

ANNUAL ACCOUNTS  
OF THE BANCO DE ESPAÑA

2019

BANCO DE **ESPAÑA**  
Eurosistema





## ANNUAL ACCOUNTS OF THE BANCO DE ESPAÑA 2019

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

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**ANNUAL ACCOUNTS OF THE BANCO DE ESPAÑA 2019**



## 1 Introduction

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

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

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

Unless otherwise indicated, the figures are expressed in millions of euro. Those relating to 2018 are presented solely for comparison with 2019. To this end, the information for 2018 relating to certain liabilities to other euro area residents denominated in euro has been reorganised, as explained in the related notes to the balance sheet. Due to rounding, on occasions the totals included in the balance

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

sheet, profit and loss account and notes to the annual accounts may not equal the sum of the individual figures. This document presents the accounts for the year 2019. Section 2 includes the balance sheet and profit and loss account as at 31 December 2019; Section 3 contains the notes to the accounts, with the accounting policies that have served as a framework for their preparation, the explanatory notes on the most important aspects of the balance sheet and profit and loss account, the changes in equity, post-balance sheet events and the management of risk exposures; and Section 4, in compliance with Article 4(2) of the Law of Autonomy, details the loans and transactions agreed on other than an arm's-length basis or which in any other way entail a loss of profit or losses for the Bank.

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



## 2 Balance sheet and profit and loss account

### BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2019

EUR m

	Note number	2019	2018	Change
<b>ASSETS</b>				
<b>1 Gold and gold receivables</b>	1	<b>12,259.72</b>	<b>10,148.90</b>	<b>2,110.82</b>
<b>2 Claims on non-euro area residents denominated in foreign currency</b>		<b>53,743.67</b>	<b>51,566.31</b>	<b>2,177.35</b>
2.1 Receivables from the IMF	2	5,786.82	5,600.83	185.98
2.2 Balances with banks and security investments, external loans and other external assets	3	47,956.85	45,965.48	1,991.37
<b>3 Claims on euro area residents denominated in foreign currency</b>	4	<b>4,782.77</b>	<b>3,839.96</b>	<b>942.81</b>
<b>4 Claims on non-euro area residents denominated in euro</b>		<b>—</b>	<b>—</b>	<b>—</b>
4.1 Balances with banks, security investments and loans	5	—	—	—
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>	6	<b>130,515.24</b>	<b>167,331.12</b>	<b>-36,815.88</b>
5.1 Main refinancing operations		115.50	31.00	84.50
5.2 Longer-term refinancing operations		130,399.74	167,300.12	-36,900.38
5.3 Fine-tuning reverse operations		—	—	—
5.4 Structural reverse operations		—	—	—
5.5 Marginal lending facility		—	—	—
5.6 Credits related to margin calls		—	—	—
<b>6 Other claims on euro area credit institutions denominated in euro</b>		<b>0.37</b>	<b>0.72</b>	<b>-0.35</b>
<b>7 Securities of euro area residents denominated in euro</b>	7	<b>359,886.21</b>	<b>367,534.64</b>	<b>-7,648.43</b>
7.1 Securities held for monetary policy purposes		332,433.46	337,809.86	-5,376.40
7.2 Other securities		27,452.75	29,724.78	-2,272.03
<b>9 Intra-Eurosystem claims</b>	8	<b>147,962.51</b>	<b>137,471.67</b>	<b>10,490.84</b>
9.1 Participating interest in ECB		1,069.07	1,312.52	-243.45
9.2 Claims equivalent to the transfer of foreign reserves assets to the ECB		4,832.60	5,123.39	-290.80
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		142,060.84	131,035.75	11,025.09
9.5 Other claims within the Eurosystem (net)		—	—	—
<b>10 Items in course of settlement</b>		<b>0.13</b>	<b>5.41</b>	<b>-5.28</b>
<b>11 Other assets</b>		<b>7,070.05</b>	<b>7,089.33</b>	<b>-19.29</b>
11.2 Tangible and intangible fixed assets	9	274.99	283.41	-8.42
11.3 Other financial assets	10	97.19	97.19	—
11.4 Off-balance-sheet instruments revaluation differences	11	—	22.82	-22.82
11.5 Accruals and prepaid expenses	12	5,219.64	5,407.84	-188.20
11.6 Sundry	13	1,478.23	1,278.07	200.16
<b>TOTAL ASSETS</b>		<b>716,220.66</b>	<b>744,988.06</b>	<b>-28,767.40</b>

**BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2019 (cont.)**

EUR m

	Note number	2019	2018	Change
<b>LIABILITIES</b>				
<b>1 Banknotes in circulation</b>	14	<b>142,460.17</b>	<b>142,257.53</b>	<b>202.63</b>
<b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	15	<b>108,162.06</b>	<b>128,410.70</b>	<b>-20,248.64</b>
2.1 Current accounts (covering the minimum reserve system)		100,965.06	105,310.70	-4,345.64
2.2 Deposit facility		7,197.00	23,100.00	-15,903.00
2.3 Fixed-term deposits		—	—	—
2.4 Fine-tuning reverse operations		—	—	—
2.5 Deposits related to margin calls		—	—	—
<b>3 Other liabilities to euro area credit institutions denominated in euro</b>	<b>16</b>	<b>160.57</b>	<b>587.59</b>	<b>-427.02</b>
<b>4 Debt certificates issued (a)</b>		—	—	—
<b>5 Liabilities to other euro area residents denominated in euro</b>		<b>17,947.73</b>	<b>21,768.89</b>	<b>-3,821.16</b>
5.1 General government	17	14,485.88	19,051.84	-4,565.96
5.2 Other liabilities	18	3,461.85	2,717.05	744.80
<b>6 Liabilities to non-euro area residents denominated in euro</b>	19	<b>2,641.59</b>	<b>4,941.30</b>	<b>-2,299.71</b>
<b>7 Liabilities to euro area residents denominated in foreign currency</b>		<b>1.64</b>	<b>1.40</b>	<b>0.24</b>
<b>8 Liabilities to non-euro area residents denominated in foreign currency</b>		<b>0.94</b>	<b>0.90</b>	<b>0.04</b>
8.1 Deposits, balances and other liabilities		0.94	0.90	0.04
8.2 Liabilities arising from the credit facility under ERM II		—	—	—
<b>9 Counterpart of special drawing rights allocated by the IMF</b>	20	<b>3,488.92</b>	<b>3,436.61</b>	<b>52.31</b>
<b>10 Intra-Eurosystem liabilities</b>	21	<b>391,747.30</b>	<b>401,125.52</b>	<b>-9,378.23</b>
10.2 Liabilities related to the issuance of ECB debt certificates		—	—	—
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		—	—	—
10.4 Other liabilities within the Eurosystem (net)		391,747.30	401,125.52	-9,378.23
<b>11 Items in course of settlement</b>	22	<b>17.98</b>	<b>51.25</b>	<b>-33.26</b>
<b>12 Other liabilities</b>		<b>1,460.54</b>	<b>1,690.17</b>	<b>-229.63</b>
12.1 Off-balance-sheet instruments revaluation differences	23	1.85	—	1.85
12.2 Accruals and income collected in advance	24	1,340.75	1,564.72	-223.98
12.3 Sundry	25	117.94	125.44	-7.51
<b>13 Provisions</b>	26	<b>25,658.96</b>	<b>21,459.77</b>	<b>4,199.20</b>
<b>14 Revaluation accounts</b>	27	<b>18,329.69</b>	<b>15,157.46</b>	<b>3,172.23</b>
<b>15 Capital and reserves</b>		<b>1,890.16</b>	<b>1,899.81</b>	<b>-9.65</b>
15.1 Capital	28	1,000.00	1,000.00	—
15.2 Reserves	29	890.16	899.81	-9.65
<b>16 Profit for the year</b>	30	<b>2,252.41</b>	<b>2,199.15</b>	<b>53.26</b>
<b>TOTAL LIABILITIES</b>		<b>716,220.66</b>	<b>744,988.06</b>	<b>-28,767.40</b>


a ECB balance sheet item only.

## PROFIT AND LOSS ACCOUNT OF THE BANCO DE ESPAÑA FOR THE YEAR ENDING 31 DECEMBER 2019

EUR m

	Note number	2019	2018	Change
1 Interest income	1	6,764.19	6,768.20	-4.01
2 Interest expense	2	-663.83	-713.04	49.21
<b>3 Net interest income (1 + 2)</b>		<b>6,100.36</b>	<b>6,055.16</b>	<b>45.20</b>
4 Realised gains/losses arising from financial operations	3	192.81	-79.48	272.29
5 Write-downs on financial assets and positions	4	-13.58	-365.13	351.55
6 Transfer to/from provisions for financial risks	5	-4,182.05	-3,600.44	-581.61
<b>7 Net result of financial operations, write-downs and risk provisions (4 + 5 + 6)</b>		<b>-4,002.83</b>	<b>-4,045.05</b>	<b>42.23</b>
8 Fees and commissions income		16.74	15.73	1.01
9 Fees and commissions expense		-14.27	-14.32	0.05
<b>10 Net income from fees and commissions (8 + 9)</b>	<b>6</b>	<b>2.47</b>	<b>1.41</b>	<b>1.06</b>
11 Income from equity shares and participating interests	7	222.52	188.41	34.11
12 Net result of pooling of monetary income	8	474.38	605.76	-131.38
13 Other income and losses	9	1.64	3.58	-1.94
<b>14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)</b>		<b>2,798.54</b>	<b>2,809.27</b>	<b>-10.72</b>
15 Staff costs	10	-285.31	-263.17	-22.15
16 Administrative expenses	11	-139.55	-135.13	-4.41
17 Depreciation of tangible and intangible fixed assets	12	-35.95	-33.74	-2.21
18 Banknote production services	13	-61.42	-67.74	6.32
19 Sundry		3.10	3.91	-0.81
<b>20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)</b>		<b>-519.14</b>	<b>-495.87</b>	<b>-23.27</b>
21 Transfers and additions to other funds and provisions	14	-27.00	-114.25	87.25
<b>22 PROFIT FOR THE YEAR (14 + 20 + 21)</b>	<b>15</b>	<b>2,252.41</b>	<b>2,199.15</b>	<b>53.26</b>

Countersigned by  
The Governor,



PABLO HERNÁNDEZ DE COS

The Comptroller,



JAVIER PACIOS RODRÍGUEZ

## 3 Notes to the accounts

### 3.1 Accounting policies

#### 1 Basic principles

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

#### 2 Basis of accounting

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

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

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

#### *Gold*

Gold is recorded at acquisition cost,<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.

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

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

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

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

### *Foreign currencies*

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

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

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

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

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

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

### *Shares in exchange-traded funds*

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

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

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

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

The valuations on account of changes in the net asset value of the investment fund shares and of their valuation at market exchange rates are carried out asymmetrically. Unrealised gains and losses (except for unrealised losses at year-end) are reflected in adjustment accounts and credited or debited, respectively, to revaluation accounts and to the profit and loss account. The unrealised losses existing at the end of the year are considered irreversible in subsequent revaluations.

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

### *Foreign banknotes*

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

### *Special drawing rights*

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

### *Securities*

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

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

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

Trading portfolio securities are revalued monthly to market price. This revaluation is carried out without any netting of unrealised gains and losses on different security codes. Unrealised gains and losses (except for unrealised losses at year-end) are reflected in adjustment accounts and credited or debited, respectively, to revaluation and loss accounts. Unrealised losses existing at the end of the year are taken to the profit and loss account. Their amount is credited directly to the securities account,

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

and the average book value – and therefore the internal rate of return – of the security code concerned is modified. Such losses are considered irreversible in subsequent revaluations. The year-end adjustment was made using the market prices on the last day of the year.

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

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

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

#### *Reverse transactions involving securities*

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



### *Doubtful debtors*

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

### *Loans to financial institutions*

These are valued at their nominal amount.

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

### *Shares and participating interests*

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

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

### *Tangible and intangible fixed assets*

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

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

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

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

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

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

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

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

The depreciation/amortisation rates and estimated useful lives applied to the various fixed assets in 2019 were as follows:

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

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

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

### *Banknotes in circulation*

The ECB and the NCBs, which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002.<sup>4</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>5</sup>

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

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes

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

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

that each NCB actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,<sup>6</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 were effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the specified reference period<sup>7</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 amount of compensation corresponding to each of them under the aforementioned calculation method, dividing it amongst the other NCBs according to their respective capital keys in the ECB. This adjustment is gradually reduced over a six-year period, being held unchanged during each financial year.

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

The ECB’s seigniorage income, arising from the euro banknotes in circulation assigned to it and the income from securities purchased under the securities markets programme, the asset-backed securities purchase programme, the third covered bond purchase programme and the secondary markets public sector purchase programme, is allocated to the NCBs in the financial year in which it accrues.<sup>8</sup> Settlement of this income takes place on the last working day in January of the following year, in the form of an interim distribution of the income. The Governing Council of the ECB shall decide whether all or part of the ECB’s income arising from securities purchased under the above programmes and all or part of the ECB’s income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB’s net profit for that year. The Governing Council of the ECB may also decide to transfer all or part of this income to an ECB provision for foreign exchange rate, interest rate,

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

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

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

credit and gold price risks<sup>9</sup>. The amount distributed to NCBs is shown in the profit and loss account item “Income from equity shares and participating interests” in the year in which this income accrued.

### *Intra-Eurosystem accounts*

Intra-Eurosystem balances arise from the Banco de España’s participating interest in the ECB, claims equivalent to the reserves transferred to the ECB and the net balance resulting from the transfers issued and received by TARGET2<sup>10</sup> among the NCBs of the ESCB, including the ECB. They also arise from the balances vis-à-vis the ECB resulting from the adjustments relating to allocation of euro banknotes within the Eurosystem. In addition, the outcome of the contribution and allocation of monetary income to NCBs and the positions vis-à-vis the ECB owing to the deferral of sundry receipts and payments also give rise to intra-Eurosystem balances.

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

### *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.<sup>11</sup> To calculate the acquisition cost of items sold, the average cost method is used for securities and the daily net average cost method is used for foreign currencies and gold. In the case of unrealised losses on any item at year-end, its average cost is reduced to the end-of-year market price and/or exchange rate.

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

Unrealised losses are taken to the profit and loss account if they exceed previous revaluation gains recorded in the corresponding revaluation account, and are not

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

<sup>10</sup> Trans-European Automated Real-time Gross Settlement Express Transfer system.

<sup>11</sup> Unrealised gains and losses are not recorded in the held-to-maturity portfolio and monetary policy portfolios (see “Securities” in this section).

reversed in subsequent years against new unrealised gains. Unrealised losses in any one security or currency or in gold are not netted against unrealised gains in other securities or currencies or in gold.

Premiums or discounts on purchased securities are calculated and shown as reductions of or additions to interest income and accrued over the remaining life of the securities concerned, together with the accrued coupons, according to the effective interest rate method.

### *Pension scheme*

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

### *Provisions*

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

### *Financial derivatives*

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

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

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

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

### 3 Salient features of the estimates made

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

These estimates are based on the best information available at end-2019, and future events may require them to be changed in the coming financial years. Any such changes would be made prospectively, in accordance with current accounting rules.

### 4 Post-balance-sheet events

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

## 3.2 Notes to the balance sheet

### 1 Gold and gold receivables

The Banco de España's gold holdings at year-end amounted to €12,259.72 million, consisting of 9,054 million troy ounces<sup>13</sup> of fine gold valued at a market price of €1,354.10 per ounce. These holdings did not change during the financial year. The value of these holdings is €2,110.82 million more than in 2018, as a result of the increase in the market price (at end-2018 the price per ounce was €1,120.96). This increase is included in the liability revaluation accounts. The cost of the gold holdings is €850.43 million.

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<sup>13</sup> One troy ounce is equal to 31.1035 grams.

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

This item has three components:

- a) The reserve tranche position in the IMF. This is the euro equivalent of the paid portion of Spain's IMF quota (in foreign currencies or euro). Its balance at end-2019 was €1,964.58 million. Spain's quota is SDR 9,535.50 million. The remaining portion of the quota is recorded in a euro account at the disposal of the IMF.
- b) Special drawing rights. These represent the euro equivalent of SDR holdings, resulting from the successive allocations by the IMF and their subsequent drawdown. These allocations are made by the IMF simply for being a member and their balancing entry is recorded in item 9 of the liabilities side of the balance sheet «Counterpart of special drawing rights allocated by the IMF», also denominated in SDRs. The changes in their balance are essentially due to loan agreement transactions with third countries which are paid in SDRs 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 PRGT<sup>14</sup> and the NAB.<sup>15</sup> For the PRGT, the Banco de España has made a commitment to contribute, through concessional lending to low-income countries, up to SDR 855 million, the amount drawn down at end-2019 being SDR 182.41 million (€225.08 million). The NAB agreements, concluded to support the IMF's ability to provide financial assistance to its members, entailed a financial commitment of up to SDR 3,405.14 million, of which SDR 175.38 million (€216.40 million) had been drawn down up to end-2019.<sup>16</sup>

The SDRs in which claims on the IMF are denominated are valued at the year-end market rate of €1 = SDR 0.810438. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of five major currencies: the US dollar, the euro, the Japanese yen, the pound sterling and the Chinese renminbi. The SDR interest rate, which is updated weekly, averaged annually 0.99% during 2019.

The breakdown in 2019 and 2018 is as follows:

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14 Poverty Reduction and Growth Trust.

15 New Arrangements to Borrow.

16 In addition, the Kingdom of Spain and the IMF have entered into a bilateral loan agreement entailing a financial commitment of €14,860 million, none of which has been drawn down by the IMF.



EUR m

Type of asset	2019	2018	Change
Reserve tranche position	1,964.58	1,666.48	298.10
Special drawing rights (allocation)	3,380.76	3,350.46	30.30
Other claims on the IMF	441.48	583.89	-142.42
<b>TOTAL</b>	<b>5,786.82</b>	<b>5,600.83</b>	<b>185.98</b>

The overall amount of claims on the IMF increased by €185.98 million with respect to the balance at end-2018.

The increase of €298.10 million in the reserve tranche position account is due to the overall effect of various factors:

- An increase of €366.33 million (SDR 301.40 million) due to the transfers ordered by the IMF from the balance of its account at the Banco de España to its accounts at other institutions.
- A decrease of €97.68 million (SDR 80.37 million) due to repayments of loans by debtor countries. These collections were in euro.
- An increase of €29.45 million due to the change in the exchange rate of the SDR against the euro.

The special drawing rights account increased by €30.30 million due to the overall effect of various factors:

- An increase of €85.40 million (SDR 70.27 million) due to collection of SDRs arising from total or partial repayment of some PRGT loans and to collection of interest on Spain's claims on the IMF.
- A decrease of €105.79 million (SDR 87.04 million) due to SDR sales required by the IMF, to new PRGT loans granted and to payment of interest on Spain's liabilities to the IMF.
- An increase of €50.69 million due to the change in the exchange rate of the SDR against the euro.

The "Other claims on the IMF" account, which includes loans granted under NAB agreements and under the PRGT programme, decreased by €142.42 million due to the overall effect of certain factors:

- A decrease of €190.13 million (SDR 156.44 million) in NAB loans, due to total or partial repayments of the loans granted under these arrangements. These SDR-denominated loans were made through payments in euro.
- An increase of €41.10 million (SDR 33.81 million) in PRGTs due to the net effect of the new loans granted and the total or partial repayments of these loans. These loans are in SDRs.
- An increase of €6.62 million due to the change in the exchange rate of the SDR against the euro.

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

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

The total amount as at 31 December 2019 was €47,956.85 million, with the following breakdown:

EUR m			
Type of asset	2019	2018	Change
Deposits	8,313.21	7,395.13	918.08
Security investments (a)	39,546.72	38,566.19	980.53
Trading portfolio	21,962.54	19,398.49	2,564.05
Held-to-maturity portfolio	17,584.18	19,167.70	-1,583.52
Other	96.92	4.15	92.76
<b>TOTAL</b>	<b>47,956.85</b>	<b>45,965.48</b>	<b>1,991.37</b>

a As at 31 December 2019, repurchase agreements were constituted over part of the USD-denominated securities portfolio (with a market value of USD 7.12 million), the GBP-denominated securities portfolio (with a market value of GBP 2.13 million), the AUD-denominated securities portfolio (with a market value of AUD 1.05 million), and the CAD-denominated securities portfolio (with a market value of CAD 0.08 million), under automated securities lending contracts with the depositories of these securities.

As at 31 December 2019, 71.2% of these assets were denominated in US dollars, 11.3% in yen,<sup>17</sup> 6.9% in Australian dollars, 7.1% in Canadian dollars, 2.4% in pounds

<sup>17</sup> The exchange rate risk on yen-denominated investments is covered by swap transactions (mainly against the US dollar).

sterling and 1.1% in Chinese renminbi. The equivalent value in euro of these currencies was transferred to the balance sheet at the year-end market exchange rate (€1 = USD 1.1234, €1 = AUD 1.5995, €1 = CAD 1.4598, €1 = YEN 121.94, €1 = GBP 0.8508 and €1 = 7.8205 renminbi). The market value of the held-to-maturity portfolio at end-2019 (which is not recorded on the balance sheet or in the profit and loss account but is provided for comparison purposes only) is €17,814.88 million. Consequently, there are unrealised net gains amounting to €230.70 million, mostly relating to US dollar-denominated securities. The impairment test conducted on the held-to-maturity portfolio concluded that there was no evidence of impairment at year-end.

The “Other” item includes shares acquired in 2019 in a US dollar-denominated green investment fund set up and managed by the Bank for International Settlements, for a nominal amount of USD 100 million.

The increase in the balance of this item (€1,991.37million) was due to the net effect of the factors listed in the following table:

EUR m	
Reason for change	Amount
Change in net investment	755.42
Change in market exchange rates as at 31 December	1,138.56
Change in securities market prices as at 31 December	105.95
Change in accrued interest receivable	-8.62
Other	0.05
<b>TOTAL</b>	<b>1,991.37</b>

#### 4 Claims on euro area residents denominated in foreign currency

This balance sheet item includes current accounts, balances with banks, loans and security investments vis-à-vis euro area residents. As at 31 December 2019, US dollar-denominated time deposits at financial institutions equivalent to €1,967.24 million, and sight deposits in various currencies amounting to €31.48 million were held. The year-end balance also includes trading portfolio debt securities mostly denominated in US and Australian dollars, amounting to €1,315.29 million, and loans instrumented via reverse operations with credit institutions amounting to €1,468.76 million (USD 1,650 million), under the US dollar Term Auction Facility. Under this programme, the Federal Reserve provides US dollars to the ECB by means of a temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously enters into swap transactions with Eurosystem NCBs to meet institutions’ dollar-denominated liquidity requirements in the form of repos, receiving from the institutions euro-denominated securities as collateral. These back-to-back swap

transactions between the ECB and the Eurosystem NCBs result in intra-Eurosystem balances reported under “Other liabilities within the Eurosystem (net)”.

The increase in the balance of this item (€942.81 million) was due to the net effect of the factors listed in the following table:

EUR m	
Reason for change	Amount
Change in net investment	837.10
Change in market exchange rates as at 31 December	91.51
Change in securities market prices as at 31 December	16.28
Change in accrued interest receivable	-2.07
<b>TOTAL</b>	<b>942.81</b>

## 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 non-euro area correspondents. This item had a negligible balance at end-2019.

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

This item includes the amount of the euro-denominated lending to euro area credit institutions through which monetary policy is implemented. The total amount of these loans in the Eurosystem as a whole is €624,232 million, of which €130,515.24 million are included in the balance sheet of the Banco de España. Pursuant to Article 32(4) of the ESCB/ECB Statute, any counterparty risk that may materialise in monetary policy operations must be shared by all Eurosystem central banks in proportion to their share of the subscribed capital of the ECB according to the capital keys in force when this risk materialises. The losses may only be recognised if the counterparty fails and insufficient funds are received from resolution of the collateral received from the institution. The Governing Council of the ECB has, in certain cases, excluded from risk sharing a portion of the collateral accepted by central banks.<sup>18</sup>

<sup>18</sup> The total collateral provided by institutions, valued by Eurosystem rules and applying the related haircuts, amounted to €225,433 million at end-2019. Of this amount, €322.41 million relate to collateral excluded from risk sharing.

The breakdown by type of operation is as follows:

EUR m			
Type of operation	2019	2018	Change
Main refinancing operations	115.50	31.00	84.50
Longer-term refinancing operations	130,399.74	167,300.12	-36,900.38
Fine-tuning reverse operations	—	—	—
Structural reverse operations	—	—	—
Marginal lending facility	—	—	—
Credits related to margin calls	—	—	—
<b>TOTAL</b>	<b>130,515.24</b>	<b>167,331.12</b>	<b>-36,815.88</b>

As at 31 December 2019, the overall balance of this account was lower than at end-2018 (-22.0%). The average daily balance of the financing granted during the year decreased by 9.0% (€153,677 million in 2019, against €168,847 million in 2018).

#### *a) Main refinancing operations*

They are executed through liquidity-providing reverse transactions with a weekly frequency and a maturity of one week, usually by means of standard tenders. Normally, these operations play a pivotal role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance. However, in 2019, continuing the trend initiated in previous years, their use was residual, since the bulk of financing to institutions was conducted through longer-term refinancing operations. In this connection, it should be noted that only 0.1% of annual average financing was extended through them. In 2019 all these operations were conducted at a fixed rate of 0% with allotment of the total amount bid.

The balance of this item as at 31 December 2019 was €115.50 million (€31 million as at 31 December 2018) and its daily average balance during the year was €144 million (€117 million in 2018).

#### *b) Longer-term refinancing operations*

These operations aim to provide counterparties with additional longer-term refinancing. In 2019, these operations were conducted at a fixed rate with allotment of the total amount bid.

The balance of these operations at end-2019 was €130,399.74 million (99.91% of the total), of which €103,260.72 million relate to the TLTRO-II programme, €27,127.02

million to loans under the new TLTRO-III programme and €12 million to operations with maturities of three months.

The TLTRO-II operations were launched in 2016, following a decision by the Governing Council. These operations have a four-year maturity, with the possibility of repayment after two years. In 2019, the Governing Council introduced a new series of targeted longer-term refinancing operations (TLTRO-III), aimed at preserving favourable bank lending conditions, ensuring the smooth transmission of monetary policy and further supporting the accommodative stance of monetary policy. These operations have a three-year maturity, with the possibility of repayment after two years. The interest rate on each operation is set according to the average rate applied to the Eurosystem's main refinancing operations over the life of the respective operation. For counterparties whose eligible net lending exceeds their benchmark net lending, the rate applied to TLTRO-III operations will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the respective operation.<sup>19</sup>

Compared with the previous year, their average balance decreased by €15,197 million, from €168,730 million in 2018 to €153,533 million, mainly as a result of the early repayment of TLTRO-II operations. This represents 99.9% of annual average financing from monetary policy operations.

#### *c) Fine-tuning reverse operations*

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

Their year-end balance was zero, as it was the previous year. No fine-tuning reverse operations took place in the Eurosystem in 2019.

#### *d) Structural reverse operations*

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

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

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<sup>19</sup> Since this potential reduction will only be made public in early 2021, until then interest will be charged at the deposit facility rate, following a prudent approach.

#### e) *Marginal lending facility*

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

The end-2019 balance was zero and the use of this facility during the year was negligible.

## 7 Securities of euro area residents denominated in euro

#### a) *Securities held for monetary policy purposes*

This item includes the amount of euro-denominated fixed-income securities issued by euro area residents which were acquired by the Banco de España for monetary policy purposes under covered bond purchase programmes<sup>20</sup> (CBPP), the securities markets programme<sup>21</sup> (SMP), the secondary markets public sector purchase programme (PSPP)<sup>22</sup> and the corporate sector purchase programme (CSPP).<sup>23</sup> These securities were recorded at amortised cost (see “Securities” in Section 3.1 “Accounting policies”) and are subject to a yearly impairment test.

The balance of this item as at 31 December 2019 was €332,433.46 million.<sup>24</sup> The breakdown, including the market value (which is not recorded on the balance sheet or in the profit and loss account but is provided for comparison purposes only), is as follows:

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

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

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

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

24 As at 31 December 2019, repurchase agreements were constituted over part of the euro-denominated securities portfolio with a market value of €938.04 million.

EUR m

Monetary policy portfolio	2019		2018		Change	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
CBPP	47.98	48.56	395.61	408.36	-347.63	-359.80
CBPP2	42.06	47.72	64.87	74.89	-22.80	-27.17
CBPP3	33,214.02	34,686.61	32,524.34	33,078.61	689.68	1,608.00
SMP	7,341.92	8,064.58	10,123.91	11,128.43	-2,781.99	-3,063.85
PSPP government	222,963.18	244,495.90	227,471.38	231,953.71	-4,508.20	12,542.19
PSPP supranational	51,814.04	53,737.66	50,791.80	50,992.22	1,022.25	2,745.44
CSPP	17,010.26	17,539.56	16,437.96	16,058.39	572.30	1,481.16
<b>TOTAL</b>	<b>332,433.46</b>	<b>358,620.59</b>	<b>337,809.86</b>	<b>343,694.62</b>	<b>-5,376.40</b>	<b>14,925.97</b>

The securities purchased under the first and second covered bond purchase programmes (CBPP and CBPP2) were completed in June 2010 and October 2012, respectively. The securities markets programme (SMP) concluded in September 2012. The decrease in the balances of these portfolios in 2019 is due to the redemption of securities throughout the year.

The portfolios purchased under the CBPP3, PSPP, CSPP and ABSPP (asset-backed securities purchase programme conducted exclusively by the ECB) comprise the so-called “expanded asset purchase programme” (APP). On 1 November 2019, the Eurosystem restarted its net purchases of securities under the APP, at an average monthly pace of €20,000 million. This followed a period of ten months, from end-2018, during which the Eurosystem only reinvested, in full, the principal payments from maturing securities. The Governing Council expects net purchases to continue for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation and to conclude shortly before the ECB begins to raise interest rates. The Governing Council of the ECB also intends to continue with reinvestments for an extended period of time past the date when it starts raising key ECB interest rates and in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

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

On 4 September 2014, the Governing Council of the ECB resolved to initiate the third covered bond purchase programme, in order to improve the monetary policy transmission mechanism and support the provision of credit to the economy. Its balance amounted to €33,214.02 million at end-2019, an increase of €689.68 million compared with the previous year as a result of net purchases made.



On 22 January 2015, the Governing Council of the ECB decided to expand asset purchases to encompass a secondary market public sector purchase programme (PSPP). The purpose of this programme is to ease monetary and financial conditions, thus supporting aggregate consumption and investment in the euro area and contributing ultimately to maintaining price stability. Under this programme, the ECB and the Eurosystem NCBs have purchased, on the secondary market, securities issued by euro area central, regional and local governments, and securities issued by euro area public non-financial corporations, recognised agencies and institutions, and multilateral development banks. The year-end balance of securities issued by Spanish central, regional and local governments and agencies was €222,963.18 million, and that of securities issued by European institutions and development banks was €51,814.04 million. The decrease in the amortised cost of the PSPP-government portfolio securities in 2019 can be partly explained by the amortisation of the premium at which these securities were purchased and by the failure to reinvest part of the maturing securities to adapt to the new key for subscription to the ECB's capital in force since 1 January 2019, which is lower in the case of the Banco de España (see Note 8(a) to the balance sheet).

In March 2016, the Governing Council of the ECB decided to add a new corporate sector purchase programme (CSPP) to the APP. Under this programme, NCBs can buy investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area. Its balance at end-2019 was €17,010.26 million.

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

Pursuant to Article 32(4) of the ESCB/ECB Statute, any risks that materialise in the securities included in the SMP, CBPP3, PSPP supranational securities and CSPP, shall be shared by all Eurosystem NCBs in proportion to their share of the subscribed capital of the ECB according to the capital keys in force. The total amounts of the securities acquired by all Eurosystem NCBs under the SMP, CBPP3, PSPP supranational securities and CSPP were €44,216 million, €241,934 million, €225,169 million and €184,505 million, respectively. Of these amounts, €7,341.92 million, €33,214.02 million, €51,814.04 million and €17,010.26 million, respectively, were included in the balance sheet of the Banco de España.

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

Following the impairment test conducted on the securities purchased under the SMP and PSPP as at 31 December 2019, the Governing Council of the ECB decided that there was no evidence of impairment.

As regards the impairment test conducted on the securities purchased under CBPP programmes, the Governing Council of the ECB decided that, although there is an impairment indicator for the bonds issued by one issuer, there was no evidence of changes in expected cash flows, and, therefore, no impairment losses were recorded.

Following the impairment test conducted at end-2019 on the securities purchased under the CSPP, it was concluded that the impairment indicators already identified in 2018 for the bonds issued by a single issuer still existed in 2019. At end-2018, in application of the principle of prudence, the Governing Council considered that a provision for losses arising from monetary policy operation should be recorded. Pursuant to Article 32(4) of the ESCB/ECB Statute, these losses were fully shared by the Eurosystem NCBs in proportion to the capital keys in force. At end-2019, based on the impairment tests conducted, the Governing Council approved a reduction in the amount of the aforementioned provision, and the NCBs released their corresponding portions accordingly (see Note 26 to the balance sheet and Note 8 to the profit and loss account).

#### *b) Other securities*

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

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

The breakdown of this item is as follows:

EUR m			
Security investments	2019	2018	Change
Trading portfolio	8,757.50	10,001.04	-1,243.54
Held-to-maturity portfolio	18,695.25	19,723.74	-1,028.49
<b>TOTAL</b>	<b>27,452.75</b>	<b>29,724.78</b>	<b>-2,272.03</b>

The balance of this item as at 31 December 2019 was €27,452.75 million,<sup>25</sup> of which 31.9% relate to trading portfolio securities and 68.1% to held-to-maturity portfolio securities. The market value of the held-to-maturity portfolio at end-2019 (which is furnished for information purposes, since it is not reflected in the balance sheet or in the profit and loss account) is €19,735.93 million (€1,040.68 higher than its book value). The impairment test conducted on the held-to-maturity portfolio concluded that there was no evidence of impairment at year-end.

Overall, these securities showed a net decrease of €2,272.03 million in 2019, as a result of a reduction of €1,243.54 million in the trading portfolio and of €1,028.49 million in the held-to-maturity portfolio.

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

EUR m			
Reason for change	Trading portfolio	Held-to-maturity portfolio	Total
Net purchase/amortisation of securities	-1,028.31	-868.88	-1,897.19
Unrealised gains at year-end (a)	-174.17	—	-174.17
Unrealised losses at year-end (a)	—	—	—
Accrued implicit interest	-41.05	-159.62	-200.67
<b>TOTAL</b>	<b>-1,243.54</b>	<b>-1,028.49</b>	<b>-2,272.03</b>

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

In 2019, held-to-maturity securities amounting to €31 million were sold, owing to adjustments arising from application of the general framework on limits in the Eurosystem.

## 8 Intra-Eurosystem claims

This heading includes the amounts of the following items:

<sup>25</sup> As at 31 December 2019, repurchase agreements were constituted over part of the euro-denominated securities portfolio with a market value of €11.05 million, under automated securities lending contracts with the depositories of these securities.

EUR m

Type of asset	2019	2018	Change
Participating interest in the ECB	1,069.07	1,312.52	-243,45
Claims equivalent to the transfer of foreign reserve assets to the ECB	4,832.60	5,123.39	-290,80
Net claims related to the allocation of euro banknotes within the Eurosystem	142,060.84	131,035.75	11,025.09
<b>TOTAL</b>	<b>147,962.51</b>	<b>137,471.67</b>	<b>10,490.84</b>

*a) Participating interest in ECB*

Pursuant to Article 28 of the ESCB Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on the participating interests fixed in accordance with Article 29 of the ESCB Statute based on each country's share in the total population and gross domestic product of the ESCB countries per data furnished by the European Commission. These subscriptions must be adjusted every five years or whenever new Member States join the European Union, that is, when their NCBs join the ESCB. On 1 January 2019, the five-year review was conducted and the capital keys of the NCBs were adjusted at that date, as shown in the table below:

	ECB's capital key (%)	
	As at 31 December 2018	From 1 January 2019
Nationale Bank van België/Banque Nationale de Belgique	2.4778	2.5280
Deutsche Bundesbank	17.9973	18.3670
Eesti Pank	0.1928	0.1968
Central Bank and Financial Services Authority of Ireland	1.1607	1.1754
Τράπεζα της Ελλάδος (Bank of Greece)	2.0332	1.7292
Banco de España	8.8409	8.3391
Banque de France	14.1792	14.2061
Banca d'Italia	12.3108	11.8023
Κεντρική Τράπεζα της Κύπρου (Central Bank of Cyprus)	0.1513	0.1503
Latvijas Banka	0.2821	0.2731
Lietuvos bankas	0.4132	0.4059
Banque centrale du Luxembourg	0.2030	0.2270
Central Bank of Malta	0.0648	0.0732
De Nederlandsche Bank	4.0035	4.0677
Oesterreichische Nationalbank	1.9631	2.0325
Banco de Portugal	1.7434	1.6367
Banka Slovenije	0.3455	0.3361
Národná banka Slovenska	0.7725	0.8004
Suomen Pankki – Finlands Bank	1.2564	1.2708
<b>Subtotal for euro area NCBs</b>	<b>70.3915</b>	<b>69.6176</b>
Българска народна банка (Bulgarian National Bank)	0.8590	0.8511
Česká národní banka	1.6075	1.6172
Danmarks Nationalbank	1.4873	1.4986
Hrvatska narodna banka	0.6023	0.5673
Magyar Nemzeti Bank	1.3798	1.3348
Narodowy Bank Polski	5.1230	5.2068
Banca Națională a României	2.6024	2.4470
Sveriges Riksbank	2.2729	2.5222
Bank of England	13.6743	14.3374
<b>Subtotal for non-euro area NCBs</b>	<b>29.6085</b>	<b>30.3824</b>
<b>TOTAL (a)</b>	<b>100.0000</b>	<b>100.0000</b>

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

On 1 January 2019, Banco de España's key for subscription of ECB capital (€10,825 million) was reduced from 8.8409% to 8.3391%. Consequently, the Banco de España's share of the ECB's subscribed capital decreased from €957.03 million to €902.71 million.

This item also includes the participating interest in the rest of ECB equity. As at 31 December 2019, this amounted to €166.37 million, down by €189.13 million from the previous year as a result of the aforementioned reduction in the capital key.

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

These represent the ECB's debt to the Banco de España arising from the transfer of foreign reserve assets to the ECB. The claims equivalent to the transferred reserves are denominated in euro at a value fixed from the time of their transfer. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, reduced by 15% to reflect a zero return on the gold component, which at the time accounted for 15% of the total reserves transferred.

The change in the ECB's capital key on 1 January 2019 required an adjustment to the assets which the ECB allocates to NCBs for their contributions of foreign reserve assets. The aforementioned reduction in the Banco de España's capital key led to a decrease of €290.80 million in these assets, leaving their balance at €4,832.60 million.

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

This item, the balance of which amounted to €142,060.84 million at year-end, consists of the claims and liabilities of the Banco de España vis-à-vis the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem, when there is an overall debit balance (see "Banknotes in circulation" and "Intra-Eurosystem accounts" in Section 3.1 «Accounting policies”).

The increase with respect to 2018 (€11,025.09 million) was due to the net effect of two factors: one, the decrease in banknotes put into circulation by the Banco de España in 2019 (-96.4%, €-10,822 million) and the rise in the Eurosystem as a whole (5.0%, €61,608 million) and; two, the reduction in the banknote allocation key on 1 January 2019, arising from the aforementioned five-yearly review.

#### *d) Other claims within the Eurosystem (net)*

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

### **9 Other assets. Tangible and intangible fixed assets and fixed assets in progress**

The balance of this item amounted to €274.99 million at end-2019, of which €834.39 million related to cost and €559.40 million to accumulated depreciation or amortisation.

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

EUR m	2019	2018	Change
Tangible fixed assets	566.13	556.95	9.18
Land and unbuilt plots	5.35	5.35	—
Buildings, structures and renovation work	115.18	115.07	0.10
Plant in buildings	220.39	217.92	2.47
Furniture and fittings	43.59	43.35	0.23
Office machines other than computer equipment	42.36	40.76	1.61
Computer equipment	79.95	75.05	4.89
Transport equipment	10.43	10.49	-0.06
Libraries	2.92	3.31	-0.38
Other tangible fixed assets	5.53	5.25	0.28
Art collection	40.43	40.38	0.05
Intangible fixed assets	220.29	194.41	25.88
Computer applications	220.23	194.35	25.88
Industrial property	0.06	0.06	—
Fixed assets in progress	47.97	62.07	-14.10
Buildings, plant in buildings and other structures	9.80	6.87	2.93
Computer applications of Banco de España	31.53	47.41	-15.88
Computer applications of Eurosystem	4.92	2.72	2.20
Other fixed assets in progress	1.73	5.07	-3.34
<b>TOTAL</b>	<b>834.39</b>	<b>813.43</b>	<b>20.96</b>

EUR m	2019	2018	Change
Accumulated depreciation or amortisation			
Tangible fixed assets	-399.70	-391.99	-7.71
Buildings, structures and renovation work	-57.14	-54.52	-2.62
Plant in buildings	-196.81	-191.12	-5.69
Furniture and fittings	-38.05	-37.48	-0.56
Office machines other than computer equipment	-25.92	-26.11	0.20
Computer equipment	-66.17	-66.52	0.35
Transport equipment	-8.74	-8.93	0.20
Libraries	-1.94	-2.23	0.29
Other tangible fixed assets	-4.93	-5.06	0.13
Intangible fixed assets	-159.71	-138.03	-21.68
Computer applications	-159.65	-137.97	-21.68
Industrial property	-0.06	-0.06	—
<b>TOTAL</b>	<b>-559.40</b>	<b>-530.02</b>	<b>-29.38</b>

Overall, fixed assets net of depreciation decreased with respect to the previous year by €8.42 million. This decrease is mainly explained by an increase in the accumulated amortisation and depreciation of computer applications and plant in buildings, partially offset by investment in computer applications and in information processing equipment.

#### 10 Other assets. Other financial assets

This item includes €97.19 million of financial investments relating mainly to the Banco de España's participating interest in the Bank for International Settlements (€25.04 million, the same as the previous year) and in IMBISA (€72 million, the same as the previous year). This company, whose corporate purpose is the production of euro banknotes, is a vehicle of the Banco de España. It was incorporated in November 2015 and is 80%-owned by the Banco de España. At end-2019, IMBISA's capital stood at €90 million.

#### 11 Other assets. Off-balance-sheet instruments revaluation differences

This item includes the amount of the net debtor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a creditor one, it is recorded under the same heading in liability item 12.1 (see Note 23 to the balance sheet).

#### 12 Other assets. Accruals and prepaid expenses

The main components of this item, the balance of which amounts to €5,219.64 million, are as follows:



EUR m	2019	2018	Change
Accrued interest arising from securities acquisitions and accrued coupon interest receivable	5,108.68	5,270.53	-161.84
Trading portfolio	373.64	376.72	-3.08
Denominated in foreign currency	128.91	110.89	18.02
Denominated in euro	244.72	265.83	-21.11
Held-to-maturity portfolio	412.23	444.94	-32.71
Denominated in foreign currency	96.12	106.43	-10.31
Denominated in euro	316.12	338.52	-22.40
Held for monetary policy purposes	4,322.81	4,448.86	-126.05
Other accrued interest receivable	104.00	131.31	-27.31
On monetary policy operations	0.10	9.53	-9.43
On intra-Eurosystem claims arising from banknote adjustments	—	—	—
On claims equivalent to the transfer of foreign reserves to the ECB	—	—	—
On foreign currency deposits	9.82	10.20	-0.37
On swap operations	75.08	90.97	-15.89
On negative remuneration of general government deposits	10.33	9.07	1.26
On claims on the IMF	7.47	9.74	-2.28
Other	1.20	1.80	-0.60
Accrued commissions receivable and prepaid expenses	6.95	6.01	0.95
<b>TOTAL</b>	<b>5,219.64</b>	<b>5,407.84</b>	<b>-188.20</b>

As can be seen in the above table, the most significant items are accrued interest arising from securities purchases and accrued coupon interest receivable arising from the monetary policy operations portfolio (€4,322.81 million), from the trading portfolio (€373.64 million) and from the held-to maturity portfolio (€412.23 million). Overall, this interest decreased by €161.84 million compared with the previous year, due to the lower coupon interest receivable from the reinvestments carried out under the APP (relating to redeemed securities) and to the maturing securities purchased under already completed monetary policy programmes.

### 13 Other assets. Sundry

The most significant components of this item, which totals €1,478.23 million, are the transfer to the Treasury on 2 December 2019 of €1,265.87 million (€191.28 million more than in 2018), equivalent to 70% of the Bank's profits earned to 30 September 2019, adjusted in line with the projected performance of profits up to year-end (see Note 15 to the profit and loss account), and the home loans and repayable advances granted to Bank employees, the balance of which, at €191.33 million, was up by €6.65 million from 2018.

## 14 Banknotes in circulation

The balance of banknotes in circulation (€142,460.17 million) represents the Banco de España's share in the total euro banknotes in circulation (see "Banknotes in circulation" in Section 3.1 "Accounting Policies") according to the Eurosystem euro banknote allocation key, which was 11.0200% in 2019. This key is obtained by taking the Eurosystem capital key (11.9784%) and deducting 8% of the total corresponding to the ECB.

At end-2018, the banknote allocation key was 11.5550%. The reduction in this key was the result of the changes in the ECB's capital key on 1 January 2019, arising from the five-yearly review.

This balance was €202.63 million higher than in the previous year because of the greater volume of euro banknotes put into circulation by the Eurosystem, offset by aforementioned reduction in the banknote allocation key. The difference between the balance of the banknotes allocated as per the balance sheet (€142,460.17 million) and those put into circulation by the Banco de España (€399.33 million) is recorded in an adjustment account under this heading, with a balancing entry in item 9.4 on the assets side of the balance sheet (for €142,060.84 million).

The composition of the banknotes put into circulation in net terms by the Banco de España at end-2019 is as follows:

Series	2019	2018	Change
€500 (a)	10,960.73	15,486.50	-4,525.77
€200	904.46	1,286.93	-382.48
€100	-9,591.29	-6,395.16	-3,196.13
€50	54,956.02	53,204.57	1,751.45
€20	-40,951.15	-37,643.97	-3,307.18
€10	-14,887.57	-13,839.12	-1,048.45
€5	-991.86	-877.96	-113.90
Euro banknotes put into circulation by Banco de España	399.33	11,221.78	-10,822.45
Adjustment as per banknote allocation key	142,060.84	131,035.75	11,025.09
Banknotes in circulation	142,460.17	142,257.53	202.63

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

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

The overall balance of the different types of deposits held by credit institutions with the Banco de España amounted to €108,162.06 million at end-2019, €20,248.64 million less than in the previous year.

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

EUR m			
Type of liability	2019	2018	Change
Current accounts (covering the minimum reserve system)	100,965.06	105,310.70	-4,345.64
Deposit facility	7,197.00	23,100.00	-15,903.00
Fixed-term deposits	—	—	—
Fine-tuning reverse operations	—	—	—
Deposits related to margin calls	—	—	—
<b>TOTAL</b>	<b>108,162.06</b>	<b>128,410.70</b>	<b>-20,248.64</b>

The first component, which includes the total current accounts held by credit institutions at the Banco de España, in which they maintain the minimum reserves required for monetary policy implementation purposes, decreased by €4,345.64 million (4.1%). However, its average balance increased during the year, from €97,521 million in 2018 to €100,190 million in 2019 (2.74%).

The balances maintained to meet minimum reserve requirements are remunerated at the average of the marginal interest rate on main refinancing operations in the period (0% from March 2016). Since June 2014, the reserve holdings exceeding the required minimum reserves are remunerated at 0% or the deposit facility rate, whichever is lower. However, the Governing Council of the ECB introduced a two-tier remuneration system, applicable from 30 October 2019, consisting of an exempt tier (determined as a multiple, set at six, of a credit institution's reserve requirements), and a tier that is remunerated at 0% or the deposit facility rate, whichever is lower.

The «Deposit facility» item, which includes overnight deposits remunerated at a fixed interest rate set in advance (lower than the interest rate on main refinancing operations), decreased significantly from €23,100 million in 2018 to €7,197 million in 2019. Its average balance also decreased, from €12,779 million in 2018 to €9,746 million in 2019 (-23.7%). Following a decision of the Governing Council of the ECB, these deposits have been remunerated at a negative interest rate since June 2014. With effect from 18 September, the interest rate on the deposit facility decreased from -0.40% to -0.50%.

The other headings in this item relate to fixed-term deposits and fine-tuning reverse operations, aimed at the withdrawal of liquidity and none of which were carried out in the year, and to deposits related to margin calls which, as at 31 December 2019, had a zero balance.

## 16 Other liabilities to euro area credit institutions denominated in euro

This item includes the deposits held by credit institutions at the Banco de España which are not related to monetary policy operations.

Its balance at end-2019 was €160.57 million (€587.59 million in 2018), which related almost entirely to the cash obtained as collateral from monetary policy portfolio securities lending transactions with euro area residents (through a specialised agency).

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

This item includes the deposits held by general government with the Banco de España. The outstanding balance at year-end was €14,485.88 million, which breaks down as follows:

EUR m			
	2019	2018	Change
Central government	14,104.78	18,778.78	-4,674.01
State	10,513.00	15,841.19	-5,328.19
Central government agencies	3,591.77	2,937.59	654.18
Territorial government	17.06	39.54	-22.49
Regional (autonomous) governments, administrative agencies and similar bodies	17.03	39.53	-22.50
Local government	0.03	0.01	0.02
Social security funds	364.05	233.52	130.53
Social security system	10.74	8.71	2.04
Other	353.31	224.81	128.49
<b>TOTAL</b>	<b>14,485.88</b>	<b>19,051.84</b>	<b>-4,565.96</b>

In 2019, some of the current accounts held by various agencies were reclassified for accounting purposes, in order to bring them into line with the sectorisation criteria used

in the National Accounts.<sup>26</sup> As a result, the balances of these accounts were transferred from item “5.2.- Liabilities to other euro area residents denominated in euro. Other liabilities” to item “5.1.- Liabilities to other euro area residents denominated in euro. General government”. The 2018 figures have been reclassified to enable a uniform comparison.<sup>27</sup>

The decrease in this item (€4,565.96 million) was due mainly to the lower balances held by central government, which fell from €18,778.78 million in 2018 to €14,104.78 million in 2019.

As regards average balances, there was an increase in those held by central government (€29,427 million in 2019 against €27,781 million in the previous year) and by social security funds (€2,031 million in 2019 against €1,539 million in 2018), and a slight decrease in those held by regional and local governments (€36 million in 2019 against €41 million in 2018).

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

Included here are the current accounts of financial institutions other than credit institutions, such as stock exchange governing companies and securities dealers and brokers, as well as the current accounts of non-administrative public and autonomous agencies of the State, employees and pensioners, vehicle companies of the Banco de España and other accounts of legal entities classified in “Other resident non-financial sectors”.

As mentioned in Note 17, this item was affected by the reclassification of the current accounts held by various government bodies, the balances of which were transferred to the liability item “5.1.- Liabilities to other euro area residents denominated in euro. General government”. The figures for 2018 were adjusted to enable a uniform comparison.

The balance of €3,461.85 million at end-2019 was €744.80 million higher than at end-2018, mainly as a result of the increase in the balances held by Bolsas y Mercados Españoles (BME).

## 19 Liabilities to non-euro area residents denominated in euro

This item includes basically the euro-denominated accounts held by European authorities (such as the Single Resolution Board), international organisations,

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<sup>26</sup> There was also a restructuring of item 5 on the liabilities side of the balance sheet, as a result of which the headings “Treasury current account” and “Other central government agencies and similar bodies” were renamed “State” and “Central government agencies”, respectively.

<sup>27</sup> The reclassified balances amounted to €30.78 million at 31.12.2018.

non-Eurosystem monetary authorities, central banks to which reserve management services are provided, as well as the cash obtained as collateral from monetary policy portfolio securities lending transactions with non-euro area residents (through a specialised agency).

The balance of €2,641.59 million was €2,299.71 million lower than a year earlier, mainly due to the lower balances of customers in connection with reserve management services, to the decrease in the cash received from securities lending transactions and in the balances held by the Single Resolution Board.

## 20 Counterpart of special drawing rights allocated by the IMF

This item of €3,488.92 million shows the equivalent value of the SDRs allocated to Spain by the IMF, the balancing entry to the initial allocation of SDRs recorded in item 2.1 on the assets side of the balance sheet. The total amount of this item increased by €52.31 million with respect to the previous year, due to the variation in the exchange rate against the euro.

## 21 Intra-Eurosystem liabilities

This item, which as at 31 December 2019 had a balance of €391,747.30 million, comprises the following two sub-items:

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

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

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

The balance of €391,747.30 million as at 31 December 2019 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; and 3) the Banco de España's position vis-à-vis the ECB in respect of any dividends receivable at year-end, from the seigniorage income relating to euro banknotes issued by the ECB and of the income on securities acquired by the ECB under the SMP, CBPP3, ABSPP and PSPP programmes.

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

EUR m			
Type of liability	2019	2018	Change
Position of Banco de España vis à vis ECB due to transfers made and received through TARGET2 and correspondent banking	392,384.08	401,892.50	-9,508.42
Position vis à vis ECB due to pooling and allocation of monetary income	-465.38	-617.34	151.97
ECB dividend from banknote seigniorage and SMP, CBPP3, ABSPP and PSPP income	-171.40	-149.63	-21.77
<b>TOTAL</b>	<b>391,747.30</b>	<b>401,125.52</b>	<b>-9,378.22</b>

Regarding the first component, the year-end transfers via TARGET2 had a credit balance of €392,384.09 million, while the correspondent accounts showed a debit balance of €0.01 million. The remuneration of this position is calculated daily at the marginal interest rate of Eurosystem main refinancing operations (0% from 16 March 2016). Its average balance remained practically unchanged during the year, from €393,280 million in 2018 to €393,586 million in 2019.

The second component reflects the position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income within the Eurosystem NCBs, and had a debit balance of €465.38 million at year-end (see “Net result of pooling of monetary income” in Note 8 to the profit and loss account).

Finally, on 20 January 2020, the Governing Council of the ECB resolved to distribute all the income obtained from the seigniorage of euro banknotes and from securities purchased under the SMP, CBPP3, ABSPP and PSPP programmes.<sup>28</sup> The amount corresponding to the Banco de España was recorded as 2019 income, on an accrual basis, and received on 31 January 2020. Its debit balance at end-2019 was €171.40 million (see “Income from equity shares and participating interests” in Note 7 to the profit and loss account).

## 22 Items in course of settlement

Included here are various accounts which as at 31 December 2019 were in the course of settlement, such as transfer instructions pending execution.

<sup>28</sup> Decision of the European Central Bank of 15 December 2014 (ECB/2014/57) on the interim distribution of the income of the European Central bank (recast), as amended.

The balance of this item at year-end (€17.98 million) relates mainly to the transfers received from accounts with institutions on the TARGET2 platform, but yet to be processed (€9.57 million), and to the transfers made to accounts with other institutions, with payment of those transfers yet to be made (€2.46 million).

### 23 Other liabilities. Off-balance-sheet instruments revaluation differences

This item includes the amount of the net creditor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a debtor one, it is recorded under the same heading in item 11.4 on the asset side. Its credit balance of €1.85 million at end-2019 is the net value of the swap transactions outstanding at that date that are listed below:

Operation	Position	Currency	2019		2018	
			Currency amount (million)	Market exchange rate	Equivalent (Eur m)	Equivalent (Eur m)
Swap	Debtor	EUR	1,482.35	1.0000	1,482.35	1,403.76
		JPY	—	121.9400	—	238.38
		CAD	234.22	1.4598	160.44	—
		AUD	287.22	1.5995	179.57	—
		USD	5,692.59	1.1234	5,067.29	5,693.54
	Creditor	JPY	661,250.00	121.9400	5,422.75	5,684.07
		USD	1,650.00	1.1234	1,468.76	1,628.79
<b>NET POSITION</b>					<b>1.85</b>	<b>-22.82</b>

At year-end, swaps involving the Japanese yen against the US dollar, Canadian dollar and Australian dollar, and US dollar-euro swaps entered into under the liquidity provision cooperation agreements (swap line) with the Federal Reserve (see Note 4 to the balance sheet), were unexpired.

### 24 Other liabilities. Accruals and income collected in advance

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

As at 31 December 2019, its balance amounted to €1,340.75 million and the main component (€1,334.08 million) was interest accrued as a result of the remuneration at negative interest rates of certain longer-term refinancing operations with credit institutions (see Note 6(b) to the balance sheet).



## 25 Other liabilities. Sundry

This includes other liabilities not classifiable above.

As at 31 December 2019 the balance of this item amounted to €117.94 million (€7.51 million less than in 2018) and its main sub-items were the accounts payable relating to accrued operating expenses (€38.46 million) and the cash arising from redemptions of, and interest on, book-entry government debt immobilised under EU legislation relating to restrictive measures on the financial resources of certain agents (€30.03 million).

## 26 Provisions

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

EUR m	2019	2018	Change
For financial risks	25,034.24	20,852.19	4,182.05
For operational risk	472.71	463.39	9.32
For exchange of withdrawn peseta banknotes	17.49	16.47	1.02
For impairment of monetary policy portfolio	11.23	20.23	-9.00
For the collective agreement 2011-2014	9.53	8.51	1.02
For death and retirement assistance	91.18	81.04	10.14
For early and regular retirement	16.06	17.38	-1.32
For sundry liabilities and charges	6.08	0.37	5.71
For ongoing lawsuits	0.45	0.19	0.26
<b>TOTAL</b>	<b>25,658.96</b>	<b>21,459.77</b>	<b>4,199.20</b>

### *Provision for financial risks*

This is the most important provision. It encompasses the provisions for exchange rate and interest rate risks and the provision for credit risks of the Banco de España's financial positions. The balance of this provision is revised annually based on the Banco de España's valuation of its exposure to the aforementioned risks by value-at-risk methodology (VaR), with a one-year time horizon and a 99% confidence interval, and with the established coverage targets.

At end-2019, this provision was used to offset existing losses arising from the risks covered for an amount of €13.58 million (€0.04 million to cover exchange losses and

€13.55 million to cover interest rate losses). At its meeting on 18 February 2020, the Executive Commission approved the provisioning of €4,195.64 million (see Note 5 to the profit and loss account). Consequently, there was a net increase of €4,182.05 million in the provision for financial risks, the balance of which amounted to €25,034.24 million at end-2019.

#### *Provision for operational risk*

Operational risk exposure is quantified on the basis of one-year VaR with a confidence level of 99.9%. For 2019, as for 2018, the level of coverage for operational risk was 100%.

This provision was used at end-2019 to cover the operational risk events which occurred during the year for an amount of €0.09 million, and the €9.41 million set aside owing to an increase in the risk amount at year-end (see Note 14 to the profit and loss account) took its balance to €472.71 million.

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

This is the more important of the two provisions set aside for the exchange of peseta banknotes withdrawn from circulation.<sup>29</sup> It was recorded initially in 2005 to cater for the exchange of any peseta banknotes withdrawn from circulation due to the introduction of the euro that may be tendered at the Banco de España. This provision was accompanied by the crediting to the profit and loss account of the outstanding amount of peseta banknotes in the balance sheet of the Banco de España as at 31.12.2005. The resulting net profit was used to increase capital and reserves. At the same time, it was decided that if the amount of banknotes tendered for exchange exceeded the amount of the provision at that time, the Banco de España would meet the excess with a charge to its reserves.

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

The banknotes tendered for exchange in 2019 led to a €8.75 million decrease in the balance of this provision, leaving a balance of €7.47 million. The Cash and Issue

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<sup>29</sup> The provisions for exchange of peseta banknotes withdrawn from circulation include another provision for €0.37 million, to cater for the exchange of peseta banknotes withdrawn before the introduction of the euro.

Department considered that, based on the estimated banknote exchanges up to 31.12.2020 (deadline for exchanging peseta banknotes into euros), this amount would be insufficient, and an additional amount of €9.65 million was therefore recorded. As agreed in 2005, this provision was recorded with a charge to the Banco de España reserves. As a result, its balance at end-2019 was €17.12 million.

#### *Provision for the impairment of the risk-sharing monetary policy portfolios of the Eurosystem*

In 2018, impairment losses were recorded on securities held in the risk-sharing monetary policy portfolio of the Eurosystem (CSPP), consisting of securities issued by non-bank corporations in the euro area. The recording of a provision of €161.07 million was therefore deemed appropriate by the Governing Council of the ECB. Pursuant to Article 32(4) of the ESCB Statute, the provision was fully financed by all the Eurosystem NCBs in proportion to the capital keys in force in 2018. The Banco de España recorded a provision of €20.23 million, corresponding to its share of 12.5596%.

As a result of the impairment test on this portfolio in 2019, the Governing Council of the ECB revised the provision recorded in 2018 and decided to reduce it from €161.07 million to €89.39 million. Consequently, the Banco de España must present in its financial statements a provision of €11.23 million, according to its capital key in force at the time of the initial impairment (2018). The corresponding adjustment of €9 million is reflected in the profit and loss account (see Note 8 of the profit and loss account on the net result of pooling of monetary income).

#### *Other provisions*

In the reporting year there was an increase of €10.14 million in the provision for death and retirement assistance, basically due to the lower interest rate applied in its calculation, which fell from 2% in 2018 to 0.87% in 2019.

There was a decrease of €1.32 million in the provisions for early and regular retirement, mainly as a result of the payments made during the year, which were partly offset by the reduction in the discount rate used for the valuation at year end.

Also in 2019, there was an increase of €5.71 million in the provision for sundry liabilities and charges, chiefly due to the outstanding amounts payable to employees for the 2019 wage rise, pursuant to Royal Decree-Law 24/2018 of 21 December, approving urgent measures on compensation in the public sector (see Note 10 of the profit and loss account).

The remaining provisions (for ongoing litigation and application of the collective labour agreement for 2011-2014) were negligible in this reporting year.

## 27 Revaluation accounts

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

EUR m			
Type of account	2019	2018	Change
Gold	11,409.29	9,298.47	2,110.82
Foreign currency	5,775.39	4,665.40	1,109.99
Securities (trading portfolio)	1,144.66	1,193.59	-48.93
Issued in foreign currency by non-euro area residents	153.43	44.87	108.56
Issued in foreign currency by euro area residents	22.25	5.56	16.69
Issued in euro by euro area residents	968.98	1,143.15	-174.17
Other	0.35	—	0.35
<b>TOTAL</b>	<b>18,329.69</b>	<b>15,157.46</b>	<b>3,172.23</b>

The balance of revaluation accounts at end-2019 was €18,329.69 million, up €3,172.23 million on 2018. The most significant change was in the gold revaluation accounts, which increased by €2,110.82 million, due to the rise in its market price (from €1,120.96 per ounce at end-2018 to €1,354.10 per ounce at end-2019).

With regard to foreign currencies, the unrealised gains were €1,109.99 million higher, basically due to the appreciation of the US dollar against the euro, and also, albeit to a lesser extent, to the appreciation of the Canadian dollar, the Australian dollar, the pound sterling and the SDR.

In addition, in 2019, unrealised gains amounting to €0.35 million were recorded in investment fund shares denominated in US dollars issued by non-euro area residents.

With regard to securities price revaluation accounts, the main change was in trading portfolio debt securities denominated in euro issued by euro area residents, the unrealised gains on which decreased by €174.17 million, mainly on the securities issued by the Spanish Treasury. This was partly offset by the higher unrealised gains on securities issued in foreign currency, mainly in US dollars, by non-euro area residents (which increased by €108.56 million).

## 28 Capital

As at 31 December 2019 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 arose from a capital increase carried out in 2006 through the retention of a portion of 2005 profits.

## 29 Reserves

As at 31 December 2019, the reserves of the Banco de España amounted to €890.16 million, down €9.65 million from the previous year. Included in this item is, first, the amount of capital, reserves and profits that arose in 1973 when the now-defunct Spanish Foreign Currency Institute was included in the Banco de España (€3.17 million) and, second, the portion of 2005 and 2006 profit taken to reserves, authorised by the Council of Ministers, respectively, on 28 July 2006 and 29 June 2007. The balances of reserves arising from the retention of 2005 earnings decreased by €9.65 million as a result of the provision set aside for exchange of peseta banknotes withdrawn from circulation due to the introduction of the euro (see Note 26 to the balance sheet).

## 30 Profit for the year

The net profit for 2019 amounted to €2,252.41 million, up 2.4% on 2018. Of this amount, €1,265.87 million was paid to the Treasury on 2 December 2019, in accordance with Royal Decree 2059/2008 of 12 December 2008 (see Note 15 to the profit and loss account “Profit for the year”) and are included in asset item 11.6.

During the year, the following amounts were also paid to the Treasury out of 2018 profits:

- a) On 1 March 2019, €904.65 million, which, together with the payment in December 2018, amounted to 90% of the €2,199.15 million of the profit for that year.
- b) On 31 October 2019, once the balance sheet and profit and loss account for the year 2018 had been approved by the Council of Ministers, €219.92 million, representing the rest of the profit for that year.

The details of the various components of the profit for 2019 and the reasons for the changes in them with respect to 2018 are given in Section 3.3 below on the profit and loss account.

### 3.3 Notes to the profit and loss account

#### 1 Interest income

This item includes income from interest accrued on the financial assets of the Banco de España. The breakdown in 2019 and 2018 is as follows:

EUR m and %

	Interest income			Average investment		Average yield	
	2019	2018	Change	2019	2018	2019	2018
Foreign currency	1,171.32	1,025.13	146.18	51,053	48,520	2.26	2.08
Securities	868.77	792.02	76.76	36,869	36,341	2.32	2.15
Deposits and other assets	154.36	93.06	61.30	14,184	12,178	1.07	0.75
Exceptional liquidity-providing operations, swaps, forwards and others	148.19	140.06	8.13				
Euro	5,592.87	5,743.06	-150.19	650,325	626,430	0.85	0.90
Other securities	781.02	861.44	-80.42	28,389	28,722	2.71	2.96
Trading portfolio	383.23	452.70	-69.46	8,450	9,951	4.47	4.49
Held-to-maturity portfolio	397.79	408.75	-10.96	19,938	18,771	1.97	2.15
Securities held for monetary policy purposes	4,294.13	4,332.24	-38.11	340,998	329,259	1.24	1.30
SMP	497.25	638.65	-141.40	8,383	10,930	5.85	5.76
CBPP, CBPP2 and CBPP3	308.85	315.93	-7.08	34,089	33,602	0.89	0.93
PSPP government securities	3,118.54	3,057.87	60.67	229,571	220,207	1.34	1.37
PSPP supranational securities	200.46	169.54	30.92	52,272	49,528	0.38	0.34
CSPP	169.04	150.25	18.79	16,682	14,992	1.00	0.99
Monetary policy operations	352.26	396.54	-44.29	110,081	110,417	0.32	0.35
Main refinancing operations	—	—	—	144	117	—	—
Longer-term refinancing operations (a)	—	—	—	—	—	—	—
Marginal lending facility	—	—	—	—	—	—	—
Changes in the value of collateral (negative net interest)	—	—	—	—	—	—	—
Remuneration of minimum reserves (negative net interest)	311.50	344.72	-33.21	100,190	97,521	0.31	0.35
Deposit facility (negative net interest)	40.75	51.83	-11.07	9,746	12,779	0.41	0.40
Intra-Eurosystem accounts	—	—	—	137,225	125,983	—	—
Claims equivalent to the transfer of foreign reserves to the ECB	—	—	—	4,833	5,123	—	—
Claims related to allocation of euro banknotes within the Eurosystem	—	—	—	132,342	120,814	—	—
Other claims within the Eurosystem (net)	—	—	—	51	46	—	—
Other assets	4.60	6.82	-2.21				
General government deposits (negative net interest)	143.76	128.15	15.61	33,632	32,050	0.43	0.40
Other liabilities denominated in euro (negative net interest)	17.10	17.88	-0.77				
<b>TOTAL</b>	<b>6,764.19</b>	<b>6,768.20</b>	<b>-4.01</b>	<b>701,378</b>	<b>674,949</b>	<b>0.95</b>	<b>0.99</b>

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

In 2019, interest income amounted to €6,764.19 million, of which €1,171.32 million was denominated in foreign currencies and €5,592.87 million was euro-denominated interest. Interest income denominated in foreign currencies was basically from securities portfolios (€868.77 million, with an average yield of 2.32%). Most of the

euro-denominated interest income was from the monetary policy securities portfolio (€4,294.13 million, with an average yield of 1.24%) and the own portfolio (€781.02 million, with an average yield of 2.71%), while interest income from monetary policy operations amounted to €352.26 million (average yield of 0.32%).

Overall interest income fell slightly by €4.01 million (0.1%) in 2019 compared with 2018, as a result of the lower interest on euro-denominated investments (€-150.19 million, -2.6%), partly offset by the higher interest on investments denominated in foreign currencies (€146.18 million, 14.3%).

The increase in the interest denominated in foreign currencies arose mainly from the higher average yield obtained (from 2.08% in 2018 to 2.26% in 2019) and, to a lesser degree, from the increase in average investments (from €48,520 million in 2018 to €51,053 million in 2019). The higher yields obtained have been influenced by both the foreign currency interest rates and the exchange rates against the euro (mainly the US dollar). Income from US dollar-yen swaps was also higher.

The decrease of €150.19 million in euro-denominated interest income was due to the following:

- Lower interest on own portfolio (€80.42 million), mainly as a result of the decline in yields.
- Lower income from monetary policy portfolios (€38.11 million), owing to the lower average overall yield, despite the increase in the average balance held, following the decisions adopted by the Governing Council of the ECB.<sup>30</sup>
- Lower income from the negative remuneration of minimum reserves and deposit facility (€44.29 million): their average balance remained virtually unchanged during the year, but the average yield declined (from 0.36% in 2018 to 0.32% in 2019), as a result of the decisions adopted by the Governing Council of the ECB. Specifically, the Governing Council introduced a two-tier reserve remuneration system, applicable from 30 October 2019, which exempts a portion of excess liquidity holdings from negative remuneration and remunerates them at an annual rate of 0%. The exempt tier was set by the Governing Council, in principle, as a multiple of six, of a credit institution's reserve requirement (see Note 15 of the balance sheet). In addition, with effect from 18 September, the interest rate applied

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30 From January to September 2018, the volume of monthly purchases in the Eurosystem amounted to €30,000 million and was reduced to €15,000 million up to year-end. For the first ten months of 2019, there were only reinvestments of the maturing securities. From November, net purchases resumed, at a monthly pace of €20,000 million.



to the deposit facility (and to other liabilities held in the central bank) fell from -0.40% to -0.50%.

- Higher income from the negative remuneration of general government deposits (€15.61 million) owing to both the increase in the interest rate applicable (to the deposit facility), and to the increase in the average balance (€1,582 million, 4.9%).

## 2 Interest expense

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

EUR m and %	Interest expense			Average financing		Average cost	
	2019	2018	Change	2019	2018	2019	2018
Foreign currency	38.03	36.79	1.24				
Exceptional liquidity-providing operations, swaps and forwards	3.26	5.03	-1.77				
Other liabilities	34.77	31.76	3.01	3,393	3,366	1.01	0.93
Euro	625.79	676.25	-50.45	547,039	561,919	0.11	0.12
Monetary policy operations	623.38	675.18	-51.80	153,533	168,730	0.40	0.39
Remuneration of minimum reserves (a)	—	—	—	—	—	—	—
Deposit facility (a)	—	—	—	—	—	—	—
Fixed-term deposits	—	—	—	—	—	—	—
Changes in the value of collateral (negative net interest)	—	—	—	—	—	—	—
Longer-term refinancing operations (negative net interest)	623.38	675.18	-51.80	153,533	168,730	0.40	0.39
General government deposits (a)	—	—	—	—	—	—	—
Other liabilities within the Eurosystem (net)	—	—	—	393,507	393,189	—	—
Other liabilities denominated in euro	2.41	1.06	1.35				
<b>TOTAL</b>	<b>663.83</b>	<b>713.04</b>	<b>-49.21</b>	<b>550,432</b>	<b>565,284</b>	<b>0.12</b>	<b>0.12</b>

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

Interest expenses denominated in foreign currencies were basically from interest accrued on the SDRs allocated by the IMF (€34.76 million), recorded under “Other liabilities”.

The euro-denominated interest expenses (€625.79 million) arose mainly from the negative interest on longer-term refinancing operations (€623.38 million), particularly

the targeted longer-term refinancing operations (TLTRO-II and TLTRO-III). With respect to TLTRO-III operations, interest is accrued according to the most prudent criteria, which means applying the average deposit facility rate (see Note 6(b) to the balance sheet). Remuneration of the intra-Eurosystem accounts did not generate any expenses, as the interest rate has been 0% since 16 March 2016.

Compared with the previous year, interest expenses decreased by €49.21 million, mainly owing to the lower negative interest accrued on longer-term refinancing operations (€51.80 million) as a result of the voluntary repayments of TLTRO-II operations in 2019. These were partly offset by the higher expenses generated by the allocated SDRs, owing to the increase in their average cost.

### 3 Realised gains/losses arising from financial operations

This item includes the profits and losses arising from the sale of financial assets. In 2019 the net gains in this connection amounted to €192.81 million, arising from the following sources:

EUR m	2019	2018	Change
Foreign currency	191.91	-79.48	271.39
Sale of gold	—	—	—
Sale of foreign currency (exchange rate)	30.64	24.30	6.34
Sale of securities (price)	141.47	-120.33	261.80
Other gains/losses	19.80	16.55	3.25
Euro	0.90	—	0.90
Sale of securities	0.90	—	0.90
<b>TOTAL</b>	<b>192.81</b>	<b>-79.48</b>	<b>272.29</b>

Noteworthy were the gains on the sale of foreign currency-denominated securities (€141.47 million), mostly US dollar-denominated securities (€111.43 million) and Australian dollar-denominated securities (€20.66 million), against losses of €120.33 million in 2018 (€120.12 million on the sale of US dollar-denominated securities).

The profits from the sale of foreign currencies (€30.64 million) were almost entirely due to gains on the sale of US dollars (€21.64 million) and SDRs (€8.59 million), coinciding with the appreciation of these currencies against the euro in the period under consideration. In addition, gains amounting to €19.80 million (€16.55 million in 2018) were recorded on interest rate futures, under “Other gains/losses”.

#### 4 Write-downs 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 2019 and 2018 is as follows:

EUR m	2019	2018	Change
Foreign currency	13.58	365.13	-351.55
Foreign currency (exchange rate)	0.04	346.75	-346.72
Securities (price)	13.55	18.38	-4.83
Euro	—	—	—
Securities	—	—	—
<b>TOTAL</b>	<b>13.58</b>	<b>365.13</b>	<b>-351.55</b>

Write-downs in 2019 amounted to €13.58 million, of which €13.55 million related to price losses on foreign currency-denominated securities (mainly, USD 8.04 million, CAD 3.81 million and AUD 1.70 million).

Foreign exchange losses at end-2019 were very small (€0.04 million, mainly in Japanese yen). In contrast, those recorded at end-2018 were sizeable, at €346.75 million (AUD 214.70 million and CAD125.61 million).

#### 5 Transfers to/from provisions for financial risks

The breakdown in 2019 and 2018 is as follows:

EUR m	2019	2018	Change
Transfers to provisions	4,195.64	3,985.80	209.83
Transfer/reversal from provision	-13.58	-385.36	371.78
<b>TOTAL</b>	<b>4,182.05</b>	<b>3,600.44</b>	<b>581.61</b>

This includes, first, the transfer of €13.58 million from the provision for financial risks to cover the unrealised losses existing at end-2019 and, second, the transfer of €4,195.64 million approved by the Executive Commission. This increase represents

a continuation of the policy embarked on in previous years to have sufficient provisioning for financial risks to address the higher risks assumed as a result of the increase in financial assets of recent years, particularly of securities purchased under the Eurosystem's asset purchase programmes.

## 6 Net income from fees and commissions

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

EUR m	2019	2018	Change
<b>1 Income from fees and commissions</b>	<b>16.74</b>	<b>15.73</b>	<b>1.01</b>
Foreign operations	0.02	—	0.02
Domestic operations	16.72	15.73	0.99
<b>2 Expenses from fees and commissions</b>	<b>-14.27</b>	<b>-14.32</b>	<b>0.05</b>
Foreign operations	-4.14	-4.12	-0.02
Domestic operations	-10.12	-10.19	0.07
<b>Net income from fees and commissions (1+2)</b>	<b>2.47</b>	<b>1.41</b>	<b>1.06</b>

Net fee and commission income in 2019 amounted to €2.47 million. This income arose basically from fees and commissions charged to participants in TARGET2 and TARGET2-Securities, and commissions charged to book-entry system issuers of debt. Expenses notably include the fees and commissions paid to Iberclear (central securities depository) on securities transactions, and the expenses relating to the custody of securities denominated in foreign currency.

## 7 Income from equity shares and participating interests

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

EUR m			
	2019	2018	Change
ECB	219.64	185.68	33.96
Ordinary dividend	48.23	36.05	12.18
Dividend from banknote seigniorage and SMP, CBPP3, ABSPP and PSPP income	171.40	149.63	21.77
Other	2.88	2.73	0.16
<b>TOTAL</b>	<b>222.52</b>	<b>188.41</b>	<b>34.11</b>

The main sub-item relates to the distribution of ECB dividends from banknote seigniorage income and income from securities purchased under the monetary policy programmes SMP, CBPP3, ABSPP and PSPP. As in the previous year, in 2019, the ECB did not record any seigniorage income, since the interest rate on the main refinancing operations has been 0% since March 2016. The ECB's income from the aforementioned monetary policy portfolios amounted to €1,430.93 million in 2019. On 20 January 2020, the Governing Council of the ECB decided to distribute all of this income among the Eurosystem NCBs, with €171.40 million corresponding to the Banco de España, according to its key for subscription of ECB capital (11.98%).

In 2019, the Bank received €48.23 million of ECB ordinary dividends for 2018 and €2.88 million of dividends from shares in the Bank for International Settlements.

## 8 Net result of pooling of monetary income

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

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

The earmarkable assets include the following items: lending to euro area credit institutions related to monetary policy operations; interest accrued at the end of

each quarter by monetary policy assets maturing in more than one year; monetary policy portfolio securities; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; claims with counterparty institutions in the euro area relating to monetary policy swap agreements between the ECB and NCBs outside the euro area, which generate income for the Eurosystem; intra-Eurosystem claims resulting from TARGET2 transactions, whenever they have a debit balance; net intra-Eurosystem claims related to the allocation of euro banknotes in the Eurosystem, whenever they have a debit balance; and a limited amount of each NCB's gold holdings, in proportion to its capital key. Gold is considered to generate no income and the securities acquired under the first two covered bond purchase programmes and the PSPP-Government programme are deemed to generate income at the interest rate on main refinancing operations.

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

The breakdown of this income in 2019 and 2018 is as follows:

EUR m	2019	2018	Change
Net result of pooling of monetary income	465.78	574.71	-108.93
Monetary income pooled	-887.90	-958.39	70.49
Monetary income allocated	1,353.68	1,533.10	-179.42
Correction of prior years	-0.40	42.63	-43.03
Provision for monetary policy portfolios and ECB losses	9.00	-11.58	20.58
<b>TOTAL</b>	<b>474.38</b>	<b>605.76</b>	<b>-131.38</b>

The monetary income pooled by the Eurosystem's NCBs is to be allocated among these same NCBs according to the ECB subscribed capital key. The difference between the monetary income pooled by the Banco de España in 2019, amounting to €887.90 million, and that reallocated to it, amounting to €1,353.68 million, is equivalent to a net allocation (income) of €465.78 million. The reason for this net allocation was basically that the income obtained in 2019 by the Banco de España from monetary policy liabilities to which negative interest rates are being applied (excess minimum reserves held by credit institutions and deposit facility) was lower than that to which it is entitled according to its capital key. In addition to this ordinary pooling, the revision in 2019 of the monetary income obtained in 2018 and 2017, which derived from the changes in the figures corresponding to those years, entailed lower income of €0.40 million for the Bank.

This item also includes the net provision for the impairment of the risk-sharing monetary policy portfolios of the Eurosystem. In 2018, impairment losses were recorded on securities held in the CSPP portfolio, consisting of securities issued by non-bank corporations established in the euro area. Since the impairment related to a risk-sharing portfolio, on 24 January 2019 the Governing Council of the ECB approved the amounts that each Eurosystem NCB had to contribute to share these losses. The Banco de España, in proportion to its capital key in the Eurosystem, had to contribute €20.23 million. At end-2019, the Governing Council reviewed the amount of the impairment and concluded that it had been reduced by €89.39 million, as a result of which the provision corresponding to the Banco de España, applying its capital key at the date of the initial impairment, amounts to €11.23 million and, consequently, a reduction of €9 million in the amount of this provision had to be recorded (see Note 26 of the balance sheet).

Consequently, the positive net result for the year was €474.38 million.

## 9 Other income and losses

This includes the income and losses that cannot be included in other items, along with other diverse income of an exceptional nature. The breakdown in 2019 and 2018 is as follows:

EUR m			
Description	2019	2018	Change
Extraordinary profit (loss)	-1.97	-1.18	-0.80
Sundry	3.61	4.76	-1.15
<b>TOTAL</b>	<b>1.64</b>	<b>3.58</b>	<b>-1.94</b>

This item discloses net profit of €1.64 million. Extraordinary profits include €2.24 million relating to the recovery of prior years' administrative expenses and staff costs, and an extraordinary loss of €5.76 million, mainly arising from the amortisation charges for computer applications relating to the previous year. The "Sundry" item discloses €2.46 million relating to the recovery of indirect costs allocated to Sepblac.

## 10 Staff costs

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

The breakdown of changes by component is as follows:

EUR m and %	2019	2018	Change	%
Wages and salaries	202.48	188.60	13.88	7.4
Social Security	47.03	41.79	5.24	12.5
Staff welfare expenses	24.47	22.60	1.87	8.3
Pension scheme	11.33	10.18	1.15	11.3
<b>TOTAL</b>	<b>285.31</b>	<b>263.17</b>	<b>22.15</b>	<b>8.4</b>

Its balance increased from €263.17 million in 2018 to €285.31 million in 2019, a rise of €22.15 million (8.4%), mainly due to the increase of 5% in the average headcount, which entailed an increase in expenses of €11.34 million (4.3% in terms of expenses), to the wage increase established in Royal Decree-Law 24/2018 of 21 December, approving urgent measures on compensation in the public sector, for which a provision was recorded at year-end,<sup>31</sup> representing an increase of €5.72 million (2.2%), and to the higher social security costs arising from the increase in the maximum contribution bases, entailing an increase in expenses of €2.84 million (1.1%). The following table sets out the changes in permanent and temporary staff, in terms of the average number of employees:

	2019	2018	Change	%
Average number of employees (a)	3,172	3,022	150	5.0
Managerial staff	2,270	2,106	164	7.8
Administrative staff	755	761	-6	-0.8
Other	148	155	-7	-4.8

a The average number of employees was calculated for both 2018 and 2019 based on the number of employees who incurred staff costs during the period analysed.

As at 31 December 2019, the Bank's total staff numbered 3,331 employees,<sup>32</sup> 138 more than at the same date of the previous year. Regarding the staff composition by gender, at 31 December 2019 women accounted for 50.2% of the Bank's total workforce.

31 In December, a provision was recorded for the 2019 wage rise established in Royal Decree-Law 24/2018, entailing an increase of 2.25% from 1.1.2019, 0.25% from 1.7.2019 and 0.3% of total gross wages in 2018. At year-end, it was pending payment.

32 Includes Banco de España employees at Sepblac.



The compensation of members of the governing bodies is set by the Minister for Economic Affairs and Digital Transformation in accordance with the provisions of the Law of Autonomy of the Banco de España. In 2019, the governor received a gross annual salary of €182,198.03, with supplementary salary items amounting to €23,538.43. The deputy governor received a gross annual salary of €172,298.90 and supplementary salary items amounting to €31,532.26. The elected members of the Governing Council receive a gross annual wage of €53,995.04; if they sit on the Executive Commission, the gross annual wage is €67,744.46.

In addition to the foregoing, the members of the governing bodies received equal amounts of fees for attending meetings of the body to which they belonged, set at €1,070.39 per meeting of the Governing Council and €513.37 per meeting of the Executive Commission.

## 11 Administrative expenses

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

EUR m and %				
Description	2019	2018	Change	%
Rental and maintenance	38.26	37.42	0.84	2.2
Material and supply	10.27	10.20	0.07	0.7
External services	70.99	69.29	1.70	2.4
Training, promotion and selection	3.32	3.31	0.01	0.2
Sundry operating expenses	16.71	14.90	1.81	12.1
<b>TOTAL</b>	<b>139.55</b>	<b>135.13</b>	<b>4.41</b>	<b>3.3</b>

The above table shows that, as in 2018, in 2019 the most significant administrative expenses were external services (€70.99 million), mainly IT services (€38.97 million) and rental and maintenance (€38.26 million), composed mainly of hardware and software rental and maintenance (€19.82 million) and property rental and maintenance (€13.95 million).

There was an increase of €4.41 million (3.3%) in administrative expenses in 2019, compared with 2018, mainly in “Sundry operating expenses” (€1.81 million, 12.1%) as a result of the €1 million increase in the contribution to the CEMFI, and in other expenses such as those relating to the Financial Education Plan, loans of works of art to museums and the publication of the descriptive catalogue of the Banco de España’s art collection, and in “External services” (€1.70 million, 2.4%), mainly resulting from higher IT expenses (€0.51 million).

“External services” include the expenses relating to the external audits. The audit of the Banco de España’s annual accounts for 2019 and of certain aspects of its management of ECB reserves was performed by Mazars, whose fees amounted to €119,461.31. This was the only service provided by the auditor to the Bank. In 2019 no services were received from and, consequently, no amounts were paid to, other firms related to the auditor.

## 12 Depreciation of fixed assets

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

EUR m and %	2019	2018	Change	%
Depreciation of buildings, structures and renovation work	2.72	2.70	0.02	0.7
Depreciation of plant in buildings	6.50	6.82	-0.32	-4.7
Depreciation of furniture and fittings	1.06	1.19	-0.13	-11.1
Depreciation of office machines other than computer equipment	2.78	2.83	-0.05	-1.7
Depreciation of computer equipment	5.72	4.88	0.84	17.3
Depreciation of transport equipment	0.57	0.53	0.05	9.1
Depreciation of general library collection	0.23	0.28	-0.05	-16.4
Depreciation of other tangible fixed assets	0.14	0.05	0.09	160.9
Amortisation of computer applications	16.22	14.46	1.76	12.2
<b>TOTAL</b>	<b>35.95</b>	<b>33.74</b>	<b>2.21</b>	<b>6.6</b>

Compared with the previous year, depreciation expenses increased by €2.21 million, owing mainly to the higher amortisation of computer applications.

## 13 Banknote production services

The cost of these services amounted to €61.42 million in 2019 (€67.74 million in 2018) and corresponds to payments made by the Banco de España to purchase banknotes from IMBISA, a vehicle of the Banco de España. This company, whose corporate purpose is the production of euro banknotes, was incorporated in November 2015 and is 80%-owned by the Banco de España.

The decrease with respect to the previous year (€6.32 million, 9.3%) was mainly due to the fall in the price of the €100 banknote, and to the composition of banknote production, since the €5 banknote had a greater weight in 2019 than the €20 banknote

in 2018. The cost of the former was considerably lower, as shown in the table below:

Series	Denomination	Banknotes charged (millions of banknotes)	
		2019	2018
1	€100	—	1.3
2	€100	144.8	216.6
2	€50	228.0	182.3
2	€20	4.1	161.9
2	€10	16.0	—
2	€5	183.7	—
2	Samples	0.5	0.1
	<b>TOTAL</b>	<b>577.1</b>	<b>562.1</b>

#### 14 Transfers to/from other funds and provisions

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

The net transfers to these funds were as follows:

EUR m	2019	2018	Change
Provision for operational risk	9.32	108.27	-98.95
Provision for death and retirement assistance	7.58	0.76	6.83
Provision for early and regular retirement	2.89	-0.23	3.12
Provision for ongoing lawsuits	0.26	-0.77	1.03
Country risk	—	-0.57	0.57
Withdrawn banknotes	0.28	—	0.27
Others	-0.10	0.17	-0.27
Beneficent social fund	6.78	6.62	0.16
<b>TOTAL</b>	<b>27.00</b>	<b>114.25</b>	<b>-87.25</b>

The net balance of transfers to/from other funds and provisions in 2019 amounted to €27.00 million, compared with €114.25 million in 2018. Noteworthy was the net provisioning for operational risk of €9.32 million, due to the increase in the risk calculated at year end (see Note 26 to the balance sheet). The provision for death and retirement assistance amounted to €7.58 million and that corresponding to expenses relating to early and regular retirees, to €2.89 million. In both cases, the

increase in provisioning is basically due to the fall in the interest rates used to calculate the present value of the commitments. The addition to the Beneficent-Social Fund, calculated as 0.3% of the profit for the year, amounted to €6.78 million.

The Banco de España, because of the nature of its activity, is not an institution with a high environmental risk. Accordingly, in 2019 it was not considered necessary to record any provision for environmental liabilities and charges.

## 15 Profit for the year

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

On 2 December 2019 the Banco de España paid into the Treasury €1,265.87 million, equal to 70% of the profit recorded as at 30 September 2019.<sup>33</sup>

Given that the profit for the year amounted to €2,252.41 million, on 2 March 2020, €761.30 million were paid into the Treasury to complete the distribution of 90% of profits.

The payments to the Treasury of 2019 profits are as follows:

EUR m	
1 Total profit for 2019	2,252.41
2 Payments to the Treasury	2,027.17
On 2.12.2019	1,265.87
On 2.3.2020. Difference between the above amount and 90% of profit as at 31.12.2019	761.30
3 Profit payable to the Treasury (at date of approval of the 2019 annual accounts)	225.24

33 Pursuant to the aforementioned Royal Decree, the payment resolution must take into consideration the foreseeable performance of profits up to the end of the year. For this reason, account was taken of a number of factors which entailed a risk of lower profit estimated at €2,633.71 million. Accordingly, this amount was subtracted from the Banco de España profit of €4,442.10 million as at 30 September, resulting in a profit of €1,808.39 million, 70% of which was paid into the Treasury.

### 3.4 Changes in capital, reserves, provisions and revaluation accounts

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

EUR m

	Capital	Reserves	Revaluation accounts	Undistributed profit	General provisions	Total
<b>A) 2019 Opening balance</b>	<b>1,000.00</b>	<b>899.81</b>	<b>15,157.46</b>	<b>1,124.56</b>	<b>21,315.58</b>	<b>39,497.40</b>
1 Net gains not recognised in profit and loss			3,172.23			3,172.23
In gold			2,110.82			2,110.82
In foreign currency			1,109.99			1,109.99
In securities			-48.93			-48.93
Other			0.35			0.35
2 Change in provisions		-9.65			4,191.37	4,181.72
3 2019 profit				2,252.41		2,252.41
4 Distribution of profit				-2,390.44		-2,390.44
Payment to the Treasury of 2018 profit				-1,124.56		-1,124.56
Payment to the Treasury of 2019 profit				-1,265.87		-1,265.87
<b>B) Changes in the year B = 1+2+3+4</b>	<b>0.00</b>	<b>-9.65</b>	<b>3,172.23</b>	<b>-138.02</b>	<b>4,191.37</b>	<b>7,215.93</b>
<b>C) 2019 Closing balance C = A + B</b>	<b>1,000.00</b>	<b>890.16</b>	<b>18,329.69</b>	<b>986.54</b>	<b>25,506.95</b>	<b>46,713.33</b>

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

Equity increased by €7,215.93 million in 2019 due mainly to the higher general provisions (€4,191.37 million) and the higher unrealised gains (€3,172.23 million).

### 3.5 Post-balance sheet events

Following the withdrawal of the United Kingdom from the European Union on 31 January 2020, the Bank of England ceased to be an NCB of a Member State and therefore of the ESCB. The Bank of England's share of the subscribed capital of the ECB, which was 14.3374%, has been reallocated among the remaining NCBs (both euro and non-euro area). With effect from 1 February 2020, the weightings assigned to NCBs in the key for subscription to the ECB's capital are the following:

	ECB's capital key (%)	
	Until 31 January 2020	From 1 February 2020
Nationale Bank van België/Banque Nationale de Belgique	2.5280	2.9630
Deutsche Bundesbank	18.3670	21.4394
Eesti Pank	0.1968	0.2291
Central Bank and Financial Services Authority of Ireland	1.1754	1.3772
Τράπεζα της Ελλάδος (Bank of Greece)	1.7292	2.0117
Banco de España	8.3391	9.6981
Banque de France	14.2061	16.6108
Banca d'Italia	11.8023	13.8165
Κεντρική Τράπεζα της Κύπρου (Central Bank of Cyprus)	0.1503	0.1750
Latvijas Banka	0.2731	0.3169
Lietuvos bankas	0.4059	0.4707
Banque centrale du Luxembourg	0.2270	0.2679
Central Bank of Malta	0.0732	0.0853
De Nederlandsche Bank	4.0677	4.7662
Oesterreichische Nationalbank	2.0325	2.3804
Banco de Portugal	1.6367	1.9035
Banka Slovenije	0.3361	0.3916
Národná banka Slovenska	0.8004	0.9314
Suomen Pankki – Finlands Bank	1.2708	1.4939
<b>Subtotal for euro area NCBs</b>	<b>69.6176</b>	<b>81.3286</b>
Българска народна банка (Bulgarian National Bank)	0.8511	0.9832
Česká Národní banka	1.6172	1.8794
Danmarks Nationalbank	1.4986	1.7591
Hrvatska narodna banka	0.5673	0.6595
Magyar Nemzeti Bank	1.3348	1.5488
Narodowy Bank Polski	5.2068	6.0335
Banca Națională a României	2.4470	2.8289
Sveriges Riksbank	2.5222	2.9790
Bank of England	14.3374	—
<b>Subtotal for non-euro area NCBs</b>	<b>30.3824</b>	<b>18.6714</b>
<b>TOTAL (a)</b>	<b>100.0000</b>	<b>100.0000</b>

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

## Impact on the Banco de España's participating interest in the ECB

Following the Bank of England's exit from the ESCB, the ECB's subscribed capital has remained steady, at €10,825 million. Consequently, from 1 February 2020, the Banco de España's share in the subscribed capital of the ECB, increased by 1.3590% (€147.11 million).

The ECB's paid-up capital will also remain unchanged in 2020, at €7,659 million. On the exit date, the remaining NCBs have covered the withdrawn Bank of England's paid-up capital (€58 million). In addition, euro area NCBs will pay up in full their increased subscriptions following the Bank of England's departure from the ESCB,

in two annual instalments. As a result, the Banco de España transferred to the ECB the amount of €1.61 million on 3 February 2020, with an additional €72.75 million still pending payment in 2021 and €72.75 million in 2022.

### Impact on the claims equivalent to the transfer of foreign reserve assets to the ECB

Pursuant to Article 30(2) of the Statute of the ESCB, the contribution of each NCB to the foreign reserve assets of the ECB shall be fixed in proportion to its share in the subscribed capital of the ECB. As a result of: a) the increased weight of euro area NCBs (which have already transferred foreign reserve assets to the ECB) in the subscribed capital of the ECB, following the Bank of England's exit from the ESCB and b) the decision of the Governing Council to reduce the proportion of the contributions from euro area NCBs to the foreign reserve assets, such that the overall amount already transferred by the latter remain at their current levels, effective 1 February 2020, NCBs' claims equivalent to the transferred foreign reserve assets were adjusted slightly. Specifically, those of the Banco de España were reduced by €21.75 million, which were paid by the ECB.

## 3.6 Risk management

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

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

### 1 Risk management system

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

#### 1.1 Principles

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

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

## *1.2 Risk management and control model*

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

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

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

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



### 1.3 Governance

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

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

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

The Banco de España's Executive Commission has ultimate authority over the risk management system. It is responsible for establishing the general principles that define the risk level and for oversight of risk management and control at the Bank. The Risk Management Committee, which has been created to assist it in the performance of these functions, is responsible for proposing to the Executive Commission the adoption of the necessary risk management measures, providing an overarching view of such risks.

## 2 Financial risks

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

- Credit risk: the risk of incurring losses as a result of total or partial non-compliance with their contractual obligations by the issuers, counterparties or depositors of its financial assets, or losses derived from impairment of their credit quality.
- Market risk: the risk of incurring losses as a result of fluctuations in the price of financial assets (including exchange rates and interest rates) and gold prices.
- Structural balance sheet risk: the risk of adverse variations in the Bank's profits owing to higher costs of liabilities and/or a lower return on assets, in balance-sheet items not assessed under market risk.

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

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

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

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

### 3 Operational risk

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

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

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

To determine the relative importance of the risks identified, these are assessed qualitatively according to: 1) the impact or damage they may cause (whether financial,

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

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

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

### 4.1 Loss of profit

The loss of profit for the year is estimated, pursuant to the provisions of Article 4(2) of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España, based on the loans outstanding in the year with interest rates below the marginal interest rate on main refinancing operations. This rate has been 0% since March 2016 and in 2019 there were no outstanding loans with lower interest rates, except for the targeted longer-term refinancing operations (TLTRO-II and TLTRO-III) conducted by the Eurosystem, provided for in Article 9 of the aforementioned Law of Autonomy, which have been reported on in Note 2 to the profit and loss account.

## 1 Report of the external auditors



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

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

**To the Honourable Governor of the Banco de España**

#### *Opinion*

We have audited the annual accounts of the **Banco de España** (the Entity) which, in accordance with article 29.1 of its Internal Rules, comprise the balance sheet as at December 31, 2019, the income statement for the year then ended, and the explanatory notes to the annual accounts, which include a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the financial position of the **Banco de España** at December 31, 2019, and of its financial performance for the year then ended, in accordance with the internal rules and accounting principles of the **Banco de España**, specified in note 3.1 of the accompanying explanatory notes, based on the accounting regulations established for national central banks of the European System of Central Banks.

#### *Basis for Opinion*

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

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

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

#### *Responsibility for the Annual Accounts*

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

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

**UTE Mazars Auditores S.L.P. and Mazars S.A.**

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### *Auditor's Responsibilities for the Audit of the Annual Accounts*

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

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

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

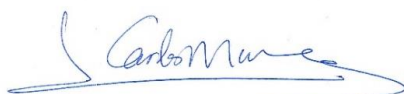
- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material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

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

Madrid, 20<sup>th</sup> March 2020

MAZARS AUDITORES, S.L.P.

MAZARS, S.A.

  
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Carlos Marcos Corral  
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Bregán Porta Macía  
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Jean Latorzeff

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## 2 Report of the Banco de España Audit Committee

We the undersigned, Carmen Alonso Ledesma and Paz Andrés Sáenz de Santa María, are members of the Governing Council of the Banco de España and of the Audit Committee appointed by the Governing Council. In accordance with Articles 29 and 32 of the Internal Rules of the Banco de España, we were given the task of reviewing the accounts of the institution for the year 2019.

As required by the aforementioned precepts, the Audit Committee has analysed the operations of the Banco de España. This examination basically involved: 1) studying the annual accounts of the Banco de España for the year 2019, 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 2019, conducted by the Internal Audit Department; 3) studying the documentation requested by the members of this Committee from the independent external auditors; 4) interviewing the persons responsible for the independent external audit, for the Internal Audit Department and for the Control, Budget and Accounting Department; and 5) making proposals for the modification, correction or clarification of various matters, all of which have been satisfactorily incorporated in the annual accounts by the Control, Budget and Accounting Department.

The basic conclusion of our report is that from the analysis carried out of the examination of the accounting procedures, of the accounting records and of the internal controls in place, it can be inferred that the annual accounts for the year 2019 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 6 March 2020



CARMEN ALONSO LEDESMA



PAZ ANDRÉS SÁENZ DE SANTA MARÍA

## BANCO DE ESPAÑA PUBLICATIONS

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

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