

Warsaw, 17 December 2003

**Press release on changes in the accounting principles of the NBP
and the principles of creating and releasing reserves
for foreign exchange risk**

1. Starting 1 January 2004, the accounting principles of the NBP will be harmonised with the principles applied by the central banks of the ESCB in accordance with Art. 67 of the amended act on the NBP providing that **“The accounting principles of the NBP should be consistent with the standards applied in the European System of Central Banks”**.
2. The NBP will be ready to prepare financial statements for the needs of conducting the single monetary policy within the euro system.
3. The adjustments to the guidelines supplied by the ECB concern mainly valuation of debt securities, foreign currencies and gold and settlements of the valuation results.
In accordance with the ECB principles, a drop in the market value of foreign currencies, gold, debt securities will be reducing the year end financial result and a growth, if any, will be disclosed on the liabilities side of the balance sheet.
4. Other changes concern:
 - The frequency of computing interest, discount, premium on the NBP assets and liabilities (from a monthly to a daily cycle),
 - The mode of computing realized foreign exchange gains (i.e. income and expense from foreign currency transactions) based on the method of the average costs of foreign currency resource. The difference between the traded FX rate in currency selling and the average costs of resource will be included into the financial result (as income or expense).
5. Starting from 1 January 2004, the function of the existing re-evaluation reserve will be changed. So far, the reserve was held with the purpose of covering the zloty exchange rate fluctuations against foreign currencies, accumulating unrealized FX differences.

Due to the fact that the essence and source of the reserve is equivalent to the re-evaluation account mentioned in the ECB guidelines, the existing reserve to cover any risks of the zloty exchange rate fluctuations against foreign currencies, presented in the balance sheet as of 31 December 2003, will be rebooked into the re-evaluation account. The account will be subject to a decrease in the case when:

- a) Foreign currencies are sold in exchange for the zloty,
- b) The gold resources held by the NBP are decreased when compared to the resources of the previous year,
- c) Some so-called unrealized costs are incurred from valuation of foreign currency and gold held by the NBP which, in accordance with the ECB guidelines, decrease the year-end financial result. In consequence, covering negative foreign exchange differences from the account will prevent deterioration of the amount of profit paid in to the budget.

Income from the decrease in the account will be increasing the financial result.

In accordance with the new accounting principles, the accounts (on the assets and liabilities side) of gains and losses from foreign currency asset valuation will absorb the unrealized FX differences.

- 6. The NBP will hedge against the foreign currency risk by having the opportunity to create a reserve for the risk of fluctuations in the zloty exchange rate against foreign currencies charged into costs.

Should the amount deposited on the re-evaluation account be insufficient to cover the result of the zloty appreciation, the NBP will be able to create a reserve for the risk of the zloty exchange rate changes against foreign currencies. The principles for creating and releasing this reserve have been laid down by the MPC.

The reserve will be created by charging into costs and not by its increasing with the excess of foreign exchange gains, as it has been the case so far, as it would be inconsistent with the ECB guidelines. The reserve will be released into income when its level is too high in relation to the identified risk of foreign currency exchange rate fluctuations.