

**ANNUAL ACCOUNTS
OF THE BANCO DE ESPAÑA**

2017

BANCO DE ESPAÑA
Eurosistema



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2017**

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1 INTRODUCTION

The annual accounts of the Banco de España (“the Bank”) as established by Article 29(1) of its internal rules, approved by a Resolution of the Governing Council of 28 March 2000 (Official State Gazette (BOE) 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, Industry and Competitiveness, 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 formulating the Bank’s annual accounts.

Unless otherwise indicated, the figures are expressed in millions of euro. Those relating to 2016 are presented solely for comparison with 2017. To this end, the information for 2016 relating to certain operating expense accounts has been reorganised as explained in the related notes to the profit and loss account. Due to rounding, on occasions the totals included in the balance sheet, profit and loss account and notes to the annual accounts may not equal the sum of the individual figures. This document presents the accounts for the year 2017. Section 2 includes the balance sheet and profit and loss account as at 31 December 2017; 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 most important aspects of the balance sheet and profit and loss account, the changes in equity and the management of risk exposures; and Section 4, in compliance with Article 4(2) of the Law of Autonomy, details the loans and transactions agreed on other than an arm’s-length basis or which in any other way entail a loss of profit or losses for the Bank.

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

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).

2 BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2017

EUR m

	Note number	2017	2016	Change
ASSETS				
1 Gold and gold receivables	1	9,795.08	9,941.43	-146.35
2 Claims on non-euro area residents denominated in foreign currency		47,952.65	49,834.34	-1,881.69
2.1 Receivables from the IMF	2	4,970.96	5,423.01	-452.04
2.2 Balances with banks and security investments, external loans and other external assets	3	42,981.69	44,411.34	-1,429.64
3 Claims on euro area residents denominated in foreign currency	4	3,048.35	4,933.84	-1,885.49
4 Claims on non-euro area residents denominated in euro		—	—	—
4.1 Balances with banks, security investments and loans	5	—	—	—
4.2 Claims arising from the credit facility under ERM II		—	—	—
5 Lending to euro area credit institutions related to monetary policy	6	170,052.10	146,006.01	24,046.09
5.1 Main refinancing operations		105.60	1,818.00	-1,712.40
5.2 Longer-term refinancing operations		169,946.50	144,188.01	25,758.49
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		1.02	0.33	0.69
7 Securities of euro area residents denominated in euro	7	335,149.29	255,931.12	79,218.17
7.1 Securities held for monetary policy purposes		304,889.44	219,836.27	85,053.16
7.2 Other securities		30,259.85	36,094.84	-5,834.99
9 Intra-Eurosystem claims	8	118,802.06	104,406.21	14,395.84
9.1 Participating interest in ECB		1,312.52	1,312.52	—
9.2 Claims equivalent to the transfer of foreign reserves assets to the ECB		5,123.39	5,123.39	—
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		112,366.14	97,970.30	14,395.84
9.5 Other claims within the Eurosystem (net)		—	—	—
10 Items in course of settlement		0.37	1.08	-0.71
11 Other assets		6,686.41	5,945.70	740.71
11.2 Tangible and intangible fixed assets	9	281.95	273.49	8.46
11.3 Other financial assets	10	97.24	97.25	-0.01
11.4 Off-balance sheet instruments revaluation differences	11	31.89	191.57	-159.68
11.5 Accruals and prepaid expenses	12	5,157.54	4,241.40	916.14
11.6 Sundry	13	1,117.78	1,141.99	-24.21
TOTAL ASSETS		691,487.33	577,000.07	114,487.26

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2017 (cont'd)

EUR m

	Note number	2017	2016	Change
LIABILITIES				
1 Banknotes in circulation	14	135,276.23	130,134.26	5,141.98
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	15	113,768.41	55,226.36	58,542.05
2.1 Current accounts (covering the minimum reserve system)		103,688.41	44,220.43	59,467.98
2.2 Deposit facility		10,080.00	11,000.00	-920.00
2.3 Fixed-term deposits		—	—	—
2.4 Fine-tuning reverse operations		—	—	—
2.5 Deposits related to margin calls		—	5.93	-5.93
3 Other liabilities to euro area credit institutions denominated in euro	16	492.40	0.36	492.04
4 Debt certificates issued (a)		—	—	—
5 Liabilities to other euro area residents denominated in euro		26,127.18	19,999.51	6,127.67
5.1 General government	17	22,341.64	17,817.79	4,523.86
5.2 Other liabilities	18	3,785.54	2,181.72	1,603.82
6 Liabilities to non-euro area residents denominated in euro	19	3,323.68	2,232.35	1,091.33
7 Liabilities to euro area residents denominated in foreign currency		2.26	1.49	0.76
8 Liabilities to non-euro area residents denominated in foreign currency		0.85	0.96	-0.11
8.1 Deposits, balances and other liabilities		0.85	0.96	-0.11
8.2 Liabilities arising from the credit facility under ERM II		—	—	—
9 Counterpart of special drawing rights allocated by the IMF	20	3,358.01	3,604.00	-246.00
10 Intra-Eurosystem liabilities	21	373,075.14	327,733.24	45,341.90
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)		373,075.14	327,733.24	45,341.90
11 Items in course of settlement	22	238.45	198.76	39.69
12 Other liabilities		1,007.18	365.03	642.15
12.1 Off-balance-sheet instruments revaluation differences	23	—	—	—
12.2 Accruals and income collected in advance	24	885.36	244.94	640.42
12.3 Sundry	25	121.82	120.09	1.72
13 Provisions	26	17,750.03	14,619.62	3,130.41
14 Revaluation accounts	27	13,309.84	19,359.65	-6,049.81
15 Capital and reserves		1,899.81	1,899.81	—
15.1 Capital	28	1,000.00	1,000.00	—
15.2 Reserves	29	899.81	899.81	—
16 Profit for the year	30	1,857.86	1,624.65	233.20
TOTAL LIABILITIES		691,487.33	577,000.07	114,487.26

a ECB balance sheet item only.

PROFIT AND LOSS ACCOUNT OF THE BANCO DE ESPAÑA FOR THE YEAR ENDING 31 DECEMBER 2017

EUR m

	Note number	2017	2016	Change
1 Interest income	1	5,724.82	4,773.62	951.20
2 Interest expense	2	-663.11	-225.50	-437.61
3 Net interest income (1 + 2)		5,061.71	4,548.12	513.59
4 Realised gains/losses arising from financial operations	3	23.78	247.19	-223.40
5 Write-downs on financial assets and positions	4	-290.30	-97.86	-192.44
6 Transfer to/from provisions for financial risks	5	-3,114.39	-2,800.92	-313.47
7 Net result of financial operations, write-downs and risk provisions (4 + 5 + 6)		-3,380.91	-2,651.60	-729.31
8 Fees and commissions income		16.69	17.49	-0.80
9 Fees and commissions expense		-12.38	-10.81	-1.57
10 Net income from fees and commissions (8 + 9)	6	4.31	6.68	-2.37
11 Income from equity shares and participating interests	7	156.08	157.82	-1.74
12 Net result of pooling of monetary income	8	528.44	219.92	308.51
13 Other income and losses	9	4.09	3.17	0.92
14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)		2,373.71	2,284.11	89.60
15 Staff costs	10	-251.35	-245.13	-6.23
16 Administrative expenses	11	-135.37	-131.57	-3.79
17 Depreciation of tangible and intangible fixed assets	12	-33.98	-34.98	1.00
18 Banknote production services	13	-73.51	-85.26	11.76
19 Sundry		4.84	4.56	0.28
20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)		-489.37	-492.38	3.01
21 Transfers and additions to other funds and provisions	14	-26.49	-167.08	140.59
22 PROFIT FOR THE YEAR (14 + 20 + 21)	15	1,857.86	1,624.65	233.20

Countersigned by
The Governor,



LUIS M. LINDE DE CASTRO

The Comptroller,



JAVIER PACIOS RODRÍGUEZ

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 accounting guides and instructions of the ECB.

2 BASIS OF ACCOUNTING

The annual accounts have been prepared on a historical cost basis, modified as necessary to include 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:

a) Gold

Gold is recorded at acquisition cost¹, 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.

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 assets side, with the obligation to repay it being recorded simultaneously on the liabilities side. Possible differences arising between gold delivered spot and that received forward are recorded at the time of maturity of the transaction as if there had been an independent outright sale or purchase.

¹ 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.

b) 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.

c) Foreign banknotes

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

d) 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.

e) 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 and 4 June 2009, 9 May 2010, 6 October 2011, 4 September 2014, 4 March 2015 and 1 June 2016).

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 circumstances².

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.

f) Repurchase agreements involving securities

Reverse repurchase agreements involving securities are recorded on the assets 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 liabilities 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 average cost of the currency position.

In direct loans of securities, repurchase and reverse repurchase agreements conducted simultaneously are accounted for separately, each being 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) are not recorded in the balance sheet, with the exception of the cash received as collateral that

² 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.

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.

g) 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.

h) Loans to financial institutions and balances with European Union central banks

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 by the Eurosystem. Indemnification shall be in a form deemed appropriate by the Governing Council; these amounts may be offset against the NCBs' monetary income.

i) Shares and participating interests

The shares in the Bank for International Settlements 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, shall be valued at its underlying book value. The Banco de España does not prepare consolidated annual accounts in respect of this participating interest, given the non-material nature of the investment vis-à-vis the Bank's balance sheet and profit and loss account.

j) 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), although 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 removed from the balance sheet or that they are fully depreciated.

Notwithstanding the above, all the costs of developing computer applications specifically for the Banco de España, including those developed internally (either by the Banco de España itself or as part of a Eurosystem/ESCB/SSM project) and those undertaken by a third party, are capitalised, as are the extensions and improvements and the evolutionary maintenance 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 fixed assets in progress are not depreciated.

The depreciation/amortisation rates and estimated useful lives applied to the various fixed assets in 2017 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 equipment	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 applications (a)	20	5
Industrial property	—	Number of years of exclusive use

a The amortisation of certain IT applications developed for the Eurosystem as a whole is calculated on the basis of their individual useful life estimated by the Eurosystem.

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

k) Banknotes in circulation

The ECB and the NCBs, which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002³. The total value of euro banknotes in circulation is

³ Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (ECB/2010/29) (recast), as amended.

recorded by allocating to each Eurosystem NCB, on the last working day of each month, an amount based on the banknote allocation key⁴.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to the NCBs and divided amongst them according to their weightings in the capital key of the ECB. 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 it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest⁵, are 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 banknotes in circulation of each NCB in the specified reference period⁶ and the average value of 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 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, the asset-backed securities purchase programme, the third covered bond purchase programme and the secondary markets public sector purchase programme, is allocated to the NCBs in the financial year in which it accrues⁷. 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

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

5 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).

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

7 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.

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 risks⁸. The amount distributed to national central banks is shown in the profit and loss account item “Income from equity shares and participating interests” in the year in which this income accrued.

l) Intra-Eurosystem accounts

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 by TARGET2⁹ among 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 contribution 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 claim/liability related to the allocation of euro banknotes within the Eurosystem” (see “Banknotes in circulation” in this section on accounting policies).

m) 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 account¹⁰. 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 the securities concerned, together with the accrued coupons, according to the effective interest rate method.

n) 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

⁸ This provision, together with the ECB’s general reserve fund, must not exceed the value of the capital disbursed by euro area NCBs.

⁹ Trans-European Automated Real-time Gross Settlement Express Transfer system.

¹⁰ Unrealised gains and losses are not recorded in the held-to-maturity portfolio and monetary policy portfolios (see “Securities” in this section on accounting policies).

1986, are eligible to and do participate in the scheme, are recognised as a current expense in the year to which they relate¹¹.

o) Provisions

In application of the principle of prudence, the liabilities 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).

p) 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 assets side or item 12.1 on the liabilities 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. Since these futures are denominated in foreign currency, such settlements shall affect the foreign currency position on the day on which they take place.

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, to quantify provisions recorded in them (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-2017, 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 events occurring after year-end which do not affect the assets and 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 €9,795.08 million, consisting of 9.054 million troy ounces¹² of fine gold valued at a market price of €1,081.88 per ounce. These holdings did not change during the financial year. The value of these holdings is €146.35 million less than in 2016, as a result of the fall in the market price (at end-2016, the price per ounce was €1,098.05). This decrease is included in the liability revaluation accounts. The cost of the gold holdings is €850.43 million.

¹¹ 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.

¹² One troy ounce is equal to 31.1035 grams.

2 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY. RECEIVABLES FROM THE IMF

This item has three components:

- a) The position in the IMF in the reserve tranche. This is the euro equivalent of the SDRs relating to the foreign currencies and euro assigned to the IMF, due to the payment of Spain's quota (initial quota and successive increases in it) and due to the net financing granted to the IMF. Spain's IMF quota is SDR 9,535.50 million. The quota minus the balance at the disposal of the IMF is reflected on the assets side.
- b) Special drawing rights (allocations). These represent the euro equivalent of the successive allocations of this currency 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 liabilities 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 out of this account and to interest receipts or payments resulting from positions vis-à-vis the IMF.
- 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 PRGT¹³ and the NAB¹⁴. For the PRGT, the Banco de España has made a commitment to contribute, through concessional lending to low-income countries, up to SDR 855 million, the amount drawn down at end-2017 being €124.90 million (SDR 105.17 million). The NAB agreement, concluded to support the IMF's ability to provide financial assistance to its members, entailed a financial commitment of up to SDR 3,405.14 million, of which € 447.13 million (SDR 376.50 million) had been drawn down at end-2017.

The SDRs in which claims on the IMF are denominated are valued at the year-end market rate, calculated by the ECB for all the Eurosystem NCBs, of €1 = SDR 0.842034. 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 yen, the pound sterling and the renminbi. The SDR interest rate, which is updated weekly, averaged annually 0.53% during 2017.

The breakdown in 2017 and 2016 is as follows:

EUR m

Type of asset	2017	2016	Change
Reserve tranche position	1,001.07	1,018.32	-17.25
Special drawing rights (allocation)	3,397.86	3,550.81	-152.95
Other claims on the IMF	572.03	853.87	-281.84
TOTAL	4,970.96	5,423.01	-452.04

The overall amount of claims on the IMF decreased by €452.04 million with respect to the balance at end-2016.

¹³ Poverty Reduction and Growth Trust.

¹⁴ New Arrangements to Borrow.

The decrease of €17.25 million in the reserve tranche position account is due to the overall effect of various factors:

- An increase of €56.08 million (SDR 44 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.
- Decrease of €73.33 million due to the change in the exchange rate of the SDR against the euro.

The “Special drawing rights (allocations)” account increased by €152.95 million due to the overall effect of various factors:

- An increase of €176.53 million (SDR 138.50 million) due to collection of SDRs arising from total or partial repayment of some PRGT loans and to collection of interest on Spain’s claims on the IMF.
- A decrease of €80.57 million (SDR 63.21 million) due to SDR sales required by the IMF, to transactions under the “Two Way Arrangement” and to payment of interest on Spain’s liabilities to the IMF.
- Decrease of €248.91 million due to the effect of changes in market exchange rates.

The “Other claims on the IMF” account, which includes loans granted under NAB agreements and under the PRGT programme, decreased by €281.84 million due to the overall effect of certain factors:

- A decrease of €171.05 million (SDR 134.20 million) in NAB loans due to total or partial repayments of the loans granted under NAB. These SDR-denominated loans were through payments in euro.
- A decrease of €68.88 million (SDR 54.04 million) in PRGTs due to partial repayments of these loans. These loans are in SDRs.
- A decrease of €41.91 million due to the change in the market exchange rate.

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, 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 fixed-income securities which the Banco de España intends to hold until maturity.

The total amount as at 31 December 2017 was €42,981.69 million, with the following breakdown:

EUR m

Type of asset	2017	2016	Change
Deposits	4,018.89	1,858.68	2,160.21
Security investments (a)	38,958.41	42,540.20	-3,581.78
Trading portfolio	17,768.28	21,157.09	-3,388.81
Held-to-maturity portfolio	21,190.13	21,383.11	-192.97
Other	4.39	12.46	-8.07
TOTAL	42,981.69	44,411.34	-1,429.64

a As at 31 December 2017, repurchase agreements were constituted over part of the USD dominated securities portfolio with a market value of USD 66.47 million, AUD denominated securities portfolio with a market value of AUD 19.27 million, and GBP denominated securities portfolio with a market value of GBP 2.40 million under automated security lending contracts with the depositories of these securities.

As at 31 December 2017, 73.2% of these assets were denominated in US dollars, 9.1% in Australian dollars, 9.1% in yen¹⁵, 8% in Canadian dollars and 0.6% in pounds sterling. The equivalent value in euro of these currencies was transferred to the balance sheet at the year-end market exchange rate (€1 = USD 1.1993, €1 = AUD 1.5346, €1 = CAD 1.5039, €1 = YEN 135.01 and €1 = £0.8872). The market value of the held-to-maturity portfolio at end-2017 (which is not recorded on the balance sheet or in the profit and loss account but is provided for comparison purposes only) is €20,985.25 million.

The decrease in the balance of this item (€1,429.64 million) was due to the net effect of the factors listed in the following table:

EUR m

Reason for change	Amount
Net investment	3,361.89
Changes of market exchange rates as at 31 December	-5,120.50
Changes of securities market prices as at 31 December	0.15
Accrued interest receivable	328.72
Other	0.10
TOTAL	-1,429.64

4 CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This balance sheet item may include current accounts, balances with banks, loans and security investments. As at 31 December 2017, US dollar-denominated time deposits at financial institutions equivalent to €2,042.86 million (USD 2,450 million), and sight deposits in various currencies (€4.91 million) were held. The year-end balance also includes loans instrumented via reverse operations with credit institutions amounting to €1,000.58 million (USD 1,200 million) in connection with the US dollar Term Auction Facility. 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 counterparties. The ECB simultaneously enters into swap transactions with Eurosystem NCBs to meet institutions' dollar-denominated liquidity requirements in the form of repos, receiving from the institutions euro-denominated securities as collateral. These back-to-back swap transactions between the ECB and the Eurosystem NCBs result in intra-Eurosystem balances reported under "Other liabilities within the Eurosystem (net)".

¹⁵ The exchange rate risk on yen-denominated investments is managed through swap transactions that cover the yen-US dollar exchange rate risk.

The decrease of €1,885.49 million in the balance of this item with respect to the previous year was mainly due to the lower volume of US dollar-denominated time deposits (a reduction of USD 1,150 million, equivalent to €877.12 million), the lower volume of Banco de España loans to counterparties within the framework of the exceptional foreign currency liquidity-providing operations (a decrease of USD 400 million, equivalent to €304.20 million) and to changes in the exchange rate of the US dollar against the euro.

5 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO. BALANCES WITH BANKS, SECURITY INVESTMENTS AND LOANS

Included here is the balance of current accounts at correspondents and trading and held-to-maturity portfolio securities denominated in euro. The held-to-maturity portfolio consists of fixed-income securities which the Banco de España intends to hold until maturity.

This heading had a negligible balance at year-end, unchanged from 2016.

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 €764,310 million, of which €170,052.10 million are included in the balance sheet of the Banco de España. Pursuant to Article 32(4) of the ESCB/ECB Statute, 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 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 banks¹⁶.

EUR m

Type of operation	2017	2016	Change
Main refinancing operations	105.60	1,818.00	-1,712.40
Longer-term refinancing operations	169,946.50	144,188.01	25,758.49
Fine-tuning reverse operations	—	—	—
Structural reverse operations	—	—	—
Marginal lending facility	—	—	—
Credits related to margin calls	—	—	—
TOTAL	170,052.10	146,006.01	24,046.09

As at 31 December 2017, the overall balance of this account was 16.5% higher than at end-2016, due to the use by institutions of targeted longer-term refinancing operations. The average daily balance of the financing granted during the year decreased by 24.7% (€165,863 million in 2017, against €132,985 million in 2016).

a) Main refinancing operations

They are executed through liquidity providing reverse transactions with a weekly frequency and a maturity of one week, normally by means of standard tenders. These operations play a pivotal role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance. However, in 2017,

¹⁶ The total collateral provided by institutions, valued by Eurosystem rules and applying the related haircuts, amounted to €246,249 million at 2017 year-end. Of this amount, €577.67 million relate to collateral excluded from risk sharing.

continuing the trend initiated in previous years, they were used much less than longer-term refinancing operations. In this connection, it should be noted that only 0.4% of annual average financing was extended through them. In 2017, all these operations were conducted at a fixed rate (0% from 16 March 2016) with allotment of the total amount bid.

The balance of this item as at 31 December 2017 was €105.60 million (€1,818.00 million as at 31 December 2016) and its daily average balance during the year was €646 million (€3,536 million in 2016).

b) Longer-term refinancing operations

These operations aim to provide counterparties with additional longer-term refinancing. The balance of these operations at 2017 year-end was €169,946.50 million (99.9% of the total) and arose almost entirely from targeted longer-term refinancing operations (TLTRO and TLTRO II). The TLTROs, maturing in 2018, were carried out in 2014 and 2015. In March 2016, the Governing Council of the ECB decided to conduct a second series of targeted longer-term refinancing operations (TLTRO II), three of which were conducted in 2016 and a fourth in 2017. These operations have a four-year maturity, with the possibility of repayment after two years. Their aim is to reinforce the ECB's accommodative monetary policy stance and foster new lending. The counterparties whose loans to non-financial corporations and households, excluding loans for house purchase, exceed a certain benchmark, will borrow at an interest rate that can be as low as that on the deposit facility on the allotment date.

In 2017, operations were also conducted with maturities of three months, at a fixed rate of 0%, with allotment of the total amount bid.

The year-end balance of €169,946.50 million includes €167,450.32 million of loans under the TLTRO II programme, €2,483.68 million of loans under the TLTRO programme and €12.50 million of three-month loans.

Compared with the previous year, its balance increased by €25,758.49 million. Also, the average balance increased (from €129,448 million in 2016 to €165,217 million in 2017), representing 99.6% 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. No fine-tuning reverse operations took place in the Eurosystem in 2017.

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-2017 balance was zero and the use of this facility during the year was negligible.

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 programmes¹⁷ (CBPP), the securities markets programme¹⁸ (SMP), the secondary markets public sector purchase programme¹⁹ (PSPP) and the corporate sector purchase programme²⁰ (CSPP). These securities were recorded at amortised cost (see “Securities” in Section 3.1 “Accounting policies”) and are subject to a yearly impairment test.

The balance of this item as at 31 December 2017 was €304,889.44 million²¹. 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 purposes only), is as follows:

EUR m

Monetary Policy Portfolio	2017		2016		Change	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value
CBPP	765.68	807.59	1,669.48	1,754.77	-903.80	-947.18
CBPP2	172.37	191.91	507.86	544.39	-335.49	-352.48
CBPP3	31,327.04	31,878.85	26,021.61	26,362.81	5,305.43	5,516.03
SMP	12,256.30	13,890.20	13,733.46	15,723.01	-1,477.16	-1,832.81
PSPP government	202,774.94	205,104.81	133,917.72	136,160.94	68,857.22	68,943.88
PSPP supranational	45,128.12	45,408.30	39,234.71	39,665.47	5,893.41	5,742.83
CSPP	12,464.99	12,487.50	4,751.43	4,658.66	7,713.55	7,828.84
TOTAL	304,889.44	309,769.16	219,836.27	224,870.05	85,053.16	84,899.11

The securities purchased under the first and second covered bond purchase programmes (CBPP and CBPP2) were completed in June 2010 and October 2012, respectively. The Securities Markets Programme (SMP) concluded in September 2012. The decrease in the balances of these portfolios in 2017 is due to the redemption of securities throughout the year.

The portfolios purchased under the CBPP3, PSPP, CSPP and ABSPP (asset-backed securities purchase programme conducted exclusively by the ECB) comprise the so-called “expanded asset purchase programme” (APP). Until March 2017, the volume of monthly asset purchases in the Eurosystem under this programme was €80 billion, and

17 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).

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

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

20 Decision of the ECB of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16).

21 As at 31 December 2017, repurchase agreements were constituted over part of the euro-denominated securities portfolio with a market value of €861.21 million, under automated securities lending contracts.

from that date, it declined to €60 billion. In October 2017, the Governing Council of the ECB resolved to continue with purchases under this programme until 2018, at a monthly pace of €30 billion from January to September, or beyond, if deemed necessary, and, in any case, until the Governing Council sees a sustained adjustment in inflation growth that is consistent with its aim of achieving inflation rates below – but close to, 2% over the medium term. The following should be noted with respect to each of the aforementioned purchase programmes:

On 4 September 2014, the ECB Governing Council 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 €31,327.04 million at end-2017, up €5,305.43 million on the previous year as a result of net purchases made.

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 may purchase, on the secondary market, securities issued by euro area central, regional and local governments, and substitutes for them 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 €202,774.94 million, and that of securities issued by European institutions and development banks was €45,128.12 million.

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 at end-2017 was €12,464.99 million.

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 ESCB/ECB Statute, any risks that materialise in the securities included in the SMP, CBPP3, PSPP supranational securities and CSPP, 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 SMP, CBPP3, PSPP supranational securities and CSPP were €82,490 million, €220,955 million, €203,932 million and €131,593 million, respectively. Of these amounts, €12,256.30 million, €31,327.04 million, €45,128.12 million and €12,464.99 million, respectively, were included in the balance sheet of the Banco de España.

As regards the impairment tests conducted, the following should be noted:

As a result of the impairment test conducted on the securities purchased under the SMP and PSPP as at 31 December 2017, the Governing Council of the ECB decided that there was no evidence of impairment.

As regards the impairment test conducted on the securities purchased under CBPP programmes, the Governing Council of the ECB decided that, although there is an

impairment indicator for the bonds issued by an issuer, there was no evidence of changes in expected cash flows, and, therefore, no impairment losses were recorded.

The impairment test conducted on the securities in the CSPP portfolio concluded that one of the assets in this portfolio was impaired. In application of the principle of prudence, the Governing Council considered that a provision for losses arising from monetary policy operations should be recorded. The asset in question was sold in January 2018. Pursuant to Article 32(4) of the ESCB/ECB Statute, these losses have been fully shared by the Eurosystem NCBs in proportion to the capital keys in force (see Note 26 to the balance sheet and Note 8 to the profit and loss account).

b) Other securities

This item includes that part of the Bank'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 fixed-income securities which the Banco de España intends to hold until maturity.

The breakdown of this item is as follows:

EUR m			
Security investments	2017	2016	Change
Trading portfolio	13,528.04	18,396.35	-4,868.31
Held-to-maturity portfolio	16,731.81	17,698.50	-966.68
TOTAL	30,259.85	36,094.84	-5,834.99

The balance of this item as at 31 December 2017 was €30,259.85 million²², of which 44.7% relate to trading portfolio securities and 55.3% to held-to-maturity securities. The market value of the held-to-maturity portfolio at end-2017 (which is furnished for information purposes, since it is not reflected in the balance sheet or in the profit and loss account) is €17,714.21 million. The impairment test conducted on the held-to-maturity portfolio concluded that there was no evidence of impairment at year-end.

Overall, these securities decreased by €5,834.99 million in 2017, of which €4,868.31 million related to the trading portfolio and €966.68 million to the held-to-maturity portfolio.

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

EUR m			
Reason for change	Trading portfolio	Held-to maturity portfolio	Total
Net purchase/amortization of securities	-4,308.93	-1,333.46	-5,642.39
Unrealised gains at year-end (a)	-521.05	—	-521.05
Unrealised losses at year-end (a)	—	—	—
Accrued implicit interest	-38.32	366.77	328.45
TOTAL	-4,868.31	-966.68	-5,834.99

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

²² As at 31 December 2017, repurchase agreements were constituted over part of the euro-denominated securities portfolio with a market value of €1.34 million, under automated securities lending contracts with the depositories of these securities.

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.

8 INTRA-EUROSYSYSTEM CLAIMS

This heading includes the amounts of the following items:

EUR m

Type of asset	2017	2016	Change
Participating interest in the ECB	1,312.52	1,312.52	—
Claims equivalent to the transfer of foreign reserve assets to the ECB	5,123.39	5,123.39	—
Net claims related to the allocation of euro banknotes within the Eurosystem	112,366.14	97,970.30	14,395.84
TOTAL	118,802.06	104,406.21	14,395.84

a) Participating interest in ECB

Pursuant to Article 28 of the ESCB Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on the participating interests fixed in accordance with Article 29 of the ESCB Statute 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 the European Union, that is, when their NCBs join the ESCB. Since 1 January 2014, the Banco de España's key for subscription of ECB capital has been 8.8409%, and its participating interest in the ECB is €957.03 million.

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

	ECB's capital key (%)
	As at 31 December 2017
Nationale Bank van België/Banque Nationale de Belgique	2.4778
Deutsche Bundesbank	17.9973
Eesti Pank	0.1928
Central Bank and Financial Services Authority of Ireland	1.1607
Bank of Greece	2.0332
Banco de España	8.8409
Banque de France	14.1792
Banca d'Italia	12.3108
Central Bank of Cyprus	0.1513
Latvijas Banka	0.2821
Lietuvos bankas	0.4132
Banque centrale du Luxembourg	0.2030
Central Bank of Malta	0.0648
De Nederlandsche Bank	4.0035
Oesterreichische Nationalbank	1.9631
Banco de Portugal	1.7434
Banka Slovenije	0.3455
Národná banka Slovenska	0.7725
Suomen Pankki – Finlands Bank	1.2564
Subtotal for euro area NCBs	70.3915
Българска народна банка (Bulgarian National Bank)	0.8590
Česká národní banka	1.6075
Danmarks Nationalbank	1.4873
Hrvatska narodna banka	0.6023
Magyar Nemzeti Bank	1.3798
Narodowy Bank Polski	5.1230
Banca Națională a României	2.6024
Sveriges Riksbank	2.2729
Bank of England	13.6743
Subtotal for non-euro area NCBs	29.6085
TOTAL (a)	100.0000

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

This item also includes the participating interest in the rest of ECB equity. This amounted to €355.49 million as at 31 December 2017, 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. 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 €5,123.39 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 €112,366.14 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 an overall debit balance (see "Banknotes in circulation" and "Intra-Eurosystem balances" in Section 3.1 "Accounting policies").

The increase with respect to 2016 (€14,395.84 million) was basically due to the decrease in banknotes put into circulation by the Banco de España in 2017 (-28.8%, €9,254 million) and the contrasting rise in the Eurosystem as a whole (4 %, €44,500 million) (see Note 14 to the balance sheet).

d) Other claims within the Eurosystem (net)

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

9 OTHER ASSETS. TANGIBLE AND INTANGIBLE FIXED ASSETS AND FIXED ASSETS IN PROGRESS

The balance of this item amounted to €281.95 million at end-2017, of which €790.49 million related to cost and €508.54 million to accumulated depreciation.

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

EUR m

	2017	2016	Change
Tangible fixed assets	557.80	547.75	10.04
Land and unbuilt plots	5.35	5.35	—
Buildings, structures and renovation work	114.22	113.54	0.68
Plant in buildings	213.62	207.78	5.85
Furniture and fittings	42.34	41.18	1.16
Office machines other than computer equipment	50.09	52.44	-2.35
Computer equipment	72.78	69.74	3.05
Transport equipment	10.33	8.31	2.03
Libraries	3.69	4.16	-0.46
Other tangible fixed assets	5.24	5.19	0.05
Art collection	40.12	40.08	0.04
Intangible fixed assets	178.45	172.06	6.39
Computer applications	178.39	172.01	6.39
Industrial property	0.06	0.06	—
Fixed assets in progress	54.25	41.77	12.48
Buildings, plant in buildings and other structures	6.58	8.22	-1.64
Computer applications of Banco de España	42.13	29.88	12.25
Computer applications of Eurosystem	2.72	2.69	0.03
Other fixed assets in progress	2.83	0.98	1.85
TOTAL	790.49	761.58	28.91

EUR m

Accumulated depreciation or amortization	2017	2016	Change
Tangible fixed assets	-387.43	-381.67	-5.76
Buildings, structures and renovation work	-51.84	-49.16	-2.68
Plant in buildings	-184.93	-176.80	-8.14
Furniture and fittings	-36.40	-35.41	-0.99
Office machines other than computer equipment	-33.93	-43.03	9.11
Computer equipment	-64.31	-61.23	-3.08
Transport equipment	-8.41	-8.16	-0.24
Libraries	-2.48	-2.78	0.30
Other tangible fixed assets	-5.12	-5.08	-0.04
Intangible fixed assets	-121.11	-106.42	-14.69
Computer applications	-121.06	-106.36	-14.69
Industrial property	-0.06	-0.06	—
TOTAL	-508.54	-488.09	-20.45

Overall, fixed assets net of depreciation increased with respect to the previous year by €8.46 million. This variation is basically due to increased investment in the development of computer applications, and to the renewal of cash handling machines (recorded under “Office machines other than computer equipment”).

10 OTHER ASSETS. OTHER FINANCIAL ASSETS

This item includes €97.24 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 Imprenta de Billetes, S.A. (IMBISA), a vehicle of the Banco de España, amounting to €72 million, the same as the previous year. This company, whose corporate purpose is the production of euro banknotes, was incorporated on 2 November 2015 and is 80%-owned by the Banco de España. At end-2017, IMBISA’s capital stood at €90 million.

11 OTHER ASSETS. OFF-BALANCE SHEET INSTRUMENTS. REVALUATION DIFFERENCES

This item includes the amount of the net debtor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a debtor one, it is recorded under the same heading in liability item “12.1. Its debit balance of €31.89 million as at end-2017 is the net value of the swap transactions outstanding at that date that are listed below:

Operation	Position	Currency	2017			2016
			Currency amount (million)	Market exchange rate	Equivalent (million €)	Equivalent (million €)
Swap		EUR	1,013.43	1.0000	1,013.43	1,502.35
		Debtor	JPY	—	135.0100	—
	Creditor	USD	4,713.09	1.1993	3,929.87	2,599.49
		EUR	—	1.0000	—	—
		JPY	528,000.00	135.0100	3,910.82	2,382.50
		USD	1,200.00	1.1993	1,000.58	2,135.55
NET POSITION					31.89	191.57

At year-end, euro-US dollar swaps —those entered into under the liquidity provision cooperation agreements (swap line) with the Federal Reserve (see Note 4 to the balance sheet)— and US dollar-yen swaps intended to cover the exchange rate risk on yen-denominated investments, were unexpired.

12 OTHER ASSETS. ACCRUALS AND PREPAID EXPENSES

The main components of this item, the balance of which amounts to €5,157.54 million, are as follows:

EUR m

	2017	2016	Change
Accrued interest arising from securities acquisitions and accrued coupon interest receivable	5,088.63	4,172.87	915.76
Trading portfolio	431.42	572.86	-141.44
Denominated in foreign currency	76.74	112.60	-35.86
Denominated in euro	354.68	460.26	-105.58
Held-to-maturity portfolio	485.75	537.07	-51.32
Denominated in foreign currency	130.41	137.46	-7.05
Denominated in euro	355.34	399.61	-44.27
Held for monetary policy purposes	4,171.46	3,062.94	1,108.52
Other accrued interest receivable	64.70	64.01	0.69
On monetary policy operations	9.48	18.53	-9.05
On intra-Eurosystem claims arising from banknotes adjustments	—	—	—
On claims equivalent to the transfer of foreign reserves to the ECB	—	0.45	-0.45
On foreign currency deposits	19.48	20.93	-1.46
On swaps operations	19.63	13.91	5.72
On negative remuneration of general government deposits	9.08	7.17	1.91
Claims on the IMF	5.98	2.03	3.95
Other	1.05	0.98	0.07
Accrued commissions receivable and prepaid expenses	4.21	4.51	-0.31
TOTAL	5,157.54	4,241.40	916.14

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 (€4,171.46 million), from the trading portfolio (€431.42 million) and from the held-to maturity portfolio (€485.75 million). Overall, this interest increased by €915.76 million compared with the previous year, due to the net increase in the balance of the monetary policy portfolio resulting from the ECB asset purchase programmes.

13 OTHER ASSETS. SUNDRY

The most significant components of this item, which totals €1,117.78 million, are the transfer to the Treasury on 1 December 2017 of €915.98 million, equivalent to 70% of the Bank's profits earned to 30 September 2017, adjusted in line with the projected performance of profits up to year-end (see Note 15 to the profit and loss account), which was €30.60 million lower than in the previous year, and the home loans and repayable advances granted to Bank employees, the balance of which, at €179.36 million, was up by €5.95 million on 2016.

14 BANKNOTES IN CIRCULATION

The balance of banknotes in circulation (€135,276.23 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, which held steady at 11.5550% in 2017. This key is obtained by taking the Eurosystem capital key (12,5596%) and deducting the 8% of the total corresponding to the ECB.

This balance was €5,141.98 million higher than in the previous year because of the greater volume of euro banknotes put into circulation by the Eurosystem. The difference between the balance of the banknotes allocated as per the balance sheet and those put into

circulation by the Banco de España (€22,910.09 million) is recorded in an adjustment account under this heading, with a balancing entry in item 9.4 on the assets side of the balance sheet.

The composition of the banknotes put into circulation in net terms by the Banco de España as at end-2017 is as follows:

Series	2017	2016	Change
€ 500 (a)	19,215.92	24,877.22	-5,661.29
€ 200	1,832.05	2,250.18	-418.13
€ 100	-3,573.81	-1,668.86	-1,904.95
€ 50	53,326.98	50,458.25	2,868.74
€ 20	-34,337.29	-31,398.45	-2,938.84
€ 10	-12,768.75	-11,674.90	-1,093.85
€ 5	-785.01	-679.47	-105.55
Euro Banknotes put into circulation by Banco de España	22,910.09	32,163.96	-9,253.87
Adjustment as per banknote allocation key	112,366.14	97,970.30	14,395.84
Banknotes in circulation	135,276.23	130,134.26	5,141.98

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 €113,768.41 million at end-2017, €58,542.05 million more than in the previous year. This rise was basically due to the notable increase in the balance of credit institution current accounts (including minimum reserves) as a result of the increase in liquidity in the system arising from the Eurosystem's asset purchase programmes.

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

EUR m

Type of liability	2017	2016	Change
Current accounts (covering the minimum reserve system)	103,688.41	44,220.43	59,467.98
Deposit facility	10,080.00	11,000.00	-920.00
Fixed-term deposits	—	—	—
Fine-tuning reverse operations	—	—	—
Deposits related to margin calls	—	5.93	-5.93
TOTAL	113,768.41	55,226.36	58,542.05

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, underwent an increase of €59,467.98 million (134.5%). Its average balance also increased during the year, rising from €20,799 million in 2016 to €68,767 million in 2017 (230.6%), owing mainly to the increase in liquidity in excess of the minimum reserve requirements. The balances maintained to meet minimum reserve requirements are remunerated at the average of the marginal interest rate on main

refinancing operations in the period (0% from March 2016). According to the Decision of the ECB (ECB/2014/23) on the remuneration of deposits, balances and holdings of excess reserves, reserve holdings exceeding the required minimum reserves shall be remunerated at zero per cent or the deposit facility rate, whichever is lower²³.

The “Deposit facility” item, which includes overnight deposits remunerated at a fixed interest rate (lower than the interest rate on main refinancing operations), decreased slightly from €11 billion in 2016 to €10,080 million in 2017. However, its average balance increased, from €430 million in 2016 to €3,404 million in 2017. Following the decision of the Governing Council of the ECB, these deposits have been remunerated at a negative interest rate since 11 June 2014.

The other captions in this item relate to fixed-term deposits and fine-tuning reverse operations, aimed at the withdrawal of liquidity, and deposits related to margin calls. As at 31 December 2017, all of these 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 related to monetary policy operations.

Its balance at end-2017 was €492.40 million (€0.36 million in 2016), which related almost entirely to the cash obtained from reverse operations involving securities held in the monetary policy portfolio, that had not been reinvested.

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 €22,341.64 million, which breaks down as follows:

EUR m

	2017	2016	Change
Central government (State)	21,969.25	17,349.61	4,619.65
Treasury current account	19,664.07	15,232.49	4,431.58
Other central government agencies and similar bodies	2,305.18	2,117.11	188.07
Territorial government	9.77	23.17	-13.40
Regional (autonomous) governments, administrative agencies and similar bodies	9.75	22.91	-13.16
Local government	0.02	0.26	-0.24
Social security funds	362.62	445.01	-82.39
Social Security System	4.80	8.95	-4.15
Other	357.82	436.06	-78.24
TOTAL	22,341.64	17,817.79	4,523.86

The increase in this item (€4,523.86 million) was due mainly to the higher balances held by central government, which rose from €17,349.61 million in 2016 to €21,969.25 million in 2017.

As regards average balances, there was an increase in those held by central government (€21,704 million in 2017 against €12,087 million in the previous year) and by social security

²³ The Governing Council of the ECB resolved to apply a negative interest rate on the deposit facility as from 11 June 2014. As at 16 March 2016, this rate was -0.40%.

funds (€2,242 million in 2017 against €1,905 million in 2016), and regional and local government (€54 million in 2017 against €35 million in 2016).

Part of the balances held by central government are subject to an assignment to credit institutions through an auction conducted on behalf of the Treasury. The balances shown in the balance sheet relate to the amounts which have not been assigned. In 2017, the assignment was only made in January.

18	LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO. OTHER LIABILITIES	<p>Included here are the current accounts of financial institutions other than credit institutions, such as financial intermediaries associated with securities markets settlement, securities dealers and brokers, non-administrative public and autonomous agencies of the State, as well as the current accounts of employees and pensioners, vehicle companies of the Banco de España and other accounts of legal entities classified in “Other resident non-financial sectors”.</p> <p>The balance of €3,785.54 million at end-2017 was €1,603.82 million higher than at end-2016, mainly as a result of the increase in the balances held by stock exchange governing companies, which was partially offset by the decrease in the current account balances of autonomous state agencies.</p>
19	LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO	<p>This item includes basically the euro-denominated accounts held by international organisations, non-Eurosystem monetary authorities and central banks to which reserve management services are provided. The balance of €3,323.68 million was €1,091.33 million higher than a year earlier, mainly due to an increase in the balance held by the Single Resolution Board— SRB— and to the higher balances of customers to which reserve management services are provided.</p>
20	COUNTERPART OF SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF	<p>This item of €3,358.01 million shows the equivalent value of the special drawing rights (SDRs) allocated to Spain by the IMF, the balancing entry to the initial allocation of SDRs recorded in item 2.1 on the assets side of the balance sheet. The total amount of this item decreased by €246 million with respect to the previous year, due to the variation in the exchange rate.</p>
21	INTRA-EUROSISTEM BALANCES	<p>This item, which as at 31 December 2017 had a balance of €373,075.14 million, comprises the following two sub-items:</p>
	a) Net liabilities related to the allocation of euro banknotes within the Eurosystem	<p>In accordance with Eurosystem rules, since the accounts making up this item have a net debit balance, this information is presented on the assets side of the balance sheet (see Note 8 to the balance sheet).</p>
	b) Other liabilities within the Eurosystem (net)	<p>The balance of €373,075.14 million as at 31 December 2017 represents the sum of three 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 central banks through correspondent accounts; 2) the position vis-à-vis the ECB in respect of the contribution and allocation of monetary income within the Eurosystem pending settlement; and 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, CBPP3, ABSPP and PSPP programmes.</p>

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

EUR m

Type of liability	2017	2016	Change
Position BdE versus BCE for transfer made and received through TARGET2 and correspondent	373,736.28	328,074.52	45,661.76
Position with BCE by the contribution and allocation of monetary income	-537.08	-219.92	-317.16
Dividend from banknote seigniorage and SMP, CBPP3, ABSPP & PSPP income	-124.06	-121.36	-2.70
TOTAL	373,075.14	327,733.24	45,341.90

Regarding the first component, the year-end transfers via TARGET2 had a credit balance of €373,736.29 million, while the correspondent accounts showed a debit balance of €0.01 million. The remuneration of this position is calculated daily at the marginal interest rate of Eurosystem main refinancing operations (0% from 16 March 2016). Its average balance increased during the year from €299,336 million in 2016 to €369,392 million in 2017, mainly as a result of the financing of the securities purchased by the Banco de España under the APP portfolio.

The second component, that is, the position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income within the Eurosystem NCBs, had a debit balance of €537.08 million at year-end (see “Net result of pooling of monetary income” in Note 8 a the profit and loss account).

Finally, on 17 January 2018, the Governing Council of the ECB resolved to distribute all the income obtained from the seigniorage of euro banknotes and from securities purchased under the SMP, CBPP3, ABSPP and PSPP programmes²⁴. The amount corresponding to the Banco de España was recorded as 2017 income, on an accrual basis, and received on 31 January 2018. Its debit balance at end-2017 was €124.06 million (see “Income from equity shares and participating interests” in Note 7 to the profit and loss account).

22 ITEMS IN COURSE OF SETTLEMENT

Included here are various accounts which as at 31 December 2017 were in the course of settlement, such as transfer instructions pending execution.

The balance of this item at year-end (€238.45 million) relates mainly to the transfers made to accounts with other institutions, with payment of those transfers yet to be made (€177.62 million), and the transfers received from the TARGET2 Platform but yet to be processed (€59.57 million).

23 OTHER LIABILITIES. OFF-BALANCE SHEET INSTRUMENTS. REVALUATION DIFFERENCES

This item includes the amount of the net creditor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a debtor one, it is recorded under the same heading in claims item 11.4 (see Note 11 to the balance sheet).

24 OTHER LIABILITIES. LIABILITY ACCRUAL ACCOUNTS AND INCOME COLLECTED IN ADVANCE

This item includes interest accrued but not yet paid, expenses accrued but not yet paid and income collected in advance.

As at 31 December 2017, its balance amounted to €885.36 million and the main component (€879.81 million) was interest accrued as a result of the remuneration at negative interest

²⁴ 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.

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 2017 the balance of this item amounted to €121.82 million (€1.72 million more than in 2016) and its main sub-items were the accounts payable relating to accrued operating expenses (€44.39 million) and the 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 (€29.34 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	2017	2016	Change
For financial risks	17,251.75	14,137.36	3,114.39
For operational risk	355.12	308.35	46.77
For exchange of withdrawn peseta banknotes	24.41	32.71	-8.30
For impairment of monetary policy portfolio	8.65	—	8.65
For the collective agreement 2011-2014	8.65	8.10	0.55
For death and retirement assistance	78.10	74.07	4.03
For early and regular retirement	22.00	23.56	-1.56
For sundry liabilities and charges	1.35	35.47	-34.12
TOTAL	17,750.03	14,619.62	3,130.41

a) Provision for financial risks This is the most important provision. It encompasses the provisions for exchange rate and interest rate risks and the provision for credit risks of 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 by value-at-risk methodology (VaR).

At end-2017, this provision was used to offset existing losses arising from the risks covered, for an amount of €298.95 million (€241.71 million to cover exchange losses, €48.59 million to cover interest rate losses and €8.65 million for credit risk losses arising from the impairment of one of the security codes in the risk-sharing monetary policy portfolio, CSPP). At its meeting on 14 February 2018, the Executive Commission approved the provisioning of €3,413.34 million (see Note 5 to the profit and loss account), in view of the higher level of risk owing to the substantial increase in monetary policy portfolio investments. Consequently, there was a net increase of €3,114.39 million in the provision for financial risks, the balance of which amounted to €17,251.75 million at end-2017.

b) Provision for operational risk The Executive Commission approved in 2009 a methodology for calculating operational risk with a view to setting aside a provision for any losses arising from operational risk. This exposure is quantified on the basis of one-year VaR with a confidence level of 99.9%. For 2017, the Executive Commission resolved to increase the level of coverage for operational risk to 80%, from 60% in 2016.

This provision was used at end-2017 to cover the operational risk events which occurred during the year for an amount of €0.57 million, and the €47.34 million set aside (see Note 14 to the profit and loss account) took its balance to €355.12 million.

c) 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 circulation²⁵. 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. At the same time, the Council of Ministers decided that if the amount of banknotes tendered for exchange exceeded the amount of the provision at that time, the Banco de España would meet the excess with a charge to its reserves.

In November 2010 the balance of the provision fell to zero. Accordingly, pursuant to a resolution of the Executive Commission, an additional €50 million were provisioned (provision for a period of approximately five years), using the Banco de España reserves arising from the retention of 2005 earnings. In 2013 an additional amount of €50.19 million was recorded (extending to 2020 the scheduled end-date of the exchange period) with a charge to the Banco de España reserves.

The banknotes tendered for exchange in 2017 led to a €8.21 million decrease in the balance of this provision, leaving a balance of €24.04 million at year-end, which was deemed sufficient to cover any expected exchanges.

d) Provision for the impairment of the risk-sharing monetary policy portfolios of the Eurosystem

In 2017, impairment losses were recorded on a security code held in the risk-sharing monetary policy portfolio of the Eurosystem (CSPP), consisting of securities issued by non-financial corporations in the euro area. The recording of a provision of €68.87 million was deemed appropriate by the Governing Council of the ECB. The amount of this provision was calculated taking into account information available following the sale of the security concerned, in early 2018.

Pursuant to Article 32(4) of the ESCB Statute, the provision must be fully financed by all the Eurosystem NCBs in proportion to the capital keys in force in 2017. Consequently, the Banco de España recorded a provision of €8.65 million, corresponding to its share of 12.5596%.

e) Other provisions

In the reporting year there was a decrease of €34.12 million in the provision for sundry liabilities and charges, basically as a result of the new methodology used for recording provisions for ongoing lawsuits. According to this methodology, if there is a probability of 50% or less that the Bank will lose a lawsuit, no provision shall be recorded, and if that probability is higher than 50%, a provision for the total estimated amount payable shall be recorded (see Note 14 to the profit and loss account).

Variations in the remaining provisions (for death and retirement assistance, for early and regular retirement, and in application of the collective labour agreement for 2011-2014) were negligible in this reporting year.

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:

²⁵ The provisions "for exchange of withdrawn peseta banknotes" include another provision for €0.37 million, to cater for the exchange of peseta banknotes withdrawn before the introduction of the euro.

EUR m

Type of account	2017	2016	Change
Gold	8,944.65	9,091.00	-146.35
Foreign currency	2,852.63	8,233.36	-5,380.73
Securities (trading portfolio)	1,512.56	2,035.28	-522.72
Issued in foreign currency by non-euro area residents	13.21	14.88	-1.67
Issued in euro by euro area residents	1,499.35	2,020.41	-521.05
TOTAL	13,309.84	19,359.65	-6,049.81

The balance of revaluation accounts at end-2017 was €13,309.84 million, down by €6,049.81 million from 2016. The main change was in the foreign exchange revaluation accounts, which decreased by €5,380.73 million, basically due to the depreciation of the US dollar against the euro, and also, albeit to a lesser extent, to the depreciation of the SDR and the Australian and Canadian dollars.

With respect to gold, the unrealised gains were €146.35 million lower as a result of the decrease in its market price (from €1,098.05 per ounce at end-2016 to €1,081.88 per ounce at end-2017).

With regard to securities price revaluation accounts, the main change was in trading-book debt securities of euro area residents denominated in euro, the unrealised gains on which decreased by €521.05 million.

28 CAPITAL

As at 31 December 2017 the capital of the Banco de España amounted to €1,000 million, 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 as a capital increase carried out in 2006 through the retention of 2005 earnings.

29 RESERVES

As at 31 December 2017 the reserves of the Banco de España amounted to €899.81 million, unchanged 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.

30 PROFIT FOR THE YEAR

The net profit for 2017 amounted to €1,857.86 million, up 14.4% on 2016. Of this amount, €915.98 million was paid to the Treasury on 1 December 2017, 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 are included in asset item 11.6.

During the year, the following amounts were also paid to the Treasury out of 2016 profits:

- a) On 1 March 2017, €515.61 million, which, together with the payment in December 2016, amounted to 90% of the €1,624.65 million of the profit for that year.
- b) On 31 July 2017, once the balance sheet and profit and loss account for the year 2016 had been approved by the Council of Ministers, €162.47 million, representing the rest of the profit for that year.

The details of the various components of the profit for 2017 and the reasons for the changes in them with respect to 2016 are given in Section 3.3 below on the profit and loss account.

3.3 Notes to the profit and loss account

Certain operating expense items were reclassified in 2017, in order to provide more accurate information. Thus, the reversal of expenses relating to the development of computer applications (arising from their capitalisation as fixed assets), which had, to date, been recorded under the headings “15. Staff costs” and “16. Administrative expenses”, for the amounts of €3.70 million and €5.54 million, respectively, are now included under heading “19. Sundry (previously known as “Other expenses”).

1 INTEREST INCOME

This item includes income from interest accrued on the financial assets of the Banco de España. The breakdown in 2017 and 2016 is as follows:

EUR m and %

	Interest income			Average investment		Average yield	
	2017	2016	Change	2017	2016	2017	2016
Foreign currency	768.88	578.25	190.63	46,046	41,185	1.65	1.38
Securities	643.94	503.22	140.72	36,002	31,656	1.76	1.56
Deposits and other assets	74.82	41.78	33.04	10,044	9,529	0.73	0.43
Exceptional liquidity-providing operations, swap, forward and others	50.12	33.24	16.88				
Euro	4,955.95	4,195.38	760.57	507,643	342,996	0.96	1.20
Securities	4,594.01	4,088.45	505.56	297,884	207,542	1.52	1.94
Trading portfolio	578.18	831.95	-253.77	13,735	20,622	4.15	3.97
Held-to-maturity portfolio	399.21	532.64	-133.43	16,683	21,091	2.36	2.48
SMP	752.28	847.97	-95.70	12,908	14,185	5.75	5.88
CBPP, CBPP2 and CBPP3	311.76	352.80	-41.04	30,119	25,583	1.02	1.36
PSPP government securities	2,341.17	1,406.73	934.44	172,714	92,834	1.34	1.49
PSPP supranational securities	129.67	107.54	22.14	42,615	31,844	0.30	0.33
CSPP	81.75	8.83	72.92	9,111	1,384	0.88	0.63
Monetary policy operations	242.25	34.69	207.56	72,819	24,766	0.33	0.14
Main refinancing operations	—	0.82	-0.82	646	3,536	—	0.02
Longer-term refinancing operations (a)	—	—	—	—	—	—	—
Marginal lending facility	—	—	—	—	—	—	—
Changes in the value of collateral (negative net interest)	0.01	—	0.01	2	—	0.40	—
Remuneration of minimum reserves (negative net interest)	228.43	32.23	196.20	68,767	20,799	0.33	0.15
Deposit facility (negative net interest)	13.81	1.63	12.17	3,404	430	0.40	0.37
Intra-Eurosystem accounts	—	9.29	-9.29	110,154	95,529	—	0.01
Claims equivalent to the transfer of foreign reserves to the ECB	—	0.45	-0.45	5,123	5,123	—	0.01
Claims related to allocation of euro banknotes within the Eurosystem	—	8.84	-8.84	105,013	90,404	—	0.01
Other claims within the Eurosystem (net)	—	—	—	18	1	—	—
Other assets	0.75	0.38	0.37				
General government deposits (negative net interest)	107.09	59.74	47.35	26,785	15,159	0.40	0.39
Other liabilities denominated in euro (negative net interest)	11.85	2.83	9.02				
TOTAL	5,724.82	4,773.62	951.20	553,689	384,181	1.02	1.23

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

Interest income in 2017 amounted to €5,724.82 million, of which €768.88 million was denominated in foreign currencies and €4,955.95 million was euro-denominated interest income. Interest income denominated in foreign currencies was basically from securities portfolios (€643.94 million). Most of the euro-denominated interest income was also from securities portfolios (€4,594.01 million, with an average yield of 1.52%), while interest income from monetary policy operations amounted to €242.25 million (average yield of 0.33%).

Overall interest income increased by €951.20 million in 2017 compared with 2016, as a result of the increase in interest on euro-denominated investments (€760.57 million), and on investments denominated in foreign currencies (€190.63 million).

The increase in interest denominated in foreign currencies arose from the increase in both average investments (from €41,185 million in 2016 to €46,046 million in 2017) and in the average yield obtained (from 1.38% in 2016 to 1.65% in 2017).

The main reason for the increase of €760.57 million in euro-denominated interest income was the higher interest income on securities portfolios (€505.56 million), as a result of the sizeable increase in the average balance (from €207,542 million in 2016 to €297,884 million in 2017), following the purchases of monetary policy securities under the CBPP3, PSPP and CSPP programmes, which offset the lower yield obtained (1.52% in 2017, compared with 1.94% in 2016). Also, there was higher income from the negative remuneration of credit institution deposits – minimum reserves and deposit facility – (€208.37 million, as a result of the significant increase in the average balance, from €21,229 million in 2016 to €72,171 million in 2017) and of general government deposits (€47.35 million). In 2017, no interest accrued as a result of the remuneration of intra-Eurosystem claims, since the benchmark rate was 0% throughout the entire year.

2 INTEREST EXPENSE

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

EUR m and %

	Interest expense			Average financing		Average cost	
	2017	2016	Change	2017	2016	2017	2016
Foreign currency	25.62	11.12	14.50				
Exceptional liquidity-providing operations and other liabilities	7.36	8.02	-0.66				
Other liabilities	18.26	3.10	15.16				
Euro	637.49	214.38	423.11	534,422	428,469	0.12	0.05
Monetary policy operations	635.80	184.90	450.90	165,217	129,449	0.38	0.14
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)	635.80	184.90	450.90	165,217	129,448	0.38	0.14
General government deposits (a)	—	—	—	—	—	—	—
Other liabilities within the Eurosystem (net)	—	27.89	-27.89	369,205	299,021	—	0.01
Other liabilities denominated in euro	1.69	1.59	0.10				
TOTAL	663.11	225.50	437.61	534,422	428,469	0.12	0.05

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

Interest expenses denominated in foreign currencies were basically from interest accrued on the SDRs allocated by the IMF (€18.26 million).

The euro-denominated interest expenses (€637.49 million) arose mainly from the negative interest on longer-term refinancing operations (€635.80 million), since the interest accrued on the targeted longer-term refinancing operations (TLTRO II) is being recorded using the most prudent estimates, by applying the most subsidised interest rate (that of the deposit facility, at -0.40% since March 2016), until the definitive interest rate becomes known in 2018 and is applied with retroactive effect (see Note 6[b] to the balance sheet). Remuneration of the intra-Eurosystem liabilities did not generate any expenses, since the interest rate has been 0% since 16 March 2016.

Compared with the previous year, interest expenses increased by €437.61 million, mainly as a result of the higher negative interest accrued on longer-term refinancing operations (€450.90 million), partially offset by the absence of expenses on intra-Eurosystem (TARGET2) liabilities, compared with the amount of €27.89 million recorded in 2016, owing to zero remuneration applied since March 2016.

3 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

This item includes the profits and losses arising from the sale of financial assets. In 2017 the net gains in this connection amounted to €23.78 million, arising from the following sources:

EUR m	2017	2016	Change
Foreign currency	23.76	180.81	-157.04
Sale of gold	—	—	—
Sale of foreign currency (exchange gains)	35.58	143.18	-107.60
Sale of securities (price losses)	-4.26	43.87	-48.13
Other gains/losses	-7.56	-6.24	-1.32
Euro	0.02	66.38	-66.36
Sale of securities	0.02	66.38	-66.36
TOTAL	23.78	247.19	-223.40

The profits from the sale of foreign currencies were obtained mostly due to gains on the sale of US dollars (€27.97 million) and SDRs (€7.92 million). The gains/losses from the sale of foreign currency-denominated securities related to the sale of securities denominated in US dollars (losses of €6.12 million), and Australian and Canadian dollars (with gains of €1.18 million and €0.68 million, respectively). In addition, losses amounting to €7.56 million were recorded on interest rate futures, under “Other gains/losses”.

With respect to the previous year, the decrease in net profits was mainly due to the lower gains on foreign currency sales (€107.60 million, of which €92.19 million related to SDR sales, owing to the lower volume of sales, and €14.70 million to US dollar sales, mainly as a result of the depreciation of the US dollar against the euro). Also lower were the gains on the sales of euro-denominated securities (€66.36 million, due to the low sales volume in 2017) and on the sale of foreign currency-denominated securities (€48.13 million, mainly relating to the losses recorded in 2017 on the sale of US dollar-denominated securities, compared with the gains obtained in the previous year).

4 UNREALISED LOSSES ON FINANCIAL ASSETS AND POSITIONS

This item includes the loss arising in the currency position derived from the 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 2017 and 2016 is as follows:

EUR m	2017	2016	Change
Foreign currency	290.30	97.86	192.44
Foreign currency (exchange rate losses)	241.71	0.04	241.67
Securities (price losses)	48.59	97.82	-49.23
Euro	—	—	—
Securities (price losses)	—	—	—
TOTAL	290.30	97.86	192.44

Unrealised losses in 2017 amounted to €290.30 million, of which €241.71 million related to foreign exchange rate losses (€142.86 million relating to Australian dollars, €77.67 million to Canadian dollars and €20.86 million to SDRs). The remaining amount (€48.59 million) relates to unrealised losses on fixed-income securities denominated in foreign currency (€39.51 million relating to US dollars, €6.81 million to Canadian dollars, and €2.25 million to Australian dollars).

5 TRANSFERS TO/FROM
PROVISIONS FOR FINANCIAL
RISKS

The breakdown in 2017 and 2016 is as follows:

EUR m	2017	2016	Change
Transfers to provisions	3,413.34	2,898.79	514.55
Transfer/reversal from provision	-298.95	-97.86	-201.09
TOTAL	3,114.39	2,800.92	313.47

This includes the transfer of €298.95 million from the provision for financial risks to cover the unrealised losses existing at end-2017 (€290.30 million for exchange losses and depreciation of securities prices, and €8.65 million for the impairment of the monetary policy portfolio). Also, according to the methodology used for calculating the financial risks and the criteria for recording this provision, the Executive Commission approved provisioning of €3,413.34 million (see Note 26 to the balance sheet). This amount is €514.55 million more than in the previous year, as a result of the increase in the level of risk arising from the purchases of securities under the Eurosystem's monetary policy 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, transfers, handling of cheques, etc.). It may be broken down as follows:

EUR m	2017	2016	Change
1 Income from fees and commissions	16.69	17.49	-0.80
Foreign operations	—	—	—
Domestic operations	16.69	17.49	-0.80
2 Expenses from fees and commissions	-12.38	-10.81	-1.57
Foreign operations	-3.63	-3.19	-0.44
Domestic operations	-8.75	-7.62	-1.13
Net income from fees and commissions (1+2)	4.31	6.68	-2.37

Net income from fees and commissions in 2017 (€4.31 million) was €2.37 million less than in 2016. This variation relates basically to the higher commissions paid for the maintenance

of securities in euro-denominated portfolios (particularly, the monetary policy portfolio, as a result of the increase in their volume) and foreign currency-denominated portfolios, and to the lower income from commissions charged for the management of direct book-entry debt accounts.

7 INCOME FROM EQUITY
SHARES AND PARTICIPATING
INTERESTS

This item includes the participating interest of the Banco de España in the profit of the ECB and the dividends on other shares and participating interests.

EUR m	2017	2016	Change
ECB	152.55	155.22	-2.67
Ordinary dividend	28.49	33.87	-5.37
Dividend from banknote seigniorage income and SMP, CBPP3, ABSPP and PSPP portfolio income	124.06	121.36	2.70
Other	3.53	2.60	0.93
TOTAL	156.08	157.82	-1.74

The main sub-item relates to the distribution of ECB dividends from banknote seigniorage income and income from securities purchased under the monetary policy programmes (SMP, CBPP3, ABSPP and the PSPP). In 2017, the ECB did not record any seigniorage income, since the interest rate on the main refinancing operations had been 0% since March 2016. The ECB's income from the aforementioned monetary policy portfolios amounted to €987.73 million in 2017. On 17 January 2018, the Governing Council of the ECB decided to distribute all of this income among the Eurosystem NCBs, with €124.06 million corresponding to the Banco de España, in proportion to its capital key in the ECB (12.56%).

In 2017, the Bank received €28.49 million of ECB ordinary dividends for 2016 and €3.53 million of dividends from shares in the Bank for International Settlements.

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.

The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; interest accrued at the end of each quarter by monetary policy liabilities maturing in more than one year; liabilities with counterparty institutions in the euro area relating to monetary policy swap agreements between the ECB and NCBs outside the euro area, which generate income for the Eurosystem; intra-Eurosystem liabilities resulting from TARGET2 transactions whenever they have a credit balance; and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem whenever they have a credit balance. Any interest accrued on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarkable assets include the following items: lending to euro area credit institutions related to monetary policy operations; interest accrued at the end of each quarter by monetary policy assets maturing in more than one year; monetary policy portfolio securities; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; claims with counterparty institutions in the euro area relating to monetary policy swap agreements between the ECB and NCBs outside the euro area, which generate income for

the Eurosystem; intra-Eurosystem claims resulting from TARGET2 transactions, whenever they have a debit balance; net intra-Eurosystem claims related to the allocation of euro banknotes in the Eurosystem, whenever they have a debit balance; and a limited amount of each NCBs gold holdings, in proportion to its capital key. Gold is considered to generate no income and the securities acquired under the first two covered bond purchase programmes and the PSPP-Government programme are deemed to generate income at the interest rate on main refinancing operations.

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 2017 and 2016 is as follows:

EUR m	2017	2016	Change
Net result of pooling of monetary income	537.46	219.97	317.49
Monetary income pooled	-817.59	-1,024.41	206.82
Monetary income allocated	1,355.06	1,244.38	110.67
Correction of prior period	-0.38	-0.04	-0.33
Provisioning for monetary policy portfolios and ECB losses	-8.65	—	-8.65
TOTAL	528.44	219.92	308.51

The monetary income pooled by the Eurosystem is to be allocated among NCBs according to the ECB subscribed capital key. The difference between the monetary income pooled by the Banco de España in 2017, amounting to €817.59 million, and that reallocated to it, amounting to €1,355.06 million, is equivalent to a net allocation (income) of €537.46 million. The reason for this net allocation was basically that the income obtained in 2017 by the Banco de España from monetary policy liabilities to which negative interest rates are being applied (excess minimum reserves held by credit institutions and deposit facility) was lower than that to which it is entitled according to its capital key. In addition to this ordinary pooling, the revision in 2017 of monetary income obtained in 2016 entailed expenses of €0.38 million for the Bank.

This heading also includes the provision for the impairment of the risk-sharing monetary policy portfolios of the Eurosystem. In 2017, impairment losses were recorded on a security code held in the CSPP portfolio, consisting of securities issued by non-financial corporations in the euro area. The estimated amount of the impairment at end-2017 was €68.87 million. Since the impairment related to a risk-sharing portfolio, on 17 January 2018 the Governing Council of the ECB approved the amounts that each Eurosystem NCB had to contribute to share these losses. The Banco de España, in proportion to its capital key in the Eurosystem, had to contribute €8.65 million.

Consequently, the positive net result for the year was €528.44 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. It may be broken down as follows:

EUR m				
	Description	2017	2016	Change
	Extraordinary profit	0.65	0.15	0.50
	Sundry	3.44	3.01	0.43
	TOTAL	4.09	3.17	0.92

This item discloses net profit of €4.09 million, of which €2.23 million relate to the recovery of indirect costs allocated to Sepblac. With respect to the previous year, the net profit increased by €0.92 million.

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 %				
	2017	2016	Change	%
Wages and salaries	179.38	176.41	2.98	1.7
Social Security	40.17	38.68	1.49	3.8
Staff welfare expenses	22.34	21.24	1.11	5.2
Pension scheme	9.46	8.80	0.65	7.4
TOTAL	251.35	245.13	6.23	2.5

Its balance increased from €245.13 million in 2016 to €251.35 million in 2017, a rise of €6.23 million (2.5%), mainly due to the increase of 1.6% in the average headcount. The following table sets out the changes in permanent and temporary staff, in terms of average number of employees:

	2017	2016	Change	%
Average number of employees (a)	2,912	2,865	47	1.6
Managerial staff	2,015	1,955	60	3.1
Administrative staff	737	744	-7	-0.9
Other	160	165	-5	-3.0

a The average number of employees was calculated for both 2016 and 2017 based on the number of employees who incurred staff costs during the period analysed.

As at 31 December 2017, the Bank's total staff numbered 3,043 employees²⁶, 53 more than at the same date of the previous year. Regarding the staff composition by gender, at 31 December 2017 women accounted for 49.3% of the Bank's total workforce.

The compensation of members of the governing bodies is set by the Minister for Economic Affairs, Industry and Competitiveness in accordance with the provisions of the Law of Autonomy of the Banco de España. In 2017, the Governor received a gross annual salary of €178,245.79, with supplementary salary items amounting to €4,502.03. The Deputy

²⁶ Includes Banco de España employees at Sepblac.

Governor received a gross annual salary of €168,569.97 in 2017²⁷, with supplementary salary items amounting to €28,716.27. The elected members of the Governing Council receive a gross annual wage of €52,836.49; if they sit on the Executive Commission, the gross annual wage is €66,281.51.

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 €1,047.43 per meeting of the Governing Council and €502.36 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 %

Description	2017	2016	Change	%
Renting and maintenance	37.29	34.85	2.44	7.0
Material and supply	9.33	9.16	0.17	1.9
External services	71.24	70.85	0.39	0.5
Training, promotion and selection	3.24	3.57	-0.33	-9.3
Sundry operating expenses	14.26	13.13	1.13	8.6
TOTAL	135.37	131.57	3.79	2.9

The above table shows that, as in 2016, in 2017 the most significant administrative expenses were external services (€71.24 million), mainly IT services (€35.76 million) and rental and maintenance (€37.29 million), composed mainly of hardware and software rental and maintenance (€18.62 million) and property rental and maintenance (€14.06 million).

Administrative expenses increased in 2017, by €3.79 million, compared with 2016. The largest increases were in rental and maintenance (€2.44 million, mostly for the conservation of real estate) and in sundry operating expenses (€1.13 million, partly due to the increased number of international meetings).

“External services” include the expenses relating to the fees paid to the external auditors” KPMG Auditores, for the audits of the Banco de España’s annual accounts and of certain aspects of its management of European Central Bank reserves at the request of this institution’s external auditor. In 2017, the auditors’ fees amounted to €109,161.36 (of which €54,580.68 million were pending payment at year-end) for the above, which was the only service provided by the auditor to the Bank. In 2017 no services were received from and, consequently, no amounts were paid to, other firms related to the auditor.

12 DEPRECIATION OF FIXED ASSETS

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

²⁷ The Deputy Governor took office on 4 January 2017, effective 1 January 2017.

EUR m and %

	2017	2016	Change	%
Depreciation of buildings, structures and renovation work	2.67	2.65	0.02	0.9
Depreciation of plant in buildings	8.23	8.62	-0.38	-4.4
Depreciation of furniture and fittings	1.30	1.44	-0.14	-9.9
Depreciation of office machines other than computer equipment	1.92	1.76	0.16	9.1
Depreciation of computer equipment	4.53	4.28	0.25	5.9
Depreciation of transport equipment	0.27	0.06	0.21	333.4
Depreciation of other tangible fixed assets	0.05	0.17	-0.12	-72.5
Depreciation of general library collection	0.32	0.37	-0.04	-11.7
Amortization of computer applications	14.69	15.64	-0.95	-6.1
TOTAL	33.98	34.98	-1.00	-2.9

Compared with 2016, depreciation expenses decreased by €1 million, owing mainly to the lower amortisation of computer applications.

13 BANKNOTE PRODUCTION SERVICES

The cost of these services amounted to €73.51 million in 2017 (€85.26 million in 2016) and corresponds to payments made by the Banco de España to purchase banknotes from Sociedad Imprenta de Billetes, S.A. (IMBISA), a vehicle of the Banco de España. This company, whose corporate purpose is the production of euro banknotes, was incorporated on 2 November 2015 and is 80%-owned by the Banco de España.

The decrease with respect to the previous year (€11.76 million) was mainly due to the lower production volume of banknotes, as follows:

Series	Denomination	Banknotes charged (millions of banknotes)	
		2017	2016
1	100€	304.0	—
2	100€	6.8	—
2	50€	419.4	678.4
2	10€	—	164.1
TOTAL		730.2	842.5

14 TRANSFERS AND ADDITIONS TO 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

	2017	2016	Change
Provision for operational risk	46.77	127.08	-80.31
Provision for death and retirement assistance	2.60	-1.09	3.69
Provision for early and regular retirement	3.48	4.08	-0.60
Provision for sundry liabilities and charges	-32.10	32.06	-64.16
Withdrawn banknotes	0.05	—	0.05
Others	0.10	0.06	0.04
Beneficent social fund	5.59	4.89	0.70
TOTAL	26.49	167.08	-140.59

The net balance of transfers and applications to other funds and provisions in 2017 amounted to €26.49 million, compared with €167.08 million in 2016. Noteworthy was the net provisioning for operational risk of €46.77 million (see Note 26 to the balance sheet), mainly due to the higher level of coverage (from 60% to 80%) approved by the Executive Commission on 14 February 2018. The excess amount of €32.10 million recorded in the provision for sundry liabilities and charges, which mainly includes litigation risks, was basically the result of the new methodology used for the provisioning of ongoing lawsuits (see Note 26 to the balance sheet). Also of note is the provision for expenses relating to early and regular retirees (€3.48 million), and the provision for death and retirement assistance expenses (€2.60 million). The provision to the beneficent social fund mounted to €5.59 million in 2017.

The Banco de España, because of the nature of its activity, is not an institution with a high environmental risk. Accordingly, in 2017 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 2017 the Banco de España paid into the Treasury €915.98 million, equal to 70% of the profit recorded as at 30 September 2017²⁸.

Given that the profit for the year amounted to €1,857.86 million, on 1 March 2018 €756.09 million were paid into the Treasury to complete the distribution of 90% of profits.

The payments to the Treasury of 2017 profits are as follows:

EUR m

1 Total profit for 2017	1,857.86
2 Payments to the Treasury	1,672.07
On 1.12.2017	915.98
On 1.3.2018. Difference between the above amount and 90% of profit as at 31.12.2017	756.09
3 Profit payable to the Treasury (at date of approval of the 2017 annual accounts)	185.79

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 appropriation of profit for the year:

²⁸ 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 €1,950.33 million. Accordingly, this amount was subtracted from the Banco de España profit of €3,258.87 million as at 30 September, resulting in a profit of €1,308.54 million, 70% of which was paid into the Treasury.

	Capital	Reserves	Revaluation accounts	Undistributed profit	General provisions	Total
A) 2017 Opening balance	1,000.00	899.81	19,359.65	678.07	14,445.71	36,383.23
1 Unrecognised net gains in profit and loss			-6,049.81			-6,049.81
In gold			-146.35			-146.35
In foreign currency			-5,380.73			-5,380.73
In securities			-522.72			-522.72
2 Change in provisions					3,161.16	3,161.16
3 2017 profit				1,857.86		1,857.86
4 Appropriation of profit				-1,594.05		-1,594.05
Payment to the Treasury of 2016 profit				-678.07		-678.07
Payment to the Treasury of 2017 profit				-915.98		-915.98
B) Changes in the year B = 1+2+3+4	—	—	-6,049.81	263.80	3,161.16	-2,624.84
C) 2017 Closing balance C = A + B	1,000.00	899.81	13,309.84	941.88	17,606.87	33,758.40

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 decreased by €2,624.84 million in 2017 due mainly to the lower unrealised gains (€6,049.81 million), partly offset by the higher general provisions (€3,161.16 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. Since July 2017, the Banco de España has applied a new framework for the management of these risks, consisting of a set of basic principles, a model for risk management and control, and governance.

a) 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.

b) 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.

c) Governance

The governance of the risk management system of the Banco de España has been designed on the basis of a "three lines of defence" model to address risk.

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

The three lines of defence, 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 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 depositors of its financial assets, or losses derived from impairment of their credit quality.
- Market risk: the risk of incurring losses as a result of fluctuations in the price of financial assets (including foreign exchange rates and interest rates) and gold prices.
- Structural balance sheet risk: the risk of adverse variations in the Bank's profits owing to higher costs of liabilities and/or a lower return on assets, in balance-sheet items not assessed under market risk.

In the area of monetary policy, the financial risks assumed by the Banco de España relate to both loan transactions and 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.

Credit and market risk are quantified by VAR methodology, calculating the maximum loss that may arise from changes in the risk factors, with a one-year time horizon and a confidence level of 99%. The resulting figure is used as a benchmark to assess the financial risk provisioning needs.

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 events outside the organisation. 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/or 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 and/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 valued in the business areas, classified by category according to their impact and frequency. The business areas inform the Risk Management 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 by VaR methodology with a 99.9% confidence interval 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 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 2017 with interest rates below the marginal interest rate on main refinancing operations. This rate has been 0% since March 2016 and in 2017 there were no outstanding loans with lower interest rates, except for the targeted longer-term refinancing operations (TLTRO II) conducted by the Eurosystem, provided for in Article 9 of the aforementioned Law of Autonomy, and which have been reported on in Note 2 to the profit and loss account.

ANNEXES

1 REPORT OF THE EXTERNAL AUDITORS



KPMG Auditores, S.L.
Paseo de la Castellana 259 C
28046 Madrid

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

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Honourable Governor of the Banco de España

Opinion

We have audited the annual accounts of the Banco de España which, in accordance with article 29.1 of its Internal Rules, comprise the balance sheet at 31 December 2017, 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 31 December 2017, 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 (ISA). 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 a 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.

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 ISA 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 economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout 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 Entity management's use of the going concern basis of accounting and, based on the 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. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- 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.

KPMG Auditores, S.L.

A handwritten signature in blue ink, appearing to read 'M. Fernández-Villarán Ara', written over a horizontal line.

María Eugenia Fernández-Villarán Ara

23 March 2018

2 REPORT OF THE BANCO DE ESPAÑA AUDIT COMMITTEE

We the undersigned, Maximino Carpio García, Carmen Alonso Ledesma and Rafael Castejón Montijano, are members of the Governing Council of the Banco de España and of the Audit Committee appointed by the Governing Council. In accordance with Article 29 of the Internal Rules of the Banco de España, we were given the task of reviewing the accounts of the institution for the year 2017.

As required by the aforementioned precept, 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 2017, 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 2017, 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 in 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 2017 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 6 March 2018



MAXIMINO CARPIO GARCÍA



CARMEN ALONSO LEDESMA



RAFAEL CASTEJÓN MONTIJANO

BANCO DE ESPAÑA PUBLICATIONS

The Banco de España publishes various types of documents providing information on its activity (economic reports, statistics, research papers, etc.). The full list of Banco de España publications can be found on its website at http://www.bde.es/f/webbde/Secciones/Publicaciones/Relacionados/Fic/cat_publicaciones.pdf.

Most of these documents are available in pdf format and can be downloaded free of charge from the Banco de España website at <http://www.bde.es/webbde/en/secciones/informes/>. Requests for others should be addressed to publicaciones@bde.es.

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