

4

FINANCIAL INFORMATION OF THE BANCO DE ESPAÑA

THE YEAR IN FIGURES



**€1,174
billion**
Total assets

The Banco de España's total assets increased by €184 billion, largely due to the acquisition of monetary policy securities



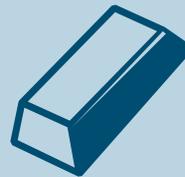
**€593
billion**
Securities held for
monetary policy
purposes

The securities held for monetary policy purposes increased by €122 billion, largely owing to the purchases made under the PEPP and the APP



**€4.4
billion**
Net interest
income

The main component of the Banco de España's earnings is the net interest income generated on the assets and liabilities on its balance sheet



**€14.6
billion**
Gold and gold
receivables

Since 2017, holdings of ounces of fine gold have remained stable, while the market price has continued on an upward path



**€53.7
billion**
Financial
resources

The Banco de España's financial resources consist of its capital and reserves, general provisions and revaluation accounts



**€1,785
million**
Earnings

Each year, the Banco de España's profit is transferred in full to the Treasury, such that the earnings from its activity benefit the general public overall

Having set out in Chapter 1 the key functions and activities of our institution, this chapter aims to show how most of these functions are reflected in the Banco de España's financial statements (balance sheet and profit and loss account). To do so, a comprehensive analysis of the main balance sheet and profit and loss account headings is presented, showing the changes over the last five years and linking them to the main events and monetary policy measures adopted in that period.¹ To conclude, the risks and uncertainties the Banco de España faces as a result of its activities are described and information on the policies pursued to mitigate them is provided.



Each year, the Banco de España's profit is transferred in full to the Treasury, such that the earnings from its activity benefit the general public overall.

¹ The *Annual Accounts of the Banco de España*, which can be found on the Banco de España's [website](#), provide more detailed disclosures on the components of the balance sheet and profit and loss account.

1 BALANCE SHEET

The Banco de España's balance sheet provides a true and fair view of its economic and financial position, reflecting on the asset side its available resources and, on the liability side, the sources of funding used.

The Banco de España's functions and activities are reflected on its balance sheet as follows:

The **Eurosystem's monetary policy operations** are the result of the decisions adopted by the ECB's Governing Council. These decisions are executed in a decentralised manner by the euro area NCBs and are recorded in their respective financial statements. Thus, the asset side of the Banco de España's balance sheet reflects the purchases of monetary policy securities and the loans granted to Spanish credit institutions, and the liability side reflects the deposits held by Spanish credit institutions.

The **management of foreign reserves** is reflected in the foreign currency assets and liabilities (the latter being immaterial) on the balance sheet.

The Bank manages the **settlement of national and cross-border payments** denominated in euro through the TARGET2 system.² These payments are recorded as intra-Eurosystem claims or liabilities (in the case of the Banco de España, a net liability position).

Legal tender **banknote issuance** is recorded on the liability side of the balance sheet under "Banknotes in circulation". The allocation of euro banknotes among the euro area NCBs, according to their banknote allocation key, gives rise to intra-Eurosystem balances (in the case of the Banco de España, an intra-Eurosystem claim).

The **treasury service** the Banco de España provides to the Treasury (and to other public institutions and bodies) is performed through accounts recorded on the liability side of the balance sheet under euro-denominated liabilities to other euro area residents.

The Banco de España also manages its own **euro-denominated financial assets**, comprising debt securities. These are recorded under the "Euro-denominated own funds portfolio" on the asset side of the balance sheet.

² TARGET2 is the platform owned and operated by the Eurosystem for processing large-value payments in euro in real time. It is used both by EU central banks and commercial banks to make transactions, on their own behalf or on behalf of their customers.

Schema 4.1 depicts the simplified balance sheet.

Between 2017 and 2021 the Banco de España's balance sheet grew considerably, increasing by more than €480 billion (70%). The main reason for this growth – observed since 2015 – is the ECB's expansionary monetary policy implemented via the “non-standard measures”. Among other actions, this policy has provided abundant long-term liquidity to credit institutions and has launched various asset purchase programmes.

Particularly noteworthy is the growth in the Banco de España's balance sheet in 2020 and 2021 (38% and 19% year-on-year, respectively). This is primarily attributable to the intensity of the measures adopted by the ECB to address and attempt to mitigate the effects of the economic crisis triggered by the global COVID-19 pandemic.

Schema 4.1

SIMPLIFIED BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31.12.2021

€m

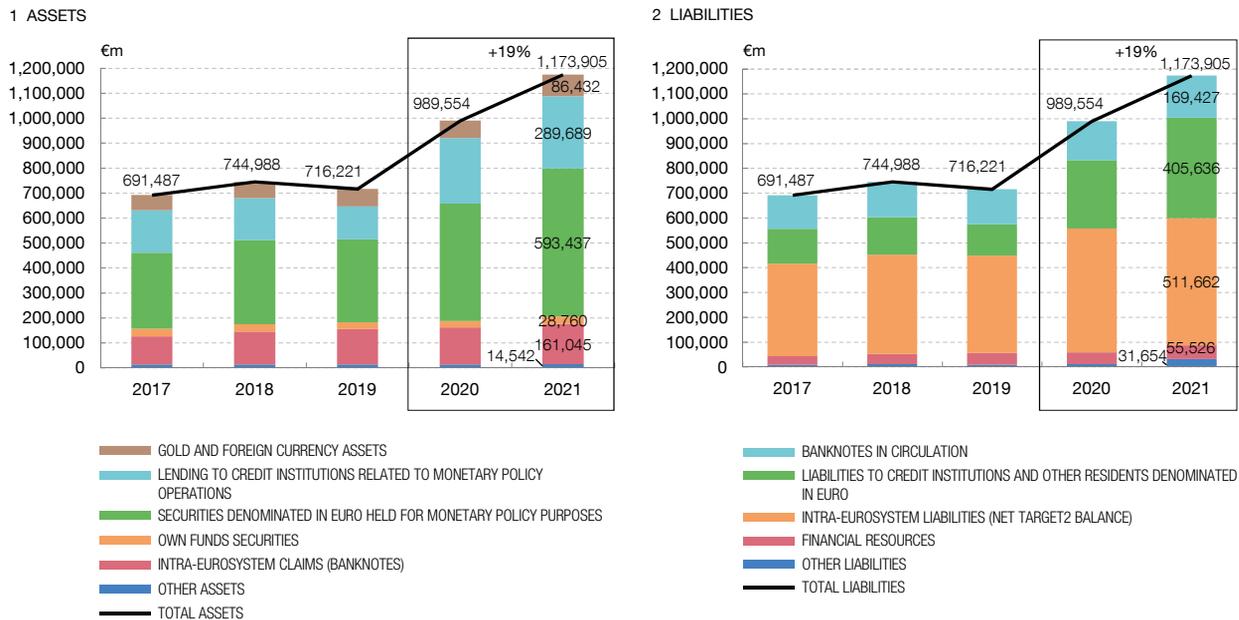
ASSETS		LIABILITIES	
Gold and foreign currency-denominated assets	86,432	Banknotes in circulation	169,427
Lending related to monetary policy	289,689	Deposits	405,636
Securities held for monetary policy purposes	593,437	Intra-Eurosystem liabilities	511,662
Euro-denominated own funds portfolio	28,760	Financial resources	55,526
Intra-Eurosystem claims	166,978	Other liabilities	31,654
Other assets	8,609		
TOTAL	1,173,905	TOTAL	1,173,905

SOURCE: Banco de España.

Chart 4.1

BALANCE SHEET OF THE BANCO DE ESPAÑA

The main asset and liability headings are analysed in greater detail below. The chart depicts the changes in the asset and liability sides of the balance sheet over the last five years.



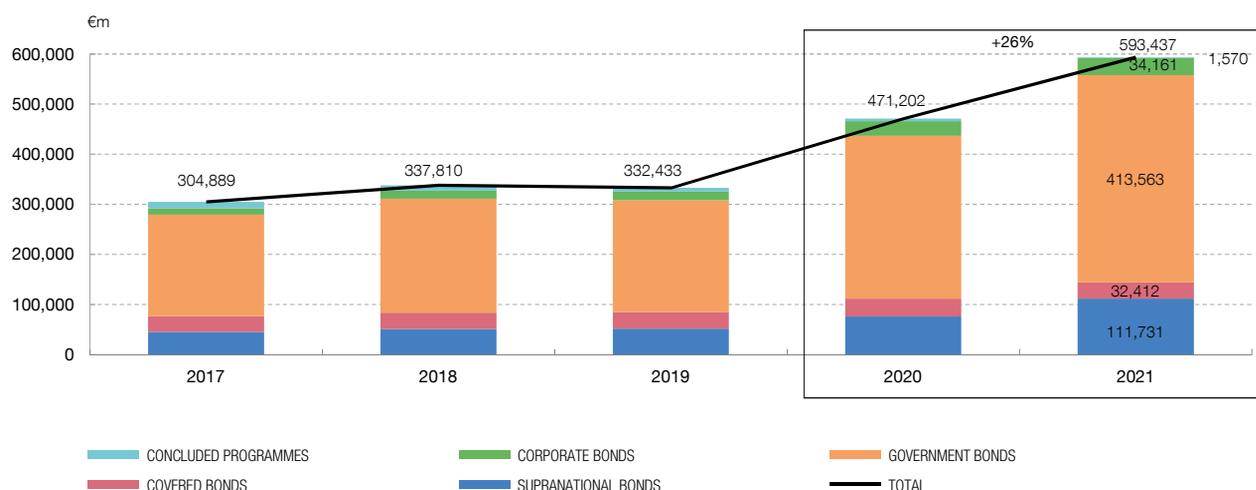
SOURCE: Banco de España.

On the **asset side of the balance sheet**, the direct consequence of these actions was the respective increase in “Lending to credit institutions related to monetary policy operations” and in “Securities denominated in euro held for monetary policy purposes”. Meanwhile, over the same period, on the **liability side**, “Liabilities to credit institutions and other residents denominated in euro” and “Intra-Eurosystem liabilities (net TARGET2 balance)” also increased. Chart 4.1 reflects the changes in the Banco de España’s balance sheet over the last five years.

1.1 Assets

At the 2021 close, the euro-denominated securities held for monetary policy purposes accounted for half (51%) of the Banco de España’s total assets. The assets purchased under the various Eurosystem asset purchase programmes, which form part of the non-standard monetary policy measures, are recorded under the related balance sheet heading. These programmes have been launched at different points in time since 2009. Each one is aimed at a specific type of security and all are issued by euro area residents. Chart 4.2 depicts the changes in this heading over the last five years.

Chart 4.2

SECURITIES HELD FOR MONETARY POLICY PURPOSES

SOURCE: Banco de España.

The **asset purchases** made as part of these monetary policy decisions are performed by the Eurosystem NCBs in accordance with the principle of decentralised implementation. Since 2015 the Banco de España has made sizeable purchases under these programmes and, at end-2021, its holdings totalled €593,437 million.³ These assets were acquired under the APP, launched in 2014, and the PEPP, launched in 2020 in response to the pandemic.

Euro-denominated lending to Spanish credit institutions related to monetary policy operations accounted for 25% of the Banco de España's total assets at end-2021. The balance of €289,689 million is 13.2% of the Eurosystem total. In 2020 and 2021 the demand for credit from Spanish banks was significant as a consequence of the pandemic; indeed, in 2020, lending doubled. However, the volume of credit at end-2021 was lower than in 2012, the year in which financing peaked at €361,087 million (see Chart 4.3).

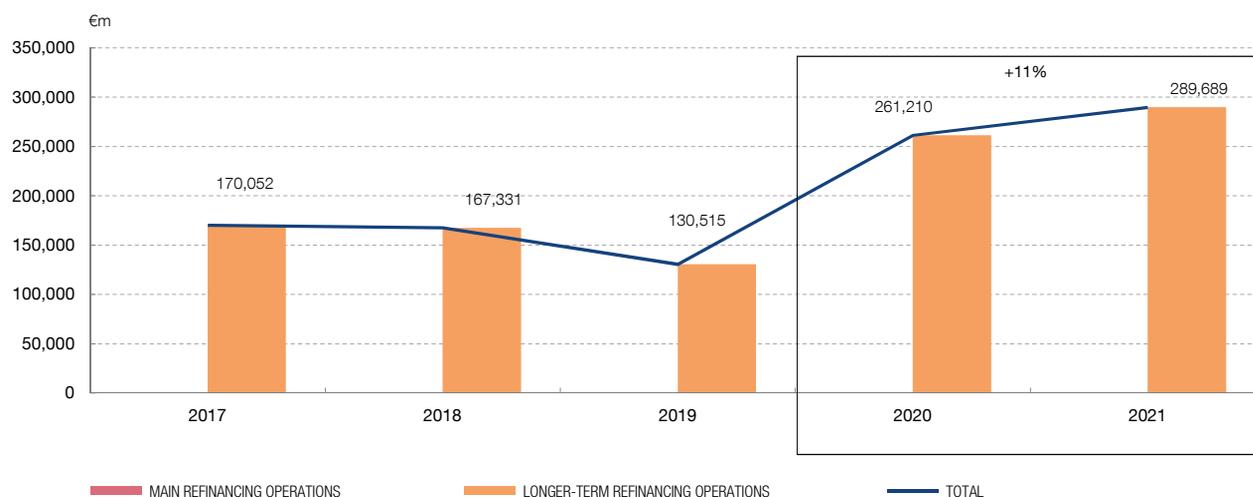
Both in 2021 and 2020, the balance relates in full to long-term loans extended to Spanish credit institutions, the majority granted under the third TLTRO programme (TLTRO III). Meanwhile, the main refinancing operations, under which weekly financing is provided to credit institutions and which were the main liquidity-providing mechanisms in the past, have lost relevance in recent years.

TLTRO III⁴ provides financing to credit institutions for periods of up to three years on attractive terms to encourage bank lending to the real economy. In 2021 the average

³ For detailed information, see Note 7(a) to the balance sheet in the *Annual Accounts of the Banco de España*.

⁴ More information on **TLTROs** can be found on the ECB's website.

Chart 4.3

LENDING TO CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS

SOURCE: Banco de España.

rate applied to these loans was -1%; this negative interest rate entailed an interest expense for the Banco de España of around €2.9 billion.

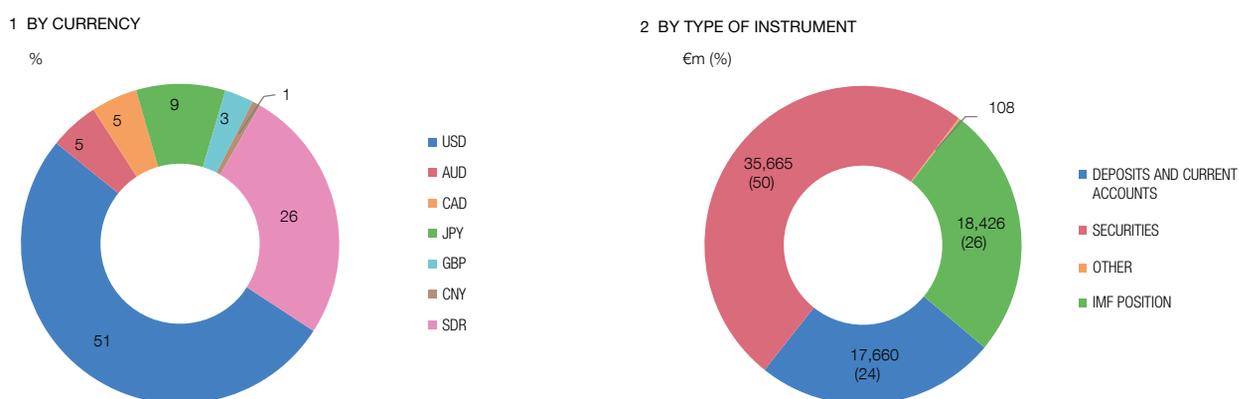
In addition, the **pandemic emergency longer-term refinancing operations (PELTROs)**, a measure approved by the ECB's Governing Council in April 2020, have been maintained as a specific measure in response to the pandemic. Spanish banks have made scant use of these operations (€50 million at end-2021), which also command a negative interest rate (-0.25%).



For more information on the different asset purchase programmes and monetary policy operations, see [Section 2 of Chapter 2](#) of this report.

Claims denominated in foreign currency mainly comprise assets denominated in US dollars, special drawing rights (SDRs), Japanese yen, Australian dollars, Canadian dollars, pounds sterling and Chinese renminbi. The composition of these assets by currency has remained quite stable over recent years, with the US dollar being the main component. However, in 2021 the IMF made a new general SDR allocation in which Spain received a total of 9,139 million SDRs. This resulted in a notable increase (203%) in the receivables from the IMF on the Banco de España's balance sheet. As regards their composition by type of instrument, claims denominated in foreign currency mainly consist of debt securities, mostly denominated in US dollars (see Chart 4.4)

Chart 4.4

BREAKDOWN OF CLAIMS DENOMINATED IN FOREIGN CURRENCY, BY CURRENCY AND BY TYPE OF INSTRUMENT, AS AT 31.12.2021


SOURCE: Banco de España.

The Banco de España's **holdings of gold and gold receivables** are also recorded on the asset side of its balance sheet. Between 2017 and 2021, the holdings of ounces of fine gold remained stable (9.054 million troy ounces), while the market price continued to head upwards. The market value at end-2021 was €14,572 million.

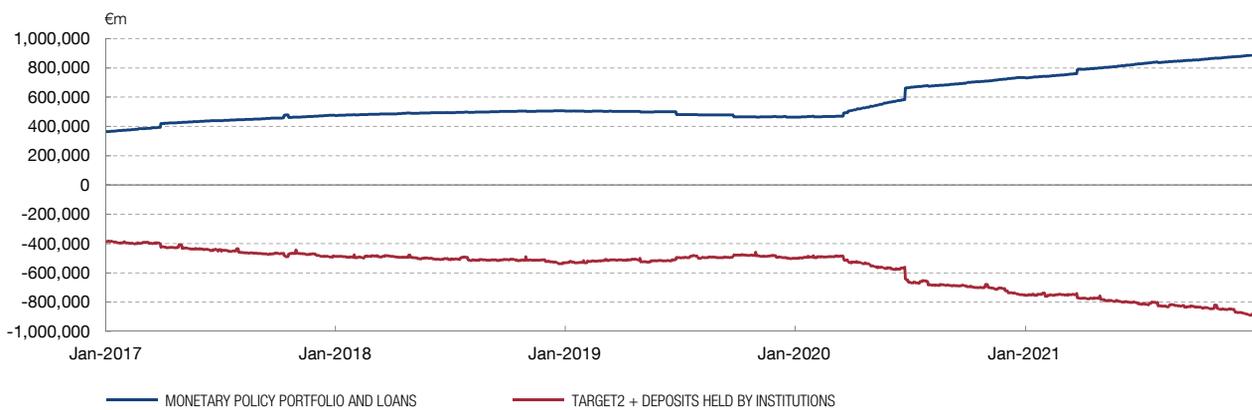
Lastly, the Banco de España has a series of euro-denominated financial assets that are not held for monetary policy purposes and are recorded as the **euro-denominated own funds portfolio**. These investments consist in their entirety of debt securities, 77% of which are issues made by Spanish residents and the remaining 23% issues made by residents in other euro area countries. This heading, which has been quite stable in recent years, totalled €28,760 million at end-2021. These investments are managed in such a way that there is no interference with the asset purchases made for monetary policy purposes.

1.2 Liabilities

On the liability side of the balance sheet, the non-standard monetary policy measures have impacted the two headings that have been mainly responsible for funding the measures: the **intra-Eurosystem liabilities (net TARGET2 balance)** and the **deposits held by credit institutions**.

Chart 4.5 illustrates the overall change in the asset items in which these measures have materialised and in the two aforementioned liability items, and the clear relationship between them.

Chart 4.5

MONETARY POLICY AND TARGET2 BALANCE

SOURCE: Banco de España.

At end-2021, deposits held by credit institutions accounted for 31% of the total, and intra-Eurosystem liabilities for 44%.

Deposits held by credit institutions include the current accounts in which they keep their minimum reserve requirements and the overnight deposits made under the deposit facility. Up to 2016, the bulk of the deposits held by banks were minimum reserve requirements, but since 2017 the level of deposits held by banks has increased continuously, reflecting the excess liquidity in the system. At end-2021 these deposits amounted to over €360 billion (see Chart 4.6 which shows how they have evolved).

Intra-Eurosystem liabilities essentially reflect the Banco de España's net TARGET2 balance vis-à-vis the Eurosystem, which has risen from around €330 billion at the start of 2017 to just over €510 billion at the end of 2021.

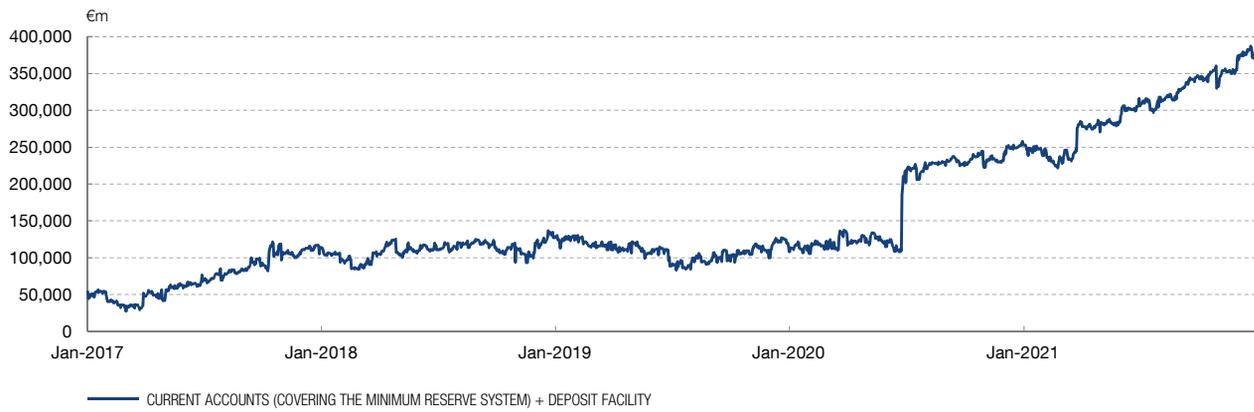
Since 2015 the central banks' net TARGET2 balances have been linked to the monetary stimulus measures adopted by the ECB (mainly the implementation of the above-mentioned asset purchase programmes).

Banknotes in circulation on the liability side of the balance sheet reflect the share of the total value of euro banknotes put into circulation by the Eurosystem that is allocated to the Banco de España, in accordance with its banknote allocation key.⁵ The difference between this amount and the banknotes actually put into circulation by the Banco de España is recorded under "Intra-Eurosystem claims - Net claims

⁵ The banknote allocation key is the result of applying 92% to the Eurosystem subscribed capital key (the other 8% is allocated to the ECB). At end-2021 the Banco de España's banknote allocation key was 10.97%.

Chart 4.6

DEPOSITS HELD BY CREDIT INSTITUTIONS



SOURCE: Banco de España.

related to the allocation of euro banknotes within the Eurosystem”.⁶ In the case of the Banco de España, this difference is recorded on the asset side of the balance sheet, since it puts fewer banknotes into circulation than its share of total euro banknotes in circulation in accordance with the aforementioned allocation key.

⁶ For more information, see Note 14 to the balance sheet in the *Annual Accounts of the Banco de España*.

2 FINANCIAL RESOURCES

The Banco de España's financial resources consist of its capital and reserves, general provisions and revaluation accounts.

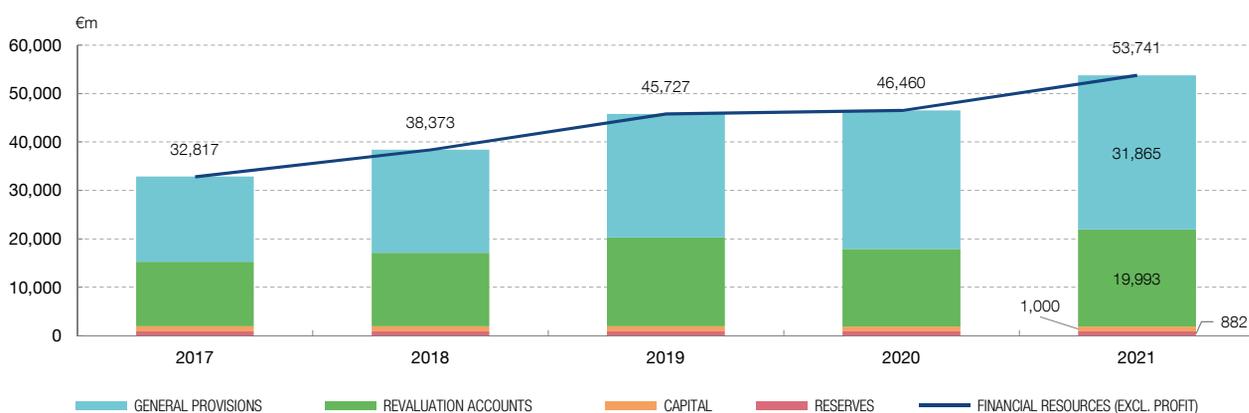
In the period 2017-2021, the Banco de España's financial resources grew continuously (see Chart 4.7).

The **general provisions** include the provision for financial risk and the provision for operational risk. The balance of these provisions is reviewed annually on the basis of the Banco de España's assessment of its exposure to these risks, using methodologies consistent with those used by the Eurosystem.⁷ The provision for financial risk has risen in recent years as a result of the significant increase in risk faced by the Bank, owing to the growth in the balance sheet (specifically, on account of the asset purchases made under the Eurosystem's monetary policy programmes).

As regards the **revaluation accounts**, in accordance with Eurosystem accounting rules, unrealised gains (the difference between the market value and the carrying amount) on gold, foreign currencies and securities that are subject to price revaluation are not recognised as income in the profit and loss account, but are recorded directly in revaluation accounts on the liability side of the balance sheet. The balances in these accounts can be used to absorb the impact of any future unfavourable

Chart 4.7

FINANCIAL RESOURCES (EXCL. PROFIT)

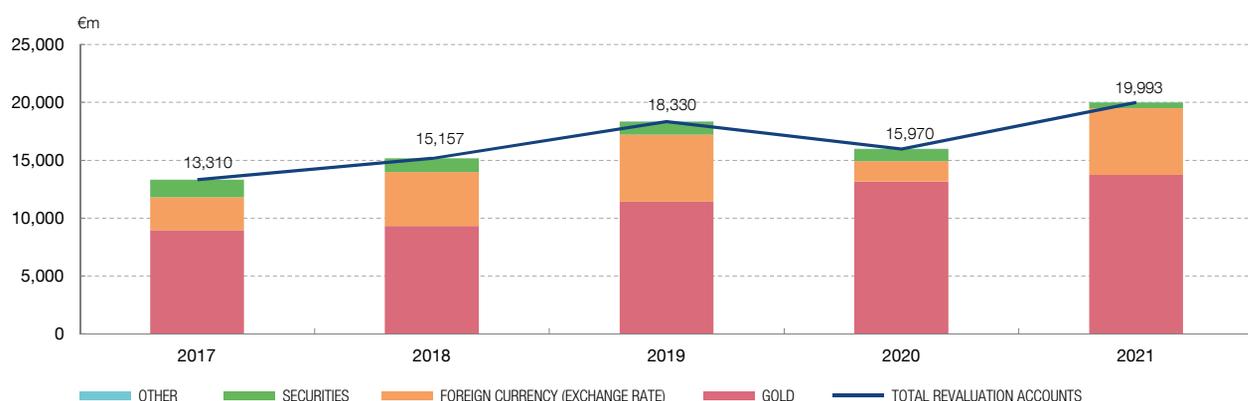


SOURCE: Banco de España.

⁷ For further information on risk management at the Banco de España, see section 4.6 of the Notes to the *Annual Accounts of the Banco de España*.

Chart 4.8

REVALUATION ACCOUNTS



SOURCE: Banco de España.

movement in prices or exchange rates. This strengthens the Banco de España’s resilience to underlying risks. The balance on the revaluation accounts has risen, albeit not consistently, in recent years, since it is strongly linked to movements in exchange rates and in the price of gold (see Chart 4.8).

In 2021 the revaluation accounts grew significantly (25%) compared with 2020, essentially as a result of appreciation of the US dollar against the euro.

Lastly, capital and reserves totalled almost €1.9 billion at end-2021, remaining basically unchanged since 2006.

3 PROFIT AND LOSS ACCOUNT

Each year, the Banco de España's profit is transferred in full to the Treasury, such that the earnings from its activity benefit the general public overall.

Chart 4.9 shows the composition of the Banco de España's profit and loss account and how it has evolved over the last five years.

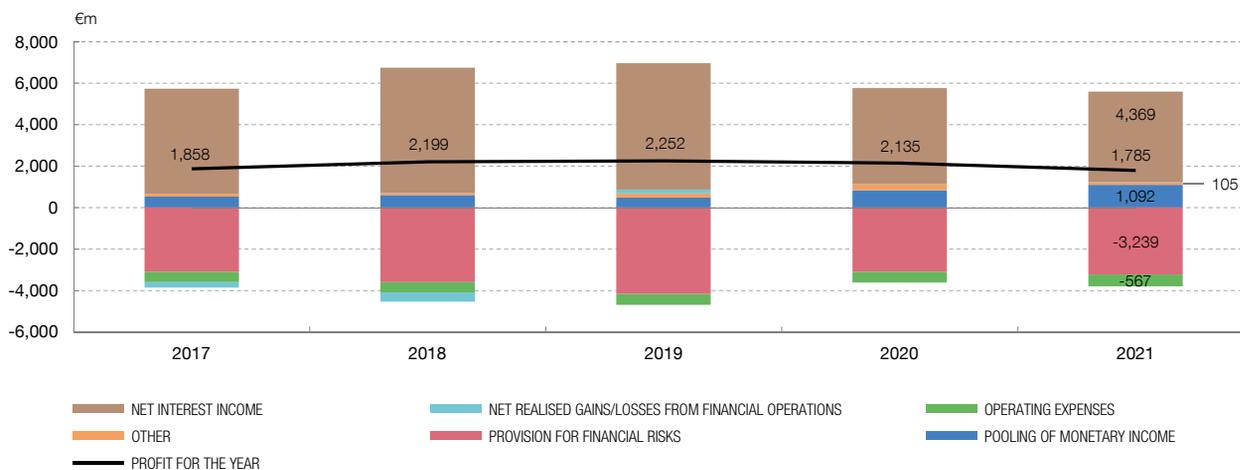
The Banco de España's earnings continued to decline slightly in 2021, a pattern that emerged in 2020, following the sustained increase in earnings observed since 2016. In 2021, profit for the year totalled €1,785 million (see Chart 4.9).

The main component of the Banco de España's earnings is the net interest income generated on the assets and liabilities held on its balance sheet. These are a secure and relatively stable source of income (see Chart 4.10).

The interest generated on the portfolio of securities held for monetary policy purposes, on claims denominated in foreign currency and on the euro-denominated own funds portfolio is noteworthy on account of its significance. Negative interest rates are being applied to long-term loans to credit institutions, incurring interest expense as a result (€2,863 million in 2021). Negative interest rates are also being applied to the deposits on the liability side of the balance sheet, with the exception of part of the deposits held by credit institutions, as established under the two-tier

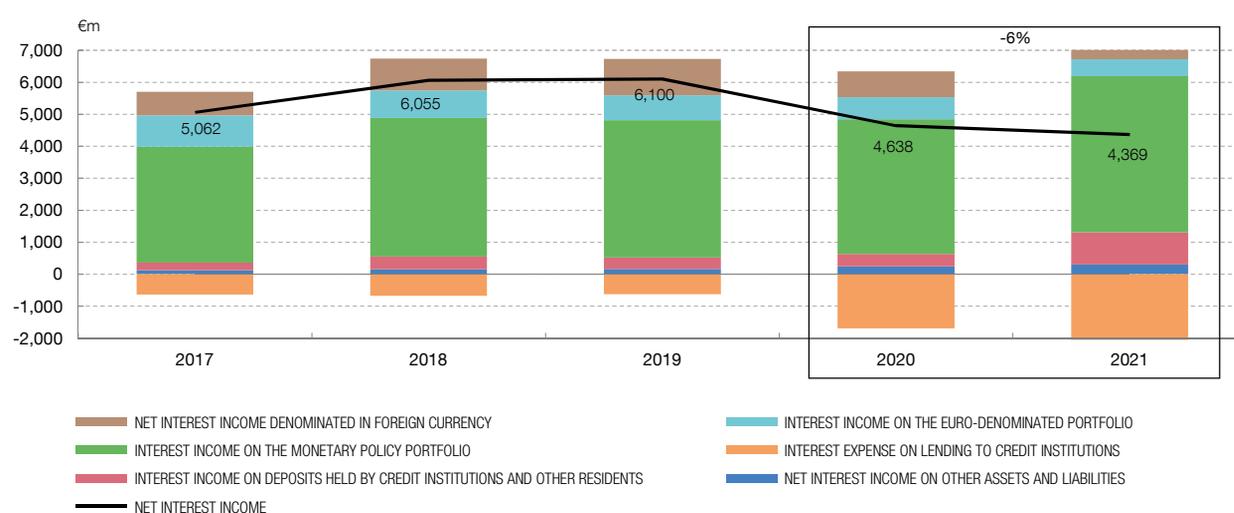
Chart 4.9

PROFIT OF THE BANCO DE ESPAÑA



SOURCE: Banco de España.

Chart 4.10

NET INTEREST INCOME OF THE BANCO DE ESPAÑA

SOURCE: Banco de España.

system for remunerating excess liquidity holdings. This generates interest income for the Banco de España (€1,011 million in 2021).

Intra-Eurosystem claims (banknote allocation key adjustment) and liabilities (net TARGET2 balance) are remunerated at the main refinancing rate (0% since March 2016).

Realised gains/losses arising from financial operations are those generated on the sale of own funds portfolio securities (monetary policy portfolio securities may only be sold by decision of the ECB's Governing Council) or when buying/selling foreign currency. They are quite volatile and are not usually significant.

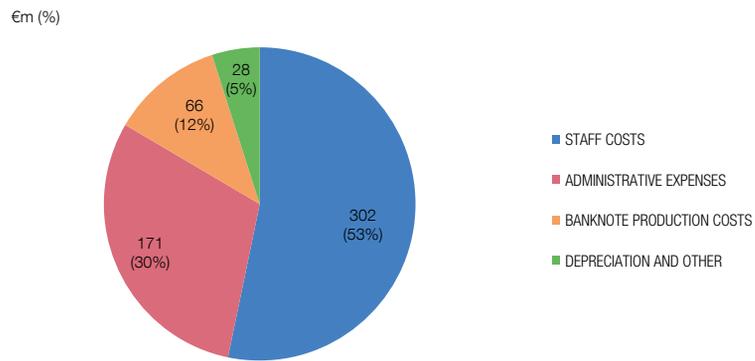
The pooling of monetary income reflects the allocation among the NCBs of the net income obtained in the year from the Eurosystem's monetary policy function, in accordance with their respective ECB capital keys. In the period analysed the net result of this pooling was positive for the Banco de España, meaning that the net income generated on its monetary policy assets and liabilities was less than its share, on the basis of its capital key, of the aggregate income generated on the Eurosystem's monetary policy assets and liabilities taken as a whole.⁸

The operating expenses incurred by the Banco de España to discharge its functions are recorded under "**Total operating expenses**". This heading includes banknote production costs and depreciation of fixed assets (see Chart 4.11).

⁸ For more information, see Note 8 to the profit and loss account in the *Annual Accounts of the Banco de España*.

Chart 4.11

OPERATING EXPENSES OF THE BANCO DE ESPAÑA IN 2021



SOURCE: Banco de España.



For more information on the balance sheet and profit and loss account, see the *Annual Accounts of the Banco de España* on its [website](#).

4 OPERATIONAL AND FINANCIAL RISK

In the pursuit of its activity the Banco de España is exposed to financial and operational risks. These may have a financial or reputational impact or may affect its ability to attain its objectives.

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

In 2021 the Banco de España's non-financial risk profile remained stable. Specifically, the risks that emerged in 2020 with the pandemic have been mitigated by the adoption of measures such as increased remote working, heightened IT security and monitoring of on-site activity.

As regards financial risk, in 2021 the risk of both the own funds portfolio and the monetary policy portfolio remained stable in relative terms, while in absolute terms it continued to increase as a consequence of the asset purchase programmes. In parallel, provisions were recorded to increase the financial hedges in place to cover the risks assumed.

Lastly, the Banco de España's in-house credit assessment system (ICAS BE)⁹ has continued to facilitate the use of loans as collateral in monetary policy operations. This has been particularly important during the COVID-19 crisis.



For more information on the Banco de España's risk management policy, see pages 35 to 38 of the *Institutional Report 2020*.

⁹ For more details, see S. Gavilá, A. Maldonado and A. Marcelo (2020), "The Banco de España in-house credit assessment system", *Financial Stability Review*, Issue 38, Banco de España.