

ANNUAL ACCOUNTS OF THE BANCO DE ESPAÑA  
2008

## 1 Introduction

The annual accounts of the Banco de España (“the Bank”) comprise the balance sheet, the profit and loss account and the notes on the accounts, 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). Pursuant to the provisions of that article, the accounts have been prepared in accordance with the accounting guidelines and instructions of the European Central Bank (ECB)<sup>1</sup> established under Article 26.4 of the Statute of the European System of Central Banks (ESCB) relating to harmonisation of Eurosystem accounting principles and practices. 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 Economy and Finance, 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 2007 are presented solely for comparison with 2008. For this purpose, it should be noted that the 2007 information relating to the Banco de España’s held-to-maturity securities portfolio and to some unallocated items has been reorganised, as described in the related notes on the annual accounts. Due to rounding, on occasions the totals included in the balance sheet, profit and loss account and notes on the annual accounts may not equal the sum of the individual figures.

This document presents the accounts for the year 2008. Section 2 includes the balance sheet and profit and loss account at 31.12.08. Section 3 contains the notes on the accounts, with the accounting policies that have served as a framework for their formulation and explanatory notes on the most important aspects of the balance sheet and profit and loss account. Section 4, in compliance with Article 4.2 of the Law of Autonomy, details the contributions made to the Deposit Guarantee Funds and 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, giving estimates of those amounts.

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.

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1. Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and financial reporting in the ESCB (ECB/2006/16), as amended.

## 2 Balance sheet and profit and loss account

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2008

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	NOTE NUMBER	2008	2007
<b>ASSETS</b>			
<b>1 Gold and gold receivables</b>	<b>1</b>	<b>5,627.29</b>	<b>5,144.72</b>
<b>2 Claims on non-euro area residents denominated in foreign currency</b>		<b>8,378.73</b>	<b>7,498.45</b>
2.1 Receivables from the IFM	2	867.67	589.64
2.2 Balances with banks and security investments, external loans and other external assets	3	7,511.06	6,908.81
<b>3 Claims on euro area residents denominated in foreign currency</b>	<b>4</b>	<b>8,940.60</b>	<b>2,579.16</b>
<b>4 Claims on non-euro area residents denominated in euro</b>		<b>2,929.01</b>	<b>4,973.86</b>
4.1 Balances with banks, securities investments and loans	5	2,929.01	4,973.86
4.2 Claims arising from the credit facility under ERM II		—	—
<b>5 Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>6</b>	<b>92,576.70</b>	<b>71,373.51</b>
5.1 Main refinancing operations		22,168.90	57,247.89
5.2 Longer-term refinancing operations		70,284.55	14,123.44
5.3 Fine-tuning reverse operations		—	—
5.4 Structural reverse operations		—	—
5.5 Marginal lending facility		63.00	—
5.6 Credits related to margin calls		60.25	2.18
<b>6 Other claims on euro area credit institutions denominated in euro</b>	<b>7</b>	<b>2.15</b>	<b>1.91</b>
<b>7 Securities of euro area residents denominated in euro</b>	<b>8</b>	<b>75,903.94</b>	<b>69,696.51</b>
<b>8 General government debt denominated in euro</b>	<b>9</b>	<b>5,248.92</b>	<b>5,832.38</b>
<b>9 Intra-Eurosystem claims</b>	<b>10</b>	<b>4,786.88</b>	<b>4,786.88</b>
9.1 Participating interest in ECB		437.71	437.71
9.2 Claims equivalent to the transfer of foreign reserves		4,349.18	4,349.18
9.3 Net claims related to the allocation of euro banknotes within the Eurosystem		—	—
9.4 Other claims within the Eurosystem (net)		—	—
<b>10 Items in course of settlement</b>		<b>0.77</b>	<b>0.85</b>
<b>11 Other assets</b>		<b>4,592.75</b>	<b>3,340.39</b>
11.1 Tangible and intangible fixed assets	11	235.85	229.93
11.2 Other financial assets	12	49.57	51.39
11.3 Off-balance sheet instruments revaluation differences	13	620.86	103.38
11.4 Accruals and prepaid expenses	14	2,430.26	1,795.09
11.5 Sundry	15	1,256.21	1,160.59
<b>TOTAL ASSETS</b>		<b>208,987.73</b>	<b>175,228.63</b>

	NOTE NUMBER	2008	2007
<b>LIABILITIES</b>			
<b>1 Banknotes in circulation</b>	<b>16</b>	<b>76,018.16</b>	<b>67,612.95</b>
<b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>17</b>	<b>54,314.92</b>	<b>52,320.79</b>
2.1 Current accounts (covering the minimum reserve system)		24,136.03	38,327.45
2.2 Deposit facility		30,106.40	215.00
2.3 Fixed-term deposits		—	13,775.00
2.4 Fine-tuning reverse operations		—	—
2.5 Deposits related to margin calls		72.49	3.34
<b>3 Other liabilities to euro area credit institutions denominated in euro</b>		<b>—</b>	<b>—</b>
<b>4 Debt certificates issued</b>		<b>—</b>	<b>—</b>
<b>5 Liabilities to other euro area residents denominated in euro</b>		<b>20,544.59</b>	<b>20,355.60</b>
5.1 General government	18	18,770.52	18,030.35
5.2 Other liabilities	19	1,774.07	2,325.25
<b>6 Liabilities to non-euro area residents denominated in euro</b>	<b>20</b>	<b>172.27</b>	<b>157.98</b>
<b>7 Liabilities to euro area residents denominated in foreign currency</b>		<b>1.47</b>	<b>1.24</b>
<b>8 Liabilities to non-euro area residents denominated in foreign currency</b>		<b>71.85</b>	<b>117.03</b>
8.1 Deposits, balances and other liabilities	21	71.85	117.03
8.2 Liabilities arising from the credit facility under ERM II		—	—
<b>9 Counterpart of special drawing rights allocated by the IMF</b>	<b>22</b>	<b>330.12</b>	<b>320.92</b>
<b>10 Intra-Eurosystem liabilities</b>	<b>23</b>	<b>42,046.77</b>	<b>21,141.50</b>
10.1 Net liabilities related to the allocation of euro banknotes within the Eurosystem		7,125.42	17,903.61
10.2 Other liabilities within the Eurosystem (net)		34,921.35	3,237.89
<b>11 Items in course of settlement</b>	<b>24</b>	<b>246.64</b>	<b>239.89</b>
<b>12 Other liabilities</b>		<b>491.58</b>	<b>578.85</b>
12.1 Off-balance-sheet instruments revaluation differences	25	—	—
12.2 Accruals and income collected in advance	26	220.16	293.32
12.3 Sundry	27	271.42	285.53
<b>13 Provisions</b>	<b>28</b>	<b>4,847.66</b>	<b>4,005.81</b>
<b>14 Revaluation accounts</b>	<b>29</b>	<b>5,811.51</b>	<b>4,371.09</b>
<b>15 Capital and reserves</b>		<b>2,000.00</b>	<b>2,000.00</b>
15.1 Capital	30	1,000.00	1,000.00
15.2 Reserves	31	1,000.00	1,000.00
<b>16 Profit for the year</b>	<b>32</b>	<b>2,090.19</b>	<b>2,004.98</b>
<b>TOTAL LIABILITIES</b>		<b>208,987.73</b>	<b>175,228.63</b>


	NOTE NUMBER	2008	2007
1 Interest income	1	6,207.26	5,060.38
2 Interest expense	2	2,873.86	2,177.94
<b>3 Net interest income (1 – 2)</b>		<b>3,333.41</b>	<b>2,882.43</b>
4 Realised gains/losses arising from financial operations	3	108.62	1,745.19
5 Write-downs on financial assets and positions	4	16.13	529.44
6 Transfer to/from provisions for foreign exchange rate and price risks	5	319.99	1,688.56
<b>7 Net result of financial operations, write-downs and risk provisions (4 – 5 – 6)</b>		<b>-227.50</b>	<b>-472.81</b>
8 Fees and commissions income		23.33	19.09
9 Fees and commissions expense		11.04	7.27
<b>10 Net income from fees and commissions (8 – 9)</b>	<b>6</b>	<b>12.29</b>	<b>11.82</b>
11 Income from equity shares and participating interests	7	144.71	9.68
12 Net result of pooling of monetary income	8	-684.56	37.25
13 Other income and losses	9	-4.35	-22.95
<b>14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)</b>		<b>2,573.99</b>	<b>2,445.42</b>
15 Staff costs	10	223.63	211.10
16 Administrative expenses	11	132.80	113.98
17 Depreciation of tangible and intangible fixed assets	12	23.35	20.12
18 Banknote production services	13	65.08	70.95
19 Other expenses		2.28	2.35
<b>20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)</b>		<b>447.15</b>	<b>418.49</b>
21 Transfers and additions to other funds and provisions	14	36.65	21.95
<b>22 PROFIT FOR THE YEAR (14 – 20 – 21)</b>	<b>15</b>	<b>2,090.19</b>	<b>2,004.98</b>

Countersigned by  
The Governor,



MIGUEL FERNÁNDEZ ORDÓÑEZ

The Comptroller,



ANTONIO ROSAS

### 3 Notes on the accounts

#### 3.1 Accounting policies

##### 1 BASIC PRINCIPLES

The following accounting principles have been applied in formulating the annual accounts: economic reality and transparency, going concern, prudence, recognition of post-balance-sheet events, materiality, the accruals principle, and consistency and comparability.

##### 2 BASIS OF ACCOUNTING

The 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 shall be 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 transactions are recognised at the trade date.

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

##### Gold

Gold is recorded at acquisition cost,<sup>2</sup> 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 expense 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, affecting the foreign currency position from that date. Gains and losses on the spot sale of foreign currencies are similarly considered to be realised from the settlement date. Meanwhile, foreign exchange forward purchase and sale transactions shall be recognised in off-balance-sheet accounts at the spot date of the transaction, affecting the foreign currency position as at that date. The gain or loss on the

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2. As at 31/12/1998 its acquisition cost was adjusted to the market price then prevailing and the unrealised gains were credited to revaluation accounts. These gains are subsequently credited to profit and loss when the asset is sold or, alternatively, they are used to offset unrealised losses.

transaction shall also be considered to be realised on that date. If a period-end falls between the trade date and the spot settlement date, the transactions have to be recognised at the trade date.

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

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

Accrued interest denominated in foreign currency is recorded on a daily basis using the mid-market rate on each day. If the rate on the relevant day is not available, the latest mid-market rate available shall be applied. Accrued interest receivable or payable denominated in foreign currency shall form part of the foreign currency position.

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

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

#### Foreign banknotes

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

#### Special drawing rights (SDRs)

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

#### Securities

The Banco de España holds two separate securities portfolios: a trading portfolio and a held-to-maturity portfolio.

In both cases, the securities are recorded initially at acquisition cost, which is determined by the cash amount paid, less any accrued gross coupon.

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 circumstances and with the authorisation of the Operations Committee.

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 (with the exception of unrealised losses at year-end) are reflected in adjustment accounts and credited or debited, respectively, to revaluation and expense 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. These unrealised losses are considered irreversible.

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

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. These accruals are recorded daily.

The above references to acquisition cost and market prices shall, in relation to securities denominated in foreign currency, be understood to refer to the currency concerned, these amounts being 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 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 separate account and the relevant provision set aside.

Loans to financial institutions and balances with EU central banks

These are valued at their nominal amount.

Loans to the State

In accordance with the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2006/16), they are valued at nominal amount (see Notes 9 and 28 to the balance sheet and Note 5 to the profit and loss account).

Shares and participating interests

Shares and participating interests in national and/or international institutions, including the participating interest in the European Central Bank (ECB), are valued at cost. The participating interest in Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros S.A. is valued at its underlying book value.

Tangible and intangible fixed assets

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

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

Fixed assets are deemed not to include those assets which, although meeting the conditions to be classed as such (i.e. they are non-financial assets owned by the Bank that are intended 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), 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.

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 the cost of which does not exceed €300,000 are recorded directly as expenses and are not eligible for subsequent capitalisation.

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 or amortised 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 assets similar to the one whose residual value may be received. Land, the art collection, artistic heritage and fixed assets under construction are not depreciated.

The depreciation/amortisation rates and estimated useful lives applied to the various fixed assets in 2008 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	20	5
Industrial property	—	Number of years of exclusive use

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 national central banks (NCBs), which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002.<sup>3</sup> The total value of euro banknotes in circulation is recorded by allocating to each Eurosystem NCB, on the last working day of each month, an amount based on the banknote allocation key.<sup>4</sup>

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

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 also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,<sup>5</sup> 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 are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the specified reference period<sup>6</sup> 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 offset amount corresponding to each of them under the aforementioned calculation method. This amount 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.

In accordance with the ECB Decision of 17 November 2005 (ECB/2005/11) on the distribution of the income of the ECB on euro banknotes in circulation to the national central banks (NCBs) of the participating Member States, this income arising from the 8% share of euro banknotes allocated to the ECB belongs to the NCBs and shall be distributed to them annually. This Decision stipulates however that the ECB's Governing Council may decide before the end of the financial year to transfer part or all of this income to an ECB provision for foreign exchange rate, interest rate and gold price risks. The ECB Governing Council may also decide before the end of the financial year not to distribute part or all of this income if it expects that the ECB will

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<sup>3</sup>. Decision of the European Central Bank of 6 December 2001 on the issue of euro banknotes (ECB/2001/15), OJ L 337, 20.12.2001, as amended. <sup>4</sup>. The banknote allocation key is that which results from applying 92% to the Eurosystem subscribed capital key. <sup>5</sup>. Decision of the European Central Bank of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002 to 2007, inclusive (ECB/2001/16), OJ L 337, 20.12.2001, as amended. <sup>6</sup>. The reference period taken has a duration of 24 months and it begins 30 months prior to the euro cash changeover date.

incur a loss or that its net profit for that year may be less than the amount of seigniorage income on its euro banknotes in circulation. Finally, the distribution of this income may be reduced in accordance with any decision by the ECB's Governing Council in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes.

#### 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 TARGET2<sup>7</sup> among the national central banks 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, from the outcome of the contribution and allocation of monetary income and from the positions vis-à-vis the ECB owing to the deferral of sundry receipts and payments.

In the case of TARGET2 operations, the resulting balance is included as an asset or liability, as appropriate, under the 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. 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 transferred to a revaluation account.

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.

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 internal rate of return method.

#### Pension Scheme

The Pension Scheme for Bank employees is of the defined-contribution type. The Pension Fund is external and closed-end. Contributions made by the Banco de España on behalf of the employees who, having joined the Bank after 1/2/1986, are eligible to and do participate in the Scheme, are established at 7.5% of the so-called "regulating salary", consisting of the salary items determined in the Scheme Rules. The amounts contributed by the Bank are recognised as a current expense in the year to which they relate.

#### Off-balance-sheet positions<sup>8</sup>

Foreign exchange forward currency positions, which comprise 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.

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7. Trans-European Automated Real-time Gross settlement Express Transfer system. 8. 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 11.3 on the assets side or item 12.1 on the liabilities side, depending on their sign.

As a general rule, profits and losses arising from off-balance-sheet positions are recognised and treated in a similar manner to those arising from on-balance-sheet assets and liabilities. Specifically, in application of the economic approach, the gains and losses on positions in interest rate futures are considered to be realised at the time when they are settled net each day. In the case of futures denominated in foreign currency, such settlements shall affect the foreign currency position on the day on which they take place.

**Post-balance-sheet events** Assets and liabilities are adjusted to reflect events that occur between the annual balance sheet date and the date on which the Governing Council formulates the financial statements if such events materially affect the asset-liability position.

**Other matters** In view of the nature of the Banco de España, it is considered that the publication of a statement of cash flows would not provide any significant additional information to the users of the financial statements.

### 3.2 Notes on the balance sheet

#### 1 GOLD AND GOLD RECEIVABLES

The Banco de España's gold holdings amount to €5,627.29 million, consisting of 9.054 million troy ounces<sup>9</sup> of fine gold valued at €621.54 per ounce. The value of these holdings is €482.57 million more than in 2007, as a result of the rise in the market price (at end-2007 the price per ounce was €568.24).

#### 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 International Monetary Fund (IMF) in the reserve tranche. This is the euro equivalent of the SDRs relating to the foreign currencies assigned to the IMF due to Spain's initial quota and successive increases in it and due to the net financing granted to the IMF.
- b) Special drawing rights (allocations). These represent the euro equivalent of the successive allocations of this currency by the IMF. The changes in allocations are mainly due to loan agreement transactions with third countries 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 Poverty Reduction and Growth Facility. This fund is used to finance low-interest loans to the poorest countries. The Banco de España has undertaken to contribute a maximum of SDR 425 million to this fund.

The breakdown in 2007 and 2008 is as follows:

EUR m				
	Type of asset	2008	2007	Change
	Reserve tranche position	466.58	217.00	249.58
	Special drawing rights (allocation)	160.10	250.74	-90.64
	Other claims on the IMF	240.99	121.91	119.09
	<b>TOTAL</b>	<b>867.67</b>	<b>589.64</b>	<b>278.03</b>

9. One troy ounce is equal to 31.1035 grams.

The overall amount of claims on the IMF increased by €278.03 million with respect to the balance at end-2007.

The increase in the reserve tranche position account (€249.58 million) is basically due to the Banco de España's net contributions to the IMF for loans to third countries (Turkey, Pakistan, Latvia and Ukraine). Of this increase, €236.57 million related to the net increase in amounts denominated in foreign currencies and the remaining €13.01 million to the change in market foreign exchange rates between the two years. Spain's IMF quota was not changed in 2008, remaining at SDR3,048.90 million.

The decrease of 90.64 million in the special drawings rights (allocation) account was due to the fall in the amounts denominated in foreign currency (€95.10 million), offset partly (€4.46 million) by the change in market foreign exchange rates between the two years.

The increase in the "Other claims on the IMF" account (€119.09 million) is due to the Banco de España's contributions to the IMF's PRGF III programme. Of this increase, €112.37 million related to the net increase in amounts denominated in foreign currencies and the remaining €6.72 million to the change in market foreign exchange rates between the two years.

SDRs are valued at the year-end market rate, calculated by the ECB for all the Eurosystem national central banks, of €1= SDR 0.905141. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of four major currencies: the US dollar, the euro, the yen and the pound sterling. The interest rate, which is updated weekly, remained between 0.82% and 3.50% during the year.

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 with fixed maturity which the Banco de España intends to hold to maturity.

In accordance with the ECB Guideline of 11 December 2008 (ECB/2008/21), the Banco de España included in this item as at 31 December 2008 its held-to-maturity portfolio of securities representing claims on non-euro area residents in foreign currency, which until that date had been classified in asset item 11.2 "Other financial assets". The 2007 figures have been adjusted to reflect the reclassification of this portfolio.

The total amount as at 31 December 2008 was €7,511.06 million, with the following breakdown:

EUR m				
Type of asset	2008	2007	Change	
Deposits	95.69	492.29	-396.60	
Security investments	7,413.75	6,416.22	997.53	
Trading portfolio	3,374.09	2,667.19	706.91	
Held-to-maturity portfolio	4,039.65	3,749.03	290.63	
Other	1.62	0.31	1.31	
<b>TOTAL</b>	<b>7,511.06</b>	<b>6,908.81</b>	<b>602.25</b>	

As at 31 December 2008, 99.94% of these assets were denominated in US dollars. The equivalent value in euro of this US dollar amount was transferred to the balance sheet at the year-end market exchange rate (€1= USD 1.3917).

The increase in the balance of this item (€602.25 million) was due to the net effect of the factors listed in the following table:

EUR m		
	Reason for change	Amount
	Net investment	79.09
	Changes in market exchange rates as at 31 December	409.85
	Changes in securities market prices as at 31 December	92.38
	Accrued interest receivable	20.72
	Other	0.21
	<b>TOTAL</b>	<b>602.25</b>

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 2008, US dollar denominated deposits at monetary financial institutions equivalent to €718.55 million were held. The year-end balance also includes a claim arising from reverse operations with Eurosystem counterparties amounting to €8,222.03 million in connection with the US dollar Term Auction Facility. Under this program, US dollars were 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 entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct dollar liquidity-providing operations with the Eurosystem counterparties in the form of repos and received euro-denominated securities from them as collateral. These back-to-back swap transactions between the ECB and the Eurosystem NCBs give rise to intra-Eurosystem balances reported under "Other liabilities within the Eurosystem (net)".

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 with fixed maturity which the Banco de España intends to hold to maturity.

In accordance with ECB Guideline of 11 December 2008 (ECB/2008/21), the Banco de España included under this heading as at 31 December 2008 its held-to-maturity portfolio of securities representing claims on non-euro area residents in euro, which until that date had been classified in asset item 11.2 "Other financial assets". The 2007 figures have been adjusted to reflect the reclassification of this portfolio. The breakdown is as follows:

EUR m				
Type of asset	2008	2007	Change	
Balances with banks	0.22	0.56	-0.34	
Security investments	2,928.78	4,973.30	-2,044.52	
Trading portfolio	110.41	593.73	-483.32	
Held-to-maturity portfolio	2,818.37	4,379.57	-1,561.20	
<b>TOTAL</b>	<b>2,929.01</b>	<b>4,973.86</b>	<b>-2,044.86</b>	

Of the total of this heading (€2,929.01 million), substantially all (€2,818.37 million) relates to fixed-income securities included in the held-to-maturity portfolio, which, however, decreased by €1,561.20 million with respect to the balance as at 31.12.2007. The securities included in

6 LENDING TO EURO AREA  
CREDIT INSTITUTIONS RELATED  
TO MONETARY POLICY  
OPERATIONS DENOMINATED IN  
EURO

the trading portfolio are securities issued in euro by international agencies (European Investment Bank) and their balance decreased in 2008 by €483.32 with respect to the previous year.

This item includes the amount of the euro-denominated lending to euro area credit institutions through which monetary policy is implemented. The breakdown by type of transaction is as follows:

EUR m			
Type of operation	2008	2007	Change
Main refinancing operations	22,168.90	57,247.89	-35,078.98
Longer-term refinancing operations	70,284.55	14,123.44	56,161.11
Fine-tuning reverse operations	—	—	—
Structural reverse operations	—	—	—
Marginal lending facility	63,00	—	63,00
Credits related to margin calls	60.25	2.18	58.07
<b>TOTAL</b>	<b>92,576.70</b>	<b>71,373.51</b>	<b>21,203.20</b>

Throughout the whole of 2008, against a background of money market tensions in the euro area, the ECB conducted liquidity-providing operations of various maturities to meet the additional liquidity demands and hold short-term interest rates near to the minimum bid rate on main refinancing operations.

The balance of this item as at 31 December 2008 exceeds that of 2007 by 29.71%. The average daily balance of the financing granted during the year increased by 119.50% (€56,946.04 million in 2008, against €25,943.00 million in 2007).

36.52% of the annual average balance of daily financing was extended through “Main refinancing operations” and another 63.23% was granted under “Longer-term refinancing operations”, which represents a very significant increase with respect to the previous year. Only 0.25% of this balance was financed through other instruments.

a. Main refinancing operations

These operations play a pivotal role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance. They are executed through liquidity-providing reverse transactions with a weekly frequency and a maturity of one week, normally by means of standard tenders. Nevertheless, from October 2008, the operations are conducted at fixed rate with allotment of the total amount bid.

The balance of this item as at 31.12.2008 was €22,168.90 million. This was €35,078.98 million less than that at 31.12.2007. The average amount of financing granted via these operations, however, increased from €18,267.70 million in 2007 to €20,794.04 million in 2008, for the reasons stated above.

b. Longer-term refinancing operations

These operations aim to provide counterparties with additional longer-term refinancing. They are executed through liquidity-providing reverse transactions with a monthly frequency and a maturity of three months, normally by means of standard tenders. However, to improve liquidity provision in the Eurosystem in 2008, these regular main longer-term refinancing operations were accompanied by other supplementary longer-term refinancing operations with maturities of three and six months, as well as by financing operations with special maturities equal to the

reserve maintenance period. From October 2008 these operations are also being conducted at fixed rate with allocation of the whole amount bid.

The balance of this item of €70,284.55 million as at 31 December 2008 was €56,161.11 million higher than in the previous year. Similarly, its average balance rose from €7,643.75 million to €36,009.21. This increase was for the reasons explained above.

c. Fine-tuning reverse operations

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

Their balance at end-2008 was zero, as it was at the previous year-end, although eight fine-tuning reverse operations took place in the Eurosystem during the year. Financing was obtained by Spanish credit institutions in all of them. The average balance of these operations in 2008 was €64.47 million (€27.50 million in 2007)

d. Structural reverse operations

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

The end-2008 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 national central banks at a pre-specified interest rate against eligible assets. This interest rate is penalised with respect to the intervention rate set in the weekly tenders or in main refinancing operations.

The balance at the end of 2008 was €63.00 million. There were many of these operations during the year for the aforementioned reasons and, as a result, the average balance increased significantly from €0.16 million in 2007 to €67.50 million in 2008.

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 adequate underlying assets accepted by the system as eligible for use as collateral. If, after daily valuation, the 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 17). If the market value of the underlying assets, following their revaluation, exceeds the amount of the financing obtained from the national central bank 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 national central banks 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 are remunerated at the interest rate applied in main refinancing operations.

As at 31.12.2008 this item had a balance of €60.25 million, up €58.07 million with respect to the previous year.

7 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

This item includes claims on credit institutions unrelated to monetary policy operations. Its balance of €2.15 million as at 31.12.2008, which includes the amount of the correspondent accounts in euro with euro area credit institutions, is €0.24 million higher than in 2007.

8 SECURITIES OF EURO AREA  
RESIDENTS DENOMINATED IN  
EURO

This item includes that part of the Bank's trading and held-to-maturity portfolio which consists of euro-denominated fixed-income securities issued by euro area residents. The held-to-maturity portfolio consists of securities with fixed or determinable payments and a fixed maturity which the Banco de España intends to hold until maturity. In accordance with ECB Guideline of 11 December 2008 (ECB/2008/21), the Banco de España included in this item as at 31 December 2008 its held-to-maturity portfolio of euro-denominated securities issued by euro area residents, which until that date had been classified in asset item 11.2 "Other financial assets". The 2007 figures have been adjusted to enable comparison with 2008. The breakdown of this item is as follows:

EUR m			
Security investments	2008	2007	Change
Trading portfolio	42,293.25	29,341.38	12,951.87
Held-to-maturity portfolio	33,610.69	40,355.14	-6,744.45
<b>TOTAL</b>	<b>75,903.94</b>	<b>69,696.51</b>	<b>6,207.42</b>

The balance of this item as at 31 December 2008 was €75,903.94 million, of which 55.72% relate to trading portfolio securities and the remainder (44.28%) to held-to-maturity securities.

Overall, these securities increased by €6,207.42 million in 2008. It was, however, trading securities which underwent an increase, of €12,951.87 million, whereas held-to-maturity securities decreased by €6,744.45 million.

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 of securities	12,136.12	-6,779.18	5,356.93
Unrealised gains at year-end (a)	811.57	—	811.57
Unrealised losses at year-end (a)	-15.88	—	-15.88
Accrued implicit interest	20.06	34.74	54.80
<b>TOTAL</b>	<b>12,951.87</b>	<b>-6,744.45</b>	<b>6,207.42</b>

a. As stated in Section 3.1 "Accounting policies", the held-to-maturity portfolio is not valued periodically.

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.

9 GENERAL GOVERNMENT  
DEBT DENOMINATED IN EURO

This item includes loans which, by virtue of their respective laws of creation, were granted to the State prior to the entry into force of Law 21/1993 of 29 of December 1993 on the State budget for 1994. Initially they were to be repaid at their nominal amount on a straight-line basis over twenty-five years by means of yearly payments as from 1999, inclusive, in accordance with transitional provision seven of the aforementioned law. However, on 26 March 2007 an agreement was entered into with the central government, represented by the Director General of the Treasury and Financial Policy by delegation of the Minister of Economy and Finance, to bring forward the repayment schedule of these loans, such that they mature in full by 2015 at

the latest and the Treasury can request early repayment of all or part of them. Loans repaid early are paid by the Treasury at the cash amount of their market value at the time.

Under that agreement, in 2008 two instalments of the Law 3/1983 loan (that of the reporting year and the last outstanding instalment of the original repayment schedule) and the instalments of the other two loans corresponding to the reporting year were paid.

The outstanding nominal balance as at 31 December 2008 of the loans granted to the State amounted to €5,248.92 million, broken down as follows:

EUR m			
	2008	2007	Change
Treasury. Law 3/1983 special account	1,366.76	1,562.01	-195.25
Treasury. Law 4/1990 special account	3,473.99	3,821.39	-347.40
Treasury. Credits arising from subscription for participating interests, contributions and quotas in international agencies	408.17	448.99	-40.82
<b>TOTAL</b>	<b>5,248.92</b>	<b>5,832.38</b>	<b>-583.47</b>

The change was solely due to yearly repayments on the above-mentioned loans, as set out above. The amounts are shown in the above table.

#### 10 INTRA-EUROSISTEM BALANCES

This heading includes the amounts of the following items:

EUR m			
Type of asset	2008	2007	Change
Participating interest in the ECB	437.71	437.71	—
Claims equivalent to the transfer of foreign reserve assets to the ECB	4,349.18	4,349.18	—
Net claims related to the allocation of euro banknotes within the Eurosystem	—	—	—
Other claims within the Eurosystem (net)	—	—	—
<b>TOTAL</b>	<b>4,786.88</b>	<b>4,786.88</b>	<b>—</b>

##### a. Participating interest in the ECB

As at 31 December 2008 this item totalled €437.71 million. This total amount is divided into two components: participating interest in capital and participating interest in equity excluding capital. Regarding the first of these components, the capital subscribed and paid by the Banco de España amounted to €434.92 million, which is equal to a share of 7.5498% in such capital. This percentage is that corresponding to the Banco de España in accordance with the capital key established using European Commission data on the basis of Spain's population and GDP relative to those of the total ESCB countries. The second component (participating interest in ECB equity excluding capital) amounted at that date to €2.79 million, which is the amount of the cost paid due to the adjustments to the ECB capital key.

Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks 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, which must be adjusted every five years or

whenever new Member States join the European Union and their NCBs thus join the ESCB. A noteworthy post-balance-sheet event was the second five-yearly change in the capital keys on 1 January 2009. Based on the Council Decision of 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank, the capital key of the Banco de España was increased from 7.5498% to 8.3040%.

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

These represent 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. Their end-2008 balance amounted to €4,349.18 million, the same as in the previous year. A noteworthy post-balance-sheet event was that, due to the increase in the Banco de España's share of the ECB capital key on 1 January 2009, an additional contribution of foreign reserve assets was made to the ECB for the equivalent of €434.47 million, as a result of which the balance this year rose to €4,783.65 million.

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

In accordance with Eurosystem rules, since the accounts making up this item have a net credit balance, this information is presented on the liabilities side of 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.

11 TANGIBLE AND INTANGIBLE FIXED ASSETS

The balance of this item amounted to €235.85 million at end-2008, of which €531.91 million related to cost and €296.07 to accumulated depreciation.

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

EUR m	2008	2007	Change
<b>TANGIBLE FIXED ASSETS</b>	449.21	429.56	19.65
Land and unbuilt plots	5.35	5.35	0.00
Buildings, structures and renovation work	103.11	99.28	3.83
Plant in buildings	146.91	137.70	9.21
Furniture and fittings	34.98	33.24	1.74
Office machines other than computer equipment	43.54	43.10	0.44
Computer equipment	54.77	51.20	3.56
Transport equipment	8.54	9.06	-0.51
Libraries	9.78	9.23	0.55
Other tangible fixed assets	3.74	3.26	0.48
Art collection and artistic heritage	38.49	38.14	0.35
<b>INTANGIBLE FIXED ASSETS</b>	47.51	40.18	7.32
Computer applications	47.45	40.13	7.32
Industrial property	0.06	0.06	0.00
<b>FIXED ASSETS IN PROGRESS</b>	35.19	35.62	-0.42
Buildings, plant in buildings and other structures under construction	28.81	30.91	-2.11
Computer applications under development	5.50	4.31	1.19
Other fixed assets in progress	0.89	0.40	0.50
<b>TOTAL</b>	531.91	505.36	26.55

EUR m			
Accumulated depreciation or amortisation	2008	2007	Change
TANGIBLE FIXED ASSETS	-263.30	-247.11	-16.20
Buildings, structures and renovation work	-30.60	-28.24	-2.37
Plant in buildings	-114.71	-109.87	-4.84
Furniture and fittings	-21.62	-20.24	-1.38
Office machines other than computer equipment	-37.72	-36.30	-1.42
Computer equipment	-42.75	-37.80	-4.95
Transport equipment	-5.68	-5.28	-0.40
Libraries	-7.09	-6.59	-0.50
Other tangible fixed assets	-3.13	-2.79	-0.34
INTANGIBLE FIXED ASSETS	-32.76	-28.32	-4.44
Computer applications	-32.71	-28.27	-4.44
Industrial property	-0.05	-0.05	—
TOTAL	-296.07	-275.43	-20.64

The increase in fixed assets in 2008 basically arose from investment in fire detection and fire-extinction facilities in Madrid buildings and in the refurbishment of those buildings.<sup>10</sup> Also noteworthy was the increase in investments in computer hardware and in the development of certain software.

## 12 OTHER FINANCIAL ASSETS

On 31 December 2008 the Banco de España reclassified its held-to-maturity portfolio securities from this heading to the items which, up to then, had been used for trading securities, i.e. A.2 "Claims on non-euro area residents denominated in foreign currency", A.3 "Claims on euro area residents denominated in foreign currency", A.4 "Claims on non-euro area residents denominated in euro" and A.7 "Securities of euro area residents denominated in euro", depending on the residence of the issuer and on the currency of denomination. This reclassification was carried out on a harmonised basis in the Eurosystem, in accordance with the ECB Guideline of 11 December 2008 (ECB/2008/21).

This item includes €49.57 million of financial investments relating basically to the Banco de España's participating interests in the Bank for International Settlements and Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. The decrease of €1.82 million in these financial assets was due to the decrease in the underlying book value of the shares of the latter.

## 13 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 balance of €620.86 million as at end-2008 is the net value of the swap transactions outstanding at that date. This includes the outstanding swaps with the ECB under the US dollar Term Auction Facility programme with the Federal Reserve. It also includes the outstanding swaps at year-end with the ECB and with the financial institutions arising under the cooperation agreement to provide liquidity in Swiss francs. Under this agreement, the National Bank of Switzerland provided Swiss francs to the ECB by means of swaps against euro. The ECB simultaneously entered into back-to-back swap transactions with Eurosystem NCBs which

<sup>10</sup> The refurbishment of buildings is accounted for as an addition to fixed assets if it meets the criteria set out in Section 3.1 "Accounting policies" in regard to tangible and intangible fixed assets.

used the resulting funds to conduct Swiss franc liquidity-providing operations with the Eurosystem counterparties in the form of swaps. These back-to-back swap transactions between the ECB and the Eurosystem NCBs resulted in intra-Eurosystem balances reported under “Other liabilities within the Eurosystem (net)”.

#### 14 ACCRUALS AND PREPAID EXPENSES

The main components of this item, the balance of which amounts to €2,430.26 million, are as follows:

EUR m	2008	2007	Change
ACCRUED INTEREST ARISING FROM SECURITIES ACQUISITIONS AND ACCRUED COUPON INTEREST RECEIVABLE	1,680.49	1,455.54	224.94
Trading portfolio	873.40	486.21	387.19
<i>Denominated in foreign currency</i>	16.81	22.86	-6.05
<i>Denominated in euro</i>	856.59	463.35	393.24
Held-to-maturity portfolio	807.08	969.33	-162.25
<i>Denominated in foreign currency</i>	35.49	33.12	2.37
<i>Denominated in euro</i>	771.59	936.21	-164.62
OTHER ACCRUED INTEREST RECEIVABLE	743.57	323.00	420.57
On forward foreign exchange transactions	—	—	—
On swaps	—	—	—
On deposits and other assets denominated in foreign currency	12.38	28.12	-15.74
On claims equivalent to the transfer of foreign reserves to the ECB	151.70	147.34	4.35
On other intra-Eurosystem claims arising from TARGET transactions	—	1.19	-1.19
On exceptional liquidity-providing operations	18.25	1.80	16.45
On loans collateralised by securities	544.62	101.69	442.94
Other	16.63	42.86	-26.23
ACCRUED COMMISSIONS RECEIVABLE AND PREPAID EXPENSES	1.81	12.28	-10.47
ACCRUED DIVIDENDS RECEIVABLE	4.40	4.26	0.13
TOTAL	2,430.26	1,795.09	635.18

As can be seen from the foregoing table, the most significant accounts are accrued interest arising from securities acquisitions and accrued coupon interest receivable denominated in euro arising from the trading portfolio (€856.59 million) and from the held-to-maturity portfolio (€771.59 million). There was also a significant increase in the accrued interest receivable on loans collateralised by securities, due to the larger volume of transactions outstanding at year-end.

#### 15 OTHER ASSETS. SUNDRY

The most significant components of this item, which totals €1,256.21 million, are the transfer to the Treasury on 29 December 2008 of €1,053.82 million, equivalent to 70% of 80% of the Bank's distributable profits earned to 30 September 2008 (see Note 15 on the profit and loss account), which was €72.61 million higher than in the previous year, and the home loans and repayable advances granted to Bank employees, the balance of which, at €189.10 million, was up by €22.04 million.

## 16 BANKNOTES IN CIRCULATION

The balance of banknotes in circulation (€76,018.16 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 (9.9660%<sup>11</sup> of the total issue by all the central banks) after deducting those corresponding to the ECB (8% of the total). This balance was €8,405.20 million higher than in the previous year because of the greater volume of euro banknotes in circulation in the Eurosystem.

## 17 LIABILITIES TO EURO AREA CREDIT INSTITUTIONS RELATED

The overall balance of the different types of deposit held by credit institutions with the Banco de España amounted to €54,314.92 million at end-2008, €1,994.14 million more than in the previous year. This higher balance was due to the increase in the deposit facility, offset in part by the decrease in the balances of the "Current accounts (covering the minimum reserve system)" and "Fixed-term deposits" items.

The breakdown is as follows:

EUR m				
Type of liability	2008	2007	Change	
Current accounts (covering the minimum reserve system)	24,136.03	38,327.45	-14,191.41	
Deposit facility	30,106.40	215.00	29,891.40	
Fixed-term deposits	—	13,775.00	-13,775.00	
Fine-tuning reverse operations	—	—	—	
Deposits related to margin calls	72.49	3.34	69.15	
<b>TOTAL</b>	<b>54,314.92</b>	<b>52,320.79</b>	<b>1,994.14</b>	

The first component, which includes the different types of 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 a decrease of €14,191.41 million. However, if the average balance of these accounts is analysed, there was an increase from €20,355.55 million in 2007 to €24,009.94 million in 2008.

The item "Deposit facility", which includes overnight deposits remunerated at a fixed interest rate, increased significantly from €215.00 million in 2007 to €30,106.40 million in 2008. An increase was also seen in the average balance of these deposits over the year (which rose from €28.87 million to €6,777.25 million). The greater use of this facility by institutions was due to the tensions in the money market in 2008.

As regards fixed-term deposits, there was no balance as at 31 December 2008, while that at end-2007 was €13,775.00 million. These deposits are related to the ECB's decision to conduct liquidity absorbing operations to hold short-term money market interest rates at a level near the minimum bid rate on Eurosystem main refinancing operations. They are thus fine-tuning operations that take the form of deposits. Spanish institutions participated in these liquidity withdrawals in the seventeen operations conducted by the Eurosystem in 2008.

Also included in this item are the deposits placed by credit institutions in relation to fine-tuning reverse operations and deposits related to margin calls. As at 31.12.2008, institutions' balances of deposits related to margin calls amounted to €72.49 million (€3.34 million in 2007).

<sup>11</sup> Following the five-yearly revision of the Eurosystem national central banks' share of the ECB capital key and the accession of Slovakia to the Eurosystem on 1 January 2009, the banknote allocation key is 10.9465%.

18 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 €18,770.52 million, which breaks down as follows:

EUR m	2008	2007	Change
Central government (State)	7,086.58	4,193.50	2,893.08
<i>Treasury current account</i>	4,501.72	164.79	
<i>Other central government agencies and similar bodies</i>	2,584.86	4,028.71	
Territorial government	1,880.97	653.36	1,227.61
<i>Regional (autonomous) governments, administrative agencies and similar bodies</i>	1,875.53	648.41	
<i>Local government</i>	5.44	4.95	
Social security funds	9,802.98	13,183.49	-3,380.52
<i>Social Security System</i>	8,939.17	11,215.36	
<i>Other</i>	863.81	1,968.14	
<b>TOTAL</b>	<b>18,770.52</b>	<b>18,030.35</b>	<b>740.17</b>

The increase in the balance of this item (€740.17 million) was basically due to the rise in balances held by the Treasury, regional (autonomous) governments, other government agencies and similar bodies, while the balance of Social Security funds declined.

19 LIABILITIES TO OTHER EURO  
AREA RESIDENTS DENOMINATED  
IN EURO.—OTHER LIABILITIES

Included here are the current accounts of financial institutions other than credit institutions, such as the Deposit Guarantee Funds, other financial intermediaries associated with securities markets settlement, other intermediaries in the debt book-entry 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".

The balance at end-2008 was €1,774.07 million, and its decrease of €551.18 million with respect to end-2007 was basically due to the decrease in the balances of the current accounts of State agencies (€552.55 million).

20 LIABILITIES TO NON-EURO  
AREA RESIDENTS DENOMINATED  
IN EURO

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. Its balance of €172.27 million was €14.30 million higher than in the previous year.

21 LIABILITIES TO NON-EURO  
AREA RESIDENTS DENOMINATED  
IN FOREIGN CURRENCY.—  
DEPOSITS, BALANCES AND  
OTHER LIABILITIES

This item basically includes the foreign-currency balances of non-euro area central banks and collateralised inward deposits recorded in respect of reverse transactions conducted under repurchase agreements. The year-end balance of the first of these components amounted to €71.85 million (€37.89 million more than at end-2007), while collateralised inward deposits recorded in respect of reverse transactions conducted under repurchase agreements had a balance of zero (€83.07 million at 31.12.2007). Overall, the total balance of this item decreased by €45.18 million.

22 COUNTERPART OF SPECIAL  
DRAWING RIGHTS ALLOCATED BY  
THE IMF

This item of €330.12 million shows the amount of the special drawing rights allocated to Spain by the IMF in proportion to its quota. The total amount of this item increased by €9.20 million with respect to the previous year, due to the variation in the exchange rate.

23 INTRA-EUROSISTEM  
LIABILITIES

This item, which as at 31 December 2008 had a balance of €42,046.77 million, comprises the following:

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

This account, the balance of which amounted to €7,125.42 million at end-2008, 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 (see “Banknotes in circulation” and “Intra-Eurosystem balances” in the section on accounting policies).

Its decrease relative to 2007 (€10,778.19 million) was due to the decrease in banknotes put into circulation by the Banco de España in 2008 (down from €85,516.56 million at 31.12.07 to €83,143.58 million at end-2008 (-2.8%) as compared with the increase in the Eurosystem as a whole (12.7%), which gave rise to the aforementioned decrease in these accounts.

b. Other liabilities within the  
Eurosystem (net)

The balance of €34,921.35 million as at 31 December 2008 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 allocation of monetary income within the Eurosystem pending settlement (see “Net result of pooling of monetary income” in Note 8 on the profit and loss account); 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.

Regarding the first component, the year-end net transfers via TARGET2 had a credit balance of €34,988.89 million, while the correspondent accounts showed a debit balance of €0.15 million. The remuneration of the Banco de España’s debit position vis-à-vis the ECB is calculated daily at the marginal interest rate on Eurosystem main refinancing operations.

The second component, i.e. the position vis-à-vis the ECB in respect of the pooling and annual allocation of monetary income among the Eurosystem national central banks, had a credit balance of €63.22 million at end-2008.

Finally, in regard to the position vis-à-vis the ECB relating to the distribution of income arising from the seigniorage of euro banknotes issued on its behalf by the NCBs, following approval of the Decision of the European Central Bank of 17 November 2005 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States (ECB/2005/11), the income on euro banknotes in circulation earned in each financial year is distributed by the ECB on the second working day of the following year, although the ECB Governing Council may decide before the end of the financial year not to distribute all or part of this income (see “Banknotes in circulation” in Section 3.1.2). This year the ECB Governing Council decided to retain part of the 2008 banknote seigniorage income in order to increase the provision for foreign exchange rate, interest rate and gold price risks set up in 2005. The rest was allocated among the Eurosystem central banks according to their respective keys, the Banco de España being allocated €130.60 million.

24 ITEMS IN COURSE OF  
SETTLEMENT

Included here are various accounts which as at 31.12.2008 were in the course of settlement, such as transfer instructions pending execution and transfers sent to deposit institutions yet to be reimbursed. In 2008 various accounts previously recorded under “Other liabilities. Sundry” were included in this item since, in view of their nature, it was considered more appropriate to classify them here. The amount relating to 2007 which was reclassified was €30.14 million.

Of the total balance of this item (€246.64 million) at year-end, €214.87 million correspond to transfers ordered by credit institutions pending payment at year-end, and €30.90 million relate to transfers received on 31 December 2008 by the Sistema Nacional de Compensación Electrónica (National Electronic Clearing System) that have been settled and are pending payment.

The increase of €6.75 million in this item with respect to the previous year is due to the rise in the balance of the aforementioned accounts (the first by €29.90 million and the second by €7.07 million), partly offset by the lower year-end balance of other liability transactions pending payment.

25 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, as in 2008, it is recorded under the same heading in asset item 11.3 (see Note 13 on the balance sheet).

26 LIABILITY ACCRUAL  
ACCOUNTS AND INCOME  
COLLECTED IN ADVANCE

This item includes interest accrued but not yet paid, expenses accrued but not yet paid and deferred income.

As at 31 December 2008, its balance amounted to €220.16 million, the main component being interest accrued but not yet paid (€211.85 million). The decrease in 2008 (€74.42 million) mainly resulted from the lower interest incurred on intra-Eurosystem accounts relating to the adjustment of banknotes in circulation, interest incurred on minimum reserves and interest incurred on Social Security accounts, partly offset by the increase in interest incurred on intra-Eurosystem accounts relating to TARGET2 transactions and on swaps arranged within the framework of exceptional liquidity-providing transactions in foreign currencies.

27 OTHER LIABILITIES. SUNDRY

This includes other liabilities not classifiable above.

As at 31 December 2008 the balance of this item amounted to €271.42 million and its main component was the “Banco de España employee social welfare scheme (Mutualidad de empleados).—Contributions payable” (€161.78 million). The most significant change was the decrease of €38.11 million in this debt to the employee social welfare scheme.

28 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	2008	2007	Change
For exchange rate and interest rate risks	3,103.92	2,421.95	681.97
For early repayment of special loans	967.75	1,393.21	-425.45
For counterparty risks in Eurosystem monetary policy operations	621.35	—	621.35
For exchange of withdrawn peseta banknotes	37.13	61.83	-24.71
For early and regular retirement	39.05	50.31	-11.25
For death and retirement assistance	70.26	68.88	1.38
For sundry liabilities and charges	8.21	9.65	-1.44
<b>TOTAL</b>	<b>4,847.66</b>	<b>4,005.81</b>	<b>841.85</b>

The most important provision is that "For exchange rate and interest rate risks". It was created by a resolution of the Executive Commission of 26 January 1999 to cover exchange rate risks affecting the external reserves of the Banco de España. Subsequently, on 14 April 2004 the Executive Commission resolved to extend the purpose of this provision to include the coverage of interest rate risk. The balance of this provision as at 31 December 2008 amounted to €3,103.92 million, which was €681.97 more than in 2007 (see Note 5 on the profit and loss account).

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. This review takes into account, in addition to that valuation, a number of factors, including the estimated profit for the coming year, the envisaged behaviour of risk assets and any others deemed to be worthy of consideration under the circumstances.

The agreement in 2007 with the Spanish State government whereby the Treasury can ask to repay a portion or all of these loans early, paying a cash amount equal to their market value instead of their nominal amount, led the Banco de España to set up in that year a provision for losses due to early repayment of special loans, so as to cover the possible losses that may arise from early repayment of these loans (recorded in asset item 8; see Note 9). The balance of this provision was set at the difference between the nominal amount and the current market value of the loans. As at 31.12.2008, its balance amounted to €967.75 million.

In accordance with the general accounting principle of prudence, the ECB Governing Council considered it appropriate to establish a buffer totalling €5,736.00 million against counterparty risks in monetary policy operations. In accordance to Article 32.4 of the ESCB/ECB Statute, this buffer will be funded among all the national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2008. As a result, a provision for €621.35 million equivalent to 10.8324% of the total provision was created.

Finally, there were decreases in the provision recorded for exchange of peseta banknotes withdrawn from circulation (€24.71 million) and in the provision for payments to early and regular retirees (€11.25 million), as a result of the use of these provisions for their intended purpose.

## 29 REVALUATION ACCOUNTS

This item includes the revaluations arising from unrealised gains on financial assets and liabilities. The breakdown is as follows:

EUR m				
Type of account	2008	2007	Change	
GOLD	4,776.85	4,294.28	482.58	
FOREIGN CURRENCY	44.94	0.02	44.91	
SECURITIES	969.98	55.24	914.74	
Issued in foreign currency by non-euro area residents	143.85	43.61	100.24	
Issued in euro by non-euro area residents	2.93	—	2.93	
Issued in euro by euro area residents	823.20	11.62	811.57	
OTHER	19.74	21.56	-1.82	
TOTAL	5,811.51	4,371.09	1,440.41	

The revaluation accounts increased by €1,440.41 million in 2008. The main change was in securities revaluation accounts (€914.74 million), specifically in euro-denominated securities issued by euro-area residents, which increased by €811.57 million as a result of the change in the price of trading portfolio securities due to interest rate movements. Unrealised gains on gold increased by €482.58 million as a result of the rise in its market price. The unrealised gains on foreign currencies increased by €44.91 million, basically due to the appreciation of the US dollar against the euro.

### 30 CAPITAL

As at 31 December 2008 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. This capital increase resulted from the approval by the Council of Ministers on 28 July 2006 of the proposal submitted by the Governing Council of the Banco de España in application of Law 192/1964 that a portion of the 2005 profits, which were retained as permitted by the resolution of the Council of Ministers of 29 July 2005 and by Royal Decree 1198/2005 on the regime governing the payment of Banco de España profits into the Treasury, be used to increase capital at the Bank within the limits authorised by the thirty-eighth additional provision of Law 30/2005 of 29 December 2005 on the State budget for 2006, i.e. until the capital of the Banco de España reaches the figure of €1,000 million.

### 31 RESERVES

As at 31 December 2008 the reserves of the Banco de España amounted to €1,000 million, with no change in the 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 on 28 July 2006 (€496.83 million) and 29 June 2007 (€500 million), respectively, in application of the legal provisions cited in the previous note.

### 32 PROFIT FOR THE YEAR

The net profit for 2008, after deducting the transfer to the Beneficent Social Fund (€21.11 million), amounted to €2,090.19 million, up 4.25% on 2007. Of this amount, €1,053.82 million was paid to the Treasury on 29 December 2008, in accordance with Royal Decree 2059/2008 of 12 December 2008.

During the year, the following amounts were also paid to the Treasury out of 2007 profits:

- a) On 03.03.08, €823.28 million, which, together with the payment in November 2007, amounted to 90% of the €2,004.98 million of distributable profit for that year.
- b) On 13.08.08, once the balance sheet and profit and loss account for the year 2007 had been approved by the Council of Ministers, €200.50 million, representing the rest of the distributable profit for that year.

The details of the various components of the profit for 2008 and the reasons for the changes in them with respect to 2007 are given in Section 3.3 below on the profit and loss account.

## **3.3 Notes on the profit and loss account**

### 1 INTEREST INCOME

This item includes income from interest accrued on the main assets of the Banco de España. The breakdown in 2008 and 2007 is as follows:

EUR m and %

	Interest income			Average investment in 2008	Average yield in 2008
	2008	2007	Change		
<b>FOREIGN CURRENCY</b>	447.24	445.55	1.69	14,352.23	3.1
Securities	278.83	323.73	-44.90	6,557.19	4.2
Deposits and other assets	168.41	121.83	46.59	7,795.03	2.1
<b>EURO</b>	5,760.02	4,614.82	1,145.20	137,902.22	4.1
Securities	3,071.12	2,626.17	444.95	76,464.03	4.0
Monetary policy operations	2,529.06	1,076.76	1,452.30	56,946.04	4.4
Intra-Eurosystem accounts	157.60	910.00	-752.40	4,492.15	3.5
<i>Claims equivalent to the transfer of foreign reserves to the ECB</i>	<i>151.70</i>	<i>147.34</i>	<i>4.35</i>	<i>4,349.18</i>	<i>3.4</i>
<i>Other claims within the Eurosystem (net)</i>	<i>5.91</i>	<i>762.66</i>	<i>-756.75</i>	<i>142.98</i>	<i>4.1</i>
Other assets	2.24	1.89	0.35	—	—
<b>TOTAL</b>	6,207.26	5,060.38	1,146.89	152,254.45	4.0

Interest income increased by €1,146.89 million in 2008 with respect to 2007. This increase was a result of rises of €1,145.20 million in the return on euro-denominated investments and of €1.69 million in income from foreign-currency investments.

Of the €447.24 million of interest on foreign-currency investments, €278.83 million arose from investments in fixed-income securities denominated in US dollars and €168.41 million from deposits and other assets. The interest earned on this portfolio denominated in US dollars decreased by €44.90 million, while that earned on deposits and other assets rose by €46.59 million. The average return on foreign-currency investments was 3.1%, compared with 4.8% in 2007.

Euro-denominated interest income (€5,760.02 million) arose basically from the securities portfolios (€3,071.12 million, an increase of 444.95 million), monetary policy operations (€2,529.06 million, up €1,452.30 million) and intra-Eurosystem balances (€157.60 million, down €752.40 million). The changes in the balances of the latter two headings were due, first, to the greater funding requirements of the banking system, and, second, to the fact that external funding had to be largely replaced by monetary policy loans, in both cases as a result of the financial turmoil in the interbank money market. The overall effect of these changes was an increase of €1,145.20 million in euro-denominated interest income, due to the increase in average investments (€137,902.22 million in 2008, against €118,105.76 million in 2007) and in average return, which was up from 3.9% in 2007 to 4.1% in 2008.

## 2 INTEREST EXPENSE

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

	Interest expense			Average financing in 2008	Average cost in 2008
	2008	2007	Change		
FOREIGN CURRENCY	81.57	82.04	-0.46	3,907.08	2.1
Swap, forward and other transactions	71.49	62.95	8.54	3,534.59	2.0
Other liabilities	10.08	19.09	-9.01	372.49	2.7
EURO	2,792.28	2,095.91	696.37	71,555.45	3.8
Remuneration of minimum reserves	975.33	811.55	163.78	24,009.96	4.0
Deposit facility	192.70	0.80	191.90	6,777.25	2.8
Fixed-term deposits	40.40	32.26	8.13	989.08	4.0
General government deposits	606.46	497.14	109.32	16,231.66	3.7
Intra-Eurosystem liabilities-Net liabilities related to allocation of euro banknotes within the Eurosystem	510.19	724.41	-214.22	12,232.78	4.1
Other liabilities within the Eurosystem (net)	457.24	22.78	434.46	11,314.72	4.0
Other liabilities denominated in euro	9.96	6.96	3.00	—	—
TOTAL	2,873.86	2,177.94	695.91	75,462.54	3.7

Interest expenses increased by €695.91 million in 2008, with a rise of €696.37 million in those relating to euro-denominated liabilities and a fall of €0.46 million in those relating to liabilities denominated in foreign currencies.

The interest expenses denominated in euro (€2,792.28 million) included most notably €975.33 million relating to the remuneration of minimum reserves, €606.46 million of remuneration of general government deposits, €510.19 million of remuneration of intra-Eurosystem balances related to the allocation of euro banknotes, and €457.24 million of remuneration of other intra-Eurosystem balances (TARGET2).

Of the increase of €696.37 million in interest expenses denominated in euro, €434.46 million relate to the remuneration of other intra-Eurosystem balances, since during most of 2008 the Banco de España had a credit position vis-à-vis the ESCB (basically because the banking system was replaced by the sources of funding referred to in the previous section), €191.90 million relate to the higher remuneration of the deposit facility, €163.78 million relate to the higher remuneration of minimum reserves and €109.32 million relate to the remuneration of general government deposits, offset by a smaller interest burden (€214.22 million) from banknote adjustment, as a result of the decline in the banknotes put into circulation by the Banco de España.

Basically, the increase in interest expenses for funding denominated in euro was due to the higher average balance to be remunerated (up from €53,133.12 million in 2007 to €71,555.45 million in 2008), partly offset by the slight fall in average cost (down from 3.9% in 2007 to 3.8% in 2008).

Of the interest expenses denominated in foreign currencies (€81.57 million), €71.49 million relate to swap, forward and other transactions and €10.08 million to other liabilities, the increase in the former (€8.54 million) being practically offset by decline in the latter (€9.01 million).

3 REALISED GAINS/LOSSES  
ARISING FROM FINANCIAL  
OPERATIONS

This item includes the profits and losses arising from dealing in financial assets. In 2008 the net gains in this connection amounted to €108.62 million, arising from the following sources:

EUR m	2008	2007	Change
FOREIGN CURRENCY	73.97	1,749.64	-1,675.67
Sale of gold	0.04	1,748.21	-1,748.16
Sale of foreign currency (exchange gains)	-0.91	-2.84	1.93
Sale of securities (price losses)	78.29	3.11	75.19
Other gains/losses	-3.45	1.16	-4.61
EURO	34.65	-4.45	39.10
Sale of securities (price losses)	34.65	-4.45	39.10
TOTAL	108.62	1,745.19	-1,636.57

The largest change with respect to the previous year was due to the sale of gold in 2007, as a result of which the gains in this connection decreased by €1,748.16 million in 2008. Most noteworthy among the other changes was the higher price gains on securities denominated in US dollars, which rose by €75.19 million, and on the sale of securities issued by euro-area residents in euro (€39.10 million).

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 2008 and 2007 is as follows:

EUR m	2008	2007	Change
FOREIGN CURRENCY	0.25	430.29	-430.04
Foreign currency (exchange rate losses)	0.19	429.78	-429.59
Securities (price losses)	0.06	0.51	-0.44
EURO	15.88	99.15	-83.27
Securities (price losses)	15.88	99.15	-83.27
TOTAL	16.13	529.44	-513.31

Unrealised losses in 2008 amounted to €16.13 million, substantially all of which related to investments in securities of euro-area residents denominated in euro (€15.88 million). Unrealised losses decreased by €513.31 million with respect to 2007, basically due to lower unrealised exchange rate losses on foreign currency (€429.59 million), specifically because of the absence of unrealised losses on US dollars (€413.92 million) and SDR (€15.75 million). For their part, unrealised losses on euro-denominated securities decreased by €83.27 million, basically those relating to securities issued by euro-area residents (€81.33 million).

5 TRANSFERS TO/FROM  
PROVISIONS FOR FOREIGN  
EXCHANGE RATE AND PRICE  
RISKS

This includes, first, the transfer of €16.13 million from the provision for foreign exchange rate and price risks to cover the losses recorded at end-2008 and, second, the transfer of €698.11 million to this provision to cover the estimated foreign exchange rate and price risks associated with the financial positions subject to such risks, in accordance

with the Executive Commission resolution of 12 February 2009. These movements represented a net increase of €681.97 million in transfers to/from provisions with respect to 2007.

Further, this item also includes the transfer to/from the provision for losses arising from early repayment of special loans, which showed a positive change of €2,050.55 million. This was because in 2007 transfers of €1,688.56 to this provision were recorded, whereas in 2008 there were recoveries of €361.98 million as a result of the adjustment derived from changes in the market value of these assets.

#### 6 NET INCOME FROM FEES AND COMMISSIONS

This basically includes income and expenses arising from fees and commissions for banking services and the like (transfers, handling of cheques, custody and administration of securities, settlement service for securities transactions, etc.). It may be broken down as follows:

EUR m	Income			Expenses		
	2008	2007	Change	2008	2007	Change
	Foreign operations	0.09	0.12	-0.04	3.02	3.42
Domestic operations	23.24	18.96	4.28	8.02	3.85	4.17
<b>TOTAL</b>	<b>23.33</b>	<b>19.09</b>	<b>4.24</b>	<b>11.04</b>	<b>7.27</b>	<b>3.77</b>

Net fee and commission income in 2008 (12.29 million) was only €0.47 million more than in 2007, due to the increase in fees received for securities transactions (€2.58 million) and to the start-up of the single shared platform (TARGET2), which earned net income of €2.19 million, partly offset by the drop in fees collected from institutions belonging to the Banco de España Settlement System (€4.06 million).

#### 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.

In 2008 the ECB Governing Council decided to retain part of the banknote seigniorage income in order to increase the provision for foreign exchange rate, interest rate and gold price risks. The rest was allocated among the Eurosystem central banks according to their respective keys, the Banco de España being allocated €130.60 million. Also included are €11.47 million of dividends from the investment in Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, SA (BME) and €2.64 million from the investment in international organisations (Bank for International Payments). The amount recorded in 2008 was €135.03 million higher than in 2007, basically because the ECB did not distribute banknote seigniorage income in 2007.

#### 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. The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net 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. Any interest paid 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; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net 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; and a limited amount of each NCB's gold holdings, in proportion to its capital key. Gold is considered to generate no income. If the value of a 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 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 2008, amounting to €3,044.72 million, and that reallocated to it, amounting to €2,981.73 million, is equivalent to a net contribution of €62.99 million. To this net contribution should be added €0.23 million for the Banco de España's share of the losses on Eurosystem monetary policy operations. Compared with 2007, there was a negative net change of €100.47 million in these results.

In accordance with the principle of prudence, the ECB Governing Council considered it appropriate to set up a provision of €5,736.00 million for counterparty risk in monetary policy operations. Pursuant to Article 32.4 of the ESCB/ECB Statute, this provision must be financed with a charge to all Eurosystem banks in proportion to their share of the subscribed capital of the ECB according to the capital keys in force in 2008. As a result of this, the Banco de España set aside a provision of €621.35 million, equivalent to 10.8324% of the total provision recorded.

#### 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	2008	2007	Change
Extraordinary profit	16.76	2.18	14.58
Employee social welfare scheme	-21.99	-25.76	3.78
Sundry	0.88	0.63	0.25
<b>TOTAL</b>	<b>-4.35</b>	<b>-22.95</b>	<b>18.60</b>

As can be seen, this item shows a net loss which is €18.60 million smaller than in 2007, basically due to the extraordinary gains arising from the adjustment to the allocation of expenses under the IMF *Special Contingency Account (SCA)-1* for Liberia (€11.26 million) and to the cancellation of provisions for housing loan repayments and for furniture and building fire self-insurance in accordance with the Executive Commission resolution of 30.12.2008, amounting to €4.65 million.

#### 10 STAFF COSTS

This item includes the headings "Wages and salaries", "Contributions to pension scheme" and "Other staff welfare expenses".

The breakdown of changes by component is as follows:

EUR m and %

	2008	2007	Change	(%)
Gross staff costs	224.32	211.72	12.60	6.0
<i>Wages and salaries</i>	169.77	161.30	8.48	5.3
<i>Social Security</i>	31.38	30.59	0.79	2.6
<i>Staff welfare expenses</i>	17.64	14.71	2.93	19.9
<i>Contributions to pension scheme</i>	5.53	5.12	0.41	8.0
Reversal of staff costs due to capitalisation of computer applications	-0.69	-0.62	-0.06	10.3
<b>TOTAL</b>	<b>223.63</b>	<b>211.10</b>	<b>12.53</b>	<b>5.9</b>

This balance increased from €211.10 in 2007 to €223.63 million in 2008, a rise of €12.53 million (5.9%), as a result of: a) economic improvements included in the Collective Agreement for 2008, estimated at €5.95 million (2.82%); b) higher expenses derived from the financial crisis and from the extraordinary processing of banknotes, which was achieved by stepping up secondments, temporary hires and overtime, for an amount of €1.36 million (0.64%); c) an increase in Social Security contributions and supplementary medical care fees (€1.4 million or 0.66%); d) increase in death and retirement assistance (€1.46 million or 0.69%); and e) a number of factors of varying nature (wage increases for years of service, wage drift due to promotions, tax prepayments on account of compensation in kind, changes in staff structure, etc.)

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

	2008	2007	Change	(%)
<b>AVERAGE NUMBER OF EMPLOYEES</b>	<b>2,727.2</b>	<b>2,718.6</b>	<b>8.6</b>	<b>0.3</b>
<b>1 Permanent staff</b>	<b>2,588.1</b>	<b>2,605.3</b>	<b>-17.2</b>	<b>-0.7</b>
<i>Managerial staff</i>	1,464.1	1,447.9	16.3	1.1
<i>Administrative staff</i>	910.6	928.3	-17.8	-1.9
<i>Other</i>	213.4	229.2	-15.8	-6.9
<b>2 Temporary staff</b>	<b>139.1</b>	<b>113.3</b>	<b>25.8</b>	<b>22.8</b>
<i>Managerial staff</i>	75.5	63.1	12.4	19.7
<i>Administrative staff</i>	52.7	43.8	8.9	20.4
<i>Other</i>	10.9	6.4	4.5	70.1

As at 31 December 2008, the Bank's total staff numbered 2,731 employees, eleven more than at the same date of the previous year, as a result of the increase in the number of temporary hires for the aforementioned reasons. Most noteworthy as regards staff composition by gender was the increase of 27 in the number of women, which, together with the decrease of 16 in the number of men, meant that women now account for 37% of the Bank's total staff.

#### 11 ADMINISTRATIVE EXPENSES

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

EUR m and %

	2008	2007	Change	%
Gross administrative expenses	135.90	116.15	19.75	17.0
<i>Rental and maintenance</i>	<i>34.75</i>	<i>31.81</i>	<i>2.94</i>	<i>9.3</i>
<i>Materials and supplies</i>	<i>10.80</i>	<i>10.25</i>	<i>0.55</i>	<i>5.4</i>
<i>External services</i>	<i>74.05</i>	<i>59.90</i>	<i>14.15</i>	<i>23.6</i>
<i>Training, promotion and selection</i>	<i>3.36</i>	<i>2.86</i>	<i>0.50</i>	<i>17.5</i>
<i>Sundry operating expenses</i>	<i>12.94</i>	<i>11.33</i>	<i>1.61</i>	<i>14.2</i>
Reversal of administrative expenses due to capitalisation of computer applications	-3.10	-2.17	-0.93	43.1
<b>TOTAL</b>	<b>132.80</b>	<b>113.98</b>	<b>18.82</b>	<b>16.5</b>

The structure of this item was changed in 2008, and the 2007 data were reclassified accordingly.

The above table shows that in 2008 the most significant administrative expenses were external services (€74.05 million), mainly IT services (€50.53 million) and rental and maintenance (€34.75 million), composed mainly of property rental and maintenance (€16.98 million) and hardware and software rental and maintenance (€13.13 million).

The net increase in goods and services expenses in 2008 (€18.82 million) resulted from the updating of the prices of contracts currently in force and from the higher expenditure in certain areas, most notably in external services (€14.15 million) relating to both information technology (€5.99 million) and to the development and operation of the TARGET2 platform (€4.09 million).

“Sundry operating expenses” include €132,014.74 (including VAT) relating to the fees of the external auditors Deloitte, S.L. for the 2008 audits of the Bank’s annual accounts and of certain aspects of the Bank’s management of European Central Bank reserves. In 2008 no services were received from or amounts paid to other firms in the group.

## 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 %

	2008	2007	Change	%
Depreciation of buildings, structures and renovation work	2.21	1.67	0.53	31.8
Depreciation of plant in buildings	5.63	4.10	1.53	37.3
Depreciation of furniture and fittings	1.75	1.54	0.21	13.5
Depreciation of office machines other than computer equipment	1.44	1.41	0.03	2.3
Depreciation of computer equipment	6.23	6.18	0.04	0.7
Depreciation of transport equipment	0.92	1.05	-0.14	-12.9
Depreciation of libraries	0.50	0.48	0.02	4.4
Depreciation of other tangible fixed assets	0.29	0.26	0.03	10.5
Amortisation of intangible fixed assets	4.40	3.42	0.97	28.5
<b>TOTAL</b>	<b>23.35</b>	<b>20.12</b>	<b>3.24</b>	<b>16.1</b>

## 13 BANKNOTE PRODUCTION SERVICES

This amount (€65.08 million) corresponds to payments made by the Banco de España to purchase banknotes from the National Mint. The decrease with respect to 2007 (€5.87 million)

was due to the lower unit price of the banknotes purchased, partly offset by the higher volume of those purchased by the Bank in the year.

14 TRANSFERS AND ADDITIONS  
TO OTHER FUNDS AND  
PROVISIONS

The net balance of transfers and applications to other funds and provisions in 2008 amounted to €36.65 million, compared with €21.95 million in 2007. This change (€14.71 million) resulted, firstly, from the transfer in 2008 to the provision for death and retirement assistance stipulated in Article 190 of the Banco de España Conditions of Employment amounting to €12.53 million, as a consequence of the change in the calculation and accounting procedures, as compared with the reversal of €1.10 million from the provision in 2007 and, secondly, the larger transfer to the Beneficiary-Social Fund (€21.11 million in 2008 against €20.25 million in 2007).

The Banco de España, because of the nature of its activity, is not an institution with a high environmental risk. In 2008 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 2009, 90% of the profits earned and recorded up to 31 December of the previous year, less the amount paid on 29 December of the previous year, in accordance with the single transitional provision of the aforementioned royal decree.

Given the financial crisis currently besetting the markets, at the close of the September accounts it was considered that the final result for the year might be affected by certain factors. This made it advisable to apply the provisions of Article 1.1.a) of the aforementioned royal decree whereby the “payment agreement must take into account the foreseeable performance of profits until the end of the year”. Specifically, it was decided to apply very prudent criteria in setting the amount to be paid, allowing for the possibility that the result at the end of the year might be negatively affected, among other causes, by the high financial market volatility, which might lead to significant valuation losses (many of the markets in which prices are determined are not liquid, which could affect the valuation of certain securities) due to the possible need to participate in establishing a provision for counterparty risk in Eurosystem monetary policy operations, and by the fact that the Banco de España’s decision to increase its holdings of US dollars may have heightened exchange risk with respect to the calculation made when the provision for this risk was recorded last year.

Specifically, to determine the amount of profit to be retained, various factors were considered, including VaR derived from financial risk, the possible effects of credit risk and the illiquidity of some markets, both for the proprietary portfolio and for the monetary policy collateral provided by the Banco de España and by the Eurosystem as a whole. However, given the difficulties encountered in gauging possible market behaviour and the illiquidity of certain assets, it was considered advisable to establish a simple system for determining the amount to be retained as a safeguard against the possible negative performance of the Banco de España. Consequently, the advance payment of 70% of profits to the Treasury was calculated on the basis of 80% of the profits recorded as at 30 September 2008 and, accordingly, the amount to be paid in on 29 December was €1,053.82.

Once the year had ended, and taking into account that the provisional profits amounted to €2,090.19 million and that 90% of the profits was €1,881.17 million, a payment of €827.35 million was made to the Treasury on 2 March 2009.

In application of Royal Decree 2059/2008, the payments to the Treasury of 2008 profit are as follows:

EUR m

1 Total profit for 2008	2,090.19
2 Payments to the Treasury	
On 29.12.2008. 70% of 80% of profit as at 30.09.2008	1,053.82
On 2.3.2009. Difference between the above amount and 90% of profit as at 31.12.2008	827.35
3 Profit payable to the Treasury	
At date of approval of the 2008 accounts	209.02

### 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 variation in the coverage of exchange and interest rate risks and the effect on the balance sheet of the appropriation of profit for the year.

EUR m

	Capital	Reserves	Revaluation accounts	Undistributed profit	Provisions	Total
<b>A) 2008 OPENING BALANCE</b>	1,000.00	1,000.00	4,371.09	1,023.77	4,005.81	11,400.67
<b>1. UNRECOGNISED NET GAINS IN PROFIT AND LOSS</b>			1,440.41			1,440.41
In gold			482.58			482.58
In foreign currency			44.91			44.91
In securities			914.74			914.74
Other			-1.82			-1.82
2. 2008 PROFIT				2,090.19		2,090.19
3. CHANGE IN PROVISIONS					841.85	841.85
4. APPROPRIATION OF PROFIT				-2,077.59		-2,077.59
Payment to the Treasury of 2007 profit				-1,023.78		-1,023.78
Payment to the Treasury of 2008 profit				-1,053.82		-1,053.82
<b>B) CHANGES IN THE YEAR. B = 1+2+3+4</b>	—	—	1,440.41	12.60	841.85	2,294.86
<b>C) 2008 CLOSING BALANCE. C = A + B</b>	1,000.00	1,000.00	5,811.51	1,036.37	4,847.66	13,695.54

The changes reflected in this table have been explained above in the notes on the balance sheet and profit and loss account that refer to provisions (Note 28 on the balance sheet), revaluation accounts (Note 29 on the balance sheet), capital (Note 30 on the balance sheet), reserves (Note 31 on the balance sheet) and profit for the year (Note 32 on the balance sheet and Note 15 on the profit and loss account).

## 4 Specific information required by Article 4.2 of the Law of Autonomy of the Banco de España of 1 June 1994

### 4.1 Contributions made by the Bank to the Deposit Guarantee Funds

The contribution of the Banco de España to the Deposit Guarantee Funds is regulated by Article 3 of Royal Decree 18/1982, according to the wording established by additional provision seven of Royal Legislative Decree 12/1995 of 28 December 1995 and Royal Decree 2606/1996 of 20 December 1996, which implemented the legal regime for such funds.

The aforementioned Royal Decree established that the Deposit Guarantee Funds may only exceptionally “be supplemented by contributions from the Banco de España, the amount of which shall be fixed by Law”. In 2008 the Banco de España made no contributions whatsoever to these Funds.

### 4.2 Loss of profit

The table below shows the loans outstanding in 2008 with interest rates below the reference rates used, in order to estimate the loss of profit for the year pursuant to the provisions of Article 4.2 of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España.

EUR m and %				
Type of credit/loan	Estimated average balance in 2008	Interest rate received	Reference interest rate	Estimated loss of profit
Net State debt	4,164.03	—	4.04	168.07
Housing loans and repayable advances to employees	178.24	1.07	4.04	5.31
<i>Housing loans</i>	<i>133.03</i>	<i>1.33</i>	<i>4.04</i>	<i>3.62</i>
<i>Repayable advances</i>	<i>35.89</i>	<i>—</i>	<i>4.04</i>	<i>1.45</i>
<i>Employee loans</i>	<i>9.32</i>	<i>1.50</i>	<i>4.04</i>	<i>0.24</i>
<b>TOTAL</b>	<b>4,342.27</b>	<b>1.07</b>	<b>4.04</b>	<b>173.37</b>

Included under “Net State debt” is the average balance during the year, on a daily basis, of the special loans granted to the State before 1994 less the deposits held by the Treasury with the Banco de España, when there is a net balance in favour of the latter.

The reference rate used to estimate the loss of profit in all the loans is the daily average of the marginal interest rate on main refinancing operations conducted during the year.

### 4.3 Other transactions

On 26 March 2007 an agreement was entered into with the State government to bring forward the repayment schedule of the loans granted to the State prior to the entry into force of Law 21/1993 of 29 December 1993 on the State Budget for 1994 (Law 3/1983 loan, Law 4/1990 loan and credits arising from subscription for participating interests, contributions and quotas in international agencies), such that they all reach final maturity by 2015 at the latest and the Treasury can request early repayment of part or all of these facilities, paying on the due date the effective market price instead of the nominal amount. Under this agreement, in 2008 payment was received of two instalments of the first of the aforementioned facilities (that for the reporting year and the last outstanding instalment of the original repayment schedule), along with the reporting year instalments of the other two facilities, the repayment date of all of them being brought forward from 31 December to 30 April. In accordance with the foregoing, on 30 April 2008 the Treasury paid to the Banco de España the amount of €519,997,110.10, the effective market price of the debt repaid on that date.

## ANNEXES

### 1 Report of the external auditors



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*Translation of a report originally issued in Spanish based on our work performed in accordance with International Standards on Auditing. In the event of a discrepancy, the Spanish-language version prevails.*

To the Governor of the Banco de España:

We have audited the financial statements of the Banco de España which, in accordance with Article 29.1 of its Internal Rules, comprise the balance sheet at 31 December 2008 and the related income statement and notes to the financial statements for the year then ended.

#### Responsibility for the financial statements

The Executive Commission of the Banco de España is responsible for organising the Bank and appointing its directors general. Under the Internal Rules of the Banco de España, the Directorate General Services is responsible for preparing the financial statements in accordance with the internal accounting rules and principles of the Banco de España, which are indicated in Note 3.1 to the accompanying financial statements and are based on the accounting regulations established for the member central banks of the European System of Central Banks. This responsibility, which is exercised through the Control, Budget and Accounting Department, includes the supervision of operations and, therefore, the design, implementation and maintenance of the relevant internal controls required for the preparation and adequate presentation of financial statements that are free from material misstatement due either to fraud or error; the selection and application of appropriate accounting rules; and the performance of the estimates considered to be reasonable in the circumstances. Pursuant to Article 21.g) of Law 13/1994, of 1 June, on the Autonomy of the Banco de España, these financial statements are prepared by the Governing Council of the Banco de España.

#### Responsibility of the auditor

Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with International Standards on Auditing, which require that we comply with certain ethical requirements and that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements or irregularities.

An audit entails the performance of procedures designed to obtain evidence supporting the amounts and disclosures contained in the financial statements. The procedures selected depend on the auditor's judgment, which includes the assessment of the risks of the occurrence of material misstatement or irregularities in the financial statements due either to fraud or error. In assessing these risks, the auditor considers the internal control system applicable to the preparation and adequate presentation of the financial statements by the entity, in order to design audit procedures that are appropriate in view of 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 the evaluation of the adequacy of the accounting policies used and of the reasonableness of the accounting estimates made by the entity, as well as an assessment of the overall presentation of the financial statements. We consider that the evidence we have obtained is sufficient and adequate to provide a basis on which to express our audit opinion.

#### Comparative information

For comparison purposes, the accompanying financial statements present, in addition to the 2008 figures for each item in the balance sheet and income statement, the figures for 2007. Our opinion refers only to the 2008 financial statements. On 3 June 2008, we issued our auditors' report on the 2007 financial statements in which we expressed an unqualified opinion.

### Opinion

In our opinion, the accompanying financial statements for 2008 present fairly, in all material respects, the net worth and financial position of the Banco de España at 31 December 2008 and the results of its operations in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with the internal accounting rules and principles of the Banco de España, which are indicated in Note 3.1 to the accompanying financial statements and are based on the accounting regulations established for the member central banks of the European System of Central Banks.

DELOITTE, S.L.



Miguel Ángel Bailón Martín

25 May 2009

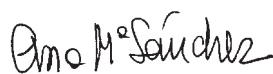
## 2 Report of the Audit Committee

We, the undersigned, Ángel Luis López Roa, Jesús Leguina Villa and Ana María Sánchez Trujillo, 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 2008.

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 2008, 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 2008, 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 and accounting procedures, of the accounting records and of the internal controls in place, it can be inferred that the annual accounts for the year 2008 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 7 May 2009.



ANA MARÍA SÁNCHEZ TRUJILLO



ÁNGEL LUIS LÓPEZ ROA



JESÚS LEGUINA VILLA

