

# Methodology

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## **I. Financial data - general information**

The financial data presented are based on the FINREP reporting framework, sent to the National Bank of Poland by banks and branches of credit institutions, according to the NBP Board of Directors Resolution 53/2011 (Annex nr 10) of 22 September 2011 as amended.

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

### **Assets, total**

- 1. Cash and cash balances with central banks**
- 2. Financial assets held for trading**
  - a. Derivatives
  - b. Equity instruments
  - c. Debt instruments
  - d. Other loans and advances
- 3. Financial assets designated at fair value through profit or loss**
  - a. Equity instruments
  - b. Debt instruments
  - c. Other loans and advances
- 4. Available for sale financial assets**
  - a. Equity instruments
  - b. Debt instruments
  - c. Other loans and advances
- 5. Loans and receivables (including finance leases)**
  - a. Debt instruments
  - b. Loans and advances
- 6. Held to maturity investments**
  - a. Debt instruments
  - b. Other loans and advances
- 7. Derivatives – hedge accounting**
- 8. Fair value changes of the hedged items in portfolio hedge of interest rate risk**
- 9. Tangible assets**
- 10. Intangible assets**
- 11. Investments in associates, subsidiaries and joint ventures**
- 12. Tax assets**
- 13. Other assets**
- 14. Non-current assets and disposal groups classified as held for sale**

## **Total liabilities and equity liabilities, total**

- 1. Deposits from central banks**
- 2. Financial liabilities held for trading**
  - a. Deposits
  - b. Short positions
  - c. Derivatives
  - d. Debt instruments issued/ debt certificates
  - e. Other financial liabilities
- 3. Financial liabilities designated at fair value through profit or loss**
  - a. Deposits
  - b. Debt instruments issued/ debt certificates
  - c. Subordinated liabilities
  - d. Other financial liabilities
- 4. Financial liabilities measured at amortised cost**
  - a. Deposits
  - b. Debt instruments issued/ debt certificates
  - c. Subordinated liabilities
  - d. Other financial liabilities
- 5. Financial liabilities associated with transferred financial assets**
- 6. Derivatives – hedge accounting**
- 7. Fair value changes of the hedged items in portfolio hedge of interest rate risk**
- 8. Provisions**
- 9. Tax liabilities**
- 10. Other liabilities**
- 11. General risk reserve/ allowances for incurred but not reported losses (IBNR)**
- 12. Reserved revenues**
- 13. Share capital repayable on demand**
- 14. Liabilities included in disposal groups classified as held for sale**

## **Equity, total**

- Issued Capital
- Unpaid capital which has been called up
- Treasury shares (negative figure)
- Surplus capital
- Reserves
- General risk fund
- Retained earnings
- Other equity instruments
- Revaluation reserves and other valuation differences
- Other additional own funds defined in banking law
- Profit (loss) before approval
- Income from current year

- Interim dividends (negative figure)
- Minority interest

## **Income statement**

1. Interest income
2. Interest expenses
3. Net interest income
4. Expenses on share capital repayable on demand
5. Dividend income
6. Fee and commission income
7. Fee and commission expenses
8. Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net
9. Gains (losses) on financial assets and liabilities held for trading, net
10. Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net
11. Exchange differences, net

### ***Gains (losses) from banking activity, net***

12. Gains (losses) on derecognition of assets other than held for sale, net
13. Other operating gains (losses), net
14. Gains (losses) from hedge accounting, net
15. Administration costs
16. Depreciation
17. Provisions
18. Impairment on financial assets not measured at fair value through profit or loss
19. Impairment on non-financial assets
20. Gains (losses) from incurred but not reported losses, net/gains (losses) from general risk reserve,

### ***Gains (losses) from operating activity, net***

21. Gains (losses) from extraordinary items, net
22. Negative goodwill immediately recognised in profit or loss
23. Share of the profit or loss of associates, subsidiaries and joint ventures accounted for using the equity method
24. Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

### ***Total profit or loss before tax from continuing operations***

25. Tax expense (income) related to profit or loss from continuing operations
26. Other obligatory expense related to profit or loss from continuing operations

### ***Total profit or loss after tax from continuing operations***

27. Profit or loss after tax from discontinued operations

### ***Total profit or loss after tax and discontinued operations***

The scheme of the financial data publication is closely related to the FINREP scheme, where financial instruments are presented according to the financial instruments categories described in IAS 39 (§9) and to the Ministry of Finance Resolution on special accounting principles for banks of 1 October 2010 (Journal of Laws No.191, item 1279 as amended).

Banks qualify financial instruments to an appropriate category, on the basis of provisions described in the above mentioned regulations and based on their business model for managing financial assets.

Assets and liabilities are commonly measured at:

- a) amortised cost
- b) fair value
- c) historical cost.

Recognition and measurement principles are described in IAS 39 and in the Ministry of Finance Resolutions: on specific accounting principles for banks of 1 October 2010 and on specific principles on financial instruments recognition, measurement, disclosure and presentation of 12 December 2001 (Journal of Laws No.149, item 1674 as amended).

The *amortised cost* of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The *fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

*Historical cost* is applied, when assets are recorded at the amount of cash or cash equivalent paid or the fair value of the consideration given to acquire them at the time of their acquisition, liabilities are recorded at the amount of proceeds received in exchange for the obligation.

According to IAS 39 financial assets and liabilities are qualified as:

1. Financial Assets categories:
  - financial assets at fair value through profit or loss (including held for trading),
  - financial assets available for sale,
  - loans and receivables,
  - held to maturity investments.
  
2. Financial Liabilities categories:
  - financial liabilities measured at amortised cost,
  - financial liabilities designated at fair value through profit or loss (including held for trading),

*Assets/liabilities designated at fair value through profit or loss* include:

- financial assets/liabilities held for trading
- derivatives (except a derivative that is a financial guarantee or a designated and effective hedging instrument)
- assets/liabilities designated by the entity at fair value upon initial recognition.

*Financial asset or financial liability is held for trading if:*

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

*Loans and receivables* – non-derivative financial assets with fixed or determinable payments that are not quoted in an active markets.

*Held to maturity investments* are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity.

*Available for sale financial assets* are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

*Derivatives – hedging instruments* – derivatives that meet the hedge accounting criteria described in regulations currently being in force.

*Financial liabilities measured at amortised cost* – financial liabilities that are not designated as financial liability at fair value through profit or loss.

In the FINREP reports, loans and advances are additionally assigned to „Portfolio A” or „Portfolio B”.

„**Portfolio A**” includes loans and advances that meet the definition of „Financial assets measured at fair value through profit and loss” and „Financial assets held for trading”.

„**Portfolio B**” includes financial assets categories:

- Loans and receivables
- Loans and advances from the category „Available for sale financial assets”,
- Loans and advances from the category “Held to maturity investments”.

## II. Financial data published – general information

Financial data received from banks and branches of credit institutions are presented in four files: **Loans and advances, Liabilities, Income statement and Off-balance-sheet positions resulting from transactions in OTC derivatives.**

The *Loans and advances* file includes tables with selected data on loans and advances divided by products and entities:

1. Banking sector loans and advances, gross carrying amount (Portfolio B)
2. Impairment on loans and advances of banking sector
3. Impaired loans and advances of banking sector, gross carrying amount
4. Loans and advances on financial sector, gross carrying amount
5. Loans and advances on large corporations, gross carrying amount
6. Impairment on loans and advances on large corporations
7. Loans and advances on SME, gross carrying amount
8. Impairment on loans and advances on SME
9. Loans and advances on households, gross carrying amount
10. Impairment on loans and advances on households
11. Loans and advances collateralised with mortgage, gross carrying amount
12. Impairment on loans and advances with mortgage as collateral
13. Banking sector assets (carrying amount)
14. Financial assets held for trading
15. Debt instruments held for trading
16. Financial assets designated at fair value through profit or loss
17. Equity instruments available for sale
18. Debt instruments available for sale
19. Debt instruments in loans and receivables portfolio
20. Loans and advances in loans and receivables portfolio, gross carrying amount
21. Impairment on loans and advances in loans and receivables portfolio
22. Debt instrument in portfolio held to maturity investments
23. Equity instruments by types
24. Debt instruments from all financial instruments portfolios, carrying amount
25. Debt instruments from all portfolios by original maturities from, carrying amount

The *Liabilities* file includes following tables:

1. Banking sector liabilities (including central banks) - economic sector classes
2. Banking sector deposits (excluding central banks)
3. Liabilities and equity of banking sector, total
4. Liabilities, total
5. Financial liabilities held for trading
6. Derivatives held for trading, liabilities
7. Financial liabilities measured at amortised cost

8. Equity of banking sector, carrying amount

The *Income statement* file includes selected data on the income statement and costs/revenues as a result of the operations on assets/liabilities from all categories.

1. Income statement of banking sector - selected items
2. Interest income
3. Interest expenses
4. Dividend income
5. Gains (losses) on financial assets and liabilities held for trading (net) and exchange differences (net)
6. Administration costs
7. Impairment on financial assets not measured at fair value through profit or loss

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

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

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

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

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

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

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

Aggregate values in the table on positions resulting from transactions in foreign exchange derivatives include, inter alia, positions arising from outright forwards, fx swaps, CIRS transactions, and fx

options bought and sold. Positions resulting from forwards, CIRS, fx swaps and fx options (the total of bought and sold) have been singled out from the above mentioned aggregate.

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

Data granularity in this publication has been limited due to requirements arising from the provisions of the Act on Narodowy Bank Polski (Journal of Laws 2013, item 908 as amended) and statistical confidentiality regulations (Act of 29 June 1995 on official statistics).

# Additional information on selected tables

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## LOANS

### 1. Loans and advances

The table “Banking sector loans and advances, gross carrying amount (Portfolio B)” includes all loans and advances of the banking sector, that are qualified as „Portfolio B”.

“Portfolio B” was described in part I (Financial data – General information).

The table “Impairment on loans and advances on banking sector” presents allowances on loans and advances of the financial and nonfinancial sector included in Portfolio B.

Loans and advances are presented at gross carrying amount.

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

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

Financial assets are measured:

- a) at amortised cost using effective interest rate method (reduced by impairment allowance),
- b) at fair value, or
- c) at cost, reduced by impairment losses.

Loans and advances presented in the tables include a wide range of products, starting from classical loans, factoring receivables and repo transactions.

### 2. Impaired loans and advances

The table “Impaired loans and advances of the banking sector, gross carrying amount” presents loans and advances of the financial sector and non-financial sector, included in „Portfolio B”.

Impaired loans and advances for financial reporting purposes mean:

- for banks applying International Accounting Standards – that there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of an asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.
- for banks applying Polish accounting regulations – loans and advances qualified to categories: substandard, doubtful, lost.

Impaired loans and advances are presented in gross carrying amount.

### **3. Loans and advances (large corporations, SME, households)**

The breakdown for non-financial institutions (large corporations, SME, households) is based on definitions described in the FINREP guidelines.

*Large corporations* – an entity or a natural person, where the number of employees at the end of the last financial year was at least 250 persons,

*Small and Medium Entity (SME)* – an entity where the number of employees at the end of the last financial year was less than 250 or a natural person, who runs a business on one's own account, if the number of employees at the end of the last financial year was more than 9 persons, but less than 250.

This category also includes micro enterprises (an enterprise with the number of employees at the end of the last financial year up to 9 persons). Natural persons, who run a business on their own account with the number of employees at the end of the last financial year less than 9 persons are included in category Individual Entrepreneur (households).

#### *Households*

Individuals or groups of individuals as consumers and possibly also as entrepreneurs producing market goods and non-financial services (market producers) for exclusively own final use (individual entrepreneurs, individuals, farmers)

#### *Non-profit institutions serving households*

Non-profit institutions which are separate legal entities, which serve households and which are private other non-market producers. Their principal resources, apart from those derived from occasional sales, are derived from voluntary contributions in cash or in kind from households in their capacity as consumers, from payments made by general governments and from property income.

### **4. Loans and advances (collateralised with mortgage)**

The table „Loans and advances collateralised with mortgage, gross carrying amount” and “Impairment on loans and advances with mortgage as collateral” present data, that are part of the information included in the table “Banking sector loans and advances, gross carrying amount (Portfolio B)” and the table “Impairment on loans and advances on banking sector”.

In the FINREP framework Loans and advances collateralised with mortgage are defined as loans and advances secured by mortgages.

The definition of a mortgage comes from the land register and mortgage Act of 6 July 1982 (Journal of Laws No.19, item 147 as amended).

## **5. Assets (financial assets held for trading, financial assets designated at fair value through profit or loss, financial assets available for sale, loans and receivables, held to maturity investments, derivatives - hedge accounting (assets))**

*The information on assets qualification and measurement is available on in part. 1 "Financial data – General information".*

Data included in the table „Assets of the Polish banking sector“ are further expanded and divided by: financial assets categories, products and entities.

Generally tables with detailed information present assets, that are measured with the same method: i.e. loans and receivables are measured at amortised cost, financial assets held for trading are measured at fair value.

As we can observe in the layout of the information presented in part. 1 (Financial data – General information), debt instruments can be measured at:

- fair value - financial assets designated at fair value through profit and loss (including held for trading), financial assets available for sale,
- amortised cost – loans and receivables, held to maturity investments.

## **BANKING SECTOR LIABILITIES**

### **1. Financial liabilities**

The table „Banking sector liabilities (including central banks) - economic sector classes“ includes liabilities measured at fair value and at amortised cost, by categories:

- Financial liabilities held for trading
- Financial liabilities designated at fair value through profit or loss
- Financial liabilities measured at amortised cost
- Derivatives – hedge accounting (liabilities).

Additionally the above mentioned table presents data on:

- Deposits from central banks
- Financial liabilities associated with transferred financial assets
- Fair value changes of the hedged items in portfolio hedge of interest rate risk.

Liabilities presented in this table include: current accounts, current deposits, debt instruments issued/debt certificates, subordinated liabilities, repo transactions, fair value changes of the hedged items in a portfolio hedge of interest rate risk, other liabilities.

Liabilities are presented at the carrying amount.

Liabilities are measured at:

- fair value
- amortised cost.

## **2. Deposits**

The table „Banking sector deposits (excluding central banks)” includes deposits classified in the following financial liabilities categories:

- Financial liabilities held for trading,
- Financial liabilities designated at fair value through profit or loss,
- Financial liabilities measured at amortised cost.

The table includes all banking sector deposits: current, term deposits, etc. presented by entities, not including deposits from central banks.

*Deposits* – banks’ liabilities derived from money deposited on a client account.

## **3. Liabilities (held for trading, measured at amortised cost, derivatives – hedge accounting)**

*Information on the classification and measurement of liabilities are presented in part. 1 “Financial data – General Information”.*

Information on liabilities is presented in the following manner: financial liabilities categories, products and entities.

The tables with the detailed information generally present liabilities, that are measured using the same method: i.e. liabilities measured at amortised cost or at fair value.

## POSITIONS RESULTING FROM TRANSACTIONS IN OTC DERIVATIVES

### 1. Definitions of OTC derivatives singled out in the data tables

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

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

*Overnight Index Swap (OIS)* – a derivative transaction under which the parties are obliged to exchange the difference between interest payments calculated on an agreed notional amount based on the floating and fixed rate (OIS rate). The floating interest rate is computed by combining daily O/N interest rates over the transaction period. Net settlement (without the exchange of the notional amount) is effected on the next working day after the maturity date of the transaction.

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

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

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

*Foreign exchange option (fx option)* – a foreign exchange derivative that gives the buyer of an option the right to buy (call option) or sell (put option) a given amount of a foreign currency at an exchange rate agreed upon on the trade date and time specified at the inception of the transaction, obliging the

seller (writer) to sell (call option) or buy (put option), respectively, the currency from the buyer of an option. This category includes European-type and American-type options, as well as all exotic options.