- on off-balance-sheet financial instruments, of which	245,711.6	152,218.3	-93,493.3	-38.1%
* on forward transactions in securities	245,711.6	149,651.0	-96,060.6	-39.1%
* on futures	0.0	2,567.3	2,567.3	-
Other expenses on financial operations	2.8	4.6	1.8	64.3%
Total	2,525,194.1	628,051.5	-1,897,142.6	-75.1%

The item 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,
- realised price losses on daily revaluation of bond futures denominated in foreign currency.

In 2014 the decrease in the item resulted mainly from:

- lower realised price losses on the spot sale transactions of interest-bearing securities denominated in EUR, GBP, USD and AUD,
- lower realised foreign exchange losses on transactions in AUD and NZD,
- lower realised price losses on forward transactions in securities denominated in GBP and AUD,
- recognition of realised price losses on revaluation of bond futures denominated in GBP, USD and EUR (see Note 26).

Note 33 Unrealised losses

PLN thousand	2013	2014	Change	
Foreign currency revaluation losses	6,815,972.9	843,913.5	-5,972,059.4	-87.6%
Price revaluation losses, of which	1,457,878.3	26,782.5	-1,431,095.8	-98.2%
- price revaluation losses on securities	1,457,824.9	26,549.4	-1,431,275.5	-98.2%
- price revaluation losses on off-balance-sheet instruments	53.4	233.1	179.7	336.5%
Total	8,273,851.2	870,696.0	-7,403,155.2	-89.5%

In 2014 the amount of losses was mainly the effect of foreign currency revaluation losses as at 31 December 2014.

Foreign currency revaluation losses are determined by comparing the average cost of foreign currency holding with the average NBP exchange rate, which is lower than the average cost (see Note 22). In 2014, foreign currency revaluation losses mainly related to NOK.

Price revaluation losses on securities are determined by comparing 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 2014, price revaluation losses mainly related to interest-bearing securities denominated in USD and BRL.

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 on financial assets / expenses on transfers to risk provisions and on write-downs on financial assets

In 2014, expenses in the amount of PLN 4,044,100.6 thousand resulted from the replenishment of the provision against the foreign exchange rate risk of the zloty in the amount which does not lead to a negative financial result (see Note 23).

In 2013, income in the amount of PLN 6,761,624.1 thousand resulted from a partial use of the provision against the foreign exchange rate risk of the zloty in connection with unrealised foreign exchange revaluation losses recorded at the end of 2013, in the amount which could lead to a loss.

Note 35 Fees and commissions income

The item comprises mainly fees and commissions income on execution of payment orders by NBP, operation of bank accounts and participation in the TARGET2 system.

In 2014 the item amounted to PLN 34,919.0 thousand and was by PLN 1,182.9 thousand (3.5%) higher as compared with 2013.

Note 36 Fees and commissions expenses

The item comprises fees and commissions expenses incurred by NBP due to:

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

- execution of own payment orders.

In 2014 the item amounted to PLN 34,773.4 thousand and was by PLN 2,803.6 thousand (7.5%) lower as compared with 2013.

Note 37 Income on shares and equities

<i>PLN thousand</i>	2013	2014	Change	
Income on shares and equities in domestic entities	5,159.9	1,587.5	-3,572.4	-69.2%
Income on shares and equities in foreign entities	12,583.0	8,100.9	-4,482.1	-35.6%
Total	17,742.9	9,688.4	-8,054.5	-45.4%

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

In 2014 the income comprised the total of dividend proceeds from shares in the National Clearing House and in the Bank for International Settlements in Basel.

Note 38 Other income

The item comprises mainly income on the sale of collector coins and banknotes, income on precious metals obtained from the remelting of collector coins withdrawn from sale (see Note 9), income on sale of tangible fixed assets, rental of office premises and sale of IT services.

In 2014 the item amounted to PLN 175,323.4 thousand and was by PLN 1,458.6 thousand (0.8%) lower as compared with 2013.

Note 39 Salaries and social contributions

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

In 2014 the item amounted to PLN 483,021.5 thousand and was by PLN 5,393.5 thousand (1.1%) higher as compared with 2013. The increase in the item resulted mainly from higher, by PLN 6,838.4 thousand (1.8%), expenses on salaries as well as higher, by PLN 1,015.5 thousand (1.2%), expenses on social contributions, with a simultaneous decrease in expenses on provisions for future liabilities to employees by PLN 2,460.4 thousand (15.2%), in line with the adopted Human Resources and payroll policy.

Note 40 Administrative expenses

<i>PLN thousand</i>	2013 data from the approved financial statements	2013 comparable data*	2014	Change	
Materials and energy used	33,552.7	33,621.4	31,310.5	-2,310.9	-6.9%
Benefits for employees and other eligible persons	16,283.1	19,122.0	49,377.3	30,255.3	158.2%
Business travels	7,612.6	4,705.0	4,535.3	-169.7	-3.6%
Services from third parties	145,882.2	145,882.2	131,277.1	-14,605.1	-10.0%
Taxes and fees	21,586.9	21,586.9	28,314.7	6,727.8	31.2%
Transfers to special funds	4,726.2	4,726.2	4,677.7	-48.5	-1.0%
Other administrative expenses	30,638.9	30,638.9	54,230.8	23,591.9	77.0%
Total	260,282.6	260,282.6	303,723.4	43,440.8	16.7%

* In 2014 reclassification of selected categories of expenses was performed in order to better reflect the resources used.

The increase in the item resulted mainly from higher:

- expenses on benefits for employees and other eligible persons due to the increase by NBP of the provision for severance payments and additional benefits for employees (see Note 21),
- other administrative expenses, which was related to the organisation of the Annual Meeting of the Board of Governors of the European Bank for Reconstruction and Development by NBP in May 2014,

with a simultaneous reduction of expenses on services from third parties, in particular expenses on renovation, repairs, maintenance and overhauls services.

Note 41 Depreciation and amortisation expenses

<i>PLN thousand</i>	2013	2014	Change	
Tangible fixed assets depreciation expenses	63,988.2	61,262.3	-2,725.9	-4.3%
Intangible fixed assets amortisation expenses	15,532.6	19,635.0	4,102.4	26.4%
Total	79,520.8	80,897.3	1,376.5	1.7%

In 2014 tangible fixed assets depreciation expenses related mainly to the depreciation of machines and devices as well as buildings and premises, while intangible fixed assets amortisation expenses related to IT software.

Note 42 Expenses on issue of banknotes and coins

The item comprises the expenses on issue of banknotes and coins, including collector banknotes and coins.

In 2014 the item amounted to PLN 290,786.9 thousand and was by PLN 21,994.8 thousand (8.2%) higher as compared with 2013. The increase in the item resulted mainly from:

- higher expenses on issuing banknotes due to an increase in the number of orders for general circulation banknotes with modernised security features,
- increase in the expenses on issuing collector coins in connection with higher expenses on gold and silver used to mint them and the increase in the number of orders for collector coins,

with a simultaneous:

- reduction of the expenses on issuing general circulation coins, mainly in connection with lower prices of coins of the nominal value of 1 grosz, 2 grosz and 5 grosz (minted in brass-plated steel), introduced into circulation on 3 March 2014. The supplier of these coins is The Royal Mint from the United Kingdom, with whom NBP signed an agreement on 31 October 2013, as a result of the contract awarding procedure for the supply of the aforementioned coins to NBP in 2014-2016.

Note 43 Other expenses

The item comprises mainly expenses corresponding to the nominal value of collector coins and banknotes sold, expenses on increasing provisions for future liabilities and expenses due to write-downs on other assets and expenses on adjustments of income/expenses related to previous years.

In 2014 the item amounted to PLN 26,216.1 thousand and was by PLN 3,149.9 thousand (10.7%) lower as compared with 2013.

Note 44 Financial result for the current year and its allocation

The financial result of NBP for 2014 amounted to zero and it has not changed as compared with 2013.

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

- NBP reserve fund (5% of profit),
- the State budget, as NBP's contribution from profit.

As the financial result of NBP for 2014 amounted to zero, there will be no contribution to the State budget, nor allocation to NBP reserve fund in 2015.

9. Other explanatory notes

Note 45 Flexible Credit Line

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

The current Flexible Credit Line of SDR 22,000,000.0 thousand as at 31 December 2014 was granted to Poland on 18 January 2013 by the Executive Board of the IMF for two years (i.e. until 17 January 2015). The Government of the Republic of Poland was the authorising entity of the FCL, while NBP serviced it as the fiscal agency of the Government.

On 14 January 2015 the Executive Board of the IMF accepted the application of Poland for granting the renewed access to the Flexible Credit Line in the amount of SDR 15,500,000.0 thousand. The Republic of Poland received access to this IMF instrument for a period of two years (i.e. until 13 January 2017). As in the case of the instrument made available to Poland in 2013, the Government of the Republic of Poland is the authorising entity of the FCL, while NBP acts as the fiscal agency of the Government.

Note 46 Foundation of NBP

On 10 August 2009, NBP established the Foundation of Narodowy Bank Polski, 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 NBP Foundation amounted to PLN 1,500.0 thousand, of which PLN 750.0 thousand is earmarked for business activities. In connection with the decision on discontinuation of the business activity of the Foundation, on 10 December 2014 it was deleted from the Register of Entrepreneurs of the National Court Register and since then it has been conducting statutory activities only.

Note 47 Events after the balance sheet date

Until the day of approval of the financial statements, no events occurred of which information was received after the balance sheet date, and which would have significant impact on the contents of the financial statements.

10. Financial and operational risk

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

The risk management system embraces three inherently connected levels:

- decentralised operational risk management by directors of Head Office departments and NBP Regional Branches who, with the assistance of the so-called Risk Managers, identify and monitor operational risk, perform the assessment of its level and take measures mitigating its occurrence in their units;
- activities of:
 - the Financial Risk Management Department [Departament Zarządzania Ryzykiem Finansowym, DZRF] responsible for financial risk management,
 - the Operational Risk and Compliance Department [Departament Ryzyka Operacyjnego i Zgodności, DROZ] that, among others, develops regulations concerning operational risk, monitors and analyses operational risk and compliance risk at NBP, introduces new tools, reports on operational risk and compliance throughout the bank,
 - the Commission for Operational Risk Management (which replaced the Commission for Risk Management operating until the end of August 2014) that, among others, assesses the effectiveness of operational risk management in the bank as a whole and issues recommendations in this respect; the Commission is headed by a member of the Management Board of NBP appointed by the President of NBP to oversee DROZ,
- strategic decision-making by the Management Board of NBP, based on information concerning the financial and operational risk received on a cyclical basis.

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 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 the exposure to various types of risk under the

adopted constraints is monitored on an on-going basis by DZRF. The analysis of exposure to financial risk is presented to the Management Board of 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, NBP uses the following credit risk mitigation methods:

- limiting the share of term deposit transactions and non-government securities,
- counterparty selection criteria and on-going monitoring of their creditworthiness,
- limits imposed on counterparties of term deposit transactions and foreign 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 NBP using both data related to the financial position of counterparties and assignments of rating agencies as well as risk valuation reflected in market quotations.

The dominant portion of foreign exchange reserves is invested in government securities of high rating countries 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; the scale of investment in the corporate bond market is small. The share of term deposits in foreign exchange reserves is also low – transactions are concluded for short periods with banks of high creditworthiness.

Credit risk underlying domestic credit operations

To support the liquidity of the financial system, NBP makes available marginal lending facility (Lombard credit), intraday credit and intraday credit in euro to domestic banks. The risk underlying these operations is mitigated through the use of eligible collateral, i.e. meeting the criteria set by NBP. Treasury and NBP securities denominated in PLN are the primary collateral

presented by banks in credit operations, though the list of assets accepted as collateral comprises also other securities deposited with the Central Securities Depository of Poland, including covered bonds, municipal bonds, corporate bonds, bonds issued by the European Investment Bank denominated in PLN, as well as EUR denominated Treasury bonds.

When setting the required level of collateral, the haircut rate is applied, with the purpose to reduce the probability of a drop in the market value of the collateral below the value of extended credit as a result of unfavourable changes in the market price of securities and/or exchange rates. The haircut rate for marginal lending facility and intraday credit is set with the reference to the nominal value of accepted securities.

Intraday credit in euro is extended in accordance with the principles laid down by the ECB, and it may be collateralised by 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 Narodowy Bank Polski has the exclusive right to issue banknotes and coins of the Republic of Poland, NBP is capable of creating liquidity in domestic currency. It is, however, constrained by the responsibility of NBP for the stability of domestic currency. The assumptions of monetary policy are set annually by the MPC, which, based on the above assumptions, also approves the financial plan of NBP.

In the process of foreign exchange management, 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 are characterised by 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 NBP is modified duration that specifies the sensitivity 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, NBP defines the benchmark modified duration of foreign exchange reserves, along with admissible

fluctuation bands. In 2014 the level of modified duration applicable in the previous year was maintained.

The growth of risk aversion associated with geopolitical tensions, as well as the decreasing dynamics of global inflation and weaker economic data than expected, leading to easing of the monetary policy by some central banks, mainly by the ECB, resulted in the decline of yield in government securities, the most notable in Norway, Australia and Germany.

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 based on the 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, NBP defines the currency structure of the strategic benchmark, along with admissible fluctuation bands. As in the previous year, in 2014 the strategic benchmark currency composition was as follows: 36% USD, 32% EUR, 12% GBP, 10% AUD, 7% NOK and 3% NZD. In addition, 1.5% of the reserves were investments in currencies of developing countries – MXN and BRL.

In 2014 the volatility of exchange rates of reserve currencies against the zloty was at a lower level than observed in recent years. Factors contributing to the decline in the volatility of financial markets included, inter alia, the accommodative policy of major central banks and the application of the *forward guidance* policy.

10.2. Operational risk

Operational risk is the potential possibility of incurring financial or non-financial damages at NBP, resulting from inappropriate management or malfunction of 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 employee's error.

Operational risk encompasses the following risk sub-categories: management risk, safety risk, personnel risk, legal risk, technological risk, which is divided into ICT technological risk (related, inter alia to IT and ICT systems, IT software and hardware) and non-ICT technological risk (related, inter alia, to construction facilities and elements of mobile equipment).

Risk mitigation mechanisms used at NBP 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.

Director of the Accounting
and Finance Department
of Narodowy Bank Polski:

/-/ Grażyna Gielecińska

Management Board
of Narodowy Bank Polski:

/-/ Marek Belka
/-/ Piotr Wiesiołek
/-/ Anna Trzecińska
/-/ Jacek Bartkiewicz
/-/ Eugeniusz Gatnar
/-/ Andrzej Raczko
/-/ Paweł Samecki
/-/ Katarzyna Zajdel - Kurowska
/-/ Małgorzata Zaleska

Warsaw, 25 March 2015