

## 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)<sup>1</sup> pursuant to Article 26.4 of the Statute of the ESCB on standardisation of accounting and reporting procedures relating to operations undertaken by NCBs. In the cases not regulated by Eurosystem accounting legislation, the Banco de España applies its internal policies based on generally accepted accounting principles adapted to the special characteristics of the operations and functions of a central bank.

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

Under the provisions of Article 4.2 of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España, it is for the government, upon proposal by the Minister 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 2011 are presented solely for comparison with 2012. 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 2012. Section 2 includes the balance sheet and profit and loss account at 31 December 2012; 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.

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<sup>1</sup> 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 2012

EUR m

	Note Number	2012	2011
<b>ASSETS</b>			
<b>1 Gold and gold receivables</b>	<b>1</b>	<b>11,418.40</b>	<b>11,017.18</b>
<b>2 Claims on non-euro area residents denominated in foreign currency</b>		<b>26,593.16</b>	<b>25,019.85</b>
2.1 Receivables from the IFM	2	5,907.82	5,803.75
2.2 Balances with banks and security investments, external loans and other external assets	3	20,685.34	19,216.10
<b>3 Claims on euro area residents denominated in foreign currency</b>	<b>4</b>	<b>2,576.94</b>	<b>4,250.73</b>
<b>4 Claims on non-euro area residents denominated in euro</b>		<b>812.81</b>	<b>844.31</b>
4.1 Balances with banks, securities investments and loans	5	812.81	844.31
4.2 Claims arising from the credit facility under ERM II		—	—
<b>5 Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>6</b>	<b>361,086.88</b>	<b>168,196.45</b>
5.1 Main refinancing operations		45,735.00	11,422.10
5.2 Longer-term refinancing operations		315,351.79	156,677.80
5.3 Fine-tuning reverse operations		—	—
5.4 Structural reverse operations		—	—
5.5 Marginal lending facility		—	—
5.6 Credits related to margin calls		0.09	96.55
<b>6 Other claims on euro area credit institutions denominated in euro</b>		<b>0.87</b>	<b>2.74</b>
<b>7 Securities of euro area residents denominated in euro</b>	<b>7</b>	<b>96,930.56</b>	<b>106,385.64</b>
7.1 Securities held for monetary policy purposes		32,989.53	31,080.11
7.2 Other securities		63,941.03	75,305.53
<b>8 General government debt denominated in euro</b>	<b>8</b>	<b>2,915.05</b>	<b>3,498.51</b>
<b>9 Intra-Eurosystem claims</b>	<b>9</b>	<b>40,078.29</b>	<b>32,177.68</b>
9.1 Participating interest in ECB		1,078.50	940.10
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		34,216.14	26,453.93
9.5 Other claims within the Eurosystem (net)		—	—
<b>10 Items in course of settlement</b>		<b>1.04</b>	<b>1.29</b>
<b>11 Other assets</b>		<b>7,269.06</b>	<b>4,172.85</b>
11.2 Tangible and intangible fixed assets	10	263.67	268.51
11.3 Other financial assets	11	45.70	46.76
11.4 Off-balance sheet instruments revaluation differences	12	162.30	—
11.5 Accruals and prepaid expenses	13	4,825.31	2,439.70
11.6 Sundry	14	1,972.07	1,417.88
<b>TOTAL ASSETS</b>		<b>549,683.05</b>	<b>355,567.23</b>

## BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2012 (cont'd)

EUR m

	Note number	2012	2011
<b>LIABILITIES</b>			
<b>1 Banknotes in circulation</b>	<b>15</b>	<b>99,641.36</b>	<b>97,024.85</b>
<b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>16</b>	<b>72,004.69</b>	<b>50,933.71</b>
2.1 Current accounts (covering the minimum reserve system)		12,851.75	14,561.25
2.2 Deposit facility		59,046.50	33,335.00
2.3 Fixed-term deposits		—	3,000.00
2.4 Fine-tuning reverse operations		—	—
2.5 Deposits related to margin calls		106.45	37.46
<b>3 Other liabilities to euro area credit institutions denominated in euro</b>	<b>17</b>	<b>110.01</b>	<b>0.02</b>
<b>5 Liabilities to other euro area residents denominated in euro</b>		<b>10,951.86</b>	<b>5,570.05</b>
5.1 General government	18	9,009.99	5,425.69
5.2 Other liabilities	19	1,941.86	144.35
<b>6 Liabilities to non-euro area residents denominated in euro</b>	<b>20</b>	<b>141.68</b>	<b>380.75</b>
<b>7 Liabilities to euro area residents denominated in foreign currency</b>		<b>0.85</b>	<b>1.08</b>
<b>8 Liabilities to non-euro area residents denominated in foreign currency</b>		<b>0.77</b>	<b>0.78</b>
8.1 Deposits, balances and other liabilities		0.77	0.78
8.2 Liabilities arising from the credit facility under ERM II		—	—
<b>9 Counterpart of special drawing rights allocated by the IMF</b>	<b>21</b>	<b>3,296.08</b>	<b>3,355.46</b>
<b>10 Intra-Eurosystem liabilities</b>	<b>22</b>	<b>336,831.24</b>	<b>174,826.42</b>
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)		336,831.24	174,826.42
<b>11 Items in course of settlement</b>	<b>23</b>	<b>183.75</b>	<b>240.47</b>
<b>12 Other liabilities</b>		<b>350.59</b>	<b>506.24</b>
12.1 Off-balance-sheet instruments revaluation differences	24	—	110.92
12.2 Accruals and income collected in advance	25	237.54	161.00
12.3 Sundry	26	113.05	234.32
<b>13 Provisions</b>	<b>27</b>	<b>7,806.34</b>	<b>6,365.20</b>
<b>14 Revaluation accounts</b>	<b>28</b>	<b>12,568.59</b>	<b>12,012.07</b>
<b>15 Capital and reserves</b>		<b>1,950.00</b>	<b>1,950.00</b>
15.1 Capital	29	1,000.00	1,000.00
15.2 Reserves	30	950.00	950.00
<b>16 Profit for the year</b>	<b>31</b>	<b>3,845.23</b>	<b>2,400.13</b>
<b>TOTAL LIABILITIES</b>		<b>549,683.05</b>	<b>355,567.23</b>

PROFIT AND LOSS ACCOUNT OF THE BANCO DE ESPAÑA FOR THE YEAR ENDING 31 DECEMBER 2012

EUR m

	Note number	2012	2011
1 Interest income	1	8,223.84	5,273.93
2 Interest expense	2	3,112.82	1,341.45
<b>3 Net interest income (1 – 2)</b>		<b>5,111.02</b>	<b>3,932.49</b>
4 Realised gains/losses arising from financial operations	3	132.25	101.29
5 Write-downs on financial assets and positions	4	1.01	467.61
6 Transfer to/from provisions for foreign exchange rate and price risks	5	-1,565.92	-1,081.34
<b>7 Net result of financial operations, write-downs and risk provisions (4 – 5 + 6)</b>		<b>-1,434.68</b>	<b>-1,447.66</b>
8 Fees and commissions income		19.32	17.57
9 Fees and commissions expense		12.04	10.68
<b>10 Net income from fees and commissions (8 – 9)</b>	<b>6</b>	<b>7.27</b>	<b>6.89</b>
11 Income from equity shares and participating interests	7	89.58	109.64
12 Net result of pooling of monetary income	8	514.17	211.05
13 Other income and losses	9	-4.55	40.23
<b>14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)</b>		<b>4,282.81</b>	<b>2,852.63</b>
15 Staff costs	10	210.91	230.90
16 Administrative expenses	11	119.38	116.61
17 Depreciation of tangible and intangible fixed assets	12	30.60	31.86
18 Banknote production services	13	47.43	54.71
19 Other expenses		2.92	2.89
<b>20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)</b>		<b>411.24</b>	<b>436.97</b>
21 Transfers and additions to other funds and provisions	14	26.33	15.53
<b>22 PROFIT FOR THE YEAR (14 – 20 – 21)</b>	<b>15</b>	<b>3,845.23</b>	<b>2,400.13</b>

Countersigned by  
The Governor,



LUIS M. LINDE DE CASTRO

The Comptroller,



JAVIER PACIOS RODRÍGUEZ

### 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 foreign currency transactions are recognised at the trade date.

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

##### Gold

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

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

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

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

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

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<sup>2</sup> 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 and they can be used to offset unrealised losses.

## Foreign currencies

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

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

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

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

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

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

## 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.<sup>3</sup>

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

Trading portfolio securities are revalued monthly to market price. This revaluation is carried out without any netting of unrealised gains and losses on different security codes. Unrealised gains and losses (except for unrealised losses at year-end) are reflected in adjustment accounts and credited or debited, respectively, to revaluation and loss accounts. Unrealised losses existing at the end of the year are taken to the profit and loss account. Their amount is credited directly to the securities account, and the average book price - and therefore the internal rate of return - of the security code concerned is modified. Such losses are considered irreversible in subsequent revaluations. The year-end adjustment was made using the market prices on the last day of the year.

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

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

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

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 exceptional circumstances, for specific losses arising from monetary policy operations undertaken for the Eurosystem. 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 27 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 27 to the balance sheet and Note 5 to the profit and loss account).

#### Shares and participating interests

The shares in the Bank for International Settlements and 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, applied to the total acquisition cost of the project.

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 2012 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.<sup>4</sup> The total value of euro banknotes in circulation is recorded by allocating to each Eurosystem NCB, on the last working day of each month, an amount based on the banknote allocation key.<sup>5</sup>

<sup>4</sup> Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (ECB/2010/29).

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

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

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,<sup>6</sup> are disclosed under the item “Intra-Eurosystem: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem” (see “Intra-Eurosystem balances” in this section on accounting policies).

From 2002 until 2007, the intra-Eurosystem balances arising from the allocation of euro banknotes were adjusted in order to avoid significant changes in the relative income positions of the NCBs that initially formed part of the Eurosystem as compared with previous years. The adjustments were effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the specified reference period<sup>7</sup> and the average value of banknotes that would have been allocated to them during that period under the ECB’s capital key. The adjustments were progressively reduced in annual stages until the end of 2007. However, this mechanism has also been applied in the case of new Member States adopting the euro so as to calculate the amount of compensation corresponding to each of them under the aforementioned calculation method, this adjustment being divided among the rest of the national central banks according to their respective weightings in the capital key of the ECB. This adjustment is gradually reduced over a six-year period, being held unchanged during each financial year.

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

The ECB’s income arising from the euro banknotes in circulation assigned to it and from securities purchased under the Securities Markets Programme are allocated in full to the NCBs in the financial year in which it accrues.<sup>8</sup> Settlement of this income takes place on the last working day in January of the following year, in the form of an interim distribution of the income. The Governing Council may decide to reduce the distributable ECB income on euro banknotes in circulation by the costs incurred by the ECB in connection with the issue and handling of banknotes. The ECB Governing Council shall decide whether all or part of the ECB’s income arising from securities purchased under the Securities Markets Programme and all or part of the ECB’s income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB’s net profit for that year. The 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

6 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).

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

8 Decision of the European Central Bank of 19 December 2012 (ECB/2012/33) amending the European Central Bank Decision of 25 November 2010 (ECB/2010/24) on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the securities markets Programme.

loss account item “Income from equity shares and participating interests” in the year in which this income accrued.

#### 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 TARGET2<sup>9</sup> 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. In addition, the outcome of the contribution and allocation of monetary income to NCBs and the positions vis-à-vis the ECB owing to the deferral of sundry receipts and payments also give rise to intra-Eurosystem balances.

In the case of TARGET2 operations, the resulting balance is included as an asset or liability, as appropriate, under the balance sheet item “Other claims/liabilities within the Eurosystem (net)”. Intra-ESCB balances arising from the 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. The first-in first-out method is used for interest rate futures. 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 effective interest rate method.

#### Pension Scheme

The Pension Scheme for Bank employees is of the defined-contribution type. The Pension Fund of which this Scheme forms part is external and closed-end. Contributions made by the Banco de España on behalf of the employees who joined the Bank after 1/2/1986, are eligible to and do participate in the Scheme, are recognised as a current expense in the year to which they relate.<sup>10</sup>

#### Provisions

In application of the principle of prudence, the liabilities side of the balance sheet includes provisions approved by the Executive Commission of the Banco de España which are considered necessary to cover adequately, on objective criteria, the risks derived from the

<sup>9</sup> Trans-European Automated Real-time Gross settlement Express Transfer system.

<sup>10</sup> Contributions made by the Banco de España are established at 7.5% of the so-called “regulating salary” consisting of the salary items determined in the Scheme Rules, although in 2012, in application from July of Article 22 of Law 2/2012 of 29 June 2012 on the State Budget for 2012, those contributions were not made.

financial positions held and other losses of a diverse nature (see Note 27 on the balance sheet).

Off-balance-sheet positions<sup>11</sup>

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

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

3 CONSIDERATIONS REGARDING THE ESTIMATES MADE

These annual accounts were prepared using Bank estimates to quantify some of the assets, liabilities, income, expenses, commitments and, in particular, to quantify provisions recorded in them (see Note 27 on the balance sheet). As regards monetary policy operations, since they are conducted jointly in the Eurosystem, the estimates made by the ESCB are also taken into account [see Notes 6 and 7.a) on the balance sheet].

These estimates are based on the best information available at end-2012, and future events may require them to be changed in the coming financial years. Any such changes would be made prospectively in accordance with current accounting rules.

4 POST-BALANCE-SHEET EVENTS

Assets, liabilities and the profit and loss account are adjusted on the basis of events taking place between the end of the accounting period and date of preparation of the annual accounts, should those events materially affect the Banco de España's year-end financial position. The events occurring after year-end which do not affect the assets and 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 at year-end amounted to €11,418.40 million, consisting of 9.054 million troy ounces<sup>12</sup> of fine gold valued at a market price of €1,261.179 per ounce. These holdings did not change during the financial year. The value of these holdings is €401.22 million more than in 2011, as a result of the rise in the market price (at end-2011 the price per ounce was €1,216.864). This increase is included in the liability revaluation accounts. The cost of the gold holdings is €850.43 million.

1 GOLD AND GOLD RECEIVABLES

2 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY. CLAIMS ON 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 IMF quota is 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 alloca-

<sup>11</sup> The net position under foreign exchange forward transactions and swaps, and the foreign-exchange gains and losses generated by such position are shown in the balance sheet in item 11.4 on the assets side or item 12.1 on the liabilities side, depending on their sign.

<sup>12</sup> One troy ounce is equal to 31.1035 grams.

tions 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 delivered to the IMF as a contribution to the PRGT<sup>13</sup> and the bilateral loan agreements between the IMF and Spain, these latter currently included in the NAB<sup>14</sup>. 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-2012 being €364.53 million (SDR 312.72 million). The NAB agreements were concluded to support the IMF's ability to provide financial assistance to its members. The contribution commitment is SDR 6,702.18 million and the amount drawn up to end-2012 was €935.12 million (SDR 802.20 million), representing an increase of €105.98 million (SDR 103.05 million) with respect to the previous year.

The breakdown in 2011 and 2012 is as follows:

EUR m

Type of asset	2012	2011	Change
Reserve tranche position	1,476.44	1,421.01	55.43
Special drawing rights (allocation)	3,131.73	3,161.64	-29.91
Other claims on the IMF	1,299.65	1,221.10	78.55
<b>TOTAL</b>	<b>5,907.82</b>	<b>5,803.75</b>	<b>104.07</b>

The overall amount of claims on the IMF increased by €104.07 million with respect to the balance at end-2011.

The increase of €55.43 million (SDR 69.12 million) in the reserve tranche position account is due to the overall effect of various factors:

- An increase of €119.38 million (SDR 101.70 million) due to the Banco de España's net contributions to the IMF for loans to third countries ( Portugal and Ireland).
- A decrease of €65.87 million (SDR 55.92 million) due to repayments of loans from other countries (Lithuania).
- An increase of €28.40 million (SDR 21.60 million), constituting the balancing entry of movements by the IMF in account no. 1.
- An increase of €2.11 million (SDR 1.74 million) due to other transactions.
- A decrease of €26.60 million due to the change in the exchange rate of the SDR against the euro.

The decrease of €29.91 million (SDR 22.34 million) in the special drawing rights (allocation) account arose from the overall effect of the increase in foreign currency (€26.51 million) due to partial loan repayments and interest on IMF accounts and from the effect of year-end market exchange rates, which entailed a decrease of €56.42 million.

<sup>13</sup> Poverty Reduction and Growth Trust.

<sup>14</sup> New Arrangements to Borrow.

The “Other claims on the IMF” account increased by €78.55 million (SDR 85.92 million). This account includes the loans granted under the NABs and under the PRGT programme. The NABs led to an increase in net contributions (new loans to Greece, Ireland and Sri Lanka less partial repayments by Greece) of €105.98 million (SDR 103.50 million). The PRGTs decreased due to partial loan repayments of €27.42 million (SDR 17.58 million). The change of €78.55 million arose from the overall effect of two factors: the increase in foreign currency because NAB loans increased by more than PRGT loans decreased, which accounted for €101.97 million (SDR 85.92 million), and the effect of the change in foreign exchange rates between the two years, which entailed a decrease of €23.41 million.

SDRs are valued at the year-end market rate, calculated by the ECB for all the Eurosystem national central banks, of €1 = SDR 0.857854. 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 SDR interest rate, which is updated weekly, remained at an average of 0.11%, with a high of 0.15% and a low of 0.03% 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 2012 was €20,685.34 million, with the following breakdown:

EUR m

Type of asset	2012	2011	Change
Deposits	132.07	102.07	30.00
Security investments	20,549.07	19,111.20	1,437.87
Trading portfolio	14,523.61	11,364.02	3,159.59
Held-to-maturity portfolio	6,025.46	7,747.17	-1,721.72
Other	4.19	2.83	1.36
<b>TOTAL</b>	<b>20,685.34</b>	<b>19,216.10</b>	<b>1,469.23</b>

As at 31 December 2012, 89.95% of these assets were denominated in US dollars and 10.02% in yen. The equivalent value in euro of these US dollar and yen amounts was transferred to the balance sheet at the year-end market exchange rate (€1 = USD 1.3194 and €1 = YEN 113.61).

The increase in the balance of this item (€1,469.23 million) was due to the net effect of the factors listed in the following table:

EUR m

Reason for change	Amount
Net investment	2,204.33
Changes of market exchange rates as at 31 December	-644.17
Changes of securities market prices as at 31 December	6.02
Accrued interest receivable	-96.87
Other	-0.07
<b>TOTAL</b>	<b>1,469.23</b>

4 CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This balance sheet item may include current accounts, balances with banks and security investments. As at 31 December 2012, US dollar denominated time deposits at monetary financial institutions equivalent to €2,273.76 million (USD 3,000 million) were held. The year-end balance also includes a claim arising from reverse operations with Eurosystem counterparties amounting to €303.17 million (USD 400 million) in connection with the US dollar Term Auction Facility. Under this program, 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	2012	2011	Change
Deposits	0.11	0.19	-0.08
Security investments	812.69	844.12	-31.42
Trading portfolio	—	—	—
Held-to-maturity portfolio	812.69	844.12	-31.42
<b>TOTAL</b>	<b>812.81</b>	<b>844.31</b>	<b>-31.50</b>

Of the total of this heading (€812.81 million), most (€812.69 million) relates to fixed-income securities included in the held-to-maturity portfolio, which decreased by €31.42 million with respect to the balance as at 31 December 2011. 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 2011, 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 €1,126,019 million, of which €361,086.88 million are included in the balance sheet of the Banco de España. Pursuant to Article 32.4 of the ESCB/ECB Statute, any counterparty risk that may materialise in monetary policy operations must be shared by all Eurosystem central banks in proportion to their share of the subscribed capital of the ECB according to the capital keys in force when this risk materialises (see the provision for counterparty risks in Eurosystem monetary policy operations, in Note 27.- Provisions). The losses may only be recognised if the counterparty fails and insufficient funds are received from resolution of the collateral received from the institution. The Governing Council of the ECB has, in certain cases, excluded from risk sharing a portion of the collateral accepted by central banks.<sup>15</sup>

<sup>15</sup> The total collateral provided by institutions under loan agreements, valued by Eurosystem rules and applying the related haircuts, amounts to €482,500.73 million. Of this amount, €8,408.24 million relate to collateral excluded from risk sharing.

The breakdown by type of transaction is as follows:

EUR m

Type of operation	2012	2011	Change
Main financing operations	45,735.00	11,422.10	34,312.90
Longer-term refinancing operations	315,351.79	156,677.80	158,674.00
Fine-tuning reverse operations	—	—	—
Structural reverse operations	—	—	—
Marginal lending facility	—	—	—
Credits related to margin calls	0.09	96.55	-96.46
<b>TOTAL</b>	<b>361,086.88</b>	<b>168,196.45</b>	<b>192,890.43</b>

Throughout the whole of 2012, 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 2012 is 114.7% higher than that of 2011. The average daily balance of the financing granted during the year increased by 364.9% (€330,404.71 million in 2012, against €71,064.16 million in 2011).

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 2012, continuing the trend initiated in previous years, they were used less than longer-term refinancing operations. In this connection, it should be noted that 10.8% of annual average financing was extended through them. In 2012 these operations were conducted at fixed rate with allotment of the total amount bid.

The balance of this item at 31 December 2012 was €45,735.00 million (€11,422.10 million at 31 December 2011) and its daily average balance during the year was €35,640.50 million (€26,662.79 million in 2011).

b Longer-term refinancing operations

These operations aim to provide counterparties with additional longer-term refinancing. In 2012 operations were conducted with maturities equal to the reserve maintenance period and with maturities of three 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-2012 amounted to €315,351.79 million (87.3% of the total), having increased by €158,674.00 million with respect to the previous year. Also, the average balance increased (from €44,141.74 million in 2011 to €294,562.87 million in 2012), representing 89.2% of overall financing in the year. Most of the increase in the balance of this item took place in March due to the 36-month financing operation in which loans of €175,413.80 million were granted.

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 2012 one fine-tuning reverse operation took place in the Eurosystem. As a result of it, overnight financing of €48,155.00 million was obtained by Spanish credit institutions. Its end-2012 balance was zero.



- d Structural reverse operations These are reverse open-market transactions through standard tenders to enable the Euro-system to adjust its structural liquidity position vis-à-vis the financial sector.

The end-2012 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 2012 was zero. As in 2011, 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 in deposits held for purpose (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 2012 this item had a balance of €0.09 million, down €96.46 million with respect to the previous year. However, its average balance rose from €56.19 million in 2011 to €69.17 million in 2012.

7 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

- a Securities held for monetary policy purposes

This item includes the amount of euro-denominated fixed-income securities issued by euro area residents which were acquired by the Banco de España for monetary policy purposes under covered bond purchase programmes<sup>16</sup> and under the Securities Markets Programme<sup>17</sup>. These securities were classified as held-to-maturity (see “Securities” in Section 3.1 “Accounting policies”) and are subject to a yearly impairment test. The balance of this item as at 31 December 2012 was €32,989.53 million. The breakdown is as follows:

EUR m

Monetary Policy Portfolio	2012	2011	Change
Covered bond purchase programme	6,220.63	6,337.86	-117.24
Second covered bond purchase programme	2,299.99	266.01	2,033.97
Securities market programme	24,468.91	24,476.23	-7.32
<b>TOTAL</b>	<b>32,989.53</b>	<b>31,080.11</b>	<b>1,909.42</b>

<sup>16</sup> 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).

<sup>17</sup> Decision of the ECB of 14 May 2010 establishing a Securities Markets Programme (ECB/2010/5).

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 2012.

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. The net increase in this item in 2012 was due to the purchases made. These purchases were completed at the end of October 2012, when the programme ended.

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 decrease in the balance of this item in 2012 was due to the redemption of securities and to the premiums and discounts relating thereto which were applied throughout 2012. On 6 September 2012 the ECB Governing Council decided to end this programme, the securities in this portfolio being held until maturity.

The Governing Council periodically evaluates the financial risks associated with the securities held under the Securities Markets Programme and the two covered bond purchase programmes.

The total amount of the securities acquired by all Eurosystem NCBs under the aforementioned Securities Markets Programme amounted to €192,608 million, of which €24,468.91 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.

A part of the Banco de España's holdings under the Securities Markets Programme consists of bonds issued by the Hellenic Republic. In February 2012 the Eurosystem central banks changed their holdings of Greek sovereign bonds for new securities issued by the Hellenic Republic. The securities received have the same financial characteristics as those given up. The new securities were not included in the list of those restructured under the private sector participation initiative.

As a result of the impairment test conducted at end-2012, the ECB Governing Council identified two impairment indicators relating to the holdings of Greek bonds. The first was the restructuring in March 2012 of a portion of the securities issued by the Hellenic Republic under the private sector participation initiative and the second was the debt repurchase operation carried out by the Greek government in December 2012. The ECB Governing Council considered that these two developments did not signify any impairment of the securities purchased under the Securities Markets Programme and that, according to the information available as at 31 December 2012, there was no evidence of any change in the estimated future cash flows. Hence no impairment losses were recorded on the holdings of Greek bonds purchased under the Securities Markets Programme or on any of the other securities purchased under that programme.

As regards the impairment test conducted on the securities purchased under the covered bond purchase programmes, it was considered that, although some of the issuers of those securities were subject to restructurings in 2012, this did not affect the expected cash flows and therefore no impairment losses were recorded.

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	2012	2011	Change
Trading portfolio	36,408.59	40,160.88	-3,752.29
Held-to-maturity portfolio	27,532.44	35,144.65	-7,612.22
<b>TOTAL</b>	<b>63,941.03</b>	<b>75,305.53</b>	<b>-11,364.50</b>

The balance of this item as at 31 December 2012 was €63,941.03 million, of which 56.9% relate to trading portfolio securities and the remainder (43.1%) to held-to-maturity securities, with no evidence of impairment at year-end.

Overall, these securities decreased by €11,364.50 million in 2012. Specifically, the balance of held-to-maturity securities decreased by €7,612.22 million and that of trading securities decreased by €3,752.29 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	-4,769.96	-7,618.33	-12,388.29
Unrealised gains at year-end (a)	798.91	—	798.91
Unrealised losses at year-end (a)	-0.02	—	-0.02
Accrued implicit interest	218.78	6.11	224.89
<b>TOTAL</b>	<b>-3,752.29</b>	<b>-7,612.22</b>	<b>-11,364.50</b>

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.

A part of the Banco de España's holdings in these portfolios consists of bonds issued by the Hellenic Republic. In February 2012 the Eurosystem central banks changed their holdings of Greek sovereign bonds for new securities issued by the Hellenic Republic. The securities received have the same financial characteristics as those given up. The new securities were not included in the list of those restructured under the private sector participation initiative, so there were no impairment losses.

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 27 on the balance sheet).

Under that agreement, in 2012 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 2012 of the loans granted to the State amounted to €2,915.05 million, broken down as follows:

EUR m

	2012	2011	Change
Treasury. Law 3/1983 special account	585.75	781.01	-195.25
Treasury. Law 4/1990 special account	2,084.39	2,431.79	-347.40
Treasury. Credits arising from subscription for participating interests, contributions and quotas in international agencies	244.90	285.72	-40.82
<b>TOTAL</b>	<b>2,915.05</b>	<b>3,498.51</b>	<b>-583.47</b>

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  
BALANCES

This heading includes the amounts of the following items:

EUR m

Type of asset	2012	2011	Change
Participating interest in the ECB	1,078.50	940.10	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	34,216.14	26,453.93	7,762.21
<b>TOTAL</b>	<b>40,078.29</b>	<b>32,177.68</b>	<b>7,900.61</b>

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<sup>18</sup>. The first of these payments took place on 29 December 2010, the second on 28 December 2011 and the third on 27 December 2012. With this last payment, the capital disbursed by the Banco de España reached €893.56 million and coincides with the subscribed capital equivalent to 8.3040% of the capital of the ECB.

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 2011	Paid-up capital as at 31 december 2012
Nationale Bank van België/Banque Nationale de Belgique	261,010,384.68	220,583,718.02	261,010,384.68
Deutsche Bundesbank	2,037,777,027.43	1,722,155,360.77	2,037,777,027.43
Eesti Pank	19,261,567.80	16,278,234.47	19,261,567.80
Central Bank and Financial Services Authority of Ireland	119,518,566.24	101,006,899.58	119,518,566.24
Bank of Greece	211,436,059.06	178,687,725.72	211,436,059.06
Banco de España	893,564,575.51	755,164,575.51	893,564,575.51
Banque de France	1,530,293,899.48	1,293,273,899.48	1,530,293,899.48
Banca d'Italia	1,344,715,688.14	1,136,439,021.48	1,344,715,688.14
Central Bank of Cyprus	14,731,333.14	12,449,666.48	14,731,333.14
Banque centrale du Luxembourg	18,798,859.75	15,887,193.09	18,798,859.75
Central Bank of Malta	6,800,732.32	5,747,398.98	6,800,732.32
De Nederlandsche Bank	429,156,339.12	362,686,339.12	429,156,339.12
Oesterreichische Nationalbank	208,939,587.70	176,577,921.04	208,939,587.70
Banco de Portugal	188,354,459.65	159,181,126.31	188,354,459.65
Banka Slovenije	35,381,025.10	29,901,025.10	35,381,025.10
Národná banka Slovenska	74,614,363.76	63,057,697.10	74,614,363.76
Suomen Pankki – Finlands Bank	134,927,820.48	114,029,487.14	134,927,820.48
<b>Subtotal for euro area NCBs</b>	<b>7,529,282,289.35</b>	<b>6,363,107,289.36</b>	<b>7,529,282,289.35</b>
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
<b>Subtotal for non-euro area NCBs</b>	<b>3,231,370,113.23</b>	<b>121,176,379.25</b>	<b>121,176,379.25</b>
<b>TOTAL (a)</b>	<b>10,760,652,402.58</b>	<b>6,484,283,668.61</b>	<b>7,650,458,668.60</b>

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

This item also includes the participating interest in ECB equity. Its balance of €184.94 million at 31 December 2012, unchanged from that in 2011, 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 €1,078.50 million.

<sup>18</sup> 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).

- b Claims equivalent to the transfer of foreign reserve assets to the ECB
- These represent the ECB's debt to the Banco de España arising from the transfer of foreign reserve assets to the ECB. The claims equivalent to the transferred reserves are denominated in euro at a value fixed from the time of their transfer. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, reduced by 15% to reflect a zero return on the gold component, which at the time accounted for 15% of the total reserves transferred. 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 €34,216.14 million at end-2012, 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 2011 (€7,762.21 million) was due to the decrease in banknotes put into circulation by the Banco de España in 2012 (-7.3%) and the contrasting rise in the Eurosystem as a whole (growth of 2.7%), which resulted in the aforementioned increase in the balance of these accounts.<sup>19</sup>
- 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 22 on the balance sheet).
- 10 OTHER ASSETS. TANGIBLE AND INTANGIBLE FIXED ASSETS
- The balance of this item amounted to €263.67 million at end-2012, of which €643.06 million related to cost and €379.39 million to accumulated depreciation.

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

EUR m

	2012	2011	Change
Tangible fixed assets	511.86	496.25	15.61
Land and unbuilt plots	5.35	5.35	—
Buildings, structures and renovation work	109.96	107.34	2.63
Plant in buildings	185.41	174.99	10.42
Furniture and fittings	38.09	37.64	0.46
Office machines other than computer equipment	54.16	53.92	0.25
Computer equipment	60.97	58.97	2.00
Transport equipment	8.12	8.53	-0.42
Libraries	5.29	5.42	-0.12
Other tangible fixed assets	5.07	4.99	0.08
Art collection	39.43	39.11	0.32
Intangible fixed assets	83.43	72.25	11.19
Computer applications	83.38	72.19	11.19
Industrial property	0.06	0.06	—
Fixed assets in progress	47.77	51.37	-3.61
Buildings, plant in buildings and other structures	9.41	16.44	-7.03
Computer applications of Banco de España	13.05	15.21	-2.16
Computer applications of Eurosystem	24.43	19.29	5.14
Other fixed assets in progress	0.87	0.43	0.44
<b>TOTAL</b>	<b>643.06</b>	<b>619.86</b>	<b>23.19</b>

<sup>19</sup> The increase in the Eurosystem as a whole was €23,964 million, of which €2,616.51 million related to the Banco de España.

EUR m

Accumulated depreciation or amortization	2012	2011	Change
Tangible fixed assets	-319.88	-299.88	-20.00
Buildings, structures and renovation work	-38.96	-36.32	-2.64
Plant in buildings	-143.01	-134.01	-9.00
Furniture and fittings	-28.95	-27.17	-1.78
Office machines other than computer equipment	-44.36	-42.53	-1.83
Computer equipment	-49.97	-45.67	-4.30
Transport equipment	-7.29	-7.24	-0.05
Libraries	-3.13	-3.02	-0.11
Other tangible fixed assets	-4.22	-3.92	-0.30
Intangible fixed assets	-59.50	-51.47	-8.03
Computer applications	-59.45	-51.41	-8.03
Industrial property	-0.06	-0.06	—
<b>TOTAL</b>	<b>-379.39</b>	<b>-351.35</b>	<b>-28.03</b>

The increase in fixed assets in 2012 basically arose from increased investment in development of certain computer applications, from the acquisition and updating of software licences and from the implementation of various projects for the Eurosystem. It was also due to electrical upgrading work in the Cibeles building, the installation of an air conditioning system in the data centre at the Alcalá 522 building, the overhaul of the air conditioning systems at various branches and the refurbishment of the banking hall and adjacent areas at the Cibeles building. Notwithstanding the above, fixed assets net of depreciation decreased with respect to the previous year by €4.39 million.

11 OTHER ASSETS. OTHER FINANCIAL ASSETS

This item includes €45.70 million of financial investments relating basically to the Banco de España's participating interests in the Bank for International Settlements and in Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. The decrease of €1.06 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, it is recorded under the same heading in liability item 12.1. Its debit balance of €162.30 million as at end-2012 is the net value of the swap and forward transactions outstanding at that date that are listed below:

Operation	2012			2011		
	Position	Currency	Currency amount (million)	Market exchange rate	Equivalent (million €)	Equivalent (million €)
Swap	Debtor	EUR	304.95	1.0000	304.95	4,139.80
		USD	2,945.87	1.3194	2,232.73	—
	Creditor	JPY	235,429.75	113.6100	2,072.26	—
		USD	400.00	1.3194	303.17	4,250.71
Forward	Debtor	USD	0.88	1.3194	0.67	—
	Creditor	JYP	70.25	113.6100	0.62	—
<b>NET POSITION</b>					<b>162.30</b>	<b>-110.92</b>

At year-end the unexpired euro-US dollar swaps were those entered into under the liquidity provision cooperation agreements (swap line) with the Federal Reserve, US dollar-yen swaps and forward sales of yen against US dollars yet to be executed.

Regarding the exceptional liquidity-providing transactions in the form of swaps, it should be noted that on 4 December 2012 the ECB Governing Council decided, in agreement with the central banks involved, to prolong the liquidity provision agreements (swap line) with the Federal Reserve until 1 February 2014. Previously, these agreements had been authorised until 1 February 2013.

13 OTHER ASSETS. ACCRUALS  
AND PREPAID EXPENSES

The main components of this item, the balance of which amounts to €4,825.31 million, are as follows:

EUR m

	2012	2011	Change
Accrued interest arising from securities acquisitions and accrued coupon interest receivable	2,183.95	2,197.17	-13.22
Trading portfolio	873.78	777.61	96.17
Denominated in foreign currency	54.59	51.96	2.64
Denominated in euro	819.19	725.66	93.53
Held-to-maturity portfolio	643.12	792.22	-149.10
Denominated in foreign currency	37.97	49.68	-11.71
Denominated in euro	605.16	742.54	-137.39
Held for monetary policy purposes	667.04	627.34	39.71
Other accrued interest receivable	2,636.78	238.41	2,398.37
On claims equivalent to the transfer of foreign reserves to the ECB	36.43	51.50	-15.08
On intra-Eurosystem claims arising from banknotes adjustments	59.99	87.11	-27.12
On monetary policy operations	2,521.93	95.33	2,426.60
On exceptional liquidity-providing operations	0.14	1.20	-1.06
Claims on the IMF	1.54	3.21	-1.67
On swaps operations	1.58	—	1.58
On foreign currency deposits	15.11	—	15.11
Other	0.06	0.06	—
Accrued commissions receivable and prepaid expenses	4.58	4.12	0.47
<b>TOTAL</b>	<b>4,825.31</b>	<b>2,439.70</b>	<b>2,385.61</b>

As can be seen in the above table, the most significant item relates to accrued interest receivable on monetary policy operations, which increased significantly (by €2,426.60 million) due to the larger volume of outstanding long-term transactions at year-end. The other main accounts are accrued interest arising from securities purchases and accrued coupon interest receivable denominated in euro arising from the trading portfolio (€819.19 million), from the held-to maturity portfolio (€605.16 million) and from monetary policy operations (€667.04 million). In total, this interest decreased by €13.22 million with respect to the previous year due to the lower average rate of return. There was likewise a decrease in interest receivable on claims equivalent to the transfer of foreign reserve assets to the ECB and in the interest accrued on intra-Eurosystem banknote adjustment and offsetting accounts as a result of the lower average rate of return. The rise in interest receivable on foreign-currency deposits (€15.11 million) was because of the US dollar time deposits with financial institutions held in 2012 but not in 2011.



## 14 OTHER ASSETS. SUNDRY

The most significant components of this item, which totals €1,972.07 million, are the transfer to the Treasury on 3 December 2012 of €1,732.54 million, equivalent to 70% of the Bank's profits earned to 30 September 2012, adjusted in line with the projected performance of profits up to year-end (see Note 15 on the profit and loss account), which was €512.51 million higher than in the previous year, and the home loans and repayable advances granted to Bank employees, the balance of which, at €188.77 million, was up by €3.19 million from 2011.

## 15 BANKNOTES IN CIRCULATION

The balance of banknotes in circulation (€99,641.36 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 ECB (8% of the total). This balance was €2,616.51 million higher than in the previous year because of the greater volume of euro banknotes in circulation in the Eurosystem. The difference between the balance of the banknotes allocated as per the balance sheet and those put into circulation by the Banco de España is recorded in an adjustment account under this heading, with a balancing entry in item 9.4 on the assets side of the balance sheet.

## 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 €72,004.69 million at end-2012, €21,070.98 million more than in the previous year. This higher balance was basically due to the increase in the deposit facility and, to a lesser extent, in the deposits related to margin calls, offset in part by the decrease in the balances of "fixed-term deposits" and of institutions' current accounts (including minimum reserves).

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

EUR m

Type of liability	2012	2011	Change
Current accounts (covering the minimum reserve system)	12,851.75	14,561.25	-1,709.50
Deposit facility	59,046.50	33,335.00	25,711.50
Fixed-term deposits	—	3,000.00	-3,000.00
Fine-tuning reverse operations	—	—	—
Deposits related to margin calls	106.45	37.46	68.99
<b>TOTAL</b>	<b>72,004.69</b>	<b>50,933.71</b>	<b>21,070.98</b>

The first component, which includes the total current accounts held by credit institutions at the Banco de España, in which they maintain the minimum reserves required for monetary policy implementation purposes, underwent a decrease of €1,709.50 million (11.7%). Its average balance also decreased during the year, falling from €23,591.06 million in 2011 to €12,338.95 million in 2012 (47.7%). This decrease was due to the reduction in the reserve requirement from 2% in 2011 to 1% from 18 January 2012.

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 €33,335.00 million in 2011 to €59,046.50 million in 2012. Its average balance also increased (€35,059.14 million in 2012 compared with €6,153.64 million in 2011), reflecting certain misalignments in the interbank market.

The balance of fixed-term deposits was zero as at 31 December 2012. They are fine-tuning operations (liquidity withdrawals) that take the form of deposits. During 2012 the Eurosys-

tem carried out 52 operations of this type. The average balance decreased during the year from €493.64 million in 2011 to €39.50 million in 2012.

The other captions in this item relate to fine tuning reverse operations and deposits related to margin calls. As at 31 December 2012, fine tuning reverse operations had a zero balance, while institutions' deposits related to margin calls amounted to €106.45 million (€37.46 million in 2011).

17 OTHER LIABILITIES TO EURO  
AREA CREDIT INSTITUTIONS  
DENOMINATED IN EURO

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

Its balance of €110.01 million at end-2012 related nearly in full to a deposit of a credit institution which had been frozen to prevent the legal limit on covered bond issuance being breached as a result of the transfer of assets to SAREB (asset management company for assets arising from bank restructuring).

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

This item includes the deposits held by general government with the Banco de España. The outstanding balance at year-end was €9,009.99 million, which breaks down as follows:

EUR m

	2012	2011	Change
Central government (State)	6,306.83	2,096.91	4,209.92
Treasury current account	2,500.42	225.04	2,275.38
Other central government agencies and similar bodies	3,806.41	1,871.87	1,934.54
Territorial government	498.88	153.66	345.22
Regional (autonomous) governments, administrative agencies and similar bodies	498.53	152.70	345.83
Local government	0.35	0.96	-0.61
Social security funds	2,204.28	3,175.12	-970.84
Social Security System	2,203.36	3,174.20	-970.84
Other	0.92	0.93	—
<b>TOTAL</b>	<b>9,009.99</b>	<b>5,425.69</b>	<b>3,584.30</b>

The increase in this item (€3,584.30 million) was due to the higher balances held by central government (up €4,209.92 million on 2011) and by regional governments, included under "Territorial governments" (€345.83 million). The balances held by Social Security Funds decreased by €970.84 million. As regards average balances, there was an increase in those held by central government (€6,017.80 million in 2012 against €2,915.76 million in 2011) and by regional governments (€362.88 million in 2012 against €298.72 in 2011) and a decrease in that held by social security funds (€3,657.87 million in 2012 against €4,892.42 million in 2011).

The balances held by central government are subject to a daily collateralised assignment through an auction conducted on behalf of the Treasury.

19 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 of €1,941.86 million at end-2012 was €1,797.51 million higher than at end-2011, basically due to the opening of deposits in the name of the securitisation special purpose entities which so requested, and to the deposits in the name of MEEF (Mercado Español de Futuros Financieros – Spanish financial futures market) to collateralise the settlement of its transactions.

20	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 €141.68 million was €239.07 million lower than a year earlier, due to decrease in deposits of the central banks to which reserve management services are provided and in deposits of international organisations and non-Eurosystem monetary authorities.
21	COUNTERPART OF SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF	This item of €3,296.08 million shows the equivalent amount of the special drawing rights allocated to Spain by the IMF, the balancing entry to the initial allocation of SDRs recorded in assets-side item 2.1 of the balance sheet. The total amount of this item decreased by €59.38 million with respect to the previous year, due to the variation in the exchange rate.
22	INTRA-EUROSYSTEM LIABILITIES	This item, which as at 31 December 2012 had a balance of €336,831.24 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 €336,831.24 million as at 31 December 2012 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 income on securities acquired by the ECB under the Securities Markets Programme.

EUR m

	2012	2011	Change
BDE's position vis-à-vis ECB due to transfers made and received through TARGET2	337,344.39	174,978.57	162,365.82
Position with ECB due to contribution and allocation of monetary income	-444.95	-74.78	-370.17
Dividend from banknote seigniorage income	-68.20	-77.38	9.18
<b>TOTAL</b>	<b>336,831.24</b>	<b>174,826.42</b>	<b>162,004.82</b>

Regarding the first component, the year-end net transfers via TARGET2 had a credit balance of €337,344.47 million, while the correspondent accounts showed a debit balance of

€0.08 million. The remuneration of this position is calculated daily at the marginal interest rate of Eurosystem main refinancing operations. The average balance for the year increased considerably from €70,706.62 million in 2011 to €329,060.42 in 2012, and relates to the increase in euro loans to euro area credit institutions in connection with monetary policy operations recorded on the assets-side of the balance sheet.

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 €444.95 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 income on securities purchased under the Securities Markets Programme,<sup>20</sup> in 2013 the ECB Governing Council resolved to distribute a portion of the income obtained from the securities purchased under the Securities Markets Programme and of the income from seigniorage of euro banknotes. Its debit balance as at 31 December 2012 was €68.20 million (see “Income from equity shares and participating interests” in Note 7 on the profit and loss account).

23 ITEMS IN COURSE  
OF SETTLEMENT

Included here are various accounts which as at 31 December 2012 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 €183.75 million at end-2012, of which most notably €173.23 million related to transfers to accounts with other institutions, with payment of those transfers yet to be made, and €6.94 million to transfers received from the TARGET2 Platform but yet to be processed.

24 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, as in 2012, it is recorded under the same heading in asset item 11.4 (see Note 12 on the balance sheet).

25 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 2012, its balance amounted to €237.54 million, the main component being interest accrued but not yet paid (€236.45 million). The increase in this item in 2012 (€76.56 million) basically resulted from the larger amount of interest incurred on intra-Eurosystem accounts relating to TARGET2 transactions (€86.18 million). This increase was partly offset by the decrease in the interest payable on the minimum reserves held by credit institutions (€7.03 million).

26 OTHER LIABILITIES.  
SUNDRY

This includes other liabilities not classifiable above.

As at 31 December 2012 the balance of this item amounted to €113.05 million (€121.27 million less than in 2011) and its main sub-items were the “Cash immobilised under EU

<sup>20</sup> Decision of the European Central Bank of 19 December 2012 (ECB/2012/33) amending Decision ECB/2010/24 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the Securities Markets Programme.

legislation drawn from book-entry government debt. Redemptions and interest” (€27.11 million) and “Sundry accounts payable and unallocated items. Accrued operating expenses” (€26.52 million). The main variation relates to the first of the aforementioned sub-items (down by €85.49 million), due to the exclusion of some entities from the list of persons and entities subject to restrictive measures in view of the situation in Libya in accordance with Council Regulation (EU) No 1360/2011 of 20 December 2011 amending Regulation (EU) No 204/2011.

## 27 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

	2012	2011	Change
For exchange rate and interest rate risks	5,870.34	4,666.01	1,204.33
For credit risk	1,404.62	870.96	533.66
For early repayment of special loans	363.89	577.68	-213.79
For counterparty risks in Eurosystem's monetary policy operations	33.58	102.80	-69.22
For operational risk	24.83	24.50	0.33
For exchange of withdrawn peseta banknotes	22.54	36.49	-13.95
For early and regular retirement	28.66	27.98	0.68
For death and retirement assistance	56.74	58.26	-1.52
For sundry liabilities and charges	1.14	0.53	0.61
<b>TOTAL</b>	<b>7,806.34</b>	<b>6,365.20</b>	<b>1,441.13</b>

### 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 2012 amounted to €5,870.34 million, which was €1,204.33 million more than in 2011 (see Note 5 on the profit and loss account). Of these €5,870.34 million, €3,472.87 million relate to currency risk and €2,397.47 million to interest rate risk. The increase of €1,204.33 million was due to the decline in unrealised foreign exchange gains by €647.41 million, to the additional SDR-US dollar exchange risk estimated at €391.72 million and to the increase of €165.27 million in the estimated interest rate risk.

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 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 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 2012 to record the aforementioned provision of €533.66 million, the balance of which reached €1,404.62 million 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. This methodology was changed in 2011.

This provision was used to cover the operational risk events which occurred in 2012 (see Note 14 on the profit and loss account), and the €7.63 million set aside took its balance to €24.83 million.

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. As at 31 December 2012 it had a balance of €363.89 million, down €213.79 million from the previous year (€41.73 million used in relation to repayment of the amount due in the year and €172.06 million for adjustment of loans to their market value).

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 create a buffer totalling €5,736 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 the national central banks of participating Member States 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 31 January 2013 the ECB Governing Council reviewed the adequacy of the amount of this provision with effect as at 31 December 2012 and decided to reduce it from its balance of €949 million as at 31 December 2011 to €310 million in the Eurosystem as a whole. As a result, the Banco de España provision was set at €33.58 million and, accordingly, a portion of it amounting to €69.22 million was released (see Note 8 on the profit and loss account).

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.<sup>21</sup> It was recorded initially in 2005 to cater for the exchange of any peseta banknotes withdrawn from circulation due to the introduction of the euro that may be tendered at the Banco de España. 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 (provi-

<sup>21</sup> The provisions for exchange of peseta banknotes withdrawn from circulation also include another one for €1.83 million.

sion 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 €20.71 million, representing a decrease of €13.80 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 (€0.68 million), basically due to the provisioning of payments to be made under Article 184 of the Banco de España Conditions of Employment and under the fifth transitional provision of the collective labour agreement for 2001.

Also, in the reporting year there was a decrease of €1.52 million in the provision for severance payments (see Note 14 on the profit and loss account).

#### 28 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	2012	2011	Change
Gold	10,567.97	10,166.75	401.22
Foreign currency	888.44	1,535.85	-647.41
Securities (trading portfolio)	1,096.14	292.43	803.71
Issued in foreign currency by non-euro area residents	61.87	57.07	4.80
Issued in euro by euro area residents	1,034.28	235.36	798.91
Other	16.04	17.04	-1.00
<b>TOTAL</b>	<b>12,568.59</b>	<b>12,012.07</b>	<b>556.52</b>

The balance of revaluation accounts at end-2012 was €12,568.59 million, up €556.52 million on 2011. The main change was in the fixed-income securities in the trading portfolio, the unrealised gains on which increased by €803.71 million as a result of security price movements driven by interest rates.

The unrealised gains on gold increased by €401.22 million as a result of an increase in its market price from €1,216.86 per ounce at 31 December 2011 to €1,261.18 per ounce at 31 December 2012.

As regards the foreign exchange revaluation accounts, the unrealised gains on foreign currencies decreased by €647.41 million, basically due to the depreciation of the US dollar and the SDR against the euro (€594.58 million and €52.76 million, respectively).

#### 29 CAPITAL

As at 31 December 2012 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.

#### 30 RESERVES

As at 31 December 2012 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.

The net profit for 2012 amounted to €3,845.23 million, up 60.2% on 2011. Of this amount, €1,732.54 million was paid to the Treasury on 3 December 2012, in accordance with Royal Decree 2059/2008 of 12 December 2008 (see Note 15 on the profit and loss account “Profit for the year”) and are included in asset item 11.6.

During the year, the following amounts were also paid to the Treasury out of 2011 profits:

- a) On 1 March 2012, €940.09 million, which, together with the payment in December 2011, amounted to 90% of the €2,400.13 million of distributable profit for that year.
- b) On 10 September 2012, once the balance sheet and profit and loss account for the year 2011 had been approved by the Council of Ministers, €240.01 million, representing the rest of the distributable profit for that year.

The details of the various components of the profit for 2012 and the reasons for the changes in them with respect to 2011 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 2012 and 2011 is as follows:

#### 1 INTEREST INCOME

EUR m

	Interest income		
	2012	2011	Change
Foreign currency	278.32	245.08	33.24
Securities	225.34	207.73	17.61
Deposits and other assets	24.05	21.29	2.76
Exceptional liquidity-providing operations	16.94	1.38	15.56
Swap, forward and other transactions	12.00	14.68	-2.68
Euro	7,945.52	5,028.85	2,916.66
Securities	4,745.77	3,789.79	955.99
Monetary policy operations	2,896.35	913.88	1,982.47
Intra-Eurosystem accounts	290.87	321.25	-30.38
Claims equivalent to the transfer of foreign reserves to the ECB	36.43	51.50	-15.08
Claims related to allocation of euro banknotes within the Eurosystem	254.39	269.69	-15.31
Other claims within the Eurosystem (net)	0.06	0.06	—
Other assets	12.53	3.94	8.59
<b>TOTAL</b>	<b>8,223.84</b>	<b>5,273.93</b>	<b>2,949.90</b>

Interest income increased by €2,949.90 million in 2012 with respect to 2011. This increase was mainly a result of rises of €2,916.66 million in the return on euro-denominated investments and of €33.24 million in income from foreign-currency investments.

Of the €278.32 million of interest on foreign-currency investments, €225.34 million arose from investments in fixed-income securities mostly denominated in US dollars. The other interest denominated in foreign currencies arose basically from deposits, exceptional liquidity providing operations (these transactions generate expenses for the same amount) and swap transactions. The average return on foreign-currency investments was 1.1% in 2012, compared with 1.6% in 2011.



Euro-denominated interest income (€7,945.52 million) arose basically from the securities portfolios (€4,745.77 million, an increase of €955.99 million), monetary policy operations (€2,896.35 million, up €1,982.47 million) and intra-Eurosystem balances (€290.87 million, down €30.38 million).

The main reason for the increase of €2,916.66 million in euro-denominated income with respect to the previous year was the higher average remunerated balance (up from €191,792.48 million in 2011 to €464,151.42 million in 2012), offset in part by the lower average return in the reporting year (down from 2.6% in 2011 to 1.7% in 2012).

Specifically, analysis of the average investment made discloses the significant increase in monetary policy operations (€330,404.71 million in 2012 against €71,064.16 million in 2011), derived from the higher funding requested by Spanish financial institutions from the ECB (see Note 6 on the balance sheet). Furthermore, there was an increase in claims related to the allocation of euro banknotes, the average balance of which rose from €20,942.03 million in 2011 to €28,501.40 million in 2012 as a result of changes in banknotes put into circulation (-7.3% in Spain, compared with 2.7% in the Eurosystem as a whole). The average investment in securities increased by €5,456.83 million (5.7%), basically in the monetary policy portfolio (€12,594.15 million in the SMP portfolio and €1,580.20 million in the CBPP2 portfolio), offset in part by a decrease in average investment in the held-to-maturity portfolio (€7,641.78 million) and in the trading portfolio (€870.26 million).

## 2 INTEREST EXPENSES

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

	Interest expense		
	2012	2011	Change
Foreign currency	20.52	19.43	1.09
Swap, forward and other transactions	—	5.25	-5.25
Exceptional liquidity-providing transactions	16.94	1.38	15.56
Other liabilities	3.58	12.80	-9.22
<b>Euro</b>	<b>3,092.30</b>	<b>1,322.01</b>	<b>1,770.28</b>
Monetary policy operations	167.62	338.66	-171.05
Remuneration of minimum reserves	104.97	297.60	-192.64
Deposit facility	56.20	35.47	20.73
Fixed-term deposits	0.19	4.41	-4.22
Changes in the value of collateral	6.26	1.19	5.08
General government deposits	50.37	70.97	-20.60
Other liabilities within the Eurosystem (net)	2,871.65	910.37	1,961.28
Other liabilities denominated in euro	2.65	2.01	0.65
<b>TOTAL</b>	<b>3,112.82</b>	<b>1,341.45</b>	<b>1,771.37</b>

Interest expenses increased by €1,771.37 million in 2012, mainly due to a rise in euro-denominated liabilities.

Of the euro-denominated interest expenses (€3,092.30 million), €2,871.65 million relate to the remuneration of intra-Eurosystem balances on the liabilities-side of the balance sheet (TARGET2), €167.62 million to remuneration of institutions for monetary policy operations deposits and €50.37 million to remuneration of general government deposits.

The increase in euro-denominated expenses (€1,770.28 million) basically resulted from the higher average balance of liabilities to be remunerated (€385,967.37 million in 2012 against

€108,905.29 million in 2011), partly offset by the lower average cost at which they were remunerated, which dropped from 1.2% in 2011 to 0.8% in 2012.

Notable among the euro-denominated expenses was that due to the net credit balance of intra-Eurosystem balances arising from TARGET2 transactions. Interest expenses rose by €1,961.28 million, basically because of the considerable increase in their average balance with respect to 2011 from €70,706.62 million to €329,060.42 million in 2012, partly offset by the decrease in the average cost (down from 1.3% in 2011 to 0.9% in 2012).

The average balance of deposits by institutions due to monetary policy operations rose by €17,858.06 million from €30,333.12 million in 2011 to €48,191.18 million in 2012.

The decrease of €20.60 million in interest expenses for general government deposits was basically due to the lower average cost (0.9% in 2011 against 0.6% in 2012), partly offset by the higher average balance remunerated (up from €7,865.55 million in 2011 to €8,715.77 million in 2012).

Interest expenses denominated in foreign currencies (€20.52 million) related mainly to exceptional liquidity providing operations (€16.94 million) and to allocated SDRs (€3.58 million).

3 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

This item includes the profits and losses arising from dealing in financial assets. In 2012 the net gains in this connection amounted to €132.25 million, arising from the following sources:

EUR m

	2012	2011	Change
Foreign currency	64.05	54.14	9.91
Sale of gold	—	—	—
Sale of foreign currency (exchange gains)	14.09	5.29	8.79
Sale of securities (price losses)	64.06	52.97	11.09
Other gains/losses	-14.10	-4.12	-9.98
Euro	68.20	47.15	21.06
Sale of securities (price losses)	68.20	47.15	21.06
<b>TOTAL</b>	<b>132.25</b>	<b>101.29</b>	<b>30.96</b>

Compared with the prior year, the total amount recorded in 2012 increased by €30.96 million due to larger gains on the sale of euro-denominated debt securities (€21.06 million), on debt securities denominated in foreign currencies (€11.09 million) and on the sale of foreign currencies (exchange gains), basically US dollars (€3.44 million) and SDRs (€4.34 million), partly offset by higher losses on interest rate futures (€9.98 million).

The higher gains on securities sales, both in euro and in foreign currencies, were mainly due to the larger volume of sales in 2012.

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 2012 and 2011 is as follows:

EUR m

	2012	2011	Change
Foreign currency	0.99	4.47	-3.47
Foreign currency (exchange rate losses)	0.10	—	0,10
Securities (price losses)	0.89	4.46	-3.57
Euro	0.02	463.14	-463.12
Securities (price losses)	0.02	463.14	-463.12
<b>TOTAL</b>	<b>1.01</b>	<b>467.61</b>	<b>-466.60</b>

Unrealised losses in 2012 amounted to €1.01 million. This was €466.60 million less than in 2011, basically because of the unrealised losses on euro-denominated securities recorded at end-2011 and the nearly total absence of losses in 2012.

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

EUR m

	2012	2011	Change
Transfers to provisions	-1,739.00	-1,711.11	-27.90
Foreign exchange rate and interest rate risk	-1,205.34	-1,176.35	-28.99
Credit risk	-533.66	-534.76	1.10
Transfer from exchange rate and interest rate provision	1.01	467.61	-466.60
Transfer/reversal from provision for losses arising from early repayment of special loans	172.06	162.15	9.91
<b>TOTAL</b>	<b>-1,565.92</b>	<b>-1,081.34</b>	<b>-484.58</b>

This includes, first, the transfer of €1.01 million from the provision for foreign exchange rate and interest rate risks to cover the losses recorded at end-2012 and, second, the transfer of €1,205.34 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 19 February 2013.

This item also includes the transfer to the provision for credit risk in accordance with the aforementioned Executive Commission resolution, amounting to €533.66 million in 2012.

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 2012 the provisioning expense underwent a positive change of €9.91 million with respect to 2011, due to the recovery of €172.06 million in 2012 derived from adjustment of market value changes in these assets, as against the recovery of €162.15 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

	2012	2011	Change
1 Income from fees and commissions	19.32	17.57	1.75
Foreign operations	—	0.01	-0.01
Domestic operations	19.32	17.56	1.76
2 Expenses from fees and commissions	12.04	10.68	1.37
Foreign operations	3.10	3.18	-0.08
Domestic operations	8.94	7.50	1.44
<b>NET INCOME FROM FEES AND COMMISSIONS (1-2)</b>	<b>7.27</b>	<b>6.89</b>	<b>0.38</b>

Net fee and commission income in 2012 (€7.27 million) was €0.38 million more than in 2011. This variation relates basically to the higher fee income from securities transactions. This increase in income was partially offset by the higher expense of fees and commissions paid on securities 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, seignorage income and income generated by the ECB portfolio derived from the Securities Markets Programme. It also includes the dividends on other shares and participating interests.

EUR m

	2012	2011	Change
ECB	77.23	97.70	-20.47
Ordinary dividend	9.04	20.33	-11.29
Dividend from banknote seignorage income	68.20	77.38	-9.18
Other	12.35	11.93	0.42
<b>TOTAL</b>	<b>89.58</b>	<b>109.64</b>	<b>-20.06</b>

Of the total amount of €89.58 million recorded, €68.20 million relate to the ECB dividend from banknote seignorage income and income from the SMP portfolio, €9.04 million to the ECB ordinary dividend for 2011, €8.80 million to dividends on the participating interest in Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, SA (BME) and €3.55 million to participating interests in international agencies (Bank for International Settlements).

In 2013 the ECB Governing Council decided to retain a portion of the banknote seignorage income and the income generated by its securities portfolio purchased under the Securities Markets Programme, in order to record a provision for foreign exchange rate, interest rate, credit and gold price risks, distributing the remainder among the Eurosystem NCBs. The amount retained was €1,166.17 million, of which €138.40 million corresponded to the Banco de España.

Compared with 2011, the amount recorded in 2012 was €20.06 million lower, basically due to the smaller ordinary dividend distributed by the ECB in the reporting year out of the prior year's profit (€11.29 million) and to the lower income from the ECB banknote seignorage dividend and from the SMP portfolio (€68.20 million distributed in 2012 against €77.38 million in 2011).

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 in-

tra-Eurosystem claims related to the allocation of euro banknotes in the Eurosystem, whenever they have a debit balance; and a limited amount of each NCBs 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 2012 and 2011 is as follows:

EUR m

	2012	2011	Change
Monetary income pooled	-2,342.71	-1,791.49	-551.22
Monetary income allocated	2,787.66	1,866.27	921.39
Provision for counterparty risk in monetary policy operations	69.22	136.27	-67.05
<b>TOTAL</b>	<b>514.17</b>	<b>211.05</b>	<b>303.12</b>

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 2012, amounting to €2,342.71 million, and that reallocated to it, amounting to €2,784.14 million, is equivalent to a net allocation of €441.43 million. This net allocation has to be reduced by €0.87 million for the Banco de España's share of the expenses of and losses on Eurosystem monetary policy operations (the expense of the professional consulting and audit services of independent experts for management of the assets relating to these transactions) and increased by €4.39 million for the Banco de España's share in recoveries of prior-year expenses and losses of this type. Compared with 2011, there was a positive net change of €370.17 million in these results.

The basic reason for the positive net allocation of €444.95 million was that certain Eurosystem central banks held deposit facilities and fixed-term deposits which were overly large in proportion to their capital keys and remunerated at very low interest rates.

Also, with regard to the provision for counterparty risk in Eurosystem monetary policy operations, on 31 January 2013 the ECB Governing Council approved the amounts relating to each NCB. Accordingly, the Banco de España reversed a portion of the provision recorded (€69.22 million out of a total of €102.80 million), leaving it with a balance of €33.58 million as at 31 December 2012.

## 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

	2012	2011	Change
Extraordinary profit	-7.18	40.09	-47.27
Employee social welfare scheme	-2.24	-7.98	5.73
Sundry	4.87	8.11	-3.24
<b>TOTAL</b>	<b>-4.55</b>	<b>40.23</b>	<b>-44.78</b>

As can be seen, this item shows a net loss of €4.55 million. The main item in extraordinary results relates to the discontinuation of the CCBM2 project, which was decided by the ECB Governing Council in 2012. In this connection and in application of the principle of prudence, it was treated as a loss by recording as extraordinary losses the items which until then had been included as fixed assets under construction. The decrease in the principal of the debt to the employee social welfare scheme (Mutualidad de Empleados) generated lower expenses of €5.73 million.

## 10 STAFF COSTS

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

The breakdown of changes by component is as follows:

EUR m and %

	2012	2011	Change	(%)
Gross staff costs	212.18	232.51	-20.34	-8.7
Wages and salaries	160.27	170.21	-9.94	-5.8
Social Security	31.05	32.06	-1.01	-3.1
Staff welfare expenses	17.43	23.42	-5.99	-25.6
Contributions to Pension Scheme	3.42	6.82	-3.39	-49.8
Reversal of staff costs due to capitalization of computer applications	-1.27	-1.61	0.35	-21.4
<b>TOTAL</b>	<b>210.91</b>	<b>230.90</b>	<b>-19.99</b>	<b>-8.7</b>

Its balance decreased from €230.90 million in 2011 to €210.91 million in 2012, a fall of €19.99 million (8.7%). The main reasons for this decrease were: a) the application of Article 2.3 of Royal Decree-Law 20/2012 of 13 July 2012 on measures to ensure budget stability and promote competition, whereby Banco de España staff remuneration was reduced by the amount of the December extra payroll; b) the provision for risks and expenses recorded in 2011 to allow for payments to early and regular retirees resulting from the closure of branches (€6.25 million); and c) the application from July of Article 22 of Law 2/2012 of 29 June 2012 on the State budget for 2012, whereby contributions to pension schemes were abolished from July, which reduced the expense by €3.39 million.

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

	2012	2011	Change	%
Average number of employees	2,655.9	2,704.8	-48.9	-1.8
Managerial staff	1,637.1	1,633.7	3.4	0.2
Administrative staff	840.4	879.7	-39.3	-4.5
Other	178.4	191.4	-13.0	-6.8

As at 31 December 2012, the Bank’s total staff numbered 2,620 employees, 66 fewer than at the same date of the previous year. Regarding the staff composition by gender, at 31 December 2012 women accounted for 42.1% 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 and deputy governor of the Banco de Es-

pañña changed in June 2012, so the wages of the incoming and outgoing officers are given separately. In 2012 the outgoing governor received (from 1.1.2012 to 10.6.2012) a gross wage of €79.25 thousand, including years-of-service and family allowances; and the incoming governor received (from 11.06.12 to 31.12.12) a gross wage of €81.32 thousand; the outgoing deputy governor received (from 1.1.2012 to 17.6.2012) in this connection a total of €93.17 thousand; and the incoming deputy governor received (from 18.06.12 to 31.12.12) the amount of €89.55 thousand. The elected members of the Governing Council receive a gross annual wage of €48.10 thousand; if they belong to the Executive Commission, the gross annual wage is €60.33 thousand.

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 €953 per meeting of the Governing Council and €457 per meeting of the Executive Commission.<sup>22</sup>

## 11 ADMINISTRATIVE EXPENSES

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

EUR m and %

	2012	2011	Change	%
Gross administrative expenses	123.54	122.29	1.25	1.0
Rental and maintenance	34.74	32.26	2.48	7.7
Material and supply	11.67	11.62	0.05	0.4
External services	61.67	61.97	-0.30	-0.5
Training, promotion and selection	3.74	3.86	-0.13	-3.3
Sundry operating expenses	11.73	12.58	-0.85	-6.7
Reversal of administrative expenses due to capitalization of computer applications	-4.16	-5.68	1.53	-26.9
<b>TOTAL</b>	<b>119.38</b>	<b>116.61</b>	<b>2.78</b>	<b>2.4</b>

The above table shows that, as in 2011, in 2012 the most significant administrative expenses were external services (€61.67 million), mainly IT services (€36.73 million) and rental and maintenance (€34.74 million), composed mainly of hardware and software rental and maintenance (€16.55 million) and property rental and maintenance (€12.94 million).

Goods and services expenses increased in 2012 (€2.78 million) due in part to the rise in VAT from 1 September 2012 (the standard rate rose from 18% to 21%). The largest increase in the item was in rental and maintenance (€2.48 million) and was basically due to the restoration of the skylight in the Cibeles building (€1.52 million) and to hardware and software rental and maintenance.

“External services” include €146,000.92 (including VAT) relating to the fees of the external auditors Deloitte, S.L. for the audits in 2012 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 2012 no services were received from and, consequently, no amounts were paid to, other firms related to the auditor.

<sup>22</sup> Applicable from the entry into force of Royal Decree-Law 20/2012. In the first part of the year the amounts applicable were those of the previous year.

12 DEPRECIATION OF FIXED ASSETS

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

EUR m and %

	2012	2011	Change	%
Depreciation of buildings, structures and renovation work	2.49	2.58	-0.09	-3.3
Depreciation of plant in buildings	9.00	9.89	-0.89	-9.0
Depreciation of furniture and fittings	2.11	2.11	-0.01	-0.3
Depreciation of office machines other than computer equipment	2.10	2.48	-0.37	-15.0
Depreciation of computer equipment	5.58	6.22	-0.64	-10.3
Depreciation of transport equipment	0.48	0.52	-0.03	-6.2
Depreciation of other tangible fixed assets	0.33	0.29	0.04	15.3
Depreciation of bibliographic fund	0.49	0.53	-0.04	-8.0
Amortization of computer applications	8.02	7.25	0.77	10.6
<b>TOTAL</b>	<b>30.60</b>	<b>31.86</b>	<b>-1.26</b>	<b>-4.0</b>

13 BANKNOTE PRODUCTION SERVICES

This amount (€47.43 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 (€7.28 million) was because in 2012 the volume of purchases of €50 banknotes decreased, as did their unit cost, and no €20 banknotes were purchased. This decrease was partly offset by the larger purchases of €5 banknotes and their increased unit cost. The higher VAT rate (up from 18% to 21%) from August meant that the expense decreased to a lesser extent.

14 TRANSFERS AND ADDITIONS TO OTHER FUNDS AND PROVISIONS

The net balance of transfers and applications to other funds and provisions in 2012 amounted to €26.33 million, compared with €15.53 million in 2011. Noteworthy in 2012 was the provision of €11.57 million to the Beneficent Social Fund, compared with €7.22 million in 2011, signifying a higher expense (up by €4.35 million). In 2012 €8.14 million were transferred to the provision for risks and expenses to allow for payments to early and regular retirees, and €2.57 million were transferred to the provision for death and retirement assistance under Article 190 of the Banco de España Conditions of Employment.

This item also includes transfers to and releases from the provision for operational risks, which in 2012 was used to cover losses arising from operational risk, basically for interruption of the CCBM2 project (see Note 9 to the profit and loss account). An amount of €7.63 was transferred to it to raise its balance to the agreed level of €24.83 million.

The Banco de España, because of the nature of its activity, is not an institution with a high environmental risk. Accordingly, in 2012 it was not considered necessary to record any provision for environmental liabilities and charges.

15 PROFIT FOR THE YEAR

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

On 3 December 2012 the Banco de España paid into the Treasury €1,732.54 million, equal to 70% of the profit recorded as at 30 September 2012.<sup>23</sup>

<sup>23</sup> 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



Once the year had ended, and taking into account that the provisional profits amounted to €3,845.23 million and that 90% of the profits was €3,460.71 million, a payment of €1,728.17 million was made to the Treasury on 1 March 2013.

The payments to the Treasury of 2012 profit are as follows:

EUR m

1 Total profit for 2012	3,845.23
2 Payments to the Treasury	3,460.71
On 3.12.2012	1,732.54
On 1.3.2013. Difference between the above amount and 90% of profit as at 31.12.2012	1,728.17
3 Profit payable to the Treasury	384.52
At date of approval of the 2012 accounts	384.52

### 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 for risks	Total
<b>A) 2012 OPENING BALANCE</b>	<b>1,000.00</b>	<b>950.00</b>	<b>12,012.07</b>	<b>1,180.10</b>	<b>5,561.47</b>	<b>20,703.84</b>
1. Unrecognised net gains in profit and loss			556.52			556.52
In gold			401.22			401.22
In foreign currency			-647.41			-647.41
In securities			803.71			803.71
Other			-1.00			-1.00
2. 2012 profit				3,845.23		3,845.23
3. Change in provisions					1,738.32	1,738.32
4. Appropriation of profit				-2,912.64		-2,912.64
Payment to the Treasury of 2011 profit				-1,180.10		-1,180.10
Payment to the Treasury of 2012 profit				-1,732.54		-1,732.54
<b>B) CHANGES IN THE YEAR</b>						
<b>B = 1+2+3+4</b>	<b>—</b>	<b>—</b>	<b>556.52</b>	<b>932.59</b>	<b>1,738.32</b>	<b>3,227.43</b>
<b>C) 2012 CLOSING BALANCE</b>						
<b>C = A + B</b>	<b>1,000.00</b>	<b>950.00</b>	<b>12,568.59</b>	<b>2,112.69</b>	<b>7,299.78</b>	<b>23,931.07</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 27 on the balance sheet), revaluation accounts (Note 28 on the balance sheet), capital (Note 29 on the balance sheet), reserves (Note 30 on the balance sheet) and profit for the year (Note 31 on the balance sheet and Note 15 on the profit and loss account).

which entailed a risk of lower profit estimated at €1,226.06 million. Accordingly, this amount was subtracted from the Banco de España profit of €3,701.12 million as at 30 September, resulting in a profit of €2,475.06 million, 70% of which was paid into the Treasury.

#### 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 2012 the Banco de España made no contributions whatsoever to this Fund.

##### 4.2 Loss of profit

The table below shows the loans outstanding in 2012 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 2012	Interest rate received (%)	Reference interest rate (%)	Estimated loss of profit
Net State debt	2,050.66	—	0.88	18.05
Housing loans and repayable advances to employees	39.77	0.12	0.88	0.30
Housing loans	6.53	0.75	0.88	0.01
Repayable advances	33.24	—	0.88	0.29
<b>TOTAL</b>	<b>2,090.43</b>	<b>—</b>	<b>0.88</b>	<b>18.35</b>

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

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

##### 4.3 Other transactions

On 26 March 2007 an agreement was entered into with the State government to bring forward the repayment schedule of the loans granted to the State prior to the entry into force of Law 21/1993 of 29 December 1993 on the State Budget for 1994 (Law 3/1983 loan, Law 4/1990 loan and credits arising from subscription for participating interests, contributions and quotas in international agencies), such that they all reach final maturity by 2015 at the latest and the Treasury can request early repayment of part or all of these facilities, paying on the due date the effective market price instead of the nominal amount. Under this agreement, in 2012 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 2012 the Treasury paid to the Banco de España the amount of €541.74 million, the effective market price of the debt repaid on that date.

## ANNEXES

### 1 REPORT OF THE EXTERNAL AUDITORS

# Deloitte.

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

To the Governor of the Banco de España

We have audited the financial statements of the Banco de España which, in accordance with Article 29.1 of its Internal Rules, comprise the balance sheet at 31 December 2012 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 2012 present fairly, in all material respects, the net worth and financial position of the Banco de España at 31 December 2012 and the results of its operations in the year then ended, in conformity with the internal accounting rules and principles of the Banco de España, which are indicated in Note 3.1. to the accompanying financial statements and are based on the accounting regulations established for the member central banks of the European System of Central Banks.

DELOITTE, S.L.



Miguel Ángel Bailón

24 May 2013

Deloitte S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.  
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Member of Deloitte Touche Tohmatsu

## 2 REPORT OF THE BANCO DE ESPAÑA AUDIT COMMITTEE

We the undersigned, Ángel Luis López Roa, Carmen Alonso Ledesma and Maximino Carpio García, 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 2012.

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 2012, 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 2012, conducted by the Internal Audit Department; 3) studying the documentation requested by the members of this Committee from the independent external auditors; 4) interviewing the persons responsible for the independent external audit, for the Internal Audit Department and for the Control, Budget and Accounting Department; and 5) making proposals for the modification, correction or clarification of various matters, all of which have been satisfactorily incorporated in the annual accounts by the Control, Budget and Accounting Department.

The basic conclusion of our report is that from the analysis carried out of the examination of the accounting procedures, of the accounting records and of the internal controls in place, it can be inferred that the annual accounts for the year 2012 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 8 May 2013.



ÁNGEL LUIS LÓPEZ ROA



CARMEN ALONSO LEDESMA



MAXIMINO CARPIO GARCÍA