

Chapter 15

Financial and equity position and financial result of NBP for 2023

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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 2023.¹ 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.

The chapter includes in particular information clarifying changes in individual items of the Balance Sheet and the Profit and Loss Account in 2023 compared to the previous year. Among other things, the Balance Sheet presents the following: a change in the balance sheet total, a change in the structure of assets and liabilities as well as 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), as well as income and expenses broken down by the main areas of the Bank's activity (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 2023 and 2022, in order to show the information presented over a broader time horizon, historical data are also included, i.e. the developments in the NBP financial and equity position on a five-year basis (2019–2023).

The information contained in this chapter is complementary to the *Financial Statements of Narodowy Bank Polski as at 31 December 2023*, available on the NBP website together with the *Independent Auditor's Report*.

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.

NBP Balance Sheet

As at the end of 2023, the NBP balance sheet total amounted to PLN 903.6 billion.

The increase in the balance sheet total in 2023 by PLN 27.4 billion (3.1%) was mainly driven by transactions of account holders with NBP, the net result on the management of foreign exchange reserves and increased exposure to simultaneous reverse repo and repo transactions amid changes in currency exchange rates and a decline in the balance of debt securities denominated in zloty, purchased in 2020–2021 for monetary policy purposes.

The main changes in assets were related to:

- gold and gold receivables – an increase of PLN 34.9 billion (59.6%),
- claims denominated in foreign currency – a total decrease of PLN 5.7 billion (0.8%),
- debt securities denominated in domestic currency – a decrease of PLN 1.8 billion (1.3%).

The major changes in liabilities involved:

- liabilities related to monetary policy – a total increase of PLN 70.2 billion (22.8%),
- banknotes and coins in circulation – an increase of PLN 8.9 billion (2.4%),
- equity of NBP – a decrease of PLN 50.9 billion (129.8%).

NBP Profit and Loss Account

Narodowy Bank Polski recorded a loss of PLN -20.8 billion for 2023. The main elements of the financial result of NBP were:

- a negative net result on foreign exchange gains/losses of PLN -31.0 billion, including PLN -2.7 billion from realised foreign exchange gains/losses and PLN -28.2 billion on unrealised currency revaluation losses as at 31 December 2023 (see Chapter 15.3.2); the FX risk provision of PLN 15.1 billion was fully released to cover these losses,
- a negative net result on monetary policy in the amount of PLN -20.6 billion,
- a positive net result on the management of foreign exchange reserves (in the currency of an instrument) in the amount of PLN 18.9 billion (see Chapter 15.3.1).

Operating expenses and depreciation and amortisation expenses amounted to PLN -1.8 billion.

Figure 15.1. Overview of changes in the NBP Balance Sheet in 2019–2023 (as at 31 December of the financial year)

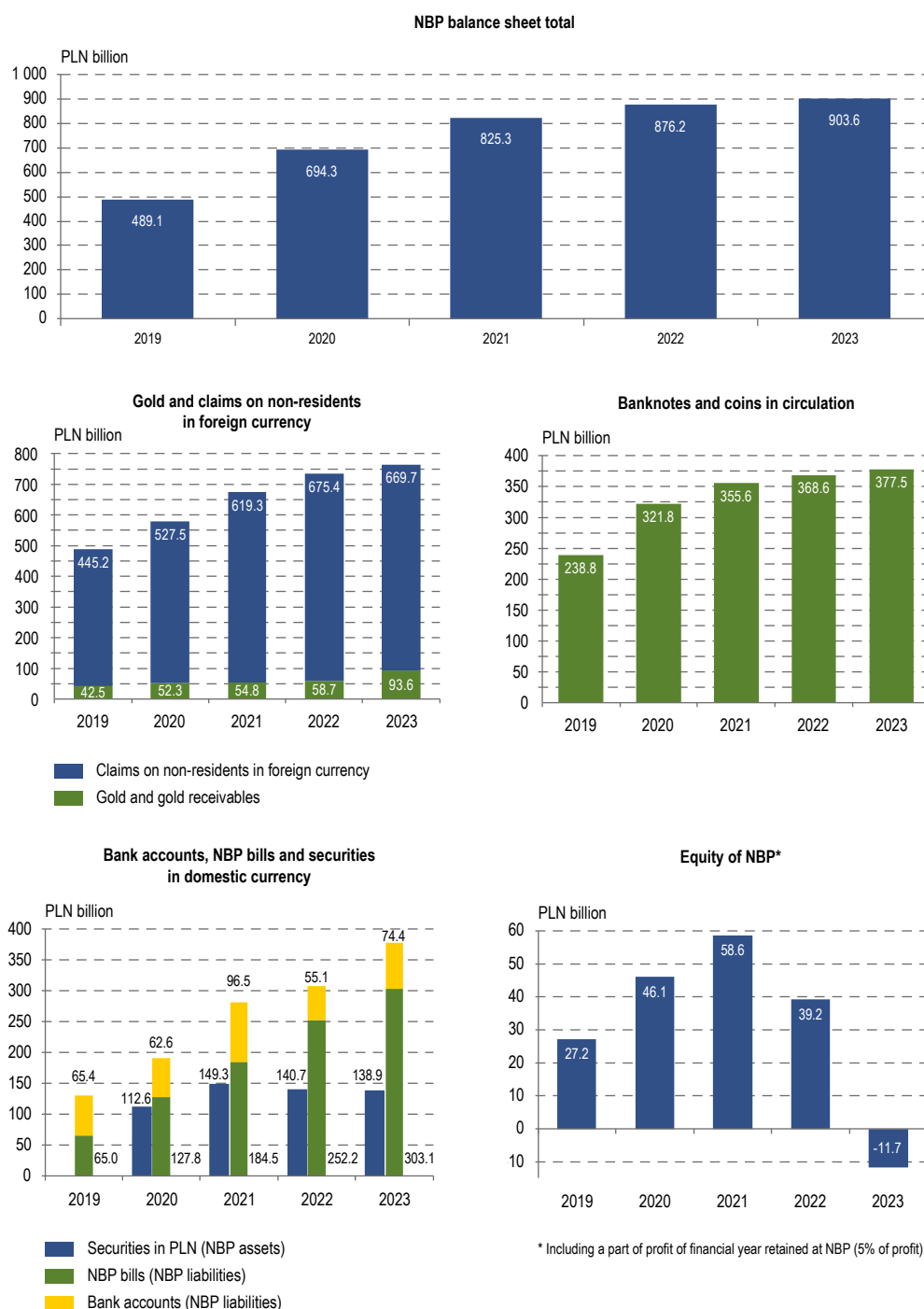
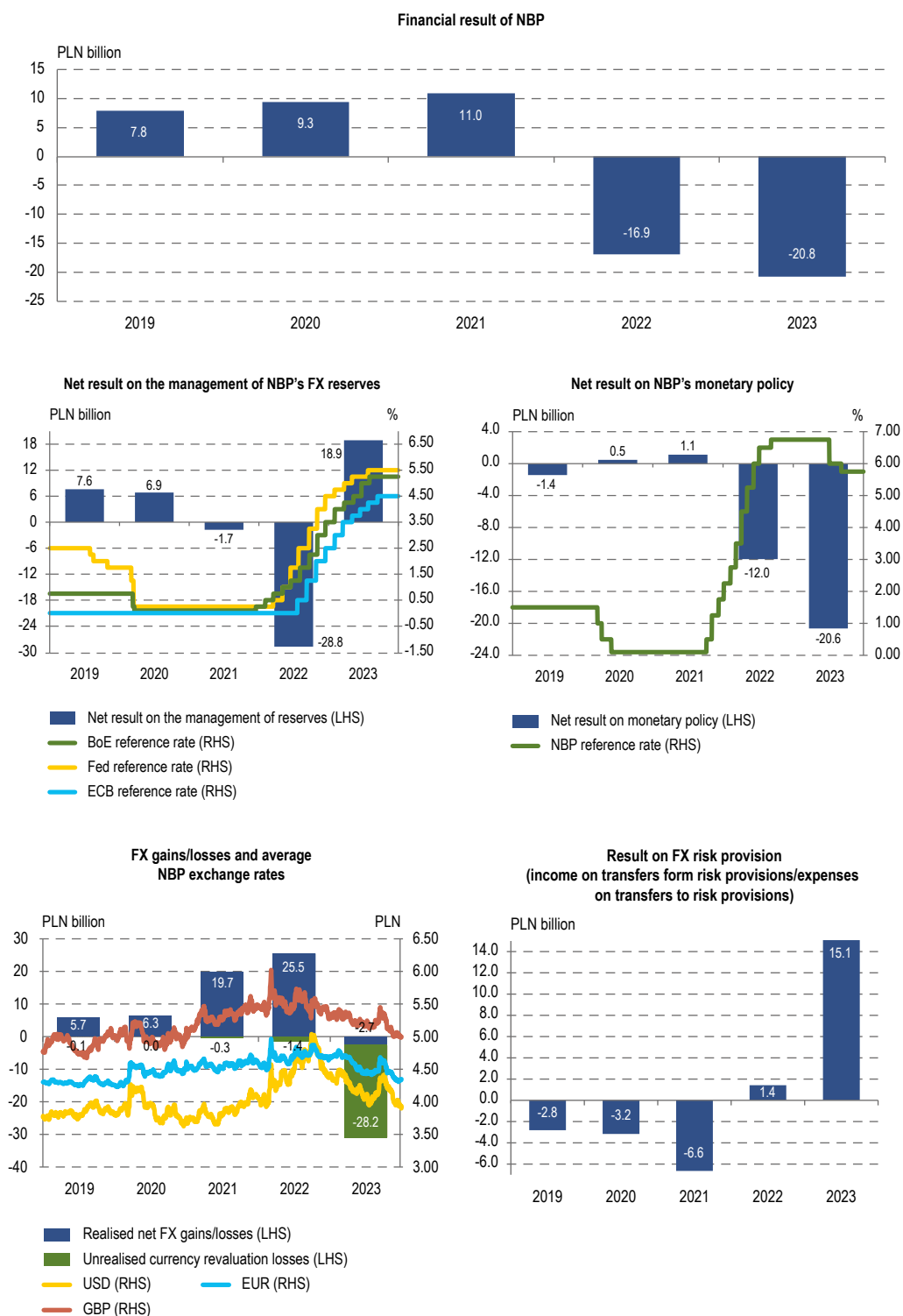


Figure 15.2. Overview of changes in the NBP Profit and Loss Account in 2019–2023 (for the relevant financial year)



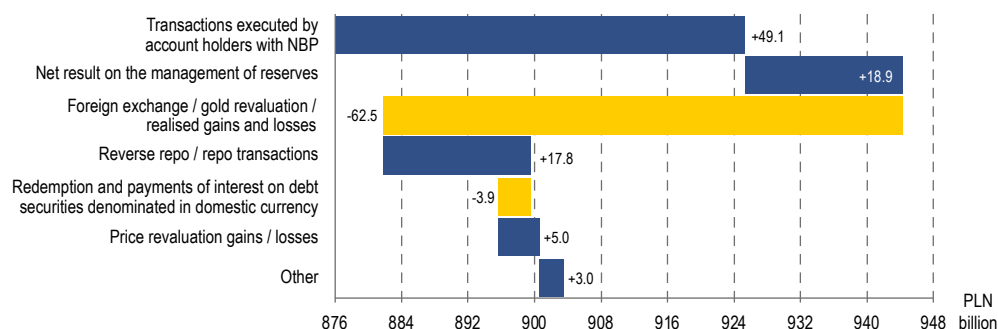
15.2. Characteristics of the NBP Balance Sheet

As at the end of 2023, NBP recorded an increase in the balance sheet total of PLN 27.4 billion. The increase mainly resulted from a net inflow of foreign funds in the amount of PLN 49.1 billion due to transactions of holders of accounts with NBP. The increase was also driven by a positive net result on the management of foreign exchange reserves (PLN 18.9 billion, calculated in the currency of the instruments, i.e. excluding FX gains/losses) and an increase in exposure to simultaneous repo and reverse repo transactions used in the management of foreign exchange reserves (PLN 18.0 billion). On the other hand, changes in foreign exchange rates and the price of gold (PLN -62.5 billion) and settlements on account of interest payments and redemption of debt securities denominated in domestic currency at maturity (PLN -1.8 billion) led to a decrease in the NBP balance sheet total.

Table 15.1. NBP assets and liabilities at the end of 2023 and 2022 (PLN billion)

Assets	2023	2022	Change
A.1. Gold and gold receivables	93.6	58.7	34.9
A.2. Claims on non-residents denominated in foreign currency	669.7	675.4	-5.7
2.1. Receivables from the IMF	28.5	31.4	-2.9
2.2. Balances with foreign institutions, debt securities, loans granted, other foreign assets	641.2	644.0	-2.8
A.7. Debt securities of residents denominated in domestic currency	138.9	140.7	-1.8
A.10. Other assets	1.5	1.5	0.0
Total assets	903.6	876.2	27.4
Liabilities	2023	2022	Change
L.1. Banknotes and coins in circulation	377.5	368.6	8.9
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency	74.4	55.1	19.3
L.3. Other liabilities to credit institutions denominated in domestic currency	2.6	0.9	1.6
L.4. Liabilities due to issued debt securities denominated in domestic currency	303.1	252.2	50.9
L.5. Liabilities to other residents denominated in domestic currency	11.9	11.9	0.1
L.6. Liabilities to non-residents denominated in domestic currency	4.1	4.1	0.0
L.7. Liabilities to non-residents denominated in foreign currency	45.6	59.0	-13.4
L.8. Liabilities to non-residents denominated in foreign currency	67.5	53.6	13.9
L.9. SDR allocation	27.9	30.9	-3.0
L.11. Other liabilities	0.5	0.4	0.0
L.12. Provisions	0.2	15.3	-15.1
L.13. Revaluation accounts	35.0	50.1	-15.0
L.14. Capital	1.5	1.5	0.0
L.15. Financial result	-48.2	-27.4	-20.8
15.1. Financial result for the financial year	-20.8	-16.9	-3.9
15.2. Loss of previous years	-27.4	-10.5	-16.9
Total liabilities	903.6	876.2	27.4

Note: in the NBP Balance Sheet, items unused or showing a zero balance in both periods presented are omitted.

Figure 15.3. Main factors contributing to a change in the NBP balance sheet total in 2023 compared to 2022


Changes in the structure of assets in the balance sheet in 2023, compared to the previous year, were associated with an increase in the share of gold and gold receivables amid a decrease in claims on non-residents denominated in foreign currency. At the same time, the share of assets denominated in domestic currency has slightly decreased – primarily on the back of the issuer’s redemption of a portion of Treasury securities at maturity. On the liabilities side, liabilities denominated in domestic currency increased (primarily liabilities related to monetary policy), whereas liabilities denominated in foreign currency decreased – mainly in connection with the lower balances on the foreign currency accounts of residents (including on the accounts of the State budget and on bank accounts for settlements in TARGET) with increased exposure to simultaneous repo and reverse repo transactions. The equity of NBP also diminished, mainly due to the appreciation of the zloty against foreign currencies, which translated into a decrease in unrealised currency revaluation gains and a simultaneous increase in unrealised currency revaluation losses.

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

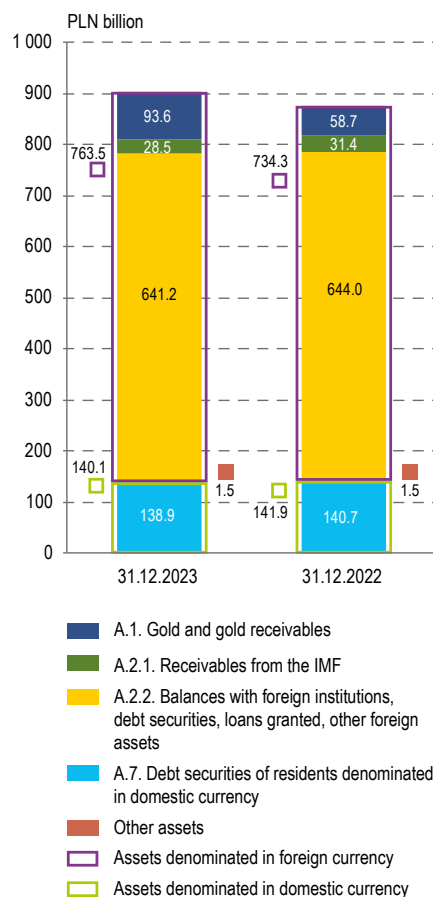
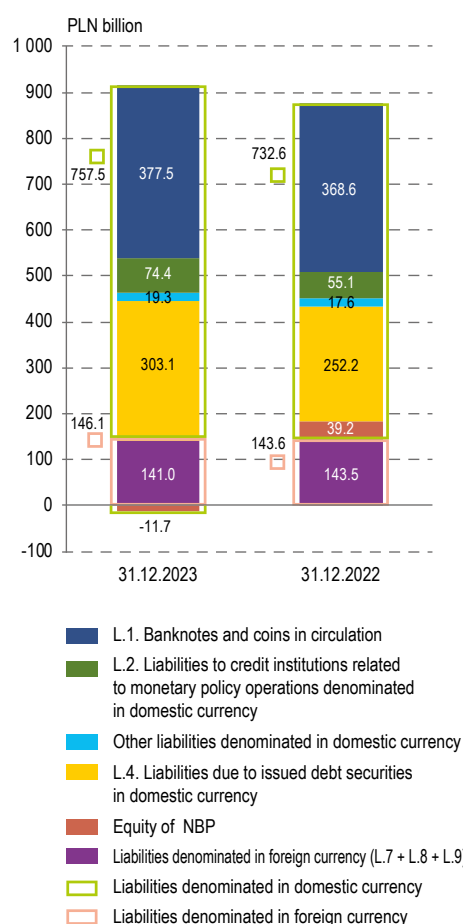


Figure 15.5. Structure of liabilities



15.2.1. 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 13.2.4), and NBP acting as an operator of the TARGET-NBP system, the Polish component of the pan-European settlement system for euro-denominated payments (see Chapter 7).² In addition, NBP operates bank accounts in foreign currencies as part of its services provided to the State budget (see Chapter 8).

² Under the TARGET system, Narodowy Bank Polski operates the accounts in euro 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 and in gold by selected areas of activity at the end of 2023 and 2022 (PLN billion)

	Management of foreign exchange reserves		IMF		Settlements in TARGET		Services to government sector		Other		Total		
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	Change
A.1. Gold and gold receivables	66.2*	31.8*							27.4**	26.9**	93.6	58.7	34.9
A.2. Claims on non-residents denominated in foreign currency	638.0	628.6	28.5	31.4	2.9	15.0			0.3	0.3	669.7	675.4	-5.7
A.10. Other assets									0.2	0.2	0.2	0.2	0.0
Total assets	704.2	660.4	28.5	31.4	2.9	15.0	0.0	0.0	27.9	27.5	763.5	734.3	29.2
P.7. Liabilities to residents denominated in foreign currency					2.9	15.0	42.3	43.7	0.4	0.4	45.6	59.0	-13.4
P.8. Liabilities to non-residents denominated in foreign currency	66.8	53.5							0.7	0.1	67.5	53.6	13.9
P.9. SDR allocation			27.9	30.9							27.9	30.9	-3.0
P.11. Other liabilities									0.1	0.0	0.1	0.0	0.1
P.13. Revaluation accounts									5.1	0.0	5.1	0.0	5.0
Total liabilities	66.8	53.5	27.9	30.9	2.9	15.0	42.3	43.7	6.3	0.5	146.1	143.6	2.5
Net balance sheet item	637.4	606.9	0.6	0.5	0.0	0.0	-42.3	-43.7	21.6	26.9	617.3	590.7	26.7

* 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 – 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 had a holding of IMF's special drawing rights (SDRs).

Table 15.3. Holdings of gold and main foreign currencies at the end of 2023 and 2022 (PLN billion)

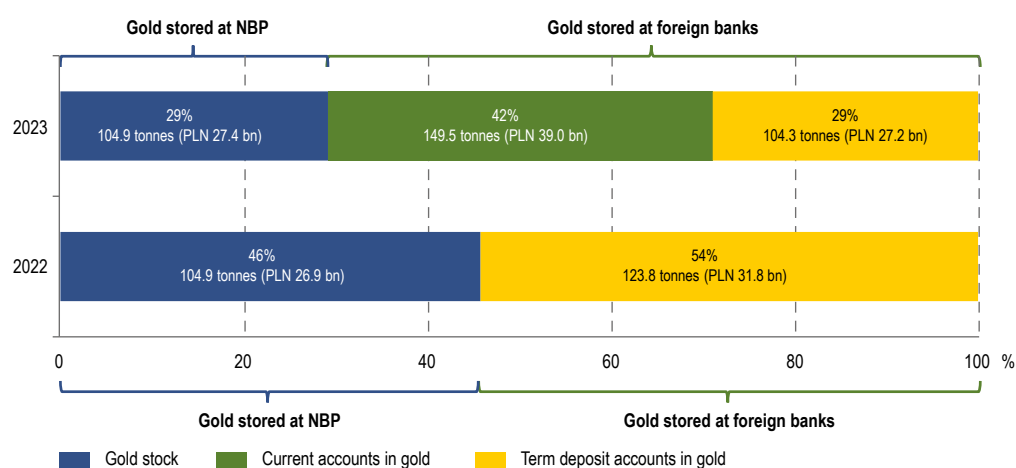
	2023			2022		
	Holdings at the average cost of holding	Holdings at the average NBP exchange rate	Unrealised gains (+) / losses (-)	Holdings at the average cost of holding	Holdings at the average NBP exchange rate	Unrealised gains (+) / losses (-)
Gold	65.3	93.6	28.3	31.1	58.7	27.5
USD	224.7	216.8	-7.9	203.7	222.6	18.9
EUR	109.3	103.6	-5.6	103.0	104.6	1.5
GBP	65.5	62.1	-3.4	63.2	63.3	0.0
CAD	57.0	52.9	-4.2	54.2	53.2	-1.0
AUD	47.2	43.6	-3.6	43.2	43.5	0.3
NOK	31.9	29.3	-2.6	29.7	29.4	-0.3
NZD	15.6	14.7	-0.9	14.9	14.8	-0.1
IMF (SDR)	0.7	0.7	0.0	0.6	0.6	0.0
Unrealised gains (balance sheet)			28.3			48.4
Unrealised losses (financial result)			-28.2			-1.4

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).

15.2.1.1. 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. In 2023, the Bank purchased 130 tonnes of gold. As at 31 December 2022, the gold holding of NBP amounted to 358.7 tonnes (PLN 93.6 billion), representing 10.4% of NBP's assets (228.7 tonnes and 6.7% at the end of 2022).

Figure 15.6. Gold and gold receivables as at the end of 2023 and 2022



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

Investment instruments used to manage foreign exchange reserves account for the largest share of NBP assets. They primarily include debt 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 1.1%) of debt securities held by NBP is classified as green bonds and sustainable bonds.³ In 2023, NBP started investing in investment fund participation units (in exchange traded funds, ETFs). In addition, a minor part 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

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

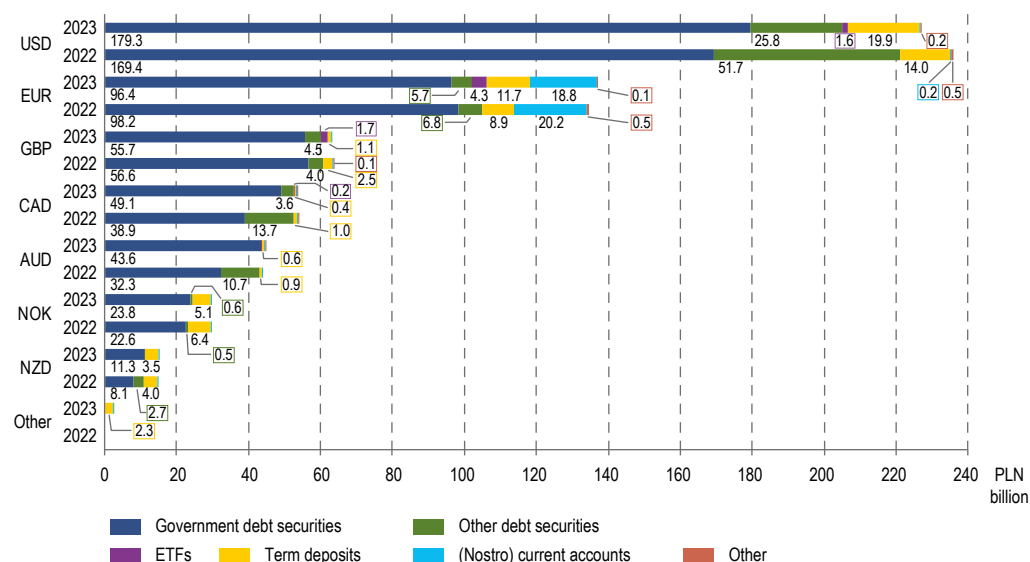
the balance sheet), usually simultaneously to repo transactions (presented under liabilities of the balance sheet) and invests in futures contracts (including equity index futures). The NBP holds a portfolio of debt securities denominated in USD, held to maturity (HTM).

The volume of foreign exchange reserves (other than gold) under management was mainly affected by the inflow of foreign currencies to holders of accounts with NBP and the purchase of gold as well as the currency revaluation and the price revaluation of debt securities held.

Table 15.4. Main investment instruments of foreign exchange reserves at the end of 2023 and 2022; assets “+”, liabilities “-” (PLN billion)

	2023	2022	Change
A.2.2. (Nostro) current accounts	19.0	20.3	-1.4
A.2.2. Term deposits	44.8	37.6	7.2
A.2.2. Reverse repo transactions	66.8	53.6	13.3
L.8. Repo transactions	-66.8	-53.5	-13.3
A.2.2. Debt securities	499.3	516.1	-16.8
A.2.2. ETFs	7.9	-	7.9
A.2.2. Other	0.3	1.1	-0.8
Total	571.2	575.1	-3.9

Figure 15.7. Currency composition of foreign exchange reserves (excluding gold) as at the end of 2023 and 2022



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 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 2023 and 2022 (PLN billion)

	2023	2022	Change
A.2.1. Reserve tranche	5.8	6.3	-0.5
A.2.1. Current account with the IMF	22.6	25.0	-2.4
A.2.1. Term deposit with the IMF	0.0	0.0	0.0
A.2.1. Loans extended to the IMF	0.0	0.1	-0.1
L.9. SDR allocation	-27.9	-30.9	3.0
Total	0.6	0.5	0.1

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 arrangements. The change in the FX position in SDR 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). The value of receivables from and liabilities to the IMF in zloty was also affected by SDR currency revaluation.

15.2.2. Assets and liabilities denominated in domestic currency

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 2023 mainly resulted from the conversion into the zloty of foreign currencies transferred for the benefit of account holders with NBP.

⁴ NBP also holds SDR-denominated shares in the Bank for International Settlements (PLN 52.9 million as at the end of 2023).

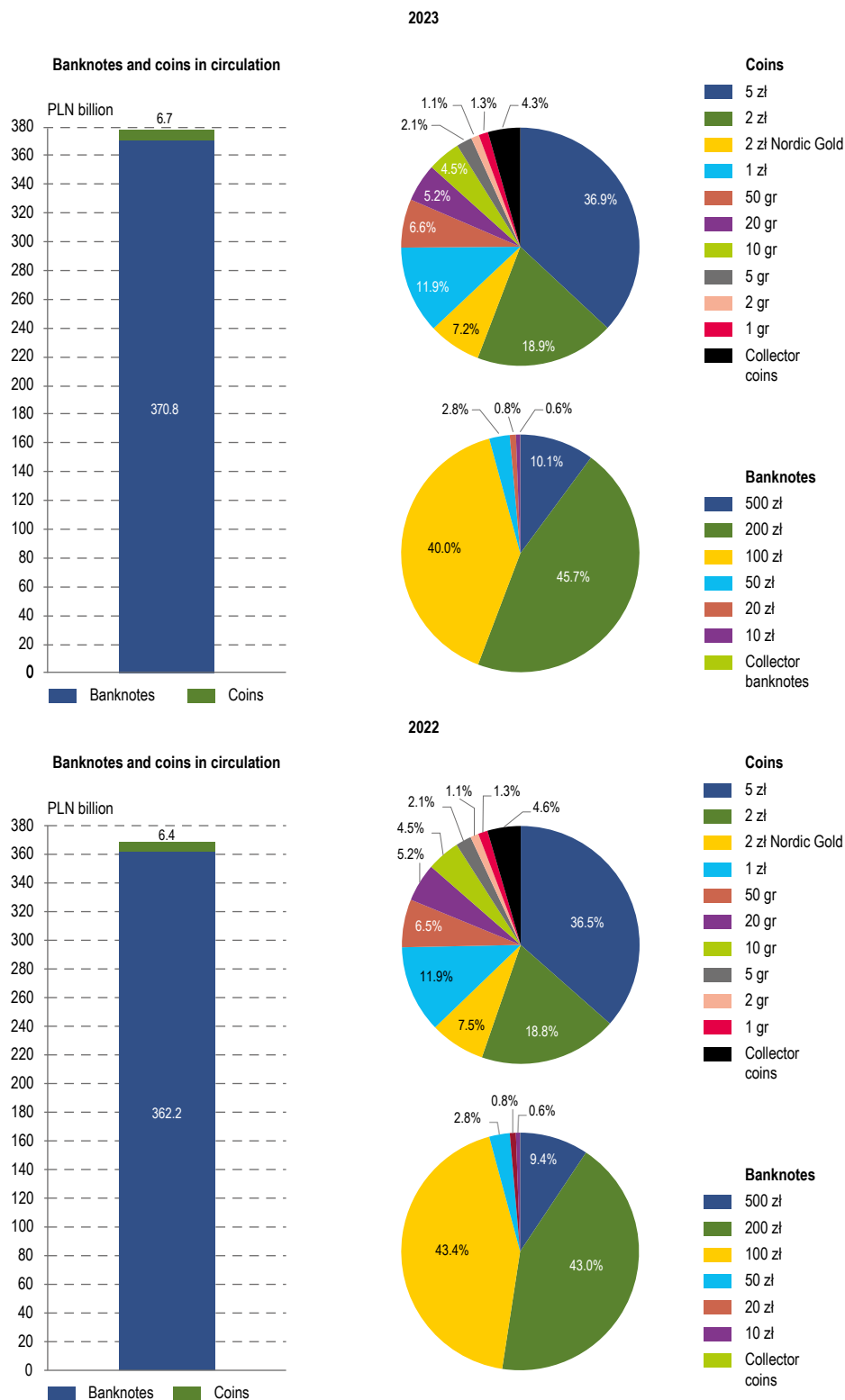
Table 15.6. NBP assets and liabilities in domestic currency by selected areas of activity at the end of 2023 and 2022 (PLN billion)

	Issue of banknotes and coins		Monetary policy		Services to government sector		Other		Total		
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	Change
A.6. Other claims on credit institutions denominated in domestic currency							0.0	0.0	0.0	0.0	0.0
A.7. Debt securities of residents denominated in domestic currency			138.9	140.7					138.9	140.7	-1.8
A.10. Other assets							1.3	1.3	1.3	1.3	0.0
Total assets	0.0	0.0	138.9	140.7	0.0	0.0	1.3	1.3	140.1	141.9	-1.8
L.1. Banknotes and coins in circulation	377.5	368.6							377.5	368.6	8.9
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency			74.4	55.1					74.4	55.1	19.3
L.3. Other liabilities to credit institutions denominated in domestic currency							2.6	0.9	2.6	0.9	1.6
L.4. Liabilities due to issued debt securities in domestic currency			303.1	252.2					303.1	252.2	50.9
L.5. Liabilities to other residents denominated in domestic currency					10.3	10.3	1.6	1.1	11.9	11.9	0.1
L.6. Liabilities to non-residents denominated in domestic currency							4.1	4.1	4.1	4.1	0.0
L.11. Other liabilities							0.5	0.4	0.5	0.4	0.1
L.12. Provisions							0.2	15.3	0.2	15.3	-15.1
L.13. Revaluation accounts							29.9	50.0	29.9	50.0	-20.1
L.14. Capital							1.5	1.5	1.5	1.5	0.0
L.15. Financial result							-48.2	-27.4	-48.2	-27.4	-20.8
Total liabilities	377.5	368.6	377.5	307.3	10.3	10.3	-7.9	45.9	757.5	732.6	24.9
Net balance sheet item	-377.5	-368.6	-238.6	-166.6	-10.3	-10.3	9.1	-44.7	-617.3	-590.7	-26.7

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). They represent, together with liabilities related to monetary policy, the most significant liability item of 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. As at the end of 2023, the increase in cash value compared to the previous year was PLN 8.9 billion (2.4%).

Figure 15.8. The denomination breakdown of currency in circulation as at the end of 2023 and 2022



15.2.2.2. Monetary policy

Narodowy Bank Polski implements its monetary policy using a set of instruments adopted by the Monetary Policy Council (see Chapter 2). In 2023, the 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. 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 deficits with the use of lombard credit (presented under assets). The debt securities presented under the assets of NBP include Treasury bonds and debt securities guaranteed by the Treasury, purchased in 2020–2021 as part of structural open market operations carried out in the secondary market in order to mitigate the negative effects of the COVID-19 pandemic. Funds gained from their redemption at maturity are not reinvested.

Table 15.7. Assets “+” and liabilities “-” related to monetary policy as at the end of 2023 and 2022 (PLN billion)

	2023	2022	Change
A.7. Debt securities denominated in domestic currency	138.9	140.7	-1.8
L.2. Current accounts (including reserve requirement accounts)	-48.9	-34.9	-14.0
L.2. Deposit facilities	-25.5	-20.2	-5.3
L.4. NBP bills	-303.1	-252.2	-50.9
Total	-238.6	-166.6	-72.0

In 2023, the increase in net liabilities to the banking sector was mainly affected by: the purchase of foreign currency incoming to NBP due to transactions by holders of accounts with NBP and cash flows related to NBP’s result on monetary policy (see Chapter 15.3.3). The factor contributing to the decrease in banknotes and coins was an increase in banknotes and coins in circulation (see Chapter 4) and the issuer’s redemption of debt securities at maturity. 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 an overnight deposit facility.

15.2.2.3. Equity of NBP

As the central bank of the state, NBP 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 (statutory and reserve) funds, NBP recognises the following

items as components of equity: the FX risk provision,⁵ gold revaluation account, gold holding revaluation gains, currency and debt securities revaluation gains, a balance sheet loss (of previous years and for the current financial year) 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 2023 and 2022 (PLN billion and %)

	2023	2022	Change
L.12. FX risk provision	0.0	15.1	-15.1
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	28.3	27.5	0.8
L.13. Currency revaluation gains	0.0	20.9	-20.9
L.13. Price revaluation gains	5.1	0.0	5.0
L.15. Loss of previous years	-27.4	-10.5	-16.9
L.15. Financial result for the financial year at NBP*	-20.8	-16.9	-3.9
Total	-11.7	39.2	-50.9
% of NBP balance sheet total	-1.3%	4.5%	-5.8 p.p.
Sensitivity of the equity of NBP to:			
– appreciation of the zloty exchange rate against foreign currencies by 1%**	-5.2	-5.3	0.1
– increase in interest rates by 100 basis points***	-14.7	-14.1	-0.6

* A negative financial result for the financial year is accumulated under the item: Loss of previous years.

** 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 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 decline in the equity of NBP was mainly due to the appreciation of the zloty against foreign currencies, manifested by a decrease in positive unrealised foreign exchange gains/losses and unrealised currency revaluation losses and negative realised foreign exchange gains/losses (see Chapter 15.3.2). It should be noted that negative equity does not negatively affect the NBP's primary objective of maintaining price stability or the fulfilment of the NBP's other tasks. Therefore, it is not a limiting factor for central bank's independence.

⁵ 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 the FX risk provision). The principles for creating and releasing the FX risk 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).

The most volatile components of the equity of NBP include currency revaluation gains, price revaluation gains on debt 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 of securities.

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 magnitude 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 2023, as a result of the appreciation of the zloty, NBP fully released the provision of PLN 15.1 billion to cover unrealised foreign exchange losses.

15.2.3. 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 debt 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. In 2023, NBP purchased 130 tonnes of gold, resulting in an increase in the ratio of gold to foreign currencies in assets.

Table 15.9. NBP Balance Sheet in 2019–2023 as at the balance sheet date (PLN billion)

Assets	2023	2022	2021	2020	2019
A.1. Gold and gold receivables	93.6	58.7	54.8	52.3	42.5
A.2. Claims on non-residents denominated in foreign currency	669.7	675.4	619.3	527.5	445.2
2.1. Receivables from the IMF	28.5	31.4	30.0	6.9	5.3
2.2. Balances with foreign institutions, debt securities, loans granted, other foreign assets	641.2	644.0	589.3	520.6	439.9
A.5. Claims on credit institutions related to monetary policy operations denominated in domestic currency	0.0	0.0	0.0	0.1	0.0
A.7. Debt securities of residents denominated in domestic currency	138.9	140.7	149.3	112.6	0.0
A.10. Other assets	1.5	1.5	1.8	2.0	1.4
Total assets	903.6	876.2	825.3	694.3	489.1
Liabilities	2023	2022	2021	2020	2019
L.1. Banknotes and coins in circulation	377.5	368.6	355.6	321.8	238.8
L.2. Liabilities to credit institutions related to monetary policy operations denominated in domestic currency	74.4	55.1	96.5	62.6	65.4
L.3. Other liabilities to credit institutions denominated in domestic currency	2.6	0.9	0.8	0.4	0.4
L.4. Liabilities due to issued debt securities in domestic currency	303.1	252.2	184.5	127.8	65.0
L.5. Liabilities to other residents denominated in domestic currency	11.9	11.9	15.3	24.9	9.3
L.6. Liabilities to non-residents denominated in domestic currency	4.1	4.1	4.0	2.2	2.3
L.7. Liabilities to residents denominated in foreign currency	45.6	59.0	32.6	46.3	22.4
L.8. Liabilities to non-residents denominated in foreign currency	67.5	53.6	36.0	45.4	43.7
L.9. SDR allocation	27.9	30.9	29.8	7.1	6.9
L.11. Other liabilities	0.5	0.4	1.1	0.7	0.2
L.12. Provisions	0.2	15.3	16.7	10.0	6.9
12.1. FX risk provision	0.0	15.1	16.5	9.9	6.7
12.2. Provisions for liabilities	0.2	0.2	0.2	0.2	0.2
L.13. Revaluation accounts	35.0	50.1	51.0	45.7	30.5
L.14. Capital	1.5	1.5	1.5	1.9	1.5
14.1. Statutory fund	1.5	1.5	1.5	1.5	1.5
14.2. Reserve fund	0.0	0.0	0.0	0.4	0.0
L.15. Financial result	-48.2	-27.4	0.0	-2.5	-4.0
15.1. Financial result for the financial year	-20.8	-16.9	11.0	9.3	7.8
15.2. Loss of previous years	-27.4	-10.5	-11.0	-11.9	-11.9
Total liabilities	903.6	876.2	825.3	694.3	489.1

15.3. Characteristics of the NBP Profit and Loss Account

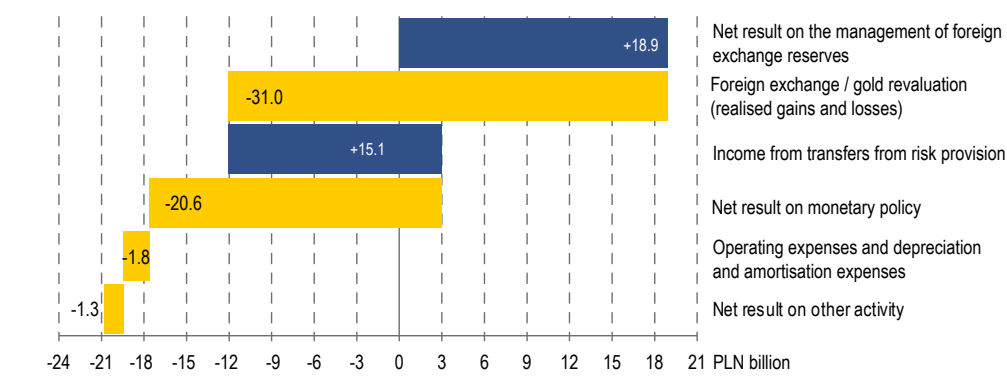
The financial result of NBP in 2023 was negative and amounted to PLN -20.8 billion.

The financial result of the Bank is derived from the functions it performs as well as from market conditions. The loss primarily stemmed from the appreciation of the zloty against foreign currencies, which translated into unrealised currency revaluation losses and a negative net result on realised foreign exchange gains/losses. NBP fully released the FX provision to cover the losses. Moreover, the Bank recorded a negative net result on monetary policy (a rise in expenses on bills issued by NBP and expenses on interest on the required minimum reserve). The loss of NBP was reduced by a positive net result on the management of foreign exchange reserves.⁶ In 2023, the operating expenses of the Bank as well as depreciation and amortisation expenses remained at a similar level as in the previous year.

Table 15.10. Financial result of NBP for 2023 and 2022 (PLN billion)

	2023	2022
P&L.1. Net result on interest	-1.6	-5.8
1.1. Interest income	26.6	9.4
1.2. Interest expenses	-28.2	-15.2
P&L.2. Net result on financial operations	-17.5	-9.8
2.1. Realised net result	-3.8	15.5
2.2. Unrealised losses	-28.8	-26.7
2.3. Net result on impairment of financial assets	0.0	0.0
2.4. Transfer to/from FX risk provision	15.1	1.4
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	0.1	0.1
P&L.A. Total net income	-19.0	-15.4
P&L.6. Salaries	-0.8	-0.7
P&L.7. Administrative expenses	-0.4	-0.3
P&L.8. Depreciation and amortisation expenses	-0.1	-0.1
P&L.9. Expenses on issue of banknotes and coins	-0.5	-0.4
P&L.10. Other expenses	0.0	0.0
P&L.B. Financial result for the financial year	-20.8	-16.9

⁶ Calculated in the currency of financial instruments.

Figure 15.9. Financial result of NBP for 2023 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 bears the costs associated with its operations (salaries, administrative costs, expenses on the issue of banknotes and coins and depreciation and amortisation expenses). In 2023, compared to the previous year, an increase in the net result on interest was recorded (although it was negative, as in 2022). This increase was associated, among others, with substantially higher net interest result on foreign markets where foreign exchange reserves are invested (higher yields on foreign markets in 2023 compared to 2022) amid simultaneously higher expenses related to the conduct of NBP's monetary policy. On the other hand, the appreciation of the zloty against foreign currencies contributed to a decrease in the net result on financial operations – through a negative net result from realised foreign exchange gains/losses on transactions denominated in foreign currency and unrealised losses on valuation of FX positions at the end of 2023.

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 debt securities and deposits (presented under the net result on interest), result on the sale transactions in debt securities and price revaluation of debt securities (only revaluation losses)⁷ and the net result on off-balance sheet financial instruments (presented under the net result on financial operations).⁸ 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 mainly include: a volume of inflows of foreign currency from abroad and the developments in financial markets – mutual relationships of the exchange rates of reserve

⁷ Debt securities denominated in foreign currency, excluding the portfolio of HTM securities, 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) therefore they do not increase the financial result of NBP. Debt securities denominated in foreign currency held to maturity are valued at the clean price adjusted for calculated discount and premium, less impairment.

⁸ Applies to the valuation of derivatives used to manage foreign currency reserves.

currencies and their exchange rates against the zloty, interest rates in foreign markets, and values of equity 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 2023 and 2022 by currency and instrument (PLN billion)

2023	USD*	EUR	GBP	CAD	AUD	NOK	NZD	Total
P&L.1. Net result on interest	9.0	3.5	2.5	2.1	1.7	1.0	0.7	20.5
Term deposits	0.8	0.7	0.0	0.0	0.0	0.2	0.2	2.0
Reverse repos	1.0	0.8	0.7	0.2	0.1	0.0	0.0	2.8
Repos	-1.0	-0.7	-0.6	-0.2	-0.1	0.0	0.0	-2.6
Debt securities	8.1	2.8	2.4	2.1	1.6	0.7	0.5	18.4
P&L.2. Net result on financial operations	-0.4	0.4	-0.7	-0.2	-0.4	-0.2	0.0	-1.6
Realised price gains/losses	-0.3	0.5	-0.6	-0.2	-0.4	-0.1	0.0	-1.1
Price revaluation losses	-0.1	-0.1	-0.1	0.0	-0.1	-0.2	0.0	-0.5
Financial result for the financial year	8.6	4.0	1.8	1.9	1.3	0.7	0.7	18.9
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
Debt securities	3.2	-0.2	0.7	0.9	0.8	0.4	0.3	6.1
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 financial year	-10.9	-8.3	-3.8	-1.8	-2.8	-0.8	-0.5	-28.8
Change of financial result for the current year	19.4	12.3	5.5	3.7	4.0	1.5	1.2	47.7

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

The main reasons for the increase in the net result on the management of foreign exchange reserves in 2023 compared to the previous year included higher average annual yields on debt securities in foreign markets that accompanied a tightening of monetary policy by major central banks amid inflation and the increase of foreign stock exchange indices. Market conditions translated into an increase in the net result on interest on debt securities held by NBP and deposits and a positive net result of the investment in equity index futures.

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

The impact of foreign exchange gains/losses 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 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 debt securities. 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/gold revaluation gains/losses in 2023 mainly related to the sale transactions of USD, EUR, GBP, CAD, AUD, NOK and NZD. Compared to the previous year, the net result fell by PLN 28.2 billion (107.7%), primarily as a result of a negative average annual difference between the average NBP exchange rate and the average cost of the holding for (EUR, GBP, CAD, AUD, NOK and NZD) as well as a decrease in the positive difference for USD, amid a simultaneously lower sale volume for all main foreign currencies.

Table 15.12. Foreign exchange/gold revaluation gains/losses and transfer to/from FX risk provision in 2023 and 2022 (PLN billion)

2023	USD	EUR	GBP	CAD	AUD	NOK	NZD	Gold	Other	Total
P&L.2. Net result on financial operations	-5.4	-6.7	-3.7	-4.7	-4.6	-4.1	-1.8	0.0	0.0	-15.9
Foreign exchange gains/losses	-5.4	-6.7	-3.7	-4.7	-4.6	-4.1	-1.8	0.0	0.0	-31.0
– realised foreign exchange gains/losses	2.5	-1.0	-0.3	-0.5	-0.9	-1.5	-0.9	0.0	0.0	-2.7
– unrealised currency revaluation losses	-7.9	-5.6	-3.4	-4.2	-3.6	-2.6	-0.9	0.0	0.0	-28.2
Transfer to/from FX risk provision										15.1
2022	USD	EUR	GBP	CAD	AUD	NOK	NZD	Gold	Other	Total
P&L.2. Net 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
– unrealised 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/from FX risk provision										1.4
Change in net result on financial operations	-19.8	-8.9	-5.6	-5.6	-6.8	-5.0	-2.1	-0.3	-0.9	-41.4

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 2023, the appreciation of the zloty against main foreign currencies⁹ was as follows: USD – 10.6%, EUR – 7.3%, GBP – 5.6%, CAD – 8.6%, AUD – 10.4%, NOK – 13.3% and NZD – 10.9%. NBP fully released the FX risk provision in the amount of PLN 15.1 billion to cover unrealised currency revaluation losses.

⁹ Calculated by comparing the average NBP exchange rates of foreign currencies as at 31 December 2023 and 31 December 2022.

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 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 debt securities denominated in domestic currency (interest, discount and premium).

Table 15.13. Result on monetary policy conducted in 2023 and 2022 (PLN billion)

	2023	2022	Change
P&L.1. Net result on interest	-20.6	-12.0	-8.7
NBP bills	-18.1	-10.4	-7.7
Required minimum reserve	-4.4	-3.2	-1.2
Deposit facility	-0.3	-0.4	0.1
Debt securities denominated in domestic currency	2.2	2.2	0.0
Other	0.0	-0.1	0.1

In 2023, 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 higher interest expenses on required minimum reserve funds (due to a rise in the average annual level of bills issued and in NBP interest rates as well as a higher average annual level of the required minimum reserve rate in 2023).

15.3.4. Operating expenses and depreciation and amortisation expenses

In 2023, NBP recorded an increase in operating expenses and depreciation and amortisation expenses by PLN 0.3 billion (21.5%) compared to 2022. This was linked, among others, to an increase in expenses on the issue of banknotes and coins (i.e. the cost of producing banknotes and coins), administrative expenses and in salaries in line with the adopted HR and payroll policy. 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 2023 and 2022

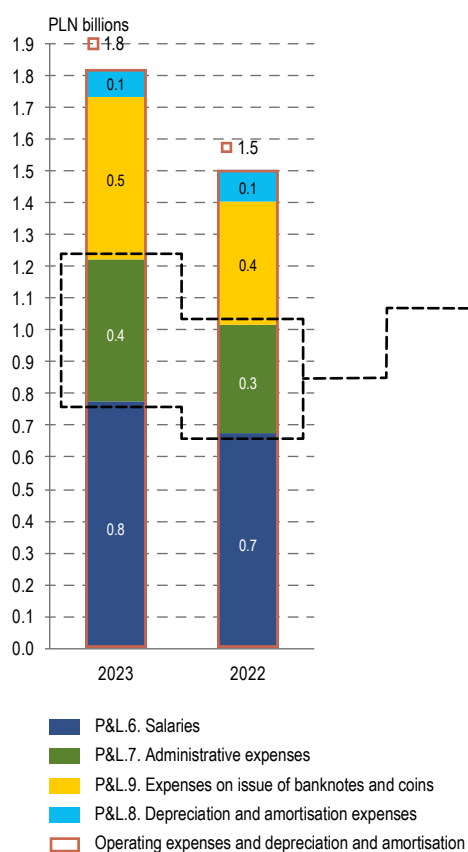
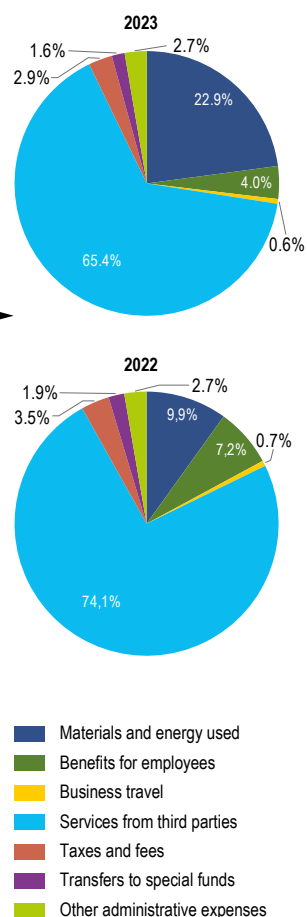


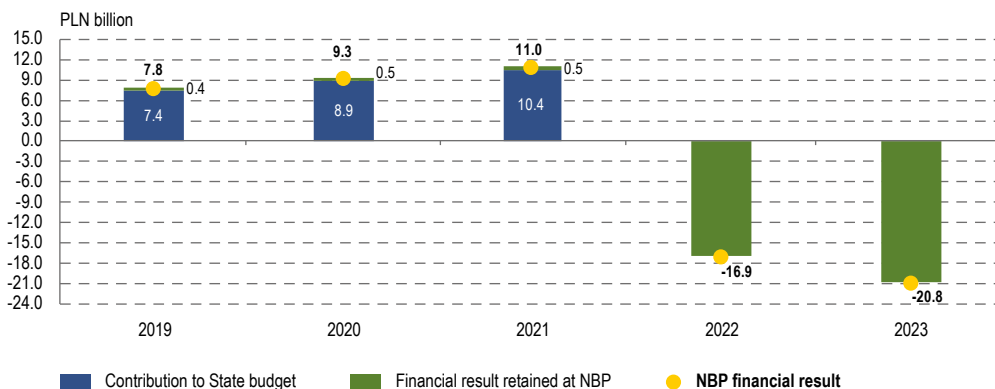
Figure 15.11. Structure of administrative expenses in 2023 and 2022



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

The financial result of NBP for 2023 was negative and amounted to PLN -20.8 billion. The loss for 2023 will increase the uncovered loss of previous years shown in the item *Loss of previous years* in the equity of NBP.

The result is 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.

Figure 15.12. Financial result and contribution from profit to the State budget in 2019–2023

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 debt 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 debt 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 2023, the estimated seigniorage amounted to PLN -3.1 billion (PLN -1.2 billion in 2022).

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 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 the yields on debt securities in foreign markets and on the level of domestic interest rates.

Table 15.14. NBP Profit and Loss Account in 2019–2023 (PLN billion)

	2023	2022	2021	2020	2019
P&L.1. Net result on interest	-1.6	-5.8	2.3	3.1	3.3
P&L.2. Net result on financial operations	-17.5	-9.8	9.9	7.3	5.6
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	0.1	0.2	0.1	0.1
P&L.A. Total net income	-19.0	-15.4	12.4	10.6	9.0
P&L.6. Salaries	-0.8	-0.7	-0.6	-0.6	-0.6
P&L.7. Administrative expenses	-0.4	-0.3	-0.3	-0.2	-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	-0.5	-0.4	-0.4	-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	-20.8	-16.9	11.0	9.3	7.8