

INSTITUTIONAL REPORT

2016

BANCO DE **ESPAÑA**
Eurosistema



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FOREWORD BY THE GOVERNOR

Luis M. Linde

Although the Banco de España publishes various reports throughout the year which provide abundant and detailed information directly relating to the institution's different areas of work, the overall summary of the institution's activity during the year had up until now been included as a specific chapter ("Management report" in the *Annual Report* on the performance of the Spanish economy.

However, the *Institutional Report*, which is being published for the first time this year, is intended to provide the public at large with a fuller view of our organisation and of the various functions the Bank performs. It further summarises the principal activities carried out over the previous year.

The publication of this report, which enhances transparency and public knowledge of our institution, is in line with an increasingly frequent trend among institutions forming part of the European System of Central Banks, which aims to make available to the public, in the form of such reports, information about the overall operational framework of the different central banks and supervisory bodies in Europe.

The report is divided into three chapters. The first, entitled "Corporate governance report", explains what the functions, tasks and responsibilities of the Bank are, its governing and management bodies, the main documents it regularly publishes and the form and means by which the public can access information about our institution. The second chapter, "Report on activities", summarises the main areas of activity of the Bank, both as a central bank and banking supervisor. The third chapter, "Institutional responsibility report", covers other social activities carried out by our institution, such as those relating to financial education, research grants and contributions to culture and art heritage.

With this report, set out in a straightforward and accessible format, we hope to give the reader a more uniform view of our institution, of its functions and structure, and of the different operational frameworks in which the Banco de España performs its functions.





The Banking Hall ("Patio de Operaciones") in the headquarters of the Banco de España.

1.1 FUNCTIONS OF THE BANCO DE ESPAÑA

The Banco de España performs the functions of a national central bank and supervisor of the banking system within the ESCB and SSM frameworks.

The Banco de España is the national central bank and the supervisor of the Spanish banking system, within the framework of the European System of Central Banks (ESCB) and the Single Supervisory Mechanism (SSM).

The activity of the Banco de España is regulated by Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España (LBE). This law is mainly implemented through the Internal Rules of the Banco de España, approved by the Governing Council Resolution of 28 March 2000. These rules have been amended on several occasions, in order to incorporate European regulatory changes over the years. Particularly noteworthy are the changes arising at the beginning of stage three of Economic and Monetary Union, on 1 January 1999, which led to some of the functions carried out until then by the national central banks (NCBs) of the euro area being redefined, especially as regards monetary policy. Equally important is the entry into operation of the SSM on 4 November 2014, which has established a single banking supervision system for European banks directly affecting the most significant credit institutions in the euro area.

The Eurosystem comprises the ECB and the NCBs of the Member States whose currency is the euro.

The ESCB comprises the Banco de España, the European Central Bank (ECB) and the NCBs of all the Member States of the European Union (EU). The Banco de España also forms part of the Eurosystem, together with the ECB and the NCBs of the EU Member States which have adopted the euro as the single currency. In this context of integration, the Banco de España is subject to the provisions of the Treaty of the Functioning of the European Union (TFEU), the Statutes of the ESCB and the ECB and Council Regulation (EU) 1024/2013 of 15 October 2013, which confers specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions.

The Banco de España's functions and action principles as a central bank and member of the ESCB and Eurosystem, and as a banking supervisor within the SSM framework, are summarised below.

1.1.1 Functions as a member of the ESCB and as a national central bank

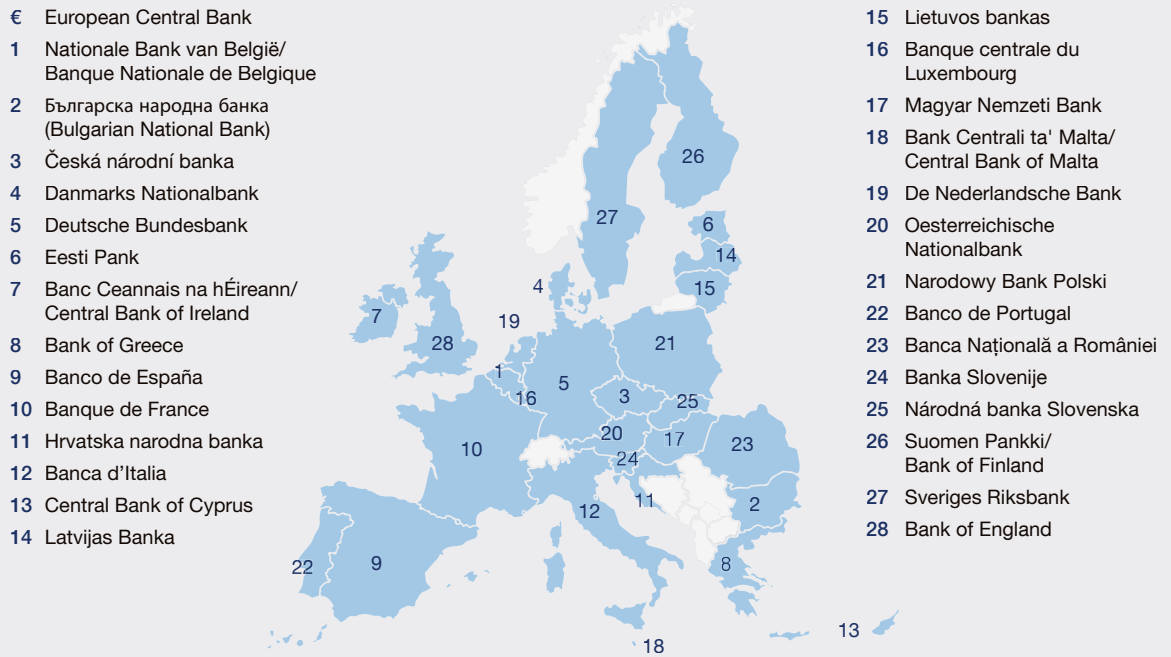
As a member of the ESCB and the Eurosystem, the Banco de España contributes to defining and implementing monetary policy in the euro area.

The ESCB comprises the ECB and the NCBs of all the EU Member States, regardless of whether or not they have adopted the euro as the single currency. As a national central bank, since 1 January 1999, the Banco de España has been involved in the following basic functions attributed to the ESCB. As part of the Eurosystem, the Banco de España's main function is to contribute to defining and implementing European monetary policy, with the principal aim of maintaining price stability across the euro area.

The Banco de España, under the operational frameworks of the ESCB and the Eurosystem, performs different functions relating to the management of official reserves, foreign exchange transactions, oversight of the functioning of payment systems, and the issuance of euro banknotes.

In this context, the Banco de España is also responsible for the function of carrying out foreign exchange transactions which are consistent with the provisions of Article 219 of the TFEU, and those arising from the management of the official currency reserves. In addition, the Banco de España must promote the sound working of payment systems in the euro area, ensuring that they are safe and effective, as well as guarantee the safety of payment instruments. It also shares the task of issuing banknotes in euros.

EUROPEAN SYSTEM OF CENTRAL BANKS: THE ECB AND THE 28 NATIONAL CENTRAL BANKS OF THE EU



THE EUROSISTEM: THE ECB AND THE 19 NATIONAL CENTRAL BANKS IN THE EURO AREA



Moreover, recognising the functions resulting from membership of the ESCB and the Eurosystem, the Law of Autonomy attributes to the Banco de España the performance of different functions as a national central bank.

As a national central bank, the Banco de España places coins into circulation, provides treasury and financial agent services for government debt and gives emergency liquidity assistance.

Thus, the Banco de España has been attributed certain tasks in its capacity as a national central bank, such as: i) placing coins into circulation; ii) providing treasury and financial agent services for government debt, and iii) granting emergency liquidity assistance to institutions (as part of the task of promoting the sound working and stability of the financial system and of national payment systems).

1.1.2 Functions as a supervisory authority

The Banco de España has traditionally supervised the solvency, conduct and regulatory compliance of credit institutions and other financial institutions operating in Spain.

Traditionally, the Banco de España has acted as the supervisory authority for credit institutions and other financial institutions operating in Spain, and has thus supervised the solvency, conduct and compliance of the specific regulations of banks, savings banks, credit cooperatives, branch offices of foreign credit institutions, payment institutions, specialised lending institutions, electronic money institutions, mutual guarantee and guarantee companies, currency exchange establishments and appraisal companies.¹

The SSM, an integrated European supervision system involving the ECB and national authorities, became operational in November 2014.

With the entry into operation of the SSM on 4 November 2014 —a first step² towards the so-called “Banking Union”—, a new integrated European system was established for the supervision of financial institutions that combines the leadership of the European Central Bank (ECB), in a supervisory role, with the involvement of the national competent authorities (NCAs) of the euro area countries (including the Banco de España) and other EU Member States who wish to join it, establishing a close cooperation with the ECB. Its main objectives are to guarantee the security and solidity of the European banking system and to increase financial integration and stability in Europe.

The ECB is responsible for ensuring that the SSM is effective and consistent and exercises oversight over the banking system. To guarantee effective supervision, credit institutions are classified as “significant” and “less significant.”

The ECB directly supervises “significant” institutions, in collaboration with the national authorities.

The ECB directly supervises the institutions considered to be “significant” through the Joint Supervisory Teams (JSTs), whose work is coordinated by an ECB staff member, assisted by one or more NCA sub-coordinators. Among other duties, these teams are responsible for the ongoing assessment of institutions’ risk profiles, solvency and liquidity, and for preparing the draft decisions to be submitted to the governing bodies of the ECB.

The Banco de España takes part in decision-making relating to significant credit institutions through its representatives on the Governing Council (the Governor) and the Supervisory Board (the Deputy Governor) of the ECB.

With respect to significant institutions, the national authorities, including the Banco de España, must provide assistance to the ECB, contributing their experience and the bulk of inspectors forming part of the joint supervisory teams.

¹ The powers of branch offices of institutions in EU countries are limited to controlling the branch’s liquidity and ensuring compliance with rules laid down for reasons of general interest.

² To complete this process, another two fundamental pillars are needed: i) the Single Resolution Mechanism, which entered into operation in January 2015, and ii) a harmonised deposit guarantee system, still to be created.

The “less significant” institutions are directly supervised by the national authorities, in accordance with ECB guidelines.

Less-significant institutions are directly supervised by the NCAs and indirectly by the ECB. In these cases, the ECB, which has ultimate responsibility for the functioning of the SSM, may issue guidelines to ensure consistent supervision in participating countries, request additional information, or even take over the direct supervision of an institution if it considers it necessary.

The applied supervisory model is risk-based and implements supervisory practices that take into account the proportionality principle, adapting the supervisory intensity to the systemic importance and risk profile of the supervised institutions. It is based on four key elements: i) effective and prudent regulation; ii) continuous supervision of financial institutions; iii) a set of corrective measures, and iv) a disciplinary and sanctioning system which may be applied to both institutions and their directors.

The Banco de España is also responsible for supervising institutions’ compliance with the «rules of conduct», that is, those aimed primarily at establishing specific regulations regarding transparency in relation to banking products.

1.1.3 Other functions

In addition, the Banco de España undertakes other tasks such as preparing and publishing statistics and reports, advising the Government, promoting financial stability and the preventive resolution of credit institutions.

The Banco de España prepares statistics and reports relating to its functions and advises the Government.

The Banco de España advises the Government on different matters, including developments in financial regulation. The statistical function of the Banco de España is established in its Law of Autonomy and in the National Statistics Plan. The Law of Autonomy provides that the Banco de España shall compile and publish statistics related to its functions and that it shall assist the ECB in the compilation of the statistical information needed for the fulfilment of the ESCB’s functions. In this connection, the Banco de España prepares statistics relating to financial institutions and markets and interest rates. The Banco de España also prepares the *Balance of Payments and the International Investment Position*, the *Financial Accounts of the Spanish Economy*, and *Public Debt Market*, according to the Excessive Deficit Protocol (EDP), the *Survey of Household Finances*, and the *Financial Competence Survey*, which was launched in 2016.

Among other things, the Banco de España is responsible for promoting the stability of the financial system and the preventive resolution of credit institutions in the European framework.

The function of promoting financial stability is defined in the Law of Autonomy, which establishes that the Banco de España shall promote the smooth operation and stability of the financial system. The Banco de España analyses and monitors financial stability in the *Financial Stability Report*, a half-yearly publication, and proposes macroprudential policy measures relating to its areas of competence, in conformity with Law 10/2014 and its subsequent implementing regulations.

For its part, Law 11/2015 of 18 June on the recovery and resolution of credit institutions and investment firms confers preventive resolution functions to the Banco de España, according to the distribution of responsibilities established by the Single Supervisory Mechanism. These functions consist of preparing preventive resolution plans which include the necessary measures to facilitate the resolvability of credit institutions in the event of failure.

1.2 GOVERNING BODIES OF THE BANCO DE ESPAÑA

1.2.1 *The Governor*

The Governor of the Banco de España is appointed by the King, at the proposal of the Prime Minister, for a non-renewable six-year term. The current Governor is Luis M. Linde. His appointment was made public by Royal Decree 909/2012 of 8 June. His mandate began on 11 June 2012 and will end on 11 June 2018.

The Governor heads the Bank and acts as its representative at national and international institutions and organisations.

The Governor directs the Banco de España on an exclusive basis, chairs the Governing Council and the Executive Commission, and acts as the legal representative of the Bank at those institutions and international organisations in which its participation is envisaged. The Governor is also a member of the Governing Council and the General Council of the ECB. Lastly, he represents the Banco de España before the Spanish Parliament in the institutional sphere.

1.2.2 *The Deputy Governor*

The Deputy Governor stands in for the Governor and performs the duties established by the IRBE or delegated by the governing bodies.

The Deputy Governor of the Banco de España is appointed by the Government, at the proposal of the Governor, for a non-renewable six-year term. In 2016, the Deputy Governor of the Banco de España was Fernando Restoy, appointed by Royal Decree 940/2012 of 15 June. His mandate began on 18 June 2012. Fernando Restoy resigned from his post with effect from 1 January 2017, when he was replaced by the current Deputy Governor, Javier Alonso.

The Deputy Governor stands in for the Governor when the post is vacant or in the event of the latter's absence or illness and performs the duties established by the Internal Rules of the Banco de España (IRBE) or delegated by the Governor, or the Bank's Governing Council or Executive Commission. The Deputy Governor is a member of the Banco de España's Governing Council and Executive Commission and is an ex officio member of the other collegiate bodies to which he has been appointed under current legislation.

1.2.3 *The Governing Council*

a) Composition

The Governing Council is comprised of six elected members appointed by the Governor and two ex officio members.

The Governing Council of the Banco de España is comprised of the Governor, the Deputy Governor, six council members, the General Secretary for Treasury and Financial Policy and the Vice President of the National Securities Market Commission. The elected council members are appointed for a six-year term, renewable only once. They are appointed by the Government at the proposal of the Minister for Economic Affairs, Industry and Competitiveness, following consultation with the Governor, from among Spaniards of acknowledged competence in the fields of Economics or Law.

The Governing Council is presided over by the Governor – or by the Deputy Governor in his absence – and the General Secretary of the Banco de España acts as secretary thereto, attending the meetings in a non-voting capacity. Finally, the Directors-General of the Bank



The Governing Council of the Banco de España, 2016.

and a staff representative also attend the Governing Council meetings as non-voting participants.

In 2016, the Governing Council was composed of:

- The Governor: Luis M. Linde.
- The Deputy Governor: Fernando Restoy. Since January 2017, Javier Alonso.
- Council members:³ Ángel Luis López Roa, Vicente Salas, Guillem López i Casasnovas, Carmen Alonso, Maximino Carpio and Rafael Castejón.
- The General Secretary for Treasury and Financial Policy: Rosa María Sánchez-Yebra until November 2016 and, subsequently, Emma Navarro.

³ Ángel Luis López Roa and Guillem López i Casasnovas completed their respective terms as council members of the Banco de España in January and March 2017, respectively, and were replaced by Fernando Eguidazu and Núria Mas.

- The Vice President of the National Securities Market Commission: Lourdes Centeno until October 2016 and Ana María Martínez-Pina, from November 2016.
- The Secretary: Francisco-Javier Priego, General Secretary of the Banco de España.
- Non-voting participants: the Directors-General of the Bank (in 2016: Javier Alonso, Manuel Labrado, Julio Durán, Mariano Herrera, Pablo Hernández de Cos).⁴ The meetings are also attended by the staff representative (Mariano Serrano).

b) Functions of the Governing Council

The Governing Council approves the general guidelines for the Bank to fulfil its functions. It also approves circulars and imposes sanctions on supervised institutions, within the scope of its competences.

The Governing Council of the Banco de España approves the general guidelines for Bank activity so it may perform the tasks assigned to it. Additionally, it supervises the Bank's contribution to the implementation of ESCB monetary policy by the Executive Commission, duly observing the ECB's guidelines and instructions and the Governor's independence and obligation of secrecy as a member of the ECB's governing bodies.

The Governing Council also approves the Banco de España's circulars and imposes sanctions that fall within its remit, reporting quarterly to the Ministry for Economic Affairs, Industry and Competitiveness on any sanctioning proceedings in progress and on the resolutions adopted.

Other functions of the Governing Council include appointing, at the Governor's proposal, the two council members of the Executive Commission and the three council members of the Audit Committee from among its elected council members; ratifying the appointments of the Banco de España's Directors-General; approving the annual accounts and budgets of the Banco de España as well as its *Annual Report* and, if appropriate, any other reports that the Bank may be required to submit to Parliament, the Government or the Minister for Economic Affairs, Industry and Competitiveness; and adopting any other resolutions that may be necessary for performance of the tasks assigned to the Bank that do not fall within the exclusive competence of the Executive Commission.

In 2016, the Governing Council held a total of 16 meetings.

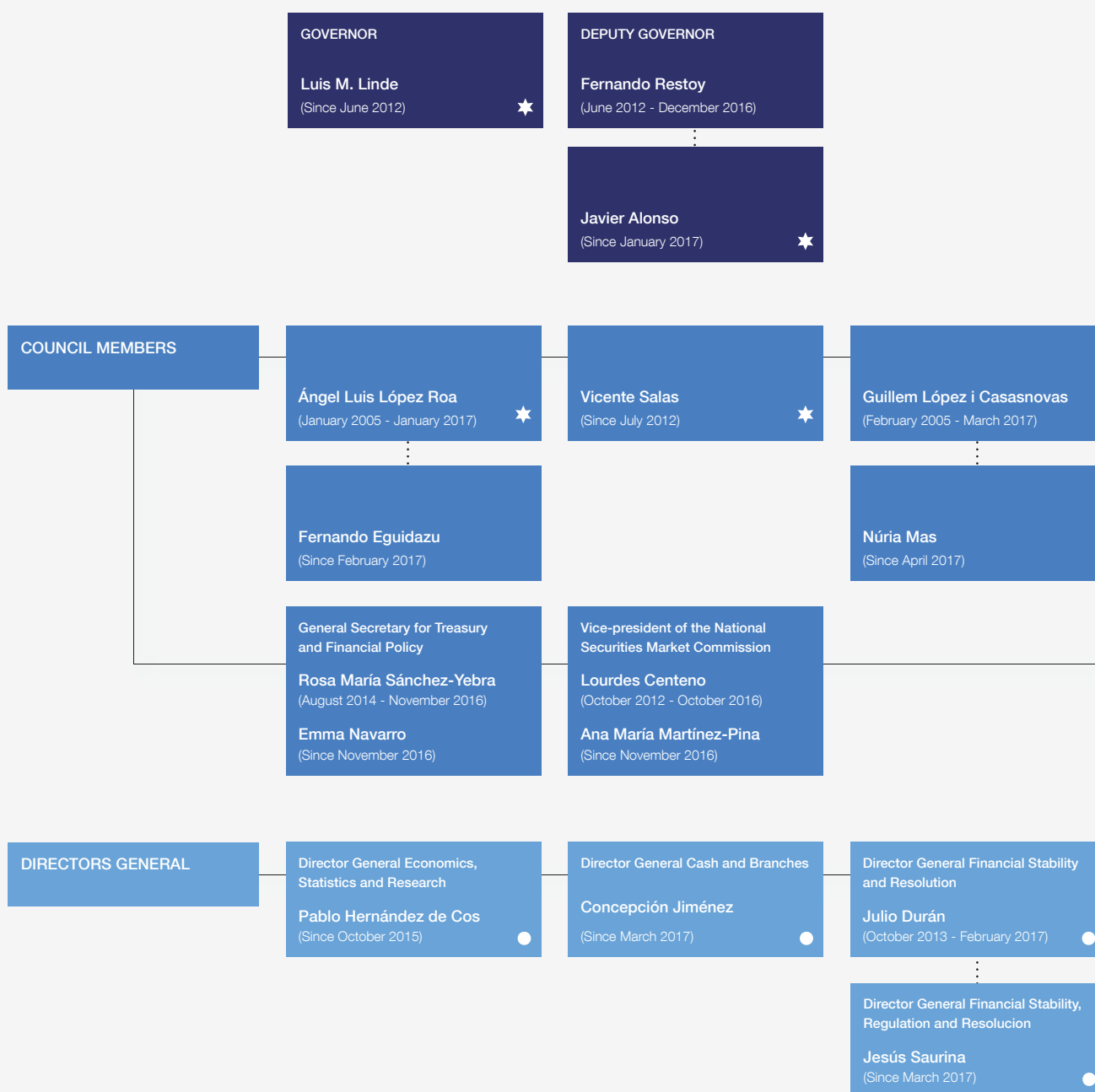
1.2.4 The Executive Commission

a) Composition

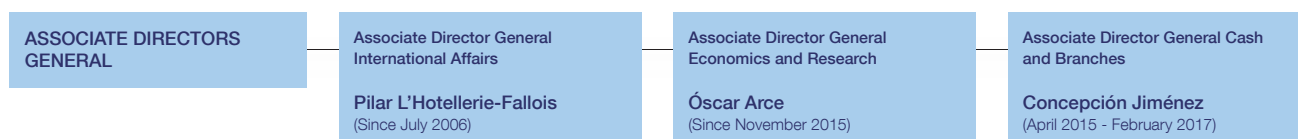
The Executive Commission of the Banco de España is formed by the Governor, the Deputy Governor and two members appointed by the Governing Council at the proposal of the Governor, from among the elected members of the council (for a period equal to the remainder of their ordinary mandates as council members). The two council members on the Executive Commission in 2016 were Ángel Luis López Roa and Vicente Salas. Since January 2017, Fernando Eguidazu has covered the vacancy arising from the expiry of Ángel Luis López Roa's term as council member.

⁴ The current Directors-General of the Bank are: Manuel Labrado, Julio Durán, Pablo Hernández de Cos, Juan Ayuso, Concepción Jiménez and Jesús Saurina.

MEMBERS OF THE GOVERNING BODIES OF THE BANCO DE ESPAÑA. GOVERNING COUNCIL



OTHER SENIOR MANAGEMENT MEMBERS



- ★ Members of the Executive Commission
- ▲ The General Secretary of the Banco de España acts as non-voting secretary to the Governing Council and the Executive Commission
- The Directors General of the Banco de España attend meetings of the Governing Council and Executive Commission as non-voting members
- ◆ A staff representative attends the meetings of the Governing Council

Carmen Alonso (Since January 2011)	Maximino Carpio (Since June 2012)	Rafael Castejón (Since October 2013)
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General Secretary Francisco Javier Priego (Since October 2011) ▲	Staff Representative Mariano Serrano (Since June 2013) ◆
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Director General Operations, Markets and Payment Systems Javier Alonso (July 2006 - December 2016) ●	Director General Services Manuel Labrado (Since February 2013) ●	Director General Banking Supervision Mariano Herrera (February 2014 - February 2017) ●
⋮	⋮	⋮
Juan Ayuso (Since January 2017) ●		Julio Durán (Since March 2017) ●

Associate Director General Internal Affairs José Miguel García Hernando (December 2012 - November 2016)	Associate Director General Banking Supervision Pedro Comín (February 2014 - February 2017)	Deputy General Secretary Jaime Herrero (Since November 2016)
⋮	⋮	
Associate Director General Services Antonio Pérez Ocete (Since December 2016)	Alberto Ríos (Since April 2017)	

The Executive Commission meetings are attended, in a non-voting capacity, by the Directors-General and the General Secretary of the Bank, who acts as secretary thereto (reference to them has been made earlier when describing the composition of the Governing Council).

b) Functions of the Executive Commission

The Executive Commission contributes to the implementation of ESCB monetary policy, adopts administrative resolutions and other measures within the scope of its supervisory powers, and manages the Bank's internal organisation and administration.

Subject to the guidelines of the Governing Council, the functions of the Executive Commission of the Banco de España include, inter alia, contributing to the implementation of ESCB monetary policy, resolving administrative authorisations to be granted by the Bank in connection with the supervised institutions, and adopting measures relating to intervention and replacement of directors, initiating and resolving sanctioning proceedings and issuing recommendations and requests of the Banco de España to credit institutions, all within the framework of the SSM.

The Executive Commission is also responsible for managing the Bank's internal organisation and administration in the private sphere, and for the approval of internal circulars and for formulating draft circulars to be submitted to the Governing Council.

In 2016, the Executive Commission held a total of 47 meetings.

1.2.5 Committees and commissions

In addition to the aforementioned governing bodies, the Internal Rules of the Banco de España provide for the creation of other committees such as the Audit Committee and the Management Committee.

The Audit Committee supervises the annual accounts of the Banco de España and the functioning of audit and internal control services.

The Audit Committee is responsible for auditing the annual accounts of the Banco de España and supervising relations with external auditors and the functioning of audit and internal control services. It is formed by three members of the Governing Council, appointed by the latter. In 2016, this committee comprised Ángel Luis López Roa (as chairman), Carmen Alonso and Maximino Carpio. In January 2017, Maximino Carpio



Governing Council room, Banking Hall and Executive Commission room.

replaced Ángel Luis López Roa as chairman, upon expiry of the latter's mandate, and Rafael Castejón joined the committee as a new member.

The Management Committee advises the governing bodies and coordinates the activities of the Directorates General.

The Management Committee is made up of the Governor, the Deputy Governor and the Directors General. Its functions notably include: i) advising the Governor and the Deputy Governor on matters or decisions, as required; ii) assisting them in the preparation of matters to be presented to the Governing Council and the Executive Commission, and compliance with the agreements reached with these bodies, and iii) coordinating the activities of the different Directorates General.

In addition, the Executive Commission may set up internal commissions and committees to examine and resolve any matters identified. In this context, the Banco de España has a number of internal commissions and committees whose fundamental role is to provide advice and coordination to the Directorates General.

1.2.6 Appearances by the Governor and the Deputy Governor

The Governor represents the Banco de España and regularly appears before the Spanish Parliament.

The Governor represents the Banco de España at the Spanish Parliament. In 2016 the Governor did not appear before Parliament owing to the exceptional nature of parliamentary sessions that year. The public appearances of the Governor and the Deputy Governor at different fora and organisations can be found on the Banco de España website.

1.3 STRUCTURE OF THE BANCO DE ESPAÑA

1.3.1 Organisational chart and structure. Directorates General and General Secretariat

The Banco de España performs its functions through its governing bodies, as described earlier, and its Directorates General, whose main tasks are summarised below.

The Directorate General Economics, Statistics and Research prepares studies, research and statistics to advise the Bank's management.

The Directorate General Economics, Statistics and Research conducts the studies and research needed to advise the governing and management bodies of the Banco de España on economic and financial matters within the sphere of the Spanish, European and international economy, and for the ongoing monitoring of the formulation and implementation of the Eurosystem's monetary policy. It collaborates with other national and international agencies and fora and drafts the reports and publications within its remit (including the *Annual Report*), preparing, analysing and disseminating the statistics entrusted to it. In April 2017, the Associate Directorate General International Affairs was assigned to this Directorate General. Its functions include developing and managing the Bank's international relationships with different international bodies, coordinating international cooperation and technical assistance, and performing tasks deriving from the regulation of country-risk positions.

The Director General Economics, Statistics and Research is Pablo Hernández de Cos, and Pilar L'Hotellerie is the Associate Director General International Affairs, and Óscar Arce, Associate Director General Economics and Research.

The Directorate General Cash and Branches controls production and issuance of banknotes and the circulation of coins.

In March 2017 certain other tasks that were previously being performed by this Directorate General were assigned to the Directorate General Cash and Branches (formerly an Associate Directorate General), which is responsible for, among other matters, monitoring the Banco de España's euro banknote production process (entrusted to the special-purpose entity IMBISA), the issuance of banknotes, circulation of coins, tasks relating to the withdrawal, exchange and custody of banknotes and coins, and detecting and analysing counterfeit banknotes and coins. It is also responsible for managing the Bank's branch network. The Director General is Concepción Jiménez.

The Directorate General Financial Stability, Regulation and Resolution ensures financial stability, formulates macroprudential policy and is competent to resolve credit institutions.

The Directorate General Financial Stability, Regulation and Resolution is responsible for analysing and monitoring financial stability, preparing the *Financial Stability Report*, and analysing and formulating proposals on macroprudential policy. It drafts reports and proposals on the issuance of rules on the regulation and disciplining of institutions subject to supervision, contributing to the design of regulatory policy. This Directorate General also manages the Central Credit Register and performs all preventive resolution tasks assigned to the Banco de España. It cooperates with the international bodies that are competent in these matters. In 2016, when it was still known as the Directorate General Financial Stability and Resolution, its Director General was Julio Durán. He was replaced by Jesús Saurina in March 2017.

The Directorate General Operations, Markets and Payment Systems manages reserves and financial risks and oversees payment systems.

The Directorate General Operations, Markets and Payment Systems is mainly responsible for functions relating to the implementation of the operations of the Banco de España in its capacity as a central bank and member of the Eurosystem, the management of gold, foreign currency reserves and euro-denominated financial assets owned by the Bank, and the management of financial risks and the rendering of various payment and other

government debt-related services. It also promotes and oversees the sound functioning of payment systems and instruments and manages the TARGET2-Banco de España system. En 2016, the Director General was Javier Alonso, who was replaced by Juan Ayuso in January 2017.

The Directorate General Services manages and administrates the Bank's internal services.

The Directorate General Services manages and administrates the internal services and functions common to the entire Bank, and its responsibilities encompass the following: human resources and workplace health and safety, hiring arrangements, preparation of draft budgets and annual accounts, accounting and control of the Bank's accounts, acquisition, maintenance and administration of its assets, information systems, and organisation and management of internal security services. The Director General of this area is Manuel Labrado and the Associate Director General was José Miguel García Hernando until November 2016, subsequently replaced by Antonio Pérez Ocete.

The Directorate General Supervision supervises the solvency of credit institutions and their compliance with regulations with the SSM framework.

As regards the tasks performed by the Banco de España as a supervisory authority within the framework of the SSM, the Directorate General Banking Supervision is entrusted with supervising the solvency of credit institutions and their compliance with the specific regulations governing them, indirectly in the case of significant credit institutions and directly in that of less significant credit institutions and other financial institutions supervised by the Banco de España. For this purpose it monitors the supervised institutions and their groups on an ongoing basis, proposing, where appropriate, preventive, disciplinary and precautionary measures, reporting on requests of credit institutions and other financial agents, and contributing to the drawing up of draft rules on accounting. It also collaborates with Spanish and international organisations and fora within the scope of its competencies. The Director General Banking Supervision in 2016 was Mariano Herrera, and Pedro Comín, the Associate Director General. They were replaced in March 2017 by Julio Durán and Alberto Ríos, respectively.

The General Secretariat provides the secretariat for the governing bodies, heads the institution's legal advice service and exercises competencies in matters relating to transparency, customer protection and documentation management.

Finally, the General Secretariat provides the secretariat for the governing bodies of the Banco de España and heads the legal advice service for the governing bodies and the institution as a whole. Other functions include conducting sanctioning proceedings, keeping official registers and processing authorisation procedures for new institutions, supervisory functions, supervisory and regulatory policy in respect of banking transparency and customer protection, and claims settlement. It is also responsible for the Register, the archives, documentation management and the Virtual Office. The General Secretary is Francisco Javier Priego, and the Deputy General Secretary is Jaime Herrero.

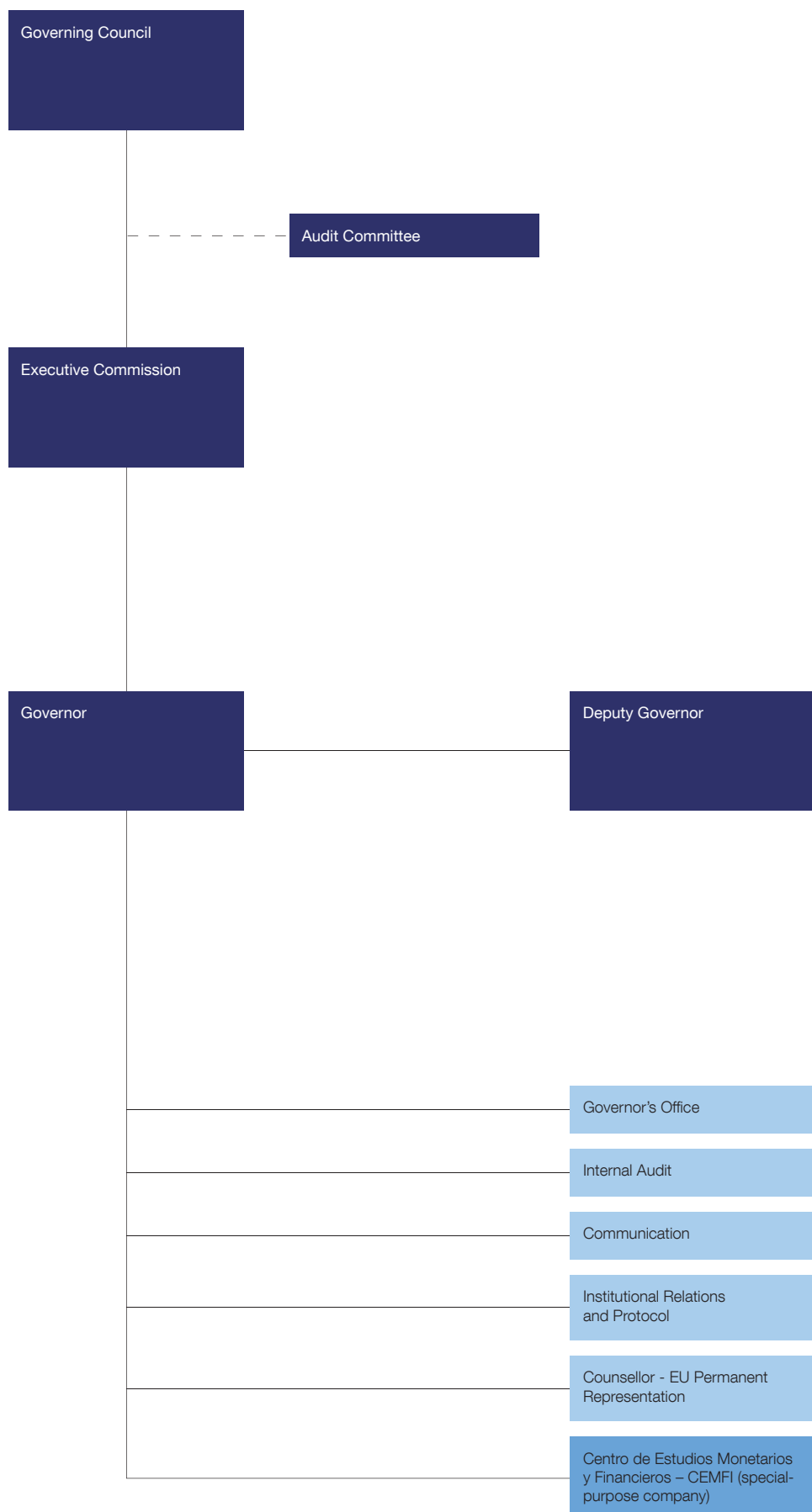
1.3.2 Headquarters and branch offices of the Banco de España

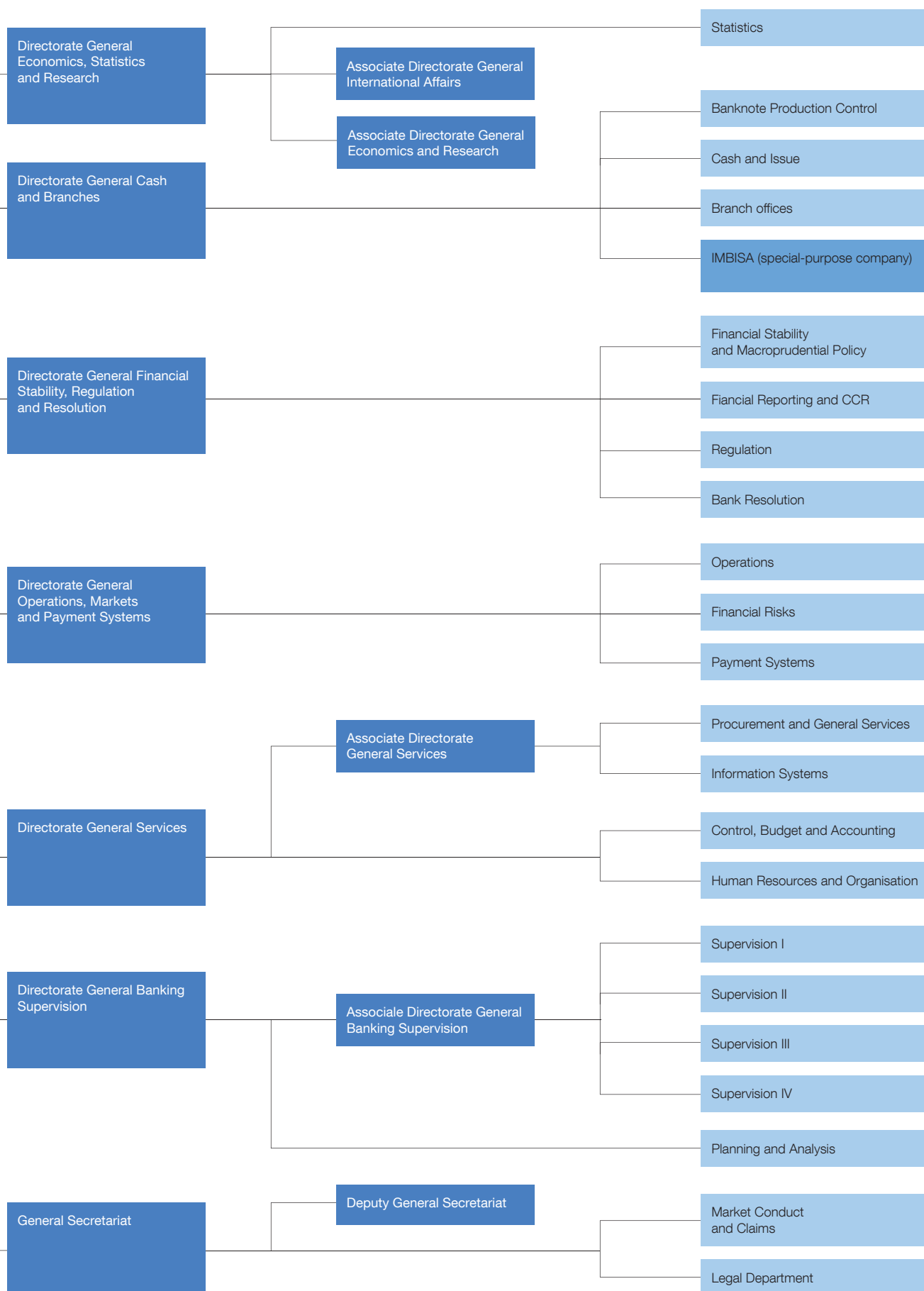
The Banco de España has its headquarters in Madrid and 15 branch offices located throughout the country.

The Banco de España performs its functions through its Madrid offices, at two different locations, and its network of branches located throughout the country.

Since 1891, the headquarters of the Banco de España have been located in Calle de Alcalá, 48, next to Plaza de Cibeles, in Madrid, in one of the city's most emblematic buildings, representative of Spanish architecture in the 19th and early 20th centuries. The Bank's central services and senior management are based in this building. The Banco de España has another building in Madrid, located in Calle de Alcalá, 522, where more operational functions are carried out, such those relating to cash management and information systems.

ORGANISATION CHART OF THE BANCO DE ESPAÑA







Imprenta de Billetes, SA (IMBISA) (left). The Library at Centro de Estudios Monetarios y Financieros (CEMFI) (right).

In addition to its headquarters, the Banco de España has 15 branches located in the following cities: La Coruña, Alicante, Badajoz, Barcelona, Bilbao, Las Palmas, Málaga, Murcia, Oviedo, Palma, Sevilla, Santa Cruz de Tenerife, Valencia, Valladolid and Zaragoza.

1.3.3 Special-purpose entities

The Banco de España has two special-purpose entities: i) the commercial-law company Imprenta de Billetes, SA (IMBISA), and ii) the Foundation «Centro de Estudios Monetarios y Financieros» (CEMFI).

a) IMBISA

IMBISA is entrusted with the production of the Spanish quota of euro banknotes.

IMBISA is a publicly-owned commercial-law company whose sole corporate purpose is the production of euro banknotes. This special-purpose entity was created in response to the need to adapt to the legal framework for euro banknote production, following approval of Guideline (EU) 2015/280 of the European Central Bank of 13 November 2014, on the establishment of the Eurosystem Production and Procurement System (ECB/2014/44).

In the specific case of Spain, the option chosen was a model under which the national quota of euro banknotes for the ESCB could be produced by a commercial-law company assigned the status of a specific resource and technical service of the Banco de España. Accordingly, Law 36/2014 of 26 December 2014 on the 2015 State Budget amended the Law of Autonomy of the Banco de España so that the central bank could entrust its euro banknote production quota to a commercial-law firm in which it held a majority stake. The company is 80%-owned by the Banco de España and 20%-owned by the FNMT-RCM (Spanish National Mint), which may maintain this stake until 31 December 2017.

b) Centro de Estudios Monetarios y Financieros (CEMFI)

CEMFI is a foundation engaging in graduate education and research in Economics and Finance.

CEMFI is a public-sector foundation created by the Banco de España in 1987 with the two-fold aim of developing graduate education for high-level specialists in Economics and Finance, and engaging in research in economics. The foundation was recognised and classified under a Ministerial Order dated 12 April 1991 and is registered in the Foundation Register of the Ministry of Education, Culture and Sports.

To develop its goals, CEMFI's activity focuses on two main directions: i) graduate education, most notably through the official post-graduate programme in Economics and Finance it offers jointly with the Universidad Internacional Menéndez Pelayo (UIMP), and a Summer School, and ii) research on a variety of economic and financial topics, combining theoretical and applied approaches.

The governing and management bodies of CEMFI are its Board of Trustees, its Executive Commission and its Director. In 2016, the Board of Trustees was composed of a total of 14 members. Its ex officio members are the Governor, who chairs it, and the Deputy Governor of the Banco de España. Other members have a four-year term of office and can be re-elected. The Executive Commission is composed of five members and chaired by the Deputy Governor of the Banco de España.

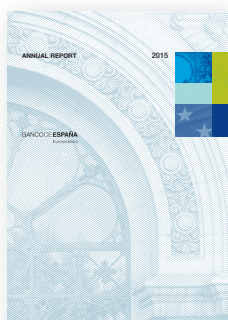
1.4 REPORTS AND PUBLICATIONS

The Banco de España periodically publishes documents providing information on the activities that fall within its remit. These publications are listed below, together with a brief summary of their contents. While the complete list of Banco de España publications can be found on its website⁵, this section briefly describes the most relevant ones.

The Banco de España publishes the following documents on an **annual or half-yearly basis**.

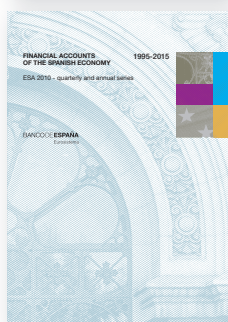
Annual Report

The *Annual Report* of the Banco de España analyses the performance of the Spanish economy in the context of the international economy, with particular emphasis on monetary and fiscal policy and economic and financial flows.



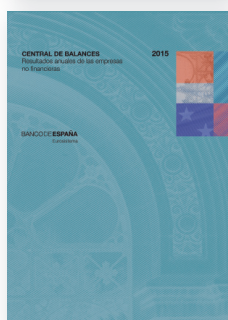
Financial Accounts of the Spanish Economy

The *Financial Accounts of the Spanish Economy* includes annual and quarterly series on financial and non-financial flows in the Spanish economy, and is divided into two sections: i) the non-financial national accounts, prepared by the Spanish National Statistics Institute (INE), and ii) the financial balance sheets and financial transaction accounts for the sectors and subsectors of the Spanish economy.



Central Balance Sheet Data Office. Annual results of non-financial corporations

This publication contains the annual series of results of non-financial corporations over the last ten years (balance sheets, income statements, ratios, etc.) and non-financial information relating, inter alia, to employment and salaries.

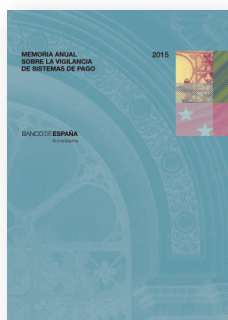


Public Debt Market

This annual publication describes the evolution of the primary market and the trading carried out in the secondary book-entry debt market, for assets issued by the Treasury and other issuers and public entities.

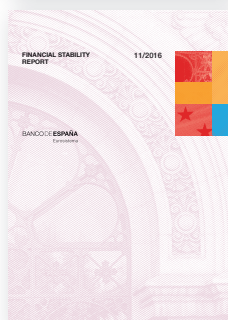


⁵ The Publications Catalogue, periodically updated, can be found at the following link: http://www.bde.es/webbde/Secciones/Publicaciones/Relacionados/Fic/cat_publ.pdf. Most of the documents listed there are available in pdf format, downloadable free of charge, at: <http://www.bde.es/webbde/en/secciones/informes/>. If a publication cannot be found on the website, it can be requested from publicaciones@bde.es.



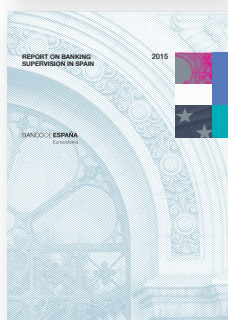
Annual Report on the Oversight of Payment Systems

This publication describes the main changes that took place in Spanish payment systems during the preceding year and explains the oversight activities carried out in this area.



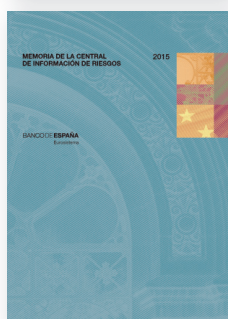
Financial Stability Report

This is a half-yearly publication that analyses the risks to the Spanish financial system and the profitability and solvency of Spanish credit institutions in both a backward- and forward-looking fashion. The report likewise presents the Banco de España's macroprudential policy and measures.



Report on Banking Supervision in Spain

This annual publication includes a detailed description of the supervisory functions of the Banco de España and the supervisory actions undertaken during the year, and of the organization of the Banco de España's supervision, the priorities and strategies adopted, Banco de España circulars relating to supervision and its participation in international fora on banking regulation and supervision.



Central Credit Register Report

This publication contains the activities carried out by the Central Credit Register (CCR) of the Banco de España in the preceding year. The information in the CCR: i) allows the banking regulator to build its own credit risk models to compare and validate against those presented by supervised institutions, and ii) it allows supervised institutions to model their credit risk and appropriately validate their own models.



Annual Claims Report

The annual report provides a statistical analysis of the proceedings processed by the Market Conduct and Claims Department, indicating, amongst other issues, the areas in which claims and complaints were lodged, as well as the affected entities. It also indicates the transparency regulations and the best practice criteria applied in the resolutions issued during the corresponding year.

The Banco de España also publishes its *Annual Accounts* which comprise the balance sheet, the profit and loss account and the notes to the accounts, and which have been prepared in accordance with the accounting regulations established for national central banks of the European System of Central Banks.

The Banco de España publishes the “Quarterly Report on the Spanish Economy” and various analytical articles and economic notes.

In addition to the above publications, the Banco de España publishes another series of documents known as the *Economic Bulletin*, which presents the key messages relating to the macroeconomic performance of the Spanish economy and contains the “Quarterly Report on the Spanish Economy”.

The Bulletin’s frequency of publication and contents have been changed, and with effect from January 2017, it has been published quarterly and includes the “Quarterly Report on the Spanish Economy”. The Analytical Articles in the Bulletin are published separately on the Bank’s website during the quarter. In addition, there is a new section of Economic Notes focusing on specific issues, both of a methodological and statistical nature and relating to changes in the economy. At the end of each quarter, in addition to the Quarterly Report, the Bulletin includes the list of links for electronic access to the articles and notes published during the last three months on the Bank’s website.

Other publications issued by the Bank include the *Statistical Bulletin*, on a monthly basis and in electronic format, containing the economic statistics compiled by the Banco de España, and the *Research Update*, targeted at the international scientific community, which provides a summary, every six months, of research activities at the Banco de España.

Mention should also be made of two daily publications: the *Operations Bulletin*, which provides information on the interbank market and official euro exchange rates against other currencies, and the *Public Debt Market Bulletin*, with information on debt transactions and the characteristics of outstanding debt.

Lastly, the Banco de España publishes the *Financial Stability Journal*, which acts as a platform for communication and dialogue regarding issues related to financial stability, with a particular focus on prudential regulation and supervision. It is an open publication, accommodating personal collaborations by financial sector researchers and professionals that will be subjected to an anonymous refereeing process.

1.5 THE VIRTUAL OFFICE AND PROCEDURES CONDUCTED BY THE BANCO DE ESPAÑA

1.5.1 The Virtual Office

The Virtual Office of the Banco de España is a website available to all users wishing to conduct business with the Bank by electronic means in an efficient and reliable manner. It has been developed following universal accessibility and usability standards, so that all users, including those with a disability, can access the electronic services provided by the Banco de España and the related standardised forms.

The Virtual Office enables users to electronically perform 72 different procedures with the Banco de España.

Since 2016, the 72 procedures provided by the website include all those undertaken or resolved by the Banco de España at the request of the party concerned.

The number of visits to the Virtual Office has gradually increased since its launch. In 2016, it received 690,252 visits, 122,675 more than in 2015 (an increase of around 21%).

Among the most visited sections of the Virtual Office are the “Catalogue of procedures” section – which includes an alphabetical list of all procedures and services offered –, accounting for 50% of all visits, and the “Citizens” section, with 32% of visits.

The most viewed procedures are:

- request for risk reports from the Central Credit Register, with 360,614 page views (40.04% of the total);



The Virtual Office of the Banco de España

- reporting on economic transactions and cross-border financial asset and liability balances of residents in Spain (ETE form), with 243,420 page views (27.03% of the total);
- submission of claims, complaints and queries, with 95,303 page views (10.58% of the total), and
- exchange of pesetas for euros, with 69,698 page views (7.74% of the total).

In 2016, support was provided to the Virtual Office in the form of 1,935 electronic mails, which represents an increase of 7.44% with respect to 2015.

1.5.2 E-Administration. Electronic Register

In 2016, the Banco de España enhanced the functioning of different electronic tools, such as notifications, document digitalisation or improving accessibility via mobile devices.

In addition to the Virtual Office, the Banco de España is committed to enhancing as much as possible the use of electronic means in the conduct of its business, in conformity with the provisions of Law 39/2015 of 1 October on the Common Administrative Procedure for General Government. Accordingly, in 2016 the Banco de España developed a number of projects for improvement in this area, particularly as regards:

- 1 Guaranteed digitalisation of documents.
- 2 Electronic notifications.
- 3 Improving accessibility of mobile phones and other electronic devices.
- 4 Study of the documentation processed by the General Register of the Banco de España.

The Electronic Register is the channel for the electronic receipt of requests, written submissions and communications relating to procedures available in the Virtual Office, which require submission to a register. It operates 24 hours a day, all year round, except when necessary interruptions arise for technical reasons, notified by the Virtual Office.

Submitting documents through the Electronic Register, which operates 24 hours a day, has gained ground with respect to on-site registration.

As shown in the table below, in 2016 the total number of documents submitted to Banco de España registers fell slightly. However, the number of documents submitted through the Electronic Register rose considerably, almost doubling the number submitted in this way in 2015. This increase was offset by a practically equivalent decrease in the total number of documents submitted to on-site registers, which fell by 17.43% with respect to 2015.

	2015	2016	Year-on-year change
On-site register	83,843	69,232	-17.43%
Electronic Register	15,175	29,539	94.66%
TOTAL	99,018	98,771	-0.25%

1.6 TRANSPARENCY AND INFORMATION

1.6.1 The Transparency Portal

Under Article 10 of Law 19/2013 of 9 December 2013 on transparency, access to public information and good governance, all levels of general government are obliged to develop a Transparency Portal giving citizens access to the information envisaged therein.

The Transparency Portal contains institutional, legal and economic information about the Bank of interest to the public.

The contents of the Transparency Portal include all the information stipulated by the Law on Transparency, as well as any other information considered by the Banco de España to be of interest to citizens, according to the following information categories:

- *Institutional and planning information*, which includes information relating to the functions of the Banco de España, the legal framework applicable to its activities, the organisational structure of the Bank, the Governor's agenda, codes of conduct and plans and schedules for the Bank's activities.

The screenshot shows the 'TRANSPARENCY PORTAL' section of the Banco de España website. The header includes the bank's logo, language options (Español, English, CA, EU, GA, VA), and social media links. A navigation bar contains links to 'About us', 'Eurosistema', 'SSM', 'Services', 'Employment and grants', 'Legislation', 'Publications', and 'Press room'. The main content area is titled 'TRANSPARENCY PORTAL' and features a search bar and a 'Transparency' sub-header. Below this, there is a breadcrumb trail: 'Home > About us > Transparency'. The main text explains the purpose of Law 19/2013 and lists two approaches to transparency: active publication and public access. It also mentions the dissemination of relevant information. A 'Last updates and news' section lists several recent publications. On the right, there are sections for 'CONTACT US' (including the Vice Secretary General's contact details), 'RELATED INFORMATION' (tools like the RSS feed), 'ALSO OF INTEREST...', 'RELATED LEGISLATION' (listing laws 13/1994 and 19/2013), and 'OTHER USEFUL INFORMATION' (including public access requests and various transparency portals).

The Transparency Portal of the Banco de España

- *Information of legal importance*, which includes circulars, documents subject to public consultation, reports, technical applications and guidelines prepared by the Bank and documents issued by international bodies developed within the framework of collaboration with the Banco de España.
- *Economic information*, which includes information relating to contracts, agreements, management delegation agreements, cultural and social work, budget management, annual accounts, salaries of members of governing bodies and senior directors, conflicts of interest of public employees, fixed assets and official vehicles and information relating to the Bank's historical and artistic heritage.

As shown in the table below, the visits to the Transparency Portal increased by 16% in 2016.

	2015	2016	Year-on-year change
Visits to the Transparency Portal	24,529	28,470	16%

The most visited section of the Transparency Portal, not counting the home page, is the section on economic information, which accounts for 58% of total visits.

1.6.2 Information points and requests for access to public information

The information point gives citizens on-site or online access to information about procedures and services provided by the Bank.

As well as the Transparency Portal, the Banco de España offers citizens an information point which gives them access, either on-site or online, to general information about procedures, requirements or documentation relating to the services it provides.

In 2016, the information point of the Banco de España handled 7,070 requests, an increase of 4.58% with respect to 2015. Of the total visits to the information point, 72% were on-site, while 28% were online, through the e-mail addresses of the Virtual Office and Transparency Portal.

The information point handled 7,070 requests in 2016, 4.58% more than in 2015.

Despite the prevalence of the on-site information point, in 2016 the increase in visits to the online information point almost doubled the growth in visits to the on-site information point.

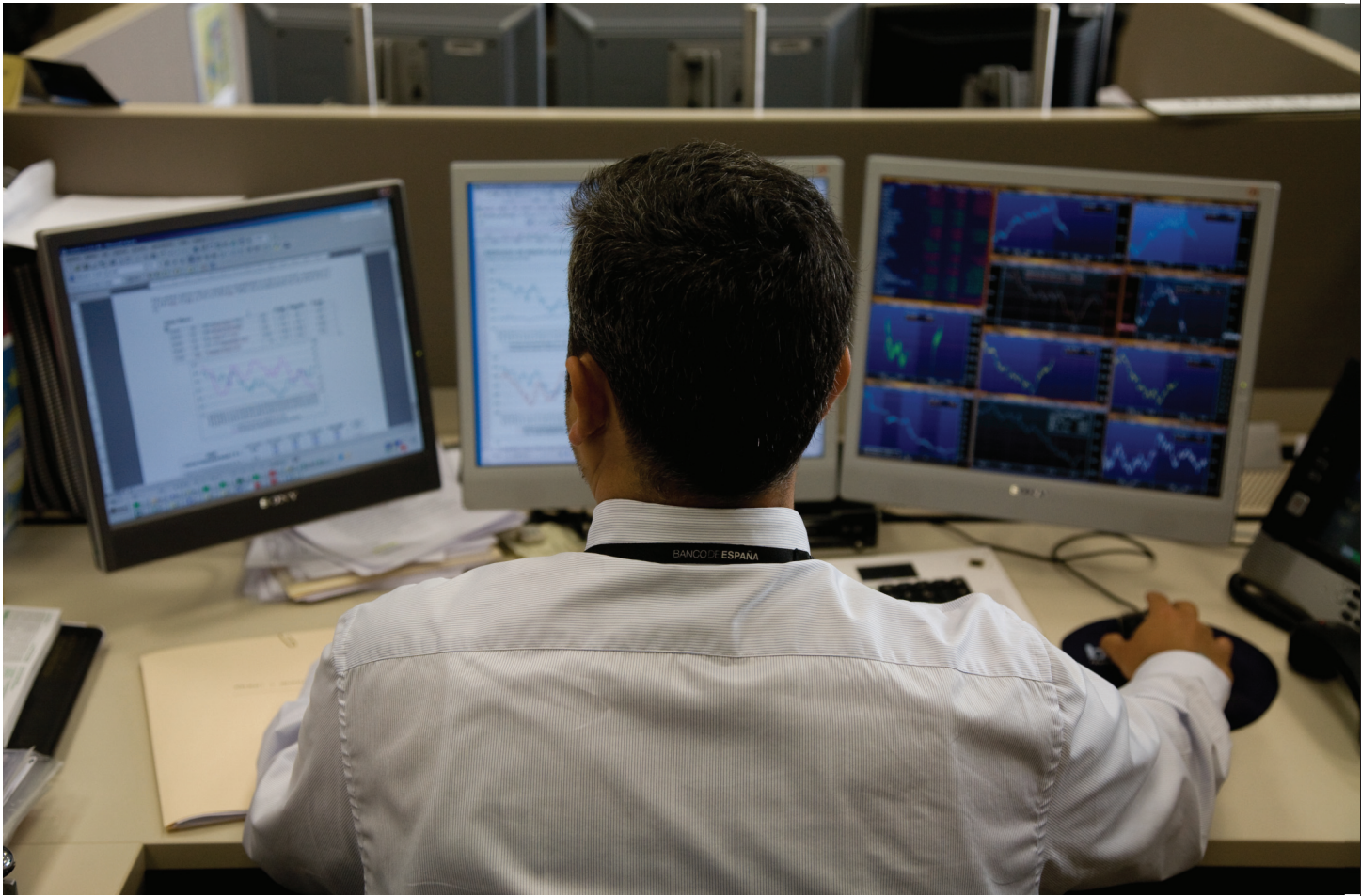
	2015	2016	Year-on-year change
On-site information point	4,900	5,092	3.92%
Online information point	1,860	1,995	7.26%
TOTAL	6,760	7,087	4.83%

The Bank handled 10 requests for access to public information in 2016.

The section on the process for requesting access to public information of the Banco de España received 4,973 visits in 2016, 10 requests for access to public information were submitted during the year and 60 e-mails were received at the Transparency Portal e-mail address.



2 ACTIVITY REPORT



Operations Room at Banco de España.

2.1 INTERNAL ORGANISATION AND ADMINISTRATION

2.1.1 Human resources

The total number of Bank staff is 2,990.

As at 31 December 2016, the Banco de España employed a total of 2,990 staff. There was an increase in posts with specialist profiles, while the number of administrative posts fell. Moreover, 146 Bank employees work in international organisations, with 20 such posts being filled in 2016.

146 employees work in international organisations.

The average age of employees is 45.2 years, a figure which has tended to decrease in recent years. The proportion of women is 48% and 52% for men. The average training time per employee amounted to 51 hours for the year as a whole. A total of 78% of employees completed training courses and 317 employees participated in international courses, of which 17 were organised by the Banco de España.

Employee mobility has been promoted and selection processes streamlined.

Implementation of a transformation plan for the human resources function began in 2016, to provide an improved, more efficient and personalised service, adapted to the organisation's needs. To this end, the post of "HRO Contact Person" was created, to have closer contact with the different business areas. This plan promotes the mobility of Bank employees, among other things, and led to a total of 148 employees changing posts in 2016. In addition, to harness in-house talent, a professional opportunities programme has been launched to promote internal mobility in order to fill any vacancies that arise. This plan also includes streamlining selection processes, reducing the time taken for posts to be occupied, promoting the use of online channels, such as LinkedIn or Infojobs, for issuing job offers, in order to make the Bank an employer of choice.

The plan has other priority goals such as flexible working, teleworking, or internal communications, through new channels which are more effective and closer to employees. To facilitate the transformation, a project was launched to develop a new IT platform for human resource management.



The Banco de España page on the LinkedIn portal.

2.1.2 Reorganisation

The Associate Directorate General Deputy General Secretariat, formerly a department, was created in 2016, and the structure of the Directorate General Services was changed, to improve its performance, speed up decision-making and optimise its resources.

The section on the functions of the Directorates General, in the first chapter of this report (1.3.1 *Organisational chart and structure. Directorates General and General Secretariat*), refers to the changes made in 2017 in some of the Directorates General of the Banco de España.

2.1.3 Services

The façades of the Cibeles building are being inspected, restored and cleaned.

In 2016, following a thorough inspection of the façades of the Cibeles building, a listed national monument which occupies approximately 10,000 m², a project for the comprehensive restoration and subsequent cleaning of the façades was drawn up. The procurement procedure for the execution of the work concluded on 5 December 2016 and the restoration work started in February 2017.

The drafting of a project to carry out improvement work on the Torre de Cibeles building has also been commissioned. The aim is to completely refurbish all floors and find a new solution to connect the various buildings to make them accessible to people with reduced mobility. The project will also encompass the façade and the volumes, to improve their architectural quality and energy performance.

In 2016, the procurement process for the project to comprehensively refurbish the building of the Barcelona branch of the Banco de España was completed. The project aims to reorganise the branch spaces and to refurbish several floors to convert them into open-plan floors.

In the area of IT systems, a number of activities and projects were carried in 2016 to provide support for the functions of the Banco de España. These notably include:



Comprehensive restoration and cleaning of the façade of the Banco de España's headquarters.



Façade of the Barcelona branch office.

The web portal offering services to institutions and organisations (RedBdE) has been modernised.

- The modernisation of the web portal offering services to institutions and organisations (RedBdE), which entailed the roll-out of a new technical infrastructure, the renewed design of the contents of the portal and a new services architecture. The way in which institutions access services and the related information has been modernised and optimised, paving the way for new and more advanced services in the near future.
- Active participation in the IT development of projects for the Eurosystem, in collaboration with other central banks, relating to payment infrastructures, securities and collateral management (Target 2-Securities), the new database for individual bank loans in the euro area (AnaCredit) and treasury management of market operations (MAPS, Market Activities Processing System).

2.1.4 Branch offices

The branch offices of the Banco de España perform, among others, functions relating to the distribution of cash (banknotes and coins), through banks, from which they also receive the cash deposited by the public for processing purposes. This process consists of retaining counterfeit banknotes and coins, destroying banknotes no longer fit for circulation and withdrawing damaged coins.

The Bank's branch offices play a key role in cash processing.

In addition, the branches provide support to the different Bank departments, offering general government and the public decentralised services relating to functions and tasks assigned to the Banco de España. These include the exchange of pesetas for euros, replacement of damaged banknotes and coins, current accounts, submission of claims, requesting reports from the Central Credit Register and public debt subscription.

At the end of 2016, there were 414 branch employees. There is a director in charge of each branch, who is responsible for the infrastructure and administrative and support services, to whom two units report: Cash-Operations, which carries out cash and bank operations, and Financial Control, which audits and accounts for all operations.

2.2 FUNCTIONS RELATING TO BANKING OPERATIONS

2.2.1 *Implementation of monetary policy and asset management*

New liquidity-injection operations were announced in the context of implementation of monetary policy.

In 2016 there were two key developments regarding the implementation of monetary policy. In March, four new quarterly liquidity-injection operations (TLTRO II), with a maturity of four years, were announced, with a potential volume of 30% of the stock of eligible loans granted by counterparties as at 31 January (less the amount previously borrowed under the first TLTROs) and an interest rate as low as -0.40%, depending on the dynamism of lending. In Spain, more than €167,000 million have been lent through such operations.

And the purchase programmes were expanded to include new elements.

In June, the purchase programme was expanded to include a new component, namely, corporate bonds. In the Eurosystem as a whole, purchases of this type of assets amounted to almost €52,000 million euros in 2016, including securities issued by 14 Spanish issuers.

As regards portfolio management, the Bank increased the number of eligible instruments and currencies in the own portfolios denominated in foreign currencies and continued to undertake other tasks for third parties, such as the management of part of the ECB's foreign reserves and acting as a financial agency in relation to the portfolios of the Social Security Reserve Fund and the Deposit Guarantee Scheme.

2.2.2 *Management of payments and securities settlement*

The Bank coordinated the work and adjustments required for migration to TARGET2-Securities.

The Banco de España, as chair of the national Target2 user group, which comprises the Treasury, the National Securities Market Commission, Iberclear and those participating in Spain's post-trading infrastructure for securities, has coordinated the work and necessary adjustments for the successful migration of the Spanish market to TARGET2-Securities, scheduled for September 2017.

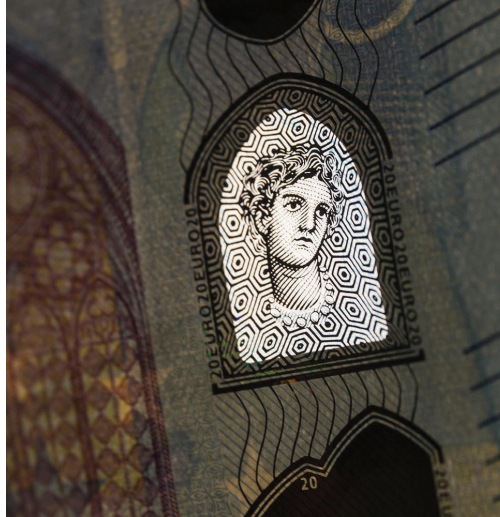
In the area of retail payments, the Bank monitored the launch of the instant mobile payments programme (Bizum) and, in relation to EU Regulation 260/2012, on credit transfers and direct debits in euros, it reviewed compliance by Spanish payment service providers with the requirements on message formats (ISO Standard 20022 XML).

2.2.3 *Banknote and coin management*

Credit institutions withdrew banknotes for an amount equal to €91,200 million.

In 2016, Spanish credit institutions withdrew nearly 2,965 million banknotes over the Banco de España's counters to meet customer demand, for an amount close to €91,200 million. They also withdrew almost 1,300 million coins, more than half of which were low-value denomination coins.

Banknotes and coins continue to be the most common form of payment among 70% of the Spanish population, as revealed by the survey on the use of cash that the Banco de España conducts every year. Accordingly, the Bank has undertaken major efforts to inform cash professionals, retailers and the general public about the characteristics of the new Europa series €50 euro banknote, which entered into circulation in April 2017, and to



A portrait window of princess Europa in the hologram of the €20 banknote (second series).



Europa series euro banknotes.

promote the adaptation of banknote-accepting machines, so that they are able to process the new banknotes from the moment they start circulating.

The authenticity and condition of 3,231 million euro banknotes were verified.

Also in 2016, the Bank verified the authenticity of a total of 3,231 million euro banknotes and classified them according to their condition, and destroyed 1,000 million banknotes and demonetised 2.5 million coins which were no longer fit for circulation.

Lastly, it should be noted that in 2016 the Banco de España was, for the first time, supplied with banknotes exclusively produced by IMBISA, a specific resource of the Bank which was created at the end of 2015.



Seminar on the €50 banknote (second series), organised for professional cash handlers by the Banco de España and the European Central Bank.

2.3 SUPERVISION, FINANCIAL STABILITY AND PREVENTIVE RESOLUTION

2.3.1 Prudential supervision

As mentioned earlier, the entry into force of the SSM, in November 2014, brought about a very significant change in the European supervisory model. At the end of 2016, there were 14 Spanish banking groups classified as significant and therefore directly supervised by the ECB. These 14 groups are made up of 54 individual Spanish credit institutions and 24 individual credit institutions located in other euro area countries. Overall, these 14 banking groups represent 15% of the assets under the direct supervision of the ECB, which supervises a total of 125 significant groups in the euro area.

The 14 Spanish banking groups directly supervised by the ECB account for 94% of the Spanish banking system's assets.

The institutions supervised directly by the ECB account for around 94% of the Spanish banking system's assets. The remaining 6% is accounted for by 69 Spanish banking groups classified as less significant¹ and supervised directly by the Banco de España in the framework of the SSM.

Additionally, there are 11 Spanish credit institutions which are subsidiaries of 8 significant foreign banking groups in the SSM.

At the end of 2016, the Banco de España had contributed 163 bank examiners and junior analysts to the joint supervisory teams of Spanish banks.

The Banco de España contributes to the supervision of significant Spanish credit institutions, both in ongoing monitoring tasks, through the Joint Supervision Teams (JSTs) and in on-site inspections and review of the models of these institutions. At the end of 2016, the Banco de España provided 163 bank examiners and junior analysts staff to the JSTs of significant Spanish banks. Also, in 2016, inspections were performed at 16 significant credit institutions (of which 12 were headed by the Banco de España) and 12 model reviews were carried out (8 of them headed by the Bank). The Banco de España contributed approximately 90% of the staff assigned to these on-site tasks.

In 2016, a total of 236 decisions were adopted addressing significant Spanish institutions specifically, and a further 300 were of a more general nature or dealt with matters of SSM organisation and policies also affecting them. The decisions adopted notably included capital decisions resulting from the so-called "supervisory review and evaluation process" (SREP), which establishes the level of capital required of each institution in 2017.

With respect to less significant institutions, supervised by the Banco de España, 19 banking groups were subject to standard monitoring and the remaining 51 groups to simplified monitoring (based on a system of alerts)². A total of 501 monitoring actions³ were performed and 13 inspection visits were made. In addition, 68 monitoring actions were carried out at different Spanish subsidiaries and branches of less significant groups in the SSM sphere, with head offices in other countries.

1 Include groups, individual institutions not belonging to any group, and branches of EU banking groups not in the euro area.

2 At the end of 2016, one institution was deregistered as a less significant institution.

3 Monitoring actions mainly include periodic monitoring both of a standard and simplified nature, reviews of external auditors' reports and internal capital adequacy assessment reports, analysis of recovery plans and the corresponding capital decisions.



The Supervisory Board of the European Central Bank, which supervises 14 Spanish banking groups.

At the end of 2016, the Banco de España adopted the capital decisions corresponding to less significant institutions. The supervisory review and evaluation process applied by the Banco de España to these institutions was similar to that applied to significant credit institutions.

A total of 339 monitoring actions and 5 inspections were performed at institutions which were not credit institutions.

The Banco de España also has exclusive supervisory powers, outside the SSM context, over institutions other than credit institutions that provide services or perform functions related to the financial sector. In 2016, a total of 339 monitoring actions and 5 inspections were performed at these institutions. Also, in cooperation with the SEPBLAC, in 2016, 3 inspections on the prevention of money laundering were carried out at significant Spanish institutions.

In the performance of its different supervisory tasks, the Banco de España sent 150 letters containing requirements and recommendations to less significant credit institutions.⁴ A further 9 such letters were sent to other institutions supervised by Banco de España outside the SSM sphere.

The definition of less significant institutions which may be subject to simplified obligations was completed.

Within the recovery framework, in 2016 the Banco de España completed the reviews of the first recovery plans submitted by significant credit institutions in the final quarter of 2015. The Banco de España also participated in the resolution plan review process of significant institutions in the prior consultation phase, together with the resolution authority and the ECB.

With regard to less significant institutions, the Banco de España, in collaboration with the ECB, completed the definition of the institutions which may be subject to simplified

⁴ Of these, 57 relate to capital decisions, 54 to recovery plans, 19 to the result of standard annual monitoring and 20 to on-site inspections.

obligations. In fact, these institutions submitted their recovery plans for the first time in 2016, to be reviewed in the first quarter of 2017. The Banco de España also participated actively with other national competent authorities and the ECB in the process of harmonising crisis management schemes for less significant institutions in order to ensure consistent procedures and tools in the SSM framework.

In 2016, a total of 583 suitability assessment procedures were conducted for senior officers at supervised institutions.

With respect to the supervision of the suitability of senior officers of credit institutions, the Banco de España processed a total of 583 files in 2016, of which 294 related to credit institutions, 129 to mutual guarantee companies, 64 to payment institutions, 54 to specialised lending institutions, 34 to appraisal companies, 5 to electronic money institutions and 3 to currency exchange bureaux.

2.3.2 Supervision of market conduct

Supervision of market conduct was centred on mortgage and consumer credit.

In 2016, the supervision of market conduct focused on the three areas already identified in 2015 (mortgage loans, consumer loans and customer services) to which the review of the advertising of banking products and services of supervised institutions was added in 2016.

In 2016 a total of 29 on-site inspections were carried out, 11 of which had begun in 2015. Eight of these inspections centred on reviewing compliance with transparency requirements for mortgage loans and credit, 2 to verifying the correct application of regulations on mortgage debtors without funds, 16 to verifying that the annual percentage rate (APR) of certain mortgage transactions was properly reported to the Banco de España and the remaining 3 to verifying transparency in the marketing of consumer loans and in currency exchange activities.

Additionally, 80 supervisory actions (69 of which were initiated during the year) were performed in 2016, notably including 24 actions aimed at evaluating, and where appropriate, rectifying, the shortcomings detected in the set-up and functioning of the customer service departments of the main institutions, 18 supervisory actions to verify the correct application of measures to protect mortgage debtors without funds, and the supervisory action initiated during the year to verify that institutions' customary practices, procedures and internal controls in relation to their advertising comply with current legislation.

As a result of these activities, 105 letters of recommendations and observations and 17 requirement letters were sent in 2016.

2.3.3 Sanctioning activity

Seven sanction proceedings were initiated in relation to conduct, transparency and customer protection.

In 2016, the Banco de España initiated seven sanction proceedings resulting from the exercise of its supervisory competences in relation to institutions' conduct, transparency and customer protection. These proceedings were brought against four banks, one credit cooperative, one currency-exchange bureaux and its managers and directors, and one specialised lending institution. The proceedings begun against a specialised lending institution in 2015 culminated in the imposition of sanctions.

In relation to the supervisory authority of the Banco de España outside the scope of the SSM, mention should be made of the sanctioning activity concerning non-credit financial

institutions (in particular, in relation to payment institutions and the breach of the obligations upon them primarily as regards own funds coverage, book-keeping and safeguarding funds deposited by customers). In this regard, proceedings were brought against one institution, with the latter's activity being temporarily suspended to safeguard the public interest, and two more sets of proceedings concluded with the imposing of sanctions.

2.3.4 Macroprudential policy

Some of the effects of increased capital requirements were analysed.

In the area of macroprudential policy, cyclical risks were monitored using a risk map with information drawn from a broad set of indicators. Both the risk map and a smaller set of indicators relating to the countercyclical capital buffer (CCB) presented information consistent with the percentage of CCB remaining at 0%, so the buffer was not activated in 2016. However, there were some changes in 2016 as regards identifying and determining the capital buffers of systemic institutions. The fact that the BBVA ceased to be identified as a global systemically important institution (G-SII) meant that Banco Santander was the only Spanish G-SII for 2017. In addition, the Banco de España revised the calibration of capital buffers applicable to other systemically important institutions (O-SIIs) in order to ensure consistency with the new criteria stipulated by the ECB to reduce the heterogeneity of requirements within the SSM. These changes have led to higher capital buffers for three of the six institutions identified as O-SIIs for 2017.

Lastly, in 2016 the tool known as "FLESB" (Forward Looking Exercise on Spanish Banks) was used to conduct a new, forward-looking, analysis of the solvency and resilience of banks in different macroeconomic scenarios.

2.3.5 Preventive resolution

Recovery plans were prepared for a total of 16 institutions (12 significant and 4 less significant) and the Bank participated actively in defining criteria.

In 2016, resolution plans were prepared for a total of 16 institutions (12 significant and 4 less significant), in accordance with the distribution of competences established under the Single Resolution Mechanism (SRM) Regulation, in close collaboration with the Single Resolution Board (SRB), the FROB and other national resolution and supervisory authorities in the euro area. In the international sphere, these contacts involved participating in resolution colleges and crisis management groups of 10 institutions, both Spanish and from other Member States of the European Union with operations in Spain. In addition, the recovery plans of all significant credit institution were reviewed, working jointly with the SRB, as were those of all less significant institutions.

To promote the effective implementation of the recently approved Directive 2014/59/EU, the Banco de España participated very actively in the development of preventive resolution criteria and strategies as a member of international organisations and fora, notably the Financial Stability Board's resolution groups and the definition of criteria for implementation of the Single Resolution Mechanism. Also worth highlighting due to their importance are: i) the criteria for determining the minimum requirement for own funds and eligible liabilities to absorb losses (MREL) stipulated by the directive and currently under review, or ii) the promotion and analysis of the best resolution strategies based on the different tools available (i.e. sale of assets or bridge bank).

2.3.6 *Financial and risk reporting*

Credit institutions began to adapt their financial reporting to the FINREP requirements.

Credit institutions began to adapt their financial reporting to the criteria as to preparation, terminology, definitions and formats of the statements known as “FINREP” in European Union legislation (relating in 2016 to individual confidential returns and public financial statements). With respect to prudential reporting, following the entry into force of a series of European requirements, credit institutions started to submit new information on additional control parameters for information on liquidity and the liquidity coverage ratio. Additionally, credit institutions that are authorised to use internal models for credit and market risk submitted, also for the first time, information relating to the review of such models. Lastly, the Banco de España began receiving information on the commissions on ATM cash withdrawals sent by ATM owners and credit card issuers.

Implementation of Circular 1/2013 on the CCR was completed in 2016.

Implementation of Circular 1/2013 on the Central Credit Register was completed in 2016. New, more detailed, information (on a transaction-by-transaction basis, more types of products and more information on the collateral received) is based on data referring to April 2016. Following the approval of the Regulation of the European Central Bank on the collection of granular credit and credit risk data in May 2016 (known as the “AnaCredit Regulation”), the Bank participated very actively in the preparatory work for the implementation of the requirements of the Regulation.

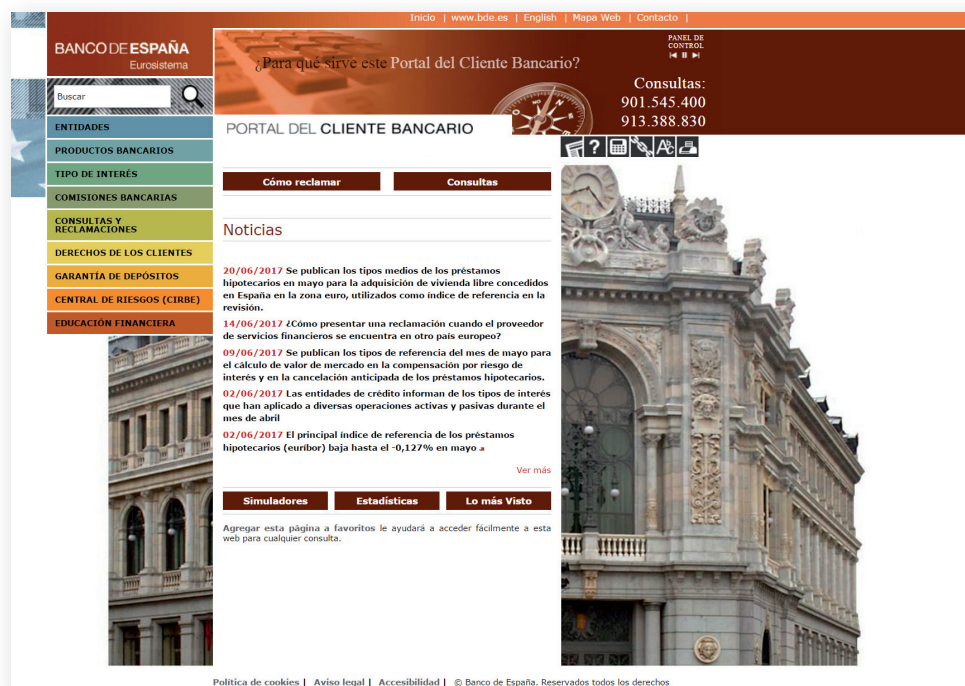
2.4 CLAIMS AND QUERIES RECEIVED FROM BANK CUSTOMERS

The number of claims filed by users of bank services in 2016 fell with respect to 2015.

In 2016, the number of claims filed by users of bank services fell from 20,262 in 2015 to 14,462 in 2016, continuing the downward trend that began in 2014. This decrease was chiefly due to the steady decline of claims relating to “floor clauses”, which totalled 3,958 in 2016.

The number of telephone or online queries also declined in 2016 to 33,595, compared with 38,804 a year earlier. Of these, 31,660 were dealt with by telephone (35,567 in 2015) and 1,935 by electronic channels (3,237 in 2015). The Bank Customer Portal registered more than 3.6 million visits in 2016, a similar level to that registered in 2015 (3.8 million).

In relation to the monitoring and control of advertising in 2016, there were 487 requirements for the withdrawal or rectification of press and Internet advertisements, compared with 196 in 2015, all of which were complied with by the institutions concerned.



Bank Customer Portal of the Banco de España (not yet available in English)

2.5 REGULATORY CHANGES

There was hardly any legislative activity in 2016, since there a caretaker government was in office until 31 October 2016.

However, in the area of economy and finance, Organic Law 1/2016 of 31 October, reforming Organic Law 2/2012 of 27 April on budgetary stability and financial sustainability, was approved, as was Royal Decree-Law 4/2016 of 2 December relating to urgent financial measures.

A total of seven Banco de España circulars were approved in 2016, all in relation to the organisational and disciplinary rules applying to supervised institutions.

As regards the organisational and disciplinary rules applying to supervised institutions, the following Banco de España circulars were approved:

- Banco de España Circular 1/2016 of 29 January 2016 amending Circular 1/2015 of 24 March, to payment service providers, on information of the merchant service charges and interchange fees received.
- Banco de España Circular 2/2016 of 2 February 2016 to credit institutions, on supervision and solvency, completing the transposition into Spanish legislation of Directive 2013/36/EU and Regulation (EU) No. 575/2013.
- Banco de España Circular 3/2016 of 21 March 2016 to ATM owners and payment instrument and card issuers, on information on commissions on ATM withdrawals.
- Banco de España Circular 4/2016 of 27 April 2016 amending Circular 4/2004 of 22 December 2004 to credit institutions, on public and confidential financial reporting rules and financial statement formats, and Circular 1/2013 of 24 May 2013 on the Central Credit Register.
- Banco de España Circular 5/2016 of 27 May 2016 on the method of calculation to be used to ensure that banks' contributions to the Deposit Guarantee Scheme for Credit Institutions are proportionate to their risk profile.
- Banco de España Circular 6/2016 of 30 June 2016 to credit institutions and specialised lending institutions, which sets out the content and format of the "SME-Financial Information" and stipulates the method of risk classification, both envisaged in Law 5/2015 of 27 April 2015 on the promotion of business financing.
- Banco de España Circular 7/2016 of 29 November 2016 developing the accounting specifications to be applied by banking foundations and amending Circular 4/2004 of 22 December to credit institutions, on public and confidential financial reporting rules and financial statement formats, and Circular 1/2013 of 24 May 2013 on the Central Credit Register.

2.6 ECONOMIC ANALYSIS, RESEARCH AND STATISTICS

In 2015, the Bank published 35 working papers, 8 occasional papers and 37 articles for external publications.

In 2016, 35 working papers and 8 occasional papers were published. As for external publications, a total of 37 articles were published in anonymously refereed academic and professional journals, 2 articles were accepted and are pending publication and another 13 articles were published in other journals and books.

The main research activities in this area focused on a variety of issues, notably the interaction between fiscal consolidation and private deleveraging, the determinants of compliance with fiscal rules, optimal monetary policy with heterogeneous agents and the effects of non-conventional monetary policies, changes in inflation expectations in the euro area; the macroeconomic impact of structural transformations and enhancing the performance of the services sector; interactions between public and private labour markets and the importance of allocation between sectors and firms of productive resources to boost productivity growth, paying special attention to Spain's experience during the previous period of economic expansion.

In the area of financial stability, the potential impact of an increase in banks' capital requirements on their credit supply was analysed, as were the effects on the real economy and particularly on employment in firms of a reduction of the credit supply of banks; the potential impact on firms of credit supply instrumented by central banks; the dynamic relationships over time between bank variables and variables relating to the credit cycle, financial markets and the real economy; and the variability of risk-weighted assets.

Analytical tools began to be used for regular analyses. Specifically, BVAR models for the emerging countries of most significance for the Spanish economy and indicators of financial stress for advanced and emerging economies. Moreover, considerable resources were devoted to analysing the effects of various global events that took place in 2016, such as the change in China's economic growth model or Brexit, using the Bank's own tools as well as global models.

In 2016 five international conferences were organised.

In 2016, five international conferences were organised. One of these conferences, which took place from 6 to 8 June, was organised in collaboration with the Barcelona Graduate School of Economics and was dedicated to analysing aspects relating to fiscal sustainability. Another, jointly organised with the World Bank on 16 and 17 June, focused on analysing the labour market, in general, and growth in productivity and inequality, in particular.

New, quarterly press releases on the financial accounts of the Spanish economy and on government debt began to be issued.

In the field of statistics, the Bank began regularly publishing new quarterly press releases on the financial accounts of the Spanish economy and on government debt under the Excessive Deficit Protocol. In the case of government debt, details of the debt of municipalities with populations of more than 300,000 inhabitants began to be published quarterly, which entailed adding seven cities to the six which already provided such information. The historical series of the international investment position (IIP) was also completed in accordance with the methodology and information sources applicable since the end of 2014, and the quarterly press release on the Balance of Payments was expanded to include information relating to the IIP, incorporating an analysis of how the changes in the position in each period reflect the transactions performed or valuation changes and other flows.

The Central Balance Sheet Data Office obtains the annual results of a larger number of non-financial corporations.

With the collaboration of the Mercantile Registries, the Central Balance Sheet Data Office was able to obtain the annual results of a higher number of non-financial corporations, which strengthened the statistical products disseminated, including the Sector Ratios database RSE), used since June 2016 to obtain the “relative position of the borrower according to activity sector”, as part of the “SME-Financial Information” (Circular 6/2016).

The sending of statistical information on insurance corporations to the ECB began in 2016, in accordance with ECB Regulation 2014/50. Information on these corporations (which are subject to an ECB regulation for the first time) was collected through the Directorate General of Insurance and Pension Funds, which supervises them. Moreover, in the information relating to securities portfolios with a breakdown by value, information from insurance corporations was included in 2016, replacing that provided by custodians, within the framework of ECB Regulation ECB/2012/24 concerning statistics on holdings of securities.

In 2016, two surveys on the Spanish population were undertaken; the Spanish Survey of Household Finances and the Financial Competence Survey.

Lastly, two surveys on the Spanish population were conducted in 2016. First, the task of checking data for the Spanish Survey of Household Finances (2014 wave) was completed, the first data imputation was performed and the tables of results were prepared and compared with other statistics. Second, the Financial Competence Survey, forming part of the National Statistics Plan, was undertaken as a joint initiative of the Banco de España and the National Securities Market Commission, under the Financial Education Plan. It is intended to measure, for the first time, the level of financial knowledge of the adult Spanish population and will provide reliable data on the financial competences in each region. Moreover, the survey will be comparable with an international study on financial competence coordinated by the OECD in 30 countries.



José Luis García Delgado, awarded the King Juan Carlos Economics Prize in 2016, addresses His Majesty King Juan Carlos, the members of the jury, chaired by the Governor Luis M. Linde, and participants at the ceremony.

2.7 ACTIVITIES OF THE BANCO DE ESPAÑA AS A MEMBER OF THE EUROSISTEM AND OTHER INTERNATIONAL ORGANISATIONS

2.7.1 *The Eurosystem and other European Union institutions*

The Banco de España continued participating actively in the Eurosystem's activities through its collegiate bodies, committees and working groups.

As in previous years, in 2016 the Banco de España continued participating intensively in the activities of the Eurosystem. The Governor attended the meetings of the ECB's Governing Council and General Council, in which decisions on monetary policy and the functioning of the Eurosystem are adopted. The Deputy Governor participated in the meetings of the Supervisory Board of the SSM, which discusses, plans and executes the supervisory tasks of the ECB, and proposes draft decisions for the approval of the Governing Council on matters of prudential supervision through the so-called "non-objection procedure".

The Banco de España was also actively involved in the work of the different ECB Committees (Monetary Policy, Market Operations, Financial Stability, Statistics, Banknote, Payment and Settlement Systems, Legal, Risk Management and International Relations) and in their working groups. The issues addressed by these committees and approved by the Governing Council notably include conventional and non-conventional monetary policy measures, such as the additional reduction of the deposit facility interest rate to -0.4% and the extension of the asset purchase programme (EAPP), strengthened since March with corporate bond purchases.

With respect to other EU institutions, the Banco de España participated in various working groups and committees. As in previous years, it was represented at the two informal ECOFIN meetings in April and November, and participated in the meetings of the Economic and Financial Committee (EFC) and the Economic Policy Committee (EPC), which addressed the future steps that will complete the Economic and Monetary Union, the progress made towards the Banking Union or the Capital Markets Union.

2.7.2 *European Banking Authority (EBA)*

The European Banking Authority remained focused on the traditional areas in which it had been working, while placing special emphasis on the analysis of technological innovation in the financial sphere.

In 2016, the European Banking Authority (EBA) remained focused on the traditional areas in which it had been working, mainly concerning prudential regulations, supervisory convergence, resolution and customer protection.

Given their particular importance, mention should be made of the following: publication of the so-called "Pillar 2 guidance" (P2G), an element introduced by the European Commission at the beginning of the year which is different from the Pillar 2 requirements (P2R); the drafting of a report on the covered bond market in Europe; and completion of a report on the minimum requirement for own funds and eligible liabilities (MREL), under the Resolution Directive (BRRD).

However, in 2016, special emphasis was placed on issues more closely related to technological innovation in the financial sphere. Thus, the EBA focused its attention on payment systems, seeking to strike an appropriate balance between market development and the necessary security and customer protection. The EBA has also started work on identifying the risks and opportunities for the banking industry deriving from so-called FinTech companies, and identified four areas of work: i) authorisations; ii) prudential risks; iii) impact on the business model; and iv) impact on consumers.

2.7.3 European Systemic Risk Board (ESRB)

At the European institutional level, the Banco de España continued to take an active part in the different committees and working groups of the European Systemic Risk Board (ESRB). In 2016, the Banco de España adopted the recommendation of the ESRB on recognising and setting countercyclical buffer rates for exposures to third countries; and its recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/1 and ESRB/2015/2, respectively). Analytical frameworks for adopting these recommendations are being developed in collaboration with other areas of the Banco de España.

2.7.4 Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS)

The Financial Stability Board concluded the main aspects of the reform of banking regulation.

The Banco de España is a member of the Financial Stability Board (FSB), whose Steering Committee includes the Governor. Within the scope of its activities, the FSB was able to conclude the main aspects of the reform of banking regulation. The work of the FSB, with the participation of the Banco de España, became centred on implementing the reforms and analysing their effects. The FSB also continues to assess the potential risks for financial stability in different sectors.

The Basel Committee on Banking Supervision analysed reforms aimed at reducing the unjustified variability in RWAs.

The Banco de España also forms part of the Basel Committee on Banking Supervision (BCBS). In 2016, the attention of the BCBS was centred on analysing reforms the main objective of which is to reduce unjustified variability in risk-weighted assets (RWAs), and, consequently, improve the comparability and effectiveness of institutions' capital ratios. This work mainly resulted in reviews of the standardised approach for credit risk, also taking into account different mechanisms which could contribute to reducing undesirable variability in the internal models used by institutions to measure credit risk. It also developed a new standardised approach for operational risk. The Banco de España was very actively involved in this process, participating in the discussions and the technical work, including analyses of the impact, design and calibration of the different measures proposed.



3 INSTITUTIONAL RESPONSIBILITY REPORT



The headquarters of the Banco de España are located in one of the most representative buildings of Spanish architecture in the 19th century. Above, photography exhibition of the building.

As a public institution, the Banco de España carries out different functions that help to achieve certain goals common to the public sector, including the development of society. This vision, which is inherent to public service in the sense of contributing to the promotion of social wellbeing, has also been indirectly adopted by different private operators which under the concept of “corporate social responsibility” decide to make a voluntary contribution to society for the benefit not only of their customers or employees, but of the general public as a whole.

Our institution has ample experience in exercising institutional responsibility. This experience has become well established over time but also provides the flexibility required to allow for the adaptation to changes in the structure and dynamics of society.

Thus, the Bank has been carrying out different actions in the field of financial education or literacy, as it is considered that fulfilling this mission is useful for citizens to have a more informed and rational relationship with the banking system. For this reason, these activities have increased substantially, especially from the onset of the economic and financial crisis, as have other activities relating to aid granted by the Banco de España for economic research, the latter being necessary to contribute to the analytical skills and knowledge any efficient society should have.

The Bank also has a strong tradition in specific patronage tasks relating to cultural and social activities to help maintain and foster certain actions performed by public or private institutions of reference which clearly benefit society. The Bank also fosters the maintenance and improvement of its undeniable cultural and artistic heritage, as a key reference to its past, present and future.

This chapter summarises some of the actions performed in the field of institutional responsibility from this perspective.

3.1 FINANCIAL EDUCATION

The Banco de España's website has several portals on financial education and other specific portals for bank customers.

As mentioned earlier, the Banco de España fosters different initiatives in the field of financial education and includes on its website several options available to third parties offering several portals designed for such purpose. Some of these include the *Portal del Cliente Bancario* (Bank Customer Portal), the *Portal Educativo* (Education Portal) and the portal called *Finanzas para todos* (Finance for all).

These portals aim to fulfil the educational and information needs of citizens, particularly of individuals who customarily have dealings with any of the institutions in the financial system or who hold products offered by them. Noteworthy among these portals is the Bank Customer Portal, which was visited in 2016 by more than 3.6 million people who were interested in learning about the issues it addresses.

The Financial Education Plan is being developed by the Banco de España, the Spanish National Securities Market Commission (CNMV) and the Ministry for Economic Affairs, Industry and Competitiveness.

As regards a specific field of activity, the Financial Education Plan ("the Plan"), designed and executed in conjunction with the CNMV and the Ministry of Economic Affairs, Industry and Competitiveness, is also being implemented. Although the Plan is conceived in a uniform manner, it permits acting under different operational frameworks, and 29 collaborating agencies – all from different sectors of society – have already adhered to it. Within the Plan's framework we highlight that a national survey is currently being conducted using a broad sample of individuals and households (approximately 21,000) which aims to obtain more in-depth and detailed information on their financial knowledge and habits.



The winners of the "Finance for all" school prize visit the Madrid stock exchange.



"Finance for all" is a portal that helps with the management of household finances.

Also, different actions have been taken to enhance the dissemination of the "finanzasparatodos.es" website, which received nearly 1.6 million visits in 2016, with almost 2.9 million pages seen. Likewise, in view of the increasing importance of social networks as a communication framework for society, the Plan's presence in them is being bolstered to enhance awareness of it.

More than 25,000 students and 300 schools participate in the Financial Education Programme, currently in progress.

In this connection, it should be noted that the results of, for instance, the Financial Education Programme, which is being implemented within the framework of the Plan, are clearly positive. More than 25,000 students and approximately 300 educational centres participated in the programme in 2016. In line with this action, the schools that participated in the Programme during the period 2014-2015 are currently being assessed to try to identify areas of improvement.

The Financial Education Day was hosted on October 3 for the second consecutive year. In addition to other initiatives fostered by the Plan's collaborators which focused on the Plan's presence in national media, the first edition of the "Finance for All" prize for the best financial education initiative in Spain was awarded at this event, as were the 4th Financial Education Programme prizes.

The Banco de España's Central Bank and Supervision Programme is based on the belief that the proper functioning of a central bank and a supervisory authority requires that citizens value the importance of price stability and of financial and payment systems for a modern and democratic society. The purpose of the Programme, therefore, is to promote awareness of the Eurosystem and the SSM to enable students to become familiar with the mission of a central bank and a supervisory authority before they reach university.

Some of the initiatives of the Central Bank and Supervision Programme include most notably: the “Generation Euro” competition, where upper-level secondary and middle-level vocational training students propose a decision on interest rates to be adopted days later by the ECB’s Governing Council; and events for teachers that are organised in the Banco de España’s branches to introduce them to the SSM, providing them with support for their teaching activities.



The Banco de España's Educational Portal.



Fifth edition of the “Generation Euro” competition: the winning team and the two finalist teams, on the imperial staircase.

3.2 RESEARCH GRANTS AND SCHOLARSHIPS

As a centre fostering economic research and internships, the Banco de España periodically organises programmes to encourage the presence and participation of researchers at the Bank. These programmes are publicised in detail on its website.

Different grants for economic research have been awarded and the participation of researchers is encouraged.

As regards the Banco de España's Research Plan, over the course of 2016 the Executive Commission selected a total of five research projects on economics for their quality, interest and complementarity and hired five researchers for periods ranging from three to six months who were assigned to the Directorate General Economy, Statistics and Research and the Associate Directorate General International Affairs.

Additionally, six international PhD researchers were hired for an initial estimated period of two years, to conduct research projects relating to priority lines of analysis of the Bank's different directorates general. One additional internship position for research assistants was also created.

The Banco de España provides scholarships for further studies and master's degrees. It also has an Excellence in Education and Research Programme.

In 2016 the Banco de España granted five scholarships for further studies abroad and official master's degrees in Spain during the 2016-2017 academic year. The granting of five additional scholarships for further studies during the 2017-2018 academic year was also approved. These are aimed at university graduates and students in the final year of their degree.

Also, the Banco de España promotes its Excellence in Education and Research Programme directed at Spanish universities and think tanks, which promotes excellence in teaching and research in macroeconomics, monetary policy, finance, supervision of the financial system and international economics. In 2016 eight grants were awarded within the framework of this programme for the 2016-2017 academic year. Of the research projects selected, six focused on macroeconomics and monetary, financial and banking economics, and the other two on economic history.

The Banco de España contributes a maximum of €25,000 per research project. Also, an additional amount of €5,000 is awarded for publishing the results of the project in an academic journal of international renown.

3.3 INTERNATIONAL COOPERATION

The Banco de España engages in international cooperation activities with different international organisations, especially in Latin America.

In addition to the Banco de España's close links to the IMF, the World Bank and the Bank for International Settlements (BIS), it also forges agreements and/or strong ties with other institutions, mainly Latin American, including most notably the cooperation agreement in place with the Center for Latin American Monetary Studies (CEMLA) and the cooperation with the Association of Supervisors of Banks of the Americas (ASBA), the Latin American Reserve Fund (LRF), the Central American Monetary Council (CMC) and the Ibero-American Institute of Securities Markets (IIMV).

Indeed, in line with the strategic plan designed for Banco de España's international cooperation, the International Non-Regulatory Cooperation Agreement with CEMLA was entered into in Madrid on November 26, 2016. This agreement is a continuation of that entered into in 2012 and it includes the terms of the fruitful relationship which commenced in 1965, on this occasion indefinitely. The first outcome of this agreement was the drawing up of the Technical Assistance Programme to strengthen the accounting regulatory framework in Latin America.

Additionally, in December 2016 the International Non-Regulatory Cooperation Agreement was entered into with Bank Al-Maghrib, Morocco's central bank, addressing in a more formal and stable manner the cooperation framework between the two institutions.

Fifteen seminars on central banking and banking supervision issues were organised in 2016.

As regards regular cooperation activities, fifteen seminars were organised in 2016, five of which took place in Latin American headquarters. In addition to the traditional ones (Payment Systems, Course on Cash Management and International Central Banking Seminar) new seminars have been organised on governance and transparency, such as that on Corporate Governance Control and Suitability of Senior Officers at Central Banks, the Seminar on Governance and Central Banking and the Seminar on Management of Central Banks' Documentation, Historical Records and other Components of their Institutional Heritage. More related to the statistical-economic sphere, a new Seminar on Conjunctural Indicators was held. The Banco de España also hosted the XII Meeting of Monetary Policy Managers at its Madrid headquarters.

There were also more than sixty visits to Spain and missions abroad, maintaining a high level of cooperation through the enquiries received and responded. Other events and conferences were held in collaboration with the World Bank and the IMF.

Finally, as a member of the working group created in the ECB's International Relations Committee (ICR), the Banco de España, together with five other central banks and the ECB, will form part of the team that will redefine and develop the values and good practices of more efficient international cooperation, considering the challenges which changes in financial, technological and human resources entail.



Signing of the International Non-Regulatory Cooperation Agreement with Bank Al-Maghrib. Executive Commission room.



International Seminar on Central Banking. Europe Room.

3.4 BENEFICENT SOCIAL AND CULTURAL FUND

The Banco de España has a Beneficent Social Fund.

The Beneficent Social Fund (BSF) was created under Law 192/1964 of 24 December 1964 on the allocation of the Banco de España's annual profit, which provides that the Bank may allocate certain amounts to the BSF after deducting overhead costs and administrative and financial expenses from its gross profit.

Under the related regulations implementing the aforementioned law, the provision to the Banco de España's BSF may not exceed 1% of the Bank's net profit for each year. Contributions made with a charge to the BSF must be used for intellectual, cultural or social purposes, including most notably for economic research, financial education, social and humanitarian, and cultural, purposes.

In 2016 contributions were made to educational and cultural activities, social and humanitarian assistance and scientific and analytical collaborative projects.

Against this backdrop, over the course of 2016, the Executive Commission authorised the recording of financial assistance with a charge to the BSF for a total amount of €2,286,207.25. Such assistance is granted within the framework of different fields of action, such as: educational and cultural activities, social and humanitarian assistance, and academic and professional collaborations.

The Transparency Portal of the Banco de España includes information on the contributions authorised with a charge to the BSF, indicating the overall amount authorised by category. Some of the most significant subsidies authorised in 2016 are the following:

- Assistance classified under the “Educational and cultural activities” category, including most notably scholarships for further studies; contributions for the fulfilment of the founding purposes of Fundación Princesa de Asturias, Fundación Reina Sofía, Fundación Carolina and Fundación Isaac Albéniz; contributions for fulfilment of the goals of the Spanish Economic Association, and of the activities of the economic research chair “Banco de España – Enrique Fuentes Quintana” or sponsorship of the Teatro Real's social programme.
- Assistance classed as “social and humanitarian aid”, including for the Spanish Cancer Association and the Spanish Red Cross; aid which aims to meet the founding purposes of the Food Banks and the Foundation for Aid against Drug Addiction or to comply with the Spanish National Plan on Drugs; or contributions to the relief activities conducted by Caritas Spain, the Betesda Foundation or the Association of Retirees.



From left to right: Spanish Red Cross Volunteers congress, Spanish Cancer Association and a team from the NGO Médicos del Mundo (Doctors of the World).



The Banco de España has entered into collaboration agreements with the Museo del Prado and the Museo Nacional Centro de Arte Reina Sofía.

- Various “academic and professional collaborations” in programmes or events relating to economic or financial matters.

The Banco de España collaborates with the Museo del Prado and the Museo Nacional Centro de Arte Reina Sofía.

Finally, the Banco de España has entered into collaboration agreements with two national museums, the Museo del Prado and the Museo Nacional Centro de Arte Reina Sofía, which have made it possible to establish a fluid communication and advisory channel for different issues relating to the dissemination and preservation of the Bank’s artistic heritage, facilitating diverse actions or opinions of a scientific nature and on the state of conservation in connection with different acquisition proposals, recommendations by restoration specialists, etc.

3.5 ARTISTIC, HISTORICAL AND BIBLIOGRAPHIC HERITAGE

The Banco de España's heritage can be divided into three broad categories which are described below and share a common feature, that of forming part of a historical, artistic and cultural heritage which dates back to the institution's origins, with the foundation of the Banco de San Carlos in 1782. The conservation, maintenance and restoration of this heritage is one of the main areas of institutional action, as are the initiatives undertaken to facilitate access to our cultural heritage to a larger number of people. The development of new technologies and the dissemination of all this information on our website undoubtedly contributes to this goal.

3.5.1 Artistic heritage

Thirteen works of art from the Bank's collection were loaned in 2016.

In 2016, the Banco de España processed a total of 13 loans for works of art. The presence of the Banco de España's cultural heritage in other fora has contributed to the dissemination of its art collection and built new institutional ties. Works have been loaned to the following museums: the Gemäldegalerie in Berlin, the Kunsthalle in Munich, the Württembergischer Kunstverein in Stuttgart, the Museo del Prado, the Museo de la Real Casa de la Moneda (Spanish Royal Mint), Centro José Guerrero and the Museo Arqueológico Nacional (National Archaeological Museum).

Several works of art have been restored and a Plan for Preventive Conservation has been implemented.

In 2016 the Banco de España partially restored a number of paintings, including works by Francisco de Goya, Juan van der Hamen, José Villegas Cordero and José Gutiérrez de la Vega, or sculptures by Pello Irazu or Francisco Leiro. In addition, the conference hall of the Banco de España was completely refurbished and many of its tapestries restored, together with unique items of Bank furniture.



"La Pomona", by Juan van der Hammen, at the exhibition titled *El Siglo de Oro. Die Ära Velázquez*. Loaned to the Kunsthalle in Munich.

In 2016, the National Plan for Preventive Conservation was implemented for the first time. It affects around one thousand paintings, sculptures and photographs, and will lead to the drafting of the Master Plan for Preventive Conservation and Restoration of the Banco de España.

Twelve works of art (paintings, photographs and prints) were purchased in auctions, art galleries and at international events, under the acquisition criteria established in the Bank's internal regulations, such as the completion of historical sets of works of art, broadening the institution's identity which is grounded in the Bank's traditional collection, accepting that artistic processes evolve over time, and contributing in an ongoing manner to the development of institutional collections in Spain.

In particular, pieces of art were acquired to complete the Bank's collections representing certain prominent periods and artists, as well as prints enriching the Bank's outstanding cartography and topography collection and, lastly, works of art by young artists reflecting the Banco de España's goal of promoting emerging artists in its collection, from its very beginnings.

3.5.2 *Historical Archive and numismatic collection*

The various actions carried out in 2016 affecting the Historical Archive and the numismatic collection of the Banco de España can be divided into four areas: automation, treatment, conservation, and dissemination of its documentary heritage.

With respect to the first of these areas, in 2016 a new database was created, essential for modernising the way information is organised in the Historical Archive, enhancing the dissemination of archive material and improving access for researchers.

A recovery project was developed for the Bank's collection of more than 6,700 photographs.

Treatment actions in 2016 included a recovery project for the Banco de España's photographic collection, which entailed cataloguing more than 6,700 photographs, thus helping to improve our knowledge of the institution's history.

Also in 2016, various document conservation actions were carried out, including the cleaning and identification of damage suffered by 7,200 historical books from the period running from 1700 to 1962, and the restoration of a number of unique documents, architectural plans or minutes of the Board.



Cleaning of the General Ledgers in the Historical Archive.



Sample of original banknotes from the numismatic collection of the Banco de España.

The Banco de España has taken part in exhibitions in the National Library and the National Archaeological Museum.

As regards dissemination actions, the Historical Archive participated in two temporary external exhibitions by means of document loans, namely, “Ceán Bermúdez (1749-1829). Historiador y Coleccionista de Arte” (Ceán Bermúdez 1749-1829, historian and art collector), organised by the Spanish National Library, and “Carlos III: Proyección exterior y artística de un reinado ilustrado” (Charles III: The external image and artistic impact of an enlightened reign), organised by the National Archaeological Museum. Also, in the anteroom of the Conference Hall in Banco de España’s main headquarters, 59 original banknotes from its numismatic collection were displayed in a thematic exhibition titled “El Papel de la Peseta, 1874-1992” (The role of the peseta, 1874-1992).

With respect to the recovery of cultural heritage, in 2016 the Banco de España led the project for the recovery of the historical archives of Spanish banks, inviting archive professionals from banks and savings banks with historical documentation to participate. The project is having a huge impact on the location and recovery of the historical archives of institutions that no longer exist and has strengthened professional institutional relations between banks.

3.5.3 Bibliographic heritage

In 2016, the Library organised an exhibition titled “Los dineros de Cervantes”.

To commemorate the IV centenary of the death of Cervantes, the Library of the Banco de España organised a bibliographic exhibition titled “Los dineros de Cervantes» (Economic issues and Cervantes). The Library’s move towards the use of electronic formats was strengthened in 2016. Of the total number of monographic publications purchased during the year, 23% were in e-book format.

Also, work began on the digitalisation of the Special Value Collection. A total of 1,454 volumes were digitalised, including all the Reports of the Banco Español de San Fernando (1830-1856) and the Banco de España (1856-1960).



After a series of restoration processes, the digitalisation of the Special Value Collection commenced in 2016.

3.6 OTHER ACTIONS

The Banco de España's procurement policy gives priority to environmental protection.

In the sphere of environmental protection, the Banco de España generally requires firms participating in tender procedures that are subject to environmental contingencies to provide evidence of compliance with certain related management rules and that they submit the certificates required under the applicable regulations, establishing for this purpose specific contractual clauses.

These requirements are part of a set of environmental prevention and management measures, notably including those relating to monitoring paper consumption and recycling, selective waste removal and management, monitoring energy and water consumption, measurement of CO₂, energy efficiency measures for buildings and promoting the use of renewable energies and cogeneration.

Also, the efficiency of energy control measures has become the object of periodic energy audits to assess energy consumption and efficiency of buildings and to propose energy-efficiency enhancement measures.

Our institution also has a computer equipment donation programme in place. In 2005 the Banco de España implemented a PC and laptop donation programme whereby it donates equipment (in perfect working order and fully depreciated) to different non-profit institutions, such as schools and NGOs, that request them. This programme facilitates the adequate use of the Bank's resources while helping to implement new technologies across all educational stages and among disadvantaged groups.

676 computers have been donated to non-profit institutions.

Under this programme, in 2016 the Banco de España donated 676 computers to non-profit institutions. Of these, 98% were primary and secondary schools and universities, while around 2% related to a foundation dedicated to the protection of persons with disabilities.

Mention should also be made of other initiatives carried out in 2016 in which the Bank's employees played a significant role. One of these was the contribution of funds to help refugees mainly from the Middle East and Afghanistan to settle in Spain, in compliance with the related EU agreements. The amount contributed by the employees was matched by the Banco de España, which used the BSF for this purpose. The funds raised were delivered to prominent non-profit institutions in this field to be used to provide healthcare and social assistance to refugees.

Finally, through the Sports and Cultural Club of Banco de España Employees, staff members participated in and carried out different sports activities, such as events and competitions, and cultural activities, particularly related to music and the theatre, which are amply supported by the employees.

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