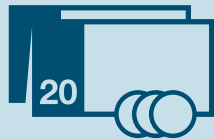


4

FINANCIAL INFORMATION OF THE BANCO DE ESPAÑA



€1,066 billion
Total assets

The Banco de España's total assets decreased compared with 2021 to €1,066 billion, owing to the new restrictive monetary policy stance adopted from mid-2022



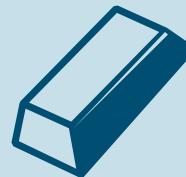
€624 billion
Monetary policy portfolio

Since 2015 the Banco de España has acquired a significant portion of securities in the framework of monetary policy decisions, which at the end of 2022 had reached a value of €624 billion



€4.2 billion
Profit on monetary policy operations

The profit on monetary policy operations was €4.2 billion, slightly higher than in 2021



€15.4 billion
Gold and gold receivables

Holdings of ounces of fine gold have remained stable over the last few years, although they have steadily increased in value, reaching a market price at the end of 2022 of €15.4 billion



€58.2 billion
Financial resources

Capital and reserves, general provisions and revaluation accounts, which comprise the Banco de España's financial resources, increased steadily over the period 2018-2022 to reach €58.2 billion



€2,403 million
Earnings

The Banco de España's profit —€2,403 million in 2022 (35% higher than in 2021)— is transferred to the Treasury, so that the result of the Bank's activity is in the interest of all citizens

Chapters 1 and 2 of this Report describe the most important functions and activities of the Banco de España. This chapter aims to show how many of these functions are reflected in the Banco de España's financial statements (balance sheet and profit and loss account). To do so, a comprehensive analysis of the main balance sheet and profit and loss account headings is presented, showing the changes over the last five years and linking them to the main events and monetary policy measures adopted in that period.¹ To conclude, the risks and uncertainties the Banco de España faces as a result of its activities are described and information on the policies pursued to mitigate them is provided.



The growth of the Banco de España's balance sheet has been notable – increasing by more than €320,000 million – in the period 2018-2022.

¹ The *Annual Accounts of the Banco de España*, which can be found on the Banco de España's [website](#), provide more detailed disclosures on the components of the balance sheet and profit and loss account.

The Banco de España's balance sheet provides a true and fair view of its economic and financial position, reflecting on the asset side its available resources and, on the liability side, the sources of funding used.

The Banco de España's financial functions and activities are reflected on its balance sheet as follows:

The Eurosystem's **monetary policy operations** are the result of the decisions adopted by the ECB's Governing Council. These decisions are executed in a decentralised manner by the euro area national central banks and are included in their respective financial statements. Thus, the asset side of the Banco de España's balance sheet reflects the purchases of monetary policy securities and the loans granted to Spanish credit institutions, and the liability side reflects the deposits held by Spanish credit institutions.

The **management of foreign reserves** is reflected in the foreign currency assets and liabilities (the latter being immaterial) on the balance sheet.

The Bank manages the **settlement of national and cross-border payments** denominated in euro through the TARGET2 system.² These payments are recorded as intra-Eurosystem claims or liabilities (in the case of the Banco de España, a net liability position).

Legal tender **banknote issuance** is recorded on the liability side of the balance sheet under "Banknotes in circulation". The allocation of euro banknotes among the euro area national central banks, according to their banknote allocation key, gives rise to intra-Eurosystem balances (in the case of the Banco de España, an intra-Eurosystem claim).

The **treasury service** provided to the Treasury (and to other public institutions and bodies) is performed through accounts opened at the Banco de España recorded on the liability side of the balance sheet under euro-denominated liabilities to other euro area residents.

The Banco de España also manages its own euro-denominated **financial assets**, comprising debt securities. These are recorded under the "Euro-denominated own funds portfolio" on the asset side of the balance sheet.

² TARGET2 is the platform owned and operated by the Eurosystem for processing large-value payments in euro in real time. It is used both by European Union central banks and commercial banks to make transactions, on their own behalf or on behalf of their customers.

Schema 4.1 depicts the simplified balance sheet.

Between 2018 and 2022 the Banco de España's balance sheet grew considerably, increasing by more than €320 billion (43%). The main reason for this growth, observed since 2015, is the ECB's expansionary monetary policy implemented via the "non-standard measures". Among other actions, this policy led to the provision of abundant long-term liquidity to credit institutions and the launch of various asset purchase programmes. 2020 and 2021 were characterised by significant annual increases (of 38% and 19% respectively), arising from the intensity of the measures taken by the ECB to respond to the economic crisis triggered by the global coronavirus pandemic and to mitigate its effects. However, in 2022 the expansionary trend seen in the balance sheet was interrupted. In view of the unexpected and extraordinary rise in inflation, the ECB initiated a process of monetary policy

Figure 4.1

SIMPLIFIED BALANCE SHEET OF THE BANCO DE ESPAÑA AS AT 31 DECEMBER 2022

ASSETS		LIABILITIES	
Gold and foreign currency-denominated assets	92,478	Banknotes in circulation	172,460
Euro-denominated own funds portfolio	27,434	Deposits held by credit institutions	247,502
Lending related to monetary policy	133,904	Intra-Eurosystem liabilities	500,881
Securities held for monetary policy purposes	623,962	Other liabilities	84,696
Intra-Eurosystem claims (banknotes)	173,406	Financial resources	60,608
Other assets	14,963		
TOTAL	1,066,148	TOTAL	1,066,148

€m

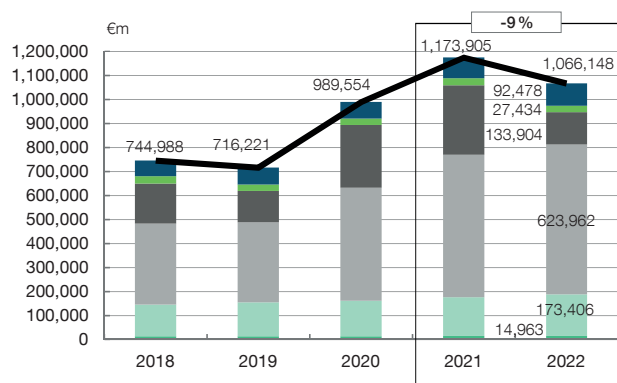
SOURCE: Banco de España.

Chart 4.1

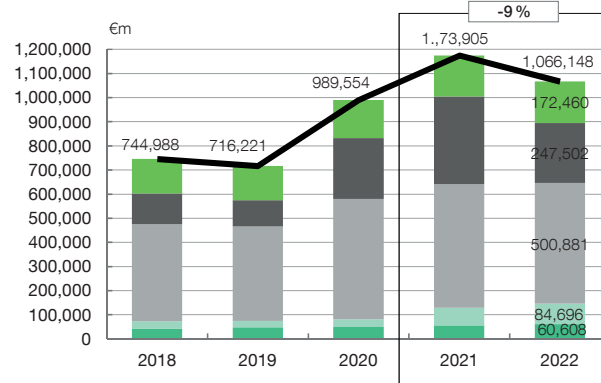
BALANCE SHEET OF THE BANCO DE ESPAÑA

The main asset and liability headings are analysed in greater detail below. The chart depicts the changes in the asset and liability sides of the balance sheet over the last five years.

1 ASSETS



2 LIABILITIES



SOURCE: Banco de España.

normalisation, raising key interest rates and adjusting a number of other parameters of the monetary policy operations in place.

On the **asset side** of the Banco de España's balance sheet, the aforementioned expansionary measures were directly reflected in a considerable increase in the items "Monetary policy loans" and "Monetary policy portfolio". Meanwhile, over the same period, on the **liability side**, "Deposits held by credit institutions" and "Intra-Eurosystem liabilities (net TARGET2 balance)" also increased. Chart 4.1 reflects the changes in the Banco de España's balance sheet over the last five years. However, the new restrictive monetary policy stance adopted since mid-2022 led to a reduction in the size of the balance sheet by 9% compared with 2021. This reduction has mainly been concentrated in "Monetary policy loans" on the asset side and "Deposits held by credit institutions" on the liability side. A similar reduction (of a proportionately lesser amount) can be seen in the Eurosystem's balance sheet as a whole.

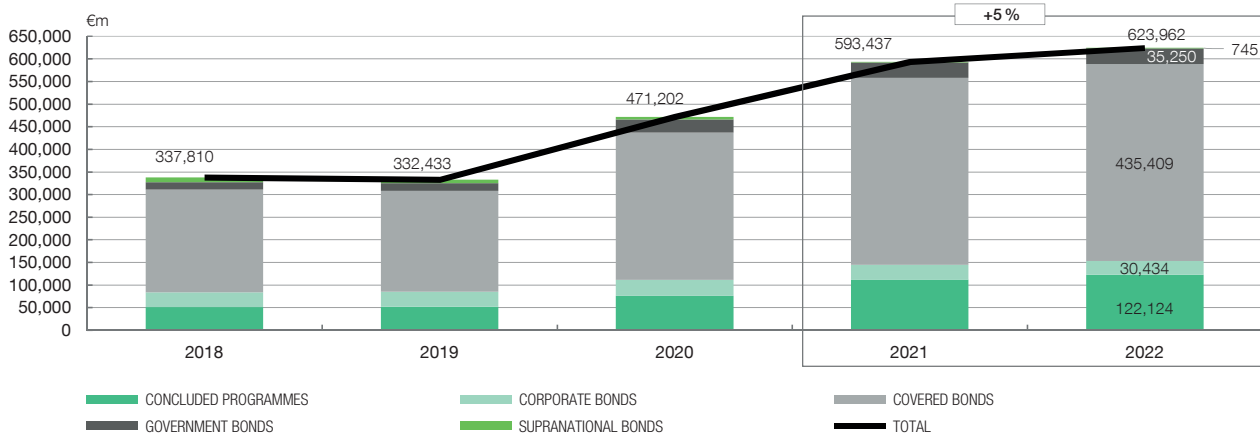
1.1 Assets

At the 2022 close, the monetary policy portfolio accounted for more than half (59%) of the Banco de España’s total assets. The assets purchased under the various Eurosystem asset purchase programmes, which form part of the non-standard monetary policy measures, are recognised under the related balance sheet heading. These programmes have been launched at various times since 2009. Each one is aimed at a specific type of security and all are issued by euro area residents. Chart 4.2 depicts the changes in this heading over the last five years.

The **asset purchases** made as part of these monetary policy decisions are performed by the Eurosystem national central banks in accordance with the principle of decentralised implementation. Since 2015 the Banco de España has made sizeable purchases under these programmes and, at end-2022, its holdings totalled €623,962 million.³ These assets were acquired under the APP, launched in 2014, and the PEPP, launched in 2020 in response to the pandemic. In 2022 the Governing Council of the ECB resolved to end net purchases of securities under both programmes, with reinvestment of the principal of maturing securities being continued in both cases.

In the case of the APP, partial reinvestments will begin from March 2023 onwards, so that holdings of these securities will be gradually reduced.

Chart 4.2
SECURITIES HELD FOR MONETARY POLICY PURPOSES

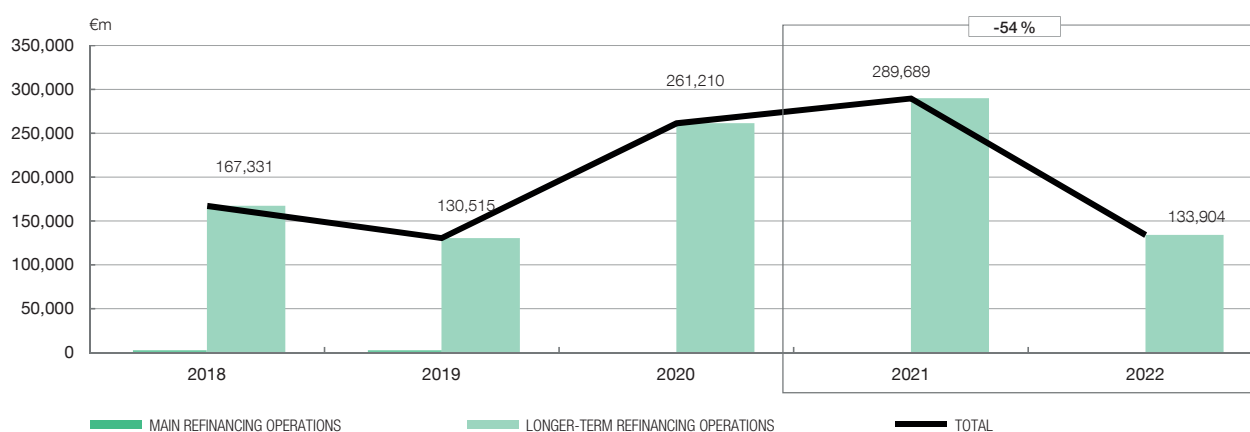


SOURCE: Banco de España.

³ For detailed information, see Note 7(a) to the balance sheet in the *Annual Accounts of the Banco de España*.

Chart 4.3

LENDING RELATED TO MONETARY POLICY OPERATIONS



SOURCE: Banco de España.

Monetary policy loans accounted for 13% of the Banco de España's total assets at the end of 2022, with the balance standing at €133,904 million (10% of the Eurosystem total). In 2020 and 2021, in the wake of the pandemic, the demand for credit by Spanish institutions was significant. In 2022, however, there was a considerable decrease in their balance (€155,785 million, or -54%) as a consequence of the maturity of several operations and, in particular, the early repayments made by institutions (see Chart 4.3).

The full amount of this balance over the last three years corresponds to long-term loans to Spanish credit institutions, most of which were granted under the third issue of the "targeted refinancing operations" (TLTRO III). By contrast, the main refinancing operations, through which banks are provided with weekly funding and which historically accounted for a major part of the liquidity injection, have become of scant importance in recent years.

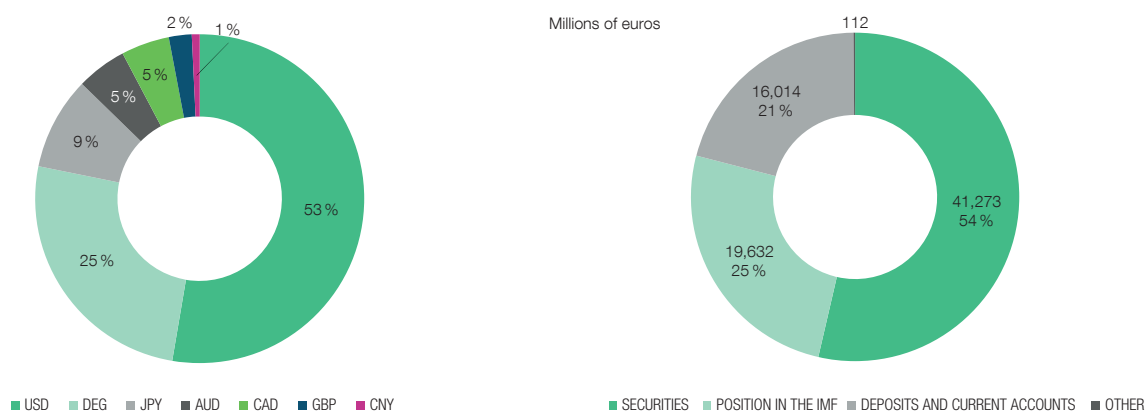
The **TLTRO III**⁴ loans were awarded through quarterly auctions between September 2019 and December 2021, and provided funding to banks for three-year periods. The loans were granted on attractive terms and conditions for banks, in order to stimulate bank lending to the real economy. However, at the end of 2022, the Governing Council of the ECB decided, as part of the monetary policy measures taken to restore price stability over the medium term, to revise the remuneration thereon, rendering it less attractive to institutions. As mentioned above, this prompted banks to make the significantly high early repayments (around €130 billion)⁵. Despite the return to positive interest rates in the latter months of the year, the average rate applied to these loans in 2022 remained in negative territory (-0.51%), which generated interest expenses of close to €1,500 million.

⁴ More information on [TLTROs](#) can be found on the ECB's website.

⁵ For more information, see Note 6(b) to the balance sheet in the *Annual Accounts of the Banco de España*.

Chart 4.4

BREAKDOWN OF CLAIMS DENOMINATED IN FOREIGN CURRENCY, BY CURRENCY AND BY TYPE OF INSTRUMENT, AS AT 31 DECEMBER 2022



SOURCE Banco de España.



For more information on the asset purchase programmes and monetary policy operations, see [Section 2 of Chapter 2](#) of this Report.

Claims denominated in foreign currency mainly comprise assets denominated in US dollars, special drawing rights (SDRs), Japanese yen, Australian dollars, Canadian dollars, pounds sterling and Chinese renminbi. The composition of these assets by currency has remained relatively stable over recent years, with the US dollar being the main component. As regards their composition by type of instrument, claims denominated in foreign currency mainly consist of debt securities, mostly denominated in US dollars (see Chart 4.4).

The Banco de España's holdings of **gold and gold receivables** are also recorded on the asset side of its balance sheet. Between 2018 and 2022, the holdings of ounces of fine gold remained stable (9.054 million troy ounces), while the market price showed an upwards trend. The market value at end-2021 was €15,446 million.

Lastly, the Banco de España has a series of euro-denominated financial assets that are not held for monetary policy purposes and are recorded as the **euro-denominated own funds portfolio**. These investments consist in their entirety of debt securities, 79% of which are issues made by Spanish residents and the remaining 21% issues made by residents of other euro area countries. This heading, which has been quite stable in recent years, totalled €27,434 million at end-2022. These investments are managed in such a way that there is no interference with the asset purchases made for monetary policy purposes.

1.2 Liabilities

On the liability side, the non-standard monetary policy measures have had an impact on the two balancing items: **the balances of the** “Intra-Eurosystem liabilities (net TARGET2 balance)” and “Deposits held by **credit** institutions”. The new monetary policy stance has also begun to be reflected in these accounts.

Chart 4.5 illustrates the overall change in the asset items in which these measures have materialised and in the two aforementioned liability items, and the clear relationship between them.

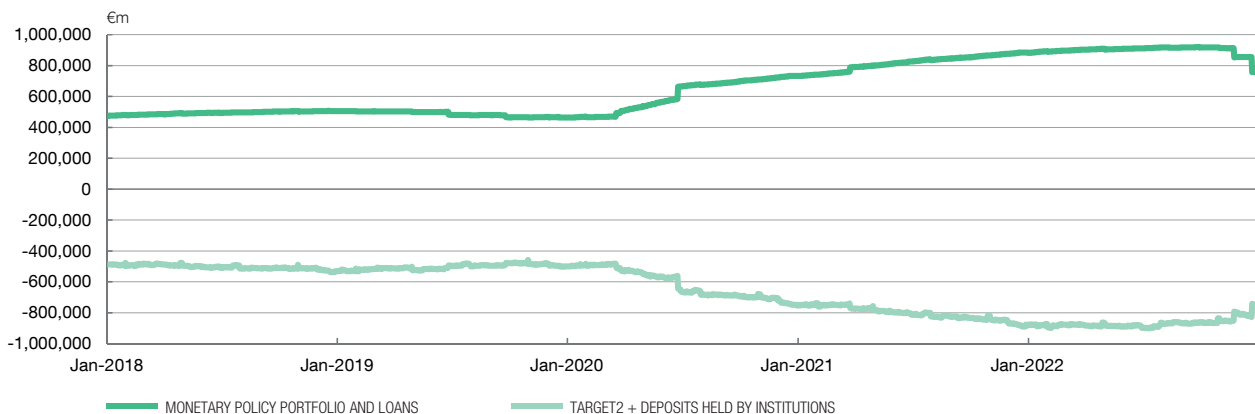
At end-2022, deposits held by credit institutions accounted for 28% of liabilities, and intra-Eurosystem liabilities (net TARGET2 balance) 47%.

Deposits held by credit institutions include the current accounts in which they keep their minimum reserve requirements and the overnight deposits made under the deposit facility. Until 2016, a large portion of these deposits corresponded to the minimum reserve requirements for institutions. In the following years there was a steady increase in the level of these deposits, reflecting excess liquidity in the system. However, in the latter part of 2022 there was a notable drop off, mainly as a result of institutions’ (mostly early) repayments of monetary policy loans. At end-2022, these deposits stood at €247,502 million (€117,017 million less than in 2021).⁶ The changes in this connection can be seen in Chart 4.6.

The balance of intra-Eurosystem liabilities basically reflects the net position of the Banco de España vis-à-vis the Eurosystem for transfers made through TARGET2.

Chart 4.5

MONETARY POLICY ASSETS AND LIABILITIES



SOURCE: Banco de España.

⁶ For more information, see Note 15 to the balance sheet in the *Annual Accounts of the Banco de España*.

Chart 4.6

DEPOSITS HELD BY CREDIT INSTITUTIONS

SOURCE: Banco de España.

The balance thereof has risen from around €370 billion at the beginning of 2018 to just over €500 billion at the end of 2022.

Since 2015 the central banks' net TARGET2 balances have been linked to the monetary stimulus measures adopted by the ECB (primarily the implementation of the above-mentioned asset purchase programmes).

Banknotes in circulation on the liability side of the balance sheet reflect the share of the total value of euro banknotes put into circulation by the Eurosystem that is allocated to the Banco de España, in accordance with its banknote allocation key.⁷ The difference between this amount and the banknotes actually put into circulation by the Banco de España is recorded under "Intra-Eurosystem claims – Net claims related to the allocation of euro banknotes within the Eurosystem".⁸ In the case of the Banco de España, this account is shown under intra-Eurosystem claims. This difference is recorded on the asset side of the balance sheet, since it puts fewer banknotes into circulation than its share of total euro banknotes in circulation in accordance with the aforementioned allocation key.

1.3 Financial resources

The Banco de España's financial resources consist of its capital and reserves, general provisions and revaluation accounts.

⁷ The banknote allocation key is the result of applying 92% to the Eurosystem subscribed capital key (the other 8% is allocated to the ECB). At end-2022 the Banco de España's banknote allocation key was 10.97%.

⁸ For further information on risk management at the Banco de España, see section 3.5 of the Notes to the *Annual Accounts of the Banco de España*.

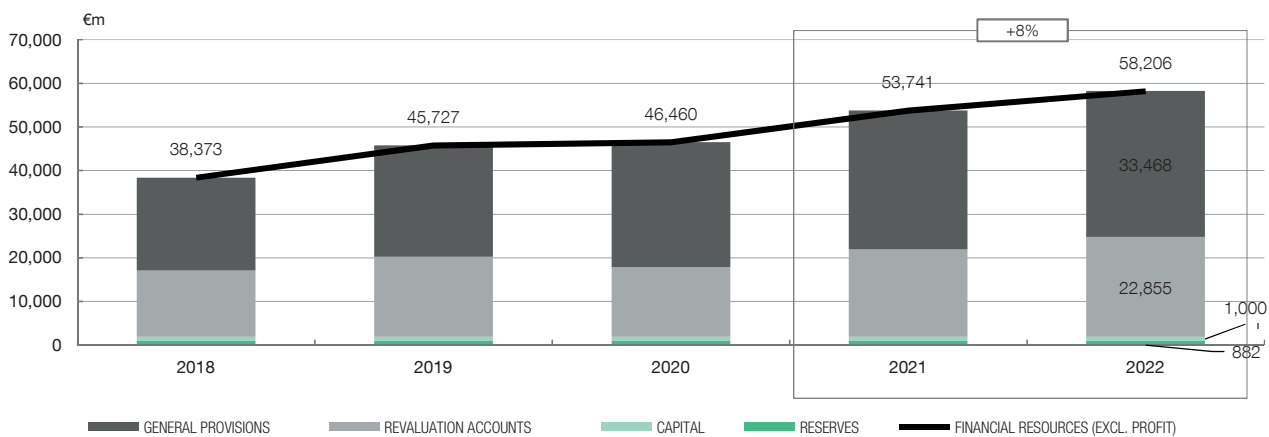
In the period 2018-2022, the Banco de España's financial resources grew continuously (see Chart 4.7).

The **general provisions** include the provision for financial risk and the provision for operational risk. The balance of these provisions is reviewed annually on the basis of the Banco de España's assessment of its exposure to these risks, using methodologies consistent with those used by the Eurosystem.⁹ The provision for financial risk has risen in recent years, carried out within the framework of a prudent risk management policy in view of the inherent higher exposure to the growth in the balance sheet (specifically, on account of the asset purchases made under the Eurosystem's monetary policy programmes).

As regards the **revaluation accounts**, in accordance with Eurosystem accounting rules, unrealised gains (the difference between the market value and the carrying amount) on gold, foreign currencies and securities that are subject to price revaluation are not recognised as income in the profit and loss account, but are recorded directly in revaluation accounts on the liability side of the balance sheet. The balances in these accounts can be used to absorb the impact of any future unfavourable movement in prices or exchange rates. This strengthens the Banco de España's resilience to underlying risks. The balance on the revaluation accounts has risen, albeit not consistently, in recent years, since it is strongly linked to movements in exchange rates and in the price of gold (see Chart 4.8).

Chart 4.7

FINANCIAL RESOURCES (EXCLUDING PROFIT)

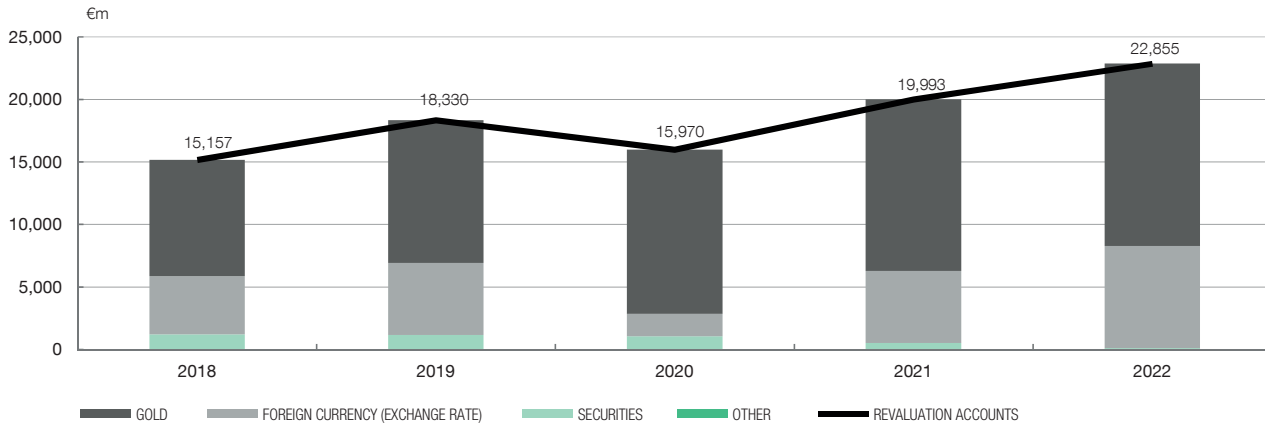


SOURCE: Banco de España.

⁹ For further information on risk management at the Banco de España, see section 3.5 of the Notes to the *Annual Accounts of the Banco de España*.

Chart 4.8

REVALUATION ACCOUNTS



SOURCE: Banco de España.

In 2022 the revaluation accounts grew significantly (14%) compared with 2021, essentially as a result of appreciation of the US dollar against the euro.

Lastly, capital and reserves totalled almost €1.9 billion at end-2022, remaining basically unchanged since 2006.

2 PROFIT AND LOSS ACCOUNT

In the exercise of its functions, the Banco de España obtains income and incurs certain expenses. Historically, this activity has generated positive earnings.

The Banco de España's yearly profit is transferred in full to the Treasury, such that the earnings from its activity benefit the general public overall.

2022 was a year of transition from a scenario of negative interest rates to one of positive rates, with considerable rises within a short period of time. This new context will bring important changes to the Banco de España's profit and loss account (as well as to those of the other national central banks of the Eurosystem and the ECB). The rapid increase in key interest rates has had an immediate impact on the cost of the liabilities of all the national central banks, since most of them are on demand. However, on the asset side (in particular the monetary policy portfolio, which comprises low-yield securities with long maturities), the move towards (higher) market rates will be rather slower. This scenario places the Banco de España (and other national central banks) in a foreseeable loss-making situation at short and medium term. In the case of the Banco de España, this did not come about in 2022, but is expected to do so in 2023, temporarily, although the situation could become prolonged depending on the changes in rates.

As indicated in the previous section on financial resources, the Banco de España has sufficient financial buffers to enable it to meet these potential losses comfortably, offsetting them and obtaining zero accounting profit or loss, without its financial strength being compromised.

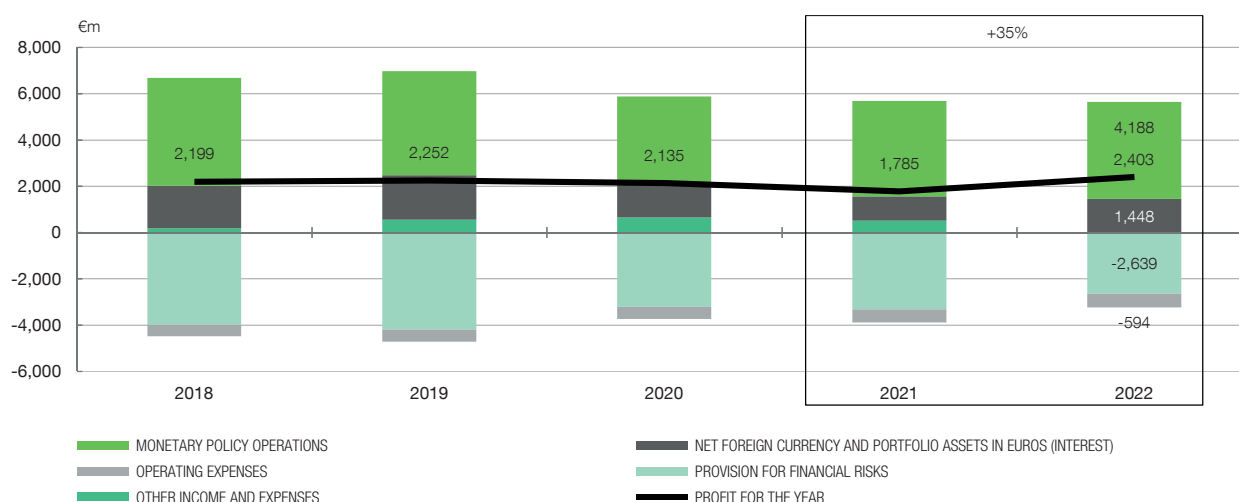
It should be noted that monetary policy is designed to meet the ECB's ultimate objective, which is to maintain price stability in the euro area, irrespective of the impact it may have on the financial profit or loss of the national central banks. Also, national central banks are not ordinary companies, so they can make losses and continue to operate efficiently, without affecting their ability to execute monetary policy effectively.

The earnings of the Banco de España in 2022 remained positive, and reached €2,403 million (up 35% on 2021). Chart 4.9 shows the composition of the Banco de España's profit and loss account and how it has evolved over the last five years.

In the period under review (2018-2022), the earnings generated by **monetary policy operations** are of particular importance. These operations comprise the monetary policy portfolio, monetary policy loans, deposits held by credit institutions and intra-Eurosystem accounts (claims and liabilities, and the

Chart 4.9

PROFIT OF THE BANCO DE ESPAÑA



SOURCE: Banco de España.

redistribution of monetary income among the national central banks of the Eurosystem generated by these operations).

The evolution of these earnings is shown in Chart 4.10.

As a whole, they represent a net profit of €4,188 million in 2022, a slight increase of €67 million over 2021.

In 2022 interest from the “Monetary policy portfolio” continued to be predominant, constituting the largest component (€6,559 million for the year as a whole).

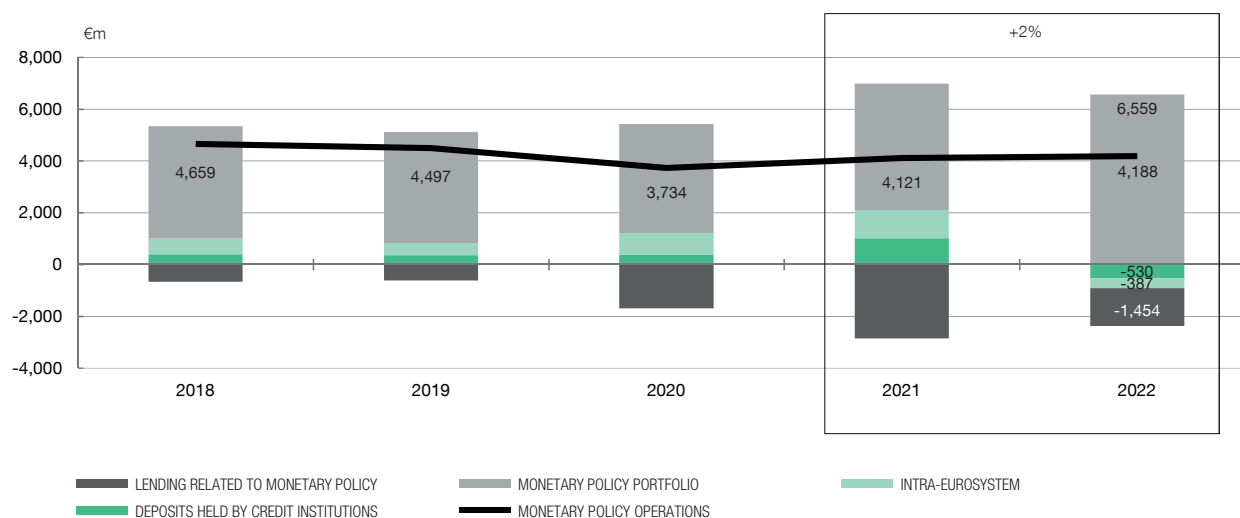
As regards “Monetary policy loans” (long-term loans granted to credit institutions), at end-2022 the Governing Council of the ECB agreed on an adjustment of their remuneration conditions to ensure consistency with the process of monetary policy normalisation. For the year as a whole, these loans generated interest expenses (€1,454 million), albeit significantly lower than in 2021.

The remuneration of “Deposits held by credit institutions” is directly linked to key rates and, therefore, the rapid increase therein from July 2022 resulted in the recording of interest expenses in 2022 (€530 million), as opposed to the income obtained in previous years.

“Intra-Eurosystem accounts” includes the remuneration of claim accounts (basically for the adjustment of banknotes to the allocation key) and liability accounts (basically for TARGET2 operations), as well as the redistribution of monetary income.

Chart 4.10

RESULT OF MONETARY POLICY OPERATIONS



SOURCE: Banco de España.

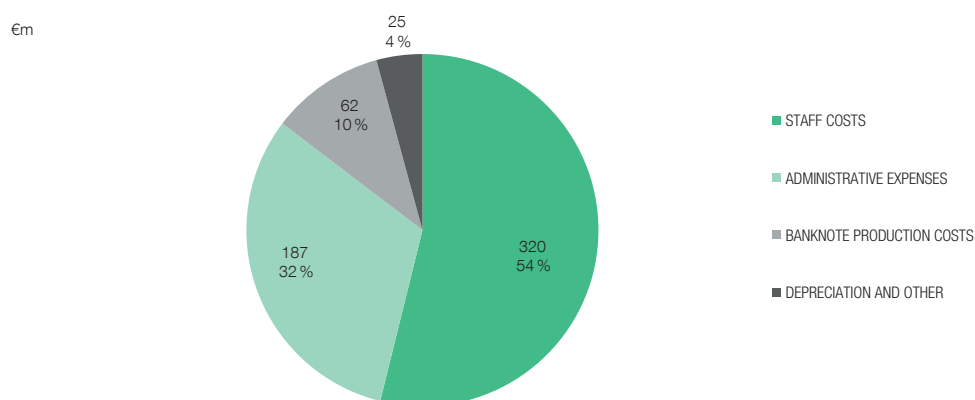
This redistribution refers to the mechanism put in place by the Eurosystem for the distribution of the income and expenses generated by all monetary policy assets and liabilities (specifically, those classified as income and risk-sharing), so that the total income and expenses obtained in the Eurosystem are distributed on an annual basis according to the respective ECB capital key, irrespective of the central bank that has them on its balance sheet. Intra-Eurosystem items as a whole resulted in a loss of €387 million.¹⁰ This loss for the Banco de España basically reflects the fact that the net income generated by its monetary policy assets and liabilities was higher than that corresponding to it, according to its subscribed capital key, in the overall net income of the Eurosystem.

In addition to the profit or loss on monetary policy operations, the following items are of particular note in the composition and development of the profit and loss account.

Income from the **Bank's own investments** (net foreign currency assets and euro portfolio) amounted to €1,448 million, up on 2021 as a result of the higher returns thereon.

¹⁰ The difference between the net income generated by the Banco de España's monetary policy assets and liabilities (€4,575 million) and that which actually corresponds to it according to its share in the overall net income generated in the Eurosystem (€4,003 million) involves the transfer of the excess from the Banco de España to the ECB (€572 million), this amount being partially offset by the Banco de España's share in the net interest paid by the ECB on its intra-system accounts (€185 million). The difference between these two amounts (€387 million = €572 - €185) corresponds to the net amount transferred by the Banco de España to the ECB during the period.

Chart 4.11

OPERATING EXPENSES OF THE BANCO DE ESPAÑA IN 2022

SOURCE: Banco de España.

The **amount of the provision for financial risks** is approved by the Executive Commission of the Banco de España on the basis of previously defined criteria. For 2022, this provision was €2,639 million.

The **operating expenses** incurred by the Banco de España to discharge its functions are recorded under “Total operating expenses”. This heading includes banknote production costs and depreciation of fixed assets (see Chart 4.11).



For more information on the balance sheet and profit and loss account, see the Annual Accounts of the Banco de España on the institution's [website](#).

PROCESS OF PREPARING AND APPROVING THE ANNUAL ACCOUNTS OF THE BANCO DE ESPAÑA

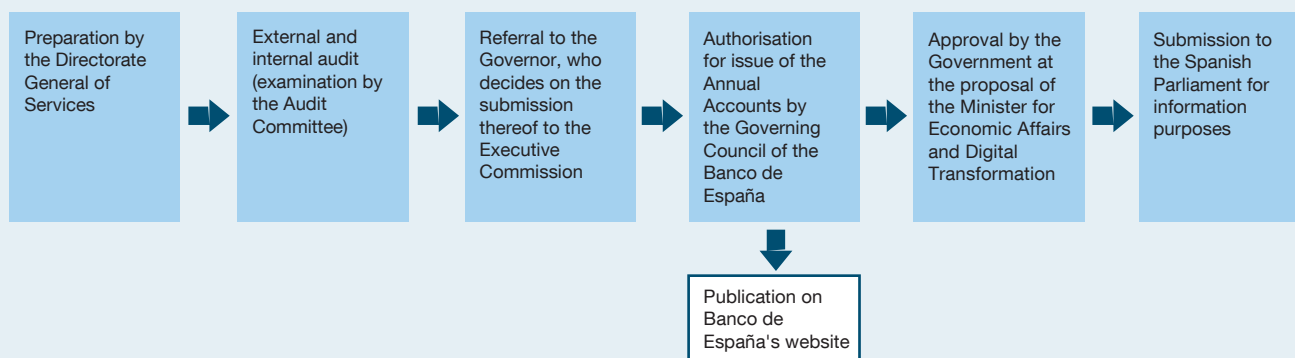
The Banco de España prepares the annual accounts, which, as established in Article 29.1 of its Internal Regulations, comprise the balance sheet, the profit and loss account and notes on the accounts. They also include a report by the external auditors and a report by the Bank’s Audit Committee. The accounting close coincides with the calendar year.

At year-end, the annual accounts are prepared by the Directorate General of Services, through the Procurement Department. The accounts are prepared in accordance with the internal accounting rules and principles of the Banco de España. These rules and principles are, in turn, based on the accounting rules established for the national central banks of the European System of Central Banks (ESCB), pursuant to Article 26.4 of the Statute of the ESCB, on the standardisation of accounting and reporting procedures for operations

undertaken by national central banks. In cases not covered by Eurosystem accounting rules, the Banco de España applies its own internal rules, based on generally applicable accounting principles, adapted to the special characteristics of the operations and functions of a central bank.

Once the annual accounts have been prepared, they are reviewed by the Internal Audit Department and analysed and examined by the Audit Committee appointed for this purpose by the Bank’s Governing Council. They are also audited by independent external auditors.

The Government, on the proposal of the Minister for Economic Affairs and Digital Transformation, is responsible for approving the Bank’s balance sheet and accounts for the financial year, which are then submitted to Parliament for its information.



SOURCE: Banco de España.

3 OPERATIONAL AND FINANCIAL RISK

In the pursuit of its activity the Banco de España is exposed to financial and operational risks. These may have a financial or reputational impact or may affect its ability to attain its objectives.

The Banco de España's risk management policy aims to maintain a low and predictable overall risk level, to preserve its reputation and solvency, without detriment to compliance with its statutory tasks under its Law of Autonomy or to the fulfilment of its objectives.

In 2022 the Bank's operational risk profile remained stable and even a slight improvement could be appreciated. The measures introduced in response to the pandemic and those stemming from the cybersecurity framework proved effective, thereby contributing to the stability of the profile. Of particular note is the progress of mitigation plans that contribute to the improvement of the control environment. The current context of great uncertainty has so far not been reflected in the risk review conducted, although it raises concerns about the possible effects on the internal and external root causes of the risks.

As regards financial risk, in 2022 the risk of both the own funds portfolio and the monetary policy portfolio remained stable in relative terms, while in absolute terms it continued to increase as a consequence of the asset purchase programmes. In parallel, provisions were recorded to increase the financial hedges in place to cover the risks assumed.

Lastly, the Banco de España's in-house credit assessment system (ICAS BE)¹¹ continued to facilitate the use of loans as collateral in monetary policy operations. This was particularly important during the COVID-19 crisis.

¹¹ For more detail see Sergio Gavilá, Alfredo Maldonado and Antonio Marcelo. (2020). "The Banco de España in-house credit assessment system". Financial Stability Review, Issue 38, Banco de España