

Chapter 15

Financial and equity position and financial result of NBP for 2021

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15.1. Introduction

The aim of this chapter is to present summarised information on financial and equity position and financial result of NBP for 2021.¹ It describes, from the financial perspective, the areas of activity of the central bank, primarily the management of foreign exchange reserves, the conduct of monetary policy, the issuing activity as well as operating expenses and depreciation and amortisation expenses.

In particular, the chapter includes information concerning the Balance Sheet and the Profit and Loss Account in 2021 compared to previous year. The following items are presented in the Balance Sheet: change in the balance sheet total, change in the structure of assets and liabilities, major items of assets and liabilities broken down by foreign currencies and domestic currency. In the Profit and Loss Account, items comprising the net result are presented (e.g. net result on interest, net result on financial operations, net result on commissions and fees) and its main areas (net result on the management of foreign exchange reserves, net result on foreign exchange gains/losses, net result on monetary policy, operating expenses and depreciation and amortisation expenses).

In addition to financial data for 2021 and 2020, in order to show the information presented over a broader time horizon, historical data are also included, i.e. the developments in the financial and equity position in 2017–2021.

The information contained in this chapter is complementary to the *Financial Statements of the Narodowy Bank Polski as at 31 December 2021*, available on the NBP website, together with the *Independent Auditor's Report*.

NBP Balance Sheet

As at the end of 2021, the NBP balance sheet total amounted to PLN 825.3 billion. The increase in the balance sheet total in 2021 by PLN 131.0 billion (18.9%) was mainly driven by transactions of account holders with NBP, the SDR allocation performed by the IMF, changes in currency exchange rates and prices of gold and the continued purchase of securities denominated in zloty for monetary policy purposes.

The main changes in assets were related to:

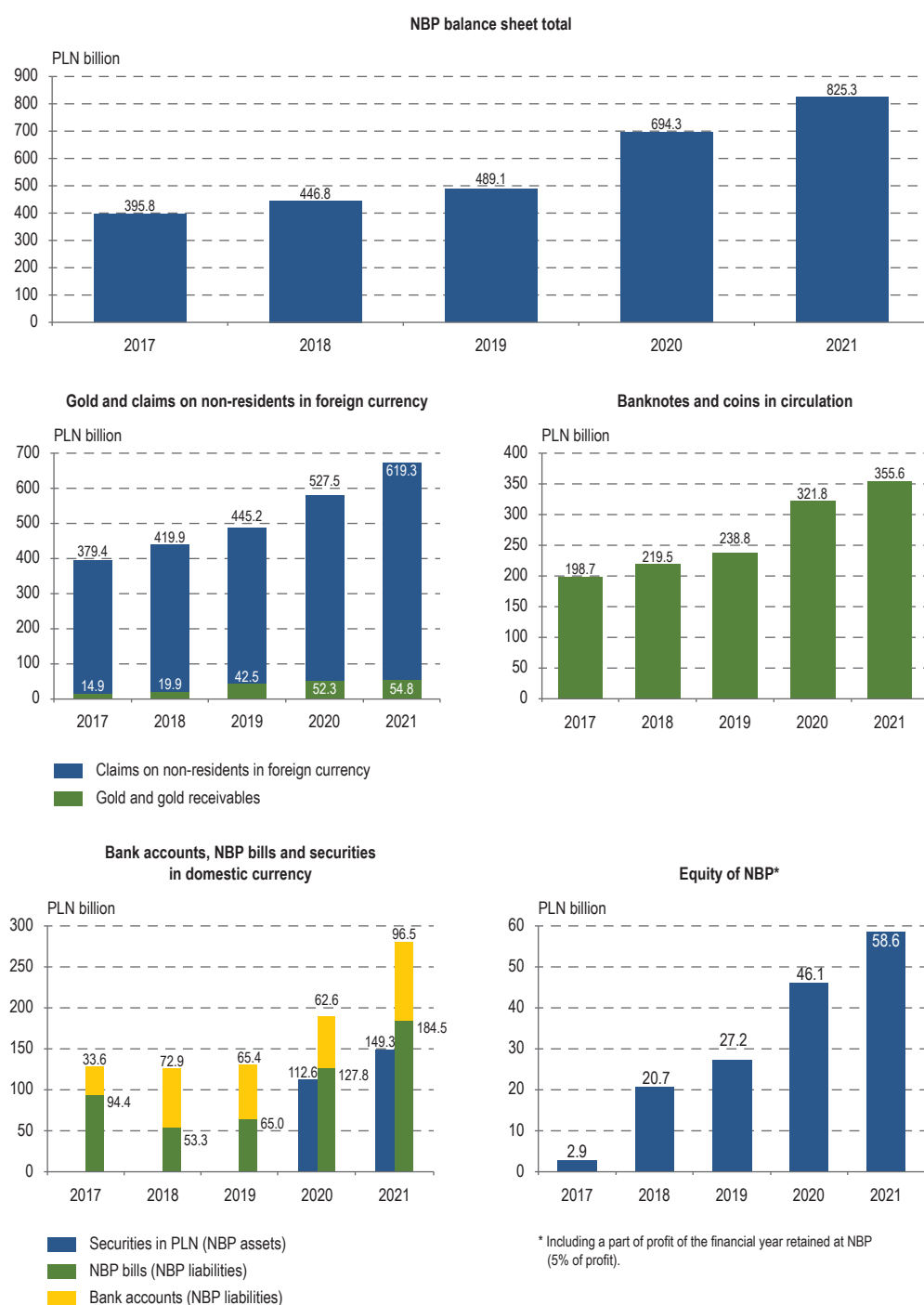
- gold and claims denominated in foreign currency – a total increase of PLN 94.5 billion (16.3%),
- securities denominated in domestic currency – an increase of PLN 36.8 billion (32.7%).

¹ All data included in this chapter are NBP data, including the data from the accounting books of NBP. The figures may not add up to totals due to rounding.

The major changes in liabilities involved:

- liabilities related to monetary policy – a total increase of PLN 90.6 billion (47.6%),
- banknotes and coins in circulation – an increase of PLN 33.8 billion (10.5%),
- equity of NBP, mainly due to currency revaluation gains/losses and FX risk provision – an increase of PLN 14.0 billion (25.6%).

Figure 15.1. Overview of changes in the NBP Balance Sheet in 2017–2021 (as at 31 December of the financial year)



The FX risk provision accumulated with the aim to protect against losses that may occur as a result of the appreciation of the zloty against foreign currencies reached its highest level since 2008 – PLN 16.5 billion.

Profit and Loss Account of NBP

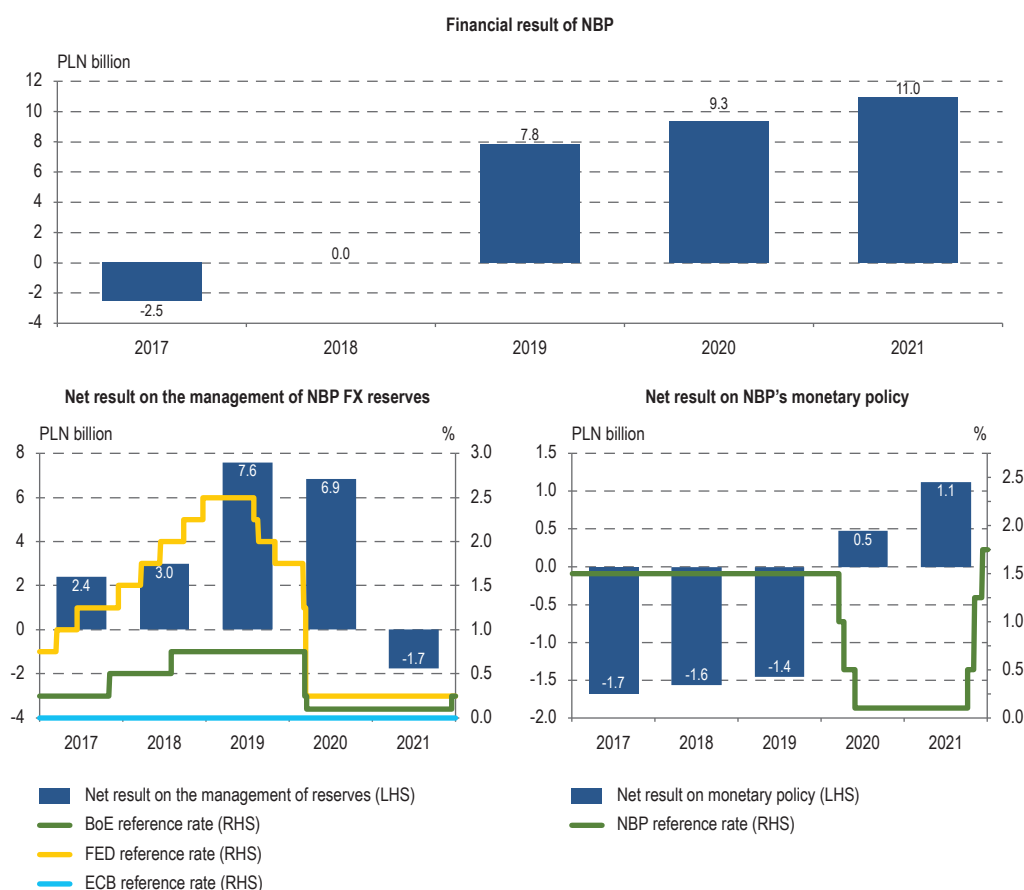
The financial result for 2021 amounted to PLN 11.0 billion. An increase in profit of PLN 1.6 billion (17.4%) was recorded.

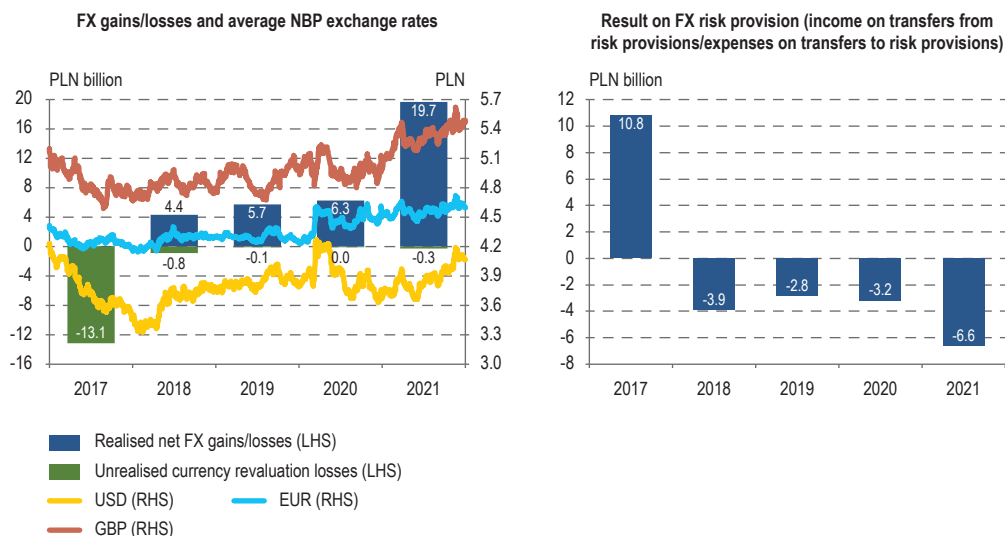
The main elements of the NBP's profit in 2021 included:

- a positive net result on realised foreign exchange gains/losses and gold prices less unrealised currency revaluation losses – PLN 19.4 billion,
 - a positive net result on monetary policy – PLN 1.1 billion,
- less:
- expenses on the FX risk provision – PLN 6.6 billion,
 - a negative net result on the management of foreign exchange reserves (in the currency of an instrument) – PLN 1.7 billion,
 - operating expenses and depreciation and amortisation expenses – PLN 1.4 billion.

A contribution from profit to the State budget in 2022 – PLN 10.4 billion.

Figure 15.2. Overview of changes in the NBP Profit and Loss Account in 2017–2021 (for the relevant financial year)





15.2. Characteristics of the NBP Balance Sheet

As at the end of 2021, NBP recorded an increase in the balance sheet total of PLN 131 billion. Factors affecting this result included transactions carried out by account holders with NBP and the Bank's own transactions which contributed to an inflow of foreign currencies equivalent to almost PLN 58 billion. In addition, in 2021 the International Monetary Fund conducted the SDR allocation, as a result of which the Republic of Poland received SDR 3.9 billion contributing to an increase in the balance sheet total of almost PLN 22 billion. Changes in foreign exchange rates and the price of gold resulted in a further increase in assets and liabilities by almost PLN 32 billion. On the contrary, the continued purchase of securities denominated in zloty for monetary policy purposes contributed to an increase in the Bank's balance sheet total by almost PLN 35 billion.² On the other hand, the decrease in the exposure to simultaneous repo and reverse repo transactions used in the management of foreign exchange reserves at the end of 2021, compared to the end of the previous year, reduced the NBP's balance sheet total by approx. PLN 12 billion.

In 2021, compared to 2020 the balance sheet structure did not change significantly. The SDR allocation led to an increase in receivables from the IMF in assets. On the other hand, on the liabilities side the increase in liabilities due to SDR allocation was offset by a decrease on the balances on foreign currency accounts of residents and non-residents, as well as the reduced exposure to simultaneous repo and reverse repo transactions. Consequently, no corresponding increase in liabilities denominated in foreign currency occurred. Foreign currency flows to NBP due to transactions carried out by account holders are mostly exchanged into domestic currency and increase NBP's liabilities denominated in domestic currency. As a consequence, the NBP balance sheet is characterised by currency asymmetry. This means that assets denominated in foreign currency and gold form the prevailing part of assets, while liabilities denominated in domestic currency (monetary policy, issue of banknotes and coins) prevail on the liabilities side. The result of this asymmetry is an open FX position

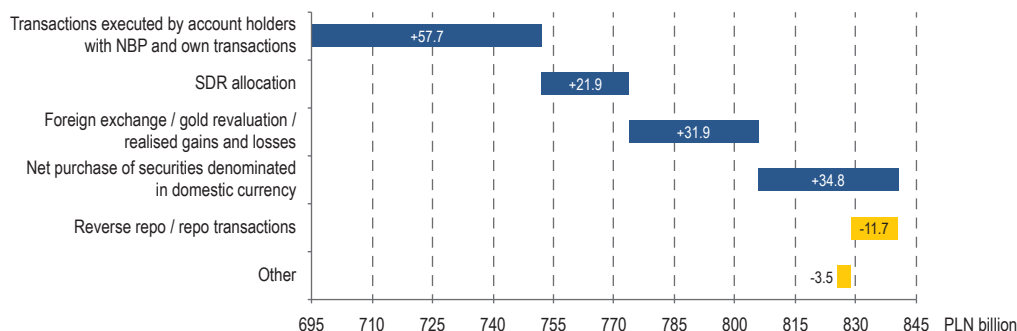
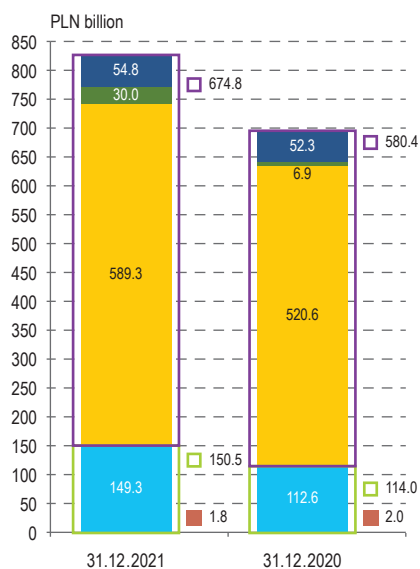
² Including settlements on account of interest payments and redemption of securities at maturity.

of NBP, i.e. a surplus of assets over liabilities denominated in foreign currency, which exposes the Bank to FX risk.

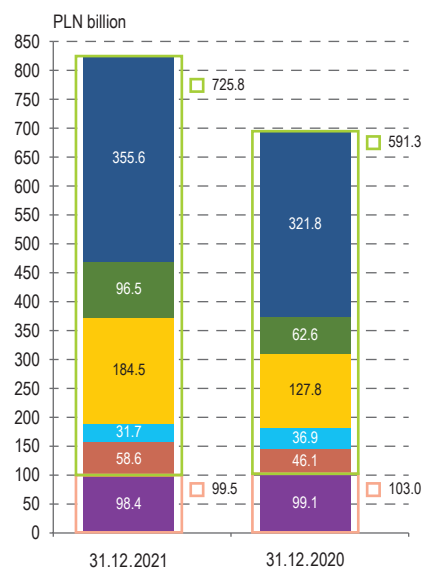
Table 15.1. NBP assets and liabilities at the end of 2021 and 2020 (PLN billion)

Assets	2021	2020	Change
A.1. Gold and gold receivables	54.8	52.3	2.6
A.2. Claims on non-residents denominated in foreign currency	619.3	527.5	91.9
2.1. Receivables from the IMF	30.0	6.9	23.1
2.2. Balances with foreign institutions, securities, loans granted and other foreign assets	589.3	520.6	68.7
A.5. Claims on credit institutions related to monetary policy operations denominated in domestic currency	0.0	0.1	-0.1
A.6. Other claims on credit institutions denominated in domestic currency	0.0	0.0	0.0
A.7. Securities of residents denominated in domestic currency	149.3	112.6	36.8
A.10. Other assets	1.8	2.0	-0.2
Total assets	825.3	694.3	131.0
Liabilities	2021	2020	Change
L.1. Banknotes and coins in circulation	355.6	321.8	33.8
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency	96.5	62.6	33.9
L.3. Other liabilities to credit institutions denominated in domestic currency	0.8	0.4	0.3
L.4. Liabilities due to issued securities denominated in domestic currency	184.5	127.8	56.8
L.5. Liabilities to other residents denominated in domestic currency	15.3	24.9	-9.6
L.6. Liabilities to non-residents denominated in domestic currency	4.0	2.2	1.8
L.7. Liabilities to residents denominated in foreign currency	32.6	46.3	-13.6
L.8. Liabilities to non-residents denominated in foreign currency	36.0	45.4	-9.3
L.9. SDR allocation	29.8	7.1	22.6
L.11. Other liabilities	1.1	0.7	0.4
L.12. Provisions	16.7	10.0	6.7
L.13. Revaluation accounts	51.0	45.7	5.3
L.14. Capital	1.5	1.9	-0.4
14.1. Statutory fund	1.5	1.5	0.0
14.2. Reserve fund	0.0	0.4	-0.4
L.15. Financial result	0.0	-2.5	2.5
15.1. Financial result for the financial year	11.0	9.3	1.6
15.2. Loss of previous years	-11.0	-11.9	0.9
Total liabilities	825.3	694.3	131.0

Note: In 2021 the balance of the FX risk provision presented as at 31 December 2020 in item L.14. Capital was transferred to item L.12. Provisions. This applies to all tables and figures in this chapter containing the specified items of the balance sheet.

Figure 15.3. Change in the balance sheet total of NBP in 2021 compared to 2020

Figure 15.4. Structure of assets


- A.1. Gold and gold receivables
- A.2.1. Receivables from the IMF
- A.2.2. Balances with foreign institutions, securities, loans granted and other foreign assets
- A.7. Securities of residents denominated in domestic currency
- Other assets
- Assets denominated in foreign currency
- Assets denominated in domestic currency

Figure 15.5. Structure of liabilities


- L.1. Banknotes and coins in circulation
- L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency
- L.4. Liabilities due to issued securities in domestic currency
- Other liabilities denominated in domestic currency
- Equity of NBP
- Liabilities denominated in foreign currency (L.7 + L.8 + L.9)
- Liabilities denominated in domestic currency
- Liabilities denominated in foreign currency

15.2.1. Assets and liabilities in foreign currency and in gold

The items of NBP assets and liabilities in foreign currency and in gold are primarily related to the accumulation and management of foreign exchange reserves (see Chapter 5), the Bank's role of an agent of the government of the Republic of Poland in relations with the IMF (see Chapter 8) and NBP acting as an operator of the Polish component

of the pan-European settlement system for euro-denominated payments (TARGET2-NBP, see Chapter 7).³ In addition, the NBP also maintains bank accounts in foreign currencies as part of its services provided to the State budget (see Chapter 8).

Table 15.2. NBP assets and liabilities in gold and in foreign currency by selected areas of activity at the end of 2021 and 2020 (PLN billion)

	Management of foreign exchange reserves		IMF		Settlements in TARGET2		Services to government sector		Other		Total		
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	Change
A.1. Gold and gold receivables	29.9*	28.3*							24.9**	24.0**	54.8	52.3	2.5
A.2. Claims on non-residents denominated in foreign currency	586.5	517.5	30.0	6.9	2.6	2.9			0.2	0.3	619.3	527.5	91.8
A.10. Other assets									0.6	0.6	0.6	0.6	0.0
Total assets	616.4	545.8	30.0	6.9	2.6	2.9	0.0	0.0	25.7	24.9	674.8	580.4	94.4
L.7. Liabilities to residents denominated in foreign currency					2.6	2.9	29.8	42.9	0.2	0.5	32.6	46.3	-13.6
L.8. Liabilities to non-residents denominated in foreign currency	35.9	45.2							0.2	0.1	36.0	45.4	-9.3
L.9. SDR allocation			29.8	7.1							29.8	7.1	22.6
L.11. Other liabilities									0.7	0.4	0.7	0.4	0.3
L.13. Revaluation accounts									0.4	3.9	0.4	3.9	-3.5
Total liabilities	35.9	45.2	29.8	7.1	2.6	2.9	29.8	42.9	1.5	47.8	99.5	103.0	-3.5
Net balance sheet item	580.5	500.5	0.2	-0.2	0.0	0.0	-29.8	-42.9	24.2	-22.8	575.3	477.4	97.9

* Gold on the current account and term deposits.

** Gold in NBP vaults.

The differences between assets and liabilities in foreign currency and in gold represented foreign currency holdings and gold holdings. In addition to its gold holdings, NBP maintained foreign currency reserves denominated in the US dollar, the euro, the British pound, the Australian dollar, the Norwegian krone, the New Zealand dollar and, from 2021, the Canadian dollar. Moreover, NBP also had a holding of IMF's special drawing rights (SDRs).

The difference between the equivalent of foreign currency holdings and gold holdings at the average NBP exchange rate and the equivalent of these holdings at the average cost of the holding (i.e. the average purchase price) represents unrealised currency/gold revaluation gains or losses. Unrealised gains increase liabilities in the balance sheet (as part of the equity of NBP under the item of revaluation accounts – see Table 15.8), while unrealised losses reduce the financial result (net result on financial operations, see Table 15.12).

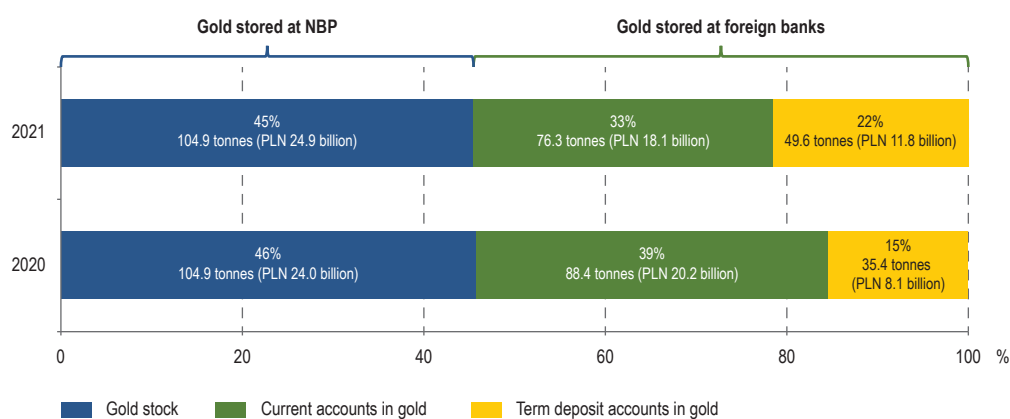
³ Under the TARGET2 system, Narodowy Bank Polski operates the accounts of participants of this system, mainly domestic banks (presented under liabilities of the balance sheet) and also maintains the balance on the current account with the ECB (presented under assets of the balance sheet).

Table 15.3. Holdings of gold and main foreign currencies at the end of 2021 and 2020 (PLN billion)

	2021			2020		
	Holdings at the average cost of holding	Holdings at the average NBP exchange rate	Unrealised gains (+) / losses (-)	Holdings at the average cost of holding	Holdings at the average NBP exchange rate	Unrealised gains (+) / losses (-)
Gold	31.4	54.8	23.5	24.7	52.3	27.5
USD	197.4	212.3	14.9	223.9	225.3	1.4
EUR	103.8	106.0	2.3	84.2	88.5	4.3
GBP	58.4	62.7	4.3	50.9	53.0	2.1
CAD	53.6	53.4	-0.3	0.0	0.0	0.0
AUD	40.7	42.6	1.9	33.0	35.6	2.6
CHF	3.7	3.9	0.3	0.0	0.0	0.0
NOK	27.4	29.0	1.7	25.3	26.8	1.5
NZD	14.1	14.3	0.3	12.8	13.6	0.8
IMF (SDR)	0.3	0.3	0.0	-0.2	-0.2	0.0
Unrealised gains (balance sheet)			49.0	Unrealised gains (balance sheet)		40.3
Unrealised losses (financial result)			-0.3	Unrealised losses (financial result)		0.0

15.2.1.1. Gold

Narodowy Bank Polski holds gold conforming to international standards of purity, stored at foreign banks (on current accounts or on term deposit accounts) and in NBP vaults. Due to the ongoing investment process, the NBP's gold holding increased slightly in 2021 and amounted to 230.8 tonnes (PLN 54.8 billion) as at the balance sheet date, representing 6.6% of NBP's assets (228.7 tonnes and 7.5% at the end of 2020).

Figure 15.6. Gold and gold receivables as at the end of 2021 and 2020


15.2.1.2. Management of foreign exchange reserves (other than gold)

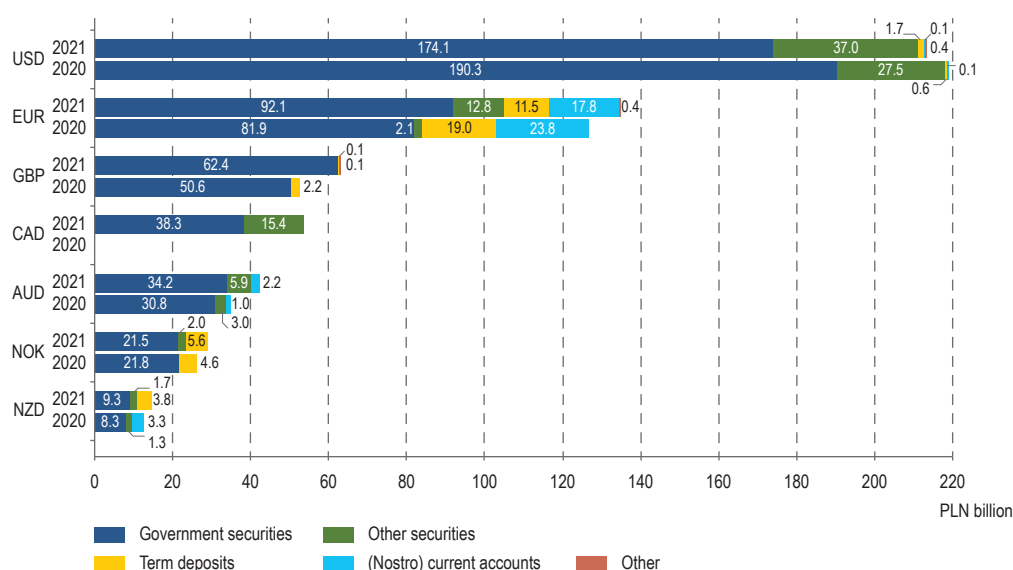
Investment instruments used in the management of foreign exchange reserves account for the largest share of NBP assets. They include primarily securities issued by governments, government agencies and international institutions and, to a lesser extent, term deposits and

bonds of non-financial corporations. In addition, a minor portion of foreign currency reserves is held in current accounts, mainly with foreign central banks. In order to gain additional income, NBP concludes reverse repo transactions (presented under assets of the balance sheet), usually simultaneously to repo transactions (presented under liabilities of the balance sheet) and invests in futures contracts (including equity index futures).

Table 15.4. Main investment instruments of foreign exchange reserves at the end of 2021 and 2020; assets (+), liabilities (-) (PLN billion)

	2021	2020	Change
A.2.2. (Nostro) current accounts	20.2	28.3	-8.1
A.2.2. Term deposits	22.6	26.4	-3.8
A.2.2. Reverse repo transactions	35.9	45.2	-9.3
L.8. Repo transactions	-35.9	-45.2	9.3
A.2.2. Securities	506.8	417.6	89.2
A.2.2. Other	1.0	0.0	1.0
Total	550.6	472.2	78.4

Figure 15.7. Currency composition of foreign exchange reserves (excluding gold) as at the end of 2021 and 2020



The volume of foreign exchange reserves under management was mainly affected by the inflow of foreign currencies to holders of accounts with NBP, as well as the currency revaluation and the price revaluation of securities held. However, the currency and investment composition of the reserves was influenced by the governance decisions of NBP. In 2021, NBP started to invest in CAD. In addition, the Bank created a portfolio of held-to-maturity securities from part of its portfolio of USD-denominated securities.

15.2.1.3. Receivables from and liabilities to the IMF

Narodowy Bank Polski presents in its balance sheet receivables and liabilities related to Poland's participation in the IMF. Items recognised in assets include the member quota in the IMF paid in foreign currency (the so-called reserve tranche), the current account in SDR used for settlements with the IMF and loans extended to the IMF. On the other hand, liabilities due to the SDR allocation granted to Poland are presented under liabilities.

Table 15.5. Receivables (+) from and liabilities (-) to the IMF denominated in SDR as at the end of 2021 and 2020 (PLN billion)

	2021	2020	Change
A.2.1. Reserve tranche	5.7	4.9	0.8
A.2.1. Current account with the IMF	24.1	1.6	22.5
A.2.1. Term deposit with the IMF	0.0	0.0	0.0
A.2.1. Loans extended to the IMF	0.2	0.3	-0.2
L.9. SDR allocation	-29.8	-7.1	-22.6
Total	0.2	-0.2	0.5

The SDR allocation performed by the IMF in 2021 resulted in a simultaneous increase in the current account balance with the IMF and an increase in liabilities to the IMF. As a consequence, it did not affect the holding of SDRs. Change in the NBP FX position in SDR⁴ was mainly the result of operations conducted with the IMF on the basis of concluded loan agreements and borrowing agreements. This item was mainly affected by funds transferred by NBP to IMF borrowers, related to meeting the IMF's borrowing needs (increasing the reserve tranche), and repayments to NBP by IMF borrowers (decreasing loans extended to the IMF).

15.2.2. Assets and liabilities denominated in domestic currency

Assets and liabilities denominated in domestic currency are primarily related to the issuance of cash by NBP, the conduct of monetary policy and the maintenance of bank accounts for the government sector, including the State budget. As most of the financial instruments used for the performance of these functions are liabilities, there is a surplus of liabilities over assets denominated in domestic currency. The increase in this surplus in 2021 mainly resulted from the conversion into domestic currency of foreign currencies transferred to the Bank for the benefit of account holders with NBP.

⁴ NBP also holds SDR-denominated shares in the Bank for International Settlements (PLN 56.9 million as at the end of 2021).

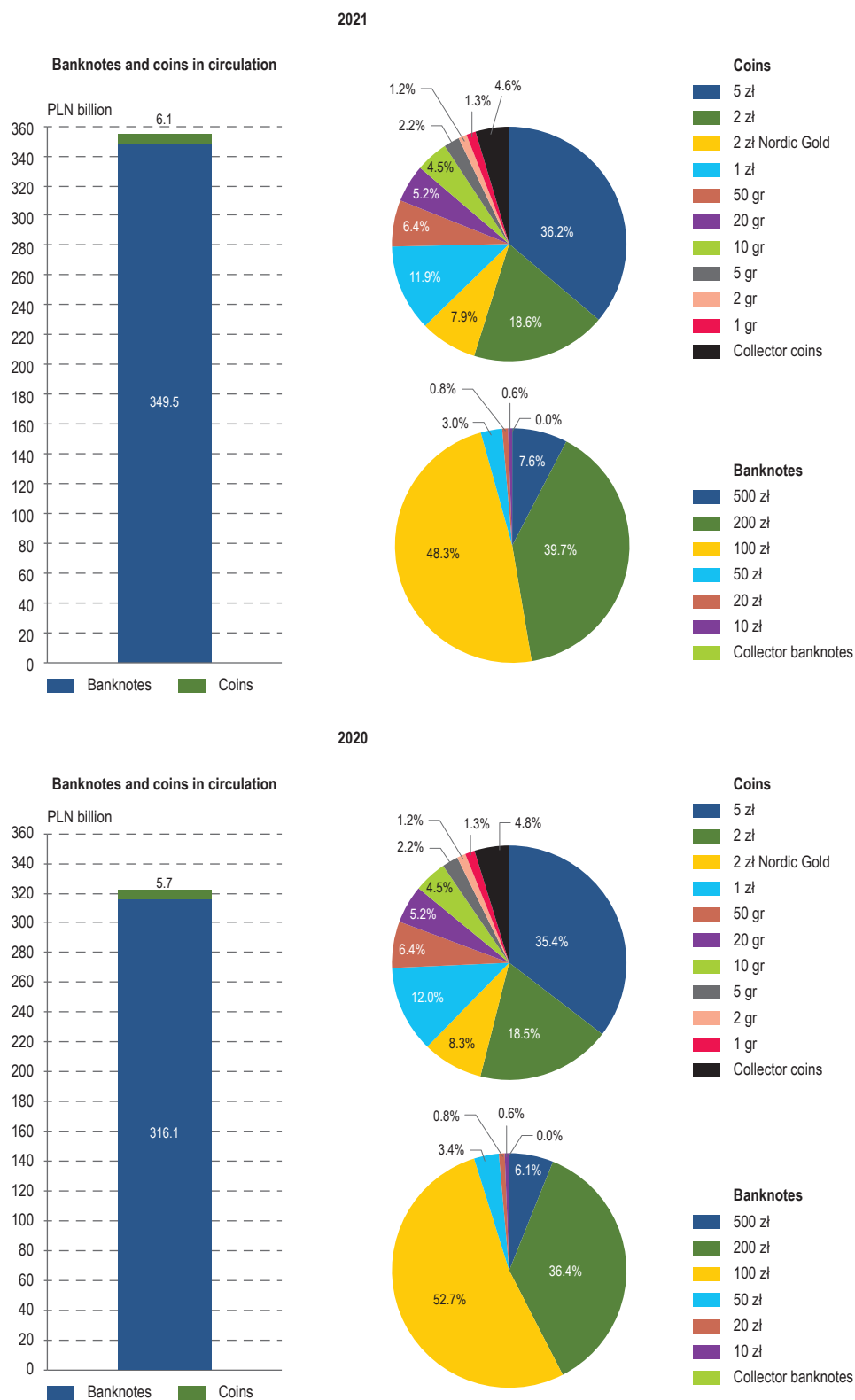
Table 15.6. Assets and liabilities denominated in domestic currency by selected areas of NBP activity as at the end of 2021 and 2020 (PLN billion)

	Issue of banknotes and coins		Monetary policy		Services to government sector		Other		Total		
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	Change
A.5. Claims on credit institutions related to monetary policy operations denominated in domestic currency			0.0	0.1					0.0	0.1	-0.1
A.6. Other claims on credit institutions denominated in domestic currency							0.0	0.0	0.0	0.0	0.0
A.7. Securities of residents denominated in domestic currency			149.3	112.6					149.3	112.6	36.8
A.10. Other assets							1.2	1.3	1.2	1.3	-0.1
Total assets	0.0	0.0	149.3	112.6	0.0	0.0	1.2	1.3	150.5	114.0	36.6
L.1. Banknotes and coins in circulation	355.6	321.8							355.6	321.8	33.8
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency			96.5	62.6					96.5	62.6	33.9
L.3. Other liabilities to credit institutions denominated in domestic currency							0.8	0.4	0.8	0.4	0.3
L.4. Liabilities due to issued securities in domestic currency			184.5	127.8					184.5	127.8	56.8
L.5. Liabilities to other residents denominated in domestic currency					15.2	23.9	0.1	1.0	15.3	24.9	-9.6
L.6. Liabilities to non-residents denominated in domestic currency							4.0	2.2	4.0	2.2	1.8
L.11. Other liabilities							0.4	0.3	0.4	0.3	0.0
L.12. Provisions							16.7	10.0	16.7	10.0	6.7
L.13. Revaluation accounts							50.6	41.9	50.6	41.9	8.8
L.14. Capital							1.5	1.9	1.5	1.9	-0.4
L.15. Financial result							0.0	-2.5	0.0	-2.5	2.5
Total liabilities	355.6	321.8	281.0	190.4	15.2	23.9	74.0	55.3	725.8	591.3	134.5
Net balance sheet item	-355.6	-321.8	-131.7	-77.8	-15.2	-23.9	-72.9	-53.9	-575.3	-477.4	-97.9

15.2.2.1. The issue of currency

The issue of currency is based on the exercise by NBP of its constitutional right to issue currency of the Republic of Poland. NBP issues banknotes and coins of general circulation as well as collector banknotes and coins of various denominations (see Chapter 4). Banknotes and coins issued represent, together with liabilities related to monetary policy, the most significant liability item on the Balance Sheet of NBP. The volume of money issue depends on exogenous factors, in particular on the development of the demand for cash in the economy. The rise in cash money observed in 2021 was associated with an overall increase in money supply in the economy which, as measured by the M2 monetary aggregate, increased by a comparable amount (i.e. 8.8%) in this period. The effect of the COVID-19 pandemic, resulting in an overall average increase in the value of cash in circulation in 2020, lost its significance in 2021.

Figure 15.8. The denomination breakdown of currency in circulation as at the end of 2021 and 2020



15.2.2.2. Monetary policy

Narodowy Bank Polski implements monetary policy using a set of instruments adopted by the Monetary Policy Council (see Chapter 2). In 2021, monetary policy was conducted amid a liquidity surplus prevailing in the banking sector. In order to implement the operational objective of the monetary policy NBP uses selected instruments, in particular open market operations based on the issue of NBP bills (presented under liabilities in the Balance Sheet). The reserve requirement was also a monetary policy instrument used by NBP. The obligation to maintain the required minimum reserve (presented under liabilities) limits the scale of open market operations performed to absorb the excess liquidity from the banking sector. NBP provided standing facilities to domestic banks and enabled them to place liquidity surpluses in NBP in the form of overnight deposits (presented under liabilities) or to supplement liquidity needs with the use of lombard credit (presented under assets). In addition, NBP took additional measures to mitigate the negative effects of the COVID-19 pandemic. In particular, it purchased Treasury bonds and securities guaranteed by the Treasury on the secondary market as part of structural open market operations. It also made bill discount credit⁵ available to banks, enabling them to refinance the loans they grant to entrepreneurs (presented under assets).

Table 15.7. Assets (+) and liabilities (–) related to monetary policy as at the end of 2021 and 2020 (PLN billion)

	2021	2020	Change
A.5. Bill discount credits	0.0	0.1	-0.1
A.7. Securities denominated in domestic currency	149.3	112.6	36.8
L.2. Current accounts (including reserve requirement accounts)	-66.1	-30.4	-35.7
L.2. Deposit facilities	-30.5	-32.3	1.8
L.4. NBP bills	-184.5	-127.8	-56.8
Total	-131.7	-77.8	-53.9

As a result of the continuing purchase of securities as well as the purchase of foreign currency for account holders with NBP, there was an increase in liabilities to the banking sector, reduced by the increase in banknotes and coins in circulation over the year (see Chapter 4). Excess liquidity in the banking sector was absorbed through the issue of NBP bills. Banks left part of the funds in current accounts as a deposit facility.

15.2.2.3. Equity of NBP

As the central bank of the state Narodowy Bank Polski is not subject to the capital adequacy regulations applicable to the banking sector. In accordance with the practice adopted among ESCB central banks, in addition to the (statutory and reserve) funds, NBP recognises

⁵ This credit was made available until 19 October 2021.

the following items as components of equity: the FX risk provision,⁶ gold revaluation account, gold holding revaluation gains, currency and securities revaluation gains, a balance sheet loss (of previous years) and a portion of profit for the financial year retained at NBP (5%), which is allocated to increase the reserve fund.

Table 15.8. Equity of NBP as at the end of 2021 and 2020 (PLN billion and %)

	2021	2020	Change
L.12. FX risk provision	16.5	9.9	6.6
L.14. Statutory fund	1.5	1.5	0.0
L.14. Reserve fund	0.0	0.4	-0.4
L.13. Gold revaluation account	1.6	1.6	0.0
L.13. Gold holding revaluation gains	23.5	27.5	-4.1
L.13. Currency revaluation gains	25.5	12.7	12.8
L.13. Price revaluation gains	0.4	3.9	-3.5
L.15. Loss of previous years	-11.0	-11.9	0.9
L.15. Financial result for the financial year retained at NBP*	0.5	0.5	0.1
Total	58.6	46.1	12.5
% of NBP balance sheet total	7.1%	6.6%	0.5 p.p.
Sensitivity of the equity of NBP to:			
– appreciation of the zloty exchange rate against foreign currencies by 1%**	-5.2	-4.4	-0.8
– increase in interest rates by 100 basis points***	-14.9	-9.1	-5.8

* The financial result for the financial year, after the approval of the NBP financial statements by the Council of Ministers, is allocated as a contribution from profit to NBP's reserve fund (5%) and as a contribution from profit to the State budget (95%).

** The figures represent the total decrease in unrealised currency revaluation gains or increase in unrealised currency revaluation losses in the case of an even 1% decrease in the average NBP exchange rates of the main reserve currencies as at the balance sheet date.

*** For foreign currencies – based on the MD (modified duration) ratio, the cumulative decrease in unrealised price revaluation gains or increase in unrealised price revaluation losses in the case of an even increase in yield curves of 100 basis points as at the balance sheet date.

The most volatile components of the equity of NBP include revaluation gains/losses on gold, revaluation gains/losses on foreign currencies and revaluation gains/losses on securities (unrealised gains) and the FX risk provision. Changes in revaluation gains/losses are mainly affected by the trends in market exchange rates and prices.

The aforementioned currency asymmetry generates the risk of a loss as a result of exchange rate volatility, while the probability of its occurrence increases parallel to the scale of appreciation of the zloty against foreign currencies. The creation of the provision decreases the financial result of NBP, simultaneously creating a protection against potential future losses. The release of the provision increases the financial result of NBP, thereby limiting

⁶ In order to counteract the negative impact of volatility in the zloty exchange rate on the NBP financial result, the Act on NBP requires the Bank to create a provision against the foreign exchange rate risk of the zloty (referred to as FX risk provision). The principles for creating and releasing the provision are determined by the Monetary Policy Council (Resolution No. 6/2019 of the Monetary Policy Council of 5 November 2019 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, item 14).

a potential loss resulting from currency revaluation. In 2021, NBP increased the FX risk provision by PLN 6.6 billion, to a record high of PLN 16.5 billion.

Moreover, in 2021, NBP used the reserve fund to cover the loss of previous years.⁷

15.2.3. NBP Balance Sheet – five-year statement

Table 15.9. NBP Balance Sheet in 2017–2021 as at the balance sheet date (PLN billion)

Assets	2021	2020	2019	2018	2017
A.1. Gold and gold receivables	54.8	52.3	42.5	19.9	14.9
A.2. Claims on non-residents denominated in foreign currency	619.3	527.5	445.2	419.9	379.4
2.1. Receivables from the IMF	30.0	6.9	5.3	4.8	3.4
2.2. Balances with foreign institutions, securities, loans granted and other foreign assets	589.3	520.6	439.9	415.0	376.1
A.5. Claims on credit institutions related to monetary policy operations denominated in domestic currency	0.0	0.1	0.0	0.0	0.0
A.6. Other claims on credit institutions denominated in domestic currency	0.0	0.0	0.0	5.6	0.0
A.7. Securities of residents denominated in domestic currency	149.3	112.6	0.0	0.0	0.0
A.10. Other assets	1.8	2.0	1.4	1.4	1.4
Total assets	825.3	694.3	489.1	446.8	395.8
Liabilities	2021	2020	2019	2018	2017
L.1. Banknotes and coins in circulation	355.6	321.8	238.8	219.5	198.7
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency	96.5	62.6	65.4	72.9	33.6
L.3. Other liabilities to credit institutions denominated in domestic currency	0.8	0.4	0.4	0.4	0.5
L.4. Liabilities due to issued securities in domestic currency	184.5	127.8	65.0	53.3	94.4
L.5. Liabilities to other residents denominated in domestic currency	15.3	24.9	9.3	7.3	7.6
L.6. Liabilities to non-residents denominated in domestic currency	4.0	2.2	2.3	2.6	2.9
L.7. Liabilities to residents denominated in foreign currency	32.6	46.3	22.4	25.1	19.3
L.8. Liabilities to non-residents denominated in foreign currency	36.0	45.4	43.7	37.9	29.2
L.9. SDR allocation	29.8	7.1	6.9	6.8	6.5
L.11. Other liabilities	1.1	0.7	0.2	0.2	0.2
L.12. Provisions	16.7	10.0	6.9	4.0	0.1
12.1. FX risk provision	16.5	9.9	6.7	3.9	0.0
12.2. Provisions for liabilities	0.2	0.2	0.2	0.1	0.1
L.13. Revaluation accounts	51.0	45.7	30.5	27.2	13.2
L.14. Capital	1.5	1.9	1.5	1.5	3.0
14.1. Statutory fund	1.5	1.5	1.5	1.5	1.5
14.2. Reserve fund	0.0	0.4	0.0	0.0	1.5
L.15. Financial result	0.0	-2.5	-4.0	-11.9	-13.3
15.1. Financial result for the financial year	11.0	9.3	7.8	0.0	-2.5
15.2. Loss of previous years	-11.0	-11.9	-11.9	-11.9	-10.8
Total liabilities	825.3	694.3	489.1	446.8	395.8

⁷ The reserve fund as at the end of 2020 of PLN 0.4 billion increased by 5% of the 2020 profit (i.e. by PLN 0.5 billion).

Changes in the NBP balance sheet total are mainly the result of external foreign currency flows stemming from the execution of transactions of account holders with NBP, fluctuations in the revaluation of financial instruments denominated in foreign currency and in gold and the level of exposure to simultaneous repo and reverse repo transactions, as well as one-off operations (such as the SDR allocation carried out in 2021). In addition, starting from 2020, the level of the NBP balance sheet total was affected by NBP's purchase of securities in domestic currency. This operation also had an influence on the change in the structure of the NBP balance sheet, increasing the share of domestic currency in NBP assets, previously dominated by foreign currency reserves and gold.

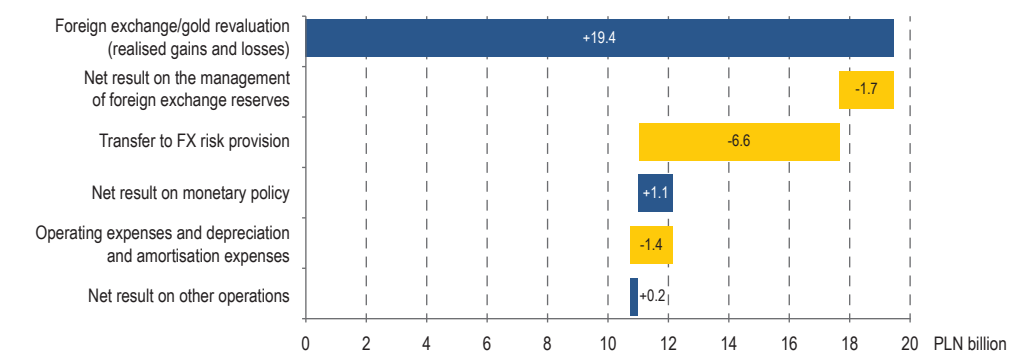
15.3. Characteristics of the NBP Profit and Loss Account

In 2021, Narodowy Bank Polski posted one of its highest financial results in its history – PLN 11.0 billion. The financial result of NBP is derived from the functions it performs as well as market conditions. Such a high financial result, which includes the net result on the management of foreign exchange reserves⁸ and exchange rate gains/losses on foreign currencies and gold prices, stemmed from operations carried out as part of management of reserves denominated in foreign currencies and in gold. In addition, a positive net result on monetary policy contributed to the increase in the financial result. In accordance with the applicable regulations, a part of the surplus earned was allocated to increase the FX risk provision and also covered the operating expenses as well as depreciation and amortisation.

Table 15.10. Financial result of NBP for 2021 and 2020 (PLN billion)

	2021	2020
P&L 1. Net result on interest	2.3	3.1
1.1. Interest income	8.6	8.2
1.2. Interest expenses	-6.4	-5.0
P&L 2. Net result on financial operations	9.9	7.3
2.1. Realised net result	20.3	10.6
2.2. Unrealised losses	-3.7	-0.1
2.3. Net result on impairment of financial assets	0.0	0.0
2.4. Transfer to/from FX risk provision	-6.6	-3.2
P&L 3. Net result on commissions and fees	0.0	0.0
P&L 4. Income on shares and participating interests	0.0	0.0
P&L 5. Other income	0.2	0.1
P&L A. Total net income	12.4	10.6
P&L 6. Salaries	-0.6	-0.6
P&L 7. Administrative expenses	-0.3	-0.2
P&L 8. Depreciation and amortisation costs	-0.1	-0.1
P&L 9. Expenses on issue of banknotes and coins	-0.4	-0.3
P&L10. Other expenses	0.0	0.0
P&L B. Financial result for the financial year	11.0	9.3

⁸ Calculated in the currency of the instruments and subsequently converted into domestic currency.

Figure 15.9. Financial result of NBP for 2021 by areas (PLN billion)

As a result of the prevailing role of financial instruments in the NBP Balance Sheet, the most important elements of the Bank's Profit and Loss Account are related to interest, discount and premium (net result on interest) and foreign exchange gains/losses and price revaluation gains related to the trading in investment instruments of foreign exchange reserves (net result on financial operations) as well as the implementation of monetary policy. In addition, NBP incurs costs related to its operations (salaries, administrative costs, expenses on issue of banknotes and coins and depreciation and amortisation expenses). In 2021, compared to the previous year, a decrease in net result on interest was recorded, related among others, to low yields on foreign markets where foreign exchange reserves are invested. On the other hand, the increase in the net result on financial operations was mainly a consequence of transactions involving foreign currencies and gold, as well as the start of investment in equity index futures. The net result on financial operations was reduced by expenses on the FX risk provision and expenses resulting from the revaluation of securities in foreign currency, especially in view of the increase in their yields observed in the second half of the year.

15.3.1. Net result on the management of foreign exchange reserves

Income and expenses related to investment instruments of foreign exchange reserves mainly involve interest on securities and deposits (presented under the net result on interest), result on the sale transactions in securities and price revaluation of securities (only revaluation losses⁹) and the net result on off-balance sheet financial instruments (presented under the net result on financial operations¹⁰). The net result on the management of foreign exchange reserves is largely determined by the trends in factors beyond the control of NBP. These factors include mainly: the volume of the inflow of funds in foreign currency from abroad and their exchange into domestic currency in NBP (which affects the level of foreign exchange reserves) and the developments in financial markets – exchange rates against the zloty and interest rates in foreign markets, value of equity indices. The net

⁹ Securities denominated in foreign currency, excluding the portfolio of securities held to maturity, are valued according to the average market price or based on yield curve rates (if market prices are not available). In accordance with the principle of prudence, revaluation gains are recognised under liabilities in the NBP Balance Sheet (as an element of the equity of NBP) and therefore they do not increase the financial result of NBP. Securities denominated in foreign currency held to maturity are valued at their clean price adjusted for calculated discount and premium, less impairment.

¹⁰ Refers to the valuation of derivatives used in connection with the management of foreign currency reserves.

result on the management of foreign exchange reserves is also affected by the adopted investment structure of foreign exchange reserves, i.e. their currency composition and the type of financial instruments used.

Table 15.11. Net result on the management of foreign exchange reserves in 2021 and 2020 by currency and instrument (PLN billion)

2021	USD	EUR	GBP	CAD	AUD	NOK	NZD	Total
P&L 1. Net result on interest	1.4	-0.9	0.1	0.0	0.2	0.2	0.1	1.2
Term deposits	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	-0.2
Reverse repos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	1.4	-0.6	0.1	0.0	0.2	0.2	0.1	1.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P&L 2. Net result on financial operations	-0.4	-0.1	-0.7	0.0	-0.7	-0.7	-0.4	-2.9
Realised price gains/losses	0.5	0.3	0.0	0.0	-0.2	-0.1	0.0	0.5
Price revaluation losses	-0.9	-0.4	-0.7	0.0	-0.5	-0.5	-0.4	-3.4
Financial result for the current year	1.0	-1.0	-0.6	0.0	-0.5	-0.5	-0.2	-1.7
2020	USD	EUR	GBP	CAD	AUD	NOK	NZD	Total
P&L 1. Net result on interest	2.4	-0.6	0.2	0.0	0.3	0.2	0.2	2.7
Term deposits	0.0	-0.1	0.0	0.0	0.0	0.1	0.0	0.0
Reverse repos	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Repos	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Securities	2.4	-0.4	0.2	0.0	0.3	0.2	0.2	2.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P&L 2. Net result on financial operations	2.3	0.4	0.7	0.0	0.8	0.0	0.0	4.2
Realised price gains/losses	2.3	0.4	0.7	0.0	0.8	0.0	0.0	4.2
Price revaluation losses	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Financial result for the financial year	4.7	-0.2	0.9	0.0	1.1	0.2	0.2	6.9
Change of financial result for the current year	-3.6	-0.7	-1.5	0.0	-1.6	-0.7	-0.5	-8.6

Note: Interest on term deposits in gold is also included, which is accrued and paid in USD.

The main reason for the decrease in the net result on the management of foreign exchange reserves in 2021 compared to the previous year was the increase in yields (decline in securities prices) in foreign markets observed in 2021, especially in the second half of the year. It affected expenses on price revaluation of securities held by NBP. The decline in the net result was partly offset by the launch of the investment in equity index futures.

15.3.2. Foreign exchange/gold revaluation gains/losses and transfer to/from FX risk provision

The impact of changes in foreign exchange rates and gold prices on the NBP financial result depends on the trends in the exchange rate of the zloty against foreign currencies and the price of gold both during the year (realised FX gains/losses) and as at the balance sheet date (unrealised gains/losses on valuation of foreign currency holdings and gold holdings). Realised foreign exchange gains/losses are presented under the net result on financial operations.

However, at the end of the year the impact on the NBP financial result due to foreign currency holdings is asymmetrical. Currency revaluation losses and gold revaluation losses (unrealised losses) decrease the net result on financial operations. On the other hand, currency revaluation gains and gold revaluation gains (unrealised gains) increase the equity of NBP and are not recognised in the NBP financial result.

Foreign exchange gains/losses represent the most volatile element of the NBP financial result. The net result on realised foreign exchange gains/losses in 2021 mainly related to the sale transactions of USD, EUR, GBP and AUD. This result rose by PLN 7.2 billion (114.2%) from 2020, mainly due to the sale of USD, which was linked to the launch of investment in CAD as part of further currency diversification of reserves as well as an increase in the average annual positive difference between the average NBP rate and the average cost of the holding for AUD, NOK, GBP and NZD. On the other hand, in the case of gold the increase in foreign exchange gains/losses resulted from the investment policy.

Table 15.12. Foreign exchange/gold revaluation gains/losses and transfer to/from FX risk provision in 2021 and 2020 (PLN billion)

	2021								
	USD	EUR	GBP	CAD	AUD	NOK	NZD	Gold	Total
P&L 2. Result on financial operations	6.6	1.7	1.6	-0.3	1.5	1.2	0.8	6.1	12.8
Foreign exchange gains/losses	6.6	1.7	1.6	-0.3	1.5	1.2	0.8	6.1	19.4
– realised foreign exchange gains/losses	6.6	1.7	1.6	0.0	1.5	1.2	0.8	6.1	19.7
– currency revaluation losses	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	-0.3
Transfer to FX risk provision									-6.6
	2020								
	USD	EUR	GBP	CAD	AUD	NOK	NZD	Gold	Total
P&L 2. Net result on financial operations	3.8	1.4	0.7	0.0	0.4	-0.2	0.3	0.0	3.2
Foreign exchange gains/losses	3.8	1.4	0.7	0.0	0.4	-0.2	0.3	0.0	6.3
– realised foreign exchange gains/losses	3.8	1.4	0.7	0.0	0.4	-0.2	0.3	0.0	6.3
– currency revaluation losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to FX risk provision									-3.2
Change in net result on financial operations	2.8	0.3	0.9	-0.3	1.1	1.5	0.6	6.2	9.6

The FX risk provision protects the central bank against the materialisation of FX risk and its adverse impact on the financial result (in the case of NBP, the value of foreign currency assets is negatively affected by the appreciation of the zloty). In 2021, NBP continued to build up the provision (fully used in 2017), which was replenished by the amount of PLN 6.6 billion (to PLN 16.5 billion).

15.3.3. Net result on monetary policy

NBP bills were the main instrument of monetary policy conducted amid a liquidity surplus prevailing in the domestic banking sector. In connection with the issue of bills, NBP incurs discount expenses (presented under the net result on interest). The level of expenses of monetary policy mainly depends on the level of interest rates set by the Monetary Policy Council, the excess liquidity of the banking sector, the required minimum reserve rate

and its interest rate. On the other hand, the NBP measures to reduce the negative impact of the COVID-19 pandemic resulted in an increase in net income related to the securities denominated in domestic currency purchased (interest, discount and premium presented in the net result on interest).

Table 15.13. Net result on monetary policy conducted in 2021 and 2020 (PLN billion)

	2021	2020	Change
P&L 1. Net result on interest	1.1	0.5	0.6
NBP bills	-0.8	-0.5	-0.3
Required minimum reserve	-0.1	-0.1	0.0
Deposit facility	-0.1	0.0	0.0
Securities denominated in domestic currency	2.0	1.1	0.9

In 2021, NBP posted a positive result on its monetary policy. The increase in the result compared to the previous year was primarily associated with rising income on purchased securities. It was partially offset by the rising expenses of discount on bills issued by NBP, which was associated with an increase in the excess liquidity of the banking sector and the increase in NBP interest rates towards the end of 2021.

15.3.4. Operating expenses and depreciation and amortisation expenses

In 2021, NBP recorded an increase in operating expenses and depreciation and amortisation expenses by PLN 0.05 billion (4.3%) compared to 2020. This was associated, among others, with an increase in salaries in line with the adopted HR and payroll policy, administrative expenses and expenses on issue of banknotes and coins (i.e. the cost of producing banknotes and coins). Expenses on issue of banknotes and coins depend primarily on the number of banknotes and coins ordered and their purchase prices as well as the cost of purchasing bullion for coin production.

Figure 15.10. Structure of operating expenses and depreciation and amortisation expenses in 2021 and 2020

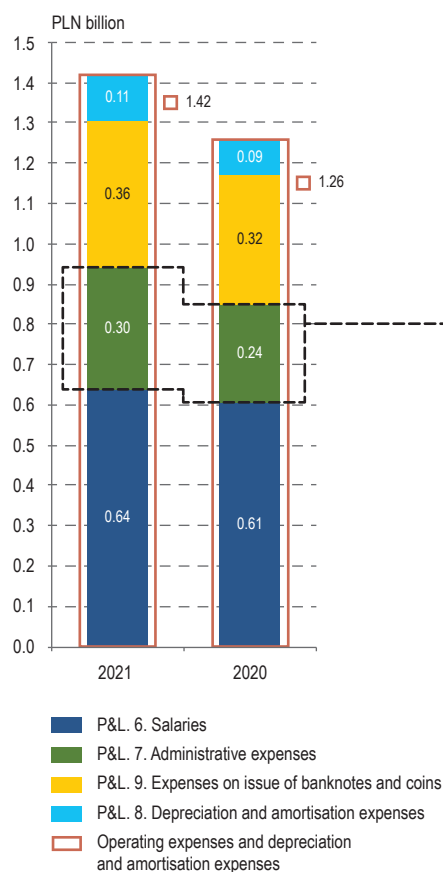
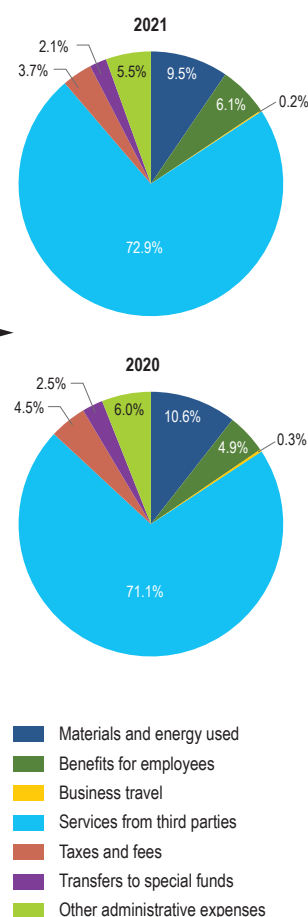
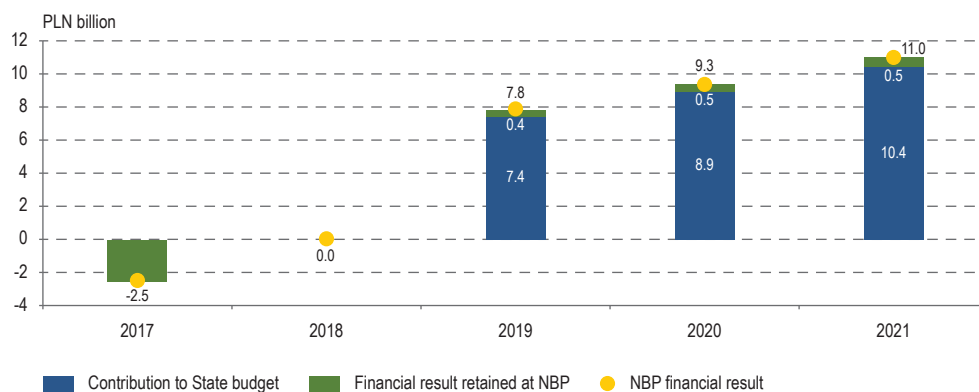


Figure 15.11. Structure of administrative expenses in 2021 and 2020



15.3.5. Allocation of the financial result and contribution from profit to the State budget

The financial result of NBP as at the end of 2021 amounted to PLN 11.0 billion. Pursuant to the Act on NBP, PLN 10.4 billion (i.e. 95%) was allocated to the State budget as contribution from NBP's profit, while the amount of PLN 0.5 billion (i.e. 5%) increased the NBP reserve fund. Contribution from NBP's profit is made after the Financial Statements of Narodowy Bank Polski have been approved by the Council of Ministers.

Figure 15.12. Financial result and contribution from profit to the State budget in 2017–2021

Note: The result provided for a given year, a contribution to the State budget is made in the following year after the approval of the annual financial statements of NBP by the Council of Ministers.

Seigniorage

The issue of cash involves the cost of purchasing banknotes and coins. Unlike other NBP liabilities, the liability due to the issue of banknotes and coins does not bear interest and therefore does not generate interest expenses. On the other hand, financial assets acquired in return generate certain income for NBP.

Income earned on assets whose source of financing is the liability due to the issue of banknotes and coins, less expenses on the issue, is referred to as the seigniorage. It represents the income from the issue of money.

Bearing in mind that the main assets of NBP are foreign exchange reserves (including gold) and – since 2020 – also securities denominated in domestic currency held for monetary policy purposes, in simple terms it can be assumed that what constitutes the income on the issue of money is net result on the management of foreign exchange reserves, including net result on foreign exchange gains/losses and net result on securities denominated in domestic currency, in a part respectively corresponding to the share of liabilities due to the issue of money in the total assets of NBP less expenses on the issue of banknotes and coins. In 2021, the estimated seigniorage amounted to PLN 8.4 billion (PLN 6.5 billion in 2020).

15.3.6. NBP Profit and Loss Account – five-year statement

Foreign exchange reserves and the rates of return on their investment (taking into account FX exchange rates), as well as the volume of monetary policy operations and domestic interest rates have the greatest influence on the amount of the NBP financial result earned. Changes in the financial result are most often caused by the volatility of FX exchange rates against the Polish zloty (e.g. a 2017 loss). To a lesser extent, they are affected by changes in the yields on securities in foreign markets and on the level of domestic interest rates.

Table 15.14. NBP Profit and Loss Account in 2017–2021 (PLN billion)

	2021	2020	2019	2018	2017
P&L 1. Net result on interest	2.3	3.1	3.3	2.6	0.8
P&L 2. Net result on financial operations	9.9	7.3	5.6	-1.5	-2.4
P&L 3. Net result on commissions and fees	0.0	0.0	0.0	0.0	0.0
P&L 4. Income on shares and participating interests	0.0	0.0	0.0	0.0	0.0
P&L 5. Other income	0.2	0.1	0.1	0.1	0.1
P&L A. Total net income	12.4	10.6	9.0	1.2	-1.4
P&L 6. Salaries	-0.6	-0.6	-0.6	-0.5	-0.5
P&L 7. Administrative expenses	-0.3	-0.2	-0.3	-0.3	-0.2
P&L 8. Depreciation and amortisation expenses	-0.1	-0.1	-0.1	-0.1	-0.1
P&L 9. Expenses on issue of banknotes and coins	-0.4	-0.3	-0.3	-0.3	-0.3
P&L 10. Other expenses	0.0	0.0	0.0	0.0	0.0
P&L B. Financial result for the financial year	11.0	9.3	7.8	0.0	-2.5