Methodology

The financial data presented in tables are based on the FINREP reporting framework, sent to the National Bank of Poland by banks and branches of credit institutions, according to the NBP Board of Directors Resolution 38/2023 of 4 July 2023 (Annex No 6).

The main reporting tables in the FINREP reporting framework are: assets, liabilities, the profit and loss account and off-balance-sheet positions resulting from, inter alia, derivative transactions.

The scheme of the financial data publication is closely related to the FINREP scheme, where financial instruments are presented according to the financial instruments categories described in IFRS 9 and according to the Ministry of Finance resolution on special accounting principles for banks of 1 October 2010 (Journal of Laws of 2013, item 329 as amended).

Financial data are published on a monthly basis, with updates due to adjustments sent by banks, published on a quarterly basis.

Since the beginning of the year 2018 the scheme of financial data published has been changed due to changes in FINREP framework (FINPL), mainly caused by the implementation of International Financial Reporting Standard No. 9. As a result the financial assets and liabilities portfolio has been changed. Previous assets portfolios „Held to maturity investments" and „Loans and receivables (including finance leases)" were replaced with a new category "Financial assets at amortised cost".

Due to IFRS 9 implementation, methods of impairment calculation has been changed. Therefore there is a change in presentation of allowances and provisions for credit losses. Instead of impairment allowances and IBNR allowances, three separate allowance stages are presented:

- Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)
- Allowances for financial assets with significant increase in credit risk since initial recognition (Stage 2)
- Allowances for credit-impaired financial assets (Stage 3)

Aforementioned changes in banks' obligatory reporting to NBP were the reasons why continuation in publication of all data according to previous schemes was not possible. Additionally some data of insignificant economical value has been passed over. Some aggregations were also necessary to obey confidentiality requirements included in the law: Article 23, para. 6 of the Act on Narodowy Bank Polski (Journal of Laws of 2017 item 1337), The Act of 29 June 1995 on official statistics (Journal of Laws of 2018, item 997,1000).

Some categories published till the end of 2017 in separated files, have been combined in one:

- Loans and advances,

- Liabilities,
- Income statement.

Previously published data on category: Loans and receivables (including finance leases) included debt instrument. The new category "Loans and advances" excludes debt instruments. Loans and advances repayable on demand presented previously in the category: "Loans and receivables (including finance leases)", are now included in the category "Cash, cash balances at central banks and other demand deposits"

Tables included in the publication:

1. Banking sector assets - selected items, of which:
    - Cash, cash balances at central banks and other demand deposits
    - Loans and advances, of which: at amortised cost
    - Debt instruments, of which: at amortised cost and at fair value through other comprehensive income
    - Equity instruments, of which at fair value through other comprehensive income
    - Derivatives
    - Derivatives – Hedge accounting
2. Loans and advances and other demand deposits (gross carrying amount)
    - Designated at fair value through profit or loss, included held for trading
    - At amortised cost and at fair value through other comprehensive income divided by selected counterparty sector classes, with detailed data on housing loans and consumer loans to individuals
3. Credit impaired loans and advances and other demand deposits on financial and non-financial sector - Portfolio B (gross carrying amount) divided by selected counterparty sector classes, with detailed data on housing loans and consumer loans to individuals
4. Accumulated impairment, loans and advances and other demand deposits on financial and non-financial sector without significant increase in credit risk since initial recognition (Stage 1) and with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2), Portfolio B
5. Accumulated impairment, credit impaired loans and advances and other demand deposits on financial and non-financial sector (Stage 3), Portfolio B
6. Loans and advances on corporations (gross carrying amount)
    - Designated at fair value through profit or loss (portfolio A)
    - At amortised cost and at fair value through other comprehensive income (portfolio B), divided by loans granted to large corporations and SME, with selection of operational loans, investment loans, real estate loans and other advances,
7. Accumulated impairment, loans and advances on corporations, at amortised cost and at fair value through other comprehensive income
8. Loans and advances on households (gross carrying amount)
    - Designated at fair value through profit or loss, including held for trading (portfolio A)

- At amortised cost and at fair value through other comprehensive income (portfolio B), with selection of operational loans, credit card loans, consumer loans, investment loans, real estate loans and other advances,

9. Accumulated impairment, loans and advances on households, at amortised cost and at fair value through other comprehensive income, without significant increase in credit risk since initial recognition (Stage 1) and with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
10. Accumulated impairment, credit impaired loans on households, at amortised cost and at fair value through other comprehensive income, (Stage 3)
11. Car loans on non-financial sector (gross carrying amount), of which: on corporations, individual entrepreneurs and individuals
12. Financial assets collateralised with mortgage, Portfolio B (gross carrying amount), of which: granted to non-financial sector (to corporations, households, non-profit institutions serving households), with selection of housing loans granted to households
13. Accumulated impairment, financial assets collateralised with mortgage, without significant increase in credit risk since initial recognition (Stage 1) and with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) and credit impaired loans and advances collateralised with mortgage, (Stage 3)
14. Debt instruments, original maturities (all portfolios), divided by counterparty sectors and selected original maturities time brackets
15. Banking sector liabilities and equity
    - Financial liabilities, of which:
        i. Deposits, of which: at amortised cost,
        ii. Debt securities issued, of which: at amortised cost,
        iii. Derivatives,
        iv. Derivatives – hedge accounting
        v. Other financial liabilities designated at fair value through profit or loss (including held for trading) and at amortised cost, of which: at amortised cost,
    - Total Equity, of which:
        i. Paid up capital
        ii. Other reserves
        iii. Retained earnings
        iv. Accumulated other comprehensive income/revaluations reserves
        v. Profit or loss for the year
16. Banking sector liabilities, divided by counterparty sectors
17. Banking sector deposits divided by counterparty sectors with selection of current deposits, term deposits and total deposits,
18. Income statement of banking sector - selected items
    - Interest income, of which: from financial assets at fair value through other comprehensive income, from financial assets at amortised cost
    - Interest expenses, of which: from financial liabilities at amortised cost

- Fee and commission income
- Fee and commission expenses
- Other operating gains (losses), net
- Total operating income, net
- Administrative expenses
    i. Staff expenses
    ii. Other administrative expenses
- Depreciation
- Provisions or reversal of provisions
- Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, of which from financial assets at amortised cost
- Profit or loss before tax from continuing operations
- Tax expense or income related to profit or loss from continuing operations
- Profit or loss for the year

19. Positions resulting from transactions in OTC derivatives – interest rate derivatives, notional amount
20. Positions resulting from transactions in OTC derivatives – foreign exchange derivatives, notional amount

Loans and advances are presented in gross carrying amount (allowances are presented separately), debt instruments and liabilities are presented in carrying amount.

Definitions of selected terms presented in tables:

***C*arrying amount** – the value at which assets are measured at the reporting date.

Gross carrying amount - carrying amount before reduction by impairment losses. The gross carrying amount includes accrued interest.

According to International Accounting Standards and International Financial Reporting standards (IAS/IFRS) and Polish accounting principles (PSR), the gross carrying amount of financial assets measured at fair value through profit or loss, without being included in a held for trading portfolio, depends on whether they are classified as performing or non-performing. The gross carrying amount of performing financial assets shall be the fair value. The gross carrying amount of non-performing financial assets shall be the fair value after adding back any accumulated negative fair value adjustment due to credit risk.

The gross carrying amount of financial assets at amortised cost or at fair value through other comprehensive income, shall be the carrying amount before adjusting for any loss allowance. The gross carrying amount of financial assets held for trading, shall be the fair value.

Financial assets are measured:
a) at amortised cost using effective interest rate method (reduced by impairment allowance),
b) at fair value, or
c) at cost, reduced by impairment losses.

Investments in associates, subsidiaries and joint ventures are measured:

a) According to IAS 27 (by banks applying IAS/IFRS),
b) According to Ministry of Finance Resolution on special accounting principles for banks (by banks applying PSR),

Shares are measured according to IFRS 9 by banks applying IAS/IFRS and according to Ministry of Finance Resolution on special accounting principles for banks (by banks applying PSR).

Financial liabilities are measured:
a) at fair value, if they are qualified to financial liabilities measured at fair value through profit or loss, or
b) at amortised cost, including effective interest rate method.

Not impaired loans and advances (for banks applying IAS/IFRS):
a) Loans and advances without significant increase in credit risk since initial recognition (Stage 1)
b) Loans and advances with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)

Not impaired loans and advances (for banks applying PSR) - Credit exposures classified as "satisfactory" or "special mention" according to the Ministry of Finance Resolution on procedures for establishing specific provisions against the risk of banking operations (Journal of Laws of 2015, item 2066 as amended).

Credit impaired loans and advances (for banks applying IAS/IFRS) – loans and advances are credit-impaired (Stage 3) when one or more events that have a detrimental impact on the estimated future cash flows of those loans and advances have occurred. Evidence that loans and advances are credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c)the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e)the disappearance of an active market for that financial asset because of financial difficulties; or

(f)the purchase or origination of a financial asset at a deep discount that reflects the incurred **credit losses**.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Credit impaired loans and advances (for banks applying PSR) - Credit exposures classified as "irregular" ("substandard", "doubtful", "loss") according to the Ministry of Finance

Resolution on procedures for establishing specific provisions against the risk of banking operations (Journal of Laws of 2015, item 2066 as amended).

Significant increase of credit risk – an increase of credit risk recognized according to article B5.5.15-B.5.5.27 MSSF 9.

Accumulated impairment – for banks applying:

- **IAS/IFRS** – an amount equal to *12-month expected credit losses* if at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition (IFRS 9.5.5.5) or an amount equal to the *lifetime expected credit losses* if the credit risk on that financial instrument has increased significantly since initial recognition (IFRS 9.5.5.3) or an amount of recognised loss allowance equal to the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).
- **PSR**– an amount of specific provisions against the risk of credit exposures recognized according to the Ministry of Finance Resolution on procedures for establishing specific provisions against the risk of banking operations

Original maturity – a period on which an agreement was concluded.

Amortised cost of financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Fair value is the price, that would be received for sold assets or paid for liabilities transferred, in a transaction concluded between market participants at normal market conditions, at the measurement date.

Financial assets measured at amortised cost

Banks applying IAS/IFRS

- financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Banks applying PSR - financial assets that give rise on specified dates to cash flows or that have specified maturity term, which bank is going to keep and has availability to keep until maturity, except for financial assets qualified as available for sale and financial assets measured at fair value through other comprehensive income.

Financial assets measured at fair value through other comprehensive income:

Banks applying IFRS

- financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Banks applying PSR - financial assets available for sale – financial assets different from measured at amortised cost and measured at fair value through profit and loss

Financial assets measured at fair value through profit or loss

Banks applying IFRS - financial assets are measured at fair value through profit or loss unless they are measured at amortised cost or at fair value through other comprehensive.

A bank may make an irrevocable election at initial recognition for particular investments in *equity instruments* that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Banks applying PSR - financial assets held for trading and financial assets designated as measured at fair value through profit and loss at initial recognition, on condition that it allows to obtain useful information and it reduces differences in measurement and presentation of income and expenses connected with those assets or it allows to evaluate obtained results from fair value measurement in accordance with documented investment strategy and risk management principles.

Option to designate a financial asset at fair value through profit or loss - bank may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial liabilities are classified as subsequently measured at amortised cost, except for:
(a) **financial liabilities at fair value through profit or loss**. Such liabilities, including *derivatives* that are liabilities, shall be subsequently measured at fair value.
(b) **financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.**
(c) **financial guarantee contracts** *(measured* at the higher of: (i) the amount of the loss allowance and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.
(d) **commitments to provide a loan at a below-market interest rate**, measured at the higher of: (i) the amount of the loss allowance and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

(e) **contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies**. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

ECB BSI Regulation (Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (recast), *ECB/2013/33*, (OJ L 297, 7.11.2013, p. 1)

Debt instruments – financial instruments that represent claims on determined amounts, paid in specified terms. Debts instruments include loans and advances and debt securities.

Debt securities - debt instruments held by the institution issued as securities that are not loans in accordance with the ECB BSI Regulation

Loans and advances - debt instruments held by institutions that are not securities; this item includes 'loans' in accordance with the ECB BSI Regulation as well as advances that cannot be classified as 'loans' according to the ECB BSI Regulation. ''Advances that are not loans - this item shall include, among others, gross amounts receivable in respect of suspense items (such as funds that are awaiting investment, transfer, or settlement) and transit items (such as cheques and other forms of payment that have been sent for collection).

Deposits – banks liabilities arisen from financial means deposited on clients' accounts, excluding liabilities from received money collateral.

Debt securities issued - debt instruments issued as securities by the institution that are not deposits in accordance with the ECB BSI Regulation.

Financial assets held for trading – debt instruments and equities purchased with the intention to sell them in short term or that are part of financial instruments portfolio, managed together, with a pattern of generating short term profits.

Equity instruments – Instruments that give rise to the share in net assets of an entity, including securities, in accordance with article 3.1 of the Act on July 29 on financial instruments turnover (Journal of Laws of 2016, item 1636 as amended)

Loans and advances are additionally assigned to "A portfolio" and "B portfolio".

"A portfolio" consists of undermentioned financial assets:

- Loans and advances from the portfolio „Financial assets held for trading",
- Loans and advances from the portfolio „Non-trading financial assets mandatorily at fair value through profit or loss" (Banks applying IAS/IFRS),
- Loans and advances from the portfolio „Financial assets designated at fair value through profit or loss".

"B portfolio" consists of undermentioned financial assets:

- "Financial assets at amortised cost"
- Loans and advances from the portfolio „Financial assets at fair value through other comprehensive income"/ Financial assets available for sale (Banks applying PSR)

Positions resulting from transactions in OTC derivatives

The **Off-balance-sheet positions resulting from transactions in OTC derivatives** include data on **the nominal value of gross positions** of banks and branches of credit institutions resulting from transactions in selected OTC derivatives, broken down by types of instruments and categories of counterparties. Reporting on a gross basis means that the tables present the sum of long and short positions resulting from transactions in OTC derivatives and there is no netting of receivables and payables arising from the purchase and sale of the same instrument (e.g. buying and selling currency options with the same specification). The presented data include the notional amounts of OTC derivatives classified as held for trading, as well as those that effectively meet the hedge accounting criteria.

The ***Off-balance-sheet positions resulting from transactions in OTC derivatives*** file includes the following tables:

1. Positions resulting from transactions in OTC derivatives – interest rate derivatives, notional amount
2. Positions resulting from transactions in OTC derivatives – foreign exchange derivatives, notional amount

The table on interest rate derivatives presents the aggregate nominal value of transactions denominated in PLN and in foreign currencies. In the case of foreign exchange derivatives, the aggregate nominal value of foreign currency / PLN and foreign currency / foreign currency transactions is presented.

Breakdown by categories of counterparties includes positions resulting from transactions with:

- banks and branches of credit institutions / residents,
- other residents,
- non-residents.

Aggregate values in the table on positions resulting from transactions in interest rate derivatives include, inter alia, positions resulting from FRA, IRS and OIS transactions, interest rate options bought and sold, and forward contracts. Positions resulting from IRS transactions and positions resulting from FRA transactions (for non-residents) have been singled out from the above mentioned aggregate.

Aggregate values in the table on positions resulting from transactions in foreign exchange derivatives include, inter alia, positions arising from outright forwards, fx swaps, CIRS transactions, and fx options bought and sold. Positions resulting from forwards, CIRS, fx swaps and fx options (the total of bought and sold) have been singled out from the above mentioned aggregate.

As a general rule, in the case of fx swaps only the value of the final exchange / long leg is presented (including for T/N fx swaps), with the exception of forward/forward fx swaps, with respect to which the value of the initial exchange is included as well. The nominal value of option strategies is presented as the sum of the nominal values of all options comprising the strategies.

Data granularity in this publication has been limited due to requirements arising from the provisions of the Act on Narodowy Bank Polski (Journal of Laws 2017, item 1337 as amended) and statistical confidentiality regulations (Act of 29 June 1995 on official statistics).

Definitions of OTC derivatives singled out in the data tables

Forward Rate Agreement (FRA) – a derivative transaction under which the parties are obliged to exchange the difference between the FRA rate (forward rate determined on trade date) and the reference rate binding two working days before the settlement date (i.e. on fixing date), calculated on an agreed notional amount for a given period of time starting in the future.

IRS (interest rate swap) – a derivative transaction (other than OIS) under which the parties are obliged to periodically exchange interest payments calculated on an agreed notional amount for a predetermined period of time. Interest payments are expressed in the same currency and based on relevant interest rates for each of the counterparties (e.g. one rate may be fixed and the other floating, or both may be floating, but based on different reference rates). This category also includes swaps whose notional amount changes over time (amortising and drawdown swaps).

Outright forward – a foreign exchange derivative transaction under which one party is obliged to sell and the other to buy an agreed amount of currency at some future date, at a forward rate agreed upon on the trade date. The settlement is effected later than within two business days. The category also includes cash-settled forwards (non-deliverable forwards, contracts for differences). The long leg of an fx swap transaction is not included in this category.

Foreign exchange swap (fx swap) – a transaction under which the parties are obliged to exchange two currencies on a specific date at an exchange rate agreed upon on the trade date (the initial exchange, short leg), and to make a return exchange of the same two currencies (the return exchange, long leg) on a given future date (other than the settlement date of the short leg) at a rate agreed upon on the trade date (typically different from the rate applied to the short leg). The amount payable by one party to the other in the long leg is denominated in the same currency as the amount received by the former from the latter in the short leg.

CIRS (cross-currency interest rate swap) – a foreign exchange derivative transaction under which the parties are obliged to periodically exchange over an agreed period of time interest payments calculated on agreed notional amounts in different currencies. Interest payments denominated in different currencies are based on interest rates relevant for each of the currencies. The above mentioned exchange may be accompanied by an exchange of full notional amounts (at a previously agreed rate) at inception, at maturity or both. The category also includes CIRS basis (currency basis swap) transactions, where interest rates for both legs are floating (based on reference rates for each currency), and a margin (basis), agreed upon at the inception of the swap, is added to the interest rate for one leg of the transaction.

Foreign exchange option (fx option) – a foreign exchange derivative that gives the buyer of an option the right to buy (call option) or sell (put option) a given amount of a foreign currency at an exchange rate agreed upon on the trade date and time specified at the inception of the transaction, obliging the seller (writer) to sell (call option) or buy (put option), respectively, the currency from the buyer of an option. This category includes European-type and American-type options, as well as all exotic options.