

Chapter 15

Financial and equity position and financial result of NBP for 2022

Financial and equity position and financial result of NBP for 2022

15.1. Introduction

The aim of this chapter is to present summarised information on financial and equity position and financial result of NBP for 2022.¹ 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 2022 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 2022 and 2021, 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 on a five-year basis (2018–2022).

The information contained in this chapter is complementary to the *Financial Statements of Narodowy Bank Polski as at 31 December 2022*, available on the NBP website together with the *Independent Auditor's Report*.

NBP Balance Sheet

As at the end of 2022, the NBP balance sheet total amounted to PLN 876.2 billion.

The increase in the balance sheet total in 2022 by PLN 50.9 billion (6.2%) was mainly driven by transactions of account holders with NBP, changes in currency exchange rates and prices of gold and increased exposure to simultaneous reverse repo and repo transactions amid a decline in the prices of securities denominated in foreign currency and the balance of securities denominated in zloty, purchased in previous years for monetary policy purposes.

The main changes in assets were related to:

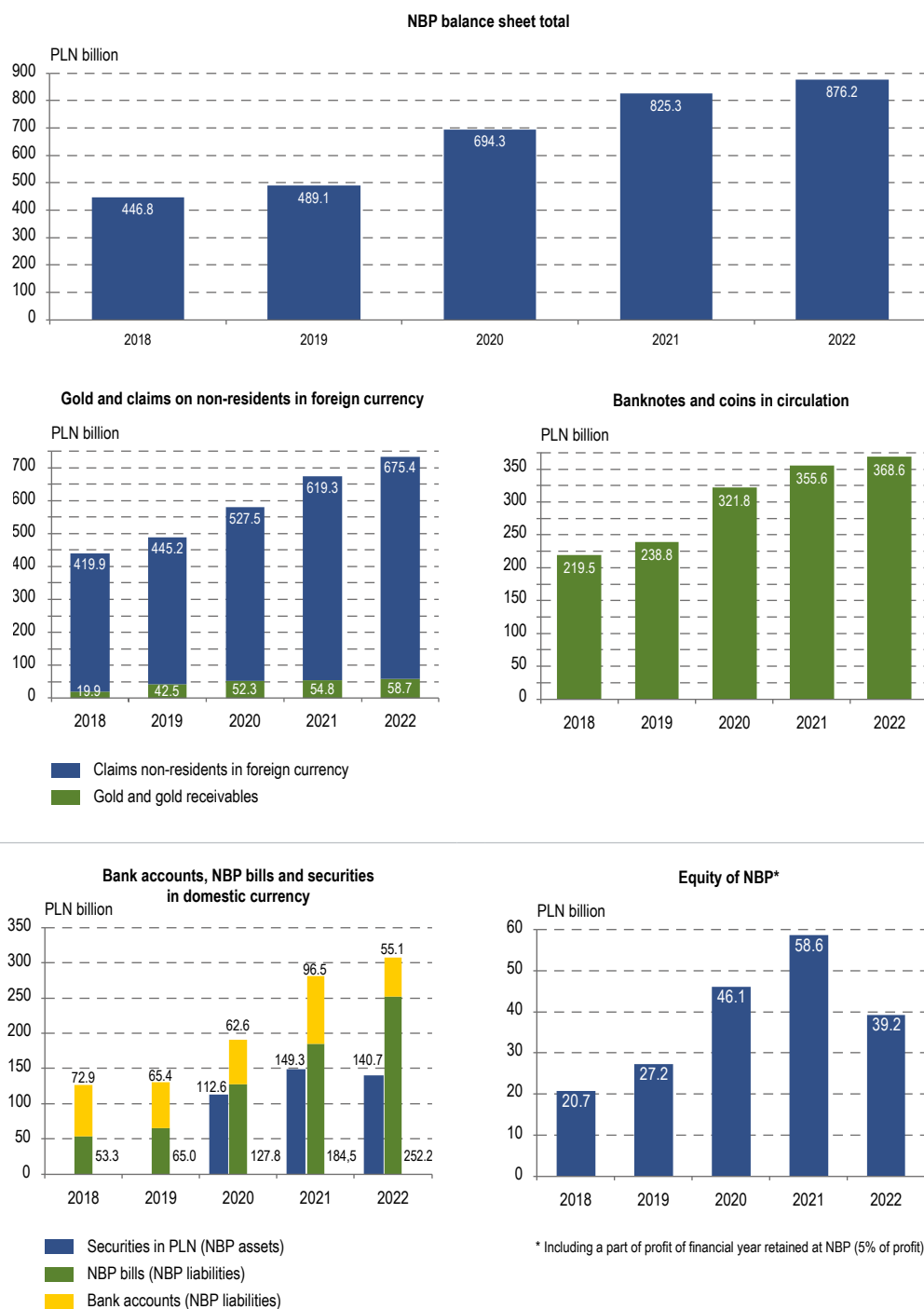
- claims denominated in foreign currency – a total increase of PLN 56.1 billion (9.1%),
- securities denominated in domestic currency – a decrease of PLN 8.6 billion (5.8%).

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 26.2 billion (9.3%),
- banknotes and coins in circulation – an increase of PLN 13.1 billion (3.7%),
- equity of NBP – a decrease of PLN 19.3 billion (32.9%).

Figure 15.1. Overview of changes in the NBP Balance Sheet in 2018–2022 (as at 31 December of the financial year)



NBP Profit and Loss Account

Narodowy Bank Polski recorded a loss of PLN -16.9 billion for 2022. The main elements of the NBP's loss were:

- a negative net result on the management of foreign exchange reserves (in the currency of an instrument) in the amount of PLN -28.8 billion, caused mainly by a negative net result on realised price gains/losses on transactions in securities denominated in foreign currency and on unrealised price revaluation losses as at 31 December 2022 (see Chapter 15.3.1),
- a negative net result on monetary policy in the amount of PLN -12.0 billion,
- operating expenses and depreciation and amortisation expenses amounting to PLN -1.5 billion.

At the same time, the net result on realised foreign exchange gains/losses was positive and amounted to PLN 25.5 billion.

Figure 15.2. Overview of changes in the NBP Profit and Loss Account in 2018–2022 (for the relevant financial year)

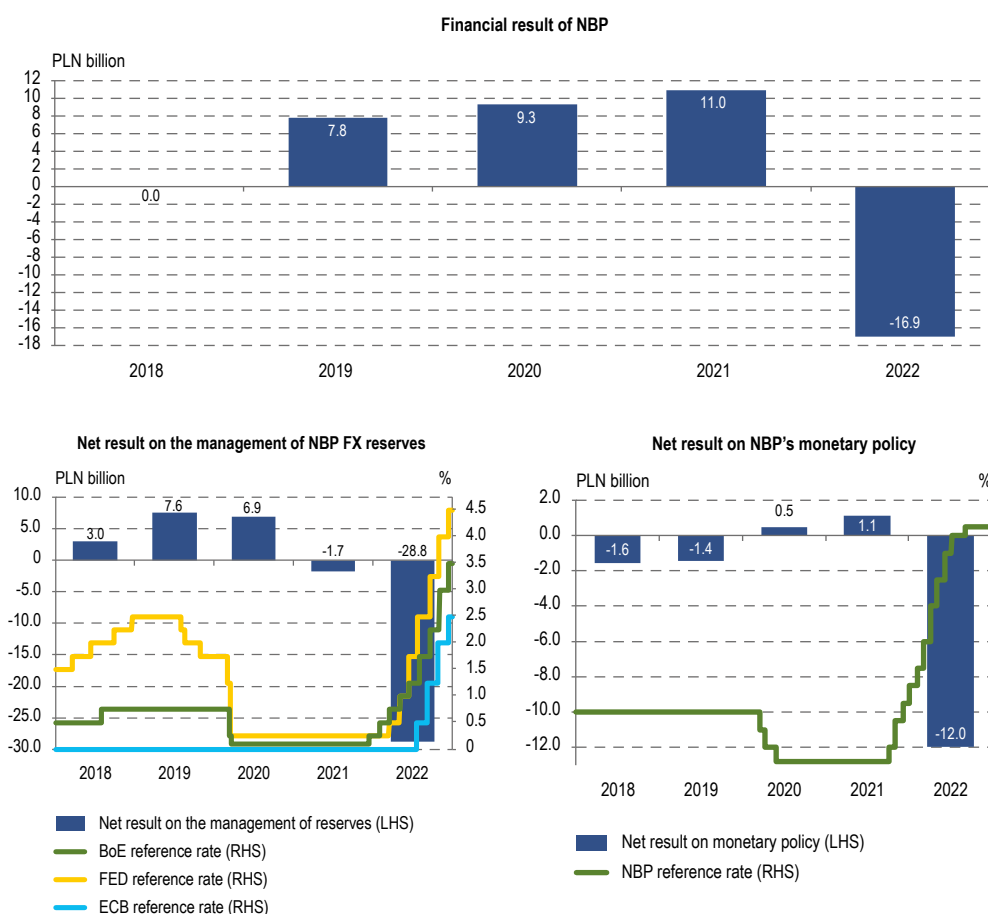
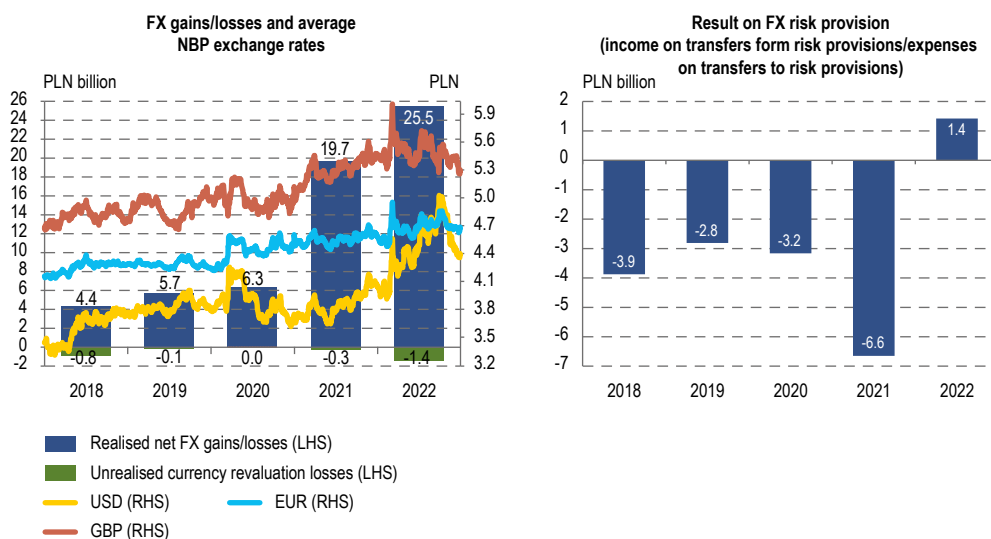


Figure 15.2. Overview of changes in the NBP Profit and Loss Account in 2018–2022 (for the relevant financial year), cont'd



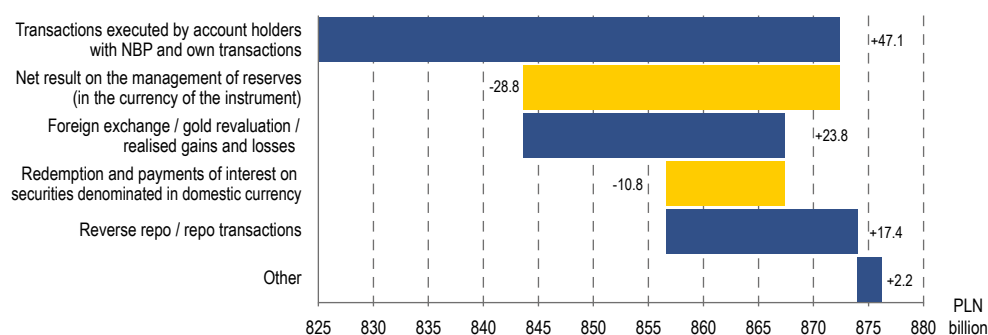
Characteristics of the NBP Balance Sheet

As at the end of 2022, NBP recorded an increase in the balance sheet total of PLN 50.9 billion. The increase mainly resulted from a net inflow of foreign funds in the amount of PLN 47.1 billion due to transactions of holders of accounts with NBP and the NBP's own transactions. The increase was also driven by changes in foreign exchange rates and the price of gold (PLN 23.8 billion) and an increase in exposure to simultaneous repo and reverse repo transactions used in the management of foreign exchange reserves (PLN 17.4 billion). On the other hand, a negative net result on the management of foreign exchange reserves (PLN -28.8 billion, calculated in the currency of the instruments, i.e. excluding FX gains/losses) and settlements on account of interest payments and redemption of securities denominated in domestic currency at maturity (PLN -10.8 billion) led to a drop in the NBP balance sheet total.

The year 2022 did not see major changes in the balance sheet structure compared to 2021. Receivables from non-residents increased in NBP's assets – mainly related to the higher level of exposure to simultaneous reverse repo and repo transactions at the end of the year and higher balances on term deposit accounts and on the NBP's current account with the ECB for settlements in TARGET2. At the same time, the share of assets denominated in domestic currency diminished – primarily on the back of the issuer's redemption of a portion of Treasury securities at maturity. On the liabilities side, liabilities denominated in foreign currency increased – mainly in connection with the higher balances on the foreign currency accounts of residents (including on the accounts of the State budget and on bank accounts for settlements in TARGET2) with the higher level of exposure to simultaneous repo and reverse repo transactions.

Table 15.1. NBP assets and liabilities at the end of 2022 and 2021 (PLN billion)

Assets	2022	2021	Change
A.1. Gold and gold receivables	58.7	54.8	3.8
A.2. Claims on non-residents denominated in foreign currency	675.4	619.3	56.1
2.1. Receivables from the IMF	31.4	30.0	1.4
2.2. Balances with foreign institutions, securities, loans granted and other foreign assets	644.0	589.3	54.7
A.7. Securities of residents denominated in domestic currency	140.7	149.3	-8.6
A.10. Other assets	1.5	1.8	-0.3
Total assets	876.2	825.3	50.9
Liabilities	2022	2021	Change
L.1. Banknotes and coins in circulation	368.6	355.6	13.1
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency	55.1	96.5	-41.4
L.3. Other liabilities to credit institutions denominated in domestic currency	0.9	0.8	0.2
L.4. Liabilities due to issued securities denominated in domestic currency	252.2	184.5	67.7
L.5. Liabilities to other residents denominated in domestic currency	11.9	15.3	-3.4
L.6. Liabilities to non-residents denominated in domestic currency	4.1	4.0	0.2
L.7. Liabilities to residents denominated in foreign currency	59.0	32.6	26.4
L.8. Liabilities to non-residents denominated in foreign currency	53.6	36.0	17.6
L.9. SDR allocation	30.9	29.8	1.1
L.11. Other liabilities	0.4	1.1	-0.7
L.12. Provisions	15.3	16.7	-1.4
L.13. Revaluation accounts	50.1	51.0	-1.0
L.14. Capital	1.5	1.5	0.0
L.15. Financial result	-27.4	0.0	-27.4
15.1. Financial result for the financial year	-16.9	11.0	-27.9
15.2. Loss of previous years	-10.5	-11.0	0.5
Total liabilities	876.2	825.3	50.9

Figure 15.3. Main factors contributing to a change in the NBP balance sheet total in 2022 compared to 2021

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 (related to monetary policy, issue of banknotes and coins) prevail on the liabilities side. This asymmetry results in an open

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

Figure 15.4. Structure of assets

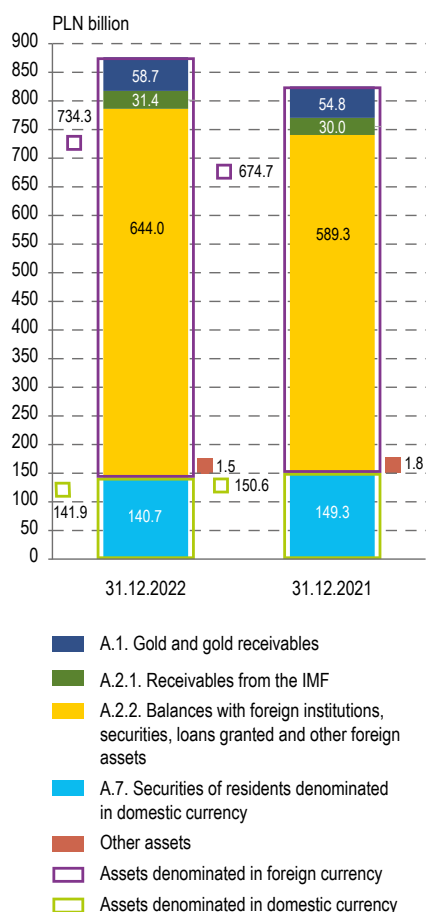
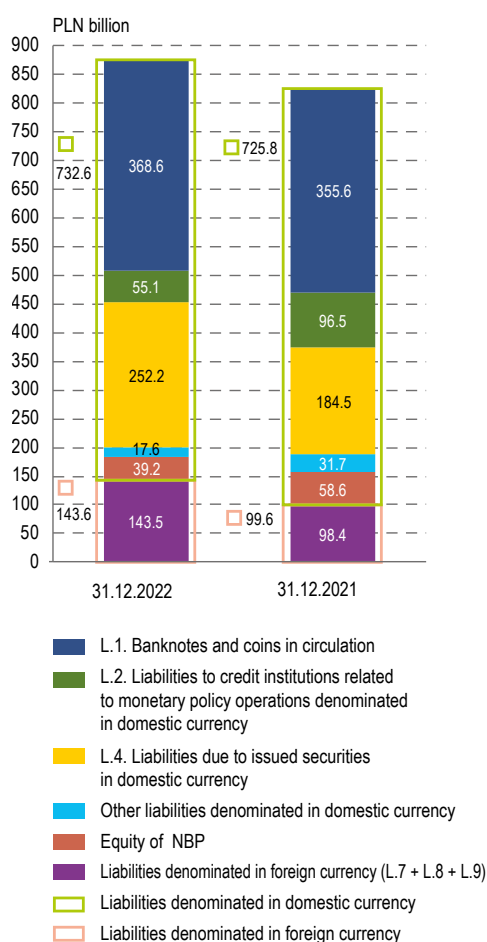


Figure 15.5. Structure of liabilities



15.1.1. 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 8.4) 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).² In addition, NBP also operates bank accounts in foreign currencies as part of its services provided to the State budget (see Chapter 8).

² 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 15.2. NBP assets and liabilities in gold and in foreign currency by selected areas of activity at the end of 2022 and 2021 (PLN billion)

	Management of foreign exchange reserves		MF		Settlements in TARGET2		Services to government sector		Other		Total		
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	Change
A.1. Gold on gold receivables	31.8*	29.9*							26.9**	24.9**	58.7	54.8	3.8
A.2. Claims on non-residents denominated in foreign currency	628.6	586.5	31.4	30.0	15.0	2.6			0.3	0.2	675.4	619.3	56.1
A.10. Other assets									0.2	0.6	0.2	0.6	-0.4
Total assets	660.4	616.4	31.4	30.0	15.0	2.6	0.0	0.0	27.5	25.7	734.3	674.8	59.5
L.7. Liabilities to residents denominated in foreign currency					15.0	2.6	43.7	29.8	0.4	0.2	59.0	32.6	26.4
L.8. Liabilities to non-residents denominated in foreign currency	53.5	35.9							0.1	0.2	53.6	36.0	17.6
L.9. SDR allocation			30.9	29.8							30.9	29.8	1.1
L.11. Other liabilities									0.0	0.7	0.0	0.7	-0.7
L.13. Revaluation accounts									0.0	0.4	0.0	0.4	-0.4
Total liabilities	53.5	35.9	30.9	29.8	15.0	2.6	43.7	29.8	0.5	1.5	143.6	99.5	44.1
Net balance sheet item	606.9	580.5	0.5	0.2	0.0	0.0	-43.7	-29.8	26.9	24.2	590.7	575.3	15.4

* Gold on current accounts 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 holding, NBP maintained foreign currency reserves – mainly denominated in the US dollar (USD), the euro (EUR), the British pound (GBP), the Canadian dollar (CAD), the Australian dollar (AUD), the Norwegian krone (NOK) and the New Zealand dollar (NZD). Moreover, NBP also had a holding of IMF's special drawing rights (SDRs).

Table 15.3. Holdings of gold and main foreign currencies at the end of 2022 and 2021 (PLN billion)

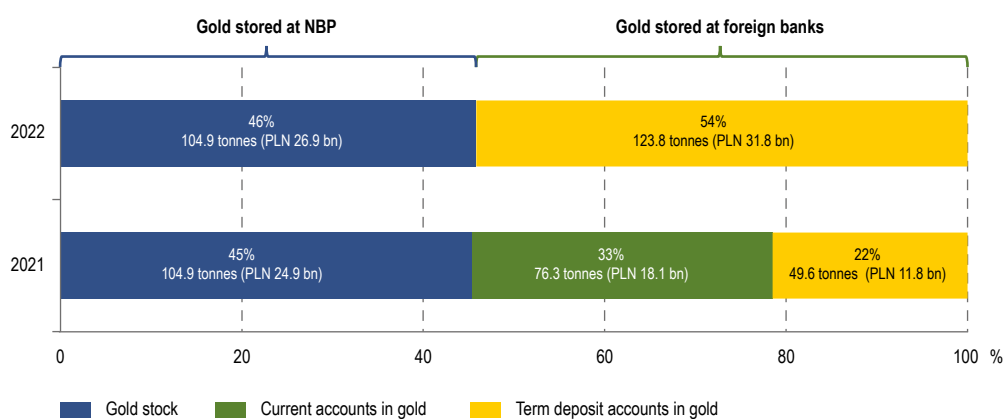
	2022			2021		
	Holdings at the average cost of holding	Holdings at the average NBP exchange rate	Unrealised gains (+) / losses (-)	Holdings at the average cost of holding	Holdings at the average NBP exchange rate	Unrealised gains (+) / losses (-)
Gold	31.1	58.7	27.5	31.4	54.8	23.5
USD	203.7	222.6	18.9	197.4	212.3	14.9
EUR	103.0	104.6	1.5	103.8	106.0	2.3
GBP	63.2	63.3	0.0	58.4	62.7	4.3
CAD	54.2	53.2	-1.0	53.6	53.4	-0.3
AUD	43.2	43.5	0.3	40.7	42.6	1.9
CHF	0.0	0.0	0.0	3.7	3.9	0.3
NOK	29.7	29.4	-0.3	27.4	29.0	1.7
NZD	14.9	14.8	-0.1	14.1	14.3	0.3
IMF (SDR)	0.6	0.6	0.0	0.3	0.3	0.0
Unrealised gains (balance sheet)			48.4	Unrealised gains (balance sheet)		49.0
Unrealised losses (financial result)			-1.4	Unrealised losses (financial result)		-0.3

The difference between the value of foreign currency holdings and gold holdings at the average NBP exchange rate and the value of these holdings at the average cost of the holding (i.e. the averaged 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).

15.1.1.1. 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. As at 31 December 2022, the gold holding of NBP amounted to 228.7 tonnes (PLN 58.7 billion), representing 6.7% of NBP's assets (230.8 tonnes and 6.6% at the end of 2021).

Figure 15.6. Gold and gold receivables as at the end of 2022 and 2021



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

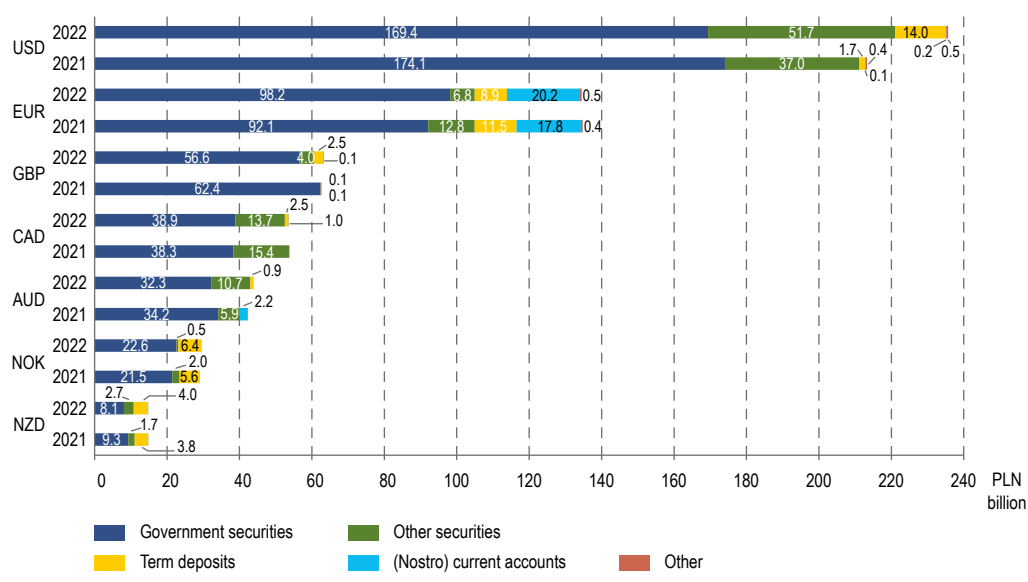
Investment instruments used in the management of foreign exchange reserves account for the largest share of NBP assets. They include primarily securities issued by governments, government agencies and international institutions and, to a lesser extent, term deposits and bonds of non-financial corporations. A part (around 1%) of securities held by NBP is classified as green bonds and sustainable bonds.³ 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).

³ Green bonds or sustainable bonds are issues whose proceeds are used to finance or re-finance green projects or – in the case of the latter – social projects. These may include projects linked to energy efficiency, renewable energy, prevention of environment pollution, sustainable management of natural resources, biodiversity, provision of essential infrastructure and services or food security, and support for socio-economic progress.

Table 15.4. Main investment instruments of foreign exchange reserves at the end of 2022 and 2021

	2022	2021	Change
A.2.2. (Nostro) current accounts	20.3	20.2	0.1
A.2.2. Term deposits	37.6	22.6	14.9
A.2.2. Reverse repo transactions	53.6	35.9	17.7
L.8. Repo transactions	-53.5	-35.9	-17.7
A.2.2. Securities	516.1	506.8	9.3
A.2.2. Other	1.1	1.0	0.1
Total	575.1	550.6	24.5

Note: assets (+), liabilities (-) (PLN billion).

Figure 15.7. Currency composition of foreign exchange reserves (excluding gold) as the end of 2022 and 2021

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. The currency composition and investment structure of the reserves did not change significantly in 2022. Since 2021, NBP has held a portfolio of held-to-maturity (HTM) securities denominated in the US dollar.

15.1.1.3. 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 2022 and 2021 (PLN billion)

	2022	2021	Change
A.2.1. Reserve tranche	6.3	5.7	0.5
A.2.1. Current account with the IMF	25.0	24.1	1.0
A.2.1. Term deposit with the IMF	0.0	0.0	0.0
A.2.1. Loans extended to the IMF	0.1	0.2	-0.1
L.9. SDR allocation	-30.9	-29.8	-1.1
Total	0.5	0.2	0.3

The FX position in SDR⁴ of NBP is mainly the result of operations conducted with the IMF on the basis of concluded loan agreements and borrowing agreements. The change in the 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).

15.1.2. Assets and liabilities denominated in domestic currency

Table 15.6. NBP assets and liabilities in foreign currency by selected areas of activity at the end of 2022 and 2021 (PLN billion)

	Issue of banknotes and coins		Monetary policy		Services to government sector		Other		Total		
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	Change
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			140.7	149.3					140.7	149.3	-8.6
A.10. Other assets							1.3	1.2	1.3	1.2	0.1
Total assets	0.0	0.0	140.7	149.3	0.0	0.0	1.3	1.2	141.9	150.5	-8.6
L.1. Banknotes and coins in circulation	368.6	355.6							368.6	355.6	13.1
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency			55.1	96.5					55.1	96.5	-41.4
L.3. Other liabilities to credit institutions denominated in domestic currency							0.9	0.8	0.9	0.8	0.2
L.4. Liabilities due to issued securities in domestic currency			252.2	184.5					252.2	184.5	67.7
L.5. Liabilities to other residents denominated in domestic currency					10.8	15.2	1.1	0.1	11.9	15.3	-3.4
L.6. Liabilities to non-residents denominated in domestic currency							4.1	4.0	4.1	4.0	0.2
L.11. Other liabilities							0.4	0.4	0.4	0.4	0.0
L.12. Provisions							15.3	16.7	15.3	16.7	-1.4
L.13. Revaluation accounts							50.0	50.6	50.0	50.6	-0.6
L.14. Capital							1.5	1.5	1.5	1.5	0.0
L.15. Financial result							-27.4	0.0	-27.4	0.0	-27.4
Total liabilities	368.6	355.6	307.3	281.0	10.8	15.2	45.9	74.0	732.6	725.8	6.8
Net balance sheet item	-368.6	-355.6	-166.6	-131.7	-10.8	-15.2	-44.7	-72.9	-590.7	-575.3	-15.4

⁴ NBP also holds SDR-denominated shares in the Bank for International Settlements (PLN 58.8 million as at the end of 2022).

Assets and liabilities denominated in domestic currency are primarily linked 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 2022 mainly resulted from the conversion into the zloty of foreign currencies transferred for the benefit of account holders with NBP.

15.1.2.1. 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 year 2022, immediately after Russia invaded Ukraine on 24 February 2022, was marked by a major rise in demand for cash, and on 14 March 2022 the value of cash in circulation was at its all-year high of PLN 395.7 billion. Later on, the value of cash in circulation was steadily decreasing and at the end of 2022 the rise in cash money compared to 2021 amounted to PLN 13.1 billion (3.7%).

Figure 15.8. The denomination breakdown of currency in circulation as at the end of 2022 and 2021

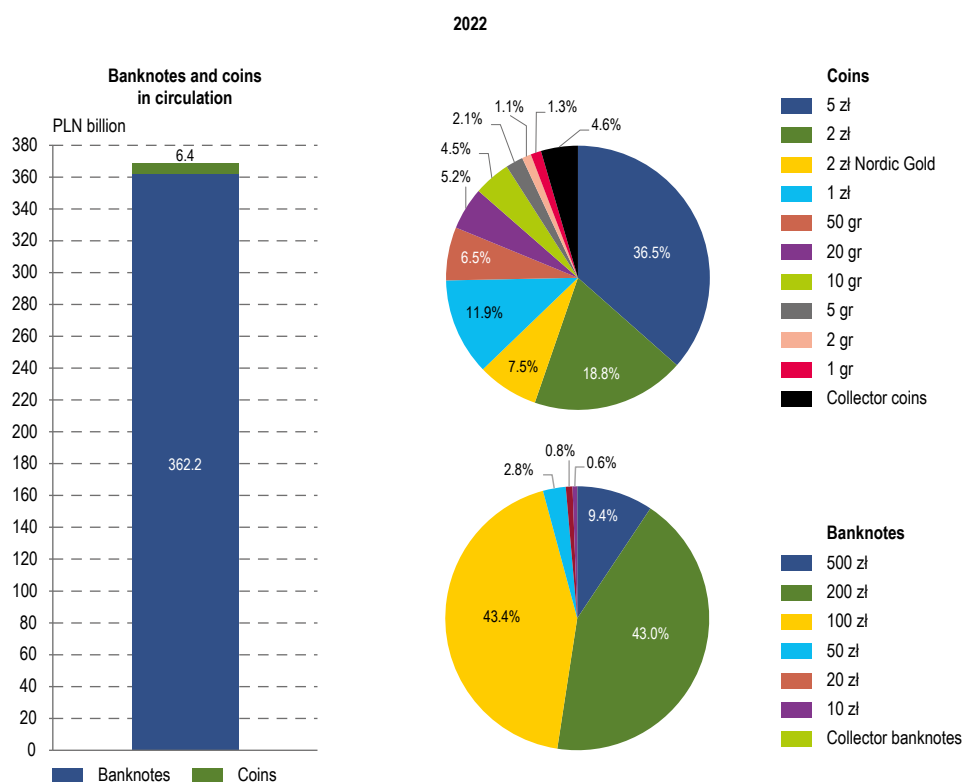
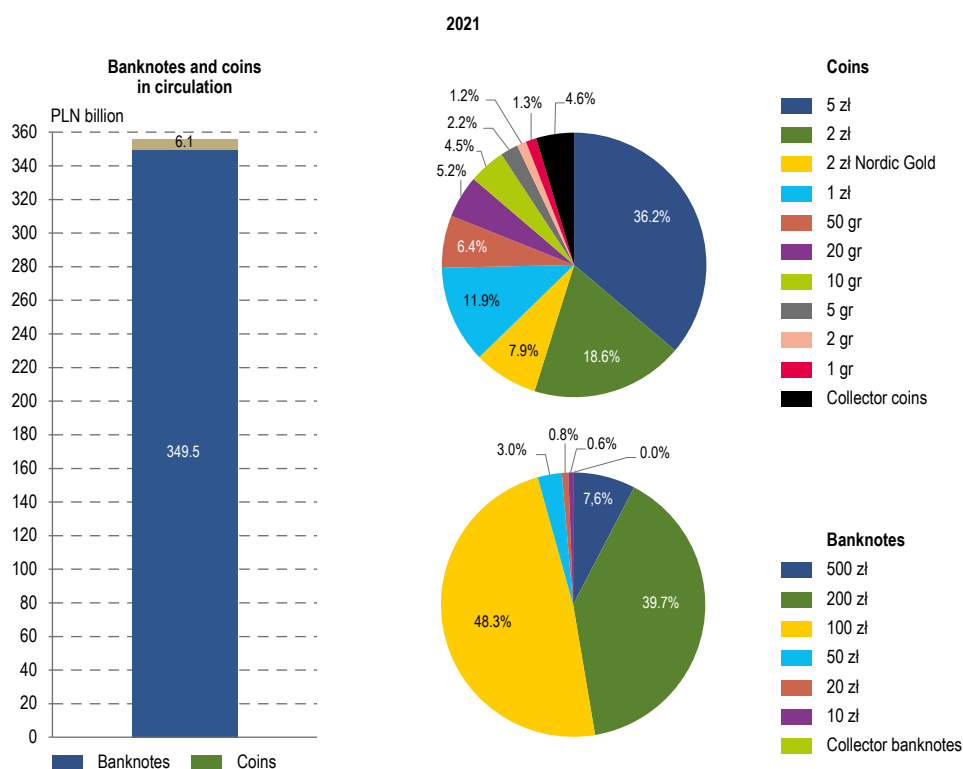


Figure 15.8. The denomination breakdown of currency in circulation as at the end of 2022 and 2021, cont'd


15.1.2.2. Monetary policy

Narodowy Bank Polski implements monetary policy using a set of instruments adopted by the Monetary Policy Council (see Chapter 2). In 2022, 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 used selected instruments, in particular open market operations based on the issue of NBP bills (presented under liabilities). The reserve requirement was also a monetary policy instrument of 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.⁵ NBP provided standing facilities to domestic banks and enabled them to place liquidity surpluses in NBP in the form of deposit facility (presented under liabilities) or to supplement liquidity needs with the use of Lombard credit (presented under assets). In the years 2020–2021, NBP took additional sector liquidity-increasing 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. The securities are held in NBP assets, while funds from the redemption of the instruments at maturity were not reinvested.

⁵ In October 2021 and February 2022, the Monetary Policy Council decided to raise the required reserve ratio (from 0.5% to 3.5% in total).

Table 15.7. Assets (+) and liabilities (–) related to monetary policy as at the end of 2022 and 2021 (PLN billion)

	2022	2021	Change
A.7. Securities denominated in domestic currency	140.7	149.3	-8.6
L.2. Current accounts (including reserve requirement accounts)	-34.9	-66.1	31.1
L.2. Deposit facilities	-20.2	-30.5	10.3
L.4. NBP bills	-252.2	-184.5	-67.7
Total	-166.6	-131.7	-34.9

In 2022, the increase in net liabilities to the banking sector was mainly driven by: the purchase of foreign currency incoming to NBP due to transactions by holders of accounts with NBP, a contribution from NBP's profit for 2021 and cash flows related to NBP's net result on monetary policy (see Section 15.3.3 and Section 15.3.5). The factor contributing to the decrease in net liabilities was mostly an increase in banknotes and coins in circulation (see Chapter 4). Excess liquidity in the banking sector was absorbed through the issue of NBP bills. Moreover, banks left part of the funds in current accounts as a deposit facility.

15.1.2.3. 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 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 (i.e. 5%), which is allocated to increase the reserve fund.

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 arising from 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 FX risk provision decreases the financial result of NBP, and simultaneously protects against potential future losses. The release of the provision increases the financial result of NBP, thereby limiting a potential loss resulting from currency revaluation. In 2022, NBP released the FX risk provision to cover unrealised foreign exchange losses in the amount of PLN 1.4 billion. As at the end of 2022, the balance of the FX risk provision amounted to PLN 15.1 billion.

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).

Table 15.8. Equity of NBP as at the end of 2022 and 2021 (PLN billion)

	2022	2021	Change
L.12. FX risk provision	15.1	16.5	-1.4
L.14. Statutory fund	1.5	1.5	0.0
L.14. Reserve fund	0.0	0.0	0.0
L.13. Gold revaluation account	1.6	1.6	0.0
L.13. Gold holding revaluation gains	27.5	23.5	4.0
L.13. Currency revaluation gains	20.9	25.5	-4.7
L.13. Price revaluation gains	0.0	0.4	-0.4
L.15. Loss of previous years	-10.5	-11.0	0.5
L.15. Financial result for the financial year retained at NBP*	-16.9	0.5	-17.5
Total	39.2	58.6	-19.3
% of NBP balance sheet total	4.5%	7.1%	-2.6 basis points
Sensitivity of the equity of NBP to:			
– appreciation of the zloty exchange rate against foreign currencies by 1%**	-5.3	-5.2	-0.1
– increase in interest rates by 100 basis points***	-14.1	-14.9	0.8

* The financial result for 2021, 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 the yield curves of 100 basis points as at the balance sheet date.

Moreover, in 2022 NBP used the reserve fund (previously increased by the contribution of PLN 0.5 billion from the profit for 2021) to cover the loss of previous years.⁷

15.1.3. NBP Balance Sheet – five-year statement

Changes in the NBP balance sheet total are mainly the result of external foreign currency flows stemming from the transactions of account holders with NBP, fluctuations in the revaluation of financial instruments denominated in foreign currency and in gold, 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, in the years 2020–2021, 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 currencies and gold.

⁷ In accordance with the Act on NBP, the reserve fund is created until it has reached the amount the equivalent of the statutory fund and may only be used to cover NBP's balance sheet losses.

Table 15.9. NBP Balance Sheet in 2018–2022 as at the balance sheet date (PLN billion)

Assets	2022	2021	2020	2019	2018
A.1. Gold and gold receivables	58.7	54.8	52.3	42.5	19.9
A.2. Claims on non-residents denominated in foreign currency	675.4	619.3	527.5	445.2	419.9
2.1. Receivables from the IMF	31.4	30.0	6.9	5.3	4.8
2.2. Balances with foreign institutions, securities, loans granted and other foreign assets	644.0	589.3	520.6	439.9	415.0
A.5. Claims on credit institutions related to monetary policy operations denominated in domestic currency	0.0	0.0	0.1	0.0	0.0
A.6. Other claims on credit institutions denominated in domestic currency	0.0	0.0	0.0	0.0	5.6
A.7. Securities of residents denominated in domestic currency	140.7	149.3	112.6	0.0	0.0
A.10. Other assets	1.5	1.8	2.0	1.4	1.4
Total assets	876.2	825.3	694.3	489.1	446.8
Liabilities	2022	2021	2020	2019	2018
L.1. Banknotes and coins in circulation	368.6	355.6	321.8	238.8	219.5
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency	55.1	96.5	62.6	65.4	72.9
L.3. Other liabilities to credit institutions denominated in domestic currency	0.9	0.8	0.4	0.4	0.4
L.4. Liabilities due to issued securities in domestic currency	252.2	184.5	127.8	65.0	53.3
L.5. Liabilities to other residents denominated in domestic currency	11.9	15.3	24.9	9.3	7.3
L.6. Liabilities to non-residents denominated in domestic currency	4.1	4.0	2.2	2.3	2.6
L.7. Liabilities to residents denominated in foreign currency	59.0	32.6	46.3	22.4	25.1
L.8. Liabilities to non-residents denominated in foreign currency	53.6	36.0	45.4	43.7	37.9
L.9. SDR allocation	30.9	29.8	7.1	6.9	6.8
L.11. Other liabilities	0.4	1.1	0.7	0.2	0.2
L.12. Provisions	15.3	16.7	10.0	6.9	4.0
12.1. FX risk provision	15.1	16.5	9.9	6.7	3.9
12.2. Provisions for liabilities	0.2	0.2	0.2	0.2	0.1
L.13. Revaluation accounts	50.1	51.0	45.7	30.5	27.2
L.14. Capital	1.5	1.5	1.9	1.5	1.5
14.1. Statutory fund	1.5	1.5	1.5	1.5	1.5
14.2. Reserve fund	0.0	0.0	0.4	0.0	0.0
L.15. Financial result	-27.4	0.0	-2.5	-4.0	-11.9
15.1. Financial result for the financial year	-16.9	11.0	9.3	7.8	0.0
15.2. Loss of previous years	-10.5	-11.0	-11.9	-11.9	-11.9
Total liabilities	876.2	825.3	694.3	489.1	446.8

15.2. Characteristics of the NBP Profit and Loss Account

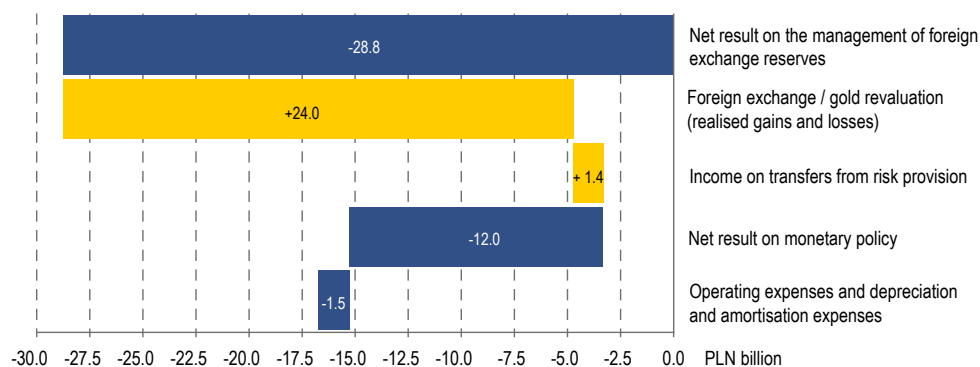
The financial result of NBP in 2022 was negative and amounted to PLN -16.9 billion.

The financial result of NBP is derived from the functions it performs as well as from market conditions. The loss primarily stemmed from the increase in yields on securities on foreign markets. This translated into a negative result realised on the back of transactions involving the securities and into higher unrealised price revaluation losses, and – consequently – into a negative net result on the management of foreign exchange reserves.⁸ In addition, as a result of the rise in expenses on bills issued by NBP and expenses on interest on the required minimum reserve NBP recorded a negative net result on monetary policy. The loss of NBP was reduced by a positive net result on realised foreign exchange gains/losses in operations carried out under the management of reserves denominated in foreign currency. Unrealised currency revaluation losses at the end of 2022 were covered from the FX risk provision. In 2022, the operating expenses of the Bank as well as depreciation and amortisation expenses were at a similar level as in 2021.

Table 15.10. Financial result of NBP for 2022 and 2021 (PLN billion)

	2022	2021
P&L.1. Net result on interest	-5.8	2.3
1.1. Interest income	9.4	3.1
1.2. Interest expenses	-15.2	-0.9
P&L.2. Net result on financial operations	-9.8	9.9
2.1. Realised net result	15.5	20.3
2.2. Unrealised losses	-26.7	-3.7
2.3. Net result on impairment of financial assets	0.0	0.0
2.4. Transfer to/from FX risk provision	1.4	-6.6
P&L.3. Net result on commission and fees	0.0	0.0
P&L.4. Income on shares and participating interests	0.0	0.0
P&L.5. Other income	0.1	0.2
P&L.A. Total net income	-15.4	12.4
P&L.6. Salaries	-0.7	-0.6
P&L.7. Administrative expenses	-0.3	-0.3
P&L.8. Depreciation and amortisation costs	-0.1	-0.1
P&L.9. Expenses on issue of banknotes and coins	-0.4	-0.4
P&L.10. Other expenses	0.0	0.0
P&L.B. Financial result for the financial year	-16.9	11.0

⁸ Culated in the currency of financial instruments.

Figure 15.9. Financial result of NBP for 2022 by areas

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 relate 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 net interest result on monetary policy instruments. In addition, the Bank costs associated with its operations (salaries, administrative costs, expenses on the issue of banknotes and coins and depreciation and amortisation expenses). In 2022, compared to the previous year, a decrease in the net result on interest was recorded, related among others to a substantial rise in expenses related to the conduct of monetary policy of NBP amid a parallel higher net result on interest earned on foreign markets where foreign exchange reserves are invested. On the other hand, the rise in the yields of securities on foreign markets contributed to a decline in net result on financial operations through a negative net result on prices of the transactions involving the securities, and unrealised price revaluation losses on the securities at the end of 2022.

15.2.1. 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 losses)⁹ 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: a volume of inflows of foreign currency from abroad and the developments in financial markets – mutual relationships of the exchange rates of reserve currencies and their exchange rates against the zloty, interest rates in foreign markets, and values of equity

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 to manage foreign currency reserves.

indices. The net result on the management of foreign exchange reserves is also affected by the adopted investment structure of foreign exchange reserves and the type of financial instruments used.

Table 15.11. Net result on the management of foreign exchange reserves in 2022 and 2021 by currency and instrument (PLN billion)

2022	USD*	EUR	GBP	CAD	AUD	NOK	NZD	Total
P&L.1. Net result on interest	3.3	-0.1	0.8	0.9	0.8	0.5	0.4	6.5
Term deposits	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.3
Reverse repos	0.1	0.0	0.2	0.0	0.1	0.0	0.0	0.4
Repos	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	-0.3
Securities	3.2	-0.2	0.7	0.9	0.8	0.4	0.3	6.1
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	-14.2	-8.1	-4.5	-2.7	-3.6	-1.3	-0.9	-35.2
Realised price gains/losses	-4.2	-1.6	-1.3	-0.8	-1.5	-0.3	-0.2	-9.9
Price revaluation losses	-9.9	-6.6	-3.2	-1.9	-2.1	-1.0	-0.7	-25.3
Financial result for the current year	-10.9	-8.3	-3.8	-1.8	-2.8	-0.8	-0.5	-28.8
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 financial year	1.0	-1.0	-0.6	0.0	-0.5	-0.5	-0.2	-1.7
Change of financial result for the current year	-11.9	-7.3	-3.1	-1.8	-2.3	-0.3	-0.3	-27.0

* Interest on term deposits in gold is also included, which is accrued and paid in the US dollar.

The main reason for the decrease in the net result on the management of foreign exchange reserves in 2022 compared to 2021 was a strong increase in yields on securities (a fall in prices) in foreign markets that accompanied a tightening of monetary policy by major central banks amid inflation and the decline of foreign stock exchange indices. Market conditions translated into expenses on price revaluation of securities held by NBP and a negative result of the investment in equity index futures.

15.2.2. 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 in the course of 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, as in the case of revaluation of securities. Currency revaluation losses and gold revaluation losses (unrealised losses) decrease the net result on financial operations. On the other hand, currency 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/gold revaluation gains/losses in 2022 mainly related to the sale transactions of USD, EUR, GBP, CAD, AUD and NOK. The net result grew by PLN 5.8 billion (29%), compared to the previous year, mainly as a result of an increase in the average annual positive difference between the average NBP exchange rate and the average cost of the holding for USD, CAD and AUD, as well as a result of the rise in the sale volume of CAD, EUR, NOK and GBP.

Table 15.12. Foreign exchange/gold revaluation gains/losses and transfer to/from FX risk provision in 2022 and 2021 (PLN billion)

2022	USD	EUR	GBP	CAD	AUD	NOK	NZD	Gold	Other	Total
P&L.2. Result on financial operations	14.5	2.2	1.9	0.9	2.2	0.8	0.3	0.3	0.9	25.5
Foreign exchange gains/losses	14.5	2.2	1.9	0.9	2.2	0.8	0.3	0.3	0.9	24.0
– realised foreign exchange gains/losses	14.5	2.2	1.9	1.9	2.2	1.2	0.5	0.3	0.9	25.5
– currency revaluation losses	0.0	0.0	0.0	-1.0	0.0	-0.3	-0.1	0.0	0.0	-1.4
Transfer to FX risk provision										1.4
2021	USD	EUR	GBP	CAD	AUD	NOK	NZD	Gold	Other	Total
P&L.2. Result on financial operations	6.6	1.7	1.6	-0.3	1.5	1.2	0.8	6.1	0.0	12.8
Foreign exchange gains/losses	6.6	1.7	1.6	-0.3	1.5	1.2	0.8	6.1	0.0	19.4
– realised foreign exchange gains/losses	6.6	1.7	1.6	0.0	1.5	1.2	0.8	6.1	0.0	19.7
– currency revaluation losses	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	-0.3
Transfer to FX risk provision										-6.6
Change in net result on financial operations	7.9	0.5	0.3	1.2	0.7	-0.4	-0.5	-5.9	0.8	12.7

The FX risk provision protects the central bank against the materialisation of FX risk and its adverse impact on the financial result (the value of foreign currency assets is negatively affected by the appreciation of the zloty). In 2022, NBP released the FX risk provision to cover unrealised currency losses from foreign exchange gains/losses in the amount of PLN 1.4 billion. The FX risk provision as at the end of 2022 amounted to PLN 15.1 billion.

15.2.3. 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 surplus liquidity in the banking sector and the level of interest rates, the required minimum reserve rate and its interest rate, set by the Monetary Policy Council. On the other hand, the NBP measures taken in the years 2020–2021 and

aimed at reducing the negative impact of the COVID-19 pandemic resulted in a positive net result on interest on purchased securities denominated in domestic currency (interest, discount and premium).

Table 15.13. Net result on monetary policy conducted in 2022 and 2021 (PLN billion)

	2022	2021	Change
P&L.1. Net result on interest	-12.0	1.1	-13.1
NBP bills	-10.4	-0.8	-9.6
Required minimum reserve	-3.2	-0.1	-3.1
Deposit facility	-0.4	-0.1	-0.4
Securities denominated in domestic currency	2.2	2.0	0.2
Other	-0.1	0.0	-0.1

In 2022, NBP posted a negative net result on its monetary policy. The decrease in the net result (compared to the previous year) was primarily linked to the rising expenses of discount on bills issued by NBP and interest expenses on required minimum reserve funds (due to a rise in NBP interest rates and the required minimum reserve rate in 2022).

15.2.4. Operating expenses and depreciation and amortisation expenses

In 2022, NBP recorded an increase in operating expenses and depreciation and amortisation expenses by PLN 0.1 billion (5.9%) compared to 2021. This was linked, among others, to an increase in salaries in line with the adopted HR and payroll policy, administrative expenses and expenses on the issue of banknotes and coins (i.e. the cost of producing banknotes and coins). Expenses on the 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 2022 and 2021

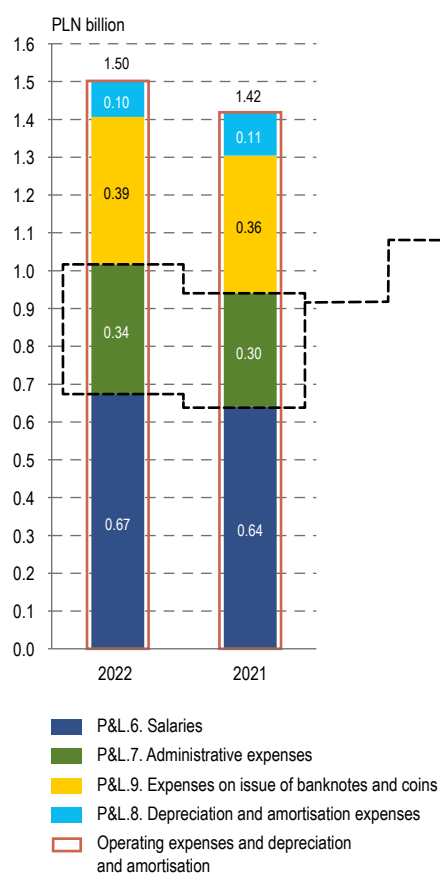
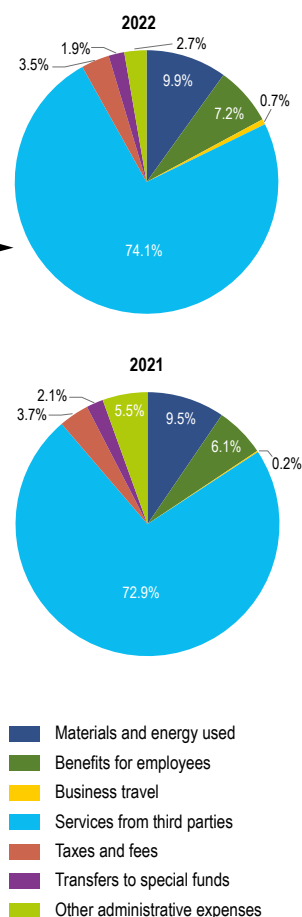
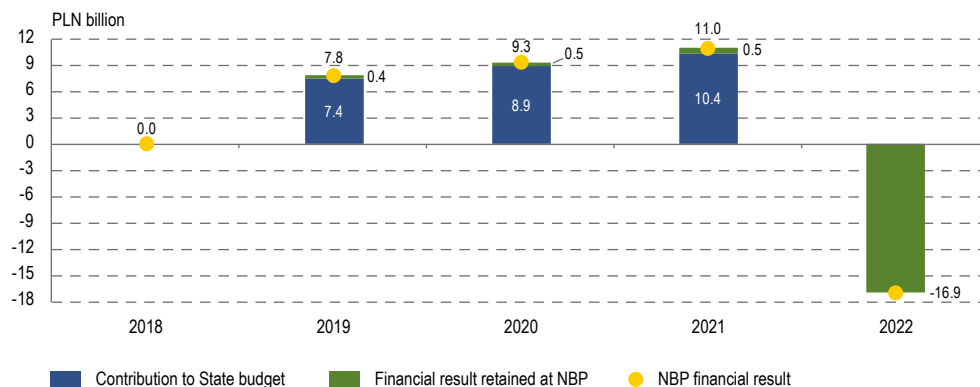


Figure 15.11. Structure of administrative expenses in 2022 and 2021



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

The financial result of NBP for 2022 was negative and amounted to PLN -16.9 billion. Following the Council of Minister's approval of the Financial Statements of NBP for 2022, a 2022 loss will increase the uncovered loss of previous years shown in the item *Loss of previous years* in the equity of NBP.

Figure 15.12. Financial result and contribution from profit to the State budget in 2018–2022

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 for NBP. 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 seigniorage. It represents income from the issue of money.

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. For this reason, in simple terms it can be assumed that what constitutes income on the issue of money is the net result on the management of foreign exchange reserves, including the 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 2022, the estimated seigniorage amounted to PLN -1.2 billion (PLN 8.4 billion in 2021).

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

Foreign exchange reserves and the rates of return on their investment (taking into account FX 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. Changes in the financial result are most often caused by the volatility of FX rates against the Polish zloty. Moreover, they are affected by changes in yields on securities in foreign markets and on the level of domestic interest rates.

Table 15.14. NBP Profit and Loss Account in 2018–2022 (PLN billion)

	2022	2021	2020	2019	2018
P&L.1. Net result on interest	-5.8	2.3	3.1	3.3	2.6
P&L.2. Net result on financial operations	-9.8	9.9	7.3	5.6	-1.5
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	0.1	0.2	0.1	0.1	0.1
P&L.A. Total net income	-15.4	12.4	10.6	9.0	1.2
P&L.6. Salaries	-0.7	-0.6	-0.6	-0.6	-0.5
P&L.7. Administrative expenses	-0.3	-0.3	-0.2	-0.3	-0.3
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	-0.4	-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	-16.9	11.0	9.3	7.8	0.0