

ANNUAL ACCOUNTS OF THE BANCO DE ESPAÑA
2010

1 INTRODUCTION

The annual accounts of the Banco de España (“the Bank”) as established by Article 29.1 of its internal rules, approved by a Resolution of the Governing Council of 28 March 2000 (Official State Gazette (BOE) of 6 April 2000), comprise the balance sheet, the profit and loss account and the notes on the accounts. The accounts have been prepared in accordance with the internal accounting rules and principles of the Banco de España. These rules and principles are based on the accounting framework established for national central banks (NCBs) of the European System of Central Banks (ESCB)¹ pursuant to Article 26.4 of the Statute of the ESCB on standardisation of accounting and reporting procedures relating to operations undertaken by NCBs. In the cases not regulated by Eurosystem accounting legislation, the Banco de España applies its internal policies based on generally accepted accounting principles adapted to the special characteristics of the operations and functions of a central bank.

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

Under the provisions of Article 4.2 of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España, it is for the government, upon proposal by the Minister for Economic Affairs and Finance, to approve the Bank’s balance sheet and accounts for the year, which will be sent to Parliament (Cortes Generales) for informational purposes. The Governing Council of the Bank, under the provisions of Article 21.g) of the aforementioned Law, is responsible for preparing the Bank’s annual accounts.

Unless otherwise indicated, the figures are expressed in millions of euro. Those relating to 2009 are presented solely for comparison with 2010. Due to rounding, on occasions the totals included in the balance sheet, profit and loss account and notes on the annual accounts may not equal the sum of the individual figures. The structure of the Banco de España balance sheet differs from that of previous years with regard to the numbering of various items, due to the full and total adoption of the central bank annual balance sheet format set out in Annex VIII of the European Central Bank Guideline of 11 November 2010 on the legal framework for accounting and financial reporting in the ESCB (ECB/2010/20).

This document presents the accounts for the year 2010. Section 2 includes the balance sheet and profit and loss account at 31 December 2010; Section 3 contains the notes on the accounts, with the accounting policies that have served as a framework for their preparation, the explanatory notes on the most important aspects of the balance sheet and profit and loss account, and the changes in capital, reserves, provisions and revaluation accounts; and Section 4, in compliance with Article 4.2 of the Law of Autonomy, details the contributions made to the Deposit Guarantee Funds and

¹ Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the ESCB (ECB/2010/20).

the loans and transactions agreed on other than an arm's-length basis or which in any other way entail a loss of profit or losses for the Bank, along with the estimated amount.

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

2 BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2010

EUR m

	NOTE NUMBER	2010	2009
ASSETS			
1 Gold and gold receivables	1	9,555.49	6,938.31
2 Claims on non-euro area residents denominated in foreign currency		14,040.29	12,306.81
2.1 Receivables from the IFM	2	4,782.17	4,119.17
2.2 Balances with banks and security investments, external loans and other external assets	3	9,258.12	8,187.65
3 Claims on euro area residents denominated in foreign currency	4	0.06	0.01
4 Claims on non-euro area residents denominated in euro		907.25	1,014.96
4.1 Balances with banks, securities investments and loans	5	907.25	1,014.96
4.2 Claims arising from the credit facility under ERM II		—	—
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	61,550.47	90,087.62
5.1 Main refinancing operations		20,285.31	657.70
5.2 Longer-term refinancing operations		39,662.77	89,421.45
5.3 Fine-tuning reverse operations		1,585.00	—
5.4 Structural reverse operations		—	—
5.5 Marginal lending facility		—	—
5.6 Credits related to margin calls		17.39	8.47
6 Other claims on euro area credit institutions denominated in euro	7	2.04	1,151.64
7 Securities of euro area residents denominated in euro	8	87,827.96	84,340.68
7.1 Securities held for monetary policy purposes		13,906.71	3,400.37
7.2 Other securities		73,921.24	80,940.31
8 General government debt denominated in euro	9	4,081.98	4,665.45
9 Intra-Eurosystem claims	10	20,945.82	13,121.19
9.1 Participating interest in ECB		801.70	663.30
9.2 Claims equivalent to the transfer of foreign reserves		4,783.65	4,783.65
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		15,360.48	7,674.24
9.5 Other claims within the Eurosystem (net)		—	—
10 Items in course of settlement		1.06	0.34
11 Other assets		3,708.73	4,324.48
11.2 Tangible and intangible fixed assets	11	254.61	240.45
11.3 Other financial assets	12	47.18	50.45
11.4 Off-balance sheet instruments revaluation differences	13	—	—
11.5 Accruals and prepaid expenses	14	1,891.39	2,126.12
11.6 Sundry	15	1,515.55	1,907.47
TOTAL ASSETS		202,621.16	217,951.50

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2010 (cont'd)

EUR m

	NOTE NUMBER	2010	2009
LIABILITIES			
1 Banknotes in circulation	16	91,917.98	88,273.78
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	17	26,964.03	35,089.02
2.1 Current accounts (covering the minimum reserve system)		19,950.00	24,736.02
2.2 Deposit facility		6,997.50	10,352.00
2.3 Fixed-term deposits		—	—
2.4 Fine-tuning reverse operations		—	—
2.5 Deposits related to margin calls		16.53	1.00
3 Other liabilities to euro area credit institutions denominated in euro		0.14	0.09
5 Liabilities to other euro area residents denominated in euro		9,488.74	32,725.57
5.1 General government	18	9,336.63	31,233.05
5.2 Other liabilities	19	152.11	1,492.52
6 Liabilities to non-euro area residents denominated in euro	20	400.15	264.49
7 Liabilities to euro area residents denominated in foreign currency		0.93	0.86
8 Liabilities to non-euro area residents denominated in foreign currency		0.76	0.69
8.1 Deposits, balances and other liabilities	21	0.76	0.69
8.2 Liabilities arising from the credit facility under ERM II		—	—
9 Counterpart of special drawing rights allocated by the IMF	22	3,272.05	3,078.08
10 Intra-Eurosystem liabilities	23	50,864.34	41,033.92
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates		—	—
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		—	—
10.4 Other liabilities within the Eurosystem (net)		50,864.34	41,033.92
11 Items in course of settlement	24	138.39	103.69
12 Other liabilities		300.24	375.92
12.1 Off-balance-sheet instruments revaluation differences	25	30.43	79.67
12.2 Accruals and income collected in advance	26	80.96	69.06
12.3 Sundry	27	188.84	227.19
13 Provisions	28	5,478.81	5,312.04
14 Revaluation accounts	29	9,274.59	7,020.16
15 Capital and reserves		1,950.00	2,000.00
15.1 Capital	30	1,000.00	1,000.00
15.2 Reserves	31	950.00	1,000.00
16 Profit for the year	32	2,570.00	2,673.18
TOTAL LIABILITIES		202,621.16	217,951.50

PROFIT AND LOSS ACCOUNT OF THE BANCO DE ESPAÑA FOR THE YEAR ENDING 31 DECEMBER 2010

EUR m

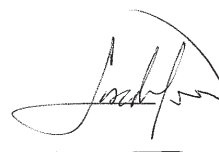
	NOTE NUMBER	2010	2009
1 Interest income	1	4,450.57	4,669.85
2 Interest expense	2	1,040.39	1,005.29
3 Net interest income (1 – 2)		3,410.18	3,664.57
4 Realised gains/losses arising from financial operations	3	366.04	108.54
5 Write-downs on financial assets and positions	4	793.89	193.12
6 Transfer to/from provisions for foreign exchange rate, price and credit risks	5	407.96	688.14
7 Net result of financial operations, write-downs and risk provisions (4 – 5 – 6)		-835.81	-772.72
8 Fees and commissions income		20.07	23.77
9 Fees and commissions expense		11.12	13.20
10 Net income from fees and commissions (8 – 9)	6	8.95	10.57
11 Income from equity shares and participating interests	7	191.04	117.94
12 Net result of pooling of monetary income	8	253.47	193.99
13 Other income and losses	9	-11.56	-12.93
14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)		3,016.27	3,201.42
15 Staff costs	10	228.40	230.96
16 Administrative expenses	11	117.83	121.51
17 Depreciation of tangible and intangible fixed assets	12	27.34	25.58
18 Banknote production services	13	61.71	71.45
19 Other expenses		3.27	2.85
20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)		438.54	452.35
21 Transfers and additions to other funds and provisions	14	7.73	75.89
22 PROFIT FOR THE YEAR (14 – 20 – 21)	15	2,570.00	2,673.18

Countersigned by
The Governor,



MIGUEL FERNÁNDEZ ORDÓÑEZ

The Comptroller,



JOSÉ MIGUEL GARCÍA HERNANDO

3 NOTES ON THE ACCOUNTS

3.1 Accounting policies

1 BASIC PRINCIPLES

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

2 BASIS OF ACCOUNTING

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

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

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

Gold

Gold is recorded at acquisition cost,² which is determined by the cash amount paid in the transaction including any related expense.

The cost of sales is obtained by applying the daily net average cost method. In the event that the cash to be paid or received is specified in a currency other than the euro, it is translated into euro at the mid-market exchange rate two business days before the settlement date.

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

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

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

Foreign currencies

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

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

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

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

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

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

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

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

Foreign banknotes

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

Special drawing rights (SDRs)

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

Securities

The Banco de España holds three separate securities portfolios: a trading portfolio, a held to maturity portfolio and a monetary policy portfolio (set up in accordance with the ECB Governing Council decisions of 7 May 2009, 4 June 2009 and 9 May 2010).

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

The cost of securities sold or redeemed is determined by the average book value of the security in question. The securities in the held-to-maturity portfolio may not be sold except in exceptional circumstances and with the authorisation of the Operations Committee.

Trading portfolio securities are revalued monthly to market price. This revaluation is carried out without any netting of unrealised gains and losses on different security codes. Unrealised gains and losses (except for unrealised losses at year-end) are reflected in

adjustment accounts and credited or debited, respectively, to revaluation and expense accounts. Unrealised losses existing at the end of the year are taken to the profit and loss account. Their amount is credited directly to the securities account, and the average book price – and therefore the internal rate of return – of the security code concerned is modified. These unrealised losses are considered irreversible. The year-end adjustment was made using the market prices as at 28, 29 and 30 December 2010, depending on the class of security involved.

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

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

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

Repurchase agreements
involving securities

Reverse repurchase agreements involving securities are recorded on the assets side of the balance sheet as collateralised outward loans for the amount of the loan. Securities acquired under reverse repurchase agreements are not revalued or included in the securities portfolio.

Repurchase agreements involving securities are recorded on the liabilities side of the balance sheet as an inward deposit collateralised by securities, the balancing entry of which is the cash received. Securities sold under this type of agreement remain on the Bank’s balance sheet and are treated as if they had remained part of the portfolio from which they were sold. Repurchase agreements involving securities denominated in foreign currencies have no effect on the average cost of the currency position.

In direct loans of securities, repurchase and reverse repurchase agreements conducted simultaneously are accounted for separately, each being recorded according to the valuation rules set forth in the preceding two paragraphs.

Automated security loans (contracts empowering a depository of securities to lend them to a third party in overnight transactions, subject to certain contractual limitations) are not recorded in the balance sheet. The only item accounted for is the income, which is recorded in the profit and loss account. Transactions outstanding at year-end are recorded off-balance sheet.

Doubtful debtors

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

Loans to financial institutions
and balances with EU central
banks

These are valued at their nominal amount.

The ECB establishes the conditions applicable to the monetary policy operations conducted by Eurosystem central banks and the need to obtain adequate collateral for them. Also, Article 32.4 of the Statute of the ESCB and of the ECB stipulates that the Governing Council may decide that national central banks shall be indemnified, in ex-

ceptional circumstances, for specific losses arising from monetary policy operations undertaken for the ESCB. Indemnification shall be in a form deemed appropriate in the judgment of the Governing Council; these amounts may be offset against the national central banks' monetary income (see Note 28 on the balance sheet and Note 8 on the profit and loss account).

Loans to the State

In accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20), they are valued at nominal amount (see Notes 9 and 28 to the balance sheet and Note 5 to the profit and loss account).

Shares and participating interests

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

Tangible and intangible fixed assets

Fixed assets are defined as those non-financial assets owned by the Bank that are intended be used for a period exceeding 12 months and contribute directly or indirectly to fulfilling its objectives and/or to the probable generation of income in the future and, in addition, their cost can be reliably assessed.

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

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

Fixed assets are deemed not to include those assets which, although meeting the conditions to be classed as such, do not generally exceed the amount of €600 (€6,000 in the case of buildings, structures and plant in buildings), although there may be exceptions, normally for control reasons.

Only extensions, replacements, rehabilitations and improvements that exceed €6,000 are capitalised, provided also that the elements replaced can be removed from the balance sheet or that they are fully depreciated.

Computer applications developed specifically for the Banco de España the cost of which does not exceed €300,000 are recorded directly as expenses and are not eligible for subsequent capitalisation.

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

The acquisition cost of a fixed asset, net of its residual value, is depreciated or amortised systematically during its useful life on a straight-line monthly basis from the month following that in which it was recognised in the accounts. Generally, all depreciable/amortisable

fixed assets are estimated to have a residual value of zero unless there is a deep, liquid market for assets similar to the one whose residual value may be received. Land, the art collection and fixed assets under construction are not depreciated.

The depreciation/amortisation rates and estimated useful lives applied to the various fixed assets in 2010 were as follows:

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

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

Banknotes in circulation

The ECB and the NCBs, which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002.³ The total value of euro banknotes in circulation is recorded by allocating to each Eurosystem NCB, on the last working day of each month, an amount based on the banknote allocation key.⁴

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

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,⁵ are disclosed under the item "Intra-Eurosystem: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem" (see "Intra-Eurosystem balances" in this section on accounting policies).

³ Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (ECB/2010/29).

⁴ The banknote allocation key is that which results from applying 92 % to the Eurosystem subscribed capital key.

⁵ Decision of the ECB of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (ECB/2010/23).

From 2002 until 2007, the intra-Eurosystem balances arising from the allocation of euro banknotes were adjusted in order to avoid significant changes in the relative income positions of the NCBs that initially formed part of the Eurosystem as compared with previous years. The adjustments were effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the specified reference period⁶ and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments were reduced in annual stages until the end of 2007. However, this mechanism has also been applied in the case of new Member States adopting the euro so as to calculate the amount of compensation corresponding to each of them under the aforementioned calculation method. This adjustment is gradually reduced over a six-year period, being held unchanged during each financial year.

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

Under the ECB Decision of 25 November 2010 (ECB/2010/24) on the interim distribution to euro area NCBs of the ECB's income on euro banknotes in circulation arising from the 8% of euro banknotes assigned to it and from securities purchased under the Securities Markets Programme, this income belongs to the NCBs and will be allocated in full to them in the financial year in which it accrues. Settlement takes place in January of the following year, in the form of an interim distribution of the income. The Governing Council may decide to reduce ECB income on euro banknotes in circulation by the costs incurred by the ECB in connection with the issue and handling of banknotes. This Decision establishes that the ECB Governing Council shall decide before the end of the financial year whether all or part of the ECB's income arising from the aforementioned SMP securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB's net profit for that year. The ECB Governing Council may also decide to transfer all or part of this income to an ECB provision for foreign exchange rate, interest rate, credit and gold price risks. The amount distributed to NCBs is shown in the profit and loss account item "Income from equity shares and participating interests".

Intra-Eurosystem balances

Intra-Eurosystem balances arise from the Banco de España's participating interest in the ECB, claims equivalent to the reserves transferred to the ECB and the net balance resulting from the transfers issued and received by TARGET2⁷ among the national central banks of the ESCB, including the ECB. They also arise from the balances vis-à-vis the ECB resulting from allocation of euro banknotes within the Eurosystem, from the outcome of the contribution and allocation of monetary income and from the positions vis-à-vis the ECB owing to the deferral of sundry receipts and payments.

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

⁶ The reference period taken has a duration of 24 months and it begins 30 months prior to the euro cash change-over date.

⁷ Trans-European Automated Real-time Gross settlement Express Transfer system.

Recognition of income and expenses

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

Realised gains and realised and unrealised losses are taken to the profit and loss account. To calculate the acquisition cost of items sold, the average cost method is used for securities and the daily net average cost method is used for foreign currencies and gold. In the case of unrealised losses on any item at year-end, its average cost is reduced to the end-of-year market price and/or exchange rate.

Unrealised gains are not recognised as income, but are transferred to a revaluation account.

Unrealised losses are taken to the profit and loss account if they exceed previous revaluation gains recorded in the corresponding revaluation account, and are not reversed in subsequent years against new unrealised gains. Unrealised losses in any one security or currency or in gold are not netted against unrealised gains in other securities or currencies.

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

Pension Scheme

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

Provisions

In application of the principle of prudence, the liabilities side of the balance sheet includes provisions approved by the Executive Commission of the Banco de España which are considered necessary to cover adequately, on objective criteria, the risks derived from the financial positions held and other losses of a diverse nature (see Note 28 on the balance sheet).

Off-balance-sheet positions⁸

Foreign exchange forward currency positions, which comprise transactions and forward legs of foreign exchange swaps, are included in the net foreign currency positions in order to calculate foreign exchange gains and losses.

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

3 CONSIDERATIONS REGARDING THE ESTIMATES MADE

These annual accounts were prepared using Bank estimates to quantify some of the assets, liabilities, expenses, commitments and, in particular, provisions recorded in them

⁸ The net position under foreign exchange forward transactions and swaps, and the foreign-exchange gains and losses generated by such position are shown in the balance sheet under items 11.4 on the assets side and 12.1 on the liabilities side, depending on their sign.

(see Note 28 on the balance sheet). As regards monetary policy operations, since they are conducted jointly in the Eurosystem, the estimates made by the ESCB are also taken into account [see Notes 6 and 8.a) on the balance sheet].

These estimates assume an ongoing slow economic recovery and instability in some debt markets. Although these estimates are based on the best information available at end-2010, future events may require them to be changed in the coming financial years. Any such changes would be made prospectively in accordance with current accounting rules.

4 POST-BALANCE-SHEET
EVENTS

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

3.2 Notes on the balance
sheet

1 GOLD AND GOLD
RECEIVABLES

The Banco de España's gold holdings amount to €9,555.49 million, consisting of 9.054 million troy ounces⁹ of fine gold valued at a market price of €1,055.42 per ounce. These holdings did not change during the financial year. The value of these holdings is €2,617.18 million more than in 2009, as a result of the rise in the market price (at end-2009 the price per ounce was €766.35). This increase is included in the liability revaluation accounts. The cost of the gold holdings is €850.43 million.

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

This item has three components:

- a) The position in the International Monetary Fund (IMF) in the reserve tranche. This is the euro equivalent of the SDRs relating to the foreign currencies assigned to the IMF due to Spain's initial quota and successive increases in it and due to the granted to the IMF.
- b) Special drawing rights (allocations). These represent the euro equivalent of the successive allocations of this currency by the IMF. The changes in allocations are essentially due to loan agreement transactions with third countries and to interest receipts or payments resulting from positions vis-à-vis the IMF.
- c) Other claims on the IMF. These reflect the amount that the Banco de España has provided to the IMF as a contribution to the Poverty Reduction and Growth Facility and the bilateral loan agreement between the IMF and Spain. The facility is used to finance low-interest loans to the poorest countries. The Banco de España has given a commitment to contribute up to SDR 830 million to it, the amount drawn down at end-2010 being €393.51 million (SDR 340 million). The bilateral loan agreement concluded to support the IMF's ability to provide balance of payments assistance to its members has a limit in SDRs equivalent to €4,140 million and the transactions carried out in 2010 totalled €301.68 million (SDR 261 million).

The breakdown in 2009 and 2010 is as follows:

⁹ One troy ounce is equal to 31.1035 grams.

EUR m

Type of asset	2010	2009	Change
Reserve tranche position	692.76	541.30	151.46
Special drawing rights (allocation)	3,394.22	3,221.20	173.01
Other claims on the IMF	695.19	356.66	338.53
TOTAL	4,782.17	4,119.17	663.00

The overall amount of claims on the IMF increased by €663.00 million with respect to the balance at end-2009.

The increase in the reserve tranche position account (€151.46 million) is basically due to the Banco de España's net contributions to the IMF for loans to third countries (Greece, Latvia, Serbia and Ukraine, among others). Of this increase, €110.40 million related to the net increase in amounts denominated in foreign currencies and €41.07 million to the effect of the change in market foreign exchange rates between the two years. Spain's IMF quota was not changed in 2010, remaining at SDR 3,048.90 million.

The increase of 173.01 million in the special drawing rights (allocation) account was due to the effect of the year-end market foreign exchange rates, which accounted for an increase of €201.21 million, less the decrease in foreign currency due to the net effect of loan disposals and repayments (€28.20 million).

The increase in the "Other claims on the IMF" account (€338.53 million) is due to the Banco de España's contributions to the IMF's PRGF III programme and the transactions under the bilateral loan agreement, which resulted in an increase of €297.31 million, and to an addition of €41.21 million resulting from the change in exchange rates between the two years.

SDRs are valued at the year-end market rate, calculated by the ECB for all the Eurosystem national central banks, of €1 = SDR 0.864155. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of four major currencies: the US dollar, the euro, the yen and the pound sterling. The interest rate, which is updated weekly, remained between 0.40% and 0.22% during the year.

3 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY. – BALANCES WITH BANKS AND SECURITY INVESTMENTS, EXTERNAL LOANS AND OTHER EXTERNAL ASSETS

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

The total amount as at 31 December 2010 was €9,258.12 million, with the following breakdown:

EUR m

Type of asset	2010	2009	Change
Deposits	142.11	144.65	-2.55
Security investments	9,115.69	8,042.39	1,073.30
Trading portfolio	3,712.65	4,149.24	-436.59
Held-to-maturity portfolio	5,403.04	3,893.15	1,509.88
Other	0.32	0.60	-0.28
TOTAL	9,258.12	8,187.65	1,070.47

As at 31 December 2010, 99.88% of these assets were denominated in US dollars. The equivalent value in euro of this US dollar amount was transferred to the balance sheet at the year-end market exchange rate (€1 = USD 1.3362).

The increase in the balance of this item (€1,070.47 million) was due to the net effect of the factors listed in the following table:

EUR m	Reason for change	Amount
	Net investment	397.66
	Changes of market exchange rates as at 31 December	671.05
	Changes of securities market prices as at 31 December	3.16
	Accrued interest receivable	-1.59
	Other	0.18
	TOTAL	1,070.47

4 CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This balance sheet item may include current accounts, balances with banks and security investments. Its balance of €0.06 million at 31 December 2010 is €0.05 million more than that of the previous year, due to the increase in the balance of US dollar denominated demand accounts at monetary financial institutions.

5 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO.—BALANCES WITH BANKS, SECURITY INVESTMENTS AND LOANS

Included here is the balance of current accounts at correspondents and trading and held-to-maturity portfolio securities denominated in euro. The held-to-maturity portfolio consists of securities with fixed or determinable payments which the Banco de España intends to hold until maturity.

The breakdown is as follows:

EUR m	Type of asset	2010	2009	Change
	Balances with banks	0.20	0.21	-0.01
	Security investments	907.05	1,014.75	-107.70
	Trading portfolio	—	108.94	-108.94
	Held-to-maturity portfolio	907.05	905.81	1.24
	TOTAL	907.25	1,014.96	-107.71

Of the total of this heading (€907.25 million), most (€907.05 million) relates to fixed-income securities included in the held-to-maturity portfolio, which increased by €1.24 million with respect to the balance as at 31 December 2009. This portfolio consists of euro-denominated securities issued by international organisations (the European Investment Bank and the Bank for International Settlements) and by non-euro area States. The trading portfolio, which had a balance of €108.94 million at 31 December 2009, had a zero balance at the end of the reporting year as a result of sales in 2010.

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

This item includes the amount of the euro-denominated lending to euro area credit institutions through which monetary policy is implemented. The total amount of these loans in the Eurosystem as a whole is €546,747 million, of which €61,550.47 are included in the balance sheet of the Banco de España. Pursuant to Article 32.4 of the ESCB/ECB Statute, any counterparty risks that materialise in monetary policy operations must be shared by all Eurosystem banks in proportion to their share of the subscribed capital of the ECB according to the capital keys in force when these risks materialise (see the provision for counterparty risks in Eurosystem monetary policy operations, in Note 28.- Provisions).

The breakdown by type of transaction is as follows:

EUR m				
Type of operation	2010	2009	Change	
Main financing operations	20,285.31	657.70	19,627.61	
Longer-term refinancing operations	39,662.77	89,421.45	-49,758.68	
Fine-tuning reverse operations	1,585.00	—	1,585.00	
Structural reverse operations	—	—	—	
Marginal lending facility	—	—	—	
Credits related to margin calls	17.39	8.47	8.92	
TOTAL	61,550.47	90,087.62	-28,537.15	

Throughout the whole of 2010, against a background of money market tensions in the euro area, the ECB continued to conduct liquidity-providing operations of various maturities to meet the additional liquidity demands of counterparties.

The balance of this item as at 31 December 2010 is 31.68% less than that of 2009. However, the average daily balance of the financing granted during the year increased by 22.68% (€99,291.50 million in 2010, against €80,937.90 million in 2009).

a Main refinancing operations

They are executed through liquidity providing reverse transactions with a weekly frequency and a maturity of one week, normally by means of standard tenders. These operations play a pivotal role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance. However, in 2010, continuing the trend initiated in previous years, they were used less than longer-term refinancing operations. In this connection, it should be noted that only 12.36% of annual average financing was extended through them. In 2010 these operations were conducted at fixed rate with allotment of the total amount bid.

The balance of this item at 31 December 2010 was €20,285.31 million (€657.70 at 31 December 2009) and its daily average balance during the year was €12,270.58 (€15,544.88 in 2009).

b Longer-term refinancing operations

These operations aim to provide counterparties with additional longer-term refinancing. In 2010 operations were conducted with maturities equal to the reserve maintenance period and with maturities of three and six months. From October 2008, these operations are also conducted at fixed rate with allotment of the total amount bid, although in 2010 a floating-rate three-month refinancing operation was also carried out.

The balance of these operations at end-2010 amounted to €39,662.77 million (64.44% of the total), having decreased by €49,758.68 with respect to the previous year. However, the average balance increased (from €65,354.89 in 2009 to €86,561.06 in 2010), representing 87.20% of overall financing in the year.

c Fine-tuning reverse operations

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

Their balance at end-2010 was €1,585.00 million. In 2010 four fine-tuning reverse operations took place in the Eurosystem. Financing was obtained by Spanish credit institutions in all of them.

- d Structural reverse operations These are reverse open-market transactions through standard tenders to enable the Euro-system to adjust its structural liquidity position vis-à-vis the financial sector.
- The end-2010 balance was zero, as it was at the previous year-end. No structural reverse operations took place during the year.
- e Marginal lending facility Counterparties may use the marginal lending facility to obtain overnight liquidity from national central banks at a pre-specified interest rate against eligible assets. This interest rate is penalised with respect to the intervention rate set in the weekly tenders or in main refinancing operations.
- The balance at the end of 2010 was zero. As in 2009, there were few of these operations during the year.
- f Credits related to margin calls Under Eurosystem rules for monetary policy management, all operations providing liquidity to the banking system must be backed by adequate underlying assets accepted by the system as eligible for use as collateral. If, after daily valuation, the market value of the assets used as loan collateral has fallen below the lower trigger point set for each security, the counterparty must provide additional assets or cash (see Note 17 on the balance sheet). If the market value of the underlying assets, following their revaluation, exceeds the amount of the financing obtained from the national central bank plus the variation margin, the counterparty may withdraw an amount of underlying assets equal to that excess (or receive this difference as a cash payment in its account).
- In the national central banks that make margin calls by debiting or crediting the accounts of credit institutions, as is the case for the Banco de España, these debits or credits are the balancing entries of the asset-side or liability-side accounts reflecting the changes in these margins. These balance sheet accounts are remunerated at the interest rate applied in main refinancing operations.
- As at 31 December 2010 this item had a balance of €17.39 million, up €8.92 million with respect to the previous year.
- 7 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO This item includes claims on credit institutions unrelated to monetary policy operations. Its balance of €2.04 million as at 31 December 2010 includes the amount of the correspondent accounts with credit institutions. The decrease with respect to the previous year (€1,149.60 million) resulted from the repayment in 2010 of all the liquidity-support loans granted to credit institutions in the previous year (€1,150 million as at 31 December 2009).
- 8 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO This item includes the amount of euro-denominated fixed-income securities issued by euro area residents which were acquired by the Banco de España for monetary policy purposes under the covered bond purchase programme¹⁰ and under the securities markets programme.¹¹ These securities were classified as held-to-maturity (see “Securities” in Section 3.1 “Accounting policies”). The securities purchases under the covered bond purchase programme were completed in June 2010.
- a Securities held for monetary policy purposes

¹⁰ Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16).

¹¹ Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5).

The balance of this item at 31 December 2010 was €13,906.71 million and there was no objective evidence that these assets were impaired at year-end.

The total amount of the securities acquired by all Eurosystem NCBs under the aforementioned securities markets programme amounted to €60,873.44 million, of which €7,382.70 million were included in the balance sheet of the Banco de España. Pursuant to Article 32.4 of the ESCB/ECB Statute, any risks that materialise in the securities included in this portfolio must be shared by all Eurosystem central banks in proportion to their share of the subscribed capital of the ECB according to the capital keys in force.

b Other securities

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

EUR m

Security investments	2010	2009	Change
Trading portfolio	33,027.21	40,279.80	-7,252.60
Held-to-maturity portfolio	40,894.03	40,660.51	233.53
TOTAL	73,921.24	80,940.31	-7,019.07

The balance of this item as at 31 December 2010 was €73,921.24 million, of which 44.7% related to trading portfolio securities and the remainder (55.3%) to held-to-maturity securities.

Overall, these securities decreased by €7,019.07 million in 2010. It was, however, trading securities which underwent a decrease, of €7,252.60 million, whereas held-to-maturity securities increased by €233.53 million.

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

EUR m

Reason for change	Trading portfolio	Held-to maturity portfolio	Total
Net purchase of securities	-5,744.07	343.28	-5,400.78
Unrealised gains at year-end (a)	-830.85	—	-830.85
Unrealised losses at year-end (a)	-790.92	—	-790.92
Accrued implicit interest	113.25	-109.76	3.49
TOTAL	-7,252.60	233.53	-7,019.07

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

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

9 GENERAL GOVERNMENT
DEBT DENOMINATED
IN EURO

This item includes loans which, by virtue of their respective laws of creation, were granted to the State prior to the entry into force of Law 21/1993 of 29 December 1993 on the State budget for 1994. Initially they were to be repaid at their nominal amount on a straight-line

basis over twenty-five years by means of yearly payments as from 1999, inclusive, in accordance with transitional provision seven of the aforementioned law. However, on 26 March 2007 an agreement was entered into with the central government to bring forward the repayment schedule of these loans, such that they mature in full by 2015 at the latest and the Treasury can request early repayment of all or part of them. Loans repaid early are paid by the Treasury at the cash amount of their market value at the time. A provision has been set up for losses arising from early repayment of these loans (see Note 28 on the balance sheet).

Under that agreement, in 2010 two instalments of the Law 3/1983 loan (that of the reporting year and the last outstanding instalment of the original repayment schedule) and the instalments of the other two loans corresponding to the reporting year were paid.

The outstanding nominal balance as at 31 December 2010 of the loans granted to the State amounted to €4,081.98 million, broken down as follows:

EUR m	2010	2009	Change
Treasury. Law 3/1983 special account	976.26	1,171.51	-195.25
Treasury. Law 4/1990 special account	2,779.19	3,126.59	-347.40
Treasury. Credits arising from subscription for participating interests, contributions and quotas in international agencies	326.53	367.35	-40.82
TOTAL	4,081.98	4,665.45	-583.47

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

10 INTRA-EUROSISTEM LIABILITIES

This heading includes the amounts of the following items:

EUR m	Type of asset	2010	2009	Change
	Participating interest in the ECB	801.70	663.30	138.40
	Claims equivalent to the transfer of foreign reserve assets to the ECB	4,783.65	4,783.65	—
	Net claims related to the allocation of euro banknotes within the Eurosystem	15,360.48	7,674.24	7,686.23
	Other claims within the Eurosystem (net)	—	—	—
	TOTAL	20,945.82	13,121.19	7,824.63

a Participating interest in the ECB

Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on the participating interests fixed in accordance with Article 29 of the ESCB Statute based on each country's share in the total population and gross domestic product of the ESCB countries per data furnished by the European Commission. These subscriptions must be adjusted every five years or whenever new Member States join the European Union, i.e. when their NCBs join the ESCB. Since 1 January 2009 the Banco de España's key for subscription of ECB capital has been 8.3040%.

In 2010 the ECB decided to increase its subscribed capital by €5 billion, from €5,760,652,402.58 to €10,760,652,402.58, with effect from 29 December 2010 and the euro area national central banks agreed to pay their additional capital contributions in

three equal annual instalments. The first of these payments took place on 29 December 2010 and the other two instalments will be paid at the end of 2011 and 2012, respectively.

As a result of this increase, the subscribed capital and paid-up capital of the national central banks is as follows:

EUR

	Subscribed capital as at 28 December 2010	Paid-up capital as at 28 December 2010	Subscribed capital as at 29 December 2010	Paid-up capital as at 29 December 2010
Nationale Bank van België/Banque Nationale de Belgique	139,730,384.68	139,730,384.68	261,010,384.68	180,157,051.35
Deutsche Bundesbank	1,090,912,027.43	1,090,912,027.43	2,037,777,027.43	1,406,533,694.10
Central Bank and Financial Services Authority of Ireland	63,983,566.24	63,983,566.24	119,518,566.24	82,495,232.91
Bank of Greece	113,191,059.06	113,191,059.06	211,436,059.06	145,939,392.39
Banco de España	478,364,575.51	478,364,575.51	893,564,575.51	616,764,575.51
Banque de France	819,233,899.48	819,233,899.48	1,530,293,899.48	1,056,253,899.48
Banca d'Italia	719,885,688.14	719,885,688.14	1,344,715,688.14	928,162,354.81
Central Bank of Cyprus	7,886,333.14	7,886,333.14	14,731,333.14	10,167,999.81
Banque centrale du Luxembourg	10,063,859.75	10,063,859.75	18,798,859.75	12,975,526.42
Central Bank of Malta	3,640,732.32	3,640,732.32	6,800,732.32	4,694,065.65
De Nederlandsche Bank	229,746,339.12	229,746,339.12	429,156,339.12	296,216,339.12
Oesterreichische Nationalbank	111,854,587.70	111,854,587.70	208,939,587.70	144,216,254.37
Banco de Portugal	100,834,459.65	100,834,459.65	188,354,459.65	130,007,792.98
Banka Slovenije	18,941,025.10	18,941,025.10	35,381,025.10	24,421,025.10
Národná banka Slovenska	39,944,363.76	39,944,363.76	74,614,363.76	51,501,030.43
Suomen Pankki – Finlands Bank	72,232,820.48	72,232,820.48	134,927,820.48	93,131,153.81
Subtotal for euro area NCBs	4,020,445,721.55	4,020,445,721.55	7,510,020,721.55	5,183,637,388.22
Българска народна банка (Bulgarian National Bank)	50,037,026.77	3,502,591.87	93,467,026.77	3,505,013.50
Česká Národní banka	83,368,161.57	5,835,771.31	155,728,161.57	5,839,806.06
Danmarks Nationalbank	85,459,278.39	5,982,149.49	159,634,278.39	5,986,285.44
Eesti Pank	10,311,567.80	721,809.75	19,261,567.80	722,308.79
Latvijas Banka	16,342,970.87	1,144,007.96	30,527,970.87	1,144,798.91
Lietuvos bankas	24,517,336.63	1,716,213.56	45,797,336.63	1,717,400.12
Magyar Nemzeti Bank	79,819,599.69	5,587,371.98	149,099,599.69	5,591,234.99
Narodowy Bank Polski	282,006,977.72	19,740,488.44	526,776,977.72	19,754,136.66
Banca Națională a României	141,971,278.46	9,937,989.49	265,196,278.46	9,944,860.44
Sveriges Riksbank	130,087,052.56	9,106,093.68	242,997,052.56	9,112,389.47
Bank of England	836,285,430.59	58,539,980.14	1,562,145,430.59	58,580,453.65
Subtotal for non-euro area NCBs	1,740,206,681.03	121,814,467.67	3,250,631,681.03	121,898,688.04
TOTAL (a)	5,760,652,402.58	4,142,260,189.22	10,760,652,402.58	5,305,536,076.26

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

As regards the Banco de España, the above table shows that its subscribed capital increased from €478.36 million to €893.56 million, equivalent to 8.3040% of the ECB's capital stock. As stated above, the first instalment of €138.40 million of this increase was paid on 29 December 2010. As a result, the capital disbursed by the Banco de España reached €616.76 million.

This item also includes the participating interest in ECB equity. Its balance of €184.94 million at 31 December 2010 is the amount paid in previous years for the Banco de España's participating interest in ECB reserves due to the increase in the Banco de España's share of the ECB capital key

- b Claims equivalent to the transfer of foreign reserve assets to the ECB
- These represent the ECB's debt to the Banco de España arising from the transfer of foreign reserve assets to the ECB. The claims equivalent to the transferred reserves are denominated in euro at a value fixed from the time of their transfer. They are remunerated at the marginal rate for the Eurosystem's main refinancing operations, reduced by 15% to reflect a zero return on the gold component. Their year-end balance of €4,783.65 million is unchanged from the previous year.
- c Net claims related to the allocation of euro banknotes within the Eurosystem
- This item, the balance of which amounted to €15,360.48 million at end-2010, consists of the claims and liabilities of the Banco de España vis-à-vis the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem when there is an overall debit balance (see "Banknotes in circulation" and "Intra-Eurosystem balances" in the section on accounting policies).
- The increase with respect to 2009 (€7,686.23 million) was due to the decrease in banknotes put into circulation by the Banco de España in 2010 (-5.0%) and the contrasting rise in the Eurosystem as a whole (growth of 4.1%), which resulted in the aforementioned increase in the balance of these accounts.
- d Other claims within the Eurosystem (net)
- In accordance with Eurosystem rules, since the accounts making up this item have a net credit balance, this information is presented on the liabilities side of the balance sheet (see Note 23 on the balance sheet).
- 11 TANGIBLE AND INTANGIBLE FIXED ASSETS
- The balance of this item amounted to €254.61 million at end-2010, of which €593.17 million related to cost and €338.56 a million to accumulated depreciation.

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

EUR m

	2010	2009	Change
TANGIBLE FIXED ASSETS	485.85	470.11	15.74
Land and unbuilt plots	5.35	5.35	—
Buildings, structures and renovation work	107.45	106.41	1.04
Plant in buildings	171.72	162.67	9.05
Furniture and fittings	37.19	36.42	0.77
Office machines other than computer equipment	48.20	47.59	0.61
Computer equipment	58.59	55.56	3.03
Transport equipment	8.52	8.67	-0.15
Library collection	5.59	5.01	0.57
Other tangible fixed assets	4.31	3.90	0.41
Art collection	38.93	38.54	0.39
INTANGIBLE FIXED ASSETS	60.42	53.03	7.39
Computer applications	60.36	52.97	7.39
Industrial property	0.06	0.06	—
FIXED ASSETS IN PROGRESS	46.90	30.35	16.55
Buildings, plant in buildings and other structures under construction	24.45	20.28	4.17
Computer applications under development	19.24	9.20	10.05
Other fixed assets in progress	3.21	0.87	2.34
TOTAL	593.17	553.49	39.68

EUR m

Accumulated depreciation or amortisation	2010	2009	Change
TANGIBLE FIXED ASSETS	-294.35	-274.75	-19.61
Buildings, structures and renovation work	-35.25	-32.92	-2.34
Plant in buildings	-130.42	-121.86	-8.56
Furniture and fittings	-25.41	-23.36	-2.05
Office machines other than computer equipment	-40.28	-39.44	-0.83
Computer equipment	-49.59	-45.14	-4.44
Transport equipment	-6.84	-6.27	-0.56
Library collection	-2.89	-2.39	-0.50
Other tangible fixed assets	-3.67	-3.36	-0.31
INTANGIBLE FIXED ASSETS	-44.21	-38.30	-5.91
Computer applications	-44.15	-38.24	-5.91
Industrial property	-0.06	-0.06	—
TOTAL	-338.56	-313.04	-25.52

The increase in fixed assets in 2010 basically arose from increased investment in development of certain computer applications, from the refurbishment of the mezzanine floor of the historic Cibeles building, from the completion of upgrades of electrical and air conditioning fixtures in the Madrid buildings and in several branches, and from diverse improvements to these buildings.¹²

12 OTHER FINANCIAL ASSETS

This item includes €47.18 million of financial investments relating basically to the Banco de España's participating interests in the Bank for International Settlements and Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. The decrease of €3.26 million in these financial assets was due to the lower underlying book value of this firm.

13 OFF-BALANCE-SHEET
INSTRUMENTS
REVALUATION DIFFERENCES

This item includes the amount of the net debtor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a creditor one, as in 2010, it is recorded under the same heading in liability item 12.1 (see Note 25 on the balance sheet).

14 ACCRUALS AND PREPAID
EXPENSES

The main components of this item, the balance of which amounts to €1,891.39 million, are as follows:

¹² The refurbishment of buildings is accounted for as an addition to fixed assets if it meets the criteria set out in Section 3.1 "Accounting policies" in regard to tangible and intangible fixed assets.

EUR m

	2010	2009	Change
ACCRUED INTEREST ARISING FROM SECURITIES ACQUISITIONS AND ACCRUED COUPON INTEREST RECEIVABLE	1,775.91	1,720.19	55.72
Trading portfolio	584.13	813.46	-229.33
Denominated in foreign currency	9.89	8.89	1.00
Denominated in euro	574.23	804.56	-230.33
Held-to-maturity portfolio	859.56	848.17	11.39
Denominated in foreign currency	44.68	34.30	10.38
Denominated in euro	814.88	813.87	1.01
Held for monetary policy purposes	332.22	58.56	273.66
OTHER ACCRUED INTEREST RECEIVABLE	112.01	402.72	-290.72
Claims on the IMF	3.75	2.72	1.04
Swap transactions	0.95	—	0.95
On claims equivalent to the transfer of foreign reserves to the ECB	41.23	52.72	-11.49
On intra-Eurosystem claims arising from banknote adjustments	38.86	19.66	19.20
On monetary policy operations	27.14	324.73	-297.59
On liquidity-providing loans	—	2.02	-2.02
Other	0.08	0.88	-0.80
ACCRUED COMMISSIONS RECEIVABLE AND PREPAID EXPENSES	3.47	3.21	0.26
TOTAL	1,891.39	2,126.12	-234.73

As can be seen from the foregoing table, the most significant accounts are accrued interest arising from securities acquisitions and accrued coupon interest receivable denominated in euro arising from the trading portfolio (€574.23 million), from the held-to maturity portfolio (€814.88 million) and from monetary policy operations (€332.22 million). In total, this interest increased by €55.72 million with respect to 2009. Furthermore, accrued interest receivable on monetary policy operations decreased significantly (by €297.59 million) due to the lower volume of outstanding transactions at year-end. There was also a decrease in interest receivable on claims equivalent to the transfer of foreign reserve assets to the ECB due to the lower average rate of return, while the interest accrued on intra-Eurosystem banknote adjustment and offsetting accounts increased as a result of the larger balance to be remunerated.

15 OTHER ASSETS. SUNDRY

The most significant components of this item, which totals €1,515.55 million, are the transfer to the Treasury on 1 December 2010 of €1,316.49 million, equivalent to 70% of the Bank's distributable profits earned to 30 September 2010, adjusted in line with the projected performance of profits up to year-end (see Note 15 on the profit and loss account), which was €390.18 million lower than in the previous year, and the home loans and repayable advances granted to Bank employees, the balance of which, at €187.26 million, was down by €2.14 million from 2009.

16 BANKNOTES
IN CIRCULATION

The balance of banknotes in circulation (€91,917.98 million) represents the Banco de España's share in the total euro banknotes in circulation (see "Banknotes in circulation" in Section 3.1 Accounting policies) according to the Eurosystem euro banknote allocation key (10.9465% of the total issue by all the central banks) after deducting those corresponding to the Eurosystem (8% of the ECB total). This balance was €3,644.20 million higher than in the previous year because of the greater volume of euro banknotes in circulation in the Eurosystem.

17 LIABILITIES TO EURO AREA
CREDIT INSTITUTIONS
RELATED TO MONETARY
POLICY OPERATIONS
DENOMINATED IN EURO

The overall balance of the different types of deposit held by credit institutions with the Banco de España amounted to €26,964.03 million at end-2010, €8,124.99 million less than in the previous year. This decline was due to the fall in the balance of credit institution current accounts (including minimum reserves) and to the decrease in the deposit facility.

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

EUR m

Type of liability	2010	2009	Change
Current accounts (covering the minimum reserve system)	19,950.00	24,736.02	-4,786.02
Deposit facility	6,997.50	10,352.00	-3,354.50
Fixed-term deposits	—	—	—
Fine-tuning reverse operations	—	—	—
Deposits related to margin calls	16.53	1.00	15.53
TOTAL	26,964.03	35,089.02	-8,124.99

The first component, which includes the total current accounts held by credit institutions at the Banco de España, in which they maintain the minimum reserves required for monetary policy implementation purposes, underwent a decrease of €4,786.02 million. Its average balance also decreased during the year, falling from €26,052.70 million in 2009 to €25,383.94 million in 2010.

The item “Deposit facility”, which includes overnight deposits remunerated at a fixed interest rate (appreciably lower than the interest rate on main refinancing operations), also decreased, from €10,352.00 million in 2009 to €6,997.50 million in 2010. However, the average balance increased (€9,393.71 million in 2010 compared with €7,535.94 million in 2009).

With regard to fixed-term deposits, as in 2009, there was no balance as at 31 December 2010. They are fine-tuning operations (liquidity withdrawals) that take the form of deposits. During 2010 the Eurosystem carried out 45 operations of this type.

The other captions in this item relate to fine tuning reverse operations and deposits related to margin calls. As at 31 December 2010, fine tuning reverse operations had a zero balance, while institutions’ deposits related to margin calls amounted to €16.53 million (€1.00 million in 2009).

18 LIABILITIES TO OTHER EURO
AREA RESIDENTS
DENOMINATED IN EURO.—
GENERAL GOVERNMENT

This item includes the deposits held by general government with the Banco de España. The outstanding balance at year-end was €9,336.63 million, which breaks down as follows:

EUR m

	2010	2009	Change
Central government (State)	3,633.00	14,429.06	-10,796.06
Treasury current account	300.01	305.25	
Other central government agencies and similar bodies	3,332.98	14,123.81	
Territorial government	355.48	960.17	-604.69
Regional (autonomous) governments, administrative agencies and similar bodies	351.16	954.85	
Local government	4.32	5.32	
Social security funds	5,348.15	15,843.81	-10,495.66
Social Security System	5,347.19	14,773.28	
Other	0.96	1,070.54	
TOTAL	9,336.63	31,233.05	-21,896.42

The substantial decrease in this item (€21,896.42 million) was basically due to the smaller balances held by Social Security Funds (€10,495.66 million) and by the Fund for the Orderly Restructuring of the Banking Sector (FROB) under “Other central government agencies and similar bodies” (€8,718.93 million) and, to a lesser extent, to the decrease in the balances held by the Treasury and territorial (regional and local) government.

19	LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO. – OTHER LIABILITIES	<p>Included here are the current accounts of financial institutions other than credit institutions, such as the Deposit Guarantee Funds, other financial intermediaries associated with securities markets settlement, other intermediaries in the debt book-entry market, etc., as well as the current accounts of non-administrative public and autonomous agencies of the State, the current accounts of employees and pensioners and other accounts of legal entities classified in “Other resident non-financial sectors”.</p> <p>The balance at end-2010 was €152.11 million, and its decrease of €1,340.41 million with respect to end-2009 was basically due to the decrease in the balances of the current accounts of State agencies (€1,231.26 million).</p>
20	LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO	<p>This item includes basically the euro-denominated accounts held by international organisations, non-Eurosystem monetary authorities and central banks to which reserve management services are provided. The balance of €400.15 million was €135.67 million higher than a year earlier, mainly due to an increase in deposits of the central banks to which reserve management services are provided.</p>
21	LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY. – DEPOSITS, BALANCES AND OTHER LIABILITIES	<p>This item basically includes the foreign-currency balances of non-euro area central banks and collateralised inward deposits recorded in respect of reverse transactions conducted under repurchase agreements. The end-2010 balance of €0.76 million was €0.06 million more than at the end of 2009 as a result of the significant increase in US\$-denominated deposits placed by these institutions.</p>
22	COUNTERPART OF SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF	<p>This item of €3,272.05 million shows the amount of the special drawing rights allocated to Spain by the IMF in proportion to its quota. The total amount of this item increased by €193.97 million with respect to the previous year, due to the variation in the exchange rate.</p>
23	INTRA-EUROSYSTEM LIABILITIES	<p>This item, which as at 31 December 2010 had a balance of €50,864.34 million, comprises the following two sub-items:</p>
a.	Net liabilities related to the allocation of euro banknotes within the Eurosystem	<p>In accordance with Eurosystem rules, since the accounts making up this item have a net debit balance, this information is presented on the assets side of the balance sheet.</p>
b.	Other liabilities within the Eurosystem (net)	<p>The balance of €50,864.34 million as at 31 December 2010 represents the sum of three components: 1) the position of the Banco de España vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB, plus the balances held with Eurosystem central banks through correspondent accounts; 2) the position vis-à-vis the ECB in respect of the pooling and allocation of monetary income within the Eurosystem pending settlement; and 3) the Banco de España’s position vis-à-vis the ECB in respect of any amounts receivable or refundable, basically in respect of the seigniorage income relating to euro banknotes issued by the ECB and of the securities acquired by the ECB under the securities markets programme.</p>

Regarding the first component, the year-end net transfers via TARGET2 had a credit balance of €50,922.53 million, while the correspondent accounts showed a debit balance of

€0.15 million. The remuneration of this position is calculated daily at the marginal interest rate of Eurosystem main refinancing operations.

The second component, i.e. the position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income within the Eurosystem national central banks, had a debit balance of €58.05 million at year-end (see “Net result of pooling of monetary income” in Note 8 on the profit and loss account).

Finally, in regard to the position vis-à-vis the ECB relating to the distribution of income arising from the seigniorage of euro banknotes issued on its behalf by the NCBs and to the securities purchased under the securities markets programme, pursuant to the Decision of the European Central Bank of 25 November 2010 (ECB/2010/24), the ECB Governing Council may decide before the end of the financial year not to distribute part or all of this income (see “Banknotes in circulation” in Section 3.1 Accounting Policies). In 2010 the Governing Council decided not to distribute this income.

24 ITEMS IN COURSE OF SETTLEMENT

Included here are various accounts which as at 31 December 2010 were in the course of settlement, such as transfer instructions pending execution and transfers sent to deposit institutions yet to be reimbursed.

The balance of this item amounted to €138.39 million at end-2010, of which €125.69 related to transfers to accounts with other institutions, with payment of those transfers yet to be made.

25 OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item includes the amount of the net creditor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a debtor one, it is recorded under the same heading in asset item 11.4. Its credit balance of €30.43 million as at end-2010 is the net value of the forward and swap transactions outstanding at that date that are listed below:

Operation	Position	Currency	2010			2009
			Currency amount (million)	Market exchange rate	Equivalent (million €)	Equivalent (million €)
SWAP	DEBTOR	EUR	2,888.29	1.0000	2,888.29	170.00
		CHF	—	1.2504	—	157.34
	CREDITOR	EUR	—	1.0000	—	170.00
		CHF	—	1.2504	—	157.34
		USD	3,900.00	1.3362	2,918.72	—
FORWARD	DEBTOR	EUR	—	1.0000	—	2,627.54
	CREDITOR	USD	—	1.3362	—	2,707.21
NET POSITION					30.43	79.67

The only unmatured transactions at year-end were swaps of euro against US dollars.

Regarding exceptional liquidity-providing transactions in the form of swaps, which reached a considerable volume in previous years, it should be noted that in January 2010 the ECB Governing Council decided, in agreement with the central banks involved, to cease these transactions in view of the lower demand and of the improvements in the functioning of the financial markets. However, in mid-2010 the ECB decided to continue the liquidity providing arrangements (swap line) with the Federal Reserve until 1 August 2011 in response to

the resurgence of tensions in US dollar denominated short-term funding on the European markets. However, Spanish institutions did not participate in transactions of this kind.

26 LIABILITY ACCRUAL
ACCOUNTS AND INCOME
COLLECTED IN ADVANCE

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

As at 31 December 2010, its balance amounted to €80.96 million, the main component being interest accrued but not yet paid (€74.24 million). The increase in this item in 2010 (€12.30 million) basically resulted from the larger amount of interest incurred on intra-Eurosystem accounts relating to TARGET2 transactions (€13.84 million) and from the interest incurred on the minimum reserves held by credit institutions (€2.02 million) which were payable at year-end. These increases were partly offset by the decrease in the interest payable to remunerate the Fund for the Orderly Restructuring of the Banking Sector (FROB) accounts (€2.28 million) and the Social Security accounts (€1.22 million).

27 OTHER LIABILITIES.—
SUNDRY

This includes other liabilities not classifiable above.

As at 31 December 2010 the balance of this item amounted to €188.84 million (€38.35 million less than in 2009) and its main component was the “Banco de España employee social welfare scheme (Mutualidad de empleados).- Contributions payable” (€72.51 million). The most significant change relates to the decrease of €46.96 million in this debt to the employee social welfare scheme.

28 PROVISIONS

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

EUR m	2010	2009	Change
For exchange rate and interest rate risks	3,957.27	3,808.71	148.57
For early repayment of special loans	786.25	734.01	52.23
For counterparty risks in Eurosystem monetary policy operations	239.07	434.49	-195.42
For credit risk	336.20	168.91	167.29
For operational risk	22.86	22.86	—
For exchange of withdrawn peseta banknotes	50.46	17.70	32.76
For early and regular retirement	25.85	33.05	-7.20
For death and retirement assistance	59.70	72.47	-12.77
For sundry liabilities and charges	1.15	19.84	-18.69
TOTAL	5,478.81	5,312.04	166.77

Provision for exchange rate
and interest rate risks

This is the most important provision. It was created by a resolution of the Executive Commission of 26 January 1999 to cover exchange rate risks affecting the external reserves of the Banco de España. Subsequently, on 14 April 2004 the Executive Commission resolved to extend the purpose of this provision to include the coverage of interest rate risk. The balance of this provision as at 31 December 2010 amounted to €3,957.27 million, which was €148.57 more than in 2009 (see Note 5 on the profit and loss account).

The balance of this provision is revised annually based on the Banco de España’s valuation of its exposure to the aforementioned risks by value-at-risk methodology. This review takes into account, in addition to that valuation, a number of factors, including the esti-

mated profit for the coming year and the envisaged behaviour of risk assets and any others deemed to be worthy of consideration under the circumstances. In this respect, on 30 December 2009 and 2 February 2011 the Executive Commission adjusted to market conditions the methodology used to calculate the provision for exchange rate and interest rate risks. To do so, it set, inter alia, the calculation basis and the percentages of coverage to be applied for exchange rate and interest rate risks in each portfolio.

Provision for losses arising from early repayment of special loans

The agreement in 2007 with the Spanish State government whereby the Treasury can ask to repay a portion or all of these loans early, paying a cash amount equal to their market value instead of their nominal amount, led the Banco de España to set up in that year a provision for losses due to early repayment of special loans, so as to cover the possible losses that may arise from early repayment of these loans (recorded in asset item 8; see Note 9 on the balance sheet). The balance of this provision was set at the difference between the nominal amount and the current market value of the loans. Its balance of €786.25 million as at 31 December 2010 was €52.23 million more than in the previous year.

Provision for counterparty risk in Eurosystem monetary policy operations

In accordance with the general accounting principle of prudence, the ECB Governing Council considered it appropriate in 2008 to establish a buffer totalling €5,736.00 million against counterparty risks in monetary policy operations (see these operations in Note 6 on the balance sheet). In accordance to Article 32.4 of the ESCB/ECB Statute, this buffer will be funded among all Eurosystem national central banks in proportion to their subscribed capital key shares in the ECB prevailing at the time. As a result, the Banco de España recorded a provision of €621.35 million, equivalent to 10.8324% of the total provision, which decreased to €434.49 at the end of 2009. On 4 February 2011 the ECB Governing Council reviewed the adequacy of the amount of this provision with effect as at 31 December 2010 and decided to reduce it from €4,011 million to €2,207 million. As a result, the Banco de España provision was set at €239.07 million and, accordingly, a portion of it amounting to €195.42 million was released (see Note 8 on the profit and loss account).

Provision for credit and operational risks

In 2009 the Executive Commission approved a methodology for calculating the credit risk on Banco de España investment portfolios, as a basis for setting up a provision for credit risk, as well as the percentage of coverage to be applied to the value of the risk exposure. This provision is reviewed yearly in accordance with the valuation made by the Banco de España of its risk exposure. This methodology was used in 2010 to record a provision of €167.29 million, the balance of which reached €336.20 at the end of the year.

Also, the Executive Commission approved in 2009 a methodology for calculating operational risk, to be reviewed yearly. It will be used to set aside a provision for any losses arising from operational risk. Once this exercise had been completed, an analysis of the appropriate amount for this provision concluded that it should have a balance of €22.86 million, the same as in the previous year.

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

This provision was recorded initially in 2005 to cater for the exchange of any peseta banknotes withdrawn from circulation due to the introduction of the euro that may be tendered at the Banco de España. At the same time, the Council of Ministers decided that if the amount of banknotes tendered for exchange exceeded the amount of the provision at that time, the Banco de España would meet the excess with a charge to its reserves.

In November 2010 the balance of the provision fell to zero. Accordingly, pursuant to a resolution of the Executive Commission, an additional €50 million were provisioned (provision for a period of approximately five years), using the Banco de España reserves arising

from the retention of 2005 earnings. At the end of the reporting year this provision had a balance of €48.31 million.

Other provisions

In the reporting year there were decreases in the provision for payments to early and regular retirees as a result of the use thereof for its intended purpose (€7.20 million) and in the provision for sundry risks and expenses (€18.69 million).

29 REVALUATION ACCOUNTS

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

EUR m	Type of account	2010	2009	Change
	Gold	8,705.06	6,087.88	2,617.18
	Foreign currency	468.33	0.25	468.09
	Securities (trading portfolio)	83.73	911.31	-827.58
	Issued in foreign currency by non-euro area residents	40.79	34.67	6.12
	Issued in euro by non-euro area residents	—	2.85	-2.85
	Issued in euro by euro area residents	42.94	873.79	-830.85
	Other	17.47	20.72	-3.25
	TOTAL	9,274.59	7,020.16	2,254.43

The balance of revaluation accounts at end-2010 was €9,274.59, up €2,254.43 on 2009. The main change was in gold, the unrealised gains on which were €2,617.18 million higher as a result of the increase in its market price (up from €766.35 per ounce at 31 December 2009 to €1,055.42 per ounce at 31 December 2010). Its balance at 31 December 2010 was €8,705.06 million.

With regard to fixed-income securities in the trading portfolio, there was a decrease in unrealised gains arising basically on securities issued in euro by euro area residents (€830.85 million), as a result of security price movements driven by interest rates. This decrease was minimally offset by the increase in foreign currency denominated securities issued by non-euro area residents (€6.12 million)

As regards the foreign exchange revaluation accounts, the unrealised gains on foreign currencies increased by €468.09 million, basically due to the appreciation of the US dollar and the SDR against the euro (€405.78 million and €62.19 million, respectively).

30 CAPITAL

As at 31 December 2010 the capital of the Banco de España amounted to €1,000 million, with no change in the year. Of this amount, €1.37 million were constituted pursuant to Decree-Law 18/1962 of 7 June 1962 and €998.63 million as a capital increase carried out in 2006 through the retention of 2005 earnings.

31 RESERVES

As at 31 December 2010 the reserves of the Banco de España amounted to €950 million. This balance is €50 million lower than in the previous year as a result of the recording, with a charge to reserves, of a provision of this amount for exchange of peseta banknotes withdrawn from circulation due to the introduction of the euro (see Note 28 on the balance sheet).

Included in this item is, first, the amount of capital, reserves and profits that arose in 1973 when the now-defunct Spanish Foreign Currency Institute was included in the Banco de

España (€3.17 million) and, second, the portion of 2005 and 2006 profit taken to reserves, authorised by the Council of Ministers, respectively, on 28 July 2006 and 29 June 2007 in application of the legal provisions cited in the previous note.

The net profit for 2010, after deducting the transfer to the Beneficent Social Fund (€25.96 million), amounted to €2,570.00 million, down 3.9% on 2009. Of this amount, €1,316.49 million was paid to the Treasury on 1 December 2010, in accordance with Royal Decree 2059/2008 of 12 December 2008 (see Note 15 on the profit and loss account "Profit for the year").

During the year, the following amounts were also paid to the Treasury out of 2009 profits:

- a) On 1 March 2010, €699.19 million, which, together with the payment in December 2009, amounted to 90% of the €2,673.18 million of distributable profit for that year.
- b) On 13 August 2010, once the balance sheet and profit and loss account for the year 2009 had been approved by the Council of Ministers, €267.32 million, representing the rest of the distributable profit for that year.

The details of the various components of the profit for 2010 and the reasons for the changes in them with respect to 2009 are given in Section 3.3 below on the profit and loss account.

3.3 Notes on the profit and loss account

This item includes income from interest accrued on the main assets of the Banco de España. The breakdown in 2010 and 2009 is as follows:

1 INTEREST INCOME

EUR m and %

	Interest income			Average investment in 2010	Average yield in 2010
	2010	2009	Change		
FOREIGN CURRENCY	285.15	305.63	-20.48	12,702.47	2.2
Securities	266.38	255.82	10.56	8,096.64	3.2
Deposits and other assets	18.74	18.33	0.42	4,605.83	0.4
Exceptional liquidity providing operations	0.02	31.48	-31.45		
EURO	4,165.42	4,364.23	-198.80	202,799.46	2.0
Securities	2,978.79	2,945.21	33.58	86,990.00	3.4
Monetary policy operations	1,006.76	1,280.53	-273.77	99,291.50	1.0
Intra-Eurosystem accounts	160.19	104.18	56.00	16,517.95	1.0
Claims equivalent to the transfer of foreign reserves to the ECB	41.23	52.72	-11.49	4,783.65	0.9
Claims related to allocation of eurobanknotes within the Eurosystem	118.96	51.46	67.50	11,732.79	1.0
Other claims within the Eurosystem (net)	—	—	—	1.51	
Other assets	19.68	34.30	-14.62	—	
TOTAL	4,450.57	4,669.85	-219.28	215,501.93	2.0

Interest income decreased by €219.28 million in 2010 with respect to 2009. This decrease was a result of a fall of €198.80 million in the return on euro-denominated investments and, to a lesser extent, of a decline in income from foreign-currency investments (€20.48 million).

Of the €285.15 million of interest on foreign-currency investments, €266.38 million arose from investments in fixed-income securities denominated in US dollars, €18.74 million from deposits and other assets, and €0.02 million from exceptional liquidity providing operations which generated expenses for the same amount. Interest on this dollar-denominated portfolio increased by €10.56 million and that on deposits and other assets was up by €0.42 million; by contrast, interest on exceptional liquidity providing operations dropped significantly (€31.45 million) due to the small amount of these operations in 2010. Overall, the average return on foreign-currency investments was 2.2%, compared with 3.0% in 2009.

Euro-denominated interest income (€4,165.42 million) arose basically from the securities portfolios (€2,978.79 million, an increase of €33.58 million), monetary policy operations (€1,006.76 million, down €273.77 million) and intra-Eurosystem balances (€160.19 million, up €56.00 million).

The main reason for the decrease of €198.80 million in euro-denominated income with respect to the previous year was the lower average return in the reporting year (down from 2.5% in 2009 to 2.0% in 2010), partly offset by an increase in the average balance of the aforementioned assets (up from €171,070.37 in 2009 to €202,799.46 in 2010).

Specifically, analysis of the average investment made discloses the significant increase in monetary policy operations (€99,291.50 million in 2010 against €80,937.90 million in 2009), derived from the higher funding requested by Spanish financial institutions from the ECB. There was also an increase in claims related to the allocation of euro banknotes, which rose from €4,533.66 million in 2009 to €11,732.79 million in 2010 as a result of changes in banknotes put into circulation (-5.0% in Spain, compared with 4.1% in the Eurosystem as a whole). Investment in securities increased by €6,174.84 million (7.6%), basically in the monetary policy portfolio. It should be noted with regard to this portfolio that in May 2010 purchases began under the securities markets programme, while the covered bond purchase programme was declared to have concluded in June 2010.

2 INTEREST EXPENSE

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

EUR m and %

	Interest expense			Average financing in 2010	Average cost in 2010
	2010	2009	Change		
FOREIGN CURRENCY	10.02	35.19	-25.17	3,115.88	0.3
Swap and forward	0.51	—	0.51		
Exceptional liquidity providing operations	0.02	31.48	-31.45		
Other liabilities	9.48	3.72	5.77	3,115.88	0.3
EURO	1,030.37	970.10	60.27	119,475.45	0.9
Remuneration of minimum reserves	256.30	333.08	-76.79	25,383.94	1.0
Deposit facility	23.81	59.06	-35.25	9,393.71	0.2
Fixed-term deposits	8.64	5.32	3.32	1,659.37	0.5
General government deposits	122.86	147.96	-25.10	22,135.39	0.6
Other liabilities within the Eurosystem (net)	617.49	422.02	195.47	60,903.05	1.0
Other liabilities denominated in euro	1.28	2.65	-1.37		
TOTAL	1,040.39	1,005.29	35.10	122,591.33	0.8

Interest expenses increased by €35.10 million in 2010 as a result of a rise in expenses on euro-denominated liabilities (€60.27 million) and a fall in interest expenses on liabilities denominated in foreign currencies (€25.17 million).

Of the euro-denominated interest expenses (€1,030.37 million), €617.49 million relate to the remuneration of other intra-Eurosystem balances (TARGET2), €256.30 million to remuneration of minimum reserves, €122.86 million to remuneration of general government deposits and the remainder to remuneration of the deposit facility, fixed-term deposits (fine-tuning operations) and other euro-denominated liabilities.

The increase in euro-denominated expenses (€60.27 million) basically resulted from the higher average balance of the aforementioned liabilities, which rose from €87,617.81 million in 2009 to €119,475.45 million in 2010, partly offset by the lower average cost at which they were remunerated, which dropped from 1.1% in 2009 to 0.9% in 2010.

Regarding the net credit balance of intra-Eurosystem balances arising from TARGET2 transactions, interest expenses rose by €195.47 million because of the considerable increase in its average balance with respect to 2009 from €33,514.58 million to €60,903.05 million in 2010, partly offset by the decrease in the average cost (1.0% in 2010 versus 1.2% in 2009).

Interest expenses denominated in foreign currencies (€10.02 million) related almost solely to allocated SDRs (€9.48 million), since in 2010 the volume of exceptional liquidity providing operations was very small and generated expenses of only €0.02 million (€31.48 million in 2009).

3 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

This item includes the profits and losses arising from dealing in financial assets. In 2010 the net gains in this connection amounted to €366.04 million, arising from the following sources:

EUR m	2010	2009	Change
FOREIGN CURRENCY	47.45	-120.27	167.71
Sale of gold	—	—	—
Sale of foreign currency (exchange gains/losses)	31.39	-169.57	200.96
Sale of securities (price gains/losses)	14.85	49.53	-34.68
Other gains/losses	1.20	-0.23	1.43
EURO	318.59	228.81	89.78
Sale of securities (price gains/losses)	318.59	228.81	89.78
TOTAL	366.04	108.54	257.50

Compared with the prior year, the total amount recorded in 2010 increased by €257.50 million due to the gains on the sale of foreign currencies in contrast to the losses in 2009, basically in US dollars (€185.74 million) and SDRs (€14.51 million) and to the higher gains on the sale of euro-denominated fixed-income securities (€89.78 million). These two increases were partly offset by the smaller gains on the sale of US dollar-denominated securities (€34.68 million).

4 UNREALISED LOSSES ON FINANCIAL ASSETS AND POSITIONS

This item includes the loss arising in the currency position derived from the exchange rate depreciation, as well as that arising from depreciation of securities prices, for that portion that cannot be offset by unrealised gains from previous years. The breakdown in 2010 and 2009 is as follows:

EUR m

	2010	2009	Change
FOREIGN CURRENCY	2.97	179.01	-176.04
Foreign currency (exchange rate losses)	0.05	175.57	-175.52
Securities (price losses)	2.92	3.44	-0.52
EURO	790.92	14.11	776.81
Securities (price losses)	790.92	14.11	776.81
TOTAL	793.89	193.12	600.77

Unrealised losses in 2010 amounted to €793.89 million, most of which related to euro-denominated fixed-income securities from the trading portfolio (€790.92 million) as a result of the adverse performance of the price of some securities in this portfolio. Comparison with 2009 shows that these high unrealised losses were responsible for the increase, since in 2009 they amounted to €14.11 million. Also notable was the decrease in unrealised exchange losses denominated in foreign currency (€175.52 million), since there were no losses at end-2010 on either US dollars or SDRs.

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

EUR m

	2010	2009	Change
Transfers to provisions	-1,109.75	-1,066.82	-42.93
Foreign exchange rate and interest rate risk	-942.46	-897.91	-44.55
Credit risk	-167.29	-168.91	1.62
Transfer from exchange rate and interest rate provision	793.89	193.12	600.77
Transfer/reversal from provision for losses arising from early repayment of special loans	-92.10	185.56	-277.66
TOTAL	-407.96	-688.14	280.19

This includes, first, the transfer of €793.89 million from the provision for foreign exchange rate and interest rate risks to cover the losses recorded at end-2010 and, second, the transfer of €942.46 million to this provision to cover the estimated foreign exchange rate and price risks associated with the financial positions subject to such risks, in accordance with the Executive Commission resolution of 10 February 2011.

This item also includes the transfer to the provision for credit risk in accordance with an Executive Commission resolution, amounting to €167.29 million in 2010.

Lastly, regarding the provision for losses arising from early repayment of special loans derived from the adjustment of changes in the market value of these assets, in 2010 the provisioning expense underwent a negative change of €277.66 with respect to 2009, due to the charge of €92.10 million in 2010 as against the recovery of €185.56 million in 2009.

6 NET INCOME FROM FEES AND COMMISSIONS

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

EUR m

	2010	2009	Change
1 Income from fees and commissions	20.07	23.77	-3.70
Foreign operations	0.03	0.02	0.01
Domestic operations	20.05	23.76	-3.71
2 Expenses from fees and commissions	11.12	13.20	-2.08
Foreign operations	3.06	2.96	0.09
Domestic operations	8.06	10.24	-2.17
NET INCOME FROM FEES AND COMMISSIONS (1-2)	8.95	10.57	-1.62

Net fee and commission income in 2010 (€8.95 million) was €1.62 million less than in 2009. This variation relates basically to the lower fee income from securities transactions and the smaller amount of fees and commissions received by the Banco de España from the holders of direct accounts. This lower income was partially offset by the lower expense of fees and commissions paid on security transactions carried out through the Sistema Nacional de Compensación Electrónica (National Electronic Clearing System).

7 INCOME FROM EQUITY
SHARES AND PARTICIPATING
INTERESTS

This item includes the participating interest of the Banco de España in the profit of the ECB from ordinary operations, seignorage income, income generated by the ECB portfolio derived from the security market programme and the dividends on other shares and participating interests.

Of the total amount of €191.04 million recorded, €174.43 million relate to the ECB ordinary dividend, €8.80 million to dividends on the participating interest in Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, SA (BME) and €7.81 million to participating interests in international agencies (Bank for International Settlements).

In 2010 the ECB Governing Council decided not to distribute among the Eurosystem central banks the banknote seignorage income or that generated by its securities portfolio purchased under the security market programme, but rather to retain that income to record a provision for foreign exchange rate, interest rate, credit and gold price risks.

Compared with 2009, the amount recorded in 2010 was €73.10 million higher, basically due to the larger ordinary dividend distributed by the ECB in the reporting year (paid out of 2009 profit), partly offset by the aforementioned absence of an ECB dividend from seignorage income (€93.66 million were allocated to the Banco de España in 2009).

8 NET RESULT OF POOLING
OF MONETARY INCOME

The amount of each Eurosystem NCB's monetary income is determined by calculating the annual income generated by the earmarkable assets held against the liability base. The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET2 transactions whenever they have a credit balance; and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem whenever they have a credit balance. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled. The earmarkable assets include the following items: lending to euro area credit institutions related to monetary policy operations; monetary policy portfolio securities; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions, whenever they have a debit balance; net intra-Eurosystem claims related to the allocation of euro banknotes in the Eurosystem,

whenever they have a debit balance; and a limited amount of each NCB's gold holdings, in proportion to its capital key. Gold is considered to generate no income and the securities acquired under the covered bond purchase programme are deemed to generate income at the interest rate on main refinancing operations. If the value of a NCB's earmarkable assets exceeds or is less than the value of its liability base, the difference will be offset by applying to it the most recent marginal interest rate on main refinancing operations.

The breakdown of this item in 2009 and 2010 is as follows:

EUR m	2010	2009	Change
Monetary income pooled	-1,177.53	-1,349.81	172.28
Monetary income allocated	1,235.58	1,356.94	-121.36
Provision for counterparty risk in monetary policy operations and for ECB losses	195.42	186.86	8.56
TOTAL	253.47	193.99	59.48

The monetary income pooled by the Eurosystem is to be allocated among NCBs according to the ECB subscribed capital key. The difference between the monetary income pooled by the Banco de España in 2010, amounting to €1,177.53 million, and that reallocated to it, amounting to €1,236.86 million, is equivalent to a net allocation of €59.34 million. From this net allocation should be deducted €1.29 million for the Banco de España's share of the losses on Eurosystem monetary policy operations (the expense of the professional consulting and audit services of independent experts and the settlement of the final loss from the insolvency of Indover Bank). Compared with 2009, there was a positive net change of €50.92 million in these results.

Also, with regard to the provision for counterparty risk in Eurosystem monetary policy operations, on 4 February 2011 the ECB Governing Council approved the amounts relating to each NCB. Accordingly, the Banco de España reversed a portion of the provision recorded (€195.42 million out of a total of €434.49 million), resulting in a change of €8.56 million in profit (in 2009 €186.86 million were released).

9 OTHER INCOME AND LOSSES

This includes the income and losses that cannot be included in other items, along with other diverse income of an exceptional nature. It may be broken down as follows:

EUR m	2010	2009	Change
Extraordinary profit	0.35	2.36	-2.01
Employee social welfare scheme	-13.14	-17.80	4.65
Sundry	1.23	2.51	-1.28
TOTAL	-11.56	-12.93	1.36

As can be seen, this item shows a net loss of €11.56 million, which is €1.36 million less than in 2009, basically due to the decrease in the principal of the debt to the employee social welfare scheme (Mutualidad de Empleados), which generated lower expenses of €4.65 million.

10 STAFF COSTS

This item includes the headings "Wages and salaries", "Contributions to pension scheme" and "Social security contributions and employee benefits".

The breakdown of changes by component is as follows:

EUR m and %	2010	2009	Change	(%)
Gross staff costs	230.86	233.04	-2.17	-0.9
Wages and salaries	174.12	177.84	-3.71	-2.1
Social Security	32.27	32.09	0.18	0.5
Staff welfare expenses	18.01	17.05	0.96	5.6
Contributions to Pension Scheme	6.46	6.05	0.41	6.7
Reversal of staff costs due to capitalisation of computer applications	-2.47	-2.07	-0.39	18.9
TOTAL	228.40	230.96	-2.56	-1.1

Its balance decreased from €230.96 million in 2009 to €228.40 million in 2010, a fall of €2.56 million (1.1%). The main reason for this decrease was the wage reduction derived from the application from June of Royal Decree-Law 8/2010 on extraordinary measures to reduce the budget deficit, partly offset by the higher expense of temporary hires (€2.55 million), due basically to Eurosystem projects, and a number of factors of varying nature (wage drift due to promotions, increased social security contributions, medical and pharmaceutical assistance, pension scheme, etc.).

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

	2010	2009	Change	%
AVERAGE NUMBER OF EMPLOYEES	2,733.2	2,745.8	-12.6	-0.5
1 Permanent staff	2,488.7	2,570.9	-82.2	-3.2
Managerial staff	1,485.9	1,476.2	9.7	0.7
Administrative staff	816.5	886.3	-69.8	-7.9
Other	186.3	208.4	-22.2	-10.6
2 Temporary staff	244.5	174.9	69.6	39.8
Managerial staff	131.2	107.8	23.4	21.7
Administrative staff	101.1	59.8	41.3	69.0
Other	12.3	7.4	4.9	65.5

As at 31 December 2010, the Bank's total staff numbered 2,709 employees, 18 fewer than at the same date of the previous year, as a result of the smaller number of permanent employees (down from 2,545 at 31 December 2009 to 2,432 at 31 December 2010, partly offset by a significant rise in temporary hires (95 workers) for the aforementioned reasons. Most noteworthy as regards staff composition by gender was the increase of 47 in the number of women, which, together with the decrease of 65 in the number of men, meant that women now account for 40% of the Bank's total staff.

11 ADMINISTRATIVE EXPENSES

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

EUR m and %

	2010	2009	Change	%
Gross administrative expenses	123.44	123.81	-0.37	-0.3
Renting and maintenance	33.03	32.32	0.71	2.2
Material and supply	11.10	10.97	0.13	1.2
External services	62.76	64.08	-1.32	-2.1
Training, promotion and selection	4.02	3.20	0.81	25.4
Sundry operating expenses	12.53	13.23	-0.70	-5.3
Reversal of administrative expenses due to capitalisation of computer applications	-5.61	-2.30	-3.31	143.9
TOTAL	117.83	121.51	-3.68	-3.0

The above table shows that in 2010 the most significant administrative expenses were external services (€62.76 million), mainly IT services (€38.11 million) and rental and maintenance (€33.03 million), composed mainly of hardware and software rental and maintenance (€15.12 million) and property rental and maintenance (€12.05 million).

Goods and services expenses decreased in 2010 (€3.68 million). The reasons for this decrease were basically the higher recovery of expenses due to capitalisation of computer applications (€3.31 million) and the fall in external services expenses (€1.32 million) due mainly to the lower expense of computer services procurement (€1.07 million).

“External services” include €139,164.25 (including VAT) relating to the fees of the external auditors Deloitte, S.L. for the audits in 2010 of the Bank’s annual accounts and of certain aspects of the Bank’s management of European Central Bank reserves, the latter being the only service provided by the auditor to the Bank. In 2010 no services were received from or amounts paid to other firms related to the auditor.

12 DEPRECIATION OF FIXED ASSETS

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

EUR m and %

	2010	2009	Change	%
Depreciation of buildings, structures and renovation work	2.33	2.27	0.06	2.4
Depreciation of plant in buildings	8.32	7.25	1.07	14.8
Depreciation of furniture and fittings	2.07	1.94	0.12	6.2
Depreciation of office machines other than computer equipment	1.98	1.79	0.19	10.7
Depreciation of computer equipment	5.18	5.31	-0.13	-2.4
Depreciation of transport equipment	0.71	0.83	-0.12	-13.9
Depreciation of other tangible fixed assets	0.30	0.26	0.05	18.3
Depreciation of library collection	0.54	0.51	0.03	5.0
Amortisation of computer applications	5.90	5.42	0.49	9.0
TOTAL	27.34	25.58	1.76	6.9

13 BANKNOTE PRODUCTION SERVICES

This amount (€61.71 million) corresponds to payments made by the Banco de España to purchase banknotes from the National Mint. The decrease with respect to the previous year (€9.74 million) was because in 2010, despite the higher costs due to the rise in VAT, the volume of purchases of €50 and €20 banknotes, with a higher unit cost, decreased,

and, at the same time, a significant volume of €5 banknotes, with a lower unit cost, was purchased (in 2009 no banknotes of this denomination were purchased).

14 TRANSFERS AND ADDITIONS
TO OTHER FUNDS AND
PROVISIONS

The net balance of transfers and applications to other funds and provisions in 2010 amounted to €7.73 million, compared with €75.89 million in 2009. This decrease (€68.16 million) derived basically from the decline of €17.74 million in the provision for sundry risks and expenses relating mainly to litigation finalised in 2010 in favour of the Bank (in 2009 €17.61 million were transferred to this provision) and from the updating of the provision for death and retirement assistance referred to in Article 190 of the Banco de España Conditions of Employment, which entailed a credit of €5.33 million to the profit and loss account. This item also includes transfers to and releases from the provision for operational risks, which in 2010 was used to cover losses arising from operational risk (€0.03 million) and was replenished so as to raise its balance to the agreed level of €22.86 million. The transfer to the Beneficent Social Fund amounted to €25.96 million (€27.00 million in 2009).

The Banco de España, because of the nature of its activity, is not an institution with a high environmental risk. Accordingly, in 2010 it was not considered necessary to record any provision for environmental liabilities and charges.

15 PROFIT FOR THE YEAR

Pursuant to Article 1.1.b) of Royal Decree 2059/2008 of 12 December 2008, the Banco de España must pay into the Treasury, on the first working day of March 2011, 90% of the profits earned and recorded up to 31 December of the previous year, less the amount paid on 1 December of the previous year.

On 1 December 2010 the Banco de España paid into the Treasury €1,316.49 million, equal to 70% of the profit recorded as at 30 September 2010.¹³

Once the year had ended, and taking into account that the provisional profits amounted to €2,570.00 million and that 90% of the profits was €2,313.00 million, a payment of €996.51 million was made to the Treasury on 1 March 2011.

The payments to the Treasury of 2010 profit are as follows:

EUR m

1	Total profit for 2010	2,570.00
2	Payments to the Treasury	2,313.00
	On 1.12.2010	1,316.49
	On 1.3.2011. Difference between the above amount and 90% of profit as at 31.12.2010	996.51
3	Profit payable to the Treasury	257.00
	At date of approval of the 2010 accounts	257.00

3.4 Changes in capital,
reserves, provisions
and revaluation
accounts

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

¹³ Pursuant to the aforementioned Royal Decree, the payment resolution must take into consideration the foreseeable performance of profits up to the end of the year. For this reason, account was taken of a number of factors which entailed a risk of lower profit estimated at €802.77 million. Accordingly, this amount was subtracted from the Banco de España profit of €2,683.47 million as at 30 September, resulting in a profit of €1,880.70 million, 70 % of which was paid into the Treasury.

EUR m

	Capital	Reserves	Revaluation accounts	Undistributed profit	Provisions	Total
A) 2010 OPENING BALANCE	1,000.00	1,000.00	7,020.16	966.51	5,312.04	15,298.72
1 UNRECOGNISED NET GAINS IN PROFIT AND LOSS			2,254.43			2,254.43
In gold			2,617.18			2,617.18
In foreign currency			468.09			468.09
In securities			-827.58			-827.58
Other			-3.25			-3.25
2 2010 PROFIT				2,570.00		2,570.00
3 CHANGE IN PROVISIONS		-50.00			166.77	116.77
4 APPROPRIATION OF PROFIT				-2,283.00		-2,283.00
Payment to the Treasury of 2009 profit				-966.51		-966.51
Payment to the Treasury of 2010 profit				-1,316.49		-1,316.49
B) CHANGES IN THE YEAR. B = 1+2+3+4	—	-50.00	2,254.43	287.00	166.77	2,658.19
C) 2010 CLOSING BALANCE. C = A + B	1,000.00	950.00	9,274.59	1,253.51	5,478.81	17,956.91

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

4 SPECIFIC INFORMATION REQUIRED BY ARTICLE 4.2 OF THE LAW OF AUTONOMY OF THE BANCO DE ESPAÑA OF 1 JUNE 1994

4.1 Contributions made by the Bank to the Deposit Guarantee Funds

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

The aforementioned Royal Decree-Law established that the Deposit Guarantee Funds may only exceptionally “be supplemented by contributions from the Banco de España, the amount of which shall be fixed by Law”. In 2010 the Banco de España made no contributions whatsoever to these Funds.

4.2 Loss of profit

The table below shows the loans outstanding in 2010 with interest rates below the reference rates used, in order to estimate the loss of profit for the year pursuant to the provisions of Article 4.2 of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España.

EUR m and %

Type of credit/loan	Average balance in 2010	Interest rate received (%)	Reference interest rate (%)	Estimated loss of profit
Net State debt	3,937.24	—	1.00	39.37
Housing loans and repayable advances to employees	41.70	0.13	1.00	0.36
Housing loans	7.46	0.75	1.00	0.02
Repayable advances	34.24	—	1.00	0.34
TOTAL	3,978.95	0.00	1.00	39.73

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

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

4.3 Other transactions

On 26 March 2007 an agreement was entered into with the State government to bring forward the repayment schedule of the loans granted to the State prior to the entry into force of Law 21/1993 of 29 December 1993 on the State Budget for 1994 (Law 3/1983 loan, Law 4/1990 loan and credits arising from subscription for participating interests, contributions and quotas in international agencies), such that they all reach final maturity by 2015 at the latest and the Treasury can request early repayment of part or all of these facilities, paying on the due date the effective market price instead of the nominal amount. Under this agreement, in 2010 payment was received of two instalments of the first of the aforementioned facilities (that for the reporting year and the last outstanding instalment of the original repayment schedule), along with the reporting year instalments of the other two facilities, the repayment date of all of them being brought forward from 31 December to 30 April. In accordance with the foregoing, on 30 April 2010 the Treasury paid to the Banco de España the amount of €543.60 million, the effective market price of the debt repaid on that date.

ANNEXES

1 REPORT OF THE EXTERNAL AUDITORS

Deloitte.

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28020 Madrid
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Translation of a report originally issued in Spanish based on our work performed in accordance with International Standards on Auditing. In the event of a discrepancy, the Spanish- language version prevails.

To the Governor of the Banco de España:

We have audited the financial statements of the Banco de España which, in accordance with Article 29.1 of its Internal Rules, comprise the balance sheet at 31 December 2010 and the related income statements and notes to the financial statements for the year then ended.

Responsibility for the financial statements

The Executive Commission of the Banco de España is responsible for organising the Bank and appointing its directors general. Under the Internal Rules of the Banco de España, the Directorate General Services is responsible for preparing the financial statements in accordance with the internal accounting rules and principles of the Banco de España, which are indicated in Note 3.1 to the accompanying notes to the financial statements and are based on the accounting regulations established for the member central banks of the European System of Central Banks. This responsibility, which is exercised through the Control, Budget and Accounting Department, includes the supervision of operations and, therefore, the design, implementation and maintenance of the relevant internal controls required for the preparation and adequate presentation of financial statements that are free from material misstatements due either to fraud or error; the selection and application of appropriate accounting rules; and the performance of the estimates considered to be reasonable in the circumstances (see Note 3.1.3. of the accompanying financial statements). Pursuant to Article 21. g) of Law 13/1994, of 1 June, on the Autonomy of the Banco de España, these financial statements are prepared by the Governing Council of the Banco de España.

Responsibility of the auditor

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

An audit entails the performance of procedures designed to obtain evidence supporting the amounts and disclosures contained in the financial statements. The procedures selected depend on the auditor's judgment, which includes the assessment of the risks of the occurrence of material misstatements or irregularities in the financial statements due either to fraud or error. In assessing these risks, the auditor considers the internal control system applicable to the preparation and adequate presentation of the financial statements by the entity, in order to design audit procedures that are appropriate in view of the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes the evaluation of the adequacy of the accounting policies used and of the reasonableness of the accounting estimates made by the entity, as well as an assessment of the overall presentation of the financial statements. We consider that the evidence we have obtained is sufficient and adequate to provide a basis on which to express our audit opinion.

Opinion

In our opinion, the accompanying financial statements for 2010 present fairly, in all material respects, the net worth and financial position of the Banco de España at 31 December 2010 and the results of its operations in the year then ended, in conformity with the internal accounting rules and principles of the Banco de España, which are indicated in Note 3.1 to the accompanying financial statements and are based on the accounting regulations established for the member central banks of the European System of Central Banks.

DELOITTE, S.L.



Miguel Ángel Bailón

26 May 2011

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid

2 REPORT OF THE AUDIT COMMITTEE

We the undersigned, Ángel Luis López Roa, Ana María Sánchez Trujillo and Carmen Alonso Ledesma, are members of the Governing Council of the Banco de España and of the Audit Committee appointed by the Governing Council. In accordance with Article 29 of the Internal Rules of the Banco de España, we were given the task of reviewing the accounts of the Institution for the year 2010.

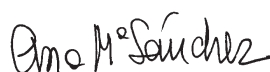
As required by the aforementioned precept, the Audit Committee has analysed the operations of the Banco de España. This examination basically involved: 1) studying the annual accounts of the Banco de España for the year 2010, prepared by the Directorate General Services of the Banco de España; 2) studying the audit of the balance sheet and profit and loss account of the Banco de España for 2010, conducted by the Internal Audit Department; 3) studying the documentation requested by the members of this Committee from the independent external auditors; 4) interviewing the persons responsible for the independent external audit, for the Internal Audit Department and for the Control, Budget and Accounting Department; and 5) making proposals for the modification, correction or clarification of various matters, all of which have been satisfactorily incorporated in the annual accounts by the Control, Budget and Accounting Department.

The basic conclusion of our report is that from the analysis carried out of the examination and accounting procedures, of the accounting records and of the internal controls in place, it can be inferred that the annual accounts for the year 2010 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 5 May 2011.



ÁNGEL LUIS LÓPEZ ROA



ANA MARÍA SÁNCHEZ TRUJILLO



CARMEN ALONSO LEDESMA