

**ANNUAL ACCOUNTS
OF THE BANCO DE ESPAÑA**

2016

BANCO DE ESPAÑA
Eurosisistema



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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 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 2015 are presented solely for comparison with 2016. To this end, the information for 2015 relating to certain interest income and interest 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 2016. Section 2 includes the balance sheet and profit and loss account as at 31 December 2016; 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 (ECB) 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 2016

EUR m

	Note number	2016	2015	Change
ASSETS				
1 Gold and gold receivables	1	9,941.43	8,811.34	1,130.10
2 Claims on non-euro area residents denominated in foreign currency		49,834.34	40,577.48	9,256.86
2.1 Receivables from the IMF	2	5,423.01	5,205.21	217.80
2.2 Balances with banks and security investments, external loans and other external assets	3	44,411.34	35,372.27	9,039.06
3 Claims on euro area residents denominated in foreign currency	4	4,933.84	3,857.82	1,076.02
4 Claims on non-euro area residents denominated in euro		—	306.21	-306.21
4.1 Balances with banks, security investments and loans	5	—	306.21	-306.21
4.2 Claims arising from the credit facility under ERM II		—	—	—
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	146,006.01	135,353.02	10,652.99
5.1 Main refinancing operations		1,818.00	11,679.20	-9,861.20
5.2 Longer-term refinancing operations		144,188.01	123,673.83	20,514.18
5.3 Fine-tuning reverse operations		—	—	—
5.4 Structural reverse operations		—	—	—
5.5 Marginal lending facility		—	—	—
5.6 Credits related to margin calls		—	—	—
6 Other claims on euro area credit institutions denominated in euro		0.33	2.05	-1.72
7 Securities of euro area residents denominated in euro	7	255,931.12	161,097.31	94,833.81
7.1 Securities held for monetary policy purposes		219,836.27	109,420.62	110,415.65
7.2 Other securities		36,094.84	51,676.69	-15,581.85
9 Intra-Eurosystem claims	8	104,406.21	90,153.48	14,252.74
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		97,970.30	83,717.56	14,252.74
9.5 Other claims within the Eurosystem (net)		—	—	—
10 Items in course of settlement		1.08	2.24	-1.16
11 Other assets		5,945.70	4,692.51	1,253.18
11.2 Tangible and intangible fixed assets and fixed assets in progress	9	273.49	276.76	-3.27
11.3 Other financial assets	10	97.25	62.71	34.55
11.4 Off-balance sheet instruments revaluation differences	11	191.57	—	191.57
11.5 Accruals and prepaid expenses	12	4,241.40	3,142.76	1,098.64
11.6 Sundry	13	1,141.99	1,210.29	-68.31
TOTAL ASSETS		577,000.07	444,853.46	132,146.60

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2016 (cont'd)

EUR m

	Note number	2016	2015	Change
LIABILITIES				
1 Banknotes in circulation	14	130,134.26	125,190.22	4,944.04
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	15	55,226.36	27,838.52	27,387.84
2.1 Current accounts (covering the minimum reserve system)		44,220.43	21,238.52	22,981.91
2.2 Deposit facility		11,000.00	6,600.00	4,400.00
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	0.36	210.10	-209.74
4 Debt certificates issued (a)		—	—	—
5 Liabilities to other euro area residents denominated in euro		19,999.51	465.88	19,533.63
5.1 General government	17	17,817.79	122.11	17,695.68
5.2 Other liabilities	18	2,181.72	343.77	1,837.95
6 Liabilities to non-euro area residents denominated in euro	19	2,232.35	82.78	2,149.57
7 Liabilities to euro area residents denominated in foreign currency		1.49	1.23	0.26
8 Liabilities to non-euro area residents denominated in foreign currency		0.96	0.93	0.03
8.1 Deposits, balances and other liabilities		0.96	0.93	0.03
8.2 Liabilities arising from the credit facility under ERM II		—	—	—
9 Counterpart of special drawing rights allocated by the IMF	20	3,604.00	3,598.92	5.09
10 Intra-Eurosystem liabilities	21	327,733.24	254,102.53	73,630.71
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)		327,733.24	254,102.53	73,630.71
11 Items in course of settlement	22	198.76	29.39	169.37
12 Other liabilities		365.03	184.10	180.93
12.1 Off-balance-sheet instruments revaluation differences	23	—	34.56	-34.56
12.2 Accruals and income collected in advance	24	244.94	13.31	231.63
12.3 Sundry	25	120.09	136.23	-16.14
13 Provisions	26	14,619.62	11,667.08	2,952.54
14 Revaluation accounts	27	19,359.65	17,312.05	2,047.59
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	1,624.65	2,269.92	-645.26
TOTAL LIABILITIES		577,000.07	444,853.46	132,146.60

a ECB balance sheet item only.

PROFIT AND LOSS ACCOUNT OF THE BANCO DE ESPAÑA FOR THE YEAR ENDING 31 DECEMBER 2016

EUR m

	Note number	2016	2015	Change
1 Interest income	1	4,773.62	4,179.26	594.37
2 Interest expense	2	225.50	118.33	107.17
3 Net interest income (1 – 2)		4,548.12	4,060.93	487.20
4 Realised gains/losses arising from financial operations	3	247.19	157.67	89.51
5 Write-downs on financial assets and positions	4	97.86	35.92	61.94
6 Transfer to/from provisions for financial risks	5	-2,800.92	-1,426.35	-1,374.58
7 Net result of financial operations, write-downs and risk provisions (4 – 5 + 6)		-2,651.60	-1,304.60	-1,347.01
8 Fees and commissions income		17.49	17.82	-0.33
9 Fees and commissions expense		10.81	9.53	1.28
10 Net income from fees and commissions (8 – 9)	6	6.68	8.29	-1.61
11 Income from equity shares and participating interests	7	157.82	123.43	34.40
12 Net result of pooling of monetary income	8	219.92	-89.92	309.85
13 Other income and losses	9	3.17	0.05	3.11
14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)		2,284.11	2,798.18	-514.06
15 Staff costs	10	241.43	228.36	13.07
16 Administrative expenses	11	126.03	124.21	1.82
17 Depreciation of tangible and intangible fixed assets	12	34.98	32.56	2.42
18 Banknote production services	13	85.26	60.62	24.64
19 Other expenses		4.68	3.74	0.94
20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)		492.38	449.49	42.88
21 Transfers and additions to other funds and provisions	14	167.08	78.76	88.31
22 PROFIT FOR THE YEAR (14 – 20 – 21)	15	1,624.65	2,269.92	-645.26

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 European Central Bank (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:

Gold

Gold is recorded at acquisition cost², 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 as if there had been an independent outright sale or purchase at the time of maturity of the transaction.

Foreign currencies

Spot purchases or sales of foreign currencies are recorded at the settlement date, and affect the foreign currency position from that date. Gains and losses on the spot sale of

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

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

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.

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. The only item accounted for is the income, which is

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

recorded in the profit and loss account. Transactions outstanding at year-end are recorded off-balance sheet.

Doubtful debtors

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

Loans to financial institutions and balances with European Union NCBs

These are valued at their nominal amount.

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

Shares and participating interests

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

The stake in Imprenta de Billetes, S.A. (IMBISA) 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.

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 and, in addition, their cost can be reliably assessed.

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 €600 (€6,000 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 €6,000 are capitalised, provided also that the elements replaced can be removed from the balance sheet or that they are fully depreciated.

Computer applications developed specifically for the Banco de España are recorded as an investment, regardless of cost.

Computer applications developed for the Eurosystem as a whole are recognised as fixed assets for the related acquisition cost, which is normally calculated on the basis of the Banco de España's share of the ECB capital key, applied to the total acquisition cost of the project.

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 and fixed assets in progress are not depreciated.

The depreciation/amortisation rates and estimated useful lives applied to the various fixed assets in 2016 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 and motor bikes	25	4
Transport equipment. Trucks and buses	10	10
Libraries	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.

Banknotes in circulation

The ECB and the NCBs, which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002⁴. The total value of euro banknotes in circulation is recorded by allocating to each Eurosystem NCB, on the last working day of each month, an amount based on the banknote allocation key⁵.

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

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

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

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 interest⁶, 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 period⁷ 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 accrues⁸. 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 may decide to reduce the distributable ECB income on euro banknotes in circulation by the costs incurred by the ECB in connection with the issuance and handling of banknotes. 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 the ECB’s income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB’s net profit for that year. The Governing Council of the ECB may also decide to transfer all or part of this income to an ECB provision for foreign exchange rate, interest rate, credit and gold price risks. The amount distributed to NCBs is shown in the profit and loss account item “Income from equity shares and participating interests” in the year in which this income accrued.

6 Decision of the ECB 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).

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

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

Intra-Eurosystem balances

Intra-Eurosystem balances arise from the Banco de España's participating interest in the ECB, claims equivalent to the reserves transferred to the ECB and the net balance resulting from the transfers issued and received by TARGET2⁹ among the NCBs of the ESCB, including the ECB. They also arise from the balances vis-à-vis the ECB resulting from 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 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).

Recognition of income and expenses

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

Realised gains and realised and unrealised losses are taken to the profit and loss account. 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. The first-in first-out method is used for interest rate futures. 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.

Pension Scheme

The Pension Scheme for Bank employees is of the defined-contribution type. The pension fund of which this scheme forms part is external and closed-end. Contributions made by the Banco de España on behalf of the employees who joined the Bank after 1 February 1986, are eligible to and do participate in the Scheme, are recognised as a current expense in the year to which they relate¹⁰.

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

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

¹⁰ 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.

the financial positions held and other losses of a diverse nature (see Note 26 to the balance sheet).

Financial derivatives

The net position under foreign exchange forward transactions and swaps, and the foreign-exchange gains and losses generated by such position are shown in the balance sheet in item 11.4 on the 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 Eurosystem 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-2016, 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 €9,941.43 million, consisting of 9.054 million troy ounces¹¹ of fine gold valued at a market price of €1,098.05 per ounce. These holdings did not change during the financial year. The value of these holdings is €1,130.10 million more than in 2015, as a result of the increase in the market price (at end-2015 the price per ounce was €973.23). This increase is included in the liability revaluation accounts. The cost of the gold holdings is €850.43 million.

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

This item has three components:

- a) The 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. In January 2016 an increase

¹¹ One troy ounce is equal to 31.1035 grams.

in and reallocation of quotas among IMF members came into force, as a result of which Spain's quota rose from 4,023.40 million to 9,535.50 million SDRs. A payment of €1,716.56 million (equivalent to 1,378.03 million SDRs) was made for 25% of this increase, which relates to the reserve tranche. A payment was also made (€5,149.67 million, equivalent to 4,134.08 million SDRs) for the remaining 75% through an increase in the Banco de España's liabilities vis-à-vis the IMF (balance at the disposal of the IMF). The quota minus the balance at the disposal of the IMF is reflected on the assets side of the balance sheet.

- b) SDRs (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 PRGT¹², the NAB¹³ and the Bilateral Loan Agreement entered into by the IMF and Spain in 2013. For the PRGT, the Banco de España has made a commitment to contribute, through concessional lending to low-income countries, up to SDR 405 million, the amount drawn down at end-2016 being €202.93 million (SDR 159.21 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 (6,702.18 million in 2015), of which €650.94 million (SDR 510.70 million) had been drawn down up to end-2016. The bilateral loan agreement entailed a commitment of €14,860 million, none of which has been drawn down.

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 0.784560. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of five major currencies: the US dollar, the euro, the Japanese yen, the pound sterling and the Chinese renminbi. The SDR interest rate, which is updated weekly, averaged annually 0.08% during 2016.

The breakdown in 2016 and 2015 is as follows:

EUR,m

Type of asset	2016	2015	Change
Reserve tranche position	1,018.32	607.90	410.42
Special drawing rights (allocations)	3,550.81	3,506.79	44.03
Other claims on the IMF	853.87	1,090.52	-236.65
TOTAL	5,423.01	5,205.21	217.80

¹² Poverty Reduction and Growth Trust.

¹³ New Arrangements to Borrow.

The overall amount of claims on the IMF increased by €217.80 million with respect to the balance at end-2015.

The increase of €410.42 million in the reserve tranche position account is due to the overall effect of various factors:

- An increase of €2,174.96 million (SDR 1,708.80 million) due to the Banco de España's contributions to the IMF relating to the above-mentioned increase in Spain's quota in the IMF (SDR 1,378.03 million) and the transfers ordered by the IMF from the balance of its account at the Banco de España to its accounts at other institutions.
- A decrease of €1,765.97 million (SDR 1,387.47 million) due to the receipt of funds in the IMF's account at the Banco de España from Norway, Italy, Belgium and the United Kingdom due to an increase in the quota of these countries. These collections were in euro.
- An increase of €1.44 million due to the change in the exchange rate of the SDR against the euro.

The "Special drawing rights (allocations)" account increased by €44.03 million due to the overall effect of various factors:

- An increase of €440.03 million (SDR 345.71 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 €401.00 million (SDR 315.06 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.
- An increase of €5.01 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 €236.65 million due to the overall effect of certain factors:

- A net decrease of €167.25 million (SDR 131.40 million) in NAB loans. The reasons for this decrease were the new NAB loans granted for €5.98 million (SDR 4.70 million) and the total or partial repayments of the first NAB loans extended for a total of €173.23 million (SDR 136.10 million). These SDR-denominated loans were through payments in euro.
- A decrease of €70.61 million (SDR 55.48 million) in PRGTs due to partial repayments of these loans. These loans are in SDRs.
- An increase of €1.21 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 2016 was €44,411.34 million, with the following breakdown:

EUR m

Type of asset	2016	2015	Change
Deposits	1,858.68	1,783.88	74.80
Security investments (a)	42,540.20	33,574.68	8,965.51
Trading portfolio	21,157.09	16,127.41	5,029.68
Held-to-maturity portfolio	21,383.11	17,447.27	3,935.83
Other	12.46	13.71	-1.25
TOTAL	44,411.34	35,372.27	9,039.06

a As at 31 December 2016, repurchase agreements were constituted over part of the securities portfolio denominated in USD (with a market value of USD 13.75 million) and in AUD (with a market value of AUD 1.55 million), under automated securities lending contracts with the depositories of these securities.

As at 31 December 2016, 82.3% of these assets were denominated in US dollars, 9.1% in Australian dollars, 4.6% in Canadian dollars and 4.0% in Japanese yen. The equivalent value in euro of these currencies was transferred to the balance sheet at the year-end market exchange rate (€1 = USD 1.0541; €1 = AUD 1.4596; €1 = CAD 1.4188 and €1 = JPY 123.40). The market value of the held-to-maturity portfolio at end-2016 (which is not recorded on the balance sheet or in the profit and loss account but is provided for comparison purposes only) is €21,186.39 million.

The increase in the balance of this item (€9,039.06 million) was due to the net effect of the factors listed in the following table:

EUR m

Reason for change	Amount
Net investment	7,646.41
Changes of market exchange rates as at 31 December	1,472.70
Changes of securities market prices as at 31 December	-12.25
Accrued interest receivable	-67.81
Other	0.01
TOTAL	9,039.06

4 CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This balance sheet item may include current accounts, balances with banks and security investments. As at 31 December 2016, US dollar-denominated time deposits at financial institutions equivalent to €3,415.24 million (USD 3,600 million) were held. The year-end balance also includes a claim arising from reverse operations with credit institutions amounting to €1,517.88 million (USD 1,600 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 back-to-back swap transactions with Eurosystem NCBs which use the resulting funds to meet institutions' dollar-denominated liquidity requirements in the form of reverse repurchase transactions, 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)".

The increase of €1,076.02 million in this item with respect to the previous year was mainly due to the larger volume of Banco de España loans to counterparties within the framework of the exceptional foreign currency liquidity-providing operations (USD 1,000 million).

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.

The breakdown is as follows:

EUR m

Type of asset	2016	2015	Change
Deposits	—	0.09	-0.09
Security investments	—	306.12	-306.12
Trading portfolio	—	—	—
Held-to-maturity portfolio	—	306.12	-306.12
TOTAL	—	306.21	-306.21

This heading had a negligible balance at year-end. In 2016 the euro-denominated securities issued by the European Investment Bank, which made up the held-to-maturity portfolio at end-2015, were redeemed.

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 €595,873 million, of which €146,006.01 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 NCBs 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 NCBs¹⁴.

The breakdown by type of operation is as follows:

EUR m

Type of operation	2016	2015	Change
Main refinancing operations	1,818.00	11,679.20	-9,861.20
Longer-term refinancing operations	144,188.01	123,673.83	20,514.18
Fine-tuning reverse operations	—	—	—
Structural reverse operations	—	—	—
Marginal lending facility	—	—	—
Credits related to margin calls	—	—	—
TOTAL	146,006.01	135,353.02	10,652.99

As at 31 December 2016, the overall balance of this account was 7.9% higher than at end-2015, due to the use by institutions of targeted longer-term refinancing operations. However, the average daily balance of the financing granted during the year decreased by 1.5% (€132,984.80 million in 2016, against €135,073.36 million in 2015).

¹⁴ The total collateral provided by institutions, valued by Eurosystem rules and applying the related haircuts, amounted to €225,165.34 million at 2016 year-end. Of this amount, €579.98 million relate to collateral excluded from risk sharing.

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 2016, 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 2.7% of annual average financing was extended through them. In 2016 these operations were conducted at a fixed rate (0% as from 16 March 2016) with allotment of the total amount bid.

The balance of this item as at 31 December 2016 was €1,818.00 million (€11,679.20 million as at 31 December 2015) and its daily average balance during the year was €3,536.29 million (€24,813.51 million in 2015).

b Longer-term refinancing operations These operations aim to provide counterparties with additional longer-term refinancing. The balance of these operations at 2016 year-end was €144,188.01 million (98.8% of the total) and arose almost entirely from targeted longer-term refinancing operations (TLTRO and TLTRO II). Two TLTROs, maturing in 2018 and bearing an interest rate set at the rate on the Eurosystem's MROs prevailing at the time of allotment, were conducted in 2016. In March 2016 the Governing Council of the ECB decided to conduct a new series of targeted longer-term refinancing operations (TLTRO II), with the aim of reinforcing the ECB's accommodative monetary policy stance and fostering new lending. These operations have a four-year maturity, with the possibility of repayment after two years. 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. Three such operations were carried out in 2016. The Governing Council decided to introduce an additional voluntary repayment possibility for all outstanding TLTROs in June 2016, coinciding with the settlement of the first TLTRO II operation. This allowed counterparties to roll over amounts borrowed under the TLTROs into the new TLTRO II.

In 2016, operations were also conducted with maturities of three months, at a fixed rate with allotment of the total amount bid.

The year-end balance of €144,888.01 million includes €125,714.67 million of loans under the TLTRO II programme, €18,437.84 million of loans under the TLTRO programme and €35.50 million of three-month loans.

Compared with the previous year, its balance increased by €20,514.18 million. Also, the average balance increased (from €110,256.52 million in 2015 to €129,448.49 million in 2016), representing 97.3% 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 end-2016 balance was zero. No fine-tuning reverse operations took place in the Eurosystem in 2016.

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 end-2016 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.

Its end-2016 balance was zero and Spanish credit institutions did not perform any operation of this type in 2016.

f Credits related to margin calls Under Eurosystem rules for monetary policy management, all operations providing liquidity to the banking system must be backed by underlying assets accepted by the system as eligible for use as collateral. If, after daily valuation, the adjusted market value of the assets used as loan collateral has fallen below the lower trigger point set for each security, the counterparty must provide additional assets or cash (see Note 15 to the balance sheet). If the adjusted market value of the underlying assets, following their revaluation, exceeds the amount of the financing obtained from the NCB plus the variation margin, the counterparty may withdraw an amount of underlying assets equal to that excess (or receive this difference as a cash payment in its account, in the case of reverse repurchase refinancing operations).

In the NCBs that make margin calls by debiting or crediting the accounts of credit institutions, as is the case for the Banco de España, these debits or credits are the balancing entries of the asset-side or liability-side accounts reflecting the changes in these margins. These balance sheet accounts have been remunerated at the deposit facility rate since December 2013 (-0.40% at end-2016).

As at 31 December 2016, this item had a zero balance which was unchanged from 2015. Its average balance also decreased, from €2.24 million in 2015 to €0.01 million in 2016.

7 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO 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 programmes¹⁵ (CBPP), the securities markets programme¹⁶ (SMP), the secondary markets public sector purchase programme (PSPP)¹⁷ and the corporate sector purchase programme (CSPP)¹⁸. 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 2016 was €219,836.27 million. 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:

a Securities held for monetary policy purposes

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

16 Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5).

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

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

EUR m

Monetary Policy Portfolio	2016		2015		Change	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value
First covered bond purchase programme	1,669.48	1,754.77	2,545.49	2,707.25	-876.02	-952.48
Second covered bond purchase programme	507.86	544.39	998.88	1,076.27	-491.02	-531.88
Third covered bond purchase programme	26,021.61	26,362.81	17,749.90	17,548.63	8,271.71	8,814.18
Securities market programme	13,733.46	15,723.01	15,844.21	18,281.41	-2,110.74	-2,558.40
PSPP government securities	133,917.72	136,160.94	51,370.12	51,455.95	82,547.60	84,704.99
PSPP supranational securities	39,234.71	39,665.47	20,912.02	20,700.98	18,322.68	18,964.49
Corporate sector purchase programme	4,751.43	4,658.66	—	—	4,751.43	4,658.66
TOTAL	219,836.27	224,870.05	109,420.62	111,770.49	110,415.65	113,099.56

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 2016 is due to the redemption of securities throughout the year.

On 4 September 2014, the Governing Council of the ECB resolved to initiate the third covered bond purchase programme (CBPP3), in order to improve the monetary policy transmission mechanism and support the provision of credit to the economy. Its balance amounted to €26,021.61 million at end-2016, up €8,271.71 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 public non-financial corporations, recognised agencies, institutions and multilateral development banks located in the euro area. The end-2016 balance of securities issued by Spanish central, regional and local governments and agencies was €133,917.72 million, and that of securities issued by European institutions and development banks was €39,234.71 million.

In March 2016 the Governing Council of the ECB decided to add a new corporate sector purchase programme (CSPP) to the Eurosystem expanded asset purchase programme (APP), which comprises the above-mentioned CBPP3, ABSPP (asset-backed securities purchase programme conducted exclusively by the ECB) and PSPP. 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-2016 was €4,751.43 million.

Purchases under the APP programme are intended to be carried out until end-2017 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. From April 2016 until March 2017, the volume of monthly asset purchases

in the Eurosystem, as a whole, increased to €80 billion and as from March 2017, the pace of monthly purchases will decline to €60 billion.

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

As a result of the impairment test conducted on the securities purchased under the SMP, PSPP and CSPP as at 31 December 2016, the Governing Council of the ECB decided that there was no evidence of any change in the estimated future cash flows. Hence no impairment losses were recorded on the securities purchased under those programmes.

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.

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 prevailing capital keys. The total amounts of the securities acquired by the Eurosystem under the SMP, CBPP3, PSPP supranational securities and CSPP were €102,274 million, €203,516 million, €139,639 million and €51,069 million, respectively. Of these amounts, €13,733.46 million, €26,021.61 million, €39,234.71 million and €4,751.43 million were included in the balance sheet of the Banco de España, respectively.

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	2016	2015	Change
Trading portfolio	18,396.35	27,616.71	-9,220.36
Held-to-maturity portfolio	17,698.50	24,059.98	-6,361.49
TOTAL	36,094.84	51,676.69	-15,581.85

The balance of this item as at 31 December 2016 was €36,094.84 million¹⁹, of which 50.97% relate to trading portfolio securities and 49.03% to held-to-maturity securities. The market value of the held-to-maturity portfolio at end-2016 (which is furnished for information purposes, since it is not reflected in the balance sheet or in the profit and loss account) is €18,947.81 million. The impairment test conducted on the held-to-maturity portfolio concluded that there was no evidence of impairment at year-end.

¹⁹ As at 31 December 2016, repurchase agreements were constituted over part of the euro-denominated securities portfolio with a market value of €159.59 million, under automated securities lending contracts with the depositories of these securities.

Overall, these securities decreased by €15,581.85 million in 2016, of which €9,220.36 million related to the trading portfolio and €6,361.49 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/amortisation of securities	-8,659.39	-6,361.70	-15,021.08
Unrealised gains at year-end (a)	-445.35	—	-445.35
Unrealised losses at year-end (a)	—	—	—
Accrued implicit interest	-115.62	0.21	-115.42
TOTAL	-9,220.36	-6,361.49	-15,581.85

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

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-EUROSISTEM CLAIMS

This heading includes the amounts of the following items:

EUR m

Type of asset	2016	2015	Change
Participating interest in 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	97,970.30	83,717.56	14,252.74
TOTAL	104,406.21	90,153.48	14,252.74

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 is 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 2016
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 2016, 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 €97,970.30 million at end-2016, 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 2015 (€14,252.74 million) was basically due to the decrease in banknotes put into circulation by the Banco de España in 2016 (-22.4%, €9,309 million) and the contrasting rise in the Eurosystem as a whole (3.9%, €42,787 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 €273.49 million at end-2016, of which €761.58 million related to cost and €488.09 million to accumulated depreciation.

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

EUR m

	2016	2015	Change
Tangible fixed assets	547.75	542.73	5.02
Land and unbuilt plots	5.35	5.35	—
Buildings, structures and renovation work	113.54	112.94	0.60
Plant in buildings	207.78	202.11	5.67
Furniture and fittings	41.18	40.23	0.95
Office machines other than computer equipment	52.44	55.39	-2.96
Computer equipment	69.74	68.70	1.03
Transport equipment	8.31	8.31	—
Libraries	4.16	4.53	-0.37
Other tangible fixed assets	5.19	5.16	0.03
Art collection	40.08	40.01	0.07
Intangible fixed assets	172.06	155.90	16.16
Computer applications	172.01	155.85	16.16
Industrial property	0.06	0.06	—
Fixed assets in progress	41.77	40.32	1.45
Buildings, plant in buildings and other structures	8.22	9.49	-1.27
Computer applications of Banco de España	29.88	29.81	0.07
Computer applications of Eurosystem	2.69	0.85	1.84
Other fixed assets in progress	0.98	0.17	0.81
TOTAL	761.58	738.95	22.63

EUR m

Accumulated depreciation or amortisation	2016	2015	Change
Tangible fixed assets	-381.67	-371.93	-9.74
Buildings, structures and renovation work	-49.16	-46.67	-2.49
Plant in buildings	-176.80	-168.58	-8.22
Furniture and fittings	-35.41	-34.40	-1.02
Office machines other than computer equipment	-43.03	-47.17	4.13
Computer equipment	-61.23	-59.13	-2.11
Transport equipment	-8.16	-8.10	-0.06
Libraries	-2.78	-2.96	0.18
Other tangible fixed assets	-5.08	-4.93	-0.16
Intangible fixed assets	-106.42	-90.26	-16.16
Computer applications	-106.36	-90.21	-16.16
Industrial property	-0.06	-0.06	—
TOTAL	-488.09	-462.19	-25.90

Overall, fixed assets net of depreciation decreased with respect to the previous year by €3.27 million. This decrease is mainly explained by an increase in the accumulated depreciation of computer applications and plant in buildings which was partially offset by an increase in investment in IT projects and those projects related to building improvements.

10 OTHER ASSETS. OTHER FINANCIAL ASSETS

This item includes €97.25 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), amounting to €72 million (€37.45 million in 2015). 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. In 2016, following a simultaneous capital reduction and capital increase operation, 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 creditor one, it is recorded under the same heading in liability item 12.1. Its debit balance of €191.57 million as at end-2016 is the net value of the swap transactions outstanding at that date that are listed below:

Operation	Position	Currency	2016			2015	
			Currency amount (million)	Market exchange rate	Equivalent (EUR m)	Equivalent (EUR m)	
Swap	Debtor	EUR	1,502.35	1.0000	1,502.35	548.50	
		JPY	75,000.00	123.4000	607.78	381.48	
		USD	2,740.12	1.0541	2,599.49	2,424.08	
	Creditor	EUR	—	1.0000	—	—	
		JPY	294,000.00	123.4000	2,382.50	2,460.24	
		USD	2,251.08	1.0541	2,135.55	928.37	
Forward	Debtor	EUR	—	1.0000	—	—	
		JPY	—	123.4000	—	0.24	
		USD	—	1.0541	—	0.12	
	Creditor	EUR	—	1.0000	—	—	
		JPY	—	123.4000	—	0.13	
		USD	—	1.0541	—	0.24	
Net position					191.57	-34.56	

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) — US dollar-yen swaps and yen-US dollar swaps were unexpired.

The net balance of the US dollar-yen swaps is intended to cover the yen-US dollar exchange rate risk on investments in yen-denominated securities.

12 OTHER ASSETS. ACCRUALS AND PREPAID EXPENSES

The main components of this item, the balance of which amounts to €4,241.40 million, are as follows:

EUR m

	2016	2015	Change
Accrued interest arising from securities acquisitions and accrued coupon interest receivable from securities	4,172.87	3,015.05	1,157.82
Trading portfolio	572.86	673.71	-100.85
Denominated in foreign currency	112.60	53.39	59.21
Denominated in euro	460.26	620.32	-160.06
Held-to-maturity portfolio	537.07	635.85	-98.78
Denominated in foreign currency	137.46	103.06	34.39
Denominated in euro	399.61	532.78	-133.17
Held for monetary policy purposes	3,062.94	1,705.49	1,357.45
Other accrued interest receivable	64.01	122.17	-58.16
On monetary policy operations	18.53	98.91	-80.38
On intra-Eurosystem claims arising from banknotes adjustments	—	10.60	-10.60
On claims equivalent to the transfer of foreign reserves to the ECB	0.45	2.21	-1.75
On foreign currency deposits	20.93	5.23	15.70
On swaps	13.91	3.57	10.35
On negative remuneration of general government deposits	7.17	0.81	6.36
Claims on the IMF	2.03	0.62	1.41
Other	0.98	0.23	0.75
Accrued commissions receivable and prepaid expenses	4.51	5.54	-1.02
TOTAL	4,241.40	3,142.76	1,098.64

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 portfolio (€3,062.94 million), from the trading portfolio (€572.86 million) and from the held-to maturity portfolio (€537.07 million). Overall, this interest increased by €1,157.82 million as compared with the previous year, mainly due to the 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 €1,141.99 million, are the transfer to the Treasury on 1 December 2016 of €946.58 million, equivalent to 70% of the Bank's profits earned to 30 September 2016, adjusted in line with the projected performance of profits up to year-end (see Note 15 to the profit and loss account), which was €61.28 million lower than in the previous year, and the home loans and repayable advances granted to Bank employees, the balance of which, at €173.41 million, was down by €3.03 million from 2015.

14 BANKNOTES IN CIRCULATION

The balance of banknotes in circulation (€130,134.26 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 2016. This key is obtained by taking the Eurosystem capital key (12.56%) and deducting the 8% of the total corresponding to the ECB.

This balance was €4,944.04 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 (€32,163.96 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-2016 is as follows:

Series	2016	2015	Change
€ 500 (a)	24,877.22	34,104.18	-9,226.97
€ 200	2,250.18	2,028.33	221.85
€ 100	-1,668.86	-1,302.25	-366.61
€ 50	50,458.25	46,035.90	4,422.34
€ 20	-31,398.45	-28,294.12	-3,104.33
€ 10	-11,674.90	-10,527.49	-1,147.41
€ 5	-679.47	-571.90	-107.57
Euro banknotes put into circulation by Banco de España	32,163.96	41,472.66	-9,308.70
Adjustment as per banknote allocation key	97,970.30	83,717.56	14,252.74
Banknotes in circulation	130,134.26	125,190.22	4,944.04

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 €55,226.36 million at end-2016, €27,387.84 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) and, to a lesser degree, in the deposit facility, owing to 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	2016	2015	Change
Current accounts (covering the minimum reserve system)	44,220.43	21,238.52	22,981.91
Deposit facility	11,000.00	6,600.00	4,400.00
Fixed-term deposits	—	—	—
Fine-tuning reverse operations	—	—	—
Deposits related to margin calls	5.93	—	5.93
TOTAL	55,226.36	27,838.52	27,387.84

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 €22,981.91 million (108.2%). Its average balance also increased during the year, rising from €13,075 million in 2015 to €20,798.62 million in 2016 (59.1%). 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 lower²⁰.

The “Deposit facility” item, which includes overnight deposits remunerated at a fixed interest rate (lower than the interest rate on main refinancing operations), increased from €6,600 million in 2015 to €11,000 million in 2016. The average balance also increased from €219.89 million in 2015 to €430.49 in 2016. 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 balance of fixed-term deposits was zero as at 31 December 2016. They are fine-tuning operations (liquidity withdrawals) that take the form of deposits. During 2016, the Eurosystem did not carry out any operations of this type.

The other captions in this item relate to fine-tuning reverse operations, aimed at the withdrawal of liquidity, and deposits related to margin calls. As at 31 December 2016, fine-tuning reverse operations had a zero balance, while institutions’ deposits related to margin calls (see Note 6(f) to the balance sheet) amounted to €5.93 million.

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-2016 was €0.36 million (€210.10 in 2015). The change related to the cancellation in 2016 of a deposit of a credit institution which had been frozen to ensure compliance with the legal limit on mortgage-backed securities issuance.

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 €17,817.79 million, which breaks down as follows:

EUR m	2016	2015	Change
Central government (State)	17,349.61	100.41	17,249.20
Treasury current account	15,232.49	11.33	15,221.16
Other central government agencies and similar bodies	2,117.11	89.08	2,028.04
Territorial government	23.17	13.73	9.44
Regional (autonomous) governments, administrative agencies and similar bodies	22.91	12.90	10.00
Local government	0.26	0.82	-0.56
Social security funds	445.01	7.98	437.03
Social Security System	8.95	7.98	0.97
Other	436.06	—	436.06
TOTAL	17,817.79	122.11	17,695.68

The increase in this item (€17,695.68 million) was due mainly to the higher balances held by central government, which rose from €100.41 million in 2015 to €17,349.61 million in 2016 and, to a lesser degree, to those held by social security funds (which increased from

²⁰ 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%.

€7.98 million in 2015 to €445.01 million in 2016). As regards average balances, there was an increase in those held by central government (€12,087.36 million in 2016 against €4,412.77 million in 2015) and by social security funds (€1,905.24 million in 2016 against €172.04 million in 2015), partly offset by the decrease in the average balances held by regional and local government (€35.10 million in 2016 against €48.27 million in 2015).

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.

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, other intermediaries in the book-entry debt market, etc., as well as the current accounts of non-administrative public and autonomous agencies of the State, the current accounts of employees and pensioners and other accounts of legal entities classified in "Other resident non-financial sectors".</p> <p>The balance of €2,181.72 million at end-2016 was €1,837.95 million higher than at end-2015, mainly as a result of the increase in the balances held by stock exchange governing companies and, to a lesser extent, the increase in the current account balances of autonomous agencies of the State.</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 €2,232.35 million was €2,149.57 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 €3,604.00 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 increased by €5.09 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 2016 had a balance of €327,733.24 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 €327,733.24 million as at 31 December 2016 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 pooling and redistribution 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 amounts receivable or refundable, basically in respect of the seigniorage income relating to euro banknotes issued by the ECB and of the income on securities acquired by the ECB under the securities</p>

markets programme (SMP), the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP) and the secondary markets public sector purchase programme (PSPP).

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

EUR m	Type of liability	2016	2015	Change
	Position vis-à-vis ECB due to transfers made and received through TARGET2 and correspondent banking	328,074.52	254,114.61	73,959.91
	Position vis-à-vis ECB due to pooling and redistribution of monetary income	-219.92	89.92	-309.85
	Dividend from banknote seigniorage and SMP, CBPP3, ABSPP and PSPP income	-121.36	-102.00	-19.35
	TOTAL	327,733.24	254,102.53	73,630.71

Regarding the first component, the year-end transfers via TARGET2 had a credit balance of €328,074.53 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 €219,963.42 million in 2015 to €299,335.74 million in 2016, 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 €219.92 million at year-end (see “Net result of pooling of monetary income” in Note 8 to the profit and loss account).

Finally, on 16 January 2017, 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 programmes²¹. The amount corresponding to the Banco de España was recorded as 2016 income, on an accrual basis, and received on 31 January 2017. Its debit balance at end-2016 was €121.36 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 2016 were in the course of settlement, such as transfer instructions pending execution.

The balance of this item amounted to €198.76 million at end-2016, relating mainly to transfers received from the TARGET2 platform but yet to be processed (€62.01 million) and to transfers to accounts with other institutions, with payment of those transfers yet to be made (€131.87 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 asset item 11.4.

²¹ Decision of the ECB of 15 December 2014 (ECB/2014/57) on the interim distribution of the income of the European Central bank (recast), as amended.

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 2016, its balance amounted to €244.94 million and the main component (€241.05 million) was interest accrued as a result of the remuneration at negative interest rates of certain longer-term refinancing operations with credit institutions (see Note 6(b) to the balance sheet).

25 OTHER LIABILITIES. SUNDRY

This includes other liabilities not classifiable above.

As at 31 December 2016 the balance of this item amounted to €120.09 million (€16.14 million less than in 2015) and its main sub-items were the accounts payable relating to accrued operating expenses (€41.52 million) and the cash arising from redemptions of and interest on book-entry government debt (€28.90 million) immobilised under EU legislation relating to restrictive measures on the economic interests of certain agents.

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	2016	2015	Change
For financial risks	14,137.36	11,336.43	2,800.92
For operational risk	308.35	181.27	127.08
For exchange of withdrawn peseta banknotes	32.71	41.17	-8.45
For the collective agreement 2011-2014	8.10	8.06	0.04
For death and retirement assistance	74.07	73.88	0.19
For early and regular retirement	23.56	24.78	-1.22
For sundry liabilities and charges	35.47	1.49	33.98
TOTAL	14,619.62	11,667.08	2,952.54

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).

In this connection, on 25 January 2017 the Executive Commission approved a change in the methodology used for calculating the financial risks and the provision recorded for such risks. As a result of this and of the higher risks owing to the substantial increase in monetary policy portfolio investments, the Executive Commission approved net provisioning for financial risks of €2,800.92 million.

Of the balance as at 31 December 2015 (€11,336.43 million), €0.04 million were used to cover exchange losses and €97.82 million to cover interest rate losses (no credit risk losses were incurred) and €2,898.79 million were provisioned (see Note 5 to the profit and loss account). Thus, the balance of this provision as at 31 December 2016 amounted to €14,137.36 million, which was €2,800.92 million more than in 2015.

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 2016, the Executive Commission resolved to increase the level of coverage for operational risk to 60%, from 40% in 2015.

This provision was used at end-2016 to cover the operational risk events which occurred during the year for an amount of €0.43 million, and the €127.50 million set aside (see Note 14 to the profit and loss account) took its balance to €308.35 million.

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

This is the most important of the two provisions set aside for the exchange of peseta banknotes withdrawn from circulation²². 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 2016 led to a €8.31 million decrease in the balance of this provision, leaving a balance of €32.25 million at end-2016.

Other provisions

In the reporting year there was an increase of €33.98 million in the provision for sundry liabilities and charges, basically as a result of ongoing lawsuits (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:

EUR m	2016	2015	Change
Gold	9,091.00	7,960.90	1,130.10
Foreign currency	8,233.36	6,858.73	1,374.63
Securities (trading portfolio)	2,035.28	2,492.42	-457.13
Issued in foreign currency by non-euro area residents	14.88	26.66	-11.78
Issued in euro by euro area residents	2,020.41	2,465.76	-445.35
TOTAL	19,359.65	17,312.05	2,047.59

The balance of revaluation accounts at end-2016 was €19,359.65 million, up €2,047.59 million on 2015. The main change was in the foreign exchange revaluation accounts, which increased by €1,374.63 million, basically due to the appreciation of the US dollar against the euro, and also, albeit to a lesser extent, to the revaluation of the Australian and

²² The provisions for exchange of peseta banknotes withdrawn from circulation also include another one for €0.46 million.

Canadian dollar against the euro.

With respect to gold, the unrealised gains were €1,130.10 million higher as a result of the increase in its market price (from €973.23 per ounce at end-2015 to €1,098.05 per ounce at end-2016).

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 €445.35 million.

28 CAPITAL

As at 31 December 2016 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 2016 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 2016 amounted to €1,624.65 million, down 28.4% from 2015. Of this amount, €946.58 million was paid to the Treasury on 1 December 2016, 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 2015 profits:

- a) On 1 March 2016, €1,035.06 million, which, together with the payment in December 2015, amounted to 90% of the €2,269.92 million of the profit for that year.
- b) On 26 July 2016, once the balance sheet and profit and loss account for the year 2015 had been approved by the Council of Ministers, €226.99 million, representing the rest of the distributable profit for that year.

The details of the various components of the profit for 2016 and the reasons for the changes in them with respect to 2015 are given in Section 3.3 below on the profit and loss account.

3.3 Notes to the profit and loss account

In the current setting of very low, or even negative, interest rates, some assets have given rise to interest expenses and some liabilities have generated interest income. In 2016, the Eurosystem’s NCBs agreed to the harmonised reporting of negative interest income and expenses from monetary policy operations. Under this agreement, the positive and negative interest income (expenses) are offset at the level of the balance sheet caption in which they arise and are recorded in the profit and loss account under the items “1. Interest income” or “2. Interest expenses”, depending on whether the net amount is positive or negative, respectively. The Banco de España will adopt a similar approach for interest income and expenses arising from other assets and liabilities.

Consequently, the comparative figures for 2015 have been reclassified, as follows:

EUR m

Heading	2015, as published	2015, as reclassified	Difference
1 Interest income	4,167.56	4,179.26	11.70
2 Interest expense	106.63	118.33	-11.70
3 Net interest income	4,060.93	4,060.93	0.00

1 INTEREST INCOME

This item includes income from interest accrued on the financial assets of the Banco de España. The breakdown in 2016 and 2015 is as follows:

EUR m and %

	Interest income			Average investment		Average yield	
	2016	2015	Change	2016	2015	2016	2015
Foreign currency	578.25	424.38	153.87	41,185	36,251	1.38	1.15
Securities	503.22	389.76	113.46	31,656	27,858	1.56	1.38
Deposits and other assets	41.78	22.62	19.16	9,529	8,393	0.43	0.27
Exceptional liquidity-providing operations, swap, forward and others	33.24	11.99	21.25				
Euro	4,195.38	3,754.88	440.50	342,996	339,745	1.20	1.09
Securities	4,088.45	3,588.70	499.75	207,542	117,483	1.94	3.01
Trading portfolio	831.95	1,151.49	-319.54	20,622	27,049	3.97	4.20
Held-to-maturity portfolio	532.64	771.01	-238.37	21,091	28,007	2.48	2.72
SMP	847.97	970.50	-122.52	14,185	16,320	5.88	5.87
CBPP, CBPP2 and CBPP3	352.80	323.96	28.84	25,583	15,651	1.36	2.04
PSPP government securities	1,406.73	335.49	1,071.24	92,834	21,655	1.49	1.53
PSPP supranational securities	107.54	36.26	71.28	31,844	8,800	0.33	0.41
CSPP	8.83	—	8.83	1,384	—	0.63	—
Monetary policy operations	34.69	112.62	-77.93	24,766	135,297	0.14	0.08
Main refinancing operations	0.82	12.58	-11.76	3,536	24,814	0.02	0.05
Longer-term refinancing operations (a)	—	99.56	-99.56	—	110,257	—	0.09
Marginal lending facility	—	—	—	—	1	—	0.30
Deposits related to margin calls (negative net interest)	—	0.01	-0.01	—	6	0.40	0.20
Remuneration of minimum reserves (negative net interest) (b)	32.23	—	32.23	20,799	—	0.15	—
Deposit facility (negative net interest)	1.63	0.46	1.17	430	220	0.37	0.21
Intra-Eurosystem accounts	9.29	41.35	-32.06	95,529	82,343	0.01	0.05
Claims equivalent to the transfer of foreign reserves to the ECB	0.45	2.21	-1.75	5,123	5,123	0.01	0.04
Claims related to allocation of euro banknotes within the Eurosystem	8.84	39.14	-30.31	90,404	77,217	0.01	0.05
Other claims within the Eurosystem (net)	—	—	—	1	3	—	—
Other assets	0.38	0.98	-0.60				
General government deposits (negative net interest)	59.74	9.30	50.44	15,159	4,622	0.39	0.20
Other liabilities denominated in euro (negative net interest)	2.83	1.92	0.91				
TOTAL	4,773.62	4,179.26	594.37	384,181	375,996	1.23	1.10

a In 2016 these operations incurred negative net interest which was recorded as interest expenses.

b In 2015 these operations generated financial expenses, shown under "Interest expenses".

Interest income in 2016 amounted to €4,773.62 million, of which €578.25 million was denominated in foreign currencies and €4,195.38 million was euro-denominated interest income. Interest income denominated in foreign currencies was basically from securities

portfolios (€503.22 million). Most of the euro-denominated interest income was also from securities portfolios (€4,088.45 million, with an average yield of 1.94%), while interest income from monetary policy operations amounted to €34.69 million (average yield of 0.14%).

Overall interest income increased by €594.37 million in 2016 compared with 2015, as a result of the increase in interest on euro-denominated investments (€440.50 million), and on investments denominated in foreign currency (€153.87 million).

The increase in interest denominated in foreign currencies arose from the increase in both average investments (from €36,251 million in 2015 to €41,185 million in 2016) and in the average yield obtained (from 1.15% in 2015 to 1.38%).

The main reason for the increase of €440.50 million in euro-denominated interest income was the higher interest income on securities portfolios (€499.75 million), as a result of the sizeable increase in its average balance (from €117,483 million in 2015 to €207,542 million in 2016), following the purchases of monetary policy securities under the CBPP3, PSPP and CSPP programmes, which offset the lower yield obtained (1.94% in 2016, compared with 3.01% in 2015). Also, there was higher income from the negative remuneration of general government deposits (€50.44 million) and of credit institution deposits (€33.39 million). In contrast, interest income from the main refinancing operations decreased by €11.76 million owing to the lower interest rate (0% from March 2016), while longer-term refinancing operations accrued negative interest income. Income from claims related to the allocation of banknotes also decreased, owing to the lower interest rate applied in 2016, despite the notable rise in the average balance (€90,404 million in 2016 against €77,217 million in 2015) as a result of changes in banknotes put into circulation (down 22.4% in Spain, compared with a 3.9% increase in the Eurosystem as a whole).

2 INTEREST EXPENSES

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

EUR m and %

	Interest expense			Average financing		Average cost	
	2016	2015	Change	2016	2015	2016	2015
Foreign currency	11.12	2.20	8.92				
Exceptional liquidity-providing operations and other liabilities	11.12	2.20	8.92				
Euro	214.38	116.13	98.25	428,469	233,040	0.05	0.05
Monetary policy operations	184.90	2.60	182.30	129,449	13,077	0.14	0.02
Remuneration of minimum reserves (a)	—	2.60	-2.60	—	13,075	—	0.02
Deposit facility	—	—	—	—	—	—	—
Fixed-term deposits	—	—	—	—	—	—	—
Credits related to margin calls (negative net interest)	—	—	—	—	2	—	0.20
Longer-term refinancing operations (negative net interest) (b)	184.90	—	184.90	129,448	—	0.14	—
General government deposits	—	—	—	—	—	—	—
Other liabilities within the Eurosystem (net)	27.89	111.51	-83.63	299,021	219,963	0.01	0.05
Other liabilities denominated in euro	1.59	2.02	-0.43				
TOTAL	225.50	118.33	107.17	428,469	233,040	0.05	0.05

a In 2016 these operations incurred negative net interest expenses which were recorded as interest income.

b In 2015 these operations generated financial revenues, shown under "Interest income".

The euro-denominated interest expenses (€214.38 million) arise mainly from the negative interest on longer-term refinancing operations (€184.90 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 applied with retroactive effect (see Note 6(b) to the balance sheet). Remuneration of the intra-Eurosystem accounts generated €27.89 million of expenses.

Compared with 2015, interest expenses increased by €107.17 million in 2016 mainly as a result of the aforementioned negative interest accrued on longer-term refinancing operations, while in 2015, the net amount was positive (and therefore recorded as interest income), partially offset by the lower expenses incurred on the intra-Eurosystem (TARGET2) accounts (€83.63 million, 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 2016 the net gains in this connection amounted to €247.19 million, arising from the following sources:

EUR m	2016	2015	Change
Foreign currency	180.81	157.67	23.14
Sale of gold	—	—	—
Sale of foreign currency (exchange effect)	143.18	124.96	18.22
Sale of securities (price effect)	43.87	45.44	-1.57
Other gains/losses	-6.24	-12.72	6.48
Euro	66.38	—	66.38
Sale of securities	66.38	—	66.38
TOTAL	247.19	157.67	89.51

The profits from the sale of foreign currencies were obtained mostly due to gains on the sale of SDRs (€100.11 million) and US dollars (€42.67 million). Moreover, most of the profits from the sale of foreign currency-denominated securities came from the sale of US dollar-denominated securities, and the profits from the sale of euro-denominated securities were generated by the sale of trading portfolio securities issued by euro area residents.

With respect to the prior year, the increase of €89.51 million in net profits was mainly due to gains on the sales of euro-denominated securities (no euro-denominated securities were sold in 2015). Although to a lesser degree, gains on foreign currency sales also increased (€18.22 million), mainly as a result of the higher gains on SDR sales (€100.11 million in 2016, compared with €81.59 million in 2015).

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 2016 and 2015 is as follows:

EUR m	2016	2015	Change
Foreign currency	97.86	35.92	61.94
Foreign currency (exchange rate losses)	0.04	0.03	0.01
Securities (price losses)	97.82	35.89	61.93
Euro	—	—	—
Securities (price losses)	—	—	—
TOTAL	97.86	35.92	61.94

Unrealised losses in 2016 amounted to €97.86 million, of which €97.82 million related to price losses on fixed-income securities denominated in foreign currency (mostly relating to US dollar denominated securities), due to changes in the market price of these securities.

5 TRANSFERS TO/FROM
PROVISIONS FOR FINANCIAL
RISKS

The breakdown in 2016 and 2015 is as follows:

EUR m	2016	2015	Change
Transfers to provisions for financial risks	-2,800.92	-1,432.46	-1,368.46
Transfers to provisions	-2,898.79	-1,468.38	-1,430.41
Transfer/reversal from provision	97.86	35.92	61.94
Transfer/reversal from provision for losses arising from early repayment of special loans	—	6.12	-6.12
TOTAL	-2,800.92	-1,426.35	-1,374.58

This includes, first, the transfer of €97.86 million from the provision for financial risks to cover the unrealised losses existing at end-2016 and, second, the transfer of €2,898.79 million to this provision to cover the estimated exposures in the financial positions subject to such risks. In this connection, on 25 January 2017 the Executive Commission approved a change in the methodology used for calculating the financial risks and the provision recorded for such risks (see Note 26 to the balance sheet). Accordingly, and as a result of the increase in monetary policy portfolio investments, the transfer to the provision for financial risks in 2016 amounted to €2,898.79 million, which was €1,430.41 more than in the previous year.

The provision for losses arising from early repayment of special loans, which included the difference between the nominal value of the special loans and their current market value, has undergone no changes since April 2015, when these loans were repaid in full.

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, transfers, handling of cheques, custody and administration of securities, etc.). It may be broken down as follows:

EUR m	2016	2015	Change
1 Income from fees and commissions	17.49	17.82	-0.33
Foreign operations	—	—	—
Domestic operations	17.49	17.82	-0.33
2 Expenses from fees and commissions	10.81	9.53	1.28
Foreign operations	3.19	2.71	0.48
Domestic operations	7.62	6.81	0.80
Net income from fees and commissions (1-2)	6.68	8.29	-1.61

Net fee and commission income in 2016 (€6.68 million) was €1.61 million less than in 2015. This variation relates basically to the higher commissions paid for the maintenance of monetary policy portfolio securities, as a result of the increase in their volume, and the custody of securities denominated in foreign currency, and to the lower income from commissions on securities transactions within the correspondent central banking model, and the commissions charged to book-entry system issuers of debt, due to the decrease in the volume of transactions.

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

	2016	2015	Change
ECB	155.22	120.71	34.51
Ordinary dividend	33.87	18.71	15.16
Dividend from banknote seigniorage income and SMP, CBPP3, ABSPP and PSPP portfolio income	121.36	102.00	19.35
Other	2.60	2.71	-0.11
TOTAL	157.82	123.43	34.40

Of the total amount of €157.82 million recorded in 2016, €121.36 million relate to the ECB dividend from banknote seigniorage income and income from securities purchased under the securities markets programme (SMP), the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), and the public sector purchase programme (PSPP); €33.87 million to the ECB ordinary dividend for 2015 and €2.60 million to dividends from shares in the Bank for International Settlements.

The interim profit distributed by the ECB pursuant to the decision of the Governing Council of the ECB of 16 January 2017 amounted to €966.23 million, which related to the entire seigniorage income from its banknotes and the income from the aforementioned monetary policy securities portfolios. The €121.36 million mentioned above correspond to the Banco de España, in proportion to its capital key in the Eurosystem (12.56%).

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 central banks 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 central banks 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 2016 and 2015 is as follows:

EUR m	2016	2015	Change
Net result of pooling of monetary income	219.97	-92.04	312.01
Monetary income pooled	-1,024.41	-1,219.97	195.56
Monetary income allocated	1,244.38	1,127.93	116.45
Correction of prior years	-0.04	2.12	-2.16
TOTAL	219.92	-89.92	309.85

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 2016, amounting to €1,024.41 million, and that reallocated to it, amounting to €1,244.38 million, is equivalent to a net allocation (income) of €219.97 million. The reason for this net allocation was basically that the income obtained in 2016 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 2016 of monetary income obtained in 2015 entailed expenses of €0.04 million for the Bank. Consequently, the positive net result for the year was €219.92 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	2016	2015	Change
Extraordinary profit	0.15	-0.93	1.08
Sundry	3.01	0.98	2.03
TOTAL	3.17	0.05	3.11

This item discloses net profit of €3.17 million, of which €2.14 million relate to the recovery of indirect costs allocated to SEPBLAC. With respect to the previous year, the net profit increased by €3.11 million, basically due to the absence in 2016 of unrealised losses relating to the stake in IMBISA (which amounted to €2.55 million in 2015).

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 %

	2016	2015	Change	%
Gross staff costs	245.13	232.01	13.11	5.7
Wages and salaries	176.41	165.58	10.83	6.5
Social Security	38.68	36.74	1.95	5.3
Staff welfare expenses	21.24	21.77	-0.53	-2.4
Pension scheme	8.80	7.93	0.87	11.0
Reversal of staff costs due to capitalisation of computer applications	-3.70	-3.65	-0.04	1.2
TOTAL	241.43	228.36	13.07	5.7

Its balance increased from €228.36 million in 2015 to €241.43 million in 2016, a rise of €13.07 million (5.7%), mainly due to the increase in the average headcount and, to a lesser degree, to the 1% wage rise. The following table sets out the changes in permanent and temporary staff, in terms of average number of employees:

	2016	2015	Change	%
Average number of employees (a)	2,865	2,730	135	4.9
Managerial staff	1,955	1,810	145	8.0
Administrative staff	744	758	-14	-1.8
Other	165	163	2	1.2

a The average number of employees was calculated for both 2015 and 2016 based on the number of employees who incurred staff costs during the period analysed.

As at 31 December 2016, the Bank's total staff numbered 2,990 employees²³, 98 more than at the same date of the previous year. Regarding the staff composition by gender, at 31 December 2016 women accounted for 48% 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 2016 the Governor received a gross annual salary of €176,481.01, with supplementary salary items²⁴ amounting to €4,457.32 and a part of the December 2012 extra payroll (€5,861.97). The Deputy Governor received a gross annual salary of €166,900.87 in 2016, with supplementary salary items²⁵ amounting to €31,321.64 and a part of the December 2012 extra payroll (€6,224.12). The elected members of the Governing Council receive gross annual compensation of €52,313.40; if they sit on the Executive Commission, the gross annual compensation is €65,625.36.

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 €1,037.06 per meeting of the Governing Council and €497.38 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:

²³ Includes Banco de España employees at SEPBLAC.

²⁴ The increase recorded in the supplementary salary items earned by the Governor and Deputy Governor in 2016, compared with 2015, is due to the change in seniority-based payments (for every three years of service) in both periods.

²⁵ See Note 24.

EUR m and %

Description	2016	2015	Change	%
Gross administrative expenses	131.57	129.36	2.21	1.7
Rental and maintenance	34.85	32.38	2.47	7.6
Material and supply	9.16	9.85	-0.69	-7.0
External services	70.85	71.13	-0.28	-0.4
Training, promotion and selection	3.57	3.94	-0.36	-9.2
Sundry operating expenses	13.13	12.06	1.07	8.9
Reversal of administrative expenses due to capitalisation of computer applications	-5.54	-5.15	-0.39	7.5
TOTAL	126.03	124.21	1.82	1.5

The above table shows that, as in 2015, in 2016 the most significant administrative expenses were external services (€70.85 million), mainly IT services (€36.67 million), and rental and maintenance (€34.85 million), composed mainly of hardware and software rental and maintenance (€17.97 million) and property rental and maintenance (€12 million).

Administrative expenses increased in 2016 by €1.82 million, compared with 2015. The largest increases were in “Rental and maintenance” (€2.47 million), both of property and hardware and software, and in “Sundry operating expenses” (€1.07 million, due to the increase in payments and contributions to various institutions and entities). Lower expenses were recorded in “Material and supply” (€0.69 million), “Training, promotion and selection” (€0.36 million) and “External services” (€0.28 million).

“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 ECB reserves at the request of this institution’s external auditor. In 2016, fees amounting to €109,161.36 were paid to KPMG for the above, which was the only service provided by the auditor to the Bank. In 2016 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:

EUR m and %

	2016	2015	Change	%
Depreciation of buildings, structures and renovation work	2.65	2.61	0.04	1.6
Depreciation of plant in buildings	8.62	8.50	0.11	1.3
Depreciation of furniture and fittings	1.44	1.73	-0.30	-17.0
Depreciation of office machines other than computer equipment	1.76	1.63	0.13	7.9
Depreciation of computer equipment	4.28	4.94	-0.67	-13.5
Depreciation of transport equipment	0.06	0.18	-0.11	-64.6
Depreciation of other tangible fixed assets	0.17	0.20	-0.03	-17.0
Depreciation of bibliographic fund	0.37	0.40	-0.04	-9.6
Amortisation of computer applications	15.64	12.36	3.28	26.6
TOTAL	34.98	32.56	2.42	7.4

Compared with 2015, depreciation expenses increased by €2.42 million, owing mainly to the higher amortisation of computer applications, in particular the T2S platform, which came into operation in June 2015.

13 BANKNOTE PRODUCTION SERVICES

The cost of these services amounted to €85.26 million in 2016 (€60.62 million in 2015) and corresponds to payments made by the Banco de España to purchase banknotes from Sociedad Imprenta de Billetes, S.A. (IMBISA). 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 increase with respect to the previous year (€24.64 million) was mainly due to the higher production volume of the second, more costly, series of the €50 banknote, as follows:

Series	Denomination	Banknotes charged (millions of banknotes)	
		2016	2015
1	€ 50	—	8.8
2	€ 50	678.4	—
2	€ 20	—	230.5
2	€ 10	164.1	168.0
2	€ 5	—	436.3
TOTAL		842.5	843.6

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	2016	2015	Change
Provision for operational risk	127.08	96.72	30.36
Provision for death and retirement assistance	-1.09	10.53	-11.62
Provision for early and regular retirement	4.08	4.21	-0.13
Provision for sundry liabilities and charges	32.06	-39.56	71.62
Others	0.06	0.03	0.03
Beneficent social fund	4.89	6.83	-1.94
TOTAL	167.08	78.76	88.31

The net balance of transfers and applications to other funds and provisions in 2016 amounted to €167.08 million, compared with €78.76 million in 2015. Noteworthy was the net provisioning for operational risk of €127.08 million (see Note 26 to the balance sheet), mainly due to the higher level of coverage (from 40% to 60%) approved by the Executive Commission on 25 January 2017, and the provisioning of €32.06 million²⁶ for sundry liabilities and charges, including, among others, litigation risks, mostly owing to ongoing

²⁶ The provision of €1.92 million for sundry liabilities and charges was also recorded with a charge to staff costs mainly to cover the commitment arising from the 1% wage increase in 2016.

lawsuits. Also of note is the provision for expenses relating to early and regular retirees (€4.08 million), while the provision for death and retirement assistance expenses decreased by €1.09 million. The provision to the beneficent social fund amounted to €4.89 million in 2016, compared with €6.83 million in 2015, meaning that the expense was €1.94 million lower.

The Banco de España, because of the nature of its activity, is not an institution with a high environmental risk. Accordingly, in 2016 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 2016 the Banco de España paid into the Treasury €946.58 million, equal to 70% of the profit recorded as at 30 September 2016²⁷.

Given that the profit for the year amounted to €1,624.65 million, on 1 March 2017, €515.61 million were paid into the Treasury to complete the distribution of 90% of profits.

The payments to the Treasury of 2016 profits are as follows:

EUR m

1 Total profit for 2016	1,624.65
2 Payments to the Treasury	1,462.19
On 1.12.2016	946.58
On 1.3.2017. Difference between the above amount and 90% of profit as at 31.12.2016	515.61
3 Profit payable to the Treasury	
At date of approval of the 2016 annual accounts	162.47

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:

²⁷ 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 €1,871.96 million. Accordingly, this amount was subtracted from the Banco de España profit of €3,224.22 million as at 30 September, resulting in a profit of €1,352.26 million, 70% of which was paid into the Treasury.

	Capital	Reserves	Revaluation accounts	Undistributed profit	General provisions	Total
A) 2016 Opening balance	1,000.00	899.81	17,312.05	1,262.06	11,517.70	31,991.62
1 Unrecognised net gains in profit and loss			2,047.59			2,047.59
In gold			1,130.10			1,130.10
In foreign currency			1,374.63			1,374.63
In securities			-457.13			-457.13
2 Change in provisions					2,928.00	2,928.00
3 2016 profit				1,624.65		1,624.65
4 Appropriation of profit				-2,208.64		-2,208.64
Payment to the Treasury of 2015 profit				-1,262.06		-1,262.06
Payment to the Treasury of 2016 profit				-946.58		-946.58
B) Changes in the year B = 1+2+3+4	—	—	2,047.59	-583.98	2,928.00	4,391.62
C) Closing balance C = A + B	1,000.00	899.81	19,359.65	678.07	14,445.71	36,383.23

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

Equity increased by €4,391.62 million in 2016 due mainly to the higher general provisions (€2,928 million) and the higher unrealised gains (€2,047.59 million).

3.5 Risk management

The Banco de España is exposed to financial risks (market risk and credit risk) and to an operational risk which, as a result of its activity, could have a significant financial and reputational impact and affect the Bank's ability to continue meeting its objectives.

The Banco de España manages all its risks taking into account their differing nature.

All the systems and procedures used to assess, control, monitor and mitigate risks are evaluated periodically to ensure they are suitable for their intended purpose and are applied consistently.

Currently, the Operations Department, the Financial Risks Department and the Control, Budget and Accounting Department are responsible for identifying, assessing, controlling, monitoring, mitigating and reporting risks.

The Executive Commission is entrusted with approving the rules on financial asset management at the Banco de España and the methodologies to be applied for estimating and mitigating financial risks.

The Operations Committee, at its daily meetings, proposes the distribution by currency, the authorised instruments and the limits per issuer and counterparty. It is the body

entrusted with setting the modified duration target of the strategic (long-term) and tactical (short-term) benchmarks of the euro-denominated and US dollar-denominated trading portfolios. The Risk Management Committee is entrusted with proposing the risk assessment methodologies and provisioning levels to be forwarded to the Executive Commission.

1 FINANCIAL RISKS

Financial risks comprise market risk, liquidity risk and credit risk. The risk assessment carried out by the Banco de España in 2016 found that the main risks, from a quantitative standpoint, are credit risk and, to a lesser extent, the market risk derived from foreign exchange rate and interest rate fluctuations.

1.1 Market risk

Market risk includes interest rate, foreign exchange rate and gold price risks.

Interest rate risk

Interest rate risk is the probability or possibility that the Banco de España may incur losses as a result of interest rate fluctuations.

The Bank's exposure to this type of risk derives from the fixed-income securities in the trading portfolio, since their market value is affected by interest rate movements²⁸. The level of exposure to this risk depends on the volume and maturity of holdings in this portfolio and on the volatility of interest rates.

The Bank's Operations Committee sets the modified duration of the strategic and tactical benchmarks of the euro-denominated and US dollar-denominated trading portfolios and establishes limits by means of +/- 0.25 fluctuation bands.

Also, the level of risk is quantified through Value-at-Risk methodology (VaR) by calculating the maximum expected loss from interest rate fluctuations, with a one-year time horizon and a 99% confidence interval. The VaR figure calculated with this methodology for the trading portfolio is the main factor used to determine the amount to be provisioned for interest rate risk.

Foreign exchange rate and gold price risks

Foreign exchange rate risk is the probability or possibility that the Banco de España may incur losses as a result of movements in the exchange rates of the currencies forming part of its position.

The exposure to this risk derives from the currency position and from the volatility of exchange rates.

Foreign exchange rate risk is managed by setting ceilings on investment in each currency.

The Banco de España quantifies the exposure to this risk for the main currencies (US dollar, Canadian dollar, Australian dollar and SDR) through VaR methodology by calculating the maximum expected loss with a one-year time horizon and a 99% confidence interval.

The exposure to gold price risk, which depends on the holdings of gold and on the volatility of its price, is covered in full by the existing revaluation accounts.

²⁸ For accounting purposes, the Bank's trading portfolio is valued at market prices and its held-to-maturity portfolio and monetary policy portfolios are valued at amortised cost.

- 1.2 Liquidity risk
- Liquidity risk is the probability or possibility of incurring losses because the institution is forced to liquidate its assets before maturity to meet its obligations.
- As an NCB belonging to the Eurosystem, the Banco de España has no liquidity risk.
- 1.3 Credit risk
- Credit risk is the probability or possibility that the Banco de España may incur 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 that it may incur losses derived from impairment of their credit quality.
- The exposure to credit risk depends on the volume of the investment and on the credit quality of the counterparties.
- Credit risk is managed by selecting creditworthy counterparties and setting quantitative limits per counterparty, issuer and asset, while assuring safety in investments and avoiding concentration risk.
- The Banco de España assesses credit risk by VaR methodology with a one-year time horizon and a 99% confidence interval.
- The credit risk on monetary policy loans is not assessed because the transactions are adequately collateralised and, accordingly, the residual risk is very small. This risk is managed in accordance with Eurosystem rules.
- The risks derived from the securities purchased under the securities markets programme (SMP), the third covered bond purchase programme (CBPP3), the corporate sector purchase programme (CSPP) and the securities of European institutions acquired under the secondary markets public sector purchase programme (PSPP-supranational), and from risk-sharing monetary policy loans, are shared by the Banco de España in proportion to its capital key in the Eurosystem, which was 12.56% for 2016.
- 1.4 Provision for financial risks
- In addition to capital, reserves and revaluation accounts, the Banco de España covers the aforementioned financial risks with a provision recorded for this purpose (see Note 26 to the balance sheet), the balance of which amounted to €14,137 million at end-2016.
- 2 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 system 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.
- This system 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 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 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.

Lastly, the system includes measurement of the Bank's operational risk to ensure adequate coverage with own funds of any operational losses affecting net worth which might be incurred in the processes and systems due to materialisation of a risk event. This coverage is obtained through a specific provision which is calculated by applying a percentage of operational VaR obtained from the integration of risk questionnaires and registered incidents. The Bank's VaR methodology estimates the maximum financial loss or VaR due to operational losses affecting net worth, with a one-year time horizon and a 99% confidence interval.

A provision was recorded for this risk which amounted to €308 million at end-2016.

4 SPECIFIC INFORMATION REQUIRED BY ARTICLE 4(2) OF THE LAW OF AUTONOMY OF THE BANCO DE ESPAÑA OF 1 JUNE 1994

4.1 Loss of profit

The loss of profit for the year is estimated, pursuant to the provisions of Article 4(2) of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España, based on the loans outstanding in 2016 with interest rates below the marginal interest rate on main refinancing operations. Since this rate has been 0% since March 2016, there are 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

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

Independent Auditors' Report on the Annual Accounts

To the Honourable Governor of the Banco de España,

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 2016, the income statement for the year then ended and the notes thereto.

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 accounting principles of the Banco de España, which are specified in note 3.1 to the accompanying annual accounts, based on the accounting regulations stipulated for the central banks that are members 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 due to fraud or error, the selection and application of the pertinent accounting principles, and making such estimates as deemed reasonable in the circumstances (see note 3.1.3 to the accompanying annual accounts). Pursuant to article 21.G) of Law 13/1994 of 1 June 1994 on the autonomy of the Banco de España, these annual accounts are prepared by the Governing Council of the Banco de España.

The auditors' responsibility

Our responsibility is to express an opinion on these annual accounts taken as a whole, based on our audit. We conducted our audit in accordance with International Standards on Auditing, which require that we comply with certain ethical standards and plan and perform the audit in such a way as to obtain reasonable assurance that the annual accounts are free from material misstatement or irregularities.

An audit entails the performance of procedures designed to obtain supporting evidence of the amounts and disclosures contained in the annual accounts. The procedures selected depend on the auditor's judgement, and include an assessment of the risk of material misstatements or irregularities arising in the annual accounts due to fraud or error. In assessing these risks the auditor takes into account the internal control system applied by the entity for the preparation and appropriate presentation of the annual accounts in order to design audit procedures that are suitable in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes an evaluation of the appropriateness of the accounting policies used, the reasonableness of the entity's accounting estimates, and the overall presentation of the annual accounts. We consider that the evidence obtained is sufficient and adequate to provide a basis on which to express our auditors' opinion.

KPMG Auditores S.L., a limited liability Spanish company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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Opinion

In our opinion the accompanying annual accounts for 2016 present fairly, in all material respects, the equity and financial position of the Banco de España at 31 December 2016 and its financial performance for the year then ended, in accordance with the internal accounting principles of the Banco de España, which are specified in note 3.1 to the accompanying annual accounts, based on the accounting regulations stipulated for the central banks that are members of the European System of Central Banks.

KPMG Auditores, S.L.



María Eugenia Fernández-Villarán Ara

16 March 2017

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 2016.

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 2016, 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 2016, 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 2016 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 9 March 2017



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_publ.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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