

## INDEPENDENT AUDITOR'S REPORT

To the Monetary Policy Council of Narodowy Bank Polski

### Report on the Audit of the Financial Statements

We have audited the accompanying financial statements for the year ended 31 December 2016 of Narodowy Bank Polski ('NBP') with its registered office in Warsaw 00-919, at Świętokrzyska 11/21, which comprise the balance sheet as at 31 December 2016, the profit and loss account for the year ended 31 December 2016 and the notes ('the accompanying financial statements').

### Responsibilities of the NBP's Management Board for the Financial Statements

The NBP's Management Board is responsible for the preparation of the financial statements based on properly maintained accounting records and fair presentation of these financial statements in accordance with Act of 29 August 1997 on Narodowy Bank Polski (Journal of Laws of 2013, item 908 with subsequent amendments, 'Act on 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, No. 22, item 38 with subsequent amendments), 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, No. 17, item 19) and 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, with subsequent amendments (all together 'legal basis for the preparation of the financial statements of NBP'). The NBP's Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Act on NBP the NBP's Management Board is required to ensure that the financial statements meet the requirements of the legal basis for the preparation of the financial statements of NBP.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We conducted our audit in accordance with chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2016, item 1047 with subsequent amendments) and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution No 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud

or error. In making those risk assessments, the auditor considers internal control relevant to the NBP's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NBP's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by NBP's management, as well as evaluating the overall presentation of the financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the NBP as at 31 December 2016 and its financial performance for the year ended 31 December 2016 in accordance with the legal basis for the preparation of the financial statements of NBP;
- have been prepared based on properly maintained accounting records;
- are, in respect of the form and content, in accordance with legal regulations applicable to NBP.

Warsaw, 24 March 2017

Key Certified Auditor

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Arkadiusz Krasowski  
Certified Auditor  
no. 10018

on behalf of  
Ernst & Young Audyty Polska spółka  
z ograniczoną odpowiedzialnością sp. k.  
Rondo ONZ 1, 00-124 Warsaw  
reg. no 130

NARODOWY BANK POLSKI

LONG-FORM AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

## I. GENERAL NOTES

### 1. Background

Narodowy Bank Polski (hereinafter 'NBP') is the central bank of the Republic of Poland. NBP was incorporated on the basis of a decree of the Council of Ministers of 15 January 1945 (Journal of Laws of 1945, No. 4, item 14). The NBP's registered office is located in Warsaw, at Świętokrzyska 11/21.

NBP operates on the basis of art. 227 of the Constitution of the Republic of Poland and on the basis of the Act of 29 August 1997 on Narodowy Bank Polski (Journal of Laws of 2013, item 908 with subsequent amendments – 'the Act on NBP').

According to the Act on NBP, NBP has a legal personality and is not subject to entry into the register of state enterprises. In accordance with the art. 6 para. 1, point 2 of the Corporate Income Tax Act of 15 February 1992 (Journal of Laws of 2016, item 1888 with subsequent amendments) NBP is subjectively exempt from the corporate income tax. In addition, based on art. 57 para 1 of the Act on NBP, NBP is treated on a par with budgetary units and is subject to exemption from taxes as well as stamp duty.

The basic objective of NBP activity is to maintain price stability, while supporting the Government economic policies, insofar as it does not constrain pursuit of the basic objective of NBP.

The principal activities of NBP are also:

- organizing monetary clearing,
- managing the foreign exchange reserves,
- conducting foreign exchange activities within the bounds stipulated by statutes,
- 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 towards stability of financial system in terms of the financial institution, as defined by art. 4 para. 4 of the Act of 5 August 2015 on Prudential Supervision over the Financial System and Crisis Management in the Financial System (Journal of Laws of 2015, item 1513 with subsequent amendments),
- acting towards eliminating or reducing the systemic risk, as defined by art. 4 para. 15 of the Act of 5 August 2015 on Prudential Supervision over the Financial System and Crisis Management in the Financial System (Journal of Laws of 2015, item 1513 with subsequent amendments),
- compiling monetary and banking statistics, the balance of payments and the international investment position,
- performing other tasks as specified by statutes.

NBP has the exclusive right to issue the currency of the Republic of Poland.

As at 31 December 2016, the NBP's statutory fund amounted to 1,500,000 thousand zlotys.

There were no movements in the NBP's statutory fund in the reporting period as well as from the balance sheet date to the date of the opinion.

As at 24 March 2017, the Management Board of NBP was composed of:

Adam Glapiński	- President of NBP
Piotr Wiesiołek	- Vice President of NBP - First Deputy President of NBP
Anna Trzecińska	- Vice President of NBP
Jacek Bartkiewicz	- Member of the Management Board of NBP
Andrzej Kaźmierczak	- Member of the Management Board of NBP
Ryszard Kokoszczyński	- Member of the Management Board of NBP
Paweł Samecki	- Member of the Management Board of NBP
Paweł Szałamacha	- Member of the Management Board of NBP
Katarzyna Zajdel-Kurowska	- Member of the Management Board of NBP

During the reporting period and from the balance sheet date to the date of the opinion there were the following changes in the NBP's Management Board:

- on 22 January 2016 Mr. Eugeniusz Gatnar was released from the duties of Management Board Member of NBP in relation with the submitted resignation;
- on 11 June 2016 Mr. Marek Belka, who held the office between 2010-2016, ceased to be the President of NBP. Mr. Marek Belka acted as President of NBP from 12 June 2016 until 20 June 2016;
- on 1 March 2016 Mr. Adam Glapiński was appointed to the position of Management Board Member of NBP and held this position until 9 June 2016. On 10 June 2016 Mr. Adam Glapiński was appointed to the position of President of NBP and took office from 21 June 2016;
- on 7 September 2016 Mr. Andrzej Raczek ceased to be the Management Board Member of NBP;
- on 16 July 2016 Mr. Andrzej Kaźmierczak was appointed to the position of Management Board Member of NBP;
- on 6 October 2016 Mr. Paweł Szałamacha was appointed to the position of Management Board Member of NBP.

## 2. Financial Statements

### 2.1 Auditor's opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under No. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed on 7 July 2015 by the Monetary Policy Council ('MPC') to audit the NBP's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act of 7 May 2009 on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight (Journal of Laws from 2016, item 1000 with subsequent amendments).

Under the contract executed on 18 August 2015 we have audited the financial statements for the year ended 31 December 2016.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the

financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 24 March 2017, stating the following:

‘To the Monetary Policy Council of Narodowy Bank Polski

#### Report on the Audit of the Financial Statements

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#### *Responsibilities of the NBP's Management Board for the Financial Statements*

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According to the Act on NBP the NBP's Management Board is required to ensure that the financial statements meet the requirements of the legal basis for the preparation of the financial statements of NBP.

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Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We conducted our audit in accordance with chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2016, item 1047 with subsequent amendments) and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution No 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, with subsequent amendments (‘National Auditing Standards’). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including

the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the NBP's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NBP's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by NBP's management, as well as evaluating the overall presentation of the financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the NBP as at 31 December 2016 and its financial performance for the year ended 31 December 2016 in accordance with the legal basis for the preparation of the financial statements of NBP;
- have been prepared based on properly maintained accounting records;
- are, in respect of the form and content, in accordance with legal regulations applicable to NBP.'

We conducted the audit of the NBP's financial statements during the period from 26 September 2016 to 14 October 2016 and from 6 February 2017 to 24 March 2017. We were present at the NBP's head office from 26 September 2016 to 14 October 2016 and from 6 February 2017 to 10 March 2017.

## 2.2 Representations provided and data availability

The NBP's Management Board confirmed its responsibility for the truth and fairness<sup>1</sup> of the financial statements and the preparation of the financial statements in accordance with the applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The NBP's Management Board also provided a letter of representations dated 24 March 2017, confirming that:

- the information included in the books of account was complete;
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements.

The NBP's Management Board confirmed that the information provided to us was true and fair to the best of the NBP's Management Board's belief and knowledge, and included all events that could have had an effect on the financial statements.

At the same time we declare that during the audit of the financial statements, there were no limitations of scope.

## 2.3 Financial statements of NBP for prior financial year

The NBP's financial statements for the year ended 31 December 2015 were audited by Arkadiusz Krasowski, key certified auditor No. 10018, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., located in Warsaw, Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor, acting on behalf of the authorised entity, issued an unqualified opinion on the financial statements for the year ended 31 December 2015.

NBP presented in the financial statements for the year ended 31 December 2015 net profit amounting to 8,275,780.8 thousand zlotys. According to the article 62 and 69 of the Act on NBP, following approval of the financial statements of NBP by the Council of Ministers, the net profit of NBP has been allocated as follows:

- allocation to the reserve fund of the NBP – 413,789.0 thousand zlotys,
- contribution to the state budget – 7,861,991.8 thousand zlotys.

The financial statements for the financial year ended 31 December 2015 were adopted by the MPC by Resolution No. 1/2016 on 5 April 2016 and approved by the Council of Ministers by Resolution No. 83/2016 on 6 July 2016.

The balance sheet as at 31 December 2015 and the profit and loss account for the year 2015 were announced in NBP Official Journal, item 7, dated 21 July 2016 .

The approved closing balances as at 31 December 2015 were correctly brought forward in the accounts as the opening balances at 1 January 2016.

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<sup>1</sup> Translation of the following expression in Polish: "rzetelność i jasność"



NARODOWY BANK POLSKI  
Long-form auditor's report  
for the year ended 31 December 2016  
(in thousand zlotys)

### 3. Financial situation

#### 3.1 Basic data and financial ratios

Selected financial ratios indicating the financial situation of NBP for the years 2014 – 2016 are presented below. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2015 and 31 December 2016.

The ratios for the years ended 31 December 2014 were calculated on the basis of financial information included in the approved financial statements audited by another auditor.

	2016	2015	2014
Total assets	480,888,505	372,172,357	353,605,157
Financial result for the current year	9,200,987	8,275,781	0
Gold and claims on non-residents denominated in foreign currency	479,282,676	370,323,744	352,288,059
Banknotes and coins in circulation	187,574,850	163,225,778	142,928,806
<u>Financial result for the current year x 100%</u> Total assets	1.9%	2.2%	0.0%
<u>Net result on interest, discount and premium x 100%</u> Financial result for the current year	9.4%	12.7%	-
<u>Net result on financial operations x 100%</u> Financial result for the current year	100.9%	99.5%	-
Foreign exchange rates*			
EUR/PLN	4.4240	4.2615	4.2623
USD/PLN	4.1793	3.9011	3.5072
GBP/PLN	5.1445	5.7862	5.4648
Inflation rate:			
Yearly average	(0.6%)	(0.9%)	0.0%
December to December	0.8%	(0.5%)	(1.0%)

\* Average foreign exchange rates of NBP as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

### 3.2 Comments

The following trends may be observed based on the financial data and ratios presented above:

- Total assets increased from 353,605,157 thousand zlotys as at 31 December 2014 to 372,172,357 thousand zlotys as at 31 December 2015 and to 480,888,505 thousand zlotys as at 31 December 2016.
- Financial result for 2014 was zero zlotys, while for 2015 it amounted to 8,275,781 thousand zlotys and for 2016 it amounted to 9,200,987 thousand zlotys.
- Gold and claims on non-residents denominated in foreign currency increased from 352,288,059 thousand zlotys as at 31 December 2014 through 370,323,744 thousand zlotys as at 31 December 2015 to 479,282,676 thousand zlotys as at 31 December 2016.
- The amount of banknotes and coins in circulation increased from 142,928,806 thousand zlotys as at 31 December 2014 through 163,225,778 thousand zlotys as at 31 December 2015 and to 187,574,850 thousand zlotys as at 31 December 2016.
- The ratio of the financial result to total assets increased from 0.0% at the end of 2014 to 2.2% at the end of 2015 and then decreased to 1.9% at the end of 2016.
- The ratio of the net result on interest, discount and premium to financial result decreased from 12.7% in 2015 to 9.4% in 2016.
- The ratio of the net result on financial operations to financial result increased from 99.5% in 2015 to 100.9% in 2016.

### 3.3 Going concern

According to art. 58 of the Act on NBP, NBP cannot be declared bankrupt.

## II. DETAILED REPORT

### 1. Correctness of the applied Accounting System

The NBP's accounts are kept using the Zintegrowany System Księgowy (ZSK) computer system in the NBP's head office. NBP has up-to-date documentation describing the accounting policies adopted by NBP, including the NBP's chart of accounts, which is an appendix 1 to 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, with subsequent amendments.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### 2. Assets, Liabilities and Equity, Profit and Loss Account of NBP

Details of the NBP's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2016.

Verification of assets, liabilities and equity was performed in accordance with 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, with subsequent amendments. Any differences were adjusted in the books of account for the year 2016.

### 3. Notes to the Financial Statements

The notes to the audited financial statements for the year ended 31 December 2016 were prepared, in all material respects, in accordance with the 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 with subsequent amendments and with the 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, with subsequent amendments.

### 4. Conformity with Law and Regulations

We have obtained a letter of representations from the NBP's Management Board confirming that no laws were breached during the financial year that would have material impact on the audited financial statements.

## 5. Materiality Level

When determining the materiality level, professional judgment was applied taking into account the specific characteristics relating to NBP. This included consideration of both qualitative and quantitative aspects.

## 6. Work of Experts

During our audit we have taken into account the results of the work of the independent expert acting on behalf of NBP in estimating the provision for retirement, disability and jubilee benefits as at 31 December 2016.

Warsaw, 24 March 2017

Key Certified Auditor

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Arkadiusz Krasowski  
Certified Auditor  
no. 10018

on behalf of  
Ernst & Young Audyt Polska spółka  
z ograniczoną odpowiedzialnością sp. k.  
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