

## ANNUAL ACCOUNTS OF THE BANCO DE ESPAÑA

### 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 to 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 formulating the Bank’s annual accounts.

Unless otherwise indicated, the figures are expressed in millions of euro. Those relating to 2013 are presented solely for comparison with 2014. Due to rounding, on occasions the totals included in the balance sheet, profit and loss account and notes to the annual accounts may not equal the sum of the individual figures. This document presents the accounts for the year 2014. Section 2 includes the balance sheet and profit and loss account at 31 December 2014; Section 3 contains the notes to 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, the changes in equity and the management of risk exposures; 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 2014

EUR m

	Note number	2014	2013	Change
<b>ASSETS</b>				
<b>1 Gold and gold receivables</b>	<b>1</b>	<b>8,943.01</b>	<b>7,887.81</b>	<b>1,055.21</b>
<b>2 Claims on non-euro area residents denominated in foreign currency</b>		<b>32,295.56</b>	<b>25,611.86</b>	<b>6,683.71</b>
2.1 Receivables from the IMF	2	5,433.88	5,593.31	-159.43
2.2 Balances with banks and security investments, external loans and other external assets	3	26,861.69	20,018.55	6,843.14
<b>3 Claims on euro area residents denominated in foreign currency</b>	<b>4</b>	<b>2,800.44</b>	<b>2,175.35</b>	<b>625.10</b>
<b>4 Claims on non-euro area residents denominated in euro</b>		<b>306.89</b>	<b>402.28</b>	<b>-95.39</b>
4.1 Balances with banks, securities investments and loans	5	306.89	402.28	-95.39
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>143,888.80</b>	<b>195,170.41</b>	<b>-51,281.61</b>
5.1 Main refinancing operations		21,579.00	17,106.70	4,472.30
5.2 Longer-term refinancing operations		122,307.44	178,063.59	-55,756.15
5.3 Fine-tuning reverse operations		—	—	—
5.4 Structural reverse operations		—	—	—
5.5 Marginal lending facility		—	—	—
5.6 Credits related to margin calls		2.36	0.12	2.24
<b>6 Other claims on euro area credit institutions denominated in euro</b>		<b>2.47</b>	<b>3.78</b>	<b>-1.31</b>
<b>7 Securities of euro area residents denominated in euro</b>	<b>7</b>	<b>88,238.31</b>	<b>88,211.85</b>	<b>26.46</b>
7.1 Securities held for monetary policy purposes		26,497.76	29,586.07	-3,088.32
7.2 Other securities		61,740.55	58,625.78	3,114.77
<b>8 General government debt denominated in euro</b>	<b>8</b>	<b>971.68</b>	<b>1,943.37</b>	<b>-971.68</b>
<b>9 Intra-Eurosystem claims</b>	<b>9</b>	<b>76,686.08</b>	<b>53,105.07</b>	<b>23,581.01</b>
9.1 Participating interest in ECB		1,312.52	1,077.72	234.80
9.2 Claims equivalent to the transfer of foreign reserve assets to the ECB		5,123.39	4,782.87	340.52
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		70,250.16	47,244.47	23,005.69
9.5 Other claims within the Eurosystem (net)		—	—	—
<b>10 Items in course of settlement</b>		<b>0.68</b>	<b>2.12</b>	<b>-1.44</b>
<b>11 Other assets</b>		<b>5,188.06</b>	<b>6,457.70</b>	<b>-1,269.64</b>
11.2 Tangible and intangible fixed assets	10	272.37	257.97	14.39
11.3 Other financial assets	11	25.25	25.25	—
11.4 Off-balance sheet instruments revaluation differences	12	60.06	104.07	-44.00
11.5 Accruals and prepaid expenses	13	3,190.68	4,492.89	-1,302.21
11.6 Sundry	14	1,639.70	1,577.52	62.18
<b>TOTAL ASSETS</b>		<b>359,322.00</b>	<b>380,971.59</b>	<b>-21,649.59</b>

## BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2014 (cont'd)

EUR m

	Note number	2014	2013	Change
<b>LIABILITIES</b>				
<b>1 Banknotes in circulation</b>	<b>15</b>	<b>118,152.21</b>	<b>104,377.15</b>	<b>13,775.06</b>
<b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>16</b>	<b>17,851.46</b>	<b>30,783.49</b>	<b>-12,932.03</b>
2.1 Current accounts (covering the minimum reserve system)		12,631.44	15,949.79	-3,318.35
2.2 Deposit facility		5,220.00	14,833.00	-9,613.00
2.3 Fixed-term deposits		—	—	—
2.4 Fine-tuning reverse operations		—	—	—
2.5 Deposits related to margin calls		0.02	0.70	-0.68
<b>3 Other liabilities to euro area credit institutions denominated in euro</b>		<b>0.26</b>	<b>0.63</b>	<b>-0.37</b>
<b>5 Liabilities to other euro area residents denominated in euro</b>		<b>434.06</b>	<b>4,164.40</b>	<b>-3,730.33</b>
5.1 General government	17	54.61	2,116.77	-2,062.16
5.2 Other liabilities	18	379.45	2,047.62	-1,668.17
<b>6 Liabilities to non-euro area residents denominated in euro</b>	<b>19</b>	<b>519.68</b>	<b>144.98</b>	<b>374.70</b>
<b>7 Liabilities to euro area residents denominated in foreign currency</b>		<b>0.86</b>	<b>0.95</b>	<b>-0.09</b>
<b>8 Liabilities to non-euro area residents denominated in foreign currency</b>		<b>0.83</b>	<b>0.73</b>	<b>0.10</b>
8.1 Deposits, balances and other liabilities		0.83	0.73	0.10
8.2 Liabilities arising from the credit facility under ERM II		—	—	—
<b>9 Counterpart of special drawing rights allocated by the IMF</b>	<b>20</b>	<b>3,371.58</b>	<b>3,162.06</b>	<b>209.52</b>
<b>10 Intra-Eurosystem liabilities</b>	<b>21</b>	<b>189,717.85</b>	<b>213,382.14</b>	<b>-23,664.29</b>
10.2 Liabilities related to 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)		189,717.85	213,382.14	-23,664.29
<b>11 Items in course of settlement</b>	<b>22</b>	<b>22.23</b>	<b>1,679.49</b>	<b>-1,657.26</b>
<b>12 Other liabilities</b>		<b>129.47</b>	<b>176.00</b>	<b>-46.53</b>
12.1 Off-balance-sheet instruments revaluation differences	23	—	—	—
12.2 Accruals and income collected in advance	24	9.93	55.74	-45.81
12.3 Sundry	25	119.54	120.27	-0.72
<b>13 Provisions</b>	<b>26</b>	<b>10,184.62</b>	<b>9,013.67</b>	<b>1,170.95</b>
<b>14 Revaluation accounts</b>	<b>27</b>	<b>14,517.86</b>	<b>9,038.52</b>	<b>5,479.34</b>
<b>15 Capital and reserves</b>		<b>1,899.81</b>	<b>1,899.81</b>	<b>—</b>
15.1 Capital	28	1,000.00	1,000.00	—
15.2 Reserves	29	899.81	899.81	—
<b>16 Profit for the year</b>	<b>30</b>	<b>2,519.22</b>	<b>3,147.58</b>	<b>-628.36</b>
<b>TOTAL LIABILITIES</b>		<b>359,322.00</b>	<b>380,971.59</b>	<b>-21,649.59</b>

**PROFIT AND LOSS ACCOUNT OF THE BANCO DE ESPAÑA FOR THE YEAR ENDING 31 DECEMBER 2014**

EUR m

	Note number	2014	2013	Change
1 Interest income	1	4,395.18	6,388.48	-1,993.30
2 Interest expense	2	386.33	1,721.62	-1,335.29
<b>3 Net interest income (1 – 2)</b>		<b>4,008.84</b>	<b>4,666.86</b>	-658.02
4 Realised gains/losses arising from financial operations	3	23.72	-1.94	25.66
5 Write-downs on financial assets and positions	4	4.76	285.36	-280.60
6 Transfer to/from provisions for financial risks	5	-1,124.89	-1,268.68	143.79
<b>7 Net result of financial operations, write-downs and risk provisions (4 – 5 + 6)</b>		<b>-1,105.92</b>	<b>-1,555.98</b>	<b>450.06</b>
8 Fees and commissions income		17.01	17.55	-0.55
9 Fees and commissions expense		9.23	10.64	-1.42
<b>10 Net income from fees and commissions (8 – 9)</b>	<b>6</b>	<b>7.78</b>	<b>6.91</b>	<b>0.87</b>
11 Income from equity shares and participating interests	7	115.74	221.36	-105.62
12 Net result of pooling of monetary income	8	41.35	173.55	-132.20
13 Other income and losses	9	19.90	120.88	-100.98
<b>14 TOTAL NET INCOME (3 + 7 + 10 + 11 + 12 + 13)</b>		<b>3,087.68</b>	<b>3,633.58</b>	<b>-545.90</b>
15 Staff costs	10	220.56	217.83	2.74
16 Administrative expenses	11	126.81	125.46	1.34
17 Depreciation of tangible and intangible fixed assets	12	30.04	30.43	-0.39
18 Banknote production services	13	82.51	70.31	12.20
19 Other expenses		3.46	3.21	0.25
<b>20 TOTAL OPERATING EXPENSES (15 + 16 + 17 + 18 + 19)</b>		<b>463.38</b>	<b>447.25</b>	<b>16.13</b>
21 Transfers and additions to other funds and provisions	14	105.08	38.75	66.33
<b>22 PROFIT FOR THE YEAR (14 – 20 – 21)</b>	<b>15</b>	<b>2,519.22</b>	<b>3,147.58</b>	<b>-628.36</b>

 Countersigned by  
The Governor,



LUIS M. LINDE DE CASTRO

The Comptroller,



JAVIER PACIOS RODRÍGUEZ

### 3 NOTES TO THE ACCOUNTS

#### 3.1 Accounting policies

##### 1 BASIC PRINCIPLES

The annual accounts of the Banco de España present fairly its net worth and 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, 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 price 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, 6 October 2011 and 4 September 2014).

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 Governing Council of the ECB decided in 2014 that the securities in the monetary policy portfolio should be valued at amortised cost (subject to impairment), regardless of whether the intention is to trade with them or to hold them to maturity. The new valuation criteria did not give rise to any adjustments or net financial income in 2014, since these securities had been recorded applying such criteria.

The cost of securities sold or redeemed is determined by the average book price 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>

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 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.

<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 prior to the maturity date; and c) under exceptional circumstances, such as a significant deterioration of the issuer's creditworthiness.

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	<p>These are valued at their nominal amount.</p> <p>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 ESCB. Indemnification shall be in a form deemed appropriate in the judgment of the Governing Council; these amounts may be offset against the national central banks' monetary income (see Note 26 to the balance sheet and Note 8 to the profit and loss account).</p>
Loans to the State	In accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20), they are valued at nominal amount (see Notes 8 and 26 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.
Tangible and intangible fixed assets	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>



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 2014 were as follows:

	Depreciation/ Amortisation rate (%)	Useful life (years)
Buildings and structures	2	50
Renovation work	4	25
Plant in buildings	10	10
Security-related plant in buildings	20	5
Furniture and fittings	10	10
Office machines for the handling of banknotes and coins	10	10
Other office machines	20	5
Computer equipment	25	4
Transport equipment. Cars and motor bikes	25	4
Transport equipment. Trucks and buses	10	10
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>

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

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

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>5</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, dividing it amongst the other NCBs according to their respective capital keys in 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 seignorage income arising from the euro banknotes in circulation assigned to it and from securities purchased under the Securities Markets Programme, the asset-backed securities purchase programme and the third covered bond purchase 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 aforementioned programmes 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 loss account item “Income from equity shares and participating interests” in the year in which this income accrued.

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

<sup>6</sup> 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), as amended.

<sup>7</sup> The reference period taken has a duration of 24 months and it begins 30 months prior to the euro cash changeover date.

<sup>8</sup> Decision of the ECB of 15 December 2014 (ECB/2014/57) on the interim distribution of the ECB’s income.

Intra-Eurosystem balances	<p>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.</p> <p>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).</p>
Recognition of income and expenses	<p>Income and expenses are recognised in the period in which they accrue.</p> <p>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.</p> <p>Unrealised gains are not recognised as income, but are transferred to a revaluation account.</p> <p>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.</p> <p>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.</p>
Pension Scheme	<p>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></p>
Provisions	<p>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</p>

<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.

derived from the financial positions held and other losses of a diverse nature (see Note 26 to the balance sheet).

#### Financial derivatives

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.

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. The difference between the spot and forward exchange rates is recorded as interest income or expense, which can be in euro or in foreign currency, in the latter case forming part of the foreign currency position.

The gain or loss on 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 SALIENT FEATURES OF 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 26 to 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) to the balance sheet).

These estimates are based on the best information available at end-2014, 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 to the accounts.

### 3.2 Notes to the balance sheet

The Banco de España's gold holdings at year-end amounted to €8,943.01 million, consisting of 9.054 million troy ounces<sup>11</sup> of fine gold valued at a market price of €987.77 per ounce. These holdings did not change during the financial year. The value of these holdings is €1,055.21 million more than in 2013, as a result of the increase in the market price (at end-2013 the price per ounce was €871.22). 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. RECEIVABLES FROM THE IMF

This item has three components:

- a) The position in the International Monetary Fund (IMF) in the reserve tranche. This is the euro equivalent of the SDRs relating to the foreign currencies assigned to the IMF due to Spain's initial quota and successive increases and due to the net financing granted to the IMF. Spain's IMF quota is SDR 4,023.40 million and only the portion disbursed in foreign currency is reflected on the assets side of the balance sheet.

<sup>11</sup> One troy ounce is equal to 31.1035 grams.

- b) Special drawing rights (allocations). These represent the euro equivalent of the successive allocations of this currency by the IMF and their subsequent drawdown. These allocations are made by the IMF simply for being a member and their balancing entry is recorded in item 9 of the liabilities side of the balance sheet "Counterpart of special drawing rights allocated by the IMF", also denominated in SDRs. The changes in their balance are essentially due to loan agreement transactions with third countries which are paid out of this account and to interest receipts or payments resulting from positions vis-à-vis the IMF.
- c) Other claims on the IMF. These reflect the amount that the Banco de España has provided to the IMF as a contribution to the PRGT,<sup>12</sup> the NAB and the Bilateral Loan Agreement<sup>13</sup> entered into by the IMF and Spain in 2013. 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-2014 being €313.43 million (SDR 262.85 million). The NAB agreement, concluded to support the IMF's ability to provide financial assistance to its members, entailed a financial commitment of up to SDR 6,702.18 million, of which €957.74 million (SDR 803.20 million) had been drawn down up to end-2014. The bilateral loan agreement entailed a commitment of €14,860 million, none of which has been drawn down.

The SDRs in which claims on the IMF are denominated are valued at the year-end market rate, calculated by the ECB for all the Eurosystem NCBs, of €1 = SDR 0.838645. 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 0.08%, with a high of 0.13% and a low of 0.03% during the year.

The breakdown in 2013 and 2014 is as follows:

EUR m

Type of asset	2014	2013	Change
Reserve tranche position	930.42	1,179.29	-248.87
Special drawing rights (allocation)	3,232.30	3,121.65	110.64
Other claims on the IMF	1,271.16	1,292.37	-21.21
<b>TOTAL</b>	<b>5,433.88</b>	<b>5,593.31</b>	<b>-159.43</b>

The overall amount of claims on the IMF decreased by €159.43 million with respect to the balance at end-2013.

The decrease of €248.87 million in the reserve tranche position account is due to the overall effect of various factors:

- An increase of €51.55 million (SDR 46.09 million) due to the Banco de España's net contributions to the IMF for loans to third countries (Greece, Cyprus and Ukraine). These loans were made in euro through TARGET2 payments.

<sup>12</sup> Poverty Reduction and Growth Trust.

<sup>13</sup> New Arrangements to Borrow.

- A decrease of €358.23 million (SDR 320.34 million) due to repayments of loans by debtor countries (Romania, Sri Lanka, Greece, Ukraine, Ireland and Bosnia). These collections were in euro.
- An increase of €57.82 million due to the change in the exchange rate of the SDR against the euro.

The “Special drawing rights (allocation)” account increased by €110.64 million due to the overall effect of various factors:

- An increase of €61.48 million (SDR 54.97 million) due to collection of SDRs arising from total or partial repayment of some PRGT loans and to collection of interest on Spain’s claims on the IMF.
- Decrease of €151.70 million (SDR 135.65 million) due to SDR sales required by the IMF, to loan disposals under the PRGT IV programme, to transactions under the “Two Way Arrangement” and to payment of interest on Spain’s liabilities to the IMF.
- Increase of €200.86 million due to the effect of changes in market exchange rates.

The “Other claims on the IMF” account, which includes loans granted under NAB agreements and under the PRGT programme, decreased by €21.21 million due to the overall effect of certain factors:

- A net decrease of €74.14 million (SDR 66.30 million) in NAB loans. The reasons for this decrease were the new NAB loans granted for €144.26 million (SDR 129.00 million) and the total or partial repayments of the first NAB loans extended for a total of €218.40 million (SDR 195.30 million). These SDR-denominated loans were made through payments in euro.
- A decrease of €26.06 million (SDR 23.30 million) in PRGTs due to total or partial repayments of these loans. These loans are in SDRs.
- An increase of €78.99 million due to the change in the market exchange rate.

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 2014 was €26,861.69 million, with the following breakdown:

EUR m

Type of asset	2014	2013	Change
Deposits	489.90	151.00	338.90
Security investments	26,366.10	19,859.53	6,506.56
Trading portfolio	13,197.82	10,933.43	2,264.39
Held-to-maturity portfolio	13,168.27	8,926.10	4,242.18
Other	5.69	8.01	-2.32
<b>TOTAL</b>	<b>26,861.69</b>	<b>20,018.55</b>	<b>6,843.14</b>

As at 31 December 2014, 96.14% of these assets were denominated in US dollars and 3.84% 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 1.2141 and €1 = YEN 145.23).

The increase in the balance of this item (€6,843.14 million) was due to the net effect of the factors listed in the following table:

EUR m

Reason for change	Amount
Net investment	3,833.60
Changes of market exchange rates as at 31 December	3,086.35
Changes of securities market prices as at 31 December	29.29
Accrued interest receivable	-106.31
Other	0.21
<b>TOTAL</b>	<b>6,843.14</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 2014, US dollar-denominated time deposits at monetary financial institutions equivalent to €2,800.43 million (USD 3,400 million) were held.

The increase of €625.10 million in this item with respect to the previous year was due to the increase in US dollar-denominated time deposits (€290.04 million) and to the change in the exchange rate of the US dollar against the euro, which resulted in an increase in the equivalent value in euro of 335.05 million.

5 CLAIMS ON NON-EURO AREA  
RESIDENTS DENOMINATED IN  
FOREIGN CURRENCY.  
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	2014	2013	Change
Deposits	0.09	0.11	-0.03
Security investments	306.81	402.17	-95.36
Trading portfolio	—	—	—
Held-to-maturity portfolio	306.81	402.17	-95.36
<b>TOTAL</b>	<b>306.89</b>	<b>402.28</b>	<b>-95.39</b>

Of the total of this heading (€306.89 million), most (€306.81 million) relates to fixed-income securities included in the held-to-maturity portfolio, which decreased by €95.36 million with respect to the balance as at 31 December 2013. This portfolio consists of euro-denominated securities issued by the European Investment Bank. The trading portfolio, as in 2013, 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 €630,341 million, of which €143,888.80 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 26.- 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>14</sup>

The breakdown by type of transaction is as follows:

EUR m

Type of operation	2014	2013	Change
Main financing operations	21,579.00	17,106.70	4,472.30
Longer-term refinancing operations	122,307.44	178,063.59	-55,756.15
Fine-tuning reverse operations	—	—	—
Structural reverse operations	—	—	—
Marginal lending facility	—	—	—
Credits related to margin calls	2.36	0.12	2.24
<b>TOTAL</b>	<b>143,888.80</b>	<b>195,170.41</b>	<b>-51,281.61</b>

During 2014, continuing the trend initiated in previous years, there was a decline in the amounts requested in Eurosystem refinancing operations, in line with the normalisation of other sources of funding of credit institutions. This was reflected in the early repayment of a significant part of the three-year loans granted in 2011 and 2012.

As a result, the balance of this item as at 31 December 2014 is 26.3% lower than that of 2013. The average daily balance of the financing granted during the year decreased by 34.2% (€169,963.33 million in 2014, against €258,300.27 million in 2013).

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 2014, continuing the trend initiated in previous years, they were used less than longer-term refinancing operations. In this connection, it should be noted that 14.5% of annual average financing was extended through them. In 2014 these operations were conducted at fixed rate with allotment of the total amount bid.

The balance of this item at 31 December 2014 was €21,579.00 million (€17,106.70 million at 31 December 2013) and its daily average balance during the year was €24,621.03 million (€22,713.90 million in 2013).

<sup>14</sup> The total collateral provided by institutions under loan agreements, valued by Eurosystem rules and applying the related haircuts, amounted to €254,045.05 million at 2014 year-end. Of this amount, €1,504.91 million relate to collateral excluded from risk sharing.



b Longer-term refinancing operations	<p>These operations aim to provide counterparties with additional longer-term refinancing. In 2014 operations were conducted with maturities equal to the reserve maintenance period and with maturities of three months. These operations were conducted at fixed rate with allotment of the total amount bid. In 2014, two targeted longer-term refinancing operations were carried out, maturing in 2018, to strengthen the monetary policy transmission mechanism by supporting lending to the real economy. The interest rate on the targeted refinancing operations in 2014 was the rate on the Eurosystem's main refinancing operations prevailing at the time of take-up, plus a fixed spread of 10 basis points.</p> <p>The balance of these operations at 2014 year-end was €122,307.44 million (85.0% of the total) and arose mainly from three-year refinancing operations carried out in 2011 and 2012, and from new targeted refinancing operations with maturities of up to 4 years. Compared with 2013, their balance decreased by €55,756.15 million. Also, the average balance decreased from €235,585.93 million in 2013 to €145,331.99 million in 2014, representing 85.5% of annual average financing from monetary policy operations. Most of the decrease in this balance is due to the fact that institutions availed themselves of the early redemption option offered by three-year refinancing operations.</p>
c Fine-tuning reverse operations	<p>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.</p> <p>No fine-tuning reverse operations took place in the Eurosystem in 2014. Their end-2014 balance was zero.</p>
d Structural reverse operations	<p>These are reverse open-market transactions through standard tenders to enable the Eurosystem to adjust its structural liquidity position vis-à-vis the financial sector.</p> <p>The end-2014 balance was zero, as it was at the previous year-end. No structural reverse operations took place during the year.</p>
e Marginal lending facility	<p>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.</p> <p>The balance at the end of 2014 was zero, with very few operations of this type having taken place.</p>
f Credits related to margin calls	<p>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 adjusted market value of the assets used as loan collateral has fallen below the lower trigger point set for each security, the counterparty must provide additional assets or cash (see Note 16 to the balance sheet). If the adjusted 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 case of repo financing operations).</p> <p>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</p>

the balancing entries of the asset-side or liability-side accounts reflecting the changes in these margins. These balance sheet accounts have been remunerated at the deposit facility rate since December 2013.

As at 31 December 2014 this item had a balance of €2.36 million, up €2.24 million with respect to the previous year. Its average balance also increased, from €0.44 million in 2013 to €5.94 million in 2014.

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>15</sup> and under the Securities Markets Programme.<sup>16</sup> These securities were recorded at amortised cost (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 2014 was €26,497.76 million. The breakdown is as follows:

EUR m

Monetary Policy Portfolio	2014		2013		Change	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
Covered bond purchase programme	3,337.29	3,597.22	5,508.79	5,708.44	-2,171.50	-2,111.22
Second covered bond purchase programme	1,602.66	1,745.25	2,326.50	2,495.13	-723.84	-749.87
Third covered bond purchase programme	3,663.90	3,687.42	—	—	3,663.90	3,687.42
Securities Markets Programme	17,892.91	20,521.11	21,750.78	22,350.67	3,856.87	2,828.56

In May 2009, the ECB Governing Council approved the first programme for the purchase of euro-denominated covered bonds issued by euro area residents. The purpose of this programme was to ease the financing conditions of credit institutions and firms and to encourage banks to expand lending to their customers, by supporting an important segment for bank financing which had been hard hit by the financial crisis. The purchases under this programme were completed in June 2010. The decrease in the balance of this portfolio in 2014 is due to the redemption of securities throughout the year.

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 continue meeting the objectives of the first purchase programme. These purchases were completed at the end of October 2012, when the programme ended. The net decrease in the balance of this item in 2014 was due to the redemption of securities throughout the year.

<sup>15</sup> Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), Decision of the ECB of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17) and Decision of the ECB of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40).

<sup>16</sup> Decision of the ECB of 14 May 2010 establishing a Securities Markets Programme (ECB/2010/5).

On 4 September 2014, the ECB Governing Council resolved to initiate the third covered bond purchase programme, in order to improve the monetary policy transmission mechanism and support the provision of credit to the economy. The operational aspects of the programme, which will last for at least two years, were announced on 2 October 2014. The purchase of euro-denominated covered bonds issued by euro area residents will be completed gradually throughout the euro area, in the form of outright purchases by the ECB and the Eurosystem central banks. These purchases commenced in the second half of October.

Under the Securities Markets Programme established in May 2010, the Eurosystem central banks could 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 was to address the poor functioning of securities markets and re-establish an appropriate monetary policy transmission mechanism. On 6 September 2012, the ECB Governing Council decided to end this programme. The net decrease in the balance of this item in 2014 was due to the redemption of securities throughout the year.

The ECB Governing Council periodically evaluates the financial risks associated with the securities held under the four programmes mentioned above.

As a result of the impairment test conducted on the securities purchased under the Securities Markets Programme as at 31 December 2014, the ECB Governing Council decided that there was no evidence of any change in the estimated future cash flows. Hence no impairment losses were recorded on the 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 one of the issuers of those securities was subject to restructuring in 2014, this did not affect the expected cash flows and therefore no impairment losses were recorded.

Pursuant to Article 32.4 of the ESCB/ECB Statute, any risks that materialise in the securities included in the Securities Markets Programme and in the third covered bond purchase programme 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. The total amounts of the securities acquired by all Eurosystem NCBs under the aforementioned Securities Markets Programme and the third covered bond purchase programme were €134,162 million and €27,333 million, respectively, of which €17,893.91 million were included in the balance sheet of the Banco de España as purchased under the Securities Markets Programme and €3,663.90 million under the third covered bond purchase programme.

**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	2014	2013	Change
Trading portfolio	31,748.39	29,831.44	1,916.95
Held-to-maturity portfolio	29,992.16	28,794.34	1,197.83
<b>TOTAL</b>	<b>61,740.55</b>	<b>58,625.78</b>	<b>3,114.77</b>

The balance of this item as at 31 December 2014 was €61,740.55 million, of which 51.4% related to trading portfolio securities and the remainder (48.6%) to held-to-maturity securities. The impairment test conducted on this portfolio concluded that there was no evidence of impairment at year-end.

Overall, these securities increased by €3,114.77 million in 2014, of which €1,916.95 related to the trading portfolio and €1,197.83 million to the held-to-maturity portfolio.

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	836.20	1,357.46	2,193.67
Unrealised gains at year-end (a)	1,112.56	—	1,112.56
Unrealised losses at year-end (a)	—	—	—
Accrued implicit interest	-31.82	-159.64	-191.46
<b>TOTAL</b>	<b>1,916.95</b>	<b>1,197.83</b>	<b>3,114.77</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.

#### 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. Since these loans were recorded at their nominal amount, a provision was set up for possible losses from early repayment (see Note 26 to the balance sheet).

In accordance with this agreement, two instalments of each loan (that for 2014 and the last instalment outstanding under the original repayment schedule) were received in 2014.

The outstanding nominal balance as at 31 December 2014 of the loans granted to the State amounted to €971.68 million, broken down as follows:

EUR m

	2014	2013	Change
Treasury. Law 3/1983 special account	195.25	390.50	-195.25
Treasury. Law 4/1990 special account	694.80	1,389.59	-694.80
Treasury. Credits arising from subscription for participating interests, contributions and quotas in international agencies	81.63	163.27	-81.63
<b>TOTAL</b>	<b>971.68</b>	<b>1,943.37</b>	<b>-971.68</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	2014	2013	Change
Participating interest in the ECB	1,312.52	1,077.72	234.80
Claims equivalent to the transfer of foreign reserve assets to the ECB	5,123.39	4,782.87	340.52
Net claims related to the allocation of euro banknotes within the Eurosystem	70,250.16	47,244.47	23,005.69
<b>TOTAL</b>	<b>76,686.08</b>	<b>53,105.07</b>	<b>23,581.01</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. In this respect, the third five-yearly change in the capital keys took place on 1 January 2014. That date also saw the admission of a new Eurosystem member, the Central Bank of Latvia. Based on the Council Decision of 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank, the capital keys of the NCBs were adjusted on the aforementioned date, as follows:

	ECB's Capital Key (%)	
	Until 31 December 2013	Since 1 January 2014
Nationale Bank van België/Banque Nationale de Belgique	2.4176	2.4778
Deutsche Bundesbank	18.7603	17.9973
Eesti Pank	0.1780	0.1928
Central Bank and Financial Services Authority of Ireland	1.1111	1.1607
Bank of Greece	1.9483	2.0332
Banco de España	8.2533	8.8409
Banque de France	14.1342	14.1792
Banca d'Italia	12.4570	12.3108
Central Bank of Cyprus	0.1333	0.1513
Banque centrale du Luxembourg	0.1739	0.2030
Central Bank of Malta	0.0635	0.0648
De Nederlandsche Bank	3.9663	4.0035
Oesterreichische Nationalbank	1.9370	1.9631
Banco de Portugal	1.7636	1.7434
Banka Slovenije	0.3270	0.3455
Národná banka Slovenska	0.6881	0.7725
Suomen Pankki – Finlands Bank	1.2456	1.2564
Latvijas Banka	—	0.2821
<b>Subtotal for euro area NCBs</b>	<b>69.5581</b>	<b>69.9783</b>
Българска народна банка (Bulgarian National Bank)	0.8644	0.8590
Česká národní banka	1.4539	1.6075
Danmarks Nationalbank	1.4754	1.4873
Latvijas Banka	0.2742	—
Lietuvos bankas	0.4093	0.4132
Magyar Nemzeti Bank	1.3740	1.3798
Narodowy Bank Polski	4.8581	5.1230
Banca Națională a României	2.4449	2.6024
Sveriges Riksbank	2.2612	2.2729
Bank of England	14.4320	13.6743
Hrvatska narodna banka	0.5945	0.6023
<b>Subtotal for non-euro area NCBs</b>	<b>30.4419</b>	<b>30.0217</b>
<b>TOTAL (a)</b>	<b>100.0000</b>	<b>100.0000</b>

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

On 1 January 2014, the Banco de España's key for subscription of ECB capital (€10,825 million) increased from 8.2533% to 8.8409%, and its participating interest in the ECB rose from €893.42 million to €957.03 million.

This item also includes the participating interest in the rest of ECB equity. This amount rose by €171.19 million during the year to €355.49 million at 31 December 2014, as a result of the aforementioned increase in the share of the ECB capital key on 1 January 2014.

- 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.

The change in the ECB's capital key on 01 January 2014 made it necessary to adjust the assets that the ECB credited to the NCBs for their contributions of external reserve assets to it. To reflect the increase in the Banco de España's share of the ECB capital key, an additional contribution of €340.52 million was made, as a result of which the balance in 2014 rose to €5,123.39 million.

c Net claims related to the allocation of euro banknotes within the Eurosystem

This item, the balance of which amounted to €70,250.16 million at end-2014, 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 2013 (€23,005.69 million) can be explained by two factors: on the one hand, the decrease in banknotes put into circulation by the Banco de España in 2014 (-16.2%, €9,231 million) and the contrasting rise in the Eurosystem as a whole (6.3%, €60,352 million); on the other, the increase in the share of the ECB capital key, which took place on 1 January 2014.

d Other claims within the Eurosystem (net)

In accordance with Eurosystem rules, since the accounts making up this item have a net credit balance, this information is presented on the liabilities side of the balance sheet (see Note 21 to the balance sheet).

10 OTHER ASSETS. TANGIBLE AND INTANGIBLE FIXED ASSETS

The balance of this item amounted to €272.37 million at end-2014, of which €704.30 million related to cost and €431.93 million to accumulated depreciation.

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

EUR m

	2014	2013	Change
Tangible fixed assets	528.87	521.19	7.68
Land and unbuilt plots	5.35	5.35	—
Buildings, structures and renovation work	111.92	111.51	0.41
Plant in buildings	196.55	191.28	5.27
Furniture and fittings	39.37	38.78	0.60
Office machines other than computer equipment	55.53	54.77	0.76
Computer equipment	62.09	61.48	0.60
Transport equipment	8.11	8.12	—
Libraries	4.76	5.02	-0.26
Other tangible fixed assets	5.14	5.11	0.03
Art collection	40.04	39.78	0.26
Intangible fixed assets	95.25	89.10	6.16
Computer applications	95.20	89.04	6.16
Industrial property	0.06	0.06	—
Fixed assets in progress	80.18	53.76	26.42
Buildings, plant in buildings and other structures	8.78	8.15	0.63
Computer applications of Banco de España	25.22	18.60	6.62
Computer applications of Eurosystem	45.37	25.90	19.46
Other fixed assets in progress	0.81	1.10	-0.29
<b>TOTAL</b>	<b>704.30</b>	<b>664.05</b>	<b>40.25</b>

EUR m

Accumulated depreciation or amortization	2014	2013	Change
Tangible fixed assets	-355.27	-338.00	-17.27
Buildings, structures and renovation work	-44.06	-41.50	-2.56
Plant in buildings	-160.34	-151.44	-8.90
Furniture and fittings	-33.05	-31.43	-1.62
Office machines other than computer equipment	-46.70	-45.42	-1.28
Computer equipment	-55.43	-52.96	-2.48
Transport equipment	-7.95	-7.67	-0.28
Libraries	-3.01	-3.06	0.05
Other tangible fixed assets	-4.73	-4.52	-0.20
Intangible fixed assets	-76.66	-68.08	-8.58
Computer applications	-76.61	-68.02	-8.58
Industrial property	-0.06	-0.06	—
<b>TOTAL</b>	<b>-431.93</b>	<b>-406.07</b>	<b>-25.85</b>

The increase in fixed assets in 2014 basically arose from increased investment in development of certain computer applications and implementation of projects, both for the Eurosystem and locally, and from the acquisition and updating of software licences. It was also due to the refurbishment of the general archives and adjacent areas, and to the refurbishment of the Barcelona branch premises. Overall, fixed assets net of depreciation increased with respect to the previous year by €14.39 million.

11 OTHER ASSETS. OTHER  
FINANCIAL ASSETS

This item includes €25.25 million of financial investments relating mainly to the Banco de España's participating interests in the Bank for International Settlements.

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 €60.06 million as at end-2014 is the net value of the swap and forward transactions outstanding at that date that are listed below:

			2014			2013
Operation	Position	Currency	Currency amount (million)	Market exchange rate	Equivalent (million €)	Equivalent (million €)
Swap	Debtor	USD	1,324.20	1.2141	1,090.69	2,072.97
	Creditor	JPY	149,678.54	145.2300	1,030.63	1,968.93
Forward	Debtor	EUR	45.09	1.0000	45.09	—
		USD	55.01	1.2141	45.31	0.42
	Creditor	EUR	45.09	1.0000	45.09	—
		USD	55.00	1.2141	45.30	—
		JPY	1.46	145.2300	0.01	0.39
		Net position				60.06

At year-end there were unexpired US dollar-yen swaps. As regards forward transactions, there are forward sales yet to be executed of yen against US dollars, euro against US dollars and US dollars against euro.

The purpose of the US dollar-yen swaps is to cover the yen-US dollar exchange rate risk on investments in yen-denominated securities.



13 OTHER ASSETS. ACCRUALS  
AND PREPAID EXPENSES

The main components of this item, the balance of which amounts to €3,190.68 million, are as follows:

EUR m	2014	2013	Change
Accrued interest arising from securities acquisitions and accrued coupon interest receivable	2,025.50	2,069.67	-44.17
Trading portfolio	752.64	763.85	-11.21
Denominated in foreign currency	39.71	34.17	5.54
Denominated in euro	712.93	729.68	-16.75
Held-to-maturity portfolio	742.41	700.80	41.61
Denominated in foreign currency	80.74	54.46	26.28
Denominated in euro	661.67	646.33	15.34
Held for monetary policy purposes	530.45	605.02	-74.57
Other accrued interest receivable	1,160.12	2,418.18	-1,258.06
On monetary policy operations	1,140.23	2,347.68	-1,207.44
On intra-Eurosystem claims arising from banknotes adjustments	8.70	41.84	-33.14
On claims equivalent to the transfer of foreign reserves to the ECB	7.20	22.81	-15.61
On foreign currency deposits	2.18	3.57	-1.39
Claims on the IMF	0.79	1.28	-0.49
On swap operations	0.72	0.96	-0.24
Other	0.29	0.04	0.25
Accrued commissions receivable and prepaid expenses	5.06	5.04	0.02
<b>TOTAL</b>	<b>3,190.68</b>	<b>4,492.89</b>	<b>-1,302.21</b>

As can be seen in the above table, the most significant item relates to accrued interest receivable on monetary policy operations, which decreased (by €1,207.44 million) due to the smaller volume of outstanding long-term transactions at year-end, as institutions availed themselves of the early redemption options offered by the three-year refinancing operation. The other main accounts are accrued interest arising from securities purchases and accrued coupon interest receivable denominated in euro arising from the trading portfolio (€712.93 million), from the held-to maturity portfolio (€661.67 million) and from monetary policy operations (€530.45 million). Overall, this interest decreased by €44.17 million from the previous year. There was also a decrease in interest receivable on claims equivalent to the transfer of foreign reserve assets to the ECB, the interest accrued on intra-Eurosystem banknote adjustment and offsetting accounts as a result of the lower interest rate on main refinancing operations and the lesser interest receivable on foreign-currency deposits and swap transactions.

14 OTHER ASSETS. SUNDRY

The most significant components of this item, which totals €1,639.70 million, are the transfer to the Treasury on 1 December 2014 of €1,413.15 million, equivalent to 70% of the Bank's profits earned to 30 September 2014, adjusted in line with the projected performance of profits up to year-end (see Note 15 to the profit and loss account), which was €27.59 million higher than in the previous year, and the home loans and repayable advances granted to Bank employees, the balance of which, at €179.70 million, was up €2.14 million with respect to 2013.

15 BANKNOTES IN  
CIRCULATION

The balance of banknotes in circulation (€118,152.21 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, which went from 10.9160% of the total issue by all central banks at end-2013 to 11.6230% of the total as at 31 December 2014. This key is obtained by taking the Eurosystem capital key and deducting the 8% of the total corresponding to the ECB. The increase arose from the changes in the ECB capital key as a result of the five-yearly revision and Latvia joining the euro area on 1 January 2014.<sup>17</sup>

This balance was €13,775.06 million higher than in the previous year because of the greater volume of euro banknotes in circulation in the Eurosystem and the aforementioned increase in the banknote allocation key. 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.

The composition of the banknotes put into circulation by the Banco de España as at end-2014 is as follows:

Series	Number of banknotes (thousands)	Millions of euro
€ 500	73,263	36,631.31
€ 200	11,032	2,206.31
€ 100	2,906	290.63
€ 50	880,485	44,024.27
€ 20	-1,268,933	-25,378.66
€ 10	-938,603	-9,386.03
€ 5	-97,159	-485.80
Euro Banknotes put into circulation by Banco de España		47,902.05
Adjustment as per banknote allocation key		70,250.16
Banknotes in circulation		118,152.21

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 €17,851.46 million at end-2014, €12,932.03 million less than in the previous year. This decline was basically due to the sharp decrease in the deposit facility, and in the balances of credit institution current accounts (including minimum reserves).

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

<sup>17</sup> Following the accession of Lithuania to the Eurosystem on 1 January 2015, the banknote allocation key decreased from 11.6230% to 11.5550%.

EUR m

Type of liability	2014	2013	Change
Current accounts (covering the minimum reserve system)	12,631.44	15,949.79	-3,318.35
Deposit facility	5,220.00	14,833.00	-9,613.00
Fixed-term deposits	—	—	—
Fine-tuning reverse operations	—	—	—
Deposits related to margin calls	0.02	0.70	-0.68
<b>TOTAL</b>	<b>17,851.46</b>	<b>30,783.49</b>	<b>-12,932.03</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 €3,318.35 million (20.8%). Its average balance also decreased during the year, from €13,446.87 million in 2013 to €11,886.42 million in 2014 (11.6%). The balances maintained to meet minimum reserve requirements are remunerated at the average of the marginal interest rate on main refinancing operations in the period. According to the Decision of the ECB (ECB/2014/23) on the remuneration of deposits, balances and holdings of excess reserves, reserve holdings exceeding the required minimum reserves shall be remunerated at zero per cent or the deposit facility rate, whichever is lower.<sup>18</sup>

The item “Deposit facility”, which includes overnight deposits remunerated at a fixed interest rate (lower than the interest rate on main refinancing operations), decreased from €14,883.00 million in 2013 to €5,220.00 million in 2014. Its average balance also decreased significantly (€1,190.72 million in 2014 compared with €9,446.23 million in 2013), following the ECB Governing Council’s decision that these deposits would be remunerated at a negative interest from 11 June 2014.

The balance of fixed-term deposits was zero as at 31 December 2014. They are fine-tuning operations (liquidity withdrawals) that take the form of deposits. During the first half of 2014 the Eurosystem carried several operations of this type, in which no Spanish institutions were involved.

The other captions in this item relate to fine tuning reverse operations, aimed at the withdrawal of liquidity, and deposits related to margin calls. As at 31 December 2014, fine tuning reverse operations had a zero balance, while institutions’ deposits related to margin calls (see Note 6 to the balance sheet) amounted to €0.02 million.

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

This item includes the deposits held by general government with the Banco de España. The outstanding balance at year-end was €54.61 million, which breaks down as follows:

<sup>18</sup> The ECB Governing Council resolved to apply a negative interest rate on the deposit facility as from 11 June 2014.

EUR m

	2014	2013	Change
Central government (State)	15.10	410.92	-395.82
Treasury current account	9.59	100.12	-90.53
Other central government agencies and similar bodies	5.51	310.80	-305.29
Territorial government	12.95	555.44	-542.50
Regional (autonomous) governments, administrative agencies and similar bodies	12.13	554.76	-542.63
Local government	0.81	0.68	0.13
Social security funds	26.57	1,150.41	-1,123.84
Social Security System	26.19	1,148.60	-1,122.40
Other	0.38	1.81	-1.43

The decrease in this item (€2,062.16 million) was due to the lower balances, compared with 2013, held by central government (€395.82 million), by regional and local government (€542.50 million), and by social security funds (€1,123.84 million). As regards average balances, there was a decrease in those held by central government (€445.60 million in 2014 against €4,631.23 million in 2013), by regional authorities (€210.03 million compared with €534.94 million in 2013) and by social security funds (€1,208.39 million in 2014 against €2,820.82 in 2013). The decrease in these balances follows the approval of the aforementioned decision by the ECB (ECB/2014/23), which changes the remuneration applicable to certain deposits held by Banco de España. Specifically, in respect of general government deposits, the decision stipulates that the total amount of all overnight and fixed term general government deposits with an NCB exceeding certain limits shall be remunerated with an interest rate of zero per cent or at the deposit facility rate, if lower.<sup>19</sup>

Most of the balances held by central government are subject to an assignment to credit institutions through an auction conducted on behalf of the Treasury.

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

Included here are the current accounts of financial institutions other than credit institutions, such as the Deposit Guarantee Fund, financial intermediaries associated with securities markets settlement, 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 €379.45 million at end-2014 was €1,668.17 million lower than at end-2013, basically due to the closure of current accounts in the name of securitisation special purpose entities, resulting from remuneration at negative interest rates as from June 2014, agreed by the ECB Governing Council.

19 LIABILITIES TO NON-EURO  
AREA RESIDENTS  
DENOMINATED IN EURO

This item includes basically the euro-denominated accounts held by international organisations, non-Eurosystem monetary authorities and central banks to which reserve management services are provided. The balance of €519.68 million was €374.70 million higher than a year earlier due to an increase in the deposits of central banks to which reserve management services are provided which was partially offset by a decrease in the deposits of international organisations and non-Eurosystem monetary authorities.

<sup>19</sup> The ECB Governing Council resolved to apply a negative interest rate on the deposit facility as from 11 June 2014.

20 COUNTERPART OF SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF	This item of €3,371.58 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 item 2.1 on the assets side of the balance sheet. The total amount of this item increased by €209.52 million with respect to the previous year, due to the variation in the exchange rate.
21 INTRA-EUROSISTEM BALANCES	This item, which as at 31 December 2014 had a balance of €189,717.85 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 (see Note 9 to the balance sheet).
b Other liabilities within the Eurosystem (net)	The balance of €189,717.85 million as at 31 December 2014 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 (SMP), the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP).

The breakdown of the balance of this item is as follows:

EUR m	2014	2013	Change
BDE's position vis-à-vis ECB due to transfers made and received through TARGET2 and correspondent banking	189,865.41	213,684.62	-23,819.21
Position with ECB due to contribution and allocation of monetary income	-41.35	-139.97	98.62
Dividend from banknote seigniorage and SMP, CBPP3 & ABSPP income	-106.21	-162.52	56.30
<b>TOTAL</b>	<b>189,717.85</b>	<b>213,382.14</b>	<b>-23,664.29</b>

Regarding the first component, the year-end net transfers via TARGET2 had a credit balance of €189,865.44 million, while the correspondent accounts showed a debit balance of €0.03 million. The remuneration of this position is calculated daily at the marginal interest rate of Eurosystem main refinancing operations. Its average balance decreased considerably during the year from €283,518.09 million in 2013 to €212,381.75 million in 2014, mainly as a result of the decrease in the monetary policy loans 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 €41.35 million at year-end (see "Net result of pooling of monetary income" in Note 8 on the profit and loss account).

Finally, in 2014 the ECB Governing Council resolved to distribute substantially all the income obtained from the seigniorage of euro banknotes<sup>20</sup> and from securities purchased under the SMP, CBPP3 and ABSPP. The amount corresponding to the Banco de España was recorded as 2014 income and received on 30 January 2015. Its debit balance at end-2014 was €106.21 million (see “Income from equity shares and participating interests” in Note 7 on the profit and loss account).

22 ITEMS IN COURSE OF SETTLEMENT

Included here are various accounts which as at 31 December 2014 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 €22.23 million at end-2014, of which €13.44 million related to transfers ordered by customers of the Banco de España not yet paid to the receiving entities and €3.49 million to transfers received from the TARGET2 Platform but yet to be processed.

23 OTHER LIABILITIES. OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item includes the amount of the net creditor position arising from foreign-exchange forward and swap transactions valued at the exchange rates prevailing at the end of the year. When the position is a debtor one, as in the reporting year, it is recorded under the same heading in asset item 11.4 (see Note 12 to the balance sheet).

24 OTHER LIABILITIES. LIABILITY ACCRUAL ACCOUNTS AND INCOME COLLECTED IN ADVANCE

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

As at 31 December 2014, its balance amounted to €9.93 million and the main component was interest incurred on intra-Eurosystem accounts relating to TARGET2 transactions (€8.21 million, down €43.21 million on the previous year due to decreases in both the balance of these accounts and the interest rate applicable).

25 OTHER LIABILITIES. SUNDRY

This includes other liabilities not classifiable above.

As at 31 December 2014 the balance of this item amounted to €119.54 million (€0.72 million less than in 2013) and its main sub-items were the cash immobilised under EU legislation arising from redemptions of and interest on book-entry government debt (€28.00 million) and the accounts payable relating to accrued operating expenses (€35.20 million).

26 PROVISIONS

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

<sup>20</sup> Decision of the European Central Bank of 15 December 2014 (ECB/2014/57) on the interim distribution of the income of the European Central Bank.

EUR m

	2014	2013	Change
For financial risks	9,903.97	8,713.12	1,190.85
For operational risk	84.55	40.75	43.80
For exchange of withdrawn peseta banknotes	50.05	59.86	-9.81
For early repayment of special loans	7.63	99.17	-91.54
For 2011-2014 collective labour agreement	7.73	7.28	0.45
For death and retirement assistance	62.27	61.35	0.92
For early and regular retirement	26.07	27.05	-0.97
For sundry liabilities and charges	42.35	5.10	37.25
<b>TOTAL</b>	<b>10,184.62</b>	<b>9,013.67</b>	<b>1,170.95</b>

#### Provision for financial risks

This is the most important provision. It encompasses the provisions for exchange rate and interest rate risks and the provision for credit risks.

The balance of this provision as at 31 December 2014 amounted to €9,903.97 million, which was €1,190.85 million more than in 2013. Of the balance as at 31 December 2013 (€8,713.12 million), €0.02 million were used to cover exchange losses and €4.74 million to cover interest rate losses (no credit risk losses were incurred) and €1,195.61 million were provisioned for the estimated risk as at 31 December 2014 (see Note 5 to the profit and loss account).

The balance of this provision is revised annually based on the Banco de España's valuation of its exposure to the aforementioned risks by value-at-risk methodology (VaR). In this connection, on 30 January 2015 the Executive Commission reviewed the methodology for calculating the provision and, as a result, decided to increase the level of risk coverage.

#### Provision for operational risk

The Executive Commission approved in 2009 a methodology for calculating operational risk with a view to setting aside a provision for any losses arising from operational risk. It recorded a provision equal to 10% of the operational risk exposure. This exposure is quantified on the basis of one-year VaR with a confidence level of 99.9%. On 30 January 2015, the Executive Committee resolved to increase the level of coverage for operational risk to 20%.

This provision was used at end-2014 to cover the operational risk events which occurred during the year (see Note 14 to the profit and loss account) for an amount of €0.03 million, and the €43.83 million set aside took its balance to €84.55 million.

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

This is the most important of the two provisions set aside for the exchange of peseta banknotes withdrawn from circulation.<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 (provision for a period of approximately five years), using the Banco de España reserves arising from the retention of 2005 earnings. In 2013 an additional amount of €50.19 million was recorded (extending to 2020 the scheduled end-date of the exchange period) with a charge to the Banco de España reserves.

<sup>21</sup> The provisions for exchange of peseta banknotes withdrawn from circulation also include another one for €0.76 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 at that time instead of their nominal amount, led the Banco de España to set up in that year a provision for the possible losses that may arise from early repayment of special loans, recorded in asset item 8 (see Note 8 to 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 2014 it had a balance of €7.63 million, down €91.54 million from the previous year (€25.57 million used in relation to repayment of the amount due in the year and €65.96 million for adjustment of loans to their market value).

Other provisions

In the reporting year there was an increase of €37.25 million in the provision for sundry liabilities and charges, as a result of ongoing lawsuits (see Note 14 to the profit and loss account).

Variations in the remaining provisions (for death and retirement assistance and for early and regular retirement, in application of the collective labour agreement for 2011-2014) were negligible in this reporting year.

## 27 REVALUATION ACCOUNTS

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

EUR m				
	Type of account	2014	2013	Change
Gold		8,092.58	7,037.38	1,055.21
Foreign currency		3,276.70	0.02	3,276.68
Securities (trading portfolio)		3,148.58	2,001.13	1,147.45
	Issued in foreign currency by non-euro area residents	46.80	11.92	34.88
	Issued in euro by euro area residents	3,101.77	1,989.21	1,112.56
<b>TOTAL</b>		<b>14,517.86</b>	<b>9,038.52</b>	<b>5,479.34</b>

The balance of revaluation accounts at end-2014 was €14,517.86 million, up €5,479.34 million with respect to 2013. The main change was in the foreign exchange revaluation accounts, which increased by €3,276.68 million, basically due to the appreciation of the US dollar and the SDR against the euro (€3,150.25 million and €126.40 million, respectively).

With respect to gold, the unrealised gains were €1,055.21 million higher as a result of the increase in its market price (from €871.22 per ounce at end-2013 to €987.77 per ounce at end-2014).

With regard to securities price revaluation accounts, the main change was in trading-book debt securities of euro area residents denominated in euro, the unrealised gains on which increased by €1,112.56 million as a result of the fall in interest rates.

## 28 CAPITAL

As at 31 December 2014 the capital of the Banco de España amounted to €1,000 million, with no change in the year. Of this amount, €1.37 million were constituted pursuant to Decree-Law 18/1962 of 7 June 1962 and €998.63 million as a capital increase carried out in 2006 through the retention of 2005 earnings.

## 29 RESERVES

As at 31 December 2014 the reserves of the Banco de España amounted to €899.81 million, unchanged from the previous 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 2014 amounted to €2,519.22 million, down 20% from 2013. Of this amount, €1,413.15 million was paid to the Treasury on 1 December 2014, in accordance with Royal Decree 2059/2008 of 12 December 2008 (see Note 15 to 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 2013 profits:

- a On 3 March 2014, €1,447.26 million, which, together with the payment in December 2013, amounted to 90% of the €3,147.58 million of distributable profit for that year.
- b On 15 September 2014, once the balance sheet and profit and loss account for the year 2013 had been approved by the Council of Ministers, €314.76 million, representing the rest of the distributable profit for that year.

The details of the various components of the profit for 2014 and the reasons for the changes in them with respect to 2013 are given in Section 3.3 below on the profit and loss account.

### 3.3 Notes to the profit and loss account

This item includes income from interest accrued on the financial assets of the Banco de España. The breakdown in 2014 and 2013 is as follows:

#### 1 INTEREST INCOME

EUR m and %

	Interest income			Average investment		Average return	
	2014	2013	Change	2014	2013	2014	2013
Foreign currency	242.92	242.12	0.80	28,467	28,269	0.8	0.8
Securities	217.89	205.21	12.68	20,740	20,495	1.0	1.0
Deposits and other assets	18.32	25.34	-7.02	7,727	7,774	0.2	0.3
Exceptional liquidity-providing operations, swap, forward and others	6.71	11.57	-4.87				
Euro	4,152.25	6,146.36	-1,994.10	319,759	393,341	1.3	1.5
Securities	3,745.87	4,409.83	-663.97	83,442	91,085	4.4	4.8
Trading portfolio	1,364.34	1,728.85	-364.50	27,770	32,809	4.8	5.2
Held-to-maturity portfolio	956.03	977.24	-21.21	29,768	27,196	3.2	3.5
SMP	1,127.77	1,347.00	-219.22	19,146	22,996	5.8	5.8
CBPP, CBPP2 and CBPP3	297.72	356.74	-59.02	6,759	8,083	4.3	4.4
Monetary policy operations	300.90	1,494.88	-1,193.98	169,963	258,300	0.2	0.6
Main refinancing operations	38.21	133.30	-95.09	24,621	22,714	0.2	0.6
Longer-term refinancing operations	262.66	1,361.58	-1,098.92	145,332	235,586	0.2	0.6
Marginal lending facility	0.03	—	0.03	4	—	0.7	—
Changes in the value of collateral	-0.01	—	-0.01	6	—	-0.1	0.5
Intra-Eurosystem accounts	104.47	236.86	-132.39	66,353	43,956	0.2	0.5
Claims equivalent to the transfer of foreign reserves to the ECB	7.20	22.81	-15.61	5,123	4,783	0.1	0.5
Claims related to allocation of euro banknotes within the Eurosystem	97.24	213.78	-116.54	61,218	39,136	0.2	0.5
Other claims within the Eurosystem (net)	0.03	0.27	-0.24	12	37	0.2	0.7
Other assets	1.02	4.78	-3.76				
<b>TOTAL</b>	<b>4,395.18</b>	<b>6,388.48</b>	<b>-1,993.30</b>	<b>348,226</b>	<b>421,610</b>	<b>1.2</b>	<b>1.5</b>

Interest income in 2014 amounted to €4,395.18 million, of which €4,152.25 million was euro-denominated interest income, basically from euro-denominated securities portfolios (€3,745.87 million) and monetary policy operations (€300.90 million), the average yield on securities portfolios (4.4%) being notably higher than that on monetary policy operations (0.2%).

This income decreased by €1,993.30 million in 2014 compared with 2013, entirely as a result of the decline in interest on euro-denominated investments (€1,994.10 million).

The main reasons for the decrease of €1,994.10 million in euro-denominated income were the smaller remunerated average balance (down from €393,341 million in 2013 to €319,759 million in 2014) and the lower average yield (down from 1.5% in 2013 to 1.3% in 2014).

Specifically, analysis of the average investment made discloses the significant decreases in monetary policy operations (€258,300 million in 2013 against €169,963 million in 2014), derived from the lower funding requested by Spanish financial institutions from the ECB (see Note 6 to the balance sheet). Investment in securities also fell, to a lesser extent, from €91,085 million in 2013 to €83,442 million in 2014. Furthermore, there was an increase in claims related to the allocation of euro banknotes, the average balance of which rose from €39,136 million in 2013 to €61,218 million in 2014 as a result of changes in banknotes put into circulation (down 16.2% in Spain, compared with a 6.3% increase the Eurosystem as a whole).

There were decreases in the average yield on securities portfolios (from 4.8% in 2013 to 4.4% in 2014), on monetary policy operations (from 0.6% in 2013 to 0.2% in 2014) and on intra-Eurosystem accounts (from 0.5% to 0.2%).

## 2 INTEREST EXPENSES

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

EUR m and %

	Interest expense			Average financing		Average cost	
	2014	2013	Change	2014	2013	2014	2013
Foreign currency	2.75	6.81	-4.06				
Exceptional liquidity-providing operations and other liabilities	2.75	6.81	-4.06				
Euro	383.59	1,714.81	-1,331.23	226,925	313,023	0.2	0.5
Monetary policy operations	16.13	60.64	-44.51	13,083	22,908	0.1	0.3
Remuneration of minimum reserves	16.20	60.56	-44.36	11,886	13,447	0.1	0.4
Deposit facility	-0.07	—	-0.07	1,191	9,446	—	—
Fixed-term deposits	—	—	—	—	5	—	0.1
Changes in the value of collateral	-0.01	0.07	-0.08	6	11	-0.1	0.7
General government deposits	0.61	17.71	-17.10	1,460	6,597	—	0.3
Other liabilities within the Eurosystem (net)	363.65	1,625.49	-1,261.84	212,382	283,518	0.2	0.6
Other liabilities denominated in euro	3.21	10.98	-7.78				
<b>TOTAL</b>	<b>386.33</b>	<b>1,721.62</b>	<b>-1,335.29</b>	<b>226,925</b>	<b>313,023</b>	<b>0.2</b>	<b>0.5</b>

The euro-denominated interest expenses (€383.59 million) arise mainly from the remuneration of intra-Eurosystem TARGET2-related balances on the liabilities-side of the balance sheet (€363.65 million) and, to a much lesser extent, from remuneration of monetary policy operations (€16.13 million).

Overall, interest expenses decreased by €1,335.29 million in 2014, mainly due to the lower expense of euro-denominated liabilities (€1,331.23 million).

The decrease in euro-denominated expenses (€1,331.23 million) was basically due to the lower average cost at which liabilities were remunerated, which fell from 0.5% in 2013 to 0.2% in 2014, and to the smaller average balance of liabilities to be remunerated (€313,023 million in 2013 compared with €226,925 in 2014). Specifically, the net credit balance of intra-Eurosystem balances (TARGET2) decreased from €283.518 million in 2013 to €212,382 million in 2014.

The decrease of €17.10 million in interest expenses for general government deposits was basically due to the lower average balance remunerated (down from €6,597 million in 2013 to €1,460 million in 2014) and to the lower average cost (0.27% in 2013 against 0.04% in 2014).

In this reporting year, this item includes the negative expenditure (income) arising from the decision of the Governing Council to remunerate certain deposits of banks and other financial institutions at negative interest rates.

### 3 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

This item includes the profits and losses arising from dealing in financial assets. In 2014 the net gains in this connection amounted to €23.72 million, arising from the following sources:

EUR m

	2014	2013	Change
Foreign currency	23.72	-15.25	38.98
Sale of gold	—	—	—
Sale of foreign currency (exchange effect)	30.90	10.66	20.25
Sale of securities (price effect)	29.37	-33.42	62.80
Other gains/losses	-36.56	7.51	-44.07
Euro	—	13.32	-13.32
Sale of securities	—	13.32	-13.32
<b>TOTAL</b>	<b>23.72</b>	<b>-1.94</b>	<b>25.66</b>

With respect to the prior year, the total amount recorded in 2014 increased by €25.66 million due to gains on the sales of foreign currency, SDRs and US dollars as a result of the appreciation of the dollar against the euro, and to the income obtained from the sale of securities denominated in US dollars, compared with the losses reported in 2013. These gains were partially offset by the losses on interest rate futures (recorded under “Other gains/losses”).

### 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 2014 and 2013 is as follows:

EUR m

	2014	2013	Change
Foreign currency	4.76	285.34	-280.58
Foreign currency (exchange rate losses)	0.02	241.40	-241.38
Securities (price losses)	4.74	43.94	-39.19
Euro	—	0.03	-0.03
Securities (price losses)	—	0.03	-0.03
<b>TOTAL</b>	<b>4.76</b>	<b>285.36</b>	<b>-280.60</b>

Unrealised losses in 2014 amounted to €4.76 million. They mostly related to unrealised price losses on fixed-income securities denominated in foreign currency (€4.74 million), basically due to changes in the market price of these securities.

5 TRANSFERS TO/FROM  
PROVISIONS FOR FINANCIAL  
RISKS

The breakdown of and change in this item are as follows:

EUR m	2014	2013	Change
Net transfers to provisions for financial risks	-1,190.85	-1,438.17	247.32
Transfers to provision	-1,195.61	-1,723.53	527.92
Reversal/transfer from provision	4.76	285.36	-280.60
Transfer/reversal from provision for losses arising from early repayment of special loans	65.96	169.49	-103.52
<b>TOTAL</b>	<b>-1,124.89</b>	<b>-1,268.68</b>	<b>143.79</b>

This includes, first, the transfer of €4.76 million from the provision for financial risks to cover the losses recorded at end-2014 and, second, the transfer of €1,195.61 million to this provision to cover the estimated exposures in the financial positions subject to such risks, in accordance with the criteria for valuing these risks approved by the Executive Commission resolution on 30 January 2015.

Lastly, regarding the provision for losses arising from early repayment of special loans derived from the adjustment of the market value of these assets, in 2014 the provisioning expense underwent a negative change of €103.52 million with respect to 2013, due to the recovery of €65.96 million in 2014 as against the recovery of €169.49 million in 2013.

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	2014	2013	Change
1 Income from fees and commissions	17.01	17.55	-0.55
Foreign operations	—	—	—
Domestic operations	17.01	17.55	-0.55
2 Expenses from fees and commissions	9.23	10.64	-1.42
Foreign operations	2.58	2.78	-0.20
Domestic operations	6.65	7.86	-1.21
<b>NET INCOME FROM FEES AND COMMISSIONS (1-2)</b>	<b>7.78</b>	<b>6.91</b>	<b>0.87</b>

Net fee and commission income in 2014 (€7.78 million) was €0.87 million more than in 2013. This variation relates basically to the lower expenditure for commissions paid on securities transactions. This decrease in expenditure was partially offset by the lower income from commissions obtained on securities transactions. Both the lower fee income from securities transactions and the lower fees and commissions paid were due to the decrease in the volume of transactions.

7 INCOME FROM EQUITY  
SHARES AND PARTICIPATING  
INTERESTS

This item includes the participating interest of the Banco de España in the profit of the ECB from ordinary operations, seigniorage income and income generated by various monetary policy portfolios of the ECB. It also includes the dividends on other shares and participating interests.

EUR m

	2014	2013	Change
ECB	113.40	212.77	-99.37
Ordinary dividend	7.19	50.25	-43.06
Dividend from banknote seigniorage income and SMP, CBPP3 and ABSPP income	106.21	162.52	-56.30
Other	2.33	8.59	-6.25
<b>TOTAL</b>	<b>115.74</b>	<b>221.36</b>	<b>-105.62</b>

Of the total amount of €115.74 million recorded, €106.21 million relate to the ECB dividend from banknote seigniorage income and income from securities purchased under the Securities Markets Programme (SMP), the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP), €7.19 million to the ECB ordinary dividend for 2013 and €2.33 million to dividends from holdings in the Bank for International Settlements.

On 7 January 2015 the ECB Governing Council decided to distribute among Eurosystem NCBs €840.72 million relating to practically all the seigniorage income from its banknotes and to the income from its securities portfolio purchased within the framework of the Securities Markets Programme, the third covered bond purchase programme and the asset-backed securities purchase programme. The Banco de España received €106.21 million of this amount. The amount retained by the ECB to add to the provision for its financial risks amounted to €15.01 million and with this addition the upper limit of this provision was reached.

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 net of the financial expenses incurred for the related liabilities. The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET2 transactions whenever they have a credit balance; and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem whenever they have a credit balance. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled. The earmarkable assets include the following items: lending to euro area credit institutions related to monetary policy operations; monetary policy portfolio securities; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions, whenever they have a debit balance; net intra-Eurosystem claims related to the allocation of euro banknotes in the Eurosystem, whenever they have a debit balance; and a limited amount of each NCBs gold holdings, in proportion to its capital key. Gold is considered to generate no income and the securities acquired under the first two covered bond purchase programmes 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 income in 2014 and 2013 is as follows:

EUR m

	2014	2013	Change
Net result of pooling of monetary income	-33.84	138.49	-172.33
Monetary income pooled	1,290.49	1,840.52	-550.03
Monetary income allocated	1,256.65	1,979.01	-722.36
Corrections of prior years	75.18	1.48	73.70
Provision for counterparty risk in monetary policy operations	—	33.58	-33.58
<b>TOTAL</b>	<b>41.35</b>	<b>173.55</b>	<b>-132.20</b>

The monetary income pooled by the Eurosystem is to be allocated or pooled among NCBs according to the ECB subscribed capital key. The difference between the monetary income pooled by the Banco de España in 2014, amounting to €1,290.49 million, and that reallocated to it, amounting to €1,256.65 million, is equivalent to a net contribution of €33.84 million. The basic reason for this contribution was that the Banco de España's monetary policy portfolios generated income in excess of the amount to which it is entitled according to its capital key.

In addition to this ordinary pooling, income was obtained from the insolvency proceedings at Lehman Brothers and Indover Bank, generating additional income of €75.18 million for Banco de España. Consequently, the net result for the year was €41.35 million.

Also, on 31 December 2013 the ECB Governing Council approved the cancellation of the provision for counterparty risk in Eurosystem monetary policy operations, due to the disappearance of the risks covered. Accordingly, the Banco de España released the provision recorded (€33.58 million), which had a balance of zero as from that date.

## 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

	2014	2013	Change
Extraordinary profit	1.17	0.58	0.58
Sundry	18.73	120.30	-101.57
<b>TOTAL</b>	<b>19.90</b>	<b>120.88</b>	<b>-100.98</b>

This item discloses net income and losses of €19.90 million, mostly relating to the Bank's participation in various projects for the Eurosystem, which generated income of €16.29 million in 2014.

With respect to the previous year, the net income and losses decreased by €100.98 million, basically due to the income on the sale in November 2013 of the shares of Bolsas y Mercados españoles, Sociedad Holding de Mercados y Sistemas Financieros S.A. (€117.42 million).

## 10 STAFF COSTS

This item includes wages and salaries, social insurance payments, staff welfare expenses and contributions to the pension scheme.

The breakdown of changes by component is as follows:

EUR m and %

	2014	2013	Change	(%)
Gross staff costs	223.13	219.34	3.79	1.7
Wages and salaries	162.64	162.68	-0.04	—
Social Security	34.68	32.11	2.57	8.0
Staff welfare expenses and pension scheme	25.80	24.55	1.26	5.1
Reversal of staff costs due to capitalization of computer applications	-2.57	-1.51	-1.06	70.2
<b>TOTAL</b>	<b>220.56</b>	<b>217.83</b>	<b>2.74</b>	<b>1.3</b>

Its balance increased from €217.83 million in 2013 to €220.56 million in 2014, a rise of €2.74 million (1.3%), mainly due to an increase in social security contributions resulting from higher contribution bases.

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

	2014	2013	Change	%
Average number of employees	2,686.7	2,655.3	31.4	1.2
Managerial staff	1,696.2	1,656.3	39.9	2.4
Administrative staff	822.8	826.6	-3.8	-0.5
Other	167.8	172.4	-4.7	-2.7

As at 31 December 2014, the Bank's total staff numbered 2,675 employees, 30 more than at the same date of the previous year. Regarding the staff composition by gender, at 31 December 2014 women accounted for 45.8% 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. In 2014 the Governor received a gross annual wage of €176,060 and the Deputy Governor received €203,410 in this connection.<sup>22</sup> The elected members of the Governing Council received a gross annual wage of €51,800; if they belonged to the Executive Commission, the gross annual wage was €64,980.

In addition to the foregoing, the members of the governing bodies received equal amounts of fees for attending meetings of the body to which they belonged, set at €1,026.79 per meeting of the Governing Council and €492.46 per meeting of the Executive Commission.

#### 11 ADMINISTRATIVE EXPENSES

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

<sup>22</sup> These gross annual wages include supplementary salary items and wage arrears received by the Governor and the Deputy Governor in 2014, amounting to €1,360 and €29,810, respectively.

EUR m and %

	2014	2013	Change	%
Gross administrative expenses	131.40	129.44	1.96	1.5
Renting and maintenance	37.09	33.09	4.00	12.1
Material and supply	9.97	11.59	-1.62	-13.9
External services	67.33	67.27	0.07	0.1
Training, promotion and selection	3.96	4.51	-0.55	-12.2
Sundry operating expenses	13.04	12.99	0.06	0.4
Reversal of administrative expenses due to capitalization of computer applications	-4.59	-3.97	-0.61	15.4
<b>TOTAL</b>	<b>126.81</b>	<b>125.46</b>	<b>1.34</b>	<b>1.1</b>

The above table shows that, as in 2013, in 2014 the most significant administrative expenses were external services (€67.33 million), mainly IT services (€39.60 million) and rental and maintenance (€37.09 million), composed mainly of hardware and software rental and maintenance (€21.69 million) and property rental and maintenance (€10.14 million).

Goods and services expenses increased in 2014 (€1.34 million). The largest increase in the item was in “Rental and maintenance” (€4.00 million), basically due to higher rental and maintenance expenses for computer equipment and programmes (€4.25 million), partially offset by lower material and supply expenses (€1.62 million) and training, promotion and selection expenses (€0.55 million), and by the higher recovery of goods and services expenses (€0.61 million).

In 2014, “External services” include €108,711.00 (including VAT) relating to the fees of the external auditors KPMG Auditores, for the audits 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 2014 no services were received from and, consequently, no amounts were paid to, other firms related to the auditor.

## 12 DEPRECIATION OF FIXED ASSETS

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

EUR m and %

	2014	2013	Change	%
Depreciation of buildings, structures and renovation work	2.57	2.54	0.02	1.0
Depreciation of plant in buildings	9.14	9.06	0.08	0.9
Depreciation of furniture and fittings	2.02	2.15	-0.14	-6.3
Depreciation of office machines other than computer equipment	1.58	1.58	—	—
Depreciation of computer equipment	5.22	5.39	-0.17	-3.1
Depreciation of transport equipment	0.30	0.37	-0.07	-18.8
Depreciation of other tangible fixed assets	0.24	0.31	-0.07	-22.4
Depreciation of libraries	0.44	0.46	-0.02	-5.1
Amortization of computer applications	8.53	8.56	-0.03	-0.3
<b>TOTAL</b>	<b>30.04</b>	<b>30.43</b>	<b>-0.39</b>	<b>-1.3</b>



13 BANKNOTE PRODUCTION  
SERVICES

This amount (€82.51 million) corresponds to payments made by the Banco de España to purchase banknotes from the Spanish Royal Mint. The increase with respect to the previous year (€12.20 million) was due both to the larger volume of banknotes supplied by the National Mint, and to the increase in their average price, as a result of the changes in the composition of the production of the new series, with production of €10 notes starting at the end of 2013, as follows:

Series	Denomination	Banknotes charged (millions of banknotes)	
		2014	2013
1	€ 50	459.0	414.7
2	€ 10	482.3	80.1
2	€ 5	170.7	483.5
<b>TOTAL</b>		<b>1,112.0</b>	<b>978.3</b>

14 TRANSFERS AND ADDITIONS  
TO OTHER FUNDS AND  
PROVISIONS

Included here are sundry amounts provisioned for varying reasons, the provisions used and the additions to the Beneficent Social Fund.

The net transfers to these funds were as follows:

EUR m

	2014	2013	Change
Provision for operational risk	43.80	15.92	27.88
Provision for death and retirement assistance	10.87	5.27	5.60
Provision for early and regular retirement	5.00	5.25	-0.25
Provision for sundry liabilities and charges	37.73	3.78	33.95
Others	0.10	-0.93	1.04
Beneficent social fund	7.58	9.47	-1.89
<b>TOTAL</b>	<b>105.08</b>	<b>38.75</b>	<b>66.33</b>

The net balance of transfers and applications to other funds and provisions in 2014 amounted to €105.08 million, compared with €38.75 million in 2013. Noteworthy was the net provisioning for operational risk of €43.80 million (see Note 26 to the balance sheet), mainly due to the higher level of coverage (from 10% to 20%) approved by the Executive Committee on 30 January 2015, and the provision for sundry liabilities and charges, including the net amount of €36.48 million to the provision for litigation risks, mostly relating to ongoing lawsuits. In 2014, €10.87 million were transferred to the provision for death and retirement assistance expenses and €5.00 million to the provision for expenses relating to early and regular retirees. In 2014, the provision to the Beneficent Social Fund amounted to €7.58 million, compared with €9.47 million in 2013, meaning that the expense was €1.89 million lower.

The Banco de España, because of the nature of its activity, is not an institution with a high environmental risk. Accordingly, in 2014 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 the first working day of December of the previous year.

On 1 December 2014 the Banco de España paid into the Treasury €1,413.15<sup>23</sup> million, equal to 70% of the profit recorded as at 30 September 2014.

Given that the profit for the year amounted to €2,519.22 million, on 2 March 2015 the amount of €854.14 million was paid into the Treasury to complete the distribution of 90% of profits.

The payments to the Treasury of 2014 profit are as follows:

EUR m

1 Total profit for 2014	2,519.22
2 Payments to the Treasury	2,267.29
On 1.12.2014	1,413.15
On 2.3.2015. Difference between the above amount and 90% of profit as at 31.12.2014	854.14
3 Profit payable to the Treasury (at date of approval of the 2014 accounts)	251.92

### 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 general provisions and the effect on the balance sheet of the appropriation of profit for the year.

EUR m

	Capital	Reserves	Revaluation accounts	Undistributed profit	Generic provisions	Total
<b>A) 2014 OPENING BALANCE</b>	<b>1,000.00</b>	<b>899.81</b>	<b>9,038.52</b>	<b>1,762.02</b>	<b>8,753.87</b>	<b>21,454.21</b>
1. Unrecognized net gains in profit and loss			5,479.34			5,479.34
In gold			1,055.21			1,055.21
In foreign currency			3,276.68			3,276.68
In securities			1,147.45			1,147.45
Other			—			—
2. Change in provisions					1,234.65	1,234.65
3. 2014 profit				2,519.22		2,519.22
4. Appropriation of profit				-3,175.17		-3,175.17
Payment to the Treasury of 2013 profit				-1,762.02		-1,762.02
Payment to the Treasury of 2014 profit				-1,413.15		-1,413.15
<b>B) CHANGES IN THE YEAR</b>						
<b>B = 1+2+3+4</b>	<b>—</b>	<b>—</b>	<b>5,479.34</b>	<b>-655.95</b>	<b>1,234.65</b>	<b>6,058.04</b>
<b>C) CLOSING BALANCES</b>						
<b>C = A + B</b>	<b>1,000.00</b>	<b>899.81</b>	<b>14,517.86</b>	<b>1,106.06</b>	<b>9,988.52</b>	<b>27,512.26</b>

The changes reflected in this table have been explained above in the explanatory notes to the balance sheet and profit and loss account that refer to provisions (Note 26 on the balance sheet), revaluation accounts (Note 27 on the balance sheet), capital (Note 28 on the balance sheet), reserves (Note 29 on the balance sheet) and profit for the year (Note 30 on the balance sheet and Note 15 on the profit and loss account).

<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 which entailed a risk of lower profit estimated at €811.37 million. Accordingly, this amount was subtracted from the Banco de España profit of €2,830.15 million as at 30 September, resulting in a profit of €2,018.79 million, 70% of which was paid into the Treasury.

Equity increased by €6,058.04 million in 2014 due to the higher unrealised gains (€5,479.34 million) and the higher general provisions.

### 3.5 Risk management

The Banco de España is exposed to financial risks (market risk and credit risk) and to an operational risk which, as a result of its activity, could have a significant financial and reputational impact and affect the Bank's ability to continue meeting its objectives.

The Banco de España manages all its risks taking into account their differing nature.

All the systems and procedures used to assess, control, monitor and mitigate risks are evaluated periodically to ensure they are suitable for their intended purpose and are applied consistently.

Currently the Operations Department, the Financial Risks Department and the Control, Budget and Accounting Department are responsible for identifying, assessing, controlling, monitoring, mitigating and reporting risks.

The Executive Commission is entrusted with approving the rules on financial asset management at the Banco de España and the methodologies to be applied for estimating and mitigating financial risks.

The Operations Committee, at its daily meetings, proposes the distribution by currency, the authorised instruments and the limits per issuer and counterparty. It is the body entrusted with setting the modified duration target of the strategic (long-term) and tactical (short-term) benchmarks of the euro-denominated and US dollar-denominated trading portfolios. The Risk Management Committee is entrusted with proposing the risk assessment methodologies and provisioning levels to be forwarded to the Executive Commission.

#### 1 FINANCIAL RISKS

##### 1.1 Market risk

Financial risks comprise market risk, liquidity risk and credit risk. The risk assessment carried out by the Banco de España in 2014 found that the main risk, from a quantitative standpoint, is the market risk derived from foreign exchange rate and interest rate fluctuations. The Banco de España is also exposed, to a lesser extent, to credit risk.

Market risk includes interest rate, foreign exchange rate and gold price risks.

##### Interest rate risk

Interest rate risk is the probability or possibility that the Banco de España may incur losses as a result of interest rate fluctuations.

The Bank's exposure to this type of risk derives from the fixed-income securities in the trading portfolio, since their market value is affected by interest rate movements.<sup>24</sup> The level of exposure to this risk depends on the volume and maturity of holdings in this portfolio and on the volatility of interest rates.

The Bank's Operations Committee sets the modified duration of the strategic and tactical benchmarks of the euro-denominated and US dollar-denominated trading portfolios and establishes limits by means of +/- 0.25 fluctuation bands. On 17 December 2013 the target durations of the tactical benchmarks of US dollar-denominated and euro-denominated portfolios were set at 1 and 3, respectively.

<sup>24</sup> For accounting purposes, the Bank's trading portfolio is valued at market prices and its held-to-maturity portfolio and monetary policy portfolios are valued at amortised cost.

Also, the level of risk is quantified through Value-at-Risk methodology (VaR) by calculating the maximum expected loss from interest rate fluctuations, with a one-year time horizon and a 99% confidence interval. The VaR figure calculated with this methodology for the trading portfolio is the main factor used to determine the amount to be provisioned for interest rate risk.

As at 31 December 2014 the interest rate exposure on the trading portfolio is €2,981 million and is covered in full by the provision for financial risks.

#### Foreign exchange rate and gold price risks

Foreign exchange rate risk is the probability or possibility that the Banco de España may incur losses as a result of movements in the exchange rates of the currencies forming part of its position.

The exposure to this risk derives from the currency position and from the volatility of exchange rates.

Foreign exchange rate risk is managed by setting ceilings on investment in each currency.

The Banco de España quantifies the exposure to this risk for the main currencies (USD and SDR) through Value-at-Risk methodology (VaR) by calculating the maximum expected loss with a one-year time horizon and a 99% confidence interval.

Based on the VaR as at 31 December 2014, the exchange rate risk amounts to €3,266 million and is covered in full by the provision for financial risks.

The exposure to gold price risk, which depends on the holdings of gold and on the volatility of its price, is covered in full by the existing revaluation accounts.

### 1.2 LIQUIDITY RISK

Liquidity risk is the probability or possibility of incurring losses because the institution is forced to liquidate its assets before maturity to meet its obligations.

As a central bank belonging to the Eurosystem, the Banco de España has no liquidity risk.

### 1.3 Credit risk

Credit risk is the probability or possibility that the Banco de España may incur losses as a result of total or partial non-compliance with their contractual obligations by the issuers, counterparties or depositors of its financial assets, or that it may incur losses derived from impairment of their credit quality.

The exposure to credit risk depends on the volume of the investment and on the credit quality of the counterparties.

Credit risk is managed by selecting creditworthy counterparties and setting quantitative limits per counterparty, issuer and asset, while assuring safety in investments and avoiding concentration risk.

The Banco de España assesses credit risk by VaR methodology with a one-year time horizon and a 99% confidence interval.

Based on VaR methodology, the estimated credit risk as at 31 December 2014 is €3,657 million, which is the total amount to be provisioned for credit risk.

The credit risk on monetary policy loans is not assessed<sup>25</sup> because the transactions are adequately collateralised and, accordingly, the residual risk is small. This risk is managed in accordance with Eurosystem rules.

The risks derived from the securities purchased under the Securities Markets Programme and the third covered bond purchase programme, and from risk-sharing monetary policy loans, are shared by the Banco de España in proportion to its capital key in the Eurosystem, which was 12.63% for 2014.

## 2 OPERATIONAL RISK

The Banco de España defines operational risk as the risk of incurring losses due to the inadequacy or failure of internal processes, personnel and systems, or due to events outside the organisation. These losses are determined by how strongly the Bank's balance sheet, reputation or objectives are impacted by the materialisation of a risk event.

The Operational Risk Management System developed by the Bank following the guidelines set in the document entitled "International Convergence of Capital Measurement and Capital Standards" (BIS, Basel II, June 2004) sets out policies, functions and procedures for proper operational risk management.

This system takes as its starting point an inventory of the functions, processes and activities of each organisational area of the Bank, which make up the Process Map. This inventory is needed to subsequently identify the attendant risks, which together constitute the Risk Map. This identification is based on an analysis of possible contingencies which may affect the Bank's functioning and of the specific measures taken to prevent them from occurring and/or to reduce damage if they do occur.

To determine the relative importance of the risks identified, these are assessed qualitatively according to: 1) the impact or damage they may cause (whether financial, reputational and/or in the form of non-compliance with objectives) and 2) how often they may occur. The risks thus measured are entered in the Risk Tolerance Matrix to establish the action levels and the trigger thresholds for notification to the related decision-making bodies. The business areas inform the Risk Management Committee of the most significant risks and of the possible mitigation measures to reduce the severity and frequency of the contingencies identified. This committee is responsible for approving them and accepting the residual risks. The results of the assessment conducted by the areas are compared with the information drawn from the systematic register of loss events in order to adjust their impact and/or frequency of occurrence in line with actual events.

Also, the system includes a VaR-type quantitative approach for calculating operational risk exposure, which stems from the Advanced Measurement Approach (AMA), which may serve as a reference for deciding on the possible general provisioning for this risk through the related allowance. The Bank's VaR methodology estimates the maximum financial loss or value at risk due to operational losses affecting net worth, with a one-year time horizon and a 99% confidence interval.

The exposure to operational risk as at 31 December 2014 amounted to €423 million and a provision for operational risk was recorded for 20% of this amount.

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<sup>25</sup> Except for monetary policy loans with collateral excluded from the risk shared by the Eurosystem NCBs.

#### 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 2014 the Banco de España made no contributions whatsoever to this Fund.

##### 4.2 Loss of profit

The table below shows the loans outstanding in 2014 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 2014	Interest rate received (%)	Reference interest rate (%)	Estimated loss of profit
Net State debt	1,204.84	—	0.16	1.93
Housing loans and advances to employees	32.71	—	0.16	0.05
Repayable advances	32.71	—	0.16	0.05
<b>TOTAL</b>	<b>1,237.56</b>	<b>—</b>	<b>0.16</b>	<b>1.98</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 2014 payment was received of two instalments of the aforementioned facilities (that for the reporting year and the last outstanding instalment of the original repayment schedule), the repayment date of all of them being brought forward from 31 December to 30 April. In accordance with the foregoing, on 30 April 2014 the Treasury paid to the Banco de España the amount of €946.11 million, the effective market price of the debt repaid on that date, equivalent to a nominal amount of €971.68 million.

## ANNEXES

### 1 REPORT OF THE EXTERNAL AUDITORS



KPMG Auditores S.L.  
Edificio Torre Europa  
Paseo de la Castellana, 95  
28046 Madrid

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

#### Independent Auditors' Report on the Annual Accounts

To the Honourable Governor of the Banco de España,

We have audited the annual accounts of the Banco de España which, in accordance with article 29.1 of its Internal Rules, comprise the balance sheet at 31 December 2014, the income statement for the year then ended and the notes thereto.

#### *Responsibility for the annual accounts*

The Executive Commission of the Banco de España is responsible for organising the Bank and appointing its general managers. Under the Internal Rules of the Banco de España, the Directorate General Services is responsible for preparing the annual accounts in accordance with the internal accounting principles of the Banco de España, which are specified in note 3.1 to the accompanying annual accounts, based on the accounting regulations stipulated for the central banks that are members of the European System of Central Banks. This responsibility, which is exercised through the Control, Budget and Accounting Department, includes the audit of operations and, therefore, the design, implementation and maintenance of the relevant internal controls required for the preparation and appropriate presentation of annual accounts that are free from material misstatement due to fraud or error, the selection and application of the pertinent accounting principles, and making such estimates as deemed reasonable in the circumstances (see note 3.1.3 to the accompanying annual accounts). Pursuant to article 21.G) of Law 13/1994 of 1 June 1994 on the autonomy of the Banco de España, these annual accounts are prepared by the Governing Council of the Banco de España.

#### *The auditors' responsibility*

Our responsibility is to express an opinion on these annual accounts taken as a whole, based on our audit. We conducted our audit in accordance with International Standards on Auditing, which require that we comply with certain ethical standards and plan and perform the audit in such a way as to obtain reasonable assurance that the annual accounts are free from material misstatement or irregularities.

KPMG Auditores S.L., a limited liability Spanish company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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Sec. 8, H. M-199.007, Inscrp. 9  
N.I.F. B-78510153



An audit entails the performance of procedures designed to obtain supporting evidence of the amounts and disclosures contained in the annual accounts. The procedures selected depend on the auditor's judgement, and include an assessment of the risk of material misstatements or irregularities arising in the annual accounts due to fraud or error. In assessing these risks the auditor takes into account the internal control system applied by the entity for the preparation and appropriate presentation of the annual accounts in order to design audit procedures that are suitable in 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 an evaluation of the appropriateness of the accounting policies used, the reasonableness of the entity's accounting estimates, and the overall presentation of the annual accounts. We consider that the evidence obtained is sufficient and adequate to provide a basis on which to express our auditors' opinion.

#### *Opinion*

In our opinion the accompanying annual accounts for 2014 present fairly, in all material respects, the equity and financial position of the Banco de España at 31 December 2014 and its financial performance for the year then ended, in accordance with the internal accounting principles of the Banco de España, which are specified in note 3.1 to the accompanying annual accounts, based on the accounting regulations stipulated for the central banks that are members of the European System of Central Banks.

KPMG Auditores, S.L.



María Eugenia Fernández-Villarán Ara

29 April 2015



## 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 2014.

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 2014, 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 2014, 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 2014 give a true and fair view of the net worth and financial position of the Banco de España.

Madrid, 9 April 2015.



ÁNGEL LUIS LÓPEZ ROA



CARMEN ALONSO LEDESMA



MAXIMINO CARPIO GARCÍA

