

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 of Economic Affairs and Competitiveness, 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 2010 are presented solely for comparison with 2011. Due to rounding, on occasions the totals included in the balance sheet, profit and loss account and notes on the annual accounts may not equal the sum of the individual figures.

This document presents the accounts for the year 2011. Section 2 includes the balance sheet and profit and loss account at 31 December 2011; 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 Fund and the loans and transactions agreed on other than an arm’s-length basis or which in any other way entail a loss of profit or losses for the Bank, 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.

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), as amended.

2 BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2011

EUR m

	Note number	2011	2010
ASSETS			
1 Gold and gold receivables	1	11,017.18	9,555.49
2 Claims on non-euro area residents denominated in foreign currency		25,019.85	14,040.29
2.1 Receivables from the IFM	2	5,803.75	4,782.17
2.2 Balances with banks and security investments, external loans and other external assets	3	19,216.10	9,258.12
3 Claims on euro area residents denominated in foreign currency	4	4,250.73	0.06
4 Claims on non-euro area residents denominated in euro		844.31	907.25
4.1 Balances with banks, securities investments and loans	5	844.31	907.25
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	168,196.45	61,550.47
5.1 Main refinancing operations		11,422.10	20,285.31
5.2 Longer-term refinancing operations		156,677.80	39,662.77
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		96.55	17.39
6 Other claims on euro area credit institutions denominated in euro		2.74	2.04
7 Securities of euro area residents denominated in euro	7	106,385.64	87,827.96
7.1 Securities held for monetary policy purposes		31,080.11	13,906.71
7.2 Other securities		75,305.53	73,921.24
8 General government debt denominated in euro	8	3,498.51	4,081.98
9 Intra-Eurosystem claims	9	32,177.68	20,945.82
9.1 Participating interest in ECB		940.10	801.70
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		26,453.93	15,360.48
9.5 Other claims within the Eurosystem (net)		—	—
10 Items in course of settlement		1.29	1.06
11 Other assets		4,172.85	3,708.73
11.2 Tangible and intangible fixed assets	10	268.51	254.61
11.3 Other financial assets	11	46.76	47.18
11.4 Off-balance sheet instruments revaluation differences	12	—	—
11.5 Accruals and prepaid expenses	13	2,439.70	1,891.39
11.6 Sundry	14	1,417.88	1,515.55
TOTAL ASSETS		355,567.23	202,621.16

BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2011 (cont'd)

EUR m

	Note number	2011	2010
LIABILITIES			
1 Banknotes in circulation	15	97,024.85	91,917.98
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	16	50,933.71	26,964.03
2.1 Current accounts (covering the minimum reserve system)		14,561.25	19,950.00
2.2 Deposit facility		33,335.00	6,997.50
2.3 Fixed-term deposits		3,000.00	—
2.4 Fine-tuning reverse operations		—	—
2.5 Deposits related to margin calls		37.46	16.53
3 Other liabilities to euro area credit institutions denominated in euro		0.02	0.14
5 Liabilities to other euro area residents denominated in euro		5,570.05	9,488.74
5.1 General government	17	5,425.69	9,336.63
5.2 Other liabilities	18	144.35	152.11
6 Liabilities to non-euro area residents denominated in euro	19	380.75	400.15
7 Liabilities to euro area residents denominated in foreign currency		1.08	0.93
8 Liabilities to non-euro area residents denominated in foreign currency		0.78	0.76
8.1 Deposits, balances and other liabilities		0.78	0.76
8.2 Liabilities arising from the credit facility under ERM II		—	—
9 Counterpart of special drawing rights allocated by the IMF	20	3,355.46	3,272.05
10 Intra-Eurosystem liabilities	21	174,826.42	50,864.34
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)		174,826.42	50,864.34
11 Items in course of settlement	22	240.47	138.39
12 Other liabilities		506.24	300.24
12.1 Off-balance-sheet instruments revaluation differences	23	110.92	30.43
12.2 Accruals and income collected in advance	24	161.00	80.96
12.3 Sundry	25	234.32	188.84
13 Provisions	26	6,365.20	5,478.81
14 Revaluation accounts	27	12,012.07	9,274.59
15 Capital and reserves		1,950.00	1,950.00
15.1 Capital	28	1,000.00	1,000.00
15.2 Reserves	29	950.00	950.00
16 Profit for the year	30	2,400.13	2,570.00
TOTAL LIABILITIES		355,567.23	202,621.16

PROFIT AND LOSS ACCOUNT OF THE BANCO DE ESPAÑA FOR THE YEAR ENDING 31 DECEMBER 2011

EUR m

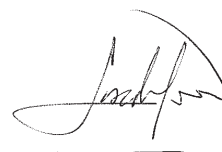
	Note number	2011	2010
1 Interest income	1	5,273.93	4,450.57
2 Interest expense	2	1,341.45	1,040.39
3 Net interest income (1 – 2)		3,932.49	3,410.18
4 Realised gains/losses arising from financial operations	3	101.29	366.04
5 Write-downs on financial assets and positions	4	467.61	793.89
6 Transfer to/from provisions for foreign exchange rate and price risks	5	-1,081.34	-407.96
7 Net result of financial operations, write-downs and risk provisions (4 – 5 + 6)		-1,447.66	-835.81
8 Fees and commissions income		17.57	20.07
9 Fees and commissions expense		10.68	11.12
10 Net income from fees and commissions (8 – 9)	6	6.89	8.95
11 Income from equity shares and participating interests	7	109.64	191.04
12 Net result of pooling of monetary income	8	211.05	253.47
13 Other income and losses	9	40.23	-11.56
14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)		2,852.63	3,016.27
15 Staff costs	10	230.90	228.40
16 Administrative expenses	11	116.61	117.83
17 Depreciation of tangible and intangible fixed assets	12	31.86	27.34
18 Banknote production services	13	54.71	61.71
19 Other expenses		2.89	3.27
20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)		436.97	438.54
21 Transfers and additions to other funds and provisions	14	15.53	7.73
22 PROFIT FOR THE YEAR (14 – 20 – 21)	15	2,400.13	2,570.00

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, and affect the foreign currency position from that date. Gains and losses on the spot sale of

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

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

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

Accrued interest denominated in foreign currency is recorded on a daily basis, generally using the mid-market rate on each day. If the rate on the relevant day is not available, the latest mid-market rate available shall be applied. Accrued interest receivable or payable denominated in foreign currency 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 and 4 June 2009, 9 May 2010 and 6 October 2011).

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, duly authorised circumstances.

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 on the last day of the year.

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

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

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

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 special 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 26 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 8 and 26 on the balance sheet and Note 5 on 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. Unrealised gains or losses will be calculated as the positive or negative difference, respectively, between the underlying book value of the shares and their carrying amount at the Banco de España. Gains will be debited to an adjustment account which, when added to the account representing the investment, will show the aforementioned underlying book value according to the investee's balance sheet, and will be credited to a revaluation account. Losses, which will be considered to be unrecoverable until the shares are sold, will be recorded as a direct reduction of the value of the investment, being debited to the profit and loss account.

Tangible and intangible fixed assets

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

Computer applications developed for the Eurosystem as a whole are recognised as fixed assets for the related acquisition cost, which is normally calculated on the basis of the Banco de España's share of the ECB capital key.

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 2011 were as follows:

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

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

Banknotes in circulation

The ECB and the 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.

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.

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).

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 progressively reduced in annual stages until the end of 2007. However, this mechanism has also been applied in the case of new Member States adopting the euro so as to calculate the amount of compensation corresponding to each of them under the aforementioned calculation method. 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 securities purchased under the Securities Markets Programme 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

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).

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.

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).

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 26 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.

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 or 12.1 on the liabilities side, depending on their sign.

As a general rule, profits and losses arising from off-balance-sheet positions are recognised and treated in a similar manner to those arising from on-balance-sheet assets and liabilities. Specifically, in application of the economic approach, the gains and losses on positions in interest rate futures are considered to be realised at the time when they are settled net each day. 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, income, expenses, commitments and, in particular, provisions recorded in them (see Note 26 on the balance sheet). As regards monetary policy operations, since they are conducted jointly in the Eurosystem, the estimates made by the European System of Central Banks are also taken into account [see Notes 6 and 7.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-2011, 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

The Banco de España's gold holdings amount to €11,017.18 million, consisting of 9.054 million troy ounces⁹ of fine gold valued at a market price of €1,216.86 per ounce. These holdings did not change during the financial year. The value of these holdings is €1,461.69 million more than in 2010, as a result of the rise in the market price (at end-2010 the price per ounce was €1,055.42). This increase is included in the liability revaluation accounts. The cost of the gold holdings is €850.43 million.

1 GOLD AND RECEIVABLES

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

This item has three components:

- a) The position in the International Monetary Fund (IMF) in the reserve tranche. This is the euro equivalent of the SDRs relating to the foreign currencies assigned to the IMF due to Spain's initial quota and successive increases in it and due to the net financing granted to the IMF. Spain's quota in the IMF was increased on 16 March 2011 from SDR 3,048.90 million to SDR 4,023.40 million.
- 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 Trust (PRGT) and the bilateral loan agreements between the

⁹ One troy ounce is equal to 31.1035 grams.

IMF and Spain, these latter currently included in the NAB. For the PRGT, the Banco de España has given a commitment to contribute, through concessional lending to low-income countries, up to SDR 830 million, the amount drawn down at end-2011 being €391.88 million (SDR 330.29 million). The NAB agreements concluded to support the IMF's ability to provide balance of payments assistance to its members were expanded to SDR 6,702.18 from 1 April 2011 and the transactions carried out in 2011 totalled €829.22 million (SDR 698.76 million).

The breakdown in 2010 and 2011 is as follows:

EUR m

Type of asset	2011	2010	Change
Reserve tranche position	1,421.01	692.76	728.25
Special drawing rights (allocation)	3,161.64	3,394.22	-232.58
Other claims on the IMF	1,221.10	695.19	525.91
TOTAL	5,803.75	4,782.17	1,021.58

The overall amount of claims on the IMF increased by €1,021.58 million with respect to the balance at end-2010.

The increase in the reserve tranche position account (€728.25 million) is basically due to the Banco de España's net contributions to the IMF for loans to third countries (Ireland, Greece and Portugal) and to the increase in Spain's quota. Of this increase, €692.92 million related to the net increase in amounts denominated in foreign currencies and €35.32 million to the effect of the change in market foreign exchange rates between the two years.

The decrease of €232.58 million in the special drawing rights (allocation) account was due to the decline in foreign currency (€311.17 million) resulting from the rise in the IMF quota, which was paid in SDRs, and from net effect of loan disposals and repayments. The effect of the year-end market foreign exchange rates accounted for an increase of €78.60 million.

The "Other claims on the IMF" account increased by €525.91 million. This account includes the loans granted under the NAB and under the PRGT programme. The contributions under the former increased substantially due to new transactions with Greece, Ireland and the Dominican Republic (€519.77 million), while the relative weight of the latter (PRGT), decreased because, although new programmes were undertaken (PRGT 19 and 20), they were outweighed by partial repayments (net reduction of €11.58 million). The change of €525.91 million arises from the overall effect of two factors: the increase in foreign currency due to the execution of the two programmes, amounting to €495.56 million (SDR 428.24 million), and the effect of the change in foreign exchange rates between the two years, amounting to €30.36 million.

SDRs are valued at the year-end market rate, calculated by the ECB for all the Eurosystem national central banks, of €1 = SDR 0.842673. 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 at an average of 0.40%, with a high of 0.59% and a low of 0.11% 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 2011 was €19,216.10 million, with the following breakdown:

EUR m

Type of asset	2011	2010	Change
Deposits	102.07	142.11	-40.04
Security investments	19,111.20	9,115.69	9,995.51
Trading portfolio	11,364.02	3,712.65	7,651.37
Held-to-maturity portfolio	7,747.17	5,403.04	2,344.13
Other	2.83	0.32	2.51
TOTAL	19,216.10	9,258.12	9,957.98

As at 31 December 2011, 99.97% 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 1.2939).

The increase in the balance of this item (€9,957.98 million) was due to the net effect of the factors listed in the following table:

EUR m

Reason for change	Amount
Net investment	9,402.96
Changes of market exchange rates as at 31 December	608.28
Changes of securities market prices as at 31 December	14.47
Accrued interest receivable	-67.78
Other	0.05
TOTAL	9,957.98

4 CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This balance sheet item may include current accounts, balances with banks and security investments. The balance of €4,250.73 million at 31 December 2011 includes a claim arising from reverse operations with Eurosystem counterparties amounting to €4,250.71 million in connection with the US dollar Term Auction Facility. In mid-2010 and, subsequently, in 2011, the ECB decided to continue the US dollar liquidity providing arrangements (swap line) with the Federal Reserve in response to the resurgence of tensions in US dollar denominated short-term funding on the European markets. Thus US dollars were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct dollar liquidity-providing operations with the Eurosystem counterparties in the form of repos and received euro-denominated securities from them as collateral. These back-to-back swap transactions between the ECB and the Eurosystem NCBs give rise to intra-Eurosystem balances reported under “Other claims within the Eurosystem (net) / Other liabilities within the Eurosystem (net)”.

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

Included here is the balance of current accounts at correspondents and trading and held-to-maturity portfolio securities denominated in euro. The held-to-maturity portfolio consists of 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	2011	2010	Change
Deposits	0.19	0.20	-0.01
Security investments	844.12	907.05	-62.93
Trading portfolio	—	—	—
Held-to-maturity portfolio	844.12	907.05	-62.93
TOTAL	844.31	907.25	-62.94

Of the total of this heading (€844.31 million), most (€844.12 million) relates to fixed-income securities included in the held-to-maturity portfolio, which decreased by €62.93 million with respect to the balance as at 31 December 2010. 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, as in 2010, had a zero balance at the end of the reporting year.

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 €863,568 million, of which €168,196.45 are included in the balance sheet of the Banco de España. Pursuant to Article 32.4 of the ESCB/ECB Statute, any counterparty risk that may materialise in monetary policy operations must be shared by all Eurosystem central banks in proportion to their share of the subscribed capital of the ECB according to the capital keys in force when this risk materialises (see the provision for counterparty risks in Eurosystem monetary policy operations, in Note 26.- Provisions).

The breakdown by type of transaction is as follows:

EUR m

Type of operation	2011	2010	Change
Main financing operations	11,422.10	20,285.31	-8,863.20
Longer-term refinancing operations	156,677.80	39,662.77	117,015.03
Fine-tuning reverse operations	—	1,585.00	-1,585.00
Structural reverse operations	—	—	—
Marginal lending facility	—	—	—
Credits related to margin calls	96.55	17.39	79.16
TOTAL	168,196.45	61,550.47	106,645.98

Throughout the whole of 2011, 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 2011 is 173.3 % higher than that of 2010. However, the average daily balance of the financing granted during the year decreased by 28.4% (€71,064.16 million in 2011, against €99,291.50 million in 2010).

- 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 2011, continuing the trend initiated in previous years, they were used less than longer-term refinancing operations. In this connection, it should be noted that 37.5 % of annual average financing was extended through them. In 2011 these operations were conducted at fixed rate with allotment of the total amount bid.
- The balance of this item at 31 December 2011 was €11,422.10 million (€20,285.31 million at 31 December 2010) and its daily average balance during the year was €26,662.79 million (€12,270.58 million in 2010).
- b Longer-term refinancing operations These operations aim to provide counterparties with additional longer-term refinancing. In 2011 operations were conducted with maturities equal to the reserve maintenance period and with maturities of three, six, twelve and thirty-six months. These operations were conducted at fixed rate with allotment of the total amount bid.
- The balance of these operations at end-2011 amounted to €156,677.80 million (93.2% of the total), having increased by €117,015.03 million with respect to the previous year. However, the average balance decreased (from €86,561.06 million in 2010 to €44,141.74 million in 2011), representing 62.1% of overall financing in the year. Most of the increase in the balance of this item took place in the closing days of the year due to the 36-month financing operation on 21 December 2011.
- 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.
- In 2011 one fine-tuning reverse operation took place in the Eurosystem. As a result of it, financing was obtained by Spanish credit institutions. Its end-2011 balance was zero.
- d Structural reverse operations These are reverse open-market transactions through standard tenders to enable the Eurosystem to adjust its structural liquidity position vis-à-vis the financial sector.
- The end-2011 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 2011 was zero. As in 2010, 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 16 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 2011 this item had a balance of €96.55 million, up €79.16 million with respect to the previous year.

7 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

a Securities held for monetary policy purposes

This item includes the amount of euro-denominated fixed-income securities issued by euro area residents which were acquired by the Banco de España for monetary policy purposes under covered bond purchase programmes¹⁰ and under the securities markets programme.¹¹ These securities were classified as held-to-maturity (see “Securities” in Section 3.1 “Accounting policies”). The balance of this item at 31 December 2011 was €31,080.11 million and there was no objective evidence that these assets were impaired at year-end. The breakdown is as follows:

EUR m

Monetary Policy Portfolio	2011	2010	Change
Covered bond purchase programme	6,337.86	6,524.01	-186.15
Second covered bond purchase programme	266.01	–	266.01
Securities market programme	24,476.23	7,382.70	17,093.53
TOTAL	31,080.11	13,906.71	17,173.40

The securities purchases under the first covered bond purchase programme were completed in June 2010. The decrease in the balance of this portfolio is due to the redemption of securities and to the premiums and discounts relating thereto which were applied throughout 2011.

On 6 October 2011 the ECB Governing Council announced a second covered bond purchase programme. Under this programme, in November 2011 the European Central Bank and the Eurosystem central banks initiated the purchase of euro-denominated covered bonds issued by euro area residents in order to improve the financing conditions of credit institutions and firms and to encourage banks to maintain and increase lending to their customers. It is expected that these purchases will be completed by the end of October 2012.

Under the securities markets programme established in May 2010, the Eurosystem central banks may purchase public and private euro area debt securities in order to ensure depth and liquidity in those market segments displaying dysfunctional behaviour. The purpose of this programme is to address the poor functioning of securities markets and re-establish an appropriate monetary policy transmission mechanism. The net increase in this item in 2011 was due to the purchases made.

The total amount of the securities acquired by all Eurosystem NCBs under the aforementioned securities markets programme amounted to €194.2 billion, of which €24,476.23

¹⁰ Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16) and Decision of the ECB of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17).

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

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.

Against this background, the ECB Governing Council considered the impact of the participation of the private sector in the initiative undertaken in 2011 (PSI), which proposed the restructuring of a part of the debt issued by the Hellenic Republic in order to ensure its long-term sustainability. A part of the Banco de España's holdings under the securities markets programme consists of bonds issued by the Hellenic Republic. However, taking into account that the initiative was designed as a voluntary restructuring of debt held by the private sector, no changes are expected in the future flows associated with holdings of these securities. On 31 December 2011 the ECB Governing Council considered that there was no evidence for assuming that the initiative would be unsuccessful and, accordingly, there was no need to record any impairment of these securities at year-end.

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	2011	2010	Change
Trading portfolio	40,160.88	33,027.21	7,133.67
Held-to-maturity portfolio	35,144.65	40,894.03	-5,749.38
TOTAL	75,305.53	73,921.24	1,384.29

The balance of this item as at 31 December 2011 was €75,305.53 million, of which 53.3% relate to trading portfolio securities and the remainder (46.7%) to held-to-maturity securities, with no evidence of impairment at year-end.

Overall, these securities increased by €1,384.29 million in 2011. It was, however, trading securities which underwent an increase, of €7,133.67 million, whereas held-to-maturity securities decreased by €5,749.38 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/amortization of securities	7,120.21	-5,714.92	1,405.29
Unrealised gains at year-end (a)	192.42	—	192.42
Unrealised losses at year-end (a)	-463.14	—	-463.14
Accrued implicit interest	284.18	-34.46	249.72
TOTAL	7,133.67	-5,749.38	1,384.29

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.

c Post-balance-sheet events

In February 2012 the Eurosystem central banks changed their holdings of Greek sovereign bonds for new securities issued by the Hellenic Republic. The recently received securities have the same financial characteristics as those given up. The new securities are not included in the list of those restructured under the private sector participation initiative.

8 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 26 on the balance sheet).

Under that agreement, in 2011 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 collected.

The outstanding nominal balance as at 31 December 2011 of the loans granted to the State amounted to €3,498.51 million, broken down as follows:

EUR m

	2011	2010	Change
Treasury. Law 3/1983 special account	781.01	976.26	-195.25
Treasury. Law 4/1990 special account	2,431.79	2,779.19	-347.40
Treasury. Credits arising from subscription for participating interests, contributions and quotas in international agencies	285.72	326.53	-40.82
TOTAL	3,498.51	4,081.98	-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.

9 INTRA-EUROSISTEM
LIABILITIES

This heading includes the amounts of the following items:

EUR m

Type of asset	2011	2010	Change
Participating interest in the ECB	940.10	801.70	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	26,453.93	15,360.48	11,093.45
TOTAL	32,177.68	20,945.82	11,231.85

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.¹² The first of these payments took place on 29 December 2010, the second on 28 December 2011 and the remaining instalment will be paid at the end of 2012. With this second payment, the capital disbursed by the Banco de España reached €755.16 million.

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

EUR

	Subscribed capital	Paid-up capital as at 31 December 2010	Paid-up capital as at 31 December 2011
Nationale Bank van België/Banque Nationale de Belgique	261,010,384.68	180,157,051.35	220,583,718.02
Deutsche Bundesbank	2,037,777,027.43	1,406,533,694.10	1,722,155,360.77
Eesti Pank (a)	19,261,567.80	722,308.79	16,278,234.47
Central Bank and Financial Services Authority of Ireland	119,518,566.24	82,495,232.91	101,006,899.58
Bank of Greece	211,436,059.06	145,939,392.39	178,687,725.72
Banco de España	893,564,575.51	616,764,575.51	755,164,575.51
Banque de France	1,530,293,899.48	1,056,253,899.48	1,293,273,899.48
Banca d'Italia	1,344,715,688.14	928,162,354.81	1,136,439,021.48
Central Bank of Cyprus	14,731,333.14	10,167,999.81	12,449,666.48
Banque centrale du Luxembourg	18,798,859.75	12,975,526.42	15,887,193.09
Central Bank of Malta	6,800,732.32	4,694,065.65	5,747,398.98
De Nederlandsche Bank	429,156,339.12	296,216,339.12	362,686,339.12
Oesterreichische Nationalbank	208,939,587.70	144,216,254.37	176,577,921.04
Banco de Portugal	188,354,459.65	130,007,792.98	159,181,126.31
Banka Slovenije	35,381,025.10	24,421,025.10	29,901,025.10
Národná banka Slovenska	74,614,363.76	51,501,030.43	63,057,697.10
Suomen Pankki – Finlands Bank	134,927,820.48	93,131,153.81	114,029,487.14
Subtotal for euro area NCBs	7,529,282,289.35	5,184,359,697.03	6,363,107,289.36
Българска народна банка (Bulgarian National Bank)	93,467,026.77	3,505,013.50	3,505,013.50
Česká národní banka	155,728,161.57	5,839,806.06	5,839,806.06
Danmarks Nationalbank	159,634,278.39	5,986,285.44	5,986,285.44
Latvijas Banka	30,527,970.87	1,144,798.91	1,144,798.91
Lietuvos bankas	45,797,336.63	1,717,400.12	1,717,400.12
Magyar Nemzeti Bank	149,099,599.69	5,591,234.99	5,591,234.99
Narodowy Bank Polski	526,776,977.72	19,754,136.66	19,754,136.66
Banca Națională a României	265,196,278.46	9,944,860.44	9,944,860.44
Sveriges Riksbank	242,997,052.56	9,112,389.47	9,112,389.47
Bank of England	1,562,145,430.59	58,580,453.65	58,580,453.65
Subtotal for non-euro area NCBs	3,231,370,113.23	121,176,379.25	121,176,379.25
TOTAL (b)	10,760,652,402.58	5,305,536,076.26	6,484,283,668.61

a On 1 January 2011 the central bank of Estonia joined the Eurosystem.

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

¹² Decision of the ECB of 13 December 2010 on the increase of the European Central Bank's capital (ECB/2010/26) and Decision of the ECB of 13 December 2010 on the paying-up of the increase of the European Central Bank's capital by the national central banks of Member States whose currency is the euro (ECB/2010/27).

As regards the Banco de España, the above table shows that its subscribed capital is €893.56 million, equivalent to 8.3040% of the ECB's capital stock. As at 31 December 2011, the capital disbursed by the Banco de España amounted to €755.16 million following the payment made on 28 December 2011.

This item also includes the participating interest in ECB equity. Its balance of €184.94 million at 31 December 2011, as in 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. Accordingly, the Banco de España's share in ECB capital is €940.10 million.

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 €26,453.93 million at end-2011, 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 2010 (€11,093.45 million) was due to the decrease in banknotes put into circulation by the Banco de España in 2011 (-7.8%) and the contrasting rise in the Eurosystem as a whole (growth of 5.8%), 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 21 on the balance sheet).

10 OTHER ASSETS. TANGIBLE AND INTANGIBLE FIXED ASSETS

The balance of this item amounted to €268.51 million at end-2011, of which €619.86 million related to cost and €351.35 million to accumulated depreciation.

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

EUR m

	2011	2010	Change
TANGIBLE FIXED ASSETS	496.25	485.85	10.40
Land and unbuilt plots	5.35	5.35	—
Buildings, structures and renovation work	107.34	107.45	-0.12
Plant in buildings	174.99	171.72	3.27
Furniture and fittings	37.64	37.19	0.45
Office machines other than computer equipment	53.92	48.20	5.72
Computer equipment	58.97	58.59	0.38
Transport equipment	8.53	8.52	0.01
Libraries	5.42	5.59	-0.17
Other tangible fixed assets	4.99	4.31	0.68
Art collection	39.11	38.93	0.18
INTANGIBLE FIXED ASSETS	72.25	60.42	11.83
Computer applications	72.19	60.36	11.83
Industrial property	0.06	0.06	—
FIXED ASSETS IN PROGRESS	51.37	46.90	4.47
Buildings, plant in buildings and other structures	16.44	24.45	-8.01
Computer applications of Banco de España	15.21	19.24	-4.04
Computer applications of Eurosystem	19.29	—	19.29
Other fixed assets in progress	0.43	3.21	-2.78
TOTAL	619.86	593.17	26.69

EUR m

	2011	2010	Change
Accumulated depreciation or amortization			
TANGIBLE FIXED ASSETS	-299.88	-294.35	-5.53
Buildings, structures and renovation work	-36.32	-35.25	-1.07
Plant in buildings	-134.01	-130.42	-3.59
Furniture and fittings	-27.17	-25.41	-1.76
Office machines other than computer equipment	-42.53	-40.28	-2.25
Computer equipment	-45.67	-49.59	3.92
Transport equipment	-7.24	-6.84	-0.40
Libraries	-3.02	-2.89	-0.13
Other tangible fixed assets	-3.92	-3.67	-0.25
INTANGIBLE FIXED ASSETS	-51.47	-44.21	-7.26
Computer applications	-51.41	-44.15	-7.26
Industrial property	-0.06	-0.06	—
TOTAL	-351.35	-338.56	-12.79

The increase in fixed assets in 2011 basically arose from increased investment in development of certain computer applications, from the acquisition of banknote and coin handling machines, from electrical system upgrading and from renewal of fire alarm systems at branches. This increase was partly offset by the sale of buildings and facilities of the branches closed in 2011.

11 OTHER ASSETS. OTHER FINANCIAL ASSETS

This item includes €46.76 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 €0.42 million in these financial assets was due to the lower underlying book value of this firm.

12 OTHER ASSETS. OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item includes the amount of the net debtor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a creditor one, as in 2011, it is recorded under the same heading in liability item 12.1 (see Note 23 on the balance sheet).

13 OTHER ASSETS. ACCRUALS AND PREPAID EXPENSES

The main components of this item, the balance of which amounts to €2,439.70 million, are as follows:

EUR m

	2011	2010	Change
ACCRUED INTEREST ARISING FROM SECURITIES ACQUISITIONS AND ACCRUED COUPON INTEREST RECEIVABLE	2,197.17	1,775.91	421.26
Trading portfolio	777.61	584.13	193.48
Denominated in foreign currency	51.96	9.89	42.06
Denominated in euro	725.66	574.23	151.42
Held-to-maturity portfolio	792.22	859.56	-67.34
Denominated in foreign currency	49.68	44.68	5.00
Denominated in euro	742.54	814.88	-72.34
Held for monetary policy purposes	627.34	332.22	295.11
OTHER ACCRUED INTEREST RECEIVABLE	238.41	112.01	126.41
On claims equivalent to the transfer of foreign reserves to the ECB	51.50	41.23	10.28
On intra-Eurosystem claims arising from banknote adjustments	87.11	38.86	48.24
On monetary policy operations	95.33	27.14	68.19
On exceptional liquidity-providing operations	1.20	—	1.20
Claims on the IMF	3.21	3.75	-0.54
Other	0.06	1.03	-0.97
ACCRUED COMMISSIONS RECEIVABLE AND PREPAID EXPENSES	4.12	3.47	0.64
TOTAL	2,439.70	1,891.39	548.31

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 (€725.66 million), from the held-to maturity portfolio (€742.54 million) and from monetary policy operations (€627.34 million). In total, this interest increased by €421.26 million with respect to 2010. Furthermore, accrued interest receivable on monetary policy operations increased significantly (by €68.19 million) due to the larger volume of outstanding transactions at year-end. There was also an increase in interest receivable on claims equivalent to the transfer of foreign reserve assets to the ECB due to the higher average rate of return. Furthermore, the increase in interest accrued on intra-Eurosystem banknote adjustment and offsetting accounts increased as a result of the larger balance to be remunerated and of the higher average rate of return.

14 OTHER ASSETS. SUNDRY

The most significant components of this item, which totals €1,417.88 million, are the transfer to the Treasury on 1 December 2011 of €1,220.03 million, equivalent to 70% of the

Bank's profits earned to 30 September 2011, adjusted in line with the projected performance of profits up to year-end (see Note 15 on the profit and loss account), which was €96.46 million lower than in the previous year, and the home loans and repayable advances granted to Bank employees, the balance of which, at €185.58 million, was down by €1.68 million from 2010.

15 BANKNOTES IN CIRCULATION

The balance of banknotes in circulation (€97,024.85 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 (10.9185% of the total issue by all the central banks after deducting those corresponding to the Eurosystem 8% of the ECB total). This balance was €5,106.87 million higher than in the previous year because of the greater volume of euro banknotes in circulation in the Eurosystem.

16 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 €50,933.71 million at end-2011, €23,969.67 million more than in the previous year. This higher balance was basically due to the increase in the deposit facility and fixed-term deposits, offset in part by the decrease in the balances of the "Current accounts (covering the minimum reserve system)" item.

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

EUR m

Type of liability	2011	2010	Change
Current accounts (covering the minimum reserve system)	14,561.25	19,950.00	-5,388.75
Deposit facility	33,335.00	6,997.50	26,337.50
Fixed-term deposits	3,000.00	—	3,000.00
Fine-tuning reverse operations	—	—	—
Deposits related to margin calls	37.46	16.53	20.93
TOTAL	50,933.71	26,964.03	23,969.67

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 €5,388.75 million. Its average balance also decreased during the year, falling from €25,383.94 million in 2010 to €23,591.06 million in 2011.

The item "Deposit facility", which includes overnight deposits remunerated at a fixed interest rate (appreciably lower than the interest rate on main refinancing operations), increased from €6,997.50 million in 2010 to €33,335.00 million in 2011. However, the average balance decreased (€6,153.64 million in 2011 compared with €9,393.71 million in 2010).

The balance of fixed-term deposits was €3,000.00 million as at 31 December 2011. They are fine-tuning operations (liquidity withdrawals) that take the form of deposits. During 2011 the Eurosystem carried out 64 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 2011, fine tuning reverse operations had a zero balance, while institutions' deposits related to margin calls amounted to €37.46 million (€16.53 million in 2010).

17 LIABILITIES TO OTHER EURO
AREA RESIDENTS
DENOMINATED IN EURO.–
GENERAL GOVERNMENT

This item includes the deposits held by general government with the Banco de España. The outstanding balance at year-end was €5,425.69 million, which breaks down as follows:

EUR m

	2011	2010	Change
Central government (State)	2,096.91	3,633.00	-1,536.08
Treasury current account	225.04	300.01	
Other central government agencies and similar bodies	1,871.87	3,332.98	
Territorial government	153.66	355.48	-201.82
Regional (autonomous) governments, administrative agencies and similar bodies	152.70	351.16	
Local government	0.96	4.32	
Social security funds	3,175.12	5,348.15	-2,173.03
Social Security System	3,174.20	5,347.19	
Other	0.93	0.96	
TOTAL	5,425.69	9,336.63	-3,910.94

The decrease in this item (€3,910.94 million) was basically due to the smaller balances held by Social Security Funds (€2,173.03 million in comparison with 2010), by the Fund for the Orderly Restructuring of the Banking Sector (FROB) under “Other central government agencies and similar bodies” (€1,447.85 million) and, to a lesser extent, by the Treasury and territorial (regional and local) government.

18 LIABILITIES TO OTHER EURO
AREA RESIDENTS
DENOMINATED IN EURO.–
OTHER LIABILITIES

Included here are the current accounts of financial institutions other than credit institutions, such as the Deposit Guarantee Fund, other financial intermediaries associated with securities markets settlement, other intermediaries in the debt book-entry market, etc., as well as the current accounts of non-administrative public and autonomous agencies of the State, the current accounts of employees and pensioners and other accounts of legal entities classified in “Other resident non-financial sectors”.

The balance at end-2011 was €144.35 million, and its decrease of €7.76 million with respect to end-2010 was basically due to the decrease in the balances of the current accounts of State agencies.

19 LIABILITIES TO NON-EURO
AREA RESIDENTS
DENOMINATED IN EURO

This item includes basically the euro-denominated accounts held by international organisations, non-Eurosystem monetary authorities and central banks to which reserve management services are provided. The balance of €380.75 million was €19.40 million lower than a year earlier, due to a decrease in deposits of the central banks to which reserve management services are provided, partly offset by an increase in the deposits of international organisations and non-Eurosystem monetary authorities.

20 COUNTERPART OF SPECIAL
DRAWING RIGHTS
ALLOCATED BY THE IMF

This item of €3,355.46 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 €83.41 million with respect to the previous year, due to the variation in the exchange rate.

21 INTRA-EUROSISTEM
LIABILITIES

This item, which as at 31 December 2011 had a balance of €174,826.42 million, comprises the following two sub-items:

- a Net liabilities related to the allocation of euro banknotes within the Eurosystem In accordance with Eurosystem rules, since the accounts making up this item have a net debit balance, this information is presented on the assets side of the balance sheet.
- b Other liabilities within the Eurosystem (net) The balance of €174,826.42 million as at 31 December 2011 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.
- Regarding the first component, the year-end net transfers via TARGET2 had a credit balance of €174,978.70 million, while the correspondent accounts showed a debit balance of €0.13 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 €74.78 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 2011 the Council resolved not to distribute the income obtained from the securities purchased under the securities markets programme and to distribute only a part of the income arising from the seigniorage of euro banknotes. Its balance as at 31.12.11 was €77.38 million (see "Income from equity shares and participating interests" in Note 7 on the profit and loss account).
- 22 ITEMS IN COURSE OF SETTLEMENT Included here are various accounts which as at 31 December 2011 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 €240.47 million at end-2011, of which €188.72 related to transfers to accounts with other institutions, with payment of those transfers yet to be made, and €50.82 million to transfers received from the TARGET2 Platform but yet to be processed.
- 23 OTHER LIABILITIES. OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES This item includes the amount of the net creditor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a debtor one, it is recorded under the same heading in asset item 11.4. Its credit balance of €110.92 million as at end-2011 is the net value of the swap transactions outstanding at that date that are listed below:

Operation	Position	Currency	2011			2010	
			Currency amount (million)	Market exchange rate	Equivalent (million €)	Equivalent (million €)	
SWAP	DEBTOR	EUR	4,139.80	1.0000	4,139.80	2,888.29	
		USD	—	1.2939	—	—	
	CREDITOR	EUR	—	1.0000	—	—	
		USD	5,500.00	1.2939	4,250.71	2,918.72	
NET POSITION					110.92	30.43	

At year-end the only unexpired euro-US dollar swaps were those entered into under the liquidity provision cooperation agreements (swap line) with the Federal Reserve.

Regarding these exceptional liquidity-providing transactions in the form of swaps, 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. These swap lines were subsequently extended until 1 February 2013.

24 OTHER LIABILITIES.
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 2011, its balance amounted to €161.00 million, the main component being interest accrued but not yet paid (€159.89 million). The increase in this item in 2011 (€85.65 million) basically resulted from the larger amount of interest incurred on intra-Eurosystem accounts relating to TARGET2 transactions (€97.37 million). This increase was partly offset by the decrease in the interest payable on the minimum reserves held by credit institutions to (€7.36 million) and that payable to remunerate the Fund for the Orderly Restructuring of the Banking Sector (FROB) accounts (€5.02 million).

25 OTHER LIABILITIES.-
SUNDRY

This includes other liabilities not classifiable above.

As at 31 December 2011 the balance of this item amounted to €234.32 million (€45.48 million more than in 2010) and its main sub-items were the “Cash immobilised under EU legislation drawn from book-entry government debt. Repayments and interest” (€112.60 million), “Banco de España employee social welfare scheme (*Mutualidad de empleados*).- Contributions payable” (€20.39 million) and “Sundry accounts payable and unallocated items. Accrued operating expenses” (€23.17 million). The main variation relates to the first of the aforementioned sub-items relating to compliance with Article 215 of the Treaty on the Functioning of the European Union and Council Regulation (EU) No 204/2011 of 2 March 2011 concerning restrictive measures in view of the situation in Libya.

26 PROVISIONS

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

EUR m

	2011	2010	Change
For exchange rate and interest rate risks	4,666.01	3,957.27	708.74
For early repayment of special loans	577.68	786.25	-208.56
For counterparty risks in Eurosystem's monetary policy operations	102.80	239.07	-136.27
For operational risk	24.50	22.86	1.64
For credit risk	870.96	336.20	534.76
For exchange of withdrawn peseta banknotes	36.49	50.46	-13.97
For early and regular retirement	27.98	25.85	2.13
For death and retirement assistance	58.26	59.70	-1.44
For sundry liabilities and charges	0.53	1.15	-0.62
TOTAL	6,365.20	5,478.81	886.39

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 2011 amounted to €4,666.01 million, which was €708.74 more than in 2010 (see Note 5 on the profit and loss account).

The balance of this provision is revised annually based on the Banco de España's valuation of its exposure to the aforementioned risks by value-at-risk methodology. This review takes into account, in addition to that valuation, a number of factors, including the estimated profit for the coming year and the envisaged behaviour of risk assets and any others deemed to be worthy of consideration under the circumstances. In this respect, on 22 February 2012 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 8 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 €577.68 million as at 31 December 2011 was €208.56 million less 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, a provision for €621.35 million, equivalent to 10.8324 % of the total provision, was created. On 1 February 2012 the ECB Governing Council reviewed the adequacy of the amount of this provision with effect as at 30 December 2011 and decided to reduce it from €2,207 million to

€949 million. As a result, the Banco de España provision was set at €102.80 million and, accordingly, a portion of it amounting to €136.27 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, revised by the Executive Commission on 22 February 2012, was used in 2011 to record the aforementioned provision of €534.76 million, the balance of which reached €870.96 at the end of the year.

Also, the Executive Commission approved in 2009 a methodology for calculating operational risk. It will be used to set aside a provision for any losses arising from operational risk. Using this methodology, which was adjusted in 2011, and once the suitability of the resulting amount was duly analysed in that year, it was decided to increase it by €1.64 million to a balance of €24.50 million.

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

This is the most important of the two provisions set aside for the exchange of peseta banknotes withdrawn from circulation. It was recorded initially in 2005 to cater for the exchange of any peseta banknotes withdrawn from circulation due to the introduction of the euro that may be tendered at the Banco de España. 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 year-end this provision had a balance of €34.51 million, representing a decrease of €13.81 million with respect to the previous year.

Other provisions

In the reporting year there was an increase in the provision for payments to early and regular retirees (€2.13 million), basically due to the provisioning of payments to be made in coming years for early retirements agreed by the Banco de España with its employees in July 2011 because of the closure of seven of its branches.

27 REVALUATION ACCOUNTS

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

EUR m

Type of account	2011	2010	Change
Gold	10,166.75	8,705.06	1,461.69
Foreign currency	1,535.85	468.33	1,067.52
Securities (trading portfolio)	292.43	83.73	208.70
Issued in foreign currency by non-euro area residents	57.07	40.79	16.27
Issued in euro by euro area residents	235.36	42.94	192.42
Other	17.04	17.47	-0.43
TOTAL	12,012.07	9,274.59	2,737.48

The balance of revaluation accounts at end-2011 was €12,012.07, up €2,737.48 on 2010. The main change was in gold, the unrealised gains on which were €1,461.69 million higher as a result of the increase in its market price (up from €1,055.42 per ounce at 31 December 2010 to €1,216.86 per ounce at 31 December 2011). Its balance at 31 December 2011 was €10,166.75 million.

With regard to fixed-income securities in the trading portfolio, there was an increase in unrealised gains arising basically on securities issued in euro by euro area residents (€192.42 million), as a result of security price movements driven by interest rates.

As regards the foreign exchange revaluation accounts, the unrealised gains on foreign currencies increased by €1,067.52 million, basically due to the appreciation of the US dollar and the SDR against the euro (€1,003.66 million and €64.14 million, respectively).

28 CAPITAL

As at 31 December 2011 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.

29 RESERVES

As at 31 December 2011 the reserves of the Banco de España amounted to €950 million, with no change in the year. Included in this item is, first, the amount of capital, reserves and profits that arose in 1973 when the now-defunct Spanish Foreign Currency Institute was included in the Banco de España (€3.17 million) and, second, the portion of 2005 and 2006 profit taken to reserves, authorised by the Council of Ministers, respectively, on 28 July 2006 and 29 June 2007.

30 PROFIT FOR THE YEAR

The net profit for 2011, after deducting the transfer to the Beneficent Social Fund (€7.22 million), amounted to €2,400.13 million, down 6.6% on 2010. Of this amount, €1,220.03 million was paid to the Treasury on 1 December 2011, 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 2010 profits:

- a) On 1 March 2011, €996.51 million, which, together with the payment in December 2010, amounted to 90% of the €2,570.00 million of distributable profit for that year.
- b) On 12 August 2011, once the balance sheet and profit and loss account for the year 2010 had been approved by the Council of Ministers, €257.00 million, representing the rest of the distributable profit for that year.

The details of the various components of the profit for 2011 and the reasons for the changes in them with respect to 2010 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 2011 and 2010 is as follows:

1 INTEREST INCOME

EUR m

	Interest income		
	2011	2010	Change
FOREIGN CURRENCY	245.08	285.15	-40.07
Securities	207.73	266.38	-58.65
Deposits and other assets	21.29	14.49	6.80
Swap, forward and other operations	16.06	4.28	11.78
EURO	5,028.85	4,165.42	863.43
Securities	3,789.79	2,978.79	811.00
Monetary policy operations	913.88	1,006.76	-92.88
Intra-Eurosystem accounts	321.25	160.19	161.07
Claims equivalent to the transfer of foreign reserves to the ECB	51.50	41.23	10.28
Claims related to allocation of euro banknotes within the Eurosystem	269.69	118.96	150.73
Other claims within the Eurosystem (net)	0.06	—	0.05
Other assets	3.94	19.68	-15.75
TOTAL	5,273.93	4,450.57	823.37

Interest income increased by €823.37 million in 2011 with respect to 2010. This increase was a result of a rise of €863.43 million in the return on euro-denominated investments and, to a lesser extent, of a decline in income from foreign-currency investments (€40.07 million).

Of the €245.08 million of interest on foreign-currency investments, €207.73 million arose from investments in fixed-income securities denominated in US dollars, €21.29 million from deposits and other assets, €14.68 million from swap, forward and other transactions, and €1.38 million from exceptional liquidity providing operations which generated expenses for the same amount. Interest on this dollar-denominated portfolio decreased by €58.65 million, that on deposits and other assets increased by €6.80 million, and that on swap, forward and other transactions was up by €11.78 million, of which €1.36 million related to exceptional liquidity providing operations. The average return on foreign-currency investments was 1.6% in 2011, compared with 2.2% in 2010.

Euro-denominated interest income (€5,028.85 million) arose basically from the securities portfolios (€3,789.79 million, an increase of €811.00 million), monetary policy operations (€913.88 million, down €92.88 million) and intra-Eurosystem balances (€321.25 million, up €161.07 million).

The main reason for the increase of €863.43 million in euro-denominated income with respect to the previous year was the higher average return in the reporting year (up from 2.0% in 2010 to 2.6% in 2011), partly offset by a decrease in the average balance of the aforementioned assets (down from €202,799.46 million in 2010 to €191,792.48 million in 2011).

Specifically, analysis of the average investment made discloses the significant decrease in monetary policy operations (€71,064.16 million in 2011 against €99,291.50 million in 2010), derived from the lower funding requested by Spanish financial institutions from the ECB. Furthermore, there was an increase in claims related to the allocation of euro banknotes, which rose from €11,732.79 million in 2010 to €20,942.03 million in 2011 as a result of changes in banknotes put into circulation (-7.8% in Spain, compared with 5.8% in the Eurosystem as a whole). Investment in securities increased by €8,007.35 million (9.2%),

basically in the monetary policy portfolio (the securities markets programme continued, with purchases under the second covered bond acquisition programme commencing in November) and in the trading portfolio.

2 INTEREST EXPENSE

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

EUR m

	Interest expense		
	2011	2010	Change
FOREIGN CURRENCY	19.43	10.02	9.41
Swap, forward and other operations	6.63	0.54	6.09
Other liabilities	12.80	9.48	3.32
EURO	1,322.01	1,030.37	291.64
Remuneration of minimum reserves	297.60	256.30	41.31
Deposit facility	35.47	23.81	11.66
Fixed-term deposits	4.41	8.64	-4.23
Changes in the value of collateral	1.19	0.43	0.75
General government deposits	70.97	122.86	-51.89
Other liabilities within the Eurosystem (net)	910.37	617.49	292.88
Other liabilities denominated in euro	2.01	0.85	1.16
TOTAL	1,341.45	1,040.39	301.06

Interest expenses increased by €301.06 million in 2011 as a result of rises in expenses on euro-denominated liabilities (€291.64 million) and in interest expenses on liabilities denominated in foreign currencies (€9.41 million).

Of the euro-denominated interest expenses (€1,322.01 million), €910.37 million relate to the remuneration of other intra-Eurosystem balances (TARGET2), €297.60 million to remuneration of minimum reserves, €70.97 million to remuneration of general government deposits, €35.47 million to remuneration of the deposit facility, and the remainder to fixed-term deposits and other euro-denominated liabilities.

The increase in euro-denominated expenses (€291.64 million) basically resulted from the higher average cost of remunerating the aforementioned liabilities, which rose from 0.9% in 2010 to 1.2% in the reporting year, partly offset by the lower average balance of liabilities (€108,905.29 million in 2011 against €119,475.45 million in 2010).

Regarding the net credit balance of intra-Eurosystem balances arising from TARGET2 transactions, interest expenses rose by €292.88 million due to the considerable increase in its average balance with respect to 2010 from €60,903.05 million to €70,706.62 million in 2011, and to the increase in the average cost (up from 1.0% in 2010 to 1.3% in 2011).

Interest expenses denominated in foreign currencies (€19.43 million) related mainly to allocated SDRs (€12.80 million), to forward transactions (€5.25 million) and to exceptional liquidity providing operations (€1.38 million).

3 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

This item includes the profits and losses arising from dealing in financial assets. In 2011 the net gains in this connection amounted to €101.29 million, arising from the following sources:

EUR m

	2011	2010	Change
FOREIGN CURRENCY	54.14	47.45	6.70
Sale of gold	—	—	—
Sale of foreign currency (exchange gains)	5.29	31.39	-26.10
Sale of securities (price losses)	52.97	14.85	38.12
Other gains/losses	-4.12	1.20	-5.32
EURO	47.15	318.59	-271.45
Sale of securities (price losses)	47.15	318.59	-271.45
TOTAL	101.29	366.04	-264.75

Compared with the prior year, the total amount recorded in 2011 decreased by €264.75 million due to smaller losses on the sale of euro-denominated debt securities (€271.45 million) and on the sale of foreign currencies, basically US dollars (€15.28 million) and SDRs (€9.46 million), partly offset by the higher gains on the sale of US dollar-denominated securities (€38.12 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 2011 and 2010 is as follows:

EUR m

	2011	2010	Change
FOREIGN CURRENCY	4.47	2.97	1.50
Foreign currency (exchange rate losses)	—	0.05	-0.05
Securities (price losses)	4.46	2.92	1.54
EURO	463.14	790.92	-327.78
Securities (price losses)	463.14	790.92	-327.78
TOTAL	467.61	793.89	-326.28

Unrealised losses in 2011 amounted to €467.61 million, most of which related to investments in euro-denominated debt securities in the trading portfolio (€463.14 million). Compared with 2010, unrealised losses decreased by €326.28 million, of which €327.78 million relate to lower losses on euro-denominated debt securities and €1.54 million to higher unrealised losses on US dollar-denominated debt securities.

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

EUR m

	2011	2010	Change
Transfers to provisions	-1,711.11	-1,109.75	-601.36
Foreign exchange rate and interest rate risk	-1,176.35	-942.46	-233.89
Credit risk	-534.76	-167.29	-367.47
Transfer from exchange rate and interest rate provision	467.61	793.89	-326.28
Transfer/reversal from provision for losses arising from early repayment of special loans	162.15	-92.10	254.26
TOTAL	-1,081.34	-407.96	-673.39

This includes, first, the transfer of €467.61 million from the provision for foreign exchange rate and interest rate risks to cover the losses recorded at end-2011 and, second, the transfer of €1,176.35 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 22 February 2012.

This item also includes the transfer to the provision for credit risk in accordance with an Executive Commission resolution, amounting to €534.76 million in 2011.

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 2011 the provisioning expense underwent a positive change of €254.26 million with respect to 2010, due to the recovery of €162.15 million in 2011 resulting from adjustment of market value changes in these assets, as against the charge of €92.10 million in the prior year.

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

	2011	2010	Change
1 Income from fees and commissions	17.57	20.07	-2.51
Foreign operations	0.01	0.03	-0.01
Domestic operations	17.56	20.05	-2.49
2 Expenses from fees and commissions	10.68	11.12	-0.44
Foreign operations	3.18	3.06	0.12
Domestic operations	7.50	8.06	-0.56
NET INCOME FROM FEES AND COMMISSIONS (1-2)	6.89	8.95	-2.06

Net fee and commission income in 2011 (€6.89 million) was €2.06 million less than in 2010. This variation relates basically to the lower fee income from securities transactions. This lower income was partially offset by the lower expense of fees and commissions paid on security transactions.

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, seigniorage 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 €109.64 million recorded, €77.38 million relate to the ECB dividend from banknote seigniorage income, €20.33 million 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 €3.14 million to participating interests in international agencies (Bank for International Settlements).

In 2011 the ECB Governing Council decided not to distribute among the Eurosystem central banks a portion of the banknote seigniorage income or the income generated by its securities portfolio purchased under the security market programme, but rather to retain it to record a provision for foreign exchange rate, interest rate, credit and gold price risks.

Compared with 2010, the amount recorded in 2011 was €81.40 million lower, basically due to the smaller ordinary dividend distributed by the ECB in the reporting year out of the prior year's profit (€154.11 million), partly offset by the payment in 2011 of a portion of the ECB dividend from seigniorage income (€77.38 million were allocated to the Banco de España, versus the absence of a dividend in 2010).

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 2011 and 2010 is as follows:

EUR m

	2011	2010	Change
Monetary income pooled	-1,791.49	-1,177.53	-613.96
Monetary income allocated	1,866.27	1,235.58	630.69
Provision for counterparty risk in monetary policy operations	136.27	195.42	-59.15
TOTAL	211.05	253.47	-42.42

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 2011, amounting to €1,791.49 million, and that reallocated to it, amounting to €1,867.04 million, is equivalent to a net allocation of €75.55 million. From this net allocation €0.77 million should be deducted for the Banco de España's share of the losses on Eurosystem monetary policy operations (expenses for professional consultancy and audit services by independent experts). Compared with 2010, there was a positive net change of €16.73 million in these results.

Also, with regard to the provision for counterparty risk in Eurosystem monetary policy operations, on 1 February 2012 the ECB Governing Council approved the amounts relating to each NCB. Accordingly, the Banco de España reversed a portion of the provision recorded (€136.27 million out of a total of €239.07 million), resulting in a decrease of €59.15 million in profit (in 2010 €195.42 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

	2011	2010	Change
Extraordinary profit	40.09	0.35	39.74
Employee social welfare scheme	-7.98	-13.14	5.17
Sundry	8.11	1.23	6.89
TOTAL	40.23	-11.56	51.79

As can be seen, this item shows a net gain of €40.23 million, which is €51.79 million more than in 2010, basically due to the gain of €33.41 million on the sale of the buildings of the branches closed in 2011, to the amounts received for the Banco de España's participation in Eurosystem projects (€7.00 million) and to the decrease in the principal of the debt to the employee social welfare scheme (Mutualidad de Empleados), which generated €5.17 million less in expenses.

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 %

	2011	2010	Change	(%)
Gross staff costs	232.51	230.86	1.65	0.7
Wages and salaries	170.21	174.12	-3.91	-2.2
Social Security	32.06	32.27	-0.21	-0.6
Staff welfare expenses	23.42	18.01	5.41	30.0
Contributions to Pension Scheme	6.82	6.46	0.36	5.5
Reversal of staff costs due to capitalization of computer applications	-1.61	-2.47	0.85	-34.5
TOTAL	230.90	228.40	2.50	1.1

Its balance increased from €228.40 million in 2010 to €230.90 million in 2011, a rise of €2.50 million (1.1%). The main reason for this increase was the provision for risks and expenses recorded to allow for payments to early and regular retirees resulting from the closure of branches in 2011 (€6.25 million), partly offset by the lower expense of temporary hires (€1.03 million) and by the wage reduction derived from the application from June 2010 of Royal Decree-Law 8/2010 on extraordinary measures to reduce the budget deficit.

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

	2011	2010	Change	%
Average number of employees	2,704.8	2,733.2	-28.4	-1.0
Managerial staff	1,633.7	1,617.1	16.6	1.0
Administrative staff	879.7	917.6	-37.9	-4.1
Other	191.4	198.6	-7.2	-3.6

As at 31 December 2011, the Bank's total staff numbered 2,686 employees, 23 fewer than at the same date of the previous year. Regarding the staff composition by gender, at 31 December 2011 women accounted for 40.5% of the Bank's total workforce.

The compensation of members of the governing bodies is set by the Minister for Economic Affairs and Competitiveness in accordance with the provisions of the Law of Autonomy of the Banco de España. The Governor received a gross annual wage of €176,000, including the years-of-service and family allowances; the Deputy Governor received €199,000 in this connection. The elected members of the Governing Council receive a gross annual wage of €52,000; if they belong to the Executive Commission, the gross annual wage is €65,000.

In addition to the foregoing, the members of the governing bodies receive equal amounts of fees for attending meetings of the body to which they belong, set at €1,026 per meeting of the Governing Council and €492 per meeting of the Executive Commission.

11 ADMINISTRATIVE EXPENSES

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

EUR m and %

	2011	2010	Change	%
Gross administrative expenses	122.29	123.44	-1.15	-0.9
Rental and maintenance	32.26	33.03	-0.77	-2.3
Material and supply	11.62	11.10	0.52	4.7
External services	61.97	62.76	-0.79	-1.3
Training, promotion and selection	3.86	4.02	-0.15	-3.8
Sundry operating expenses	12.58	12.53	0.04	0.3
Reversal of administrative expenses due to capitalisation of computer applications	-5.68	-5.61	-0.07	1.3
TOTAL	116.61	117.83	-1.22	-1.0

The above table shows that in 2011 the most significant administrative expenses were external services (€61.97 million), mainly IT services (€37.24 million) and rental and maintenance (€32.26 million), composed mainly of hardware and software rental and maintenance (€15.76 million) and property rental and maintenance (€11.36 million).

Goods and services expenses decreased in 2011 (€1.22 million). This decrease basically resulted from the decline in expenses for external services (€0.79 million) and for rental and maintenance (€0.77 million)

“External services” include €142,173.18 (including VAT) relating to the fees of the external auditors Deloitte, S.L. for the audits in 2011 of the Bank's annual accounts and of certain aspects of the Bank's management of European Central Bank reserves at the request of this institution's external auditor, the latter being the only service provided by the auditor to the Bank. In 2011 no services were received from and, consequently, no amounts were paid to, other firms related to the auditor.

12 DEPRECIATION OF FIXED ASSETS

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

	2011	2010	Change	%
Depreciation of buildings, structures and renovation work	2.58	2.33	0.25	10.9
Depreciation of plant in buildings	9.89	8.32	1.57	18.9
Depreciation of furniture and fittings	2.11	2.07	0.05	2.3
Depreciation of office machines other than computer	2.48	1.98	0.49	24.9
Depreciation of computer equipment	6.22	5.18	1.04	20.1
Depreciation of transport equipment	0.52	0.71	-0.20	-27.8
Depreciation of other tangible fixed assets	0.29	0.30	-0.02	-5.1
Depreciation of bibliographic fund	0.53	0.54	-0.01	-2.3
Amortization of computer applications	7.25	5.90	1.35	22.9
TOTAL	31.86	27.34	4.53	16.6

13 BANKNOTE PRODUCTION SERVICES

This amount (€54.71 million) corresponds to payments made by the Banco de España to purchase banknotes from the Spanish Royal Mint. The decrease with respect to the previous year (€7.00 million) was because in 2011 the volume of purchases of €50, €20 and €5 banknotes decreased, as did the unit cost of €50 and €5 banknotes, the cost of €20 banknotes remaining unchanged. Also, the pilot production of series 2 €5 banknotes took place in 2011. This gave rise to an expense of €2.99 million.

14 TRANSFERS AND ADDITIONS TO OTHER FUNDS AND PROVISIONS

The net balance of transfers and applications to other funds and provisions in 2011 amounted to €15.53 million, compared with €7.73 million in 2010. This increase (€7.81 million) derived basically from the charge to the provision for risks and expenses in respect of early retirement and other commitments to pensioners (€5.38 million) 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 €1.61 million to the profit and loss account. This item also includes transfers to and releases from the provision for operational risks, which in 2011 was used to cover losses arising from operational risk (€0.02 million). An amount of €1.66 was transferred to it to raise its balance to the agreed level of €24.50 million. The transfer to the Beneficent Social Fund amounted to €7.22 million (€25.96 million in 2010).

The Banco de España, because of the nature of its activity, is not an institution with a high environmental risk. Accordingly, in 2011 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 2012, 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 2011 the Banco de España paid into the Treasury €1,220.03 million, equal to 70% of the profit recorded as at 30 September 2011.¹³

Once the year had ended, and taking into account that the provisional profits amounted to €2,400.13 million and that 90% of the profits was €2,160.12 million, a payment of €940.09 million was made to the Treasury on 1 March 2012.

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 €696.35 million. Accordingly, this amount was subtracted from the Banco de España profit of €2,439.26 million as at 30 September, resulting in a profit of €1,742.90 million, 70% of which was paid into the Treasury.

The payments to the Treasury of 2011 profit are as follows:

EUR m

1 Total profit for 2011	2,400.13
2 Payments to the Treasury	2,160.12
On 1.12.2011	1,220.03
On 1.3.2012. Difference between the above amount and 90% of profit as at 31.12.2011	940.09
3 Profit payable to the Treasury	240.01
At date of approval of the 2011 accounts	240.01

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.

EUR m

	Capital	Reserves	Revaluation accounts	Undistributed profit	Provisions	Total
A) 2011 OPENING BALANCE	1,000.00	950.00	9,274.59	1,253.51	5,478.81	17,956.91
1 Unrecognised net gains in profit and loss			2,737.48			2,737.48
In gold			1,461.69			1,461.69
In foreign currency			1,067.52			1,067.52
In securities			208.70			208.70
Other			-0.43			-0.43
2. 2011 profit				2,400.13		2,400.13
3. Change in provisions					886.39	886.39
4. Appropriation of profit				-2,473.54		-2,473.54
Payment to the Treasury of 2010 profit				-1,253.51		-1,253.51
Payment to the Treasury of 2011 profit				-1,220.03		-1,220.03
B) CHANGES IN THE YEAR	—	—	2,737.48	-73.41	886.39	3,550.47
B = 1+2+3+4						
C) 2011 CLOSING BALANCE	1,000.00	950.00	12,012.07	1,180.10	6,365.20	21,507.38
C = A + B						

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 26 on the balance sheet), revaluation accounts (Note 27 on the balance sheet), capital (Note 28 on the balance sheet), reserves (Note 29 on the balance sheet) and profit for the year (Note 30 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 Contribution made by the Bank to the Deposit Guarantee Fund

On 15 October 2011, Royal Decree-Law 16/2011 of 14 October 2011 creating the Credit Institution Deposit Guarantee Fund came into force and the three previously existing credit institution deposit guarantee funds were wound up. The contribution of the Banco de España to the Deposit Guarantee Fund continues to be regulated by Article 3 of Royal Decree 2606/1996 of 20 December 1996, in which references to the wound-up funds are deemed to be to the new Fund.

Royal Decree 2606/1996 established that the Deposit Guarantee Fund may only exceptionally “be supplemented by contributions from the Banco de España, the amount of which shall be fixed by Law”. In 2011 the Banco de España made no contributions whatsoever to this Fund.

4.2 Loss of profit

The table below shows the loans outstanding in 2011 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 2011	Interest rate received (%)	Reference interest rate (%)	Estimated loss of profit
Net State debt	3,502.91	—	1.25	43.79
Housing loans and repayable advances to employees	40.69	0.12	1.25	0.46
Housing loans	6.76	0.75	1.25	0.03
Repayable advances	33.92	—	1.25	0.42
TOTAL	3,543.60	—	1.25	44.24

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 2004 (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 2011 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 2011 the Treasury paid to the Banco de España the amount of €537.06 million, the effective market price of the debt repaid on that date.

ANNEXES

1 REPORT OF THE EXTERNAL AUDITORS

Deloitte.

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Plaza Pablo Ruiz Picasso, 1
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España
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www.deloitte.es

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 2011 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

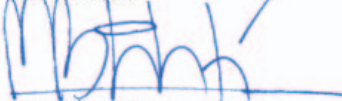
Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit work performed in accordance with International Standards on Auditing, which require that we comply with certain ethical requirements and that we plan and perform the audit to obtain reasonable 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 2011 present fairly, in all material respects, the net worth and financial position of the Banco de España at 31 December 2011 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 Angel Bailón

24 May 2012

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

2 REPORT OF THE BANCO DE ESPAÑA 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 2011.

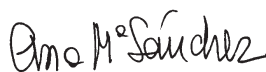
As required by the aforementioned precept, the Audit Committee has analysed the operations of the Banco de España. This examination basically involved: 1) studying the annual accounts of the Banco de España for the year 2011, prepared by the Directorate General Services of the Banco de España; 2) studying the audit of the balance sheet and profit and loss account of the Banco de España for 2011, 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 2011 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 8 May 2012.



ÁNGEL LUIS LÓPEZ ROA



ANA MARÍA SÁNCHEZ TRUJILLO



CARMEN ALONSO LEDESMA