

8 INTERNAL AUDIT REPORT
REPORT PROVIDED FOR BY THE CONSOLIDATED TEXT OF THE SECURITIES
MARKET LAW, ENACTED BY LEGISLATIVE ROYAL DECREE 4/2015, 23 OCTOBER 2015

2016

1. Introduction

The tenth additional provision of the Consolidated Text of the Securities Market Law (LMV) enacted by Legislative Royal Decree 4/2015 of 23 October 2015, establishes that the Banco de España is to prepare an annual report on its supervisory function describing the measures taken and procedures followed in relation to supervision from which it is to be possible to deduce information about the effectiveness and efficiency of these measures and procedures. It also provides that this report is to include information from the internal control body on the conformity of the decisions adopted by its governing bodies with the procedural rules applicable in each case. This report is to be approved by the Governing Council of the Banco de España and sent to the Spanish Parliament and the government.

The Banco de España's 2017 annual audit plan, approved by the Governor on 31 January 2017 and reported to the Executive Commission on 14 February, includes the drafting of the report envisaged in the LMV in order that it may be included in the Banco de España's Annual Report on its supervisory function, referred to above.

2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in the Tenth Additional Provision of the LMV. As mentioned above, this provision defines the scope of the report by reference to three basic elements:

1. The supervisory function of the Banco de España
2. The decisions taken by the governing bodies in exercise of the supervisory function.
3. Conformity of the foregoing decisions to the procedural rules applicable.

As regards the reporting period, the report refers to the decisions taken by the Executive Commission in 2016 and the decisions adopted by delegation of which the Executive Commission was notified in that period.

The subject matter of the report is the decisions taken by the Banco de España's governing bodies within the spheres of competence of the Directorate General Banking Supervision, the Directorate General Financial Stability and Resolution, and the General Secretariat.

As regards the applicable regulations, the supervisory powers and proceedings set out in Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España and the Internal Rules of the Banco de España were taken into account, together with those established by the regulations on the Single Supervisory Mechanism (primarily Council Regulation (EU) No 1024/2013 of 15 October 2013 and Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014). Moreover, through various resolutions, the Executive Commission has established the procedural rules for the proposals on matters within the competence of the various directorates general (Directorate General Banking Supervision, Directorate General Financial Stability and Resolution, and the General Secretariat).¹

¹ - Directorate General Banking Supervision: Executive Commission resolution of 8 April 2014, and Executive Commission resolution of 6 May 2016 replacing the preceding resolution.
- Directorate General Financial Stability and Resolution: Executive Commission resolution of 30 June 2006, and Executive Commission resolution of 20 May 2016 replacing the preceding resolution.
- General Secretariat: Executive Commission resolution of 20 February 2015.

On 2 November 2012, rules were laid down on the reporting of matters to the Executive Commission by all the Directorates General of the Banco de España. These rules complement those of the aforementioned directorates general.

Similarly, via a resolution of 22 May 2015,² the Executive Commission approved the regime governing the delegation of powers, which was published in the Official State Gazette of 2 June 2015 and envisages the delegation of signature and the callback of delegated powers.

In order to review the decisions adopted by the Executive Commission, stratified sampling was performed on decisions taken by the Directorate General Banking Supervision, the Directorate General Banking Regulation and Financial Stability and the General Secretariat. Different sampling fractions were applied to these strata depending on the materiality, numerical volume and internal homogeneity of each stratum.

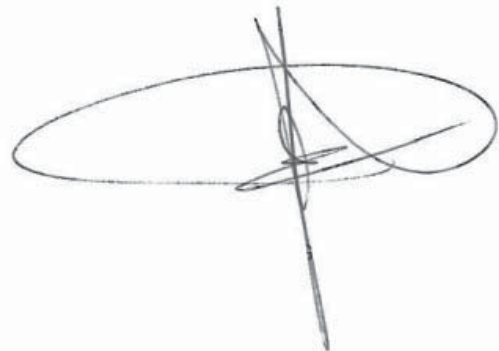
The work was performed in accordance with the Internal Audit Manual, which includes the International Standards for the Professional Practice of Internal Auditing, approved by the Institute of Internal Auditors, including those relating to the Code of Ethics.

3. Opinion

In our opinion, the decisions taken by the governing bodies of the Banco de España in 2016 in the exercise of its supervisory function were taken by bodies with sufficient own or delegated powers in accordance with the Banco de España's Internal Rules and with the provisions laid down by its Executive Commission, and are in conformity, in all material respects, with the existing procedural rules applicable in each case.

Madrid, 27 March 2017

Director of the Internal Audit Department

A handwritten signature in black ink, consisting of a large, horizontal oval shape with a vertical line crossing it, and a long, thin vertical line extending downwards from the center of the oval.

Juan González Gallegos

THE GOVERNOR OF THE BANCO DE ESPAÑA
THE DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA

² This resolution was subsequently modified by the Resolution of the Executive Commission of 11 January 2017, published in the Official State Gazette on 18 January 2017.