

ANNUAL ACCOUNTS
OF THE BANCO DE ESPAÑA

2021

BANCO DE **ESPAÑA**
Eurosistema



ANNUAL ACCOUNTS OF THE BANCO DE ESPAÑA 2021

The annual accounts published in English are a translation of those originally issued in Spanish. In the event of discrepancies, the Spanish-language version prevails

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ANNUAL ACCOUNTS OF THE BANCO DE ESPAÑA 2021

1 Introduction

The annual accounts of the Banco de España (“the Bank”) as established by Article 29(1) of its internal rules, approved by Resolution of the Governing Council of 28 March 2000 (Official State Gazette (BOE, by its Spanish abbreviation) of 6 April 2000), comprise the balance sheet, the profit and loss account and the notes to the accounts. The accounts have been prepared in accordance with the internal accounting rules and principles of the Banco de España. These rules and principles are based on the accounting framework established for national central banks (NCBs) of the European System of Central Banks (ESCB),¹ pursuant to Article 26(4) of the Statute of the ESCB on standardisation of accounting and reporting procedures relating to operations undertaken by NCBs. In the cases not regulated by Eurosystem accounting legislation, the Banco de España applies its internal policies based on generally accepted accounting principles adapted to the special characteristics of the operations and functions of a central bank.

In accordance with the provisions of Articles 29 and 32 of its internal rules, the Bank’s annual accounts have been audited by the Internal Audit Department and analysed and examined by the Audit Committee appointed for the purpose by the Bank’s Governing Council. The accounts have also been audited by independent external auditors, as stipulated by Article 29 of the Bank’s internal rules and Article 27 of the Statute of the ESCB.

Under the provisions of Article 4(2) of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España, it is for the government, upon proposal by the Minister of Economic Affairs and Digital Transformation, to approve the Bank’s balance sheet and accounts for the year, which will be sent to Parliament (Cortes Generales) for informational purposes. The Governing Council of the Bank, under the provisions of Article 21(g) of the aforementioned Law, is responsible for authorising the Bank’s annual accounts for issue.

Unless otherwise indicated, the figures are expressed in millions of euro. Those relating to 2020 are presented solely for comparison with 2021. To this end, the information for 2020 on certain income and expenses in the profit and loss account, which are detailed in the notes thereto, has been reorganised. Due to rounding, on occasions the totals included in the balance sheet, profit and loss account and notes

¹ Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the ESCB (ECB/2016/34), as amended.

to the annual accounts may not equal the sum of the individual figures. This document presents the accounts for the year 2021. Section 2 includes the balance sheet as at 31 December 2021 and profit and loss account for the year then ended; Section 3 contains the notes to the accounts, with the accounting policies that have served as a framework for their preparation, the explanatory notes on the salient aspects of the balance sheet and profit and loss account, the changes in equity, post-balance sheet events and the management of risk exposures; and Section 4, in compliance with Article 4(2) of the Law of Autonomy, details the loans and operations arranged on other than an arm's-length basis or which in any way entail a loss of profit or losses for the Bank.

Finally, Annexes 1 and 2 include the reports of the Bank's Audit Committee and the external auditors on the annual accounts presented in the preceding sections.

2 Balance sheet and profit and loss account

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2021

EUR m

	Note number	2021	2020	Change
ASSETS				
1 Gold and gold receivables	1	14,571.86	13,977.94	593.92
2 Claims on non-euro area residents denominated in foreign currency		66,368.13	51,510.39	14,857.73
2.1 Receivables from the IMF	2	18,426.08	6,085.12	12,340.96
2.2 Balances with banks and security investments, external loans and other external assets	3	47,942.05	45,425.27	2,516.77
3 Claims on euro area residents denominated in foreign currency	4	5,491.64	4,723.44	768.19
4 Claims on non-euro area residents denominated in euro		394.25	—	394.25
4.1 Balances with banks, security investments and loans	5	394.25	—	394.25
4.2 Claims arising from the credit facility under ERM II		—	—	—
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	289,689.41	261,209.86	28,479.55
5.1 Main refinancing operations		—	—	—
5.2 Longer-term refinancing operations		289,689.41	261,209.86	28,479.55
5.3 Fine-tuning reverse operations		—	—	—
5.4 Structural reverse operations		—	—	—
5.5 Marginal lending facility		—	—	—
5.6 Credits related to margin calls		—	—	—
6 Other claims on euro area credit institutions denominated in euro		0.70	3.32	-2.62
7 Securities of euro area residents denominated in euro	7	622,196.96	497,178.30	125,018.67
7.1 Securities held for monetary policy purposes	7 a	593,436.61	471,201.97	122,234.63
7.2 Other securities	7 b	28,760.36	25,976.32	2,784.04
9 Intra-Eurosystem claims	8	166,977.81	153,254.38	13,723.42
9.1 Participating interest in ECB		1,122.19	1,049.44	72.75
9.2 Claims equivalent to the transfer of foreign reserves assets to the ECB		4,810.85	4,810.85	—
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		161,044.77	147,394.10	13,650.67
9.5 Other claims within the Eurosystem (net)		—	—	—
10 Items in course of settlement		1.24	0.25	0.99
11 Other assets		8,212.66	7,696.32	516.33
11.2 Tangible and intangible fixed assets and assets under construction	9	299.11	286.02	13.09
11.3 Other financial assets	10	201.16	137.19	63.97
11.4 Off-balance sheet instruments. Revaluation differences	11	512.07	—	512.07
11.5 Accruals and prepaid expenses	12	6,052.03	5,762.21	289.82
11.6 Sundry	13	1,148.28	1,510.90	-362.62
TOTAL ASSETS		1,173,904.65	989,554.21	184,350.45

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2021 (cont.)

EUR m

	Note number	2021	2020	Change
LIABILITIES				
1 Banknotes in circulation	14	169,426.87	157,373.14	12,053.73
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	15	364,518.93	253,021.03	111,497.90
2.1 Current accounts (covering the minimum reserve system)		362,120.93	251,828.03	110,292.90
2.2 Deposit facility		2,398.00	1,193.00	1,205.00
2.3 Fixed-term deposits		—	—	—
2.4 Fine-tuning reverse operations		—	—	—
2.5 Deposits related to margin calls		—	—	—
3 Other liabilities to euro area credit institutions denominated in euro	16	2,538.87	236.65	2,302.22
4 Debt certificates issued (a)		—	—	—
5 Liabilities to other euro area residents denominated in euro		41,117.13	21,291.04	19,826.09
5.1 General government	17	35,693.78	17,589.77	18,104.00
5.2 Other liabilities	18	5,423.36	3,701.27	1,722.09
6 Liabilities to non-euro area residents denominated in euro	19	9,599.34	4,247.11	5,352.23
7 Liabilities to euro area residents denominated in foreign currency		1.18	1.50	-0.32
8 Liabilities to non-euro area residents denominated in foreign currency		5.97	0.86	5.11
8.1 Deposits, balances and other liabilities		5.97	0.86	5.11
8.2 Liabilities arising from the credit facility under ERM II		—	—	—
9 Counterpart of special drawing rights allocated by the IMF	20	14,789.90	3,332.56	11,457.34
10 Intra-Eurosystem liabilities	21	511,662.06	499,019.37	12,642.69
10.2 Liabilities related to the issuance of ECB debt certificates		—	—	—
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		—	—	—
10.4 Other liabilities within the Eurosystem (net)		511,662.06	499,019.37	12,642.69
11 Items in course of settlement	22	105.51	170.59	-65.08
12 Other liabilities		4,469.80	2,128.87	2,340.93
12.1 Off-balance-sheet instruments. Revaluation differences	23	—	167.29	-167.29
12.2 Accruals and income collected in advance	24	4,301.81	1,471.00	2,830.81
12.3 Sundry	25	167.98	490.58	-322.59
13 Provisions	26	32,008.42	28,748.41	3,260.01
14 Revaluation accounts	27	19,993.22	15,970.19	4,023.03
15 Capital and reserves		1,882.45	1,878.31	4.14
15.1 Capital	28	1,000.00	1,000.00	—
15.2 Reserves	29	882.45	878.31	4.14
16 Profit for the year	30	1,785.02	2,134.58	-349.56
TOTAL LIABILITIES		1,173,904.65	989,554.21	184,350.45

a ECB balance sheet item only.

PROFIT AND LOSS ACCOUNT OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2021

EUR m

	Note number	2021	2020	Change
1 Interest income	1	7,240.29	6,352.28	888.01
2 Interest expense	2	-2,871.19	-1,714.77	-1,156.42
3 Net interest income (1 + 2)		4,369.10	4,637.51	-268.41
4 Realised gains/losses arising from financial operations	3	110.62	119.70	-9.07
5 Write-downs on financial assets and positions	4	-85.71	-104.68	18.96
6 Transfer to/from provisions for financial risks	5	-3,239.30	-3,106.83	-132.47
7 Net result of financial operations, write-downs and risk provisions (4 + 5 + 6)		-3,214.39	-3,091.81	-122.58
8 Fee and commission income		32.94	31.43	1.51
9 Fee and commission expense		-17.82	-14.77	-3.05
10 Net income from fees and commissions (8 + 9)	6	15.12	16.66	-1.54
11 Income from equity shares and participating interests	7	69.57	262.24	-192.67
12 Net result of pooling of monetary income	8	1,092.44	832.01	260.43
13 Other income and losses	9	59.22	28.41	30.81
14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)		2,391.07	2,685.03	-293.96
15 Staff costs	10	-302.28	-294.02	-8.26
16 Administrative expenses	11	-171.11	-160.07	-11.04
17 Depreciation of tangible and intangible fixed assets	12	-32.88	-34.96	2.09
18 Banknote production services	13	-65.79	-58.28	-7.51
19 Sundry		5.36	4.20	1.15
20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)		-566.70	-543.14	-23.56
21 Transfers to/from other funds and provisions	14	-39.35	-7.31	-32.03
22 PROFIT FOR THE YEAR (14 + 20 + 21)	15	1,785.02	2,134.58	-349.56

Countersigned by
The Governor,



PABLO HERNÁNDEZ DE COS

OBO The Comptroller,



JUAN RAMÓN SÁEZ GÓMEZ

3 Notes to the accounts

3.1 Accounting policies

1 Basic principles

The annual accounts of the Banco de España present fairly its net worth and financial and economic position. They have been drawn up in accordance with the following accounting principles: prudence, recognition of post-balance sheet events, going concern, the accruals principle, consistency and comparability, no offset, matching of revenues and expenses, and materiality. These principles conform to those set out in the legal accounting instruments of the European Central Bank (ECB).

2 Basis of accounting

The annual accounts have been prepared on a historical cost basis, modified as necessary to include the market valuation of trading book securities, gold and the foreign currency position. Futures are valued daily at market price and significant participating interests at underlying book value.

Transactions in assets and liabilities are generally recorded on the settlement date, except that forward transactions in foreign currencies are booked at the spot settlement date. If a period-end falls between the trade date and the spot settlement date, both spot and forward foreign currency transactions are recognised at the trade date.

The specific valuation criteria applied to the various assets and liabilities were the following:

Gold

Gold is recorded at acquisition cost,² which is determined by the cash amount paid in the transaction including any related expense.

The cost of sales is obtained by applying the daily net average cost method. In the event that the cash to be paid or received is specified in a currency other than the euro, it is translated into euro at the mid-market exchange rate two business days before the settlement date.

² As at 31 December 1998 its acquisition cost was adjusted to the market price then prevailing and the unrealised gains were credited to revaluation accounts. These gains are subsequently taken to profit and loss when the asset is sold and they can be used to offset unrealised losses.

On the last day of each month, gold stocks are valued at the market price in euro per troy ounce of fine gold. Unrealised gains or losses (except for unrealised losses at year-end) are reflected in an adjustment account and credited or debited, respectively, to a revaluation or loss account.

Unrealised losses existing at the end of the year are taken to the profit and loss account and the average book value is modified. Such losses are considered irreversible in subsequent revaluations.

Sales of gold against foreign currency under repurchase agreements are recorded as off-balance-sheet items, with no effect on the balance sheet. The foreign currency received by way of consideration is recorded on the asset side, with the obligation to repay it being recorded simultaneously on the liability side. Possible differences arising between gold delivered spot and that received forward are recorded as if there had been an independent outright sale or purchase at the time of maturity of the transaction.

Foreign currencies

Spot purchases or sales of foreign currencies are recorded at the settlement date, and affect the foreign currency position from that date. Gains and losses on the spot sale of foreign currencies are similarly considered to be realised from the settlement date. Meanwhile, foreign exchange forward purchase and sale transactions are recognised in off-balance-sheet accounts at the spot date of the transaction, affecting the foreign currency position as at that date. The gain or loss on the transaction is also considered to be realised on that date. If a period-end falls between the trade date and the spot settlement date, the transactions have to be recognised at the trade date.

Purchases are recorded at acquisition cost in euro. Purchases and sales of foreign currencies against euro are valued at the exchange rate agreed in the transaction. When foreign currencies are bought and sold against other foreign currencies, the euro valuation is at the mid-market exchange rate of the currency sold on the trade date. Transactions in a foreign currency that do not modify the overall position therein have no effect on the book value of such position.

The cost in euro of foreign currency sold is calculated using the daily net average cost method.

Accrued interest denominated in foreign currency is recorded on a daily basis, generally using the mid-market rate on each day. If the rate on the relevant day is not available, the latest mid-market rate available shall be applied. Accrued interest

receivable or payable denominated in foreign currency forms part of the foreign currency position.

Foreign currencies are revalued monthly to market price. This revaluation is performed without netting unrealised gains against unrealised losses on the various currencies. Unrealised gains and losses (except for unrealised losses at year-end) are reflected in adjustment accounts and credited or debited, respectively, to revaluation and loss accounts.

Unrealised losses existing at the end of the year are taken to the profit and loss account for the year, in which case they affect the average cost of the currency in question. Such losses are considered irreversible in subsequent revaluations.

Shares in exchange-traded funds

Shares acquired in investment funds are recorded at the time of payment, for the cash amount paid (transaction price). The changes in the net asset value of the investment fund shares are recorded in net terms, as a single asset and not individually for each of the assets making up the fund, provided that the following conditions are met:

- That they are acquired for the sole purpose of investment, without influencing the fund's daily decisions regarding purchases and sales.
- That the fund's investment strategy and mandate have been determined before the acquisition is carried out.
- That the return on the investment is considered a single investment, in line with the fund's investment strategy.
- That the fund is a separate entity, regardless of its legal status, and is managed independently, including the daily investment decisions.

Unrealised gains and losses in different investment funds are not netted off against each other.

Investment fund shares denominated in foreign currency are part of the corresponding foreign currency position and are revalued monthly to market price. This revaluation is carried out without any netting of unrealised gains and losses on different currencies.

The valuations on account of changes in the net asset value of the investment fund shares and of their valuation at market exchange rates are carried out asymmetrically.

Unrealised gains and losses (except for unrealised losses at year-end) are reflected in adjustment accounts and credited or debited, respectively, to revaluation accounts and to the profit and loss account. The unrealised losses existing at the end of the year are considered irreversible in subsequent revaluations.

The fees or charges arising from investment fund transactions are recorded as expenses in the profit and loss account.

Foreign banknotes

The criteria applied are the same as those indicated in the preceding section for foreign currencies.

Special drawing rights

Special drawing rights (SDRs) and the net position in the International Monetary Fund (IMF) are valued at the year-end SDR market exchange rate by the same methods used for other currencies.

Securities

The Banco de España holds three separate securities portfolios: a trading portfolio, a held-to-maturity portfolio and a monetary policy portfolio (set up in accordance with the ECB Governing Council decisions of 7 May 2009, 4 June 2009, 9 May 2010, 6 October 2011, 4 September 2014, 22 January 2015, 10 March 2016 and 18 March 2020).

In all three cases, the securities are recorded initially at acquisition cost, which is determined by the cash amount paid, less any accrued gross coupon. The Governing Council of the ECB decided in 2014 that the securities in the monetary policy portfolio should be valued at amortised cost (subject to impairment), regardless of whether the intention is to trade with them or to hold them to maturity.

The cost of securities sold or redeemed is determined by the average book value of the security in question. The securities in the held-to-maturity portfolio may not be sold except in exceptional, duly authorised circumstances.³

³ Securities classified as held-to-maturity may be sold before their maturity in any of the following circumstances: a) if the quantity sold is considered not significant in comparison with the total amount of the held-to-maturity securities portfolio; b) if the securities are sold during the month prior to the maturity date; and c) under exceptional circumstances, such as a significant deterioration of the issuer's creditworthiness.

Trading portfolio securities are revalued monthly to market price. This revaluation is carried out without any netting of unrealised gains and losses on different security codes. Unrealised gains and losses (except for unrealised losses at year-end) are reflected in adjustment accounts and credited or debited, respectively, to revaluation and loss accounts. Unrealised losses existing at the end of the year are taken to the profit and loss account. Their amount is credited directly to the securities account, and the average book value — and therefore the internal rate of return — of the security code concerned is modified. Such losses are considered irreversible in subsequent revaluations. The year-end adjustment was made using the market prices on the last day of the year.

Securities within the held-to-maturity portfolio and the monetary policy portfolio are not subject to any periodic valuation, except for recognition, where applicable, of loss of value due to asset impairment.

Any premiums, discounts and coupons that have accrued but are not due are recorded in accruals accounts, using the internal rate of return of each security code for their calculation within each portfolio. These accruals are recorded daily.

The above references to acquisition cost and market prices shall, in the case of securities denominated in foreign currency, be understood to refer to the currency concerned. Accordingly, these amounts will be translated into euro, as stipulated in the “Foreign currencies” section.

Reverse transactions involving securities

Reverse repurchase agreements involving securities are recorded on the asset side of the balance sheet as collateralised outward loans for the amount of the loan. Securities acquired under reverse repurchase agreements are not revalued or included in the securities portfolio.

Repurchase agreements involving securities are recorded on the liability side of the balance sheet as an inward deposit collateralised by securities, the balancing entry of which is the cash received. Securities sold under this type of agreement remain on the Bank’s balance sheet and are treated as if they had remained part of the portfolio from which they were sold. Repurchase agreements involving securities denominated in foreign currencies have no effect on the currency position.

In direct loans of securities, repurchase and reverse repurchase agreements conducted simultaneously are accounted for separately, and they are each recorded according to the valuation rules set forth in the preceding two paragraphs.

Automated security loans (contracts empowering a depository of securities to lend them to a third party in overnight transactions, subject to certain contractual

limitations) and reverse transactions conducted under a programme offered by a specialised institution are not recorded in the balance sheet, with the exception of the cash received as collateral that has not been reinvested. The only item accounted for is the income, which is recorded in the profit and loss account. Transactions outstanding at year-end are recorded off-balance sheet.

Doubtful debtors

Where there is any reasonable doubt about the recovery of an asset, it is recorded in a special separate account and the relevant provision set aside.

Loans to financial institutions

These are valued at their nominal amount.

The ECB establishes the conditions applicable to the monetary policy operations conducted by Eurosystem central banks and the need to obtain adequate collateral for them. Also, Article 32(4) of the Statute of the ESCB and of the ECB stipulates that the Governing Council may decide that NCBs shall be indemnified, in exceptional circumstances, for specific losses arising from monetary policy operations undertaken for the ESCB. Indemnification shall be in a form deemed appropriate by the Governing Council; these amounts may be offset against the NCBs' monetary income.

Shares and participating interests

The shares in the Bank for International Settlements (BIS) and the participating interest in the ECB are valued at cost.

The stake in Imprenta de Billetes, S.A. (IMBISA), a vehicle of the Banco de España, is valued at its underlying book value. The Banco de España does not prepare consolidated annual accounts in respect of this participating interest, given the immaterial nature of the investment vis-à-vis the Bank's balance sheet and profit and loss account.

Tangible and intangible fixed assets

Fixed assets are defined as those non-financial assets owned by the Bank that are intended to be used for a period exceeding 12 months and contribute directly or indirectly to fulfilling its objectives and/or to the probable generation of income in the future. The libraries and the art collection are also considered fixed assets.

Fixed assets are generally valued initially at cost, defined as the amount of the monetary disbursements made or committed to, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the intended manner, such as transport, installation, professional fees for legal services, non-refundable taxes and the fair value of other consideration given.

Trade discounts and those for defects in assets received are recorded as a reduction in the cost of the related assets. Cash discounts and those for late delivery are recorded in the profit and loss account under other income or, where appropriate, as a reduction in expenses, and do not affect the acquisition cost of the asset purchased.

Fixed assets are deemed not to include those assets which, although meeting the conditions to be classed as such, do not generally exceed the amount of €1,000 (€10,000 in the case of buildings, structures and plant in buildings). However, there may be exceptions, normally for control reasons.

Only extensions, replacements, rehabilitations and improvements that exceed the limit of €1,000 (€10,000 in the case of buildings, structures and plant in buildings) are capitalised, provided also that the elements replaced can be derecognised or that they are fully depreciated.

Notwithstanding the above, all the costs of developing computer software specifically for the Banco de España, including that developed internally (either by the Banco de España itself or as part of a Eurosystem/ESCB/SSM project) are capitalised, as well as that outsourced to a third party, and all the adaptive maintenance, extensions and improvements that may be identified individually and specifically.

After initial recognition, fixed assets are valued at acquisition cost less accumulated depreciation or amortisation and any impairment losses.

The acquisition cost of a fixed asset, net of its residual value, is depreciated systematically during its useful life on a straight-line monthly basis from the month following that in which it was recognised in the accounts. Generally, all depreciable/amortisable fixed assets are estimated to have a residual value of zero unless there is a deep, liquid market for similar assets from which the residual value may be derived. Land, the art collection, the special-value library collection and assets under construction are not depreciated.

The depreciation/amortisation rates and estimated useful lives applied to the various fixed assets in 2021 were as follows:

	Depreciation/ Amortisation rate (%)	Useful life (years)
Buildings and structures	2	50
Renovation work	4	25
Plant in buildings	10	10
Security-related plant in buildings	20	5
Furniture and fittings	10	10
Office machines for the handling of banknotes and coins	10	10
Other office machines	20	5
Computer hardware	25	4
Transport equipment. Cars	25	4
Transport equipment. Trucks and buses	10	10
Libraries. General collection	10	10
Other tangible fixed assets	20	5
Computer software (a)	20	5
Industrial property	—	Number of years of exclusive use

a The amortisation of certain computer software developed for the Eurosystem as a whole is calculated on the basis of its individual useful life estimated by the Eurosystem.

An asset is impaired when its carrying amount exceeds the recoverable amount. In this case, if the amounts are significant, an impairment loss is recognised by simultaneously reducing the item's book value and modifying its depreciable/amortisable base.

Banknotes in circulation

The ECB and the NCBs, which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002.⁴ The total value of euro banknotes in circulation is recorded by allocating to each Eurosystem NCB, on the last working day of each month, an amount based on the banknote allocation key.⁵

The ECB has been allocated a share of 8% of the total value of the euro banknotes in circulation, whereas the remaining 92% has been allocated to the NCBs and divided amongst them according to their respective ECB capital keys. The share of banknotes allocated to each NCB is disclosed under the item "Banknotes in circulation" on the liability side of their respective balance sheets.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that each NCB actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which accrue interest,⁶ are

4 Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (ECB/2010/29) (recast), as amended.

5 The banknote allocation key is that which results from applying 92% to the Eurosystem subscribed capital key.

6 Decision of the European Central Bank of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (ECB/2016/36) (recast), as amended.

disclosed under the item “Intra- Eurosystem: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem” (see “Intra-Eurosystem balances” in this section on accounting policies).

From 2002 until 2007, the intra-Eurosystem balances arising from the allocation of euro banknotes were adjusted in order to avoid significant changes in the relative income positions of the NCBs that initially formed part of the Eurosystem as compared with previous years. The adjustments were effected by taking into account the differences between the average value of the banknotes in circulation of each NCB in the specified reference period⁷ and the average value of the banknotes that would have been allocated to them during that period under the ECB’s capital key. The adjustments were progressively reduced in annual stages until the end of 2007. However, this mechanism has also been applied in the case of the new Member States adopting the euro so as to calculate the amount of compensation corresponding to each of them under the aforementioned calculation method, dividing it amongst the other NCBs according to their respective capital keys in the ECB. This adjustment is gradually reduced over a six-year period, being held unchanged during each financial year.

The interest income and expense on intra-Eurosystem balances relating to banknote allocation is cleared through the accounts of the ECB and is disclosed under “Net interest income” in the profit and loss account.

The ECB’s seigniorage income, arising from the euro banknotes in circulation assigned to it and the income from securities purchased under the securities markets programme (SMP), the asset-backed securities purchase programme (ABSPP), the third covered bond purchase programme (CBPP), the secondary markets public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP), is allocated to the NCBs in the financial year in which it accrues.⁸ Settlement of this income takes place on the last working day in January of the following year, in the form of an interim distribution of the income. The Governing Council of the ECB shall decide whether all or part of the ECB’s income arising from securities purchased under the above programmes and all or part of the ECB’s income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB’s net profit for that year. The Governing Council of the ECB may also decide to transfer all or part of this income to an ECB provision for foreign exchange rate, interest rate, credit and gold price risks.⁹ The amount distributed to NCBs is shown in the profit and loss account item “Income from equity shares and participating interests” in the year in which this income accrued.

7 The reference period taken has a duration of 24 months and it begins 30 months prior to the euro cash changeover date.

8 Decision of the European Central Bank of 15 December 2014 (ECB/2014/57) on the interim distribution of the income of the European Central Bank (recast), as amended.

9 This provision, together with the ECB’s general reserve fund, must not exceed the value of the capital disbursed by euro area NCBs.

Intra-Eurosystem balances

Intra-Eurosystem balances arise from the Banco de España's participating interest in the ECB, claims equivalent to the reserves transferred to the ECB and the net balance resulting from the transfers issued and received through TARGET2¹⁰ by the NCBs of the ESCB, including the ECB. They also arise from the balances vis-à-vis the ECB resulting from the adjustments relating to allocation of euro banknotes within the Eurosystem. In addition, the outcome of the pooling and allocation of monetary income to NCBs and the positions vis-à-vis the ECB owing to the deferral of sundry receipts and payments also give rise to intra-Eurosystem balances.

In the case of TARGET2 operations, the resulting balance is included as an asset or liability, as appropriate, under the balance sheet item "Other claims/liabilities within the Eurosystem (net)". Intra-ESCB balances arising from the adjustments relating to allocation of euro banknotes within the Eurosystem are included, depending on their net amount, as an asset or liability under "Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem" (see "Banknotes in circulation" in this section).

Recognition of income and expenses

Income and expenses are recognised in the period in which they accrue.

Realised gains and realised and unrealised losses are taken to the profit and loss account.¹¹ To calculate the acquisition cost of items sold, the average cost method is used for securities and the daily net average cost method is used for foreign currencies and gold. In the case of unrealised losses on any item at year-end, its average cost is reduced to the end-of-year market price and/or exchange rate.

Unrealised gains are not recognised as income but are recorded in revaluation accounts.

Unrealised losses are taken to the profit and loss account if they exceed previous revaluation gains recorded in the corresponding revaluation account, and are not reversed in subsequent years against new unrealised gains. Unrealised losses in any one security or currency or in gold are not netted against unrealised gains in other securities or currencies or in gold.

Premiums or discounts on purchased securities are calculated and shown as reductions of or additions to interest income and accrued over the remaining life of

¹⁰ Trans-European Automated Real-time Gross Settlement Express Transfer system.

¹¹ Unrealised gains and losses are not recorded in the held-to-maturity portfolios and monetary policy portfolio (see "Securities" in this section).

the securities concerned, together with the accrued coupons, according to the effective interest rate method.

Pension scheme

The pension scheme for Bank employees is of the defined-contribution type. The pension fund of which this scheme forms part is external and closed-end. Contributions made by the Banco de España on behalf of the employees who joined the Bank after 1 February 1986, who participate in the scheme and are entitled to such contributions, are recognised as a current expense in the year to which they relate.¹²

Provisions

In application of the principle of prudence, the liability side of the balance sheet includes provisions approved by the Executive Commission of the Banco de España which are considered necessary to cover adequately, on objective criteria, the risks derived from the financial positions held and other losses of a diverse nature (see Note 26 to the balance sheet).

Financial derivatives

The net position under foreign exchange forward transactions and swaps, and the foreign exchange gains and losses generated by such position are shown in the balance sheet in item 11.4 on the asset side or item 12.1 on the liability side, depending on their sign.

Foreign currency forward positions, which comprise foreign exchange forward transactions and forward legs of foreign exchange swaps, are included in the net foreign currency positions in order to calculate foreign exchange gains and losses. The difference between the spot and forward exchange rates is recorded as interest income or expense, which can be in euro or in foreign currency, in the latter case forming part of the foreign currency position.

The gain or loss on interest rate futures are considered to be realised at the time when they are settled net each day. In the case of futures denominated in foreign currency, such settlements shall affect the foreign currency position on the day on which they take place.

¹² Contributions made by the Banco de España are established at 7.5% of the so-called “regulating salary”, consisting of the salary items determined in the scheme rules, with the legal limit set at any given time.

3 Salient features of the estimates made

These annual accounts were prepared using Bank estimates to quantify some of the assets, liabilities, income, expenses, commitments and, in particular, provisions (see Note 26 to the balance sheet). As regards monetary policy operations, since they are conducted jointly in the Eurosystem, the estimates made by the ESCB are also taken into account (see Notes 6 and 7(a) to the balance sheet).

These estimates are based on the best information available at end-2021, and future events may require them to be changed in the coming financial years. Any such changes would be made prospectively, in accordance with current accounting rules.

4 Post-balance sheet events

Assets, liabilities and the profit and loss account are adjusted on the basis of events taking place between the end of the accounting period and date of preparation of the annual accounts, should those events materially affect the Banco de España's year-end financial position. The post-balance sheet events which do not affect the assets and the liabilities at that date do not give rise to adjustments thereto, although if they are material they are disclosed in the notes to the accounts.

3.2 Notes to the balance sheet

1 Gold and gold receivables

The Banco de España's gold holdings at year-end amounted to €14,571.86 million, consisting of 9.054 million troy ounces¹³ of fine gold valued at a market price of €1,609.48 per ounce. These holdings did not change during the financial year. The value of these holdings is €593.92 million more than in 2020, as a result of the increase in the market price (at end-2020 the price per ounce was €1,543.88). This increase is included in the liability revaluation accounts. The cost of the gold holdings is €850.43 million.

2 Claims on non-euro area residents denominated in foreign currency Receivables from the IMF

This item has three components:

- a) The reserve tranche position in the IMF. This is the euro equivalent of the paid portion of Spain's IMF quota (in foreign currencies or euro). Its

¹³ One troy ounce is equal to 31.1035 grams.

balance at end-2021 was €2,967.14 million. Spain's quota is SDR 9,535.50 million. The remaining portion of the quota is recorded in a euro account at the disposal of the IMF.

- b) Special drawing rights. These represent the euro equivalent of SDR holdings, resulting from the successive allocations by the IMF and their subsequent drawdown. These allocations are made by the IMF simply for being a member and their balancing entry is recorded in item 9 of the liability side of the balance sheet «Counterpart of special drawing rights allocated by the IMF», also denominated in SDRs. The changes in their balance are essentially due to loan agreement transactions with third countries which are paid in SDRs and to interest receipts or payments resulting from positions vis-à-vis the IMF. A new general SDR allocation was made in 2021¹⁴ and the Banco de España was allocated SDR 9,139.35 million.
- c) Other claims on the IMF. These reflect the amount that the Banco de España has provided to the IMF as a contribution to the PRGT¹⁵ and the NAB.¹⁶ For the PRGT, the Banco de España has made a commitment to contribute, through concessional lending to low-income countries, up to SDR 1,605 million, the amount drawn down at end-2021 being SDR 566.59 million (€700.25 million). The NAB, concluded to support the IMF's ability to provide financial assistance to its members, entailed a financial commitment of up to SDR 6,810.28 million, of which SDR 80.39 million (€99.36 million) had been drawn down up to end-2021.¹⁷

The SDRs in which claims on the IMF are denominated are valued at the year-end market rate of €1 = SDR 0.809127. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of five major currencies: the US dollar, the euro, the Japanese yen, the pound sterling and the Chinese renminbi. The SDR interest rate, which is updated weekly, averaged annually 0.05% during 2021.

The breakdown in 2021 and 2020 is as follows:

14 On 2 August 2021, the IMF Board of Governors approved a general SDR allocation amounting to SDR 456 billion (approximately USD 650 billion), the largest in the IMF's history, to provide additional liquidity to the global economic system. This SDR allocation became effective on 23 August 2021. The SDRs were distributed to member countries in proportion to their relative quotas in the IMF.

15 Poverty Reduction and Growth Trust.

16 New Arrangements to Borrow.

17 In addition, the Kingdom of Spain and the IMF have entered into a bilateral loan agreement entailing a financial commitment of €6,401 million, none of which has been drawn down by the IMF.

EUR m

Type of asset	2021	2020	Change
Reserve tranche position	2,967.14	2,441.08	526.06
Special drawing rights (allocation)	14,659.33	2,980.62	11,678.71
Other claims on the IMF	799.61	663.43	136.18
TOTAL	18,426.08	6,085.12	12,340.96

The overall amount of claims on the IMF increased by €12,340.96 million with respect to the balance at end-2020.

The increase of €526.06 million in the reserve tranche position account was due to the overall effect of various factors:

- An increase of €388.50 million (SDR 329.63 million) due to the transfers ordered by the IMF from the balance of its account at the Banco de España to its accounts at other institutions.
- An increase of €137.56 million due to the change in the exchange rate of the SDR against the euro.

The special drawing rights account increased by €11,678.71 million due to the overall effect of various factors:

- An increase of €10,771.64 million (SDR 9,139.35 million) allocated to Spain pursuant to the resolution of the IMF Board of Governors on a new general allocation of SDRs.
- An increase of €227.43 million (SDR 192.96 million) due to SDR transactions (SDR purchases from third countries, repayment of PRGT loans and collection and payment of interest on claims/liabilities vis-à-vis the IMF).
- An increase of €679.64 million due to the change in the exchange rate of the SDR against the euro.

The “Other claims on the IMF” account, which includes loans granted under the NAB and under the PRGT, increased by €136.18 million due to the overall effect of certain factors:

- A decrease of €96.86 million (SDR 82.18 million) in the NAB, due to repayments of the loans granted under these arrangements.

- An increase of €195.97 million (SDR 166.27 million) in PRGT lending due to the net effect of the new loans granted and the repayments of other loans. These loans are in SDRs.
- An increase of €37.07 million due to the change in the exchange rate of the SDR against the euro.

3 Claims on non-euro area residents denominated in foreign currency. Balances with banks and security investments, external loans and other external assets

This item includes current accounts, deposits, investment fund shares, debt security investments in the trading and held-to-maturity portfolios and other claims on non-euro area residents denominated in foreign currency. The held-to-maturity portfolio consists of debt securities which the Banco de España intends to hold until maturity.

The total amount as at 31 December 2021 was €47,942.05 million, with the following breakdown:

EUR m			
Type of asset	2021	2020	Change
Deposits	13,703.80	10,151.01	3,552.79
Security investments (a)	34,129.81	35,181.05	-1,051.24
Trading portfolio	20,816.59	21,643.27	-826.68
Held-to-maturity portfolio	13,313.22	13,537.78	-224.55
Other	108.44	93.22	15.22
TOTAL	47,942.05	45,425.27	2,516.77

a As at 31 December 2021, repurchase agreements were constituted over part of the securities portfolio, for a market value of USD 6,404.28 million, GBP 2.37 million and AUD 0.17 million.

As at 31 December 2021, 67.4% of these assets were denominated in US dollars, 14.3% in yen,¹⁸ 6.5% in Australian dollars, 6.1% in Canadian dollars, 4.4% in pounds sterling and 1.2% in Chinese renminbi. The equivalent value in euro of these currencies was transferred to the balance sheet at the year-end market exchange rate (€1 = USD 1.1326, €1 = AUD 1.5615, €1 = CAD 1.4393, €1 = YEN 130.38, €1 = GBP 0.84028 and €1 = CNY 7.1947). The market value of the held-to-maturity portfolio at end-2021 (which is not recorded on the balance sheet or in the profit and loss account but is provided for information purposes only) is €13,631.31 million. Consequently, there are

¹⁸ The exchange rate risk on yen-denominated investments is covered by swap transactions (mainly against the US dollar).

net unrealised gains amounting to €318.08 million, mostly relating to US dollar-denominated securities. The impairment test conducted on the held-to-maturity portfolio concluded that there was no evidence of impairment at year-end.

The “Other” item includes holdings in a US dollar-denominated green investment fund set up and managed by the Bank for International Settlements, for a nominal amount of USD 100 million.

The increase in the balance of this item (€2,516.77 million) was due to the net effect of the factors listed in the following table:

EUR m	
Reason for change	Amount
Change in net investment	-9.15
Change in market exchange rates as at 31 December	2,764.90
Change in securities market prices as at 31 December	-255.25
Change in accrued interest receivable	16.22
Other	0.05
TOTAL	2,516.77

4 Claims on euro area residents denominated in foreign currency

This balance sheet item includes current accounts, balances with banks, loans and security investments vis-à-vis euro area residents.

The total amount as at 31 December 2021 was €5,491.64 million, with the following breakdown:

EUR m			
Type of asset	2021	2020	Change
Deposits	3,956.35	2,562.43	1,393.92
Liquidity-providing operations	—	1,303.89	-1,303.89
Security investments	1,535.29	857.13	678.16
Trading portfolio	1,535.29	857.13	678.16
Held-to-maturity portfolio	—	—	—
TOTAL	5,491.64	4,723.44	768.19

As at 31 December 2021, 83.8% of these assets were denominated in US dollars, 8.2% in Australian dollars and 7.9% in Canadian dollars.

During the year there were no new operations under the US dollar Term Auction Facility (USD 1.6 billion at end-2020, equivalent to €1,303.89 million).¹⁹

The decrease in the balance of this item (€768.19 million) was due to the net effect of the factors listed in the following table:

EUR m	
Reason for change	Amount
Change in net investment	409.67
Change in market exchange rates as at 31 December	397.13
Change in securities market prices as at 31 December	-21.94
Change in accrued interest receivable	-16.67
TOTAL	768.19

5 Claims on non-euro area residents denominated in euro. Balances with banks, security investments and loans

As at 31 December 2021 the balance of this item totalled €394.25 million.

This mainly comprises holdings in a green investment fund set up and managed by the Bank for International Settlements, for a nominal amount of €400 million and with a market value of €394.20 million. The remaining balance of €0.05 million relates to the position in current accounts at non-euro area correspondents.

6 Lending to euro area credit institutions related to monetary policy operations denominated in euro

This item includes the amount of the euro-denominated lending to euro area credit institutions through which monetary policy is implemented. The total amount of these loans in the Eurosystem as a whole is €2,201,882 million, of which €289,689.41 million are included in the balance sheet of the Banco de España. Pursuant to Article 32(4) of the Statute of the ESCB and of the ECB, any counterparty risk that may materialise in monetary policy operations must be shared by all Eurosystem central banks in proportion to their share of the subscribed capital of the ECB according to the capital keys in force when this risk materialises. The losses

¹⁹ Under this programme, US dollars are provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem credit institutions. The ECB simultaneously enters into swap transactions with Eurosystem NCBs to meet institutions' dollar-denominated liquidity requirements through repo transactions in which euro-denominated securities are received from the banks as collateral.

may only be recognised if the counterparty fails and insufficient funds are received from resolution of the collateral received from the institution. The Governing Council of the ECB has, in certain cases, excluded from risk sharing a portion of the collateral accepted by central banks.²⁰

The breakdown by type of operation is as follows:

EUR m			
Type of operation	2021	2020	Change
Main refinancing operations	—	—	—
Longer-term refinancing operations	289,689.41	261,209.86	28,479.55
Fine-tuning reverse operations	—	—	—
Structural reverse operations	—	—	—
Marginal lending facility	—	—	—
Credits related to margin calls	—	—	—
TOTAL	289,689.41	261,209.86	28,479.55

As at 31 December 2021, the balance of this item was 10.9% higher than at end-2020 (€28,479.55 million). The average daily balance of the financing granted during the year increased by 36.1% (€283,506 million in 2021, against €208,319 million in 2020).

a) Main refinancing operations

These are executed through liquidity-providing reverse transactions with a weekly frequency and a maturity of one week, usually by means of standard tenders. As a general rule, these operations play a pivotal role in achieving the aims of steering interest rates, managing market liquidity and signalling the monetary policy stance. However, in 2021, continuing the trend initiated in previous years, their use was very residual, since the bulk of financing to institutions was conducted through longer-term refinancing operations. In this connection, it should be noted that only 0.002% of annual average financing was extended through them. In 2021 all these operations were conducted at a fixed rate of 0% with allotment of the total amount bid.

The balance of this item as at 31 December 2021 was zero (the same as at 31 December 2020) and its daily average balance during the year was €5 million (€13 million in 2020).

²⁰ The total collateral provided by institutions, valued by Eurosystem rules and applying the related haircuts, amounted to €327,680 million at end-2021. Of this amount, €21,146 million relate to collateral excluded from risk sharing.

b) Longer-term refinancing operations

These operations aim to provide counterparties with additional longer-term refinancing. In 2021, these operations were conducted as fixed rate tender procedures with full allotment.

The balance of these operations at end-2021 was €289,689.41 million (100% of the total), of which €289,639.41 million relate to the TLTRO III programme (€260,624.89 million at end-2020) and €50 million relate to the PELTRO programme (€371.05 million at end-2020).

In 2016, the Governing Council launched a series of four targeted longer-term refinancing operations (TLTRO II) with a maturity of four years. The last of these operations matured in 2021.

The TLTRO III operations were launched in September 2019, following a decision by the Governing Council, aimed at preserving favourable bank lending conditions, ensuring the smooth transmission of monetary policy and further supporting the accommodative stance of monetary policy. Seven quarterly operations were initially announced, which took place between September 2019 and March 2021. Additionally, on 10 December 2020 the Governing Council added three additional tender procedures to be conducted between June and December 2021. These operations have a three-year maturity. Starting in September 2021, participants in the first seven operations will have the option, on a quarterly basis, of repaying or reducing the amount of a TLTRO III operation before maturity, provided that at least one year has elapsed since the settlement date of the operation in question. Participants in the eighth and subsequent operations will have this option on a quarterly basis as of June 2022.

Based on the initial decisions adopted by the Governing Council, the final interest rate applied on each TLTRO III operation could be as low as the average interest rate on the deposit facility over the life of the operation. In addition, in 2020 the Governing Council decided, in response to the COVID-19 crisis, that for the periods running from 24 June 2020 to 23 June 2021 (the special interest rate period) and from 24 June 2021 to 23 June 2022 (the additional special interest rate period), the interest rate could be 50 basis points (bp) below the average deposit facility rate over that period, and in no case higher than -1%.

The final interest rates can only be known at maturity or early redemption of each operation. Until such time, only an estimate can be made. In this respect, and pending the availability of more precise data, it was considered prudent to accrue interest on TLTRO III operations using the deposit facility rate minus 50 bp (and in no case more than -1%) during the two special interest rate periods, and the deposit facility rate for the remainder of the life of the respective operation. After the rates

applicable during the special period were communicated to each of the institutions on 10 September 2021, the calculation of accrued interest during 2021 was adjusted as follows: until 23 June 2021, using the above-mentioned rates applicable to the special period that were notified to the institutions; during the additional special period (between 24 June and 31 December), by applying the deposit facility rate minus 50 bp, with a ceiling of -1%.

On 30 April 2020, the Governing Council decided to conduct a new series of seven additional longer-term refinancing operations, called pandemic emergency longer-term refinancing operations (PELTROs), all maturing in the third quarter of 2021. These operations provided liquidity support to the euro area financial system and contributed to preserving the smooth functioning of money markets during the pandemic. In addition, on 10 December 2020 the Governing Council decided to offer four additional PELTROs on a quarterly basis during 2021, with a tenor of approximately one year, to provide liquidity support to the banking system during the extended pandemic period. The PELTROs are conducted as fixed-rate tender procedures with full allotment. The interest rate is 25 bp below the average rate applied in the Eurosystem's main refinancing operations over the life of the respective PELTRO.

Compared with the previous year, the overall average balance of these longer-term refinancing operations increased by €75,195 million, from €208,307 million in 2020 to €283,501 million. This represents 100% of annual average financing from monetary policy operations.

c) Fine-tuning reverse operations

The purpose of these operations is to regulate the market liquidity situation and control interest rates, particularly to smooth the effects on interest rates caused by unexpected market fluctuations. Owing to their nature, their frequency is not standardised.

Their year-end balance was zero, as it was the previous year. No fine-tuning reverse operations took place in the Eurosystem in 2021.

d) Structural reverse operations

These are reverse open-market operations through standard tenders to enable the Eurosystem to adjust its structural liquidity position vis-à-vis the financial sector.

The year-end balance was zero, as it was at the previous year-end. No structural reverse operations took place during the year.

e) *Marginal lending facility*

Counterparties may use the marginal lending facility to obtain overnight liquidity from NCBs at a pre-specified interest rate against eligible assets. This interest rate is penalised with respect to the intervention rate set in the weekly tenders or in main refinancing operations.

The end-2021 balance was zero and the facility was not used during the year.

7 Securities of euro area residents denominated in euro

a) *Securities held for monetary policy purposes*

This item includes the amount of euro-denominated fixed-income securities issued by euro area residents which were acquired by the Banco de España for monetary policy purposes under covered bond purchase programmes²¹ (CBPP), the securities markets programme²² (SMP), the secondary markets public sector purchase programme²³ (PSPP), the corporate sector purchase programme²⁴ (CSPP), and the temporary pandemic emergency purchase programme²⁵ (PEPP). These securities were recorded at amortised cost (see “Securities” in Section 3.1 “Accounting policies”) and are subject to a yearly impairment test.

The table below shows the main features of the aforementioned programmes:

21 Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16); Decision of the European Central Bank of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17); and Decision of the European Central Bank of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40).

22 Decision of the European Central Bank of 14 May 2010 establishing a securities markets programme (ECB/2010/5).

23 Decision of the European Central Bank of 4 March 2015 on a secondary markets public sector asset purchase programme (ECB/2015/10).

24 Decision of the European Central Bank of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16).

25 Decision of the European Central Bank of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17).

	Start date	End date	Decision	Universe of eligible securities (a)
Programmes concluded				
CBPP	July 2009	June 2010	ECB/2009/16	Covered bonds issued by euro area residents
CBPP2	November 2011	October 2012	ECB/2011/17	Covered bonds issued by euro area residents
SMP	May 2010	September 2012	ECB/2010/5	Private and public debt securities issued in the euro area (b)
Asset purchase programme (APP)				
CBPP3	October 2014	Active	ECB/2020/8, as amended	Covered bonds issued by euro area residents
ABSPP	November 2014	Active	ECB/2014/45, as amended	Senior and guaranteed mezzanine tranches of asset-backed securities of euro area residents (c)
PSPP	March 2015	Active	ECB/2020/9	Bonds issued by euro area central, regional or local government or recognised agencies as well as issued by international organisations and multilateral development banks located in the euro area
CSPP	June 2016	Active	ECB/2016/16, as amended	Bonds issued by non-bank corporations established in the euro area
Pandemic emergency purchase programme (PEPP)				
PEPP	March 2020	Active	ECB/2020/17, as amended	All asset categories eligible under the APP

a The detailed eligibility criteria for each programme can be found in the respective ECB Governing Council decisions.

b Only government debt securities issued by five euro area countries were purchased.

c Programme conducted exclusively by the ECB.

The balance of this item as at 31 December 2021 was €593,436.61 million.²⁶ The breakdown, including the market value (which is not recorded on the balance sheet or in the profit and loss account but is provided for comparison and information purposes), is as follows:

²⁶ As at 31 December 2021, repurchase agreements were constituted over part of the euro-denominated securities portfolio with a market value of €7,604.94 million.

EUR m

Monetary policy portfolio	2021		2020		Change	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
Programmes concluded						
CBPP2	28.87	26.47	43.11	45.78	-14,25	-19.31
SMP	1,541.48	1,717.76	5,207.18	5,588.53	-3,665,70	-3,870.77
Total programmes concluded	1,570.34	1,744.23	5,250.29	5,634.31	-3,679,95	-3,890.08
APP						
CBPP3	32,028.05	33,012.11	35,010.63	36,944.17	-2,982,59	-3,932.06
PSPP-Government	258,881.42	277,583.43	250,874.46	280,189.51	8,006,96	-2,606.08
PSPP-Supranational	68,432.75	69,373.43	60,747.36	64,271.09	7,685,39	5,102.34
CSPP	27,710.06	28,420.07	23,187.60	24,332.29	4,522,46	4,087.79
Total APP	387,052.28	408,389.04	369,820.05	405,737.06	17,232,23	2,651.99
PEPP						
PEPP-Covered bonds	383.85	383.62	362.15	371.94	21.70	11.68
PEPP-Government	154,681.70	153,705.50	74,264.20	76,412.20	80,417.51	77,293.31
PEPP-Supranational	43,297.86	42,419.08	15,305.61	15,519.55	27,992.25	26,899.53
PEPP-Corporate bonds	6,450.57	6,568.83	6,199.67	6,405.12	250.90	163.71
Total PEPP	204,813.99	203,077.03	96,131.63	98,708.81	108,682.36	104,368.22
TOTAL	593,436.61	613,210.30	471,201.97	510,080.19	122,234.63	103,130.12

The decrease in the balances of the SMP and CBPP2 portfolios in 2021 was due to the redemption of securities throughout the year.

The portfolios purchased under the CBPP3, PSPP, CSPP and ABSPP comprise the so-called “asset purchase programme” (APP). In 2021, the Eurosystem continued with its net purchases under the APP, which it had resumed in November 2019, at an average monthly pace of €20 billion. In December 2021, the Governing Council decided on a monthly net purchase pace of €40 billion in the second quarter of 2022 and €30 billion in the third quarter of 2022. From October 2022 onwards, the Governing Council will maintain net asset purchases at a monthly pace of €20 billion for as long as necessary to reinforce the accommodative impact of its policy interest rates. These purchases are expected to end shortly before policy rates start to rise. The Governing Council also intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising policy interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Additionally, in 2021 the Eurosystem continued net asset purchases under the PEPP, with an overall envelope of €1,850 billion.²⁷ A flexible purchase approach has been

²⁷ If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the overall PEPP envelope over the envisaged time horizon, the envelope need not be used in full.

applied based on an assessment of financing conditions and the inflation outlook. In December 2021 the Governing Council also decided to discontinue net asset purchases under the PEPP at the end of March 2022, although they can be resumed, if necessary, to counter negative shocks related to the pandemic. Moreover, the Governing Council extended the reinvestment horizon for the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. The future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

The following should be noted with respect to each of the aforementioned purchase programmes:

On 4 September 2014 the Governing Council of the ECB resolved to initiate the third covered bond purchase programme, in order to improve the monetary policy transmission mechanism and support the provision of credit to the economy. Its balance amounted to €32,028.05 million at end-2021, down €2,982.59 million on the previous year as a result of redemptions.

On 22 January 2015 the Governing Council of the ECB decided to expand asset purchases to encompass a secondary market public sector purchase programme (PSPP). The purpose of this programme is to ease monetary and financial conditions, thus supporting aggregate consumption and investment in the euro area and contributing ultimately to maintaining price stability. Under this programme, the ECB and the Eurosystem NCBs have purchased, on the secondary market, securities issued by euro area central, regional and local governments, and securities issued by euro area public non-financial corporations, recognised agencies and institutions, and multilateral development banks. The year-end balance of securities issued by Spanish central, regional and local governments and agencies was €258,881.42 million, and that of securities issued by European institutions and development banks was €68,432.75 million. The increase in the amortised cost of the PSPP-Government and PSPP-Supranational securities portfolios in 2021 can be explained by the increase in the purchase of such securities, following the aforementioned Governing Council decisions.

In March 2016, the Governing Council of the ECB decided to add a new corporate sector purchase programme (CSPP) to the APP. Under this programme, NCBs can buy investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area. Its balance, which at end-2021 was €27,710.06 million, increased as a result of the net purchases made.

Lastly, in March 2020 the Governing Council of the ECB launched the new PEPP, which includes all asset categories eligible under the APP, to counter the serious risks to the monetary policy transmission mechanism and to the outlook for the euro area posed by the COVID-19 pandemic. The overall balance of this programme at end-2021 was €204,813.99 million, 113% more than at end-2020.

The Governing Council of the ECB periodically evaluates the financial risks associated with the securities held under the aforementioned programmes.

Pursuant to Article 32(4) of the Statute of the ESCB and of the ECB, any risks that materialise in the securities included in the SMP, CBPP3, PSPP-Supranational securities, CSPP, PEPP-Covered bonds, PEPP-Supranational securities and PEPP-Corporate bonds shall be shared by all Eurosystem NCBs in proportion to their share of the subscribed capital of the ECB according to the capital keys in force.

The total amounts of the securities acquired by all Eurosystem NCBs under the aforementioned programmes are shown in the following table:

EUR m			
Total holdings of the Eurosystem NCBs	2021	2020	Change
Programmes concluded			
SMP	5,486	26,335	-20,848
APP			
CBPP3	273,233	263,536	9,697
PSPP-Supranational	264,537	249,317	15,220
CSPP	309,676	250,403	59,272
Total APP	847,446	763,256	84,190
PEPP			
PEPP-Covered bonds	5,377	2,815	2,562
PEPP-Supranational	130,590	47,796	82,794
PEPP-Corporate bonds	43,782	43,154	628
Total PEPP	179,749	93,764	85,985
TOTAL	1,032,681	883,355	149,327

As regards the impairment tests conducted as at 31 December 2021 on the securities purchased under all the aforementioned programmes, based on the analyses carried out, the Governing Council of the ECB decided that there was no evidence of impairment.

b) Other securities

This item includes that part of the Banco de España's trading and held-to-maturity portfolios which consists of euro-denominated fixed-income securities issued by euro area residents that are not held for monetary policy purposes. The held-to-maturity portfolio consists of debt securities which the Banco de España intends to hold until maturity.

This portfolio includes securities issued by general government and by financial institutions in the euro area. It should be noted that all purchases of debt issued by general government are in the secondary market, none being direct subscriptions of security issues.

The breakdown of this item is as follows:

EUR m			
Security investments	2021	2020	Change
Trading portfolio	4,326.80	6,235.41	-1,908.61
Held-to-maturity portfolio	24,433.56	19,740.91	4,692.65
TOTAL	28,760.36	25,976.32	2,784.04

The balance of this item as at 31 December 2021 was €28,760.36 million,²⁸ of which 15% relate to trading portfolio securities and 85% to held-to-maturity securities. The market value of the held-to-maturity portfolio at end-2021 (which is furnished for information purposes, since it is not reflected in the balance sheet or in the profit and loss account) is €25,055.69 million (€622.13 million higher than its book value). The impairment test conducted on the held-to-maturity portfolio concluded that there was no evidence of impairment at year-end.

Overall, these securities showed a net increase of €2,784.04 million in 2021, as a result of a reduction of €1,908.61 million in the trading portfolio and an increase of €4,692.65 million in the held-to-maturity portfolio.

Specifically, the changes were for the reasons indicated in the following table:

EUR m			
Reason for change	Trading portfolio	Held-to-maturity portfolio	Total
Net purchase/amortisation of securities	-1,622.53	4,662.48	3,039.95
Unrealised gains at year-end (a)	-267.25	—	-267.25
Unrealised losses at year-end (a)	-7.19	—	-7.19
Accrued implicit interest	-11.64	30.16	18.53
TOTAL	-1,908.61	4,692.85	2,784.04

a As stated in Section 3.1 "Accounting policies", no periodic valuation is performed on the held-to-maturity portfolio.

In 2021 no held-to-maturity securities were sold.

²⁸ As at 31 December 2021, there were €10.18 million in repurchase agreements under automated securities lending contracts.

8 Intra-Eurosystem claims

This heading includes the amounts of the following items:

EUR m			
Type of asset	2021	2020	Change
Participating interest in the ECB	1,122.19	1,049.44	72.75
Claims equivalent to the transfer of foreign reserve assets to the ECB	4,810.85	4,810.85	—
Net claims related to the allocation of euro banknotes within the Eurosystem	161,044.77	147,394.10	13,650.67
TOTAL	166,977.81	153,254.38	13,723.42

a) *Participating interest in the ECB*

Pursuant to Article 28 of the Statute of the ESCB, the ESCB NCBs are the sole subscribers to the capital of the ECB. The ECB's capital is subscribed according to the key established in accordance with Article 29 of the Statute of the ESCB based on each country's share in the total population and gross domestic product of the ESCB countries per data furnished by the European Commission. These subscriptions must be adjusted every five years or whenever new Member States join or leave the European Union, that is, when their NCBs join, or cease to form part of, the ESCB.

The ECB's total subscribed capital is €10,825 million. Following the Bank of England's departure from the ESCB on 31 January 2021, the ECB's subscribed capital remained unchanged and the Bank of England's share was reallocated among the remaining euro area and non-euro area NCBs. The ECB's paid-up capital also remained unchanged at €7,659 million. On that date, the remaining NCBs covered the Bank of England's withdrawn paid-up capital (€58 million), as a result of which the Banco de España paid the ECB €1.61 million on 1 February 2020. Additionally, the Governing Council decided that euro area NCBs should pay up their full subscribed capital in two annual instalments (in 2021 and 2022). Accordingly, the Banco de España made the first of these payments in December 2021, amounting to €72.75 million, and its share in the ECB's paid up capital increased from €904.32 million to €977.07 million. The second payment, for the same amount, will be made in 2022.

The capital keys of the NCBs are shown in the table below:

	ECB's capital key (%)
	As at 31 December 2021
Nationale Bank van België/Banque Nationale de Belgique (Belgium)	2.9630
Deutsche Bundesbank (Germany)	21.4394
Eesti Pank (Estonia)	0.2291
Central Bank and Financial Services Authority of Ireland (Ireland)	1.3772
Bank of Greece (Greece)	2.0117
Banco de España (Spain)	9.6981
Banque de France (France)	16.6108
Banca d'Italia (Italy)	13.8165
Central Bank of Cyprus (Cyprus)	0.1750
Latvijas Banka (Latvia)	0.3169
Lietuvos bankas (Lithuania)	0.4707
Banque centrale du Luxembourg (Luxembourg)	0.2679
Central Bank of Malta (Malta)	0.0853
De Nederlandsche Bank (Netherlands)	4.7662
Oesterreichische Nationalbank (Austria)	2.3804
Banco de Portugal (Portugal)	1.9035
Banka Slovenije (Slovenia)	0.3916
Národná banka Slovenska (Slovakia)	0.9314
Suomen Pankki – Finlands Bank (Finland)	1.4939
Subtotal for euro area NCBs	81.3286
Българска народна банка (Bulgarian National Bank) (Bulgaria)	0.9832
Česká národní banka (Czech Republic)	1.8794
Danmarks Nationalbank (Denmark)	1.7591
Hrvatska narodna banka (Croatia)	0.6595
Magyar Nemzeti Bank (Hungary)	1.5488
Narodowy Bank Polski (Poland)	6.0335
Banca Națională a României (Romania)	2.8289
Sveriges Riksbank (Sweden)	2.9790
Subtotal for non-euro area NCBs	18.6714
TOTAL (a)	100.0000

a Due to rounding, the subtotals and total may not necessarily equal the sum of the individual figures in the table.

This item also includes the participating interest in the rest of ECB equity. As at 31 December 2021, this amounted to €145.12 million, with no change from the previous year.

b) Claims equivalent to the transfer of foreign reserve assets to the ECB

These represent the ECB's debt to the Banco de España arising from the transfer of foreign reserve assets to the ECB. The claims equivalent to the transferred reserves are denominated in euro at a value fixed from the time of their transfer. Pursuant to Article 30(2) of the Statute of the ESCB, the contribution of each NCB to the foreign reserve assets of the ECB shall be fixed in proportion to its share in the subscribed capital of the ECB. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, reduced by 15% to reflect a zero return

on the gold component, which at the time accounted for 15% of the total reserves transferred.

Their year-end balance of €4,810.85 million is unchanged from the previous year.

c) Net claims related to the allocation of euro banknotes within the Eurosystem

This item, the balance of which amounted to €161,044.77 million at year-end, consists of the claims and liabilities of the Banco de España vis-à-vis the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem, when there is a net asset balance (see “Banknotes in circulation” and “Intra-Eurosystem balances” in Section 3.1 “Accounting policies”).

The increase with respect to 2020 (€13,650.67 million) is because the Banco de España put fewer banknotes into circulation in 2021 (a negative net issuance of -€1,596.95 million) than allocated in accordance with the banknote allocation key, compared with the greater volume of banknotes put into circulation by the Eurosystem as a whole (€12,053.73 million).

d) Other claims within the Eurosystem (net)

In accordance with Eurosystem rules, since the accounts making up this item have a net liability balance, this information is presented on the liability side of the balance sheet (see Note 21 to the balance sheet).

9 Other assets. Tangible and intangible fixed assets and assets under construction

The balance of this item amounted to €299.11 million at end-2021, of which €916.82 million related to cost and €617.71 million to accumulated depreciation or amortisation.

The breakdown of this sub-item into its components, together with their accumulated depreciation or amortisation, is as follows:

EUR m	2021	2020	Change
Tangible fixed assets	583.96	578.21	5.74
Land and unbuilt plots	5.35	5.35	—
Buildings, structures and renovation work	117.90	115.64	2.25
Plant in buildings	224.60	222.73	1.87
Furniture and fittings	45.04	44.40	0.64
Office machines other than computer hardware	40.12	43.50	-3.37
Computer hardware	90.85	85.68	5.16
Transport equipment	11.44	11.93	-0.48
Libraries	1.94	2.48	-0.54
Other tangible fixed assets	5.75	5.68	0.07
Art collection	40.96	40.83	0.14
Intangible fixed assets	239.10	224.80	14.31
Computer software	239.05	224.74	14.31
Industrial property	0.06	0.06	—
Assets under construction	93.76	75.94	17.82
Buildings, plant in buildings and other structures	26.67	19.93	6.74
Computer software of the Banco de España	46.72	38.37	8.35
Computer software of the Eurosystem	14.74	13.03	1.71
Other assets under construction	5.63	4.61	1.03
TOTAL	916.82	878.95	37.88

EUR m	2021	2020	Change
Accumulated depreciation or amortisation			
Tangible fixed assets	-428.32	-417.89	-10.44
Buildings, structures and renovation work	-62.63	-59.86	-2.77
Plant in buildings	-205.40	-202.08	-3.33
Furniture and fittings	-39.62	-38.68	-0.94
Office machines other than computer hardware	-25.24	-28.51	3.26
Computer hardware	-79.28	-72.48	-6.81
Transport equipment	-9.75	-9.63	-0.12
Libraries	-1.11	-1.56	0.46
Other tangible fixed assets	-5.28	-5.09	-0.19
Intangible fixed assets	-189.39	-175.04	-14.35
Computer software	-189.33	-174.98	-14.35
Industrial property	-0.06	-0.06	—
TOTAL	-617.71	-592.93	-24.78

Overall, fixed assets net of depreciation increased with respect to the previous year by €13.09 million. The increase (€17.82 million) in assets under construction was mainly due to new additions relating to the construction of a new data processing centre, building renovation work and various IT projects and software specifically

for the Banco de España, in addition to others developed for Eurosystem projects. The increase in intangible fixed assets (€14.31 million) owed essentially to new additions of computer software following their transfer from assets under construction.

10 Other assets. Other financial assets

This item includes €201.16 million of financial investments relating mainly to the Banco de España's participating interest in the Bank for International Settlements (€25.04 million, the same as the previous year) and in IMBISA (€176 million, an increase of €64 million compared with the previous year). This company, whose corporate purpose is the production of euro banknotes, is a vehicle of the Banco de España. It was incorporated in November 2015 and is 80% owned by the Banco de España. At end-2021, IMBISA's capital stood at €220 million after a capital increase of €80 million conducted in October 2021, in which the Bank maintained the aforementioned 80% ownership interest.

11 Other assets. Off-balance sheet instruments. Revaluation differences

This item includes the amount of the net asset position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When it is a net liability position, it is recorded under the same heading in liability item 12.1.

Its asset balance at end-2021 of €512.07 million (in 2020 it showed a liability balance of €167.29 million) is the net value of the swap transactions outstanding at that date, which are listed below:

Operation	Position	Currency	2021			2020	
			Currency amount (million)	Market exchange rate	Equivalent (EUR m)	Equivalent (EUR m)	
Swap	Asset	EUR	—	1.0000	—	1,316.01	
		JPY	—	130.3800	—	—	
		CAD	772.36	1.4393	536.62	429.95	
	Liability	AUD	915.93	1.5615	586.57	524.21	
		USD	7,075.09	1.1326	6,246.77	5,074.03	
		JPY	894,132.00	130.3800	6,857.89	6,207.61	
	USD	—	1.1326	—	1,303.89		
Net position					512.07	-167.29	

At year-end, swaps involving the Japanese yen against the US dollar, Canadian dollar and Australian dollar were unexpired.

12 Other assets. Accruals and prepaid expenses

The main components of this item, the balance of which amounts to €6,052.03 million, are as follows:

EUR m	2021	2020	Change
Accrued interest arising from securities acquisitions and accrued coupon interest receivable	5,990.52	5,689.74	300.77
Trading portfolio	210.52	306.82	-96.29
Denominated in foreign currency	84.91	106.07	-21.16
Denominated in euro	125.61	200.74	-75.13
Held-to-maturity portfolio	295.79	349.25	-53.46
Denominated in foreign currency	68.80	73.56	-4.76
Denominated in euro	226.99	275.69	-48.69
Held for monetary policy purposes	5,484.20	5,033.67	450.52
Other accrued interest receivable	53.20	66.04	-12.85
On monetary policy operations	0.03	0.02	0.02
On intra-Eurosystem claims arising from banknote adjustments	—	—	—
On claims equivalent to the transfer of foreign reserves to the ECB	—	—	—
On foreign currency deposits	2.27	2.33	-0.06
On swap operations	29.04	47.91	-18.87
On negative remuneration of general government deposits	17.56	12.85	4.71
On claims on the IMF	1.67	1.04	0.64
Other	2.63	1.90	0.72
Accrued commissions receivable and prepaid expenses	8.32	6.42	1.90
TOTAL	6,052.03	5,762.21	289.82

As can be seen in the above table, the most significant items are accrued interest arising from securities purchases and accrued coupon interest receivable arising from the monetary policy operations portfolio (€5,484.20 million), from the trading portfolio (€210.52 million) and from the held-to-maturity portfolio (€295.79 million). Of note is the increase in the interest receivable arising from the monetary policy operations portfolio (€450.52 million), mainly as a result of the securities incorporated into the portfolio due to the purchases under the PEPP.

13 Other assets. Sundry

The most significant components of this item, which totals €1,148.28 million, are the transfer to the Treasury on 1 December 2021 of €925.61 million (€378.70 million less than in 2020), equivalent to 70% of the Bank's profits earned to 30 September 2021, adjusted in line with the projected performance of profits up to year-end (see Note 15 to the profit and loss account), and the home loans and repayable advances granted to Bank employees, the balance of which, at €199.35 million, was up by €5.55 million from 2020.

14 Banknotes in circulation

The balance of banknotes in circulation (€169,426.87 million) represents the Banco de España's share in the total euro banknotes in circulation (see "Banknotes in circulation" in Section 3.1 "Accounting Policies") according to the Eurosystem euro banknote allocation key (10.9705% since February 2020). This key is obtained by taking the Eurosystem capital key (11.9246%) and deducting 8% of the total corresponding to the ECB.

This balance was €12,053.73 million higher than in the previous year because of the greater volume of euro banknotes put into circulation by the Eurosystem (up 7.7%). The difference between the balance of the banknotes allocated as per the balance sheet (€169,426.87 million) and those put into circulation by the Banco de España (€8,382.09 million) is recorded in an adjustment account under this heading, with a balancing entry in item 9.4 on the asset side of the balance sheet (for €161,044.77 million).

The composition of the banknotes put into circulation in net terms by the Banco de España as at end-2021 is as follows:

Series	2021	2020	Change
€500 (a)	7,476.50	9,122.45	-1,645.96
€200	213.42	993.90	-780.48
€100	-12,210.64	-10,348.54	-1,862.10
€50	73,568.99	68,573.48	4,995.51
€20	-43,866.50	-42,042.24	-1,824.25
€10	-15,748.09	-15,277.70	-470.39
€5	-1,051.59	-1,042.31	-9.28
Euro banknotes put into circulation by the Banco de España	8,382.09	9,979.04	-1,596.95
Adjustment as per banknote allocation key	161,044.77	147,394.10	13,650.67
Banknotes in circulation	169,426.87	157,373.14	12,053.73

a In May 2016, the ECB decided to stop the production and issuance of €500 banknotes. This banknote will maintain its legal tender status and value for an indefinite period.

15 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

The overall balance of the different types of deposit held by credit institutions with the Banco de España amounted to €364,518.93 million at end-2021, €111,497.90 million more than in the previous year.

The breakdown and the amounts in both reporting years are as follows:

EUR m			
Type of liability	2021	2020	Change
Current accounts (covering the minimum reserve system)	362,120.93	251,828.03	110,292.90
Deposit facility	2,398.00	1,193.00	1,205.00
Fixed-term deposits	—	—	—
Fine-tuning reverse operations	—	—	—
Deposits related to margin calls	—	—	—
TOTAL	364,518.93	253,021.03	111,497.90

The first component, which includes the total current accounts held by credit institutions at the Banco de España, in which they maintain the minimum reserves required for monetary policy implementation purposes, was higher by €110,292.90 million (43.8%). Likewise, its average balance increased during the year, rising from €173,337 million in 2020 to €300,195 million in 2021 (73.2%). This notable increase stems from the liquidity injected into the system by means of the monetary policy actions conducted over the year: lending to credit institutions (see Note 6 to the balance sheet) and asset purchases under the prevailing monetary policy programmes (see Note 7 to the balance sheet).

The balances held to meet minimum reserve requirements are remunerated at the average of the marginal interest rate on main refinancing operations in the period (0% since March 2016). As regards credit institutions' excess liquidity holdings, in October 2019 the Governing Council of the ECB introduced a two-tier remuneration system consisting of an exempt tier (determined as a multiple, set at six, of a credit institution's minimum reserve requirements), and a tier that is remunerated at 0% or the deposit facility rate, whichever is lower.

The "Deposit facility" item, which includes overnight deposits remunerated at a fixed interest rate set in advance (lower than the interest rate on main refinancing operations), increased by €1,205 million, from €1,193 million in 2020 to €2,398 million in 2021. Its average balance, however, decreased from €4,521 million in 2020 to €3,056 million in 2021 (-32.4%). Following the decision of the Governing Council of

the ECB, these deposits have been remunerated at a negative interest rate since June 2014. In 2021 the deposit facility rate remained -0.50%.

The other headings in this item relate to fixed-term deposits and fine-tuning reverse operations for liquidity withdrawal purposes (none of which were carried out in the year), and deposits related to margin calls which, as at 31 December 2021, had a zero balance.

16 Other liabilities to euro area credit institutions denominated in euro

This item includes the deposits held by credit institutions at the Banco de España which are not readily available, with a year-end balance of €1.66 million.

It also includes monetary policy portfolio securities lending against cash collateral with euro area credit institutions. These are conducted through a specialised agency and amount to €2,537.20 million (€235.23 million in 2020).

17 Liabilities to other euro area residents denominated in euro. General government

This item includes the deposits held by general government with the Banco de España. The outstanding balance at year-end was €35,693.78 million, which breaks down as follows:

EUR m	2021	2020	Change
Central government	24,468.88	13,540.14	10,928.74
State	20,345.25	10,414.74	9,930.51
Central government agencies	4,123.63	3,125.39	998.24
Territorial government	5,530.86	394.10	5,136.76
Regional (autonomous) governments, administrative agencies and similar bodies	5,181.37	112.81	5,068.57
Local government	349.48	281.29	68.19
Social security funds	5,694.04	3,655.54	2,038.50
Social security system	5,050.66	2,143.14	2,907.52
Other	643.38	1,512.40	-869.02
TOTAL	35,693.78	17,589.77	18,104.00

The increase in this item (€18,104 million) owed to the significant increase in the balances held by general government as a whole, mainly by central government (up from €13,540.14 million in 2020 to €24,468.88 million in 2021).

As regards average balances, there was also an increase in those held by central government (€44,355 million in 2021, up from €40,716 million in the previous year), by territorial government (€2,121 million in 2021, up from €66 million in 2020) and by social security funds (€4,158 million in 2021, up from €954 million in 2020).

18 Liabilities to other euro area residents denominated in euro. Other liabilities

Included here are the current accounts of financial institutions other than credit institutions (such as stock exchange operators, securities dealers and brokers, clearing and settlement companies), amounts deposited as collateral on outstanding derivatives transactions and the current accounts of non-administrative public and autonomous agencies of the State, employees, pensioners, special-purpose vehicles of the Banco de España and other accounts of legal entities classified in “Other resident non-financial sectors”.

Its balance at end-2021 was €5,423.36 million, up €1,722.09 million on end-2020, due mainly to the increase in the balances held in cash accounts by stock exchange operators and clearing and settlement companies, and to the deposits received for collateral purposes in derivatives transactions.

19 Liabilities to non-euro area residents denominated in euro

This item includes basically the euro-denominated accounts held by European authorities (such as the Single Resolution Board), international organisations, non-Eurosystem monetary authorities and central banks to which reserve management services are provided, as well as the cash obtained as collateral in monetary policy portfolio securities lending transactions with non-euro area residents (through a specialised agency).

The balance of €9,599.34 million was €5,352.23 million higher than a year earlier, due mainly to the larger cash balances from monetary policy portfolio securities lending transactions conducted through the aforementioned agency, to the central bank reserve management services, and, to a lesser extent, to the increase in funds held by the Single Resolution Board.

20 Counterpart of special drawing rights allocated by the IMF

This item of €14,789.90 million shows the equivalent value of the SDRs allocated to Spain by the IMF, the balancing entry to the successive allocations recorded in item 2.1 on the asset side of the balance sheet. The total amount of this item increased by €11,457.34 million with respect to the previous year, due essentially to the new SDR

allocation agreed by the IMF Board of Governors in 2021, amounting to €9,139.35 million (see Note 2 to the balance sheet).

21 Intra-Eurosystem balances

This item, which as at 31 December 2021 had a balance of €511,662.06 million, comprises the following two sub-items:

a) *Net liabilities related to the allocation of euro banknotes within the Eurosystem*

In accordance with Eurosystem rules, since the accounts making up this item have a net asset balance, this information is presented on the asset side of the balance sheet (see Note 8 to the balance sheet).

b) *Other liabilities within the Eurosystem (net)*

The balance of €511,662.06 million as at 31 December 2021 represents the sum of four components: 1) the position of the Banco de España vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB, plus the balances held with Eurosystem NCBs through correspondent accounts; 2) the position vis-à-vis the ECB in respect of the pooling and allocation of monetary income within the Eurosystem pending settlement; 3) the Banco de España's position vis-à-vis the ECB in respect of any dividends receivable at year-end, from the seigniorage income relating to euro banknotes issued by the ECB and of the income on securities acquired by the ECB under the SMP, the CBPP3, the ABSPP, the PSPP and the PEPP; and 4) the net position of the Banco de España vis-à-vis the Eurosystem for other types of operation.

The breakdown of the balance of this item is as follows:

EUR m			
Type of liability	2021	2020	Change
Position of the Banco de España vis-à-vis the ECB due to transfers made and received through TARGET2 and correspondent banking	512,779.01	499,990.42	12,788.59
Position vis-à-vis the ECB due to pooling and allocation of monetary income	-1,092.44	-820.78	-271.66
Dividend receivable relating to the share of ECB banknote seigniorage income and of SMP, CBPP3, ABSPP, PSPP and PEPP income	-17.89	-150.27	132.38
Other assets / liabilities (net) vis-à-vis the Eurosystem	-6.63	—	-6.63
TOTAL	511,662.06	499,019.37	12,642.69

Regarding the first component, the year-end transfers via TARGET2 had a liability balance of €512,779.01 million, while the correspondent accounts showed an immaterial asset balance. The remuneration of this position is calculated daily at the marginal interest rate of Eurosystem main refinancing operations (0% since 16 March 2016). Its average balance also increased during the year from €435,200 million in 2020 to €500,895 million in 2021. This increase is related mainly to the financing of the securities purchased by the Banco de España under the APP and PEPP.

The second component reflects the position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income among the Eurosystem NCBs. It had an asset balance of €1,092.44 million at year-end (see “Net result of pooling of monetary income” in Note 8 to the profit and loss account).

Regarding the third component, on 18 January 2022, the Governing Council of the ECB resolved to distribute a portion of the income obtained from securities purchased under the SMP, the CBPP3, the ABSPP, the PSPP and the PEPP.²⁹ The amount corresponding to the Banco de España was recorded as 2021 income, on an accrual basis, and received on 31 January 2022. Its asset balance at end-2021 was €17.89 million (see “Income from equity shares and participating interests” in Note 7 to the profit and loss account).

Lastly, the asset balance of “Other assets/liabilities (net) vis-à-vis the Eurosystem” at end-2021 (€6.63 million) relates to the management of funds stemming from the repayment by the Spanish State of loans from the European Union.

22 Items in course of settlement

Included here are various accounts which as at 31 December 2021 were in the course of settlement, such as transfer instructions pending execution.

The balance of this item at year-end (€105.51 million) relates mainly to the transfers received from accounts with institutions on the TARGET2 platform, but yet to be processed (€102.53 million).

23 Other liabilities. Off-balance sheet instruments. Revaluation differences

This item includes the amount of the net liability position arising from foreign exchange forward and swap transactions valued at the exchange rates prevailing at

²⁹ Decision of the European Central Bank of 15 December 2014 (ECB/2014/57) on the interim distribution of the income of the European Central bank, as amended.

the end of the year. When it is a net asset position, it is recorded under the same heading in item 11.4 on the asset side (see Note 11 to the balance sheet).

24 Other liabilities. Accruals and income collected in advance

This item includes accrued interest payable, accrued expenses payable and income collected in advance.

As at 31 December 2021, its balance amounted to €4,301.81 million and the main component (€4,297.29 million) was interest accrued as a result of the remuneration at negative interest rates of certain longer-term refinancing operations with credit institutions (see Note 6(b) to the balance sheet).

25 Other liabilities. Sundry

This includes other liabilities not classifiable above.

As at 31 December 2021, the balance of this item amounted to €167.98 million (€322.59 million less than in 2020). Its main sub-items were the accounts payable relating to accrued operating expenses (€45.90 million), cash arising from redemptions of and interest on book-entry government debt immobilised under EU legislation relating to restrictive measures on the financial resources of certain agents (€40.48 million), and the amounts received on account in government debt subscription applications (€21.30 million).

26 Provisions

With the exception of country-risk provisions, which are presented in the balance sheet as reductions of the value of the assets concerned, provisions are recorded under this item, with the following breakdown:

EUR m	2021	2020	Change
For financial risks	31,380.37	28,141.07	3,239.30
For operational risk	485.06	470.00	15.06
For exchange of withdrawn peseta banknotes	—	15.01	-15.01
For the collective agreement 2011-2014	10.42	9.61	0.81
For death and retirement assistance	113.60	98.56	15.04
For early and regular retirement	7.54	11.03	-3.50
For sundry liabilities and charges	4.20	2.79	1.42
For ongoing lawsuits	7.23	0.34	6.88
TOTAL	32,008.42	28,748.41	3,260.01

Provision for financial risks

This is the most important provision. It encompasses the provisions for foreign exchange and interest rate risks and the provision for credit risks relating to the Banco de España's financial positions. The balance of this provision is revised annually based on the Banco de España's valuation of its exposure to the aforementioned risks. This valuation is based on the expected shortfall methodology, with a confidence level of 99% and time horizon of one year. Furthermore, the impact of COVID-19 on the quantification of financial risks was factored in via developments in the parameters the model uses.

At end-2021, this provision was used to offset existing losses arising from the risks covered for an amount of €85.71 million (near entirely to cover interest rate losses). At its meeting on 21 February 2022, the Executive Commission approved the provisioning of €3,325.01 million (see Note 5 to the profit and loss account). Consequently, there was a net increase of €3,239.30 million in the provision for financial risks, the balance of which amounted to €31,380.37 million at end-2021.

Provision for operational risk

Operational risk exposure is quantified on the basis of one-year VaR with a confidence level of 99.9%. As in 2020, operational risk was covered in full in 2021.

This provision was used at end-2021 to cover the operational loss events arising during the year for an amount of €1.20 million, and was allocated €16.26 million owing to an increase in the assessed risk at year-end (see Note 14 to the profit and loss account), taking its balance to €485.06 million.

Provision for exchange of peseta banknotes withdrawn from circulation due to the introduction of the euro

This is the most important of the two provisions set aside for the exchange of peseta banknotes withdrawn from circulation.³⁰ It was recorded initially in 2005 to cater for the exchange of any peseta banknotes withdrawn from circulation due to the introduction of the euro that may be tendered at the Banco de España. This provision was accompanied by the crediting to the profit and loss account of the outstanding amount of peseta banknotes in the balance sheet of the Banco de España as at 31 December 2005. The resulting net profit was used to increase capital and

30 The provisions for exchange of peseta banknotes withdrawn from circulation include another provision to cater for the exchange of peseta banknotes withdrawn before the introduction of the euro. The deadline to exchange pesetas for euro passed on 30 June 2021; thereafter the provision was no longer maintained. Its unused balance (€0.03 million) was credited to 2021 results.

reserves. At the same time, it was decided that if the amount of banknotes tendered for exchange exceeded the amount provisioned at that time, the Banco de España would meet the excess with a charge to its reserves.

This occurred in 2010, 2013, 2019 and 2020, when additional provisions were recognised with a charge to the reserves appropriated using the aforementioned retained earnings, for €50 million, €50.19 million, €9.65 million and €11.85 million, respectively.

Following the deadline to exchange pesetas (30 June 2021), this provision had an unused balance of €4.14 million. Given that the provision was no longer needed and had been endowed out of the Bank's reserves, the outstanding amount was credited to those reserves.

Other provisions

In the reporting year there was an increase of €15.04 million in the provision for death and retirement assistance, basically due to the wage growth assumption being revised up on account of higher inflation forecasts.

There was a decrease of €3.5 million in the provisions for early and regular retirement, as a result of the payments made and the exit of early and regular retirees from the group during the year.

The balance of the provision for sundry liabilities and charges was €4.20 million in 2021 (€2.79 million in 2020), mainly owing to the outstanding amounts payable to employees for the 2021 wage increase, pursuant to Law 11/2020 of 30 December 2020 on the State Budget for 2021 (see Note 10 to the profit and loss account).

The provision for litigation, with a balance of €7.23 million at end-2021, covers risks stemming from ongoing litigation.

27 Revaluation accounts

This item includes the revaluations arising from unrealised gains on financial assets and liabilities valued at market prices and exchange rates at year-end. It may be broken down as follows:

EUR m			
Type of account	2021	2020	Change
Gold	13,721.43	13,127.51	593.92
Foreign currency	5,752.55	1,784.99	3,967.57
Securities (trading portfolio)	514.21	1,051.43	-537.22
Issued in foreign currency by non-euro area residents	72.71	320.86	-248.15
Issued in foreign currency by euro area residents	1.99	23.81	-21.82
Issued in euro by euro area residents	439.51	706.76	-267.25
Other	5.03	6.27	-1.23
TOTAL	19,993.22	15,970.19	4,023.03

The balance of revaluation accounts at end-2021 was €19,993.22 million, up €4,023.03 million on 2020. The most significant change was in the foreign exchange revaluation accounts, which increased by €3,967.57 million, basically due to the appreciation of the US dollar against the euro. The appreciation of other currencies against the euro (the Canadian dollar, SDR, pound sterling and Australian dollar) also contributed.

With respect to gold, the unrealised gains were €593.92 million higher as a result of the increase in its market price (from €1,543.88 per ounce at end-2020 to €1,609.48 per ounce at end-2021).

Also, at end-2021 unrealised gains amounting to €4.99 million were recorded in investment fund shares denominated in US dollars issued by non-euro area residents.

With regard to securities price revaluation accounts, the main changes were in trading portfolio debt securities denominated in euro issued by euro area residents, the unrealised gains on which decreased by €267.25 million, and in securities issued in foreign currency (mainly in US dollars) by non-euro area residents (down by €248.15 million) as a result of the currency's lower market price.

28 Capital

As at 31 December 2021, the capital of the Banco de España amounted to €1 billion, with no change in the year. Of this amount, €1.37 million were constituted pursuant to Decree-Law 18/1962 of 7 June 1962 and €998.63 million arose from a capital increase carried out in 2006 through the retention of a portion of 2005 profits.

29 Reserves

As at 31 December 2021, the reserves of the Banco de España amounted to €882.45 million, up €4.14 million from the previous year. Included in this item is, first, the amount of capital, reserves and profits that arose in 1973 when the now-defunct Spanish Foreign Currency Institute was included in the Banco de España (€3.17 million) and, second, the portion of 2005 and 2006 profit taken to reserves, authorised by the Council of Ministers, respectively, on 28 July 2006 and 29 June 2007. The balance of reserves arising from the retention of 2005 profit increased by €4.14 million. This owed to a lower-than-estimated exchange of pesetas for euro up to the deadline (30 June 2021), meaning that the remaining provision set aside for this purpose, which had been endowed through a charge against reserves, was credited back to reserves (see Note 26 to the balance sheet).

30 Profit for the year

The net profit for 2021 amounted to €1,785.02 million, down 16.4% from 2020. Of this amount, €925.61 million was paid to the Treasury on 1 December 2021, in accordance with Royal Decree 2059/2008 of 12 December 2008 (see Note 15 to the profit and loss account, “Profit for the year”) and is included in asset item 11.6.

During the year, the following amounts were also paid to the Treasury out of 2020 profits:

- a) On 1 March 2021, €616.81 million, which, together with the payment in December 2020, amounted to 90% of the €2,134.58 million of the profit for that year.
- b) On 31 May 2021, €213.46 million, representing the remaining profit for 2020 once the balance sheet and profit and loss account for that year had been approved by the Council of Ministers.

The details of the various components of the profit for 2021 and the reasons for the changes in them with respect to 2020 are given in Section 3.3 on the profit and loss account.

3.3 Notes to the profit and loss account

As indicated in the introduction, the 2021 profit and loss account includes changes in how certain income and expenses are reported. Specifically, income and expenses arising from the Banco de España’s participation in the TARGET2-Securities platform

are now shown as gross amounts. Also reported differently is income stemming from the Bank's participation in the Eurosystem/ESCB/SSM computer software and that obtained from other activities in the performance of its functions. To allow for a uniform comparison with the previous year, the 2020 amounts have been reclassified as follows:

EUR m	2020 Published	2020 Reclassified	Change
8. Fee and commission income	20.88	31.43	10.56
13. Other income and losses	18.12	28.41	10.30
16. Administrative expenses	-140.01	-160.07	-20.06
19. Sundry	4.99	4.20	-0.79

1 Interest income

This item includes income from interest accrued on the financial assets of the Banco de España. The breakdown in 2021 and 2020 is as follows:

EUR m and %	Interest income			Average investment (*)		Average yield	
	2021	2020	Change	2021	2020	2021	2020
	Foreign currency	524.37	824.49	-300.12	58,371	52,749	0.89
Securities	467.58	657.38	-189.79	33,909	34,697	1.36	1.86
Deposits and other assets	15.47	57.79	-42.32	24,462	18,052	0.06	0.31
Liquidity-providing operations, swaps, forwards and others	41.32	109.33	-68.01				
Euro	6,715.92	5,527.79	1,188.13	1,080,974	801,234	0.61	0.68
Own portfolio securities	525.49	686.84	-161.35	27,271	26,346	1.90	2.56
Trading portfolio	208.04	330.18	-122.14	4,347	6,844	4.72	4.75
Held-to-maturity portfolio	317.45	356.67	-39.21	22,924	19,502	1.37	1.80
Securities held for monetary policy purposes	4,880.65	4,214.86	665.79	538,760	402,871	0.89	1.03
SMP	193.52	357.61	-164.09	3,146	6,247	6.07	5.63
CBPP, CBPP2 and CBPP3	257.79	286.19	-28.40	33,227	35,993	0.77	0.78
PSPP-government securities	3,680.05	3,043.28	636.77	258,445	241,080	1.40	1.24
PSPP-supranational securities	175.30	194.54	-19.24	65,612	57,018	0.26	0.34
CSPP	274.01	219.93	54.08	25,812	20,374	1.05	1.06
PEPP	299.98	113.30	186.67	152,519	42,159	0.19	0.26
Monetary policy operations	1,011.29	383.02	628.27	303,256	177,870	0.33	0.21
Main refinancing operations	—	—	—	5	13	—	—
Longer-term refinancing operations (a)	—	—	—	—	—	—	—
Marginal lending facility	—	—	—	—	—	—	—
Changes in the value of collateral (negative net interest)	—	—	—	—	—	—	—
Remuneration of minimum reserves (negative net interest)	995.80	360.04	635.76	300,195	173,337	0.33	0.20
Deposit facility (negative net interest)	15.49	22.98	-7.49	3,056	4,521	0.50	0.50
Intra-Eurosystem claims	—	—	—	157,600	149,752	—	—
Claims equivalent to the transfer of foreign reserves to the ECB	—	—	—	4,811	4,813	—	—
Claims related to allocation of euro banknotes within the Eurosystem	—	—	—	152,723	144,899	—	—
Other claims within the Eurosystem (net)	—	—	—	66	40	—	—
Other assets	7.63	2.25	5.38				
General government deposits (negative net interest)	270.42	221.95	48.47	54,088	44,395	0.50	0.50
Other liabilities denominated in euro (negative net interest)	20.43	18.86	1.57				
TOTAL	7,240.29	6,352.28	888.01	1,139,346	853,983	0.63	0.73

a These operations accrued negative net interest, which was recorded as interest expenses.

(*) In 2021 the approach to calculating the average investment of the securities portfolios presented in this table was changed to include receivable accrued interest. The 2020 figures (average investment and yield) have been recalculated to allow for a uniform comparison.

In 2021, interest income amounted to €7,240.29 million, of which €524.37 million was denominated in foreign currencies and €6,715.92 million was euro-denominated interest income.

Interest income denominated in foreign currencies mainly arose from debt securities (USD 387.75 million; AUD 32.32 million; CAD 27.16 million). Currency swaps have

given rise to interest income of €37.02 million, essentially from operations in yen against US dollars and, to a lesser extent, against Australian and Canadian dollars. Deposits in foreign currency (mainly in US dollars) have generated income of €9.89 million and positions vis-à-vis the IMF of €5.58 million.

The bulk of the interest income in euro relates to the monetary policy portfolio (€4,880.65 million, with an average yield of 0.89%) and the own portfolio (€525.49 million, with an average yield of 1.90%). The interest income from monetary policy operations amounted to €1,011.29 million (average yield of 0.33%), stemming from the negative interest rates on various liabilities, such as the non-exempt tier of the excess reserves held by credit institutions and the deposit facility (€995.80 million and €15.49 million, respectively).

Overall interest income increased by €888.01 million (14%) compared with 2020, as a result of the higher interest on euro-denominated investments (€1,188.13 million, 21.5%), partly offset by the lower interest on investments denominated in foreign currencies (-€300.12 million, -36.4%).

Interest income denominated in foreign currencies decreased mainly because of the lower average yield obtained (down from 1.54% to 0.89%), owing essentially to the declining yield on US dollar-denominated bonds over 2019 and 2020. The largest decrease in interest income in absolute terms was in the debt securities portfolio (-€189.79 million) and, to a lesser degree, in swap operations (-€61.38 million as a result of interest rate developments in the swapped currencies). There was also a decrease in the interest income from fixed-term deposits, from liquidity-providing operations and from the IMF.

The increase of €1,188.13 million in euro-denominated interest income owed to the net effect of the following:

- Higher income from monetary policy portfolios (€665.79 million), stemming mainly from higher income from the PSPP-government and PEPP-government portfolios (€636.77 million and €180.26 million, respectively), along with the CSPP portfolio (€54.08 million) and PEPP-corporate bonds portfolio (€31.39 million). That higher interest income was partially offset by the reduction in the now concluded SMP (which had a high yield), by redemptions (-€164.09 million) and by lower income from CBPP3 and PSPP-supranational (-€27.12 million and -€19.24 million, respectively), along with higher negative interest generated by the PEPP-supranational portfolio (-€25.07 million). The increase in interest income owes mainly to the higher average balance of these portfolios (up from €402,871 million in 2020 to €538,760 million in 2021), resulting from purchases of monetary policy securities under the APP and PEPP.

- Higher income from monetary policy operations (credit institution deposits, €628.27 million), whose average balances grew 70% (from €177,870 million in 2020 to €303,256 million in 2021) owing to higher excess liquidity holdings stemming from purchases in the monetary policy portfolios and loans extended during the period.
- Lower interest on own portfolio securities (-€161.35 million) as a result of lower yields (1.90% in 2021 compared with 2.56% in 2020). The average investment during the period grew slightly (up from €26,346 million in 2020 to €27,271 million in 2021).
- Higher income from the negative remuneration of general government deposits (€48.47 million), on account of the increase in its average balance (up from €44,395 million to €54,088 million).

2 Interest expense

This item includes interest expenditure on the assets and liabilities listed below, as follows:

	Interest expense			Average financing		Average cost	
	2021	2020	Change	2021	2020	2021	2020
Foreign currency	6.96	17.82	-10.86				
Liquidity-providing operations swaps and forwards	2.96	10.75	-7.80				
Other liabilities	4.00	7.06	-3.06	7,218	3,412	0.05	0.20
Euro	2,864.23	1,696.95	1,167.28	784,375	640,859	0.36	0.26
Monetary policy operations	2,863.10	1,696.36	1,166.74	283,501	208,307	1.00	0.80
Remuneration of minimum reserves (a)	—	—	—	—	—	—	—
Deposit facility (a)	—	—	—	—	—	—	—
Fixed-term deposits	—	—	—	—	—	—	—
Changes in the value of collateral (negative net interest)	—	—	—	—	—	—	—
Longer-term refinancing operations (negative net interest)	2,863.10	1,696.36	1,166.74	283,501	208,307	1.00	0.80
General government deposits (a)	—	—	—	—	—	—	—
Other liabilities within the Eurosystem (net)	—	—	—	500,873	432,552	—	—
Other liabilities denominated in euro	1.13	0.59	0.54				
TOTAL	2,871.19	1,714.77	1,156.42	791,592	644,271	0.36	0.26

a These operations incurred negative net expenses, which were recorded as interest income.

Interest expense denominated in foreign currencies (€6.96 million) was basically from the interest accrued on the SDRs allocated by the IMF (€4 million), recognised in the table above under “Other liabilities”, and, to a lesser degree, from the interest expenses arising from swap operations.

The euro-denominated interest expense (€2,864.23 million) arose almost entirely from the negative interest on longer-term refinancing operations (€2,863.10 million), particularly the targeted longer-term refinancing operations (TLTRO III).

Compared with the previous year, interest expense increased by €1,156.42 million, mainly as a result of the higher negative interest accrued on the longer-term refinancing operations (€1,166.74 million; 68.8%), owing both to the higher volume of loans and their higher average cost (up from 0.80% to 1%, due to the ECB Governing Council decision that the “special interest rate period” from June 2020 to June 2021 would be followed by an “additional special interest rate period” running until June 2022).³¹

The lower interest expense denominated in foreign currencies (€10.86 million) was mainly due to the decrease in expense from liquidity-providing swap operations in foreign currencies (€9.63 million) and the €3.06 million decrease in interest expense accrued on the allocated SDRs on account of their lower average cost.

3 Realised gains/losses arising from financial operations

This item includes the profits and losses arising from the sale of financial assets. In 2021 the net gains in this connection amounted to €110.62 million (€119.70 million in 2020), which may be broken down as follows:

EUR m	2021	2020	Change
Foreign currency	107.77	183.30	-75.53
Sale of gold	—	—	—
Sale of foreign currency (exchange rate)	42.42	56.59	-14.17
Sale of securities (price)	78.95	130.00	-51.05
Other gains/losses	-13.60	-3.29	-10.31
Euro	2.86	-63.60	66.46
Sale of securities	2.86	-63.60	66.46
TOTAL	110.62	119.70	-9.07

³¹ During these periods, the interest rate stands 50 bp below the average rate applied in the main refinancing operations; for counterparties reaching the lending performance threshold, the interest rate will be 50 bp below the average interest rate on the deposit facility during that period.

Noteworthy were the gains in 2021 on the sale of foreign currency-denominated securities (€78.95 million), mostly US dollar-denominated securities (€77.66 million). These gains in US dollars were down on the 2020 figure (€94.88 million) despite a higher volume of sales, owing to the price developments prompted by the rising trajectory of yields on US dollar-denominated bonds in 2021.

The profits from the sale of foreign currencies (€42.42 million) were almost entirely due to gains on the sale of US dollars (€37.41 million). The gains were slightly higher in 2020 (€56.59 million), with the bulk likewise accounted for by sales of US dollars (€54.56 million).

In 2021, net losses of €13.60 million on interest rate futures were registered (losses of €18.09 million in US dollars and gains of €2.44 million and €2.05 million in Australian dollars and Canadian dollars, respectively).

4 Write-downs on financial assets and positions

This item includes the loss arising in the currency position derived from exchange rate depreciation, as well as that arising from depreciation of securities prices, for that portion that cannot be offset by unrealised gains from previous years. The breakdown in 2021 and 2020 is as follows:

EUR m			
	2021	2020	Change
Foreign currency	72.72	104.68	-31.96
Foreign currency (exchange rate)	0.01	102.04	-102.04
Securities (price)	72.71	2.64	70.08
Euro	12.99	—	12.99
Securities	7.19	—	7.19
Other assets and financial positions	5.80	—	5.80
TOTAL	85.71	104.68	-18.96

Write-downs in 2021 amounted to €85.71 million, of which €72.71 million related to foreign currency-denominated debt securities (€54.16 million in US dollars), €7.19 million to the euro-denominated debt securities portfolio and €5.80 million to euro-denominated investment funds.

Losses in foreign currency were virtually non-existent in 2021 (€0.01 million, down from €102.04 million in 2020), owing to the major currencies appreciating against the euro during the year.

5 Transfer to/from provisions for financial risks

The breakdown in 2021 and 2020 is as follows:

EUR m			
	2021	2020	Change
Transfers to provisions	3,325.01	3,211.50	113.51
Use of/reversal from provisions	-85.71	-104.68	18.96
TOTAL	3,239.30	3,106.83	132.47

This includes, first, the transfer of €85.71 million from the provision for financial risks to cover the unrealised losses existing at end-2021 and, second, the transfer to provisions of €3,325.01 million approved by the Executive Commission. This increase represents a continuation of the policy embarked on in previous years to have sufficient provisioning for financial risks to address the higher risks assumed as a result of the increase in financial assets of recent years, particularly of securities purchased under the Eurosystem's asset purchase programmes.

6 Net income from fees and commissions

This basically includes income and expenses arising from fees and commissions for banking services and the like (TARGET2, TARGET2-Securities, custody and administration of securities denominated in euro and in foreign currencies, etc.). It may be broken down as follows:

EUR m			
	2021	2020 (a)	Change
1 Fee and commission income	32.94	31.43	1.51
Foreign operations	0.11	—	0.11
Domestic operations	32.84	31.43	1.41
2 Fee and commission expense	-17.82	-14.77	-3.05
Foreign operations	-5.85	-4.36	-1.49
Domestic operations	-11.96	-10.41	-1.56
Net income from fees and commissions (1+2)	15.12	16.66	-1.54

a As indicated in the introduction to this section, the 2020 balances of "Fee and commission income" have been reclassified. This owes to the income allocated to the Banco de España from fees for use of the TARGET2-Securities service being recorded under this heading, from 2021, as its gross amount rather than net of the platform's operating expenses. The amount reclassified as at December 2020 stood at €10.56 million.

Net fee and commission income in 2021 amounted to €15.12 million. This income arose basically from the pooling of fees and commissions charged to participants in

TARGET2 and TARGET2-Securities, and the fees and commissions charged to the Treasury for debt servicing and to other NCBs for securities operations as part of the correspondent banking service between central banks. Expenses notably include the fees and commissions paid to Iberclear (central securities depository) for the maintenance of securities accounts and the expenses relating to the custody of securities denominated in foreign currency.

7 Income from equity shares and participating interests

This item includes the Banco de España's share of the ECB's profits and the dividends on other shares and participating interests.

EUR m	2021	2020	Change
ECB	63.57	262.24	-198.68
Ordinary dividend	45.68	111.97	-66.29
Dividend from banknote seigniorage and SMP, CBPP3, ABSPP, PSPP and PEPP income	17.89	150.27	-132.38
Other	6.01	—	6.01
TOTAL	69.57	262.24	-192.67

The main sub-item in 2021 relates to the distribution of ECB ordinary dividends for 2020 (€45.68 million).

As for the ECB income from securities purchased under the SMP, CBPP3, ABSPP, PSPP and PEPP,³² the Governing Council of the ECB resolved on 18 January 2022 to distribute €150 million among the NCBs (after allocating €610 million to its provision for general risks). The Banco de España, as per its ECB capital key (11.92%), received €17.89 million (in 2020 it received €150.27 million from the distribution of all income from such portfolios, which totalled €1,260.18 million).

Dividends amounting to €6.01 million were also received for shares in the Bank for International Settlements (no such dividends were received in 2020).

8 Net result of pooling of monetary income

The amount of each Eurosystem NCB's monetary income is determined by calculating the annual income generated by the earmarkable assets held against the liability base net of the financial expenses incurred for the related liabilities.

³² ECB seigniorage income has been zero since March 2016, due to the 0% interest rate on the main refinancing operations.

The components of the earmarkable assets and the liability base are as follows:

Earmarkable assets	Remuneration rate	Liability base	Remuneration rate
Amount of gold holdings in proportion to each NCB's capital key share	N/A	Banknotes in circulation	N/A
Claims equivalent to the transfer of foreign reserves to the ECB (except gold)	Main refinancing operations rate	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	Rate of return
Lending to euro area credit institutions related to monetary policy operations denominated in euro	Rate of return	Net liabilities arising from balances of TARGET accounts (a)	Main refinancing operations rate
CBPP, CBPP2, PSPP-government/agency bonds and PEPP-government securities	Main refinancing operations rate	Accrued interest at quarter-end on monetary policy liabilities with a maturity of over one year	N/A
SMP, CBPP3, PSPP-supranational, CSPP and PEPP (excluding PEPP-government securities)	Rate of return		
Claims on non-Eurosystem central banks that relate to liquidity-providing operations	Actual interest income (including accruals)		
Accrued coupon interest related balances on impaired securities held for monetary policy purposes and for which full income/risk sharing applies	N/A		
Net claims related to the allocation of euro banknotes within the Eurosystem (a)	Main refinancing operations rate		
Accrued interest relating to regular monetary policy operations with a maturity of over one year	N/A		

a Depending on the NCB, these components maybe presented on the earmarkable asset side or liability base.

If the value of an NCB's earmarkable assets exceeds or is less than the value of its liability base, the difference will be offset by applying to it the most recent marginal interest rate on main refinancing operations.

The breakdown of this income in 2021 and 2020 is as follows:

EUR m	2021	2020	Change
Net result of pooling of monetary income	1,074.07	764.91	309.16
Monetary income pooled	934.53	248.95	685.58
Monetary income allocated	139.54	515.96	-376.42
Correction of prior years	18.37	55.87	-37.50
Provision for monetary policy portfolios and ECB losses	—	11.23	-11.23
TOTAL	1,092.44	832.01	260.43

The monetary income pooled by the Eurosystem's NCBs is to be allocated among these same NCBs according to the ECB subscribed capital key. In 2021 the difference between the monetary income pooled by the Banco de España, amounting to -€934.53 million, and that reallocated to it, amounting to €139.54 million, is equivalent to a net allocation (income) of €1,074.07 million. The main reason for this net allocation was, first, that the Banco de España obtained less income from monetary policy liabilities to which negative interest rates are being applied (a portion of the excess minimum reserves held by credit institutions) than it is entitled to according to its capital key. Second, the amount of the loans (bearing negative rates) granted to Spanish institutions is higher than that corresponding to its key, which also generates a positive reallocation of monetary income for the Bank.

In addition to this ordinary pooling, the revision in 2021 of the monetary income obtained in previous years³³ entailed higher income of €18.37 million for the Bank.

Consequently, the positive net result for the year under this item was €1,092.44 million.

9 Other income and losses

This includes the income and losses that cannot be included in other items, along with other diverse income of an exceptional nature. The breakdown in 2021 and 2020 is as follows:

EUR m			
	2021	2020 (a)	Change
Extraordinary profit/loss	29.21	5.37	23.84
Sundry	30.01	23.04	6.97
TOTAL	59.22	28.41	30.81

a The 2020 balances of the "Sundry" item have been reclassified owing to the inclusion under this heading, from 2021, of the reimbursed operating expenses relating to Eurosystem/ESCB/SSM software (previously recorded as negative amounts in item 16 "Administrative expenses") and the recovery of expenses relating to international fund remittances (previously recorded as negative amounts in item 19 "Operating costs. Sundry"). The amount reclassified at December 2020 amounted to €10.30 million.

This item discloses net profit of €59.22 million. Extraordinary profits include €28.98 million from operations with the IMF.³⁴ "Sundry" includes the reimbursement

33 The most substantial change relates to 2020 and stems from the recalculation of interest from TLTRO III operations conducted during the "special interest rate period" (June 2020-June 2021) by various NCBs for those credit institutions that did not obtain the maximum reduction on interest rates.

34 Credit to Spain's SDR account at the IMF relating to the partial repayment of funds raised previously by the IMF by retaining interest not paid to countries.

of expenses incurred in the development and operation of Eurosystem/ESCB/SSM software in which the Banco de España participates as a developer (€13.98 million and €10.99 million, respectively), as well as €4.02 million relating to the recovery of indirect costs allocated to Sepblac.

10 Staff costs

This item includes wages and salaries, social insurance payments, staff welfare expenses and contributions to the pension scheme.

The breakdown of changes by component is as follows:

EUR m and %	2021	2020	Change	%
Wages and salaries	220.86	214.16	6.70	3.1
Social Security	49.13	47.86	1.27	2.7
Staff welfare expenses	19.65	19.84	-0.19	-1.0
Pension scheme	12.63	12.16	0.48	3.9
TOTAL	302.28	294.02	8.26	2.8

Its balance increased from €294.02 million in 2020 to €302.28 million in 2021, a rise of €8.26 million (2.8%). This mainly owes to the 1.4% increase in the average headcount and the wage rise established under Law 11/2020 of 30 December 2020 on the State Budget for 2021,³⁵ which lifted expenditure by 1.2% and 0.7%, respectively.

The following table sets out the changes in permanent and temporary staff, in terms of the average number of employees:

	2021	2020	Change	%
Average number of employees (a)	3,266	3,222	44	1.4
Managerial staff	2,388	2,336	52	2.2
Administrative staff	739	744	-5	-0.7
Other	139	142	-3	-2.1

a The average number of employees is calculated based on the number of employees who incurred staff costs for the Banco de España during the period analysed. Banco de España employees at Sepblac are therefore excluded.

³⁵ The Law establishes a wage increase of 0.9% for 2021. At year-end, this is unpaid and has been provisioned (see Note 26 to the balance sheet).

As at 31 December 2021, the Bank's total staff numbered 3,366 employees,³⁶ up by 103 compared to the same date a year earlier. Regarding the staff composition by gender, at 31 December 2021 women accounted for 51% of the Bank's total workforce.

The compensation of members of the governing bodies is set by the Minister for Economic Affairs and Digital Transformation in accordance with the provisions of the Law of Autonomy of the Banco de España. In 2021, the Governor received a gross annual salary of €192,074.25, with supplementary salary items amounting to €26,946.12.³⁷ The Deputy Governor received a gross annual salary of €181,622.11 and supplementary salary items amounting to €33,477.06. The elected members of the Governing Council receive a gross annual wage of €56,897.35; if they sit on the Executive Commission, the gross annual wage is €71,403.95.

In addition to the foregoing, the members of the governing bodies received equal amounts of fees for attending meetings of the body to which they belonged, set at €1,127.93 per meeting of the Governing Council and €540.96 per meeting of the Executive Commission.

11 Administrative expenses

This item includes expenses arising from the purchase of current assets and of diverse services received during the year, as follows:

EUR m and %				
	2021	2020 (a)	Change	%
Rental and maintenance	42.77	41.93	0.84	2.0
Material and supply	9.99	8.40	1.59	19.0
External services	103.34	94.93	8.40	8.9
Training, promotion and recruitment	1.99	2.33	-0.35	-14.9
Sundry operating expenses	13.02	12.48	0.54	4.3
TOTAL	171.11	160.07	11.04	6.9

a As indicated at the beginning of this section, the 2020 balances have been reclassified.

The above table shows that in 2021 (in line with 2020) the most significant administrative expenses were "External services" (€103.34 million), mainly IT services

36 Includes Banco de España employees at Sepblac.

37 These amounts do not include the payment of the arrears relating to 2020 and 2019.

(€47.32 million), and “Rental and maintenance” (€42.77 million), composed mainly of hardware and software rental and maintenance (€23.99 million) and property rental and maintenance (€13.92 million).

In 2021 administrative expenses increased overall by €11.04 million (6.9%), mainly in “External Services” (€8.40 million; 8.9%), as a result of the higher amount of IT services billed to the Bank and higher expenditure on professional services and on security and guarding at buildings. The increase in the “Material and supply” item (€1.59 million, 19%) owes mainly to higher spending on electricity due to the rise in the market price.

“External services” include the expenses relating to the external audits. The audit of the Banco de España’s annual accounts for 2021 and of certain aspects of its management of ECB reserves was performed by Mazars, whose fees amounted to €119,669. This was the only service provided by the auditor to the Bank. In 2021 no services were received from and, consequently, no amounts were paid to, other firms related to the auditor.

12 Depreciation of tangible and intangible fixed assets

Included here is the expense of the estimated depreciation of the Bank’s fixed assets, which breaks down as follows:

EUR m and %	2021	2020	Change	%
Depreciation of buildings, structures and renovation work	2.77	2.73	0.04	1.5
Depreciation of plant in buildings	4.98	5.78	-0.79	-13.7
Depreciation of furniture and fittings	1.06	1.04	0.02	2.2
Depreciation of office machines other than computer hardware	2.47	2.77	-0.30	-10.9
Depreciation of computer hardware	6.84	6.30	0.54	8.5
Depreciation of transport equipment	0.61	0.89	-0.29	-32.3
Depreciation of general library collection	0.16	0.18	-0.02	-13.7
Depreciation of other tangible fixed assets	0.19	0.17	0.02	12.6
Amortisation of computer software	13.80	15.10	-1.30	-8.6
TOTAL	32.88	34.96	-2.09	-6.0

Compared with 2020, depreciation expenses decreased by €2.09 million, owing mainly to the lower amortisation of computer software and plant in buildings.

13 Banknote production services

The cost of these services amounted to €65.79 million in 2021 (€58.28 million in 2020) and corresponds to payments made by the Banco de España to purchase banknotes from IMBISA, a vehicle of the Banco de España. This company, whose corporate purpose is the production of euro banknotes, was incorporated in November 2015 and is 80% owned by the Banco de España.

The cost of producing banknotes increased by €7.51 million (12.9%) owing to a higher volume of banknotes produced (36%, prompted by the transfer of 2020 production to 2021 on account of the pandemic), while the average price was down by 17%, essentially due to improved production efficiency.

Series	Denomination (€)	Banknotes charged (millions of banknotes)	
		2021	2020
2	50	434.0	264.5
2	10	113.2	316.0
2	5	244.0	—
	Samples	0.1	0.03
TOTAL		791.3	580.5

14 Transfers to/from other funds and provisions

Included here are sundry amounts provisioned for varying reasons, the provisions used and the additions to the Beneficent-Social Fund.

The net transfers to these funds were as follows:

EUR m	2021	2020	Change
Provision for operational risk	15.06	-2.71	17.77
Provision for death and retirement assistance	11.22	5.10	6.12
Provision for early and regular retirement	-0.95	-1.64	0.69
Provision for ongoing lawsuits	6.88	-0.11	6.99
Country risk	—	—	—
Withdrawn banknotes	-0.03	0.18	-0.21
Others	1.79	0.07	1.72
Beneficent-Social fund	5.37	6.42	-1.05
TOTAL	39.35	7.31	32.03

The net balance of transfers to/from other funds and provisions in 2021 amounted to €39.35 million, compared with €7.31 million in 2020. Of note are the net allocation to the provision for operational risk (€15.06 million: €16.26 million provisioned and €1.20 million used to cover losses linked to incidents during the year) and the provision for death and retirement assistance (€11.22 million, essentially due to the higher wage growth assumption). As regards the provision for lawsuits, €6.88 million was set aside in 2021 to cover potential risks relating to ongoing litigation.

The addition to the Beneficent-Social Fund amounted to €5.37 million in 2021.

The Banco de España is currently working on measures to improve its environmental sustainability. At year-end, there were no environmental management-related contingencies or liabilities, or environmental risks stemming from the Bank's activity that may be significant relative to its net assets, financial position or profit and loss. Therefore, it was not considered necessary to record any provision for environmental liabilities and charges.

15 Profit for the year

Pursuant to Article 1(1)(b) of Royal Decree 2059/2008 of 12 December 2008, the Banco de España must pay into the Treasury, on the first working day of March, 90% of the profits earned and recorded up to 31 December of the previous year, less the amount paid on the first working day of December of the previous year.

On 1 December 2021, the Banco de España paid into the Treasury €925.61 million, equal to 70% of the profit recorded as at 30 September 2021.³⁸

Given that the profit for the year amounted to €1,785.02 million, on 1 March 2022 €680.91 million were paid into the Treasury to complete the distribution of 90% of profits (€1,606.52 million).

The payments to the Treasury of 2021 profits are as follows:

³⁸ Pursuant to the aforementioned Royal Decree, the payment resolution must take into consideration the foreseeable performance of profits up to the end of the year. For this reason, account was taken of a number of factors which entailed a risk of lower profit (estimated at €1,548.84 million). Accordingly, this amount was subtracted from the Banco de España profit of €2,871.14 million as at 30 September, resulting in a profit of €1,322.30 million, 70% of which was paid into the Treasury.

EUR m	
1 Total profit for 2021	1,785.02
2 Payments to the Treasury	1,606.52
On 1 December 2021	925.61
On 1 March 2022. Difference between the above amount and 90% of profit as at 31 December 2021	680.91
3 Profit payable to the Treasury	
At date of approval of the 2021 annual accounts	178.50

3.4 Changes in capital, reserves, provisions and revaluation accounts

The following table shows the changes in the reporting year, which, in addition to the accounting profit, include the net gains not recognised as income in the profit and loss account, the change in general provisions and the effect on the balance sheet of the distribution of profit for the year.

EUR m						
	Capital	Reserves	Revaluation accounts	Undistributed profit	General provisions	Total
A) 2021 opening balance	1,000.00	878.31	15,970.19	830.27	28,611.07	47,289.83
1 Net gains not recognised in profit and loss			4,023.03			4,023.03
In gold			593.92			593.92
In foreign currency			3,967.57			3,967.57
In securities			-537.22			-537.22
Other			-1.23			-1.23
2 Change in provisions		4.14			3,254.37	3,258.51
3 2021 profit				1,785.02		1,785.02
4 Distribution of profit				-1,755.88		-1,755.88
Payment to the Treasury of 2020 profit				-830.27		-830.27
Payment to the Treasury of 2021 profit				-925.61		-925.61
B) Changes in the year						
B = 1+2+3+4	0.00	4.14	4,023.03	29.14	3,254.37	7,310.68
C) 2021 closing balance						
C = A + B	1,000.00	882.45	19,993.22	859.41	31,865.43	54,600.51

The changes reflected in this table have been explained above in the explanatory notes to the balance sheet and profit and loss account that refer to provisions (Note 26 to the balance sheet), revaluation accounts (Note 27 to the balance sheet), capital (Note 28 to the balance sheet), reserves (Note 29 to the balance sheet) and profit for the year (Note 30 to the balance sheet and Note 15 to the profit and loss account).

Equity increased by €7,310.68 million in 2021, due mainly to the higher unrealised gains (€4,023.03 million) and the higher general provisions (€3,254.37 million).

3.5 Risk management

As a result of its activity, the Banco de España is exposed to financial and operational risks which could have a financial and reputational impact and affect the Bank's ability to meet its objectives.

The risk policy of the Banco de España aims to maintain a low and predictable overall risk level to preserve its reputation and solvency, without detriment to the priority compliance with the statutory tasks under the Law of Autonomy of the Banco de España, or to the fulfilment of its objectives.

1 Risk management system

The Banco de España manages all its risks taking into account their differing nature. For the management of these risks, it applies a framework consisting of a set of basic principles, a model for risk management and control, and governance.

1.1 Principles

The Banco de España's risk management system is underpinned by the following basic principles:

- A risk culture, integrated throughout the organisation and developed through the involvement of the governing bodies in all the management and decision-making processes relating to risks.
- Clear assignment of functions relating to risk management, ensuring that the aims pursued are met and optimising the use of technical and human resources, avoiding redundant activities.
- Adequate separation between the units generating risk and the units tasked with risk control, enabling communication with the bodies responsible for setting risk policies.
- The existence of information channels which ensure that the competent bodies regularly receive reliable and timely information on risks.
- The use of objective and uniform criteria for the management of all risks, applying a different treatment in each case depending on their nature.

- The existence of the necessary mechanisms to ensure that the management framework functions properly and is periodically assessed.

1.2 Risk management and control model

The risk management and control model guarantees the effectiveness and efficiency of the risk management system, through its components.

First, the risk management and control model used by the Banco de España includes a comprehensive risk map that covers the main categories of risk to which it is exposed. At the first level, the map distinguishes between financial and operational risks. At the second level, under financial risks, the following sub-categories are considered: credit risk, market risk and structural balance sheet risk.

Second, the model is based on a risk management cycle that comprises five, universally applicable, stages: identification, assessment, response, monitoring and reporting for each risk.

Third and last, the model includes the definition of limits for all the risks assumed by the Bank, defined according to the methodology adopted for each type of risk and expressed in quantitative and qualitative terms. These limits are reviewed periodically in an ongoing process of improvement and adaptation to the Bank's objectives and needs.

1.3 Governance

The governance of the risk management system of the Banco de España has been designed on the basis of a "Three Lines Model" to address risk.

The first line is formed by the units of the Bank which, as part of their activities, generate exposure to risk. The second line consists of the units that are responsible for risk control and oversight, and also provide information and support to the first line. The Internal Audit Department, as the third line, periodically verifies risk management and control policies, methods and procedures to ensure they are adequate and verifies that they are being implemented effectively.

The three lines, although independent, act in a coordinated manner, so as to maximise their efficiency and effectiveness.

The Banco de España's Executive Commission has ultimate authority over the risk management system. It is responsible for establishing the general principles that define the risk level and for oversight of risk management and control at the Bank.

The Risk Management and Continuity Committee, which has been created to assist it in the performance of these functions, is responsible for proposing to the Executive Commission the adoption of the necessary risk management measures, providing an overarching view of such risks.

2 Financial risks

The financial risks assumed by the Banco de España arise from the financial transactions conducted to perform the functions and fulfil the objectives entrusted to it by law. They essentially comprise the following:

- Credit risk: the risk of incurring losses as a result of total or partial non-compliance with their contractual obligations by the issuers, counterparties or depositories of its financial assets.
- Market risk: the risk of incurring losses as a result of fluctuations in the price of financial assets (including exchange rates and interest rates) and gold prices.

These risks are quantified by the 99% Expected Shortfall metric, calculating the average loss observed that may arise from changes in the risk factors in the worst 1% of the simulated scenarios and with a one-year time horizon. The resulting figure is used as a benchmark to assess the financial risk provisioning needs.

Structural balance sheet risk (i.e. the risk of adverse variations in the Bank's profits in the long term owing to higher costs of liabilities or a lower return on assets) is also monitored.

In the area of monetary policy, the financial risks assumed by the Banco de España arise both from lending transactions and from securities purchase programmes.

Other financial investments of the Banco de España materialise in different portfolios, which may be denominated in euro or foreign currency, and in a gold portfolio. Every year, the number of these portfolios is determined, as are the desired net variations and the asset distribution targets depending on the currency denomination. In the case of held-to-maturity portfolios, an average maturity target is established. As regards the trading portfolio, strategic benchmark portfolios are created.

In addition, the currencies in which investments may materialise, the financial assets and eligible operations, eligible issuers, guarantors and counterparties, and the possible limitations on any of these on the grounds of prudence, are regularly reviewed.

Lastly, as at other Eurosystem central banks, work is under way to incorporate climate-related risk into monetary policy implementation, and to include sustainable and responsible investment principles in respect of the Bank's own investment portfolios.

3 Operational risk

The Banco de España defines operational risk as the risk of incurring losses due to the inadequacy or failure of internal processes, personnel and systems, or due to external events. These losses are determined by how strongly the Bank's balance sheet, reputation or objectives are impacted by the materialisation of a risk event.

The operational risk management developed by the Bank following the guidelines set in the document entitled *International Convergence of Capital Measurement and Capital Standards* (Basel II, revised framework) sets out policies, functions and internationally accepted procedures for proper operational risk management.

Operational risk management takes as its starting point an inventory of the functions, processes and activities of each organisational area of the Bank, which make up the Process Map. This inventory is needed to subsequently identify the attendant risks, which together constitute the Risk Map. This identification is based on an analysis of possible contingencies which may affect the Bank's functioning and of the specific measures taken to prevent them from occurring and to reduce damage if they do occur.

To determine the relative importance of the risks identified, these are assessed qualitatively according to: 1) the impact or damage they may cause (whether financial, reputational or in the form of non-compliance with objectives), and 2) how often they may occur, bearing in mind the existing control environment. The risks thus measured are entered in the Risk Tolerance Matrix, which includes all the risks identified and assessed in the business areas, classified by category according to their impact and frequency. The business areas inform the Risk Management and Continuity Committee of the most significant risks and of the possible mitigation measures to reduce the severity and frequency of the contingencies identified. This committee is responsible for approving them and accepting the residual risks. The results of the self-assessment conducted by the areas are compared with the information drawn from the systematic register of loss events in order to adjust their impact and/or frequency of occurrence in line with actual events.

The level of operational risk is quantified using the VaR methodology with a 99.9% confidence level and a one-year time horizon.

4 Specific information required by Article 4(2) of the Law of Autonomy of the Banco de España of 1 June 1994

4.1 Loss of profit

The loss of profit for the year is estimated, pursuant to the provisions of Article 4(2) of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España, based on the loans outstanding in the year with interest rates below the marginal interest rate on main refinancing operations. This rate has been 0% since March 2016 and in 2021 there were no outstanding loans with lower interest rates, except for the targeted longer-term refinancing operations (TLTRO II, TLTRO III and PELTROs) conducted by the Eurosystem, provided for in Article 9 of the aforementioned Law of Autonomy, which have been reported on in Note 2 to the profit and loss account and Note 6(b) to the balance sheet.

1 Report of the Banco de España Audit Committee

We the undersigned, Carmen Alonso Ledesma, Carles Manera Erbina and Luis Servén Díez, are members of the Governing Council of the Banco de España and of its Audit Committee appointed by the Governing Council. In accordance with Articles 29 and 32 of the Internal Rules of the Banco de España, we were given the task of reviewing the accounts of the institution for the year 2021.

As required by the aforementioned precepts, the Audit Committee has analysed the operations of the Banco de España. This examination basically involved: 1) studying the annual accounts of the Banco de España for the year 2021, prepared by the Directorate General Services of the Banco de España; 2) studying the audit of the balance sheet and profit and loss account of the Banco de España for 2021, conducted by the Internal Audit Department; 3) studying the documentation requested by the members of this Committee from the independent external auditors; 4) interviewing the persons responsible for the independent external audit, for the Internal Audit Department and for the Control, Budget and Accounting Department; and 5) making proposals for the modification, correction or clarification of various matters, all of which have been satisfactorily incorporated into the annual accounts by the Control, Budget and Accounting Department.

The basic conclusion of our report is that from the analysis carried out of the examination of the accounting procedures, of the accounting records and of the internal controls in place, it can be inferred that the annual accounts for the year 2021 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 3 March 2022.



CARMEN ALONSO LEDESMA



CARLES MANERA ERBINA



LUIS SERVÉN DíEZ

2 Report of the external auditors



Free translation of the auditors' report originally issued in Spanish based on our work performed in accordance with International Standards on Auditing (ISAs) and of annual accounts originally issued in Spanish and prepared in accordance with the internal rules and accounting principles of the Banco de España based on the accounting regulations established for National Central Banks of the European System of Central Banks (see note 3.1 to the accompanying annual accounts). In the event of a discrepancy, the Spanish-language version prevails.

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Independent Auditor's Report in accordance with International Standards on Auditing

To the Honourable Governor of the Banco de España

Opinion

We have audited the annual accounts of the Banco de España (the Entity) which, in accordance with article 29.1 of its Internal Rules, comprise the balance sheet as at December 31, 2021, the income statement for the year then ended, and the explanatory notes to the annual accounts, which include a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the financial position of the Banco de España at December 31, 2021, and of its financial performance for the year then ended, in accordance with the internal rules and accounting principles of the Banco de España, specified in note 3.1 of the accompanying explanatory notes, based on the accounting regulations established for national central banks of the European System of Central Banks.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities, under those standards, are further described in the *Auditor's Responsibilities for the Audit of the Annual Accounts* section of our report.

We are independent of the Entity, in accordance with the IESBA (International Ethics Standards Board for Accountants) Code of Ethics, and we comply with other ethical requirements pursuant to the IESBA Code of Ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

Responsibility for the Annual Accounts

The Executive Commission of the Banco de España is responsible for organising the Bank and appointing its general managers. Under the Internal Rules of the Banco de España, the Directorate General Services is responsible for preparing the annual accounts in accordance with the internal rules and accounting principles of the Banco de España, specified in note 3.1 of the accompanying explanatory notes, based on the accounting regulations established for national central Banks of the European System of Central Banks. This responsibility, which is exercised through the Control, Budget and Accounting department, includes the audit of operations and, therefore, the design, implementation and maintenance of the relevant internal controls required for the preparation and appropriate presentation of annual accounts that are free from material misstatement, whether due to fraud or error, selecting and applying the pertinent accounting principles and making such estimates as deemed reasonable in the circumstances (see note 3.1.3 of the accompanying explanatory notes).

Pursuant to article 21.G) of Law 13/1994 of 1 June 1994 on the autonomy of the Banco de España, the annual accounts are prepared by the Governing Council of the Banco de España.

UTE Mazars Auditores, S.L.P. and Mazars, S.A.
Mazars is a member of the Forum of Firms

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.

As part of an audit, in accordance with ISAs, we exercise our professional judgement and maintain professional scepticism throughout of the audit. We also:


- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of the Entity.
- Conclude on the appropriateness of the Entity management's use of the going-concern basis of accounting and, based on audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure, and content of the annual accounts, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

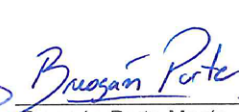
We communicate with the governing bodies of Banco de España regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Madrid, 17th March 2022

MAZARS AUDITORES, S.L.P.

MAZARS, S.A.


Carlos Marcos Corral


Breogán Porta Macía


Jean Latorzeff

BANCO DE ESPAÑA
Year ended at December 31, 2021

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BANCO DE ESPAÑA PUBLICATIONS

The Banco de España publishes various types of documents providing information on its activity (economic reports, statistics, research papers, etc.), which can be consulted in the Institutional Repository at <https://repositorio.bde.es/>.

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ISSN: 2445 - 3668 (online edition)