

9. FINANCIAL STATEMENTS

9.1. Presentation and proposal for the distribution of results

For the purposes of Article 54 of the Organic Law of Banco de Portugal, this Report presents the financial statements for the year 2008 (see sections 9.2. and 9.3.).

The annual accounts of the Bank were audited by external auditors, pursuant to the provisions laid down in Article 46 of the Organic Law of Banco de Portugal (see section 9.4.). In accordance with the provisions of Article 43, the Board of Auditors prepared a report and issued an opinion on the financial statements (see section 9.5.). The Advisory Board reviewed and issued a favourable opinion on the Bank's accounts.

Main changes in the composition of the balance sheet

The table below shows the developments in the year-end positions of the main items of the balance sheet of Banco de Portugal in the 2003-2008 period:

		EUR million					
BALANCE SHEET OF BANCO DE PORTUGAL Year-end positions							
		2003	2004	2005	2006	2007	2008
ASSETS		29,622.82	30,723.20	36,355.31	32,745.00	38,670.36	50,675.54
Gold		5,492.99	4,779.22	5,836.54	5,936.88	6,988.96	7,644.26
Foreign reserve assets (net)		13,569.09	14,043.68	14,725.00	14,959.12	14,932.30	14,739.13
Foreign currency		3,758.86	4,183.50	3,167.16	2,342.80	1,480.40	938.64
Euro (trading portfolio)		9,810.23	9,860.18	11,232.28	8,585.76	9,374.81	9,179.42
Euro (medium-term investment portfolio)		-	-	325.55	4,030.56	4,077.08	4,621.07
Claims related to swaps		2,139.77	839.01	797.11	90.29	-	-
Monetary policy operations		2,492.77	2,873.02	5,392.46	161.20	2,464.41	10,209.50
Intra-Eurosystem claims		5,228.22	7,475.51	8,903.07	10,842.37	13,405.84	16,837.73
Participating interest and transfer of foreign reserve assets to the ECB		1,057.76	1,082.11	1,082.11	1,082.11	1,088.07	1,088.07
Other intra-Eurosystem claims		4,170.46	6,393.40	7,820.96	9,760.26	12,317.77	15,749.66
Other claims		699.99	712.77	701.13	755.14	878.84	1,244.92
LIABILITIES AND EQUITY		29,622.82	30,723.20	36,355.31	32,745.00	38,670.36	50,675.54
Banknotes in circulation		9,529.66	11,386.05	12,838.88	14,270.47	15,346.13	17,253.97
Liabilities to credit institutions related to monetary policy operations		11,705.58	6,252.16	4,664.57	5,048.92	9,265.72	5,401.67
Certificates of deposit		1,053.66	-	-	-	-	-
Liabilities related to swaps		2,148.69	841.87	786.28	89.33	-	-
Intra-Eurosystem liabilities		449.78	7,717.99	11,946.45	6,601.02	6,206.15	18,952.81
Other liabilities		467.00	411.55	406.76	449.40	461.07	543.62
Provisions		2,280.21	2,232.03	2,195.20	2,062.63	1,983.98	2,156.56
Revaluation differences		1,459.83	1,162.01	2,590.67	2,935.08	3,970.97	4,787.79
Capital and reserves		459.37	649.50	806.21	1,099.67	1,154.56	1,229.89
Profit for the year		69.04	70.03	120.29	188.48	281.79	349.23

The table below summarises the change in the balances on the main items of the balance sheet of Banco de Portugal in 2008:

	EUR million	
	Assets	Liabilities
Total assets / liabilities as at 31 December 2007	38,670.36	38,670.36
Increases (+) / Decreases (-) in	12,005.18	12,005.18
Gold	655.30	
Reserve assets (net)	-193.17	
Reserve assets denominated in foreign currency	-541.76	
Reserve assets denominated in euro (trading portfolio)	-195.39	
Reserve assets denominated in euro (medium-term investment portfolio)	543.99	
Monetary policy operations	7,745.09	
Intra-Eurosystem claims	3,431.89	
Other claims	366.08	
Banknotes in circulation		1,907.84
Liabilities to credit institutions related to monetary policy operations		-3,864.05
Intra-Eurosystem liabilities		12,746.66
Other liabilities		82.55
Provisions		172.58
Revaluation differences		816.83
Capital and reserves		75.33
Profit for the year		67.44
Total assets / liabilities as at 31 December 2008	50,675.54	50,675.54

The analysis of these changes highlights those referring to monetary policy operations and those related to Banco de Portugal's position in the Eurosystem, which stem from external factors, specifically the liquidity situation in the money market and the Portuguese position in the context of developments in overall currency in circulation in the euro area.

Hence, the main change in the balance sheet of Banco de Portugal is related to a sharp increase in intra-Eurosystem liabilities (TARGET), arising to a large extent from an increase in lending monetary policy operations, with a contribution from growth in main refinancing operations and (three-month) longer-term refinancing operations. As seen in other countries, liquidity management by Portuguese credit institutions was reflected in a very high primary liquidity demand over the whole year. The increase in intra-Eurosystem liabilities also had the contribution from an ongoing decline in the amount of banknotes put into circulation by Banco de Portugal, as seen in detail ahead.

The decrease in liabilities to euro area credit institutions related to monetary policy operations was strongly influenced by the fact that the balance at the end of 2007 included a liquidity-absorbing fine-tuning operation recorded under fixed-term deposits, with no correspondence to the year under analysis (€3,150 million). It should also be noted that in terms of average balances in 2008 the balances of the current accounts of credit institutions with Banco de Portugal and of liquidity-absorbing operations grew moderately.

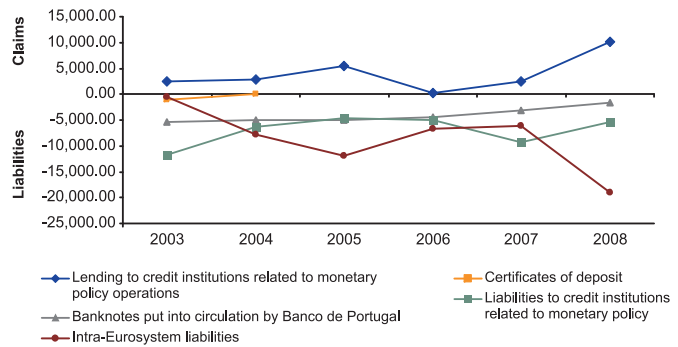
The banknote aggregate recorded on the liability side of the balance sheet of Banco de Portugal grew on an ongoing basis as of the start of circulation of euro banknotes, reflecting the increase in overall circulation at Eurosystem level. This incorporates a book-entry increase in the position relating to the adjustments provided for in Decision ECB/2001/15¹, counterbalanced by a substantial increase in partially remunerated intra-Eurosystem claims related to the allocation of banknotes (as shown in “Other intra-Eurosystem claims”).

The overall value of foreign reserve assets managed by Banco de Portugal did not undergo significant changes in 2008 compared with previous years, and impacts observed on their valuation and composition were brought about by the conditions prevailing in international financial markets and internal management decisions.

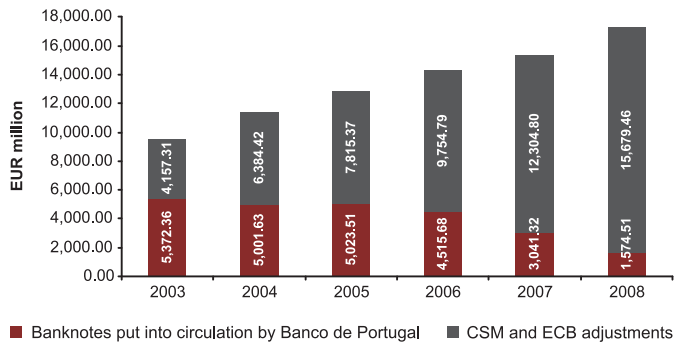
In the course of 2008 there were several exchange rate fluctuations in the major currencies in portfolio. In comparison with the values set at the end of the previous year, there was an overall depreciation of the euro. The gold quotation maintained the positive trend seen in recent years. In 2008 this was accounted for by both the increase in its price in USD and the trend of the US dollar price against the euro.

Against this background, the effects of developments in foreign exchange rates and the gold quotation on the portfolio’s revaluation translated into an increase in unrealised capital gains in relation to gold, due to the above-mentioned developments in the market price, and also into a decrease in write-downs on foreign currency, mainly as a result of the above-mentioned depreciation of the euro.

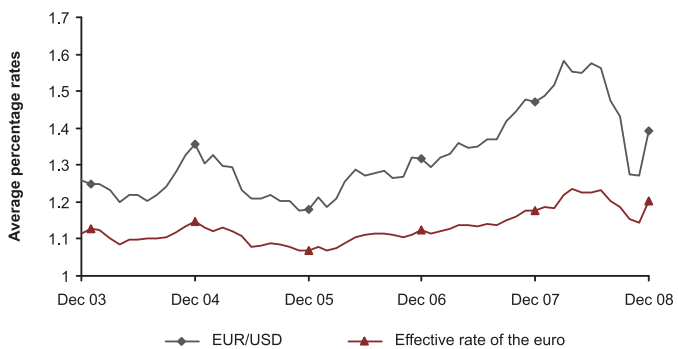
MONETARY POLICY AND INTRA-EUROSYSTEM LIABILITIES



BANKNOTES RECORDED IN THE BALANCE SHEET OF BANCO DE PORTUGAL

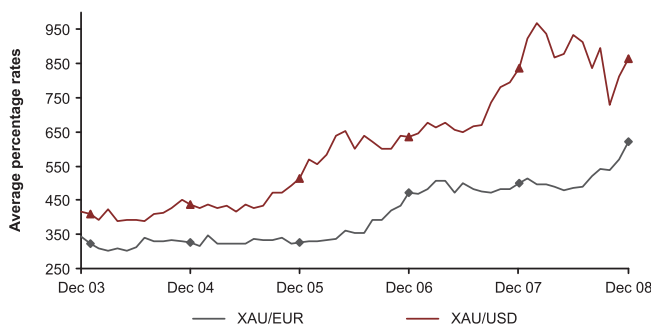


EXCHANGE RATE DEVELOPMENTS | EUR/USD AND EFFECTIVE RATE OF THE EURO

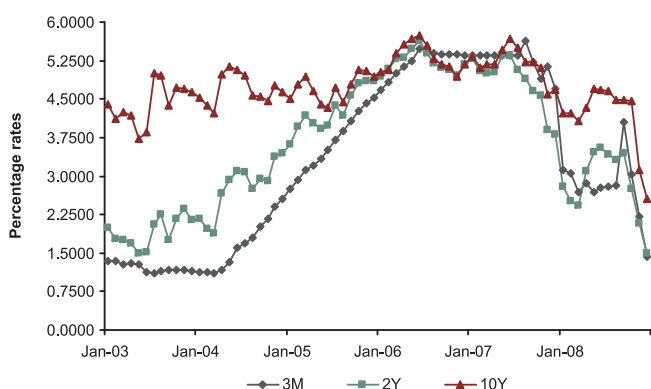


(1) As amended by Decisions ECB/2003/23, ECB/2004/9 and ECB/2006/25.

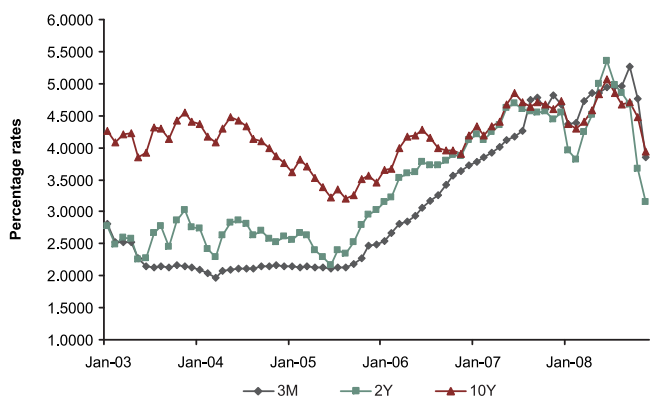
GOLD QUOTATION



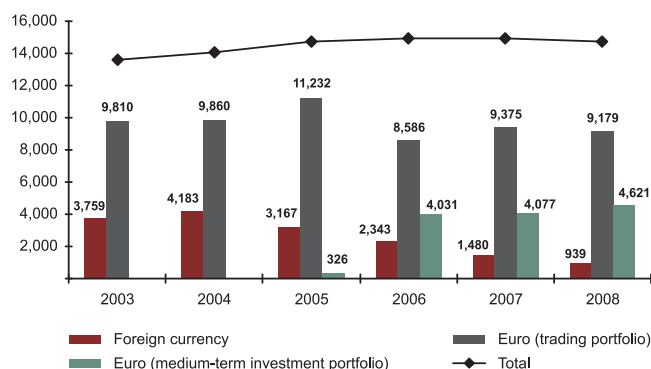
US DOLLAR INTEREST RATES



EURO INTEREST RATES



RESERVE ASSETS (NET)



As far as the pattern of euro market yields is concerned – a rather significant part of the Bank’s financial investments is denominated in euro, being therefore immune to unfavourable exchange rate developments – their behaviour was also quite heterogeneous throughout 2008. However, at end-2008 they stood below the values recorded in the previous year. Joined with the fact that the Bank’s portfolio is mostly comprised of fixed-rate securities and with the increase in the volume of this portfolio (to the detriment of a decline in deposits and other investments), this had a positive impact on unrealised capital gains from the valuation of securities prices while lowering write-downs.

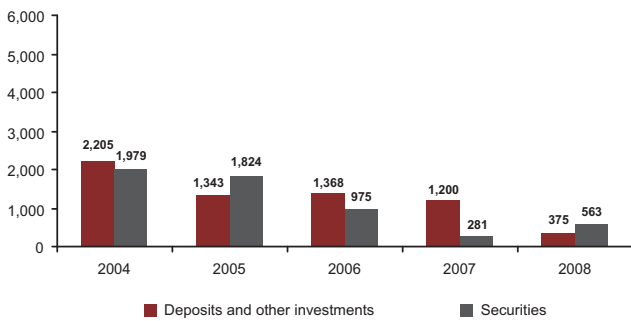
In accordance with the Eurosystem’s accounting rules, write-downs (related to foreign exchange rates and securities) were recognised as losses for the year.² Pursuant to the provisions of the Chart of Accounts of Banco de Portugal, these losses have been covered by the respective provisions (see Note 24 of section 9.3. Notes on the financial statements).

With regard to the Bank’s decisions on internal reserve asset management, there has been an ongoing reduction in the value of assets denominated in foreign currency – continuing to follow the downward trend of foreign exchange rate risk started in 2003 – against a reinforcement of euro-denominated assets. More specifically, in 2008 there was a reinforcement of the medium-term investment portfolio managed on a buy and hold basis and valued at historical cost.

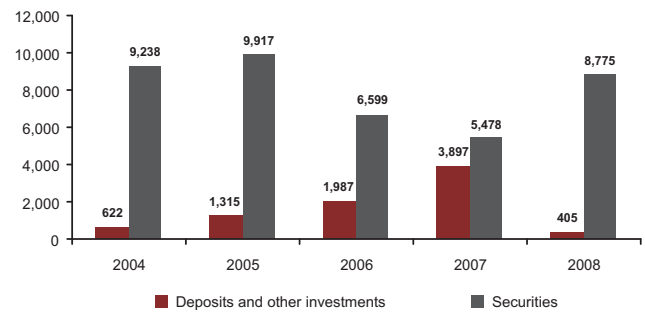
In terms of the composition by instrument of reserve assets, in 2008 trading portfolios denominated in foreign currency and euro reversed the trend observed until 2007. This translated into an increase in securities portfolios and a decline in balances with banks, loans and other assets.

(2) By contrast, according to these rules, unrealised capital gains remain in revaluation accounts, and are not considered in the profit and loss account.

COMPOSITION OF THE TRADING PORTFOLIO IN FOREIGN CURRENCY



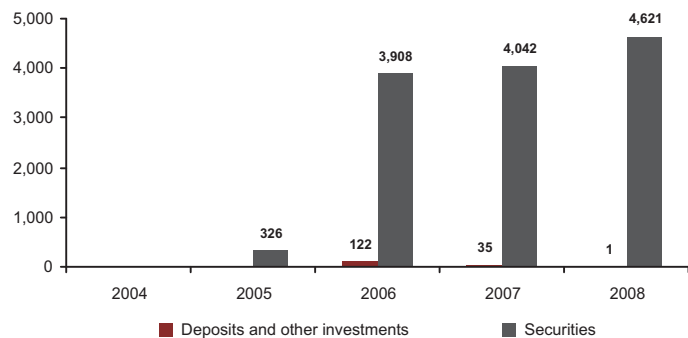
COMPOSITION OF THE EURO TRADING PORTFOLIO



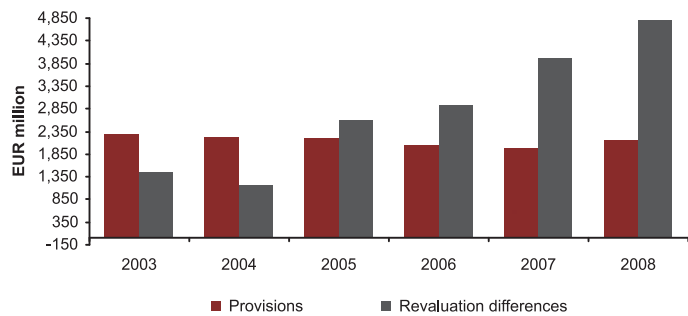
In turn, the medium-term investment portfolio denominated in euro continues to be almost totally composed of securities, with fixed-term deposits playing a very minor role.

In 2008 Banco de Portugal's "Own resources" (in broad terms "Capital and reserves", "Provisions" and "Revaluation differences") presented an overall increase of €1,065 million, which had an important contribution from an increase in positive gold revaluation differences. This change in "Own resources" was due, inter alia, to an increase in "Capital and reserves" resulting from the allocation of 2007 results and, conversely, to movements in retained earnings related to the recognition of (i) liabilities vis-à-vis the Pension Fund, in the context of the adoption of IAS 19 at end-2005 and (ii) deferred tax assets for situations observed in the balance sheet in previous years.

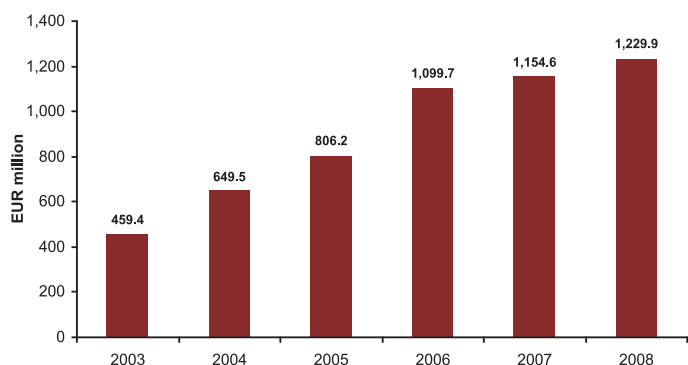
COMPOSITION OF THE MEDIUM-TERM INVESTMENT PORTFOLIO



PROVISIONS AND REVALUATION DIFFERENCES



CAPITAL AND RESERVES



Developments in the profit and loss account

The main components of the profit and loss account from 2003 to 2008 are shown in the table below:

	EUR million						Change
	2003	2004	2005	2006	2007	2008	2007 - 2008 Value
Interest margin	141.03	185.07	244.99	351.00	538.22	660.24	122.02
Interest income	492.74	495.64	614.06	824.60	1,078.18	1,403.04	324.85
Interest expense	-351.71	-310.58	-369.07	-473.59	-539.96	-742.80	-202.84
Realised gains/losses arising from financial operations	-21.05	210.47	230.13	277.34	-45.35	63.54	108.89
Write-downs on financial assets and positions	-130.66	-43.21	-35.72	-52.07	-41.06	-13.73	27.33
Transfers from/to provisions for foreign exchange rate and price risks	446.40	82.08	-109.86	135.80	83.66	-172.58	-256.24
Income from equity shares and participating interests	16.65	2.27	2.77	2.43	2.46	32.00	29.54
Net result of pooling of monetary income	13.15	-24.71	5.59	5.47	12.97	40.55	27.58
Total administrative expenses	-151.30	-157.44	-166.00	-166.82	-163.42	-162.46	0.96
Staff costs	-105.32	-109.01	-116.72	-166.35	-115.90	-116.68	-0.79
Supplies and services from third parties	-31.23	-32.48	-33.37	-35.69	-35.51	-35.80	-0.29
Other administrative expenses	-14.75	-15.96	-15.91	-14.78	-12.01	-9.98	2.03
Transfers from/to other provisions and reserves	-194.60	-155.61	-44.18	-287.33			
Losses for impairment of assets					0.02	31.12	31.10
Other net profit/loss	-15.21	-1.99	-6.89	-6.12	-5.75	4.87	10.62
Profit/loss before taxes	104.42	96.94	120.82	259.71	381.75	483.55	101.80
Income tax – current	-35.38	-26.90	-0.53	-71.24	-99.96	-162.12	-62.16
Income tax – deferred						27.80	
Net profit/loss for the year	69.04	70.03	120.29	188.48	281.79	349.23	67.44

Profit/loss before taxes amounted to €483.55 million (31 December 2007: €381.75 million), accounting for an increase of €101.8 million from the previous year. In 2008, with the computation of deferred taxes, total income tax amounted to €134 million, with €162 million concerning current tax (for the State) and €28 million relating to profit from deferred taxes. Compared with 2007 the amount of current taxes estimated for 2008 rose by €62 million, due to an increase in taxable profit. Net profit/loss for 2008 amounted to €349 million, i.e. €67 million more than in 2007. With regard to net income, the upward trend of the interest margin continued, as a result of higher growth in assets vis-à-vis interest liabilities. Specifically, the increase of €122 million (23%) in the interest margin in 2008 reflected a considerable increase in remunerated assets (chiefly from lending to credit institutions related to monetary policy operations and the remunerated share of adjustments to banknotes in circulation), jointly with a rise in average interest rates. This widening of the interest margin was partly

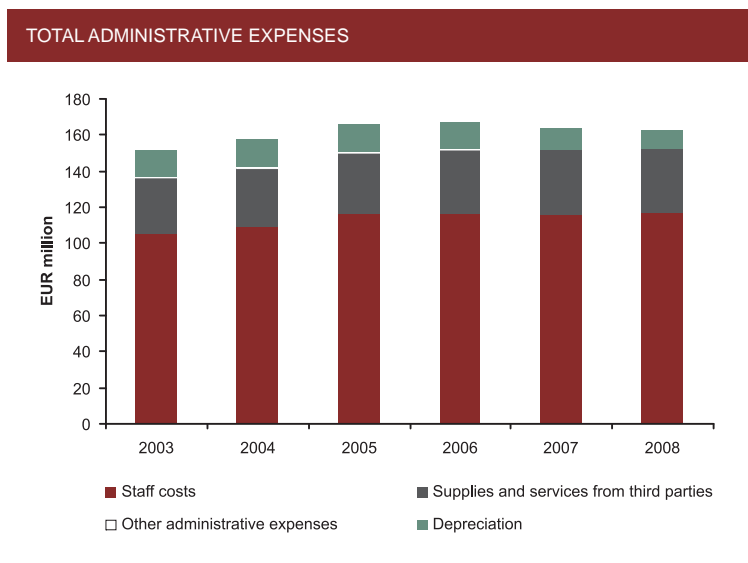
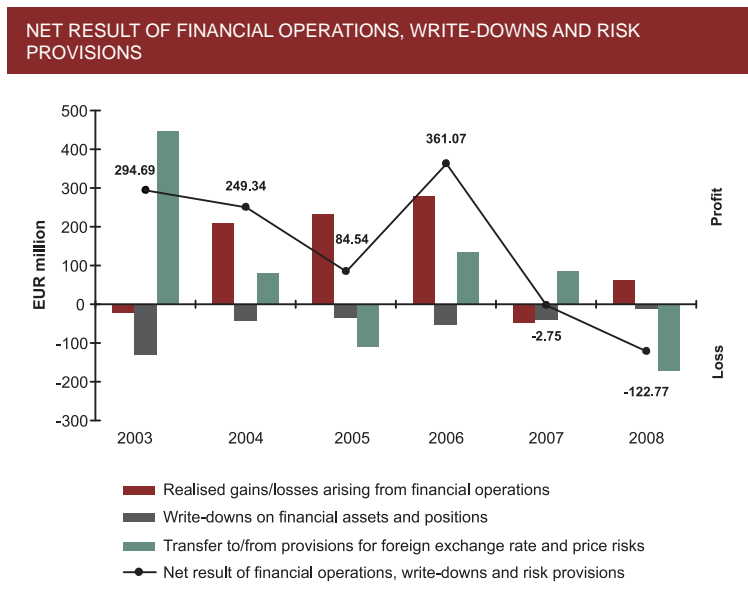
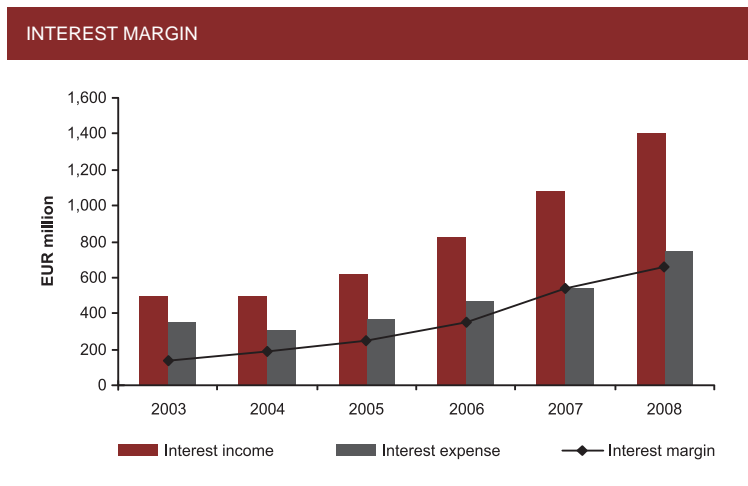
countered by an increase in the most significant share of interest liabilities, i.e. interest relating to intra-Eurosystem liabilities (TARGET), which resulted in a rise in the balance of these liabilities and in the respective rate of return.

Realised gains/losses arising from financial operations also increased considerably from 2007 (€109 million), chiefly as a result of realised gains arising from transactions in euro-denominated securities from the trading portfolio.

However, the joint balance of realised gains/losses arising from financial operations, write-downs and transfers to risk provision amounted to a negative €123 million in 2008, due to the net building-up of risk provisions.

In this context, the prudential criteria set out in the Chart of Accounts of Banco de Portugal (*Plano de Contas do Banco de Portugal – PCBP*) and the overall risk positions the Bank is exposed to were taken into consideration in year-end movements in provisions items (see Note 19). Hence, use was made of provisions for foreign exchange rate and securities price risks to cover the respective potential losses, and an additional reduction was made in the provision for foreign exchange rate risk, thus meeting its maximum limit, as established in the *PCBP*. In addition, provisions for gold price, securities price and interest rate risks were build up and a provision was established to cover risks arising from transactions with Eurosystem counterparties in monetary policy operations.

Administrative expenses in 2008 were slightly lower than in 2007 (€0.96 million less). These expenses' main item, i.e. staff costs (accounting for roughly 72% of the total), increased by only 0.7% from 2007, chiefly due to a joint effect of annual wage growth, the recognition under staff costs of income in kind paid to employees arising from IFRS implementation, and the reduction of the annual current charge relating to liabilities to the Pension Fund of Banco de Portugal. However, excluding the effect of the two latter factors, staff costs grew moderately (+2.88%), essentially reflecting the increase in pay settlements.



Supplies and services from third parties, accounting for 22% of total administrative expenses, recorded virtually nil growth, i.e. 0.8% vis-à-vis 2007, which was more than offset by a decrease in other administrative expenses.

Distribution of results

The profit for 2007 amounted to €281.79 million and was distributed as follows:

10% to the legal reserve	€28,179,060.88
10% to other reserves	€28,179,060.88

and pursuant to Decision No 292/08 of 29 April 2008 of the Minister of State and Finance, which approved the accounts for the year 2007, and to subparagraph (c) of Article 53(2) of the Organic Law of Banco de Portugal:

20% to other reserves	€56,358,121.76
60% to the State, as dividends	€169,074,365.26

According to the provisions set forth in Article 53(2) of the Organic Law, the Board of Directors has proposed that the net profit for the fiscal year of 2008, to the amount of €349.23 million, be distributed as follows:

10% to the legal reserve	€34,923,010.91
10% to other reserves	€34,923,010.91

and pursuant to sub-paragraph (c):

20% to other reserves	€69,846,021.83
60% to the State, as dividends	€209,538,065.48

Decision No 324/09 of 30 April 2009 of the Minister of State and Finance approved the accounts for the year 2008 and, pursuant to subparagraph (b) of Article 53 (2) of the Organic Law, the above-mentioned proposal for the distribution of results was also approved.

There will be an estimated further income tax payment of approximately €162.12 million.

Lisbon, 30 April 2009

BOARD OF DIRECTORS

Governor

Vítor Manuel Ribeiro Constâncio

Vice-Governors

José Agostinho Martins de Matos

Pedro Miguel de Seabra Duarte Neves

Directors

Vítor Manuel da Silva Rodrigues Pessoa

José António da Silveira Godinho

Maria Teodora Osório Pereira Cardoso

9.2. Financial statements

BALANCE SHEET OF BANCO DE PORTUGAL					
ASSETS	Note Number	31 Dec. 2008		31 Dec. 2007	
		Gross Assets	Accumulated depreciation and adjustments	Net Assets	Net Assets
1 Gold and gold receivables	2	7,644,261		7,644,261	6,988,961
2 Claims on non-euro area residents denominated in foreign currency		931,456		931,456	842,292
2.1 Receivables from the IMF	3	206,622		206,622	146,437
2.2 Balances with banks and security investments, external loans and other external assets	4	724,833		724,833	695,855
3 Claims on euro area residents denominated in foreign currency	4	7,187		7,187	638,113
4 Claims on non-euro area residents denominated in euro	5	635,309		635,309	4,043,591
4.1 Balances with banks, security investments and loans		635,309		635,309	4,043,591
4.2 Claims arising from the credit facility under ERM II					
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	10,209,500		10,209,500	2,464,413
5.1 Main refinancing operations		5,045,000		5,045,000	957,000
5.2 Longer-term refinancing operations		5,164,500		5,164,500	1,507,413
5.3 Fine-tuning reverse operations					
5.4 Structural reverse operations					
5.5 Marginal lending facility					
6 Other claims on euro area credit institutions denominated in euro	5	503		503	264
7 Securities of euro area residents denominated in euro	5	8,543,607		8,543,607	5,330,958
9 Intra-Eurosystem claims	7	16,837,729		16,837,729	13,405,842
9.1 Participating interest in ECB		100,866		100,866	100,866
9.2 Claims equivalent to the transfer of foreign reserves		987,203		987,203	987,203
9.3 Net claims arising from balances of TARGET accounts					
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		15,679,460		15,679,460	12,304,803
9.5 Claims related to other operational requirements within the Eurosystem		70,200		70,200	12,971
10 Items in course of settlement		5,638		5,638	56
11 Other assets		6,102,379	242,029	5,860,350	4,955,870
11.1 Euro area coins		39,718		39,718	34,238
11.2 Tangible and intangible fixed assets	8	256,695	158,105	98,590	93,477
11.3 Other financial assets	9	4,687,078		4,687,078	4,112,380
11.4 Off-balance-sheet instruments revaluation differences	10	6,398		6,398	11,499
11.5 Accruals and prepaid expenses	11	576,283		576,283	432,052
11.6 Sundry	12	536,206	83,924	452,282	272,225
Total depreciation			158,105		
Total adjustments			83,924		
Total assets		50,917,567	242,029	50,675,538	38,670,360
OFF-BALANCE-SHEET INSTRUMENTS			31/12/2008		31/12/2007
Collateral given			350,000		350,000
Collateral received			1,350,106		1,605,393
Off-balance-sheet instruments – purchases	30		245,932		200,019
Off-balance-sheet instruments – sales	30		245,932		200,019
Securities and other items held in custody			22,850,238		19,164,518

AS AT 31 DECEMBER 2008		EUR thousand	
LIABILITIES	Note number	31 Dec. 2008	31 Dec. 2007
1 Banknotes in circulation	13	17,253,971	15,346,127
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	5,401,670	9,265,715
2.1 Current accounts		4,831,770	6,115,715
2.2 Deposit facility		569,900	
2.3 Fixed-term deposits			3,150,000
2.4 Fine-tuning reverse operations			
3 Other liabilities to euro area credit institutions denominated in euro	14		
5 Liabilities to other euro area residents denominated in euro	15	1,048	1,494
5.1 General government		38	4
5.2 Other liabilities		1,010	1,490
6 Liabilities to non-euro area residents denominated in euro	16	3,719	8,234
7 Liabilities to euro area residents denominated in foreign currency			
8 Liabilities to non-euro area residents denominated in foreign currency			
8.1 Deposits, balances and other liabilities			
8.2 Liabilities arising from the credit facility under ERM II			
9 Counterpart of special drawing rights allocated by the IMF	3	58,908	57,266
10 Intra-Eurosystem liabilities	7	18,952,811	6,206,153
10.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates			
10.2 Net liabilities arising from balances of TARGET accounts		18,952,811	6,206,153
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem			
11 Other liabilities		479,942	394,074
11.1 Off-balance-sheet instruments revaluation differences	10	1,489	1,329
11.2 Accruals and income collected in advance	17	97,698	66,841
11.3 Sundry	18	380,756	325,904
12 Provisions	19	2,156,555	1,983,977
13 Revaluation accounts	20	4,787,792	3,970,965
14 Capital and reserves	21	1,229,892	1,154,564
14.1 Capital		1,000	1,000
14.2 Reserves		1,228,892	1,153,564
15 Profit for the year		349,230	281,791
Total equity and liabilities		50,675,538	38,670,360

HEAD OF THE CONTROL AND ACCOUNTING DEPARTMENT

Vítor Pimenta e Silva

Note: Totals/sub-totals included in the financial statements and respective notes may not add up due to rounding, since figures are presented in EUR thousand.

PROFIT AND LOSS ACCOUNT		EUR thousand	
ITEMS	Note number	31 Dec. 2008	31 Dec. 2007
1 Interest income		1,403,038	1,078,185
2 Interest expense		742,797	539,961
3 Net interest income	22	660,241	538,224
4 Realised gains/losses arising from financial operations	23	63,540	(45,346)
5 Write-downs on financial assets and positions	24	13,735	41,061
6 Transfer from/to provisions for foreign exchange rate and price risks	19	(172,578)	83,658
7 Net result of financial operations, write-downs and risk provision		(122,773)	(2,749)
8 Fees and commissions income		5,253	4,329
9 Fees and commissions expense		2,178	2,650
10 Net income from fees and commissions		3,075	1,678
11 Income from equity shares and participating interests	25	31,998	2,456
12 Net result of pooling of monetary income	26	40,555	12,971
13 Other income	27	20,524	12,563
14 Total net income		633,620	565,144
15 Staff costs	28	116,683	115,897
16 Supplies and services from third parties		35,795	35,508
17 Depreciation for the year	8	9,984	12,011
18 Total administrative expenses		162,462	163,417
19 Banknote production services		15,433	13,441
20 Other expenses		3,292	6,551
21 Losses for impairment of assets	29	(31,119)	(18)
22 Transfer to the reserve relating to capital gains on gold sales			
23 Total costs and losses (net)		150,068	183,391
24 Income tax	30	134,321	99,962
24.1 Income tax - current		162,122	99,962
24.2 Income tax - deferred		(27,800)	
25 Net profit and loss for the year		349,230	281,791

HEAD OF THE CONTROL AND ACCOUNTING DEPARTMENT

Vitor Pimenta e Silva

Note: Totals/sub-totals included in the financial statements and respective notes may not add up due to rounding, since figures are presented in EUR thousand.

9.3. Notes on the financial statements

(Values presented in EUR thousand)

NOTE 1 | BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1 Bases of presentation

The financial statements of Banco de Portugal have been drawn up in accordance with the Chart of Accounts of Banco de Portugal (Portuguese acronym: *PCBP*), which entered into force on 1 January 2008. In comparison with the former Chart of Accounts, stress should be laid on the reorganisation of classes as a result of the experience gathered, which fosters the relevance and understanding of financial statements. However, no changes have been introduced to policies and criteria regarding recognition, measurement and valuation of the financial assets and liabilities of the Bank's main activities. These are defined as mandatory in the Accounting Guideline established by the ECB, although for non-core activities technical guidance based on the IAS/IFRS³ has been adopted. Limits and movement rules for provisions and reserves have remained unchanged.

There was no need to prepare explanatory tables on the transition to the new Chart of Accounts because the accounting policies and criteria of financial assets and liabilities of the Bank's main activities were maintained. However, given the reorganisation of classes, the figures of a number of financial statement aggregates for 2007 are different from those presented in the 2007 report. Nonetheless, such differences do not compromise the reading of financial statements.

The foundations for the preparation of financial statements, as envisaged in the current *PCBP*, rely on two major regulations: (i) the Accounting Guideline established by the ECB, which adopts the mandatory rules applicable to the treatment of major central banking activities and optional rules recommended for participating interests in subsidiaries; and (ii) technical guidance on the recognition and measurement based on the IFRS for the remaining activities, which will be applied as long as all the following conditions are ensured:

- it is not a subject to which the mandatory accounting rules of the Accounting Guideline established by the ECB apply;
- the implementation of technical guidance does not collide with the spirit and conceptual rationale of the Accounting Guideline established by the ECB;
- the technical guidance does not collide with the legal provisions applicable to the Bank, in particular its Organic Law;
- the technical guidance does not collide with specific provisions of the *PCBP* on particular issues; and
- it is not a subject that collides with the central bank's specific role.

Hence, taking the fulfilment of these conditions into consideration, IFRS regulations on the following subjects were applied to the Bank:

- Tangible and intangible assets: the Bank applies the technical guidance in IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment, as far as the recognition and measurement of its assets are concerned;
- Current and deferred taxes: the Bank follows the technical guidance in IAS 12 Income Taxes, as far as the recognition and measurement of current and deferred taxes are concerned.

(3) IAS/IFRS: International Accounting Standards / International Financial Reporting Standards

- Impairment of non-financial assets: with regard to the recognition and measurement of impairment of non-financial assets, the Bank follows the technical guidance in IAS 36 Impairment of Assets, as regards impairment of assets that are not compulsorily regulated by the Accounting Guideline established by the ECB;
- Employee benefits: with regard to the recognition and measurement of employee benefits, including lending to employees, the Bank follows the technical guidance in IAS 19 Employee Benefits; and
- Commitment to co-finance interest rate subsidies in mortgage lending: with regard to the recognition and measurement of this commitment, the Bank follows the technical guidance in IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Initial adjustments arising from the adoption of the above standards were made against “Retained earnings”, by reference to 1 January 2008, as detailed in Note 21.

Participating interests in subsidiaries are recorded in the financial statements, as described in section 1.2 (h) of this Note. Given the immaterial nature of the results of a possible consolidation process, the Bank does not prepare consolidated financial statements.

1.2 Synopsis of the main accounting policies

The main accounting policies and valuation criteria used in the preparation of financial statements for the year 2008 were the following:

a) Accrual basis of accounting

The Bank follows the accruals principle of accounting in relation to most financial statement items, namely with regard to interest on lending and deposit operations, which is recognised in the accounting period in which it is generated and not according to the period in which it is paid or received.

b) Recognition of gains and losses arising from financial operations

Realised gains/losses arising from financial operations are taken to the profit and loss account on the settlement date, except in the situations envisaged in the “economic approach” alternative method.

In the course of the year, revaluation differences (difference between the market value and the weighted average cost) are registered in the balance sheet, in a specific revaluation account for each type of asset.

At the end of the year, negative revaluation differences are recognised in results as “write-downs”.

No netting is allowed on revaluation differences of each type of security or currency.

c) Conversion of assets, liabilities, off-balance-sheet instruments and profit and loss denominated in foreign currency

Assets, liabilities and off-balance-sheet instruments denominated in foreign currency are converted into euro at the exchange rate prevailing on the financial statements date. The rate used in the conversion of income and expenses denominated in foreign currency is the one prevailing on the date of the recognition in the profit and loss account.

d) Foreign currency transactions

The calculation of foreign exchange gains or losses is made on a currency-by-currency basis by reference to the respective weighted average cost, which is computed from the “daily net cost” method.

This method implies that, given an existing asset position, the average exchange rate of each foreign currency is changed only when the amount purchased on a given day is higher than the amount sold. Sales are determined by the difference between the transaction value and the average cost of the day.

Where the amounts sold are higher than those purchased, the average cost of the day is determined by two components: day purchases (at the transaction value) plus the differential between day sales and purchases (at the historical weighted average cost). Where a liability position exists in respect of a foreign currency, the average cost of the liability position shall be recorded by net sales, while purchases are entered in results.

Spot and forward foreign exchange transactions and currency swaps are recorded as follows, except for operations contracted in the year, but the settlement of which occurs in a subsequent year, which are recognised in the year when the operation was contracted, according to the so-called “alternative approach”:

- **Foreign exchange spot transactions**

- Spot purchases and sales of foreign currency are recorded on the settlement date, which is when the weighted average cost of the currency position is calculated, for the value of the foreign currency purchased;
- Spot purchases of foreign currency against the sale of euro are recorded at the transaction's exchange rate;
- Spot purchases of foreign currency against the sale of another foreign currency are recorded in euro, through the use of the spot exchange rate on the contract date of the transaction's currency;
- In spot sales of foreign currency against euro the transaction's foreign exchange gains and losses arise from the difference between the equivalent of the transaction in euro and the average cost of the foreign currency sold;
- In spot sales of foreign currency against the purchase of another foreign currency, the operation's foreign exchange gains and losses arise from the difference between the equivalent in euro of the transaction's currency at the transaction's exchange rate and the average cost of the foreign currency sold.

- **Foreign exchange forward transactions**

- These transactions are recognised in off-balance-sheet accounts from the contract date to the settlement date at the spot rate prevailing on the contract date;
- Forward purchases of foreign currency against the forward sale of another foreign currency are recorded in euro through the use of the spot exchange rate on the contract date of the transaction's currency. The difference between the spot and the forward equivalents is treated as interest payable/receivable on an accruals basis up over the life of the transaction. The weighted average cost of the currency position is computed two days after the contract date of the transaction.

- In forward sales of foreign currency, foreign exchange gains and losses arise from the difference between the equivalent in euro at the spot rate of the transaction's currency and the weighted average cost of that currency, and are entered in the respective profit and loss account on the date on which the purchase affects the acquisition cost. The difference between the spot and forward equivalents is treated as interest payable/receivable on an accruals basis up to the settlement date of the transaction.

- **Foreign exchange swaps**

Foreign exchange swaps involve the simultaneous spot purchase/sale of one currency against another and forward sale/purchase of the same amount of this currency against the other.

Spot purchases/sales are treated as foreign exchange spot transactions (in balance sheet accounts); forward purchases/sales are treated as forward foreign exchange transactions and recognised in off-balance-sheet accounts from the contract date to the maturity date at the spot rate prevailing on the former;

- The difference between the spot and forward rates is treated as interest payable/receivable on an accruals basis over the life of the transaction;
- The weighted average cost of each foreign currency position is not affected by the simultaneous currency inflows and outflows;
- There are no revaluation differences in foreign currency positions, since they are derived from the spot and forward currency positions as a whole.

e) Gold

Gold is entered in the accounts at market price.

The accounting treatment of gold is similar to that of foreign currencies referred to in (d) above. In sum, the average cost of the gold stock is only changed when the amount purchased on a given day is higher than the amount sold. Proceeds from sales are derived from the difference between the transaction value and the weighted average cost.

The method for the recognition of profit and loss is also similar to that of foreign currency transactions.

f) Securities

The portfolio of marketable securities is valued at market price.

The calculation and recognition of profit and loss in marketable securities complies with the weighted average cost criterion for each type of security. According to this method, the acquisition cost on a daily basis is added to the weighted average cost of each type of security, so that a new weighted average cost can be calculated. Sales are deducted from the stock by applying the last weighted average cost. The difference between the value of sales and the weighted average acquisition cost plus the corresponding premium or discount, by type of security, is treated as realised gain or loss. In turn, the premium or discount paid before the sale is also treated as realised gain or loss (interest).

Revaluation differences are measured by the difference between the weighted average cost of the stock, plus the corresponding premium or discount, and the respective market value, and treated as referred to in (b) above.

As of 2005 Banco de Portugal has also a portfolio of securities, held to maturity, classified as financial fixed assets (see Note 9). These securities are valued at the historical weighted average cost, calculated in a totally independent manner from the remaining securities classified as trading securities. The accounting treatment of interest, premiums and discounts of securities in this portfolio is similar to that of the portfolio of marketable securities.

g) Repos and reverse repos

Repos and reverse repos involve the lending or repurchase of funds, collateralised by securities temporarily pledged or received as a guarantee.

Securities sold under a repurchase 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. Liabilities for the amounts received in repos are recorded on the liabilities side of the Bank's balance sheet, including interest, which is recorded as cost on an accrual basis.

The lending of funds through reverse repos is recorded on the assets side of the Bank's balance sheet, being treated as a loan, and the interest is recognised on an accrual basis.

h) Participating interests

Participating interests of a long-standing nature, whose maintenance is of particular interest to the Bank's activity, are recorded in the financial statements under "Other financial assets".

As of 1 January 2008, following the adoption of the new *PCBP*, participating interests in subsidiaries and associated companies were valued in accordance with recommendations in the Accounting Guideline established by the ECB, through the Net Asset Value⁴ method.

The remaining participating interests are recorded according to the acquisition cost criterion less possible adjustments when considered adequate.

i) Banknotes in circulation

The ECB and the 15 NCBs of the participating Member States, which together constitute the Eurosystem, issue euro banknotes since 1 January 2002,⁵ with the exception of Banka Slovenije, which adopted the euro on 1 January 2007, and of the Central Banks of Cyprus and Malta, which have adopted the euro on 1 January 2008. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the "banknote allocation key"⁶.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% have been allocated to NCBs according to their weightings in the capital key of the ECB. The share of euro banknotes allocated to each NCB is disclosed under the balance sheet item "Banknotes in circulation".

(4) Net Asset Value (NAV) is the value of assets less the value of the liabilities of participating entities, multiplied by the share held by Banco de Portugal in those entities.

(5) Decision of the European Central Bank of 15 December 2006 (ECB/2006/25) amending Decision ECB/2001/15 on the issue of euro banknotes.

(6) "Banknote allocation key" means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCB's share in such total.

The difference between the value of 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 interest⁷, are disclosed under the sub-item “Intra-Eurosystem: Net claim/liability related to the allocation of euro banknotes within the Eurosystem” (see section 1.2 (j) of this Note).

Whenever a Member State adopts the euro, those intra-Eurosystem balances referring to euro banknotes in circulation are adjusted over a five-year period so that changes in banknote circulation patterns do not significantly alter NCBs’ relative income positions. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period and the average value of banknotes that would have been allocated to them during that period under the ECB’s capital key. The adjustments of intra-Eurosystem balances will cease to apply as of the first day of the sixth year after the cash changeover of each new Eurosystem participant.

Interest income and expense on these balances is cleared through the account of the ECB and disclosed under “Net interest income”.

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, shall be due to the NCBs in the same financial year it accrues and distributed on the second business day of the following year in the form of an interim distribution of profit⁸. It shall be so distributed in full unless the ECB’s net profit for the year is less than its income earned on euro banknotes in circulation and subject to any decision by the Governing Council to reduce this income in respect of costs incurred by the ECB in connection with the issue and handling of euro banknotes. The Governing Council may also decide to transfer part or all of the ECB’s seigniorage income to a provision for foreign exchange rate, interest rate and gold price risks.

j) Intra-ESCB balances

Pursuant to Article 28 of the Statute of the ESCB and of the ECB, the national central banks shall be the sole subscribers to and holders of the capital of the ECB. The subscription of capital shall be according to the key established in Article 29. Within this framework, the Banco de Portugal’s share in the capital of the ECB and credits of the ECB relating to the transfer of foreign reserve assets as envisaged in Article 30 result from applying the weightings referred to in Article 29 of the Statute of the ESCB and of the ECB.

Intra-Eurosystem balances arising from the allocation of euro banknotes are included as a net single asset or liability under “Net claim/liability related to the allocation of euro banknotes within the Eurosystem” (see Note 1.2 (i) Banknotes in circulation).

The balances of TARGET accounts represent the net position of Banco de Portugal vis-à-vis the ESCB, as a result of the clearing system of all TARGET settlement accounts of the NCBs of the ESCB against the ECB’s settlement account.

(7) Decision of the European Central Bank of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002 (ECB/2001/16), OJ L 337, 20.12.2001, p. 55-61, as amended by Decision of the European Central Bank of 18 December 2003 (ECB/2003/22), OJ L 9, 15.1.2004, p. 39.

(8) Decision of the European Central Bank of 17 November 2005 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States (ECB/2005/11), OJ L 311, 26.11.2005, p. 41-42.

k) Provisions and adjustments

In accordance with Article 5 (2) of the Organic Law of Banco de Portugal, the Board of Directors may establish other reserves and provisions to meet depreciation risks or losses to which certain types of assets or operations are particularly exposed.

Adjustments to assets are recorded in the balance sheet and deducted from the book value of these assets. The value of these adjustments results from the best estimate of losses associated with each class of asset, on the basis of market values or, in their absence, expected market values.

The amounts of provisions for future contingency risks take into account not only the appropriate prudential management criteria, within the framework of central bank responsibilities, but also the degree of volatility of the Bank's main assets. Therefore, the following reference upper limits were established, as set out in the *PCBP*:

- Provision for gold price risks: 30% of the gold value at market price;
- Provision for foreign exchange rate risks: 25% of the overall foreign exchange rate risk position;
- Provision for securities price risks: 5% of the securities value at market price;
- Provision for interest rate risks: 2% of the value of remunerated on-balance-sheet liabilities denominated in euro.

In addition, total gains on gold sales are transferred on a yearly basis to the reserve relating to these gains, according to the provisions set forth in Article 53 (1) (b) of the Organic Law of Banco de Portugal, and therefore no reference upper limit was established.

l) Tangible and intangible fixed assets and assets under construction

Tangible and intangible fixed assets are valued at the acquisition cost less depreciation. This cost includes expenditure directly attributable to the acquisition of goods.

Depreciation is calculated on an annual basis, according to the constant quota method, by applying to the historical cost the maximum annual rates allowed for tax purposes, which were deemed not to differ substantially from their estimated useful life:

	Number of years
Tangible assets	
Buildings and other constructions	10 to 50
Premises	4 to 20
Equipment	
Machinery and tools	4 to 8
Computer hardware	3 to 5
Transport equipment	4 to 8
Furniture and fittings	4 to 8
Computer software	3
Intangible assets	10

From 1 January 2008 onwards the depreciation of vehicles was made differently, depending on whether they are expected to be sold after four years or continue at the Bank's service. Hence, the former are depreciated at a rate of 13.75% over four years, considering a residual value of 45% at the end of this period, and the latter at a rate of 10% over eight years, considering a residual value of 20% at the end of this period.

Assets under construction are valued at the total costs already charged to the Bank and transferred to fixed assets when their effective use starts, and hence their depreciation.

Costs incurred with the maintenance and repair of tangible and intangible fixed assets are recorded as costs for the year.

m) Liabilities for retirement pensions and other benefits

Banco de Portugal ensures through the Pension Fund the right to presumable disability, disability and early retirement pensions, as well as survivors pensions, the right to supplementary benefits, to a death grant and the settlement of inherent charges in the payment of pensions, namely contributions to the health system (SAMS) (see Note 32).

The Bank's liabilities for retirement pensions and other benefits are calculated on an annual basis, on the cut-off date for the accounts, by the *Sociedade Gestora do Fundo de Pensões (SGFP)*, using the Projected Unit Credit Method. Actuarial assumptions (both financial and demographic) are based on expectations on the balance sheet date for wage growth, and the mortality table used was the TV 88/90.

The recognition of costs and liabilities for retirement pensions is made in accordance with the provisions set forth in Notice of Banco de Portugal No 4/2005 of 28 February, within the scope of the adoption of IAS 19.

According to the provisions laid down therein, the amount recorded in "Staff costs" refers to the cost of the current service and to interest costs less the expected income from the Pension Fund's assets.

Actuarial gains and losses result from (i) differences between actuarial and financial assumptions used and the values actually recorded, and from (ii) changes introduced in actuarial and financial assumptions as well as in the general conditions of pension plans.

Actuarial gains and losses are recognised according to the corridor method and recorded in an item under "Fluctuation of values", up to the maximum value of: 10% of the value of pension liabilities and past-service liabilities of active employees as at the end of the current fiscal year or 10% of the value of the Pension Fund's assets as at the end of the current fiscal year. The part that exceeds this limit is recorded under prepaid expenses or income respectively, depending on whether it refers to losses or gains, being linearly amortised over a period not exceeding the average time until the expected retirement age of employees participating in the Fund.

Contributions to the Pension Fund are made on an annual basis, so as to ensure its solvency, and the minimum funding of pension liabilities is 100%, while that of past-service liabilities of active employees is 95%.

n) Seniority bonuses and other retirement-related expenses

Banco de Portugal recognises on the liabilities side of its balance sheet the current value of liabilities for years of service, regarding seniority bonuses and other retirement-related expenses.

SGFP calculates the current value of benefits with seniority bonuses and other retirement-related expenses on an annual basis, on the cut-off date for the accounts, using the Projected Unit Credit Method. Actuarial assumptions (both financial and demographic) are based on expectations on the balance sheet date for wage growth, and the mortality table used was the TV 88/90.

On an annual basis, Banco de Portugal recognises directly under profit and loss the cost of the current service, of interest and net gains and losses resulting from actuarial deviations, arising from changes in assumptions or the change in the conditions of benefits.

o) Income tax

Charges with the income tax are calculated in accordance with the provisions laid down in the Corporate Income Tax Code and the tax incentives and benefits applicable to the Bank.

Deferred tax assets and liabilities correspond to the value of the tax to be recovered and paid in future periods, arising from temporary differences between the accounting values of assets and liabilities and their tax base.

Current and deferred taxes are recognised under profit and loss.

p) Derivative financial instruments

Derivative financial instruments are revalued at the market value or, in its absence, at the estimated market value. Revaluation differences are treated as described in section 1.2 (b) of this Note, on an item-by-item basis.

NOTE 2 | GOLD AND GOLD RECEIVABLES

	31 Dec. 2008		31 Dec. 2007	
	Fine ounces (*)	EUR thousands	Fine ounces (*)	EUR thousands
Gold in storage at the Bank	5,550,947	3,450,147	5,551,054	3,154,309
Gold sight accounts	6,747,918	4,194,114	6,332,082	3,598,117
Gold term deposits	-	-	416,263	236,536
Gold reserve	12,298,864	7,644,261	12,299,399	6,988,961

(*) 1 ounce of fine gold = 31.103481 grams of fine gold.

As at 31 December 2008 gold recorded a €655,300 thousand increase compared with the end balance in 2007. This only resulted from positive developments in the gold quotation in euro, there being no significant changes at the level of quantities.

Hence, on 31 December 2008 the Bank's gold reserve was valued at the market price of €621.54 per ounce of fine gold, against €568.24 on 31 December 2007. The strong increase in this quotation (9.38%) was due to both a rise in the quotation of the ounce of fine gold in US dollars – from USD 837 on 31 December 2007 to USD 865 on 31 December 2008 – and a sharp depreciation of the euro against the US dollar (5.5%) observed on the dates under analysis.

Given the volatility of the gold price in world markets, the Bank has set up a provision for gold price risks within the limits defined in section 1.2 (k) of Note 1, which is included in “Provisions” on the liability side of the balance sheet (see Note 19).

NOTE 3 | LENDING AND DEPOSIT OPERATIONS WITH THE INTERNATIONAL MONETARY FUND (IMF)

	31 Dec. 2008	31 Dec. 2007
Quota in the IMF	958,304	931,588
IMF holdings	(840,035)	(870,212)
Reserve position in the IMF	118,268	61,376
Holdings of special drawing rights	87,870	83,650
Other claims against the IMF	484	1,412
Claims on the IMF	206,622	146,437
Allocation of SDR by the IMF	(58,908)	(57,266)
Liabilities to the IMF	(58,908)	(57,266)

The reserve position in the IMF corresponds to Portugal’s quota in the IMF (SDR 867,400,000) less IMF holdings in the Bank.

Claims on the IMF include Special Drawing Rights (SDR) and the contribution from Banco de Portugal to the PRGF (Poverty Reduction & Growth Facility – a long-term lending facility provided to poor countries), to the amounts of SDR 79,534,356 and SDR 438,200 respectively.

The increase in “Claims on the IMF” is essentially due to the appreciation of this currency unit in comparison with 31 December 2007 (2.8%), to a certain extent countered by the effect of the annual amortisation of the PRGF, reflected in a decrease in “Other claims against the IMF”.

The liability item “Allocation of SDR by the IMF” comprises the allocation of SDR 53,320,000.

NOTE 4 | BALANCES WITH BANKS AND SECURITY INVESTMENTS, EXTERNAL LOANS AND OTHER EXTERNAL ASSETS IN FOREIGN CURRENCY

	31 Dec. 2008	31 Dec. 2007
Balances with banks and security investments, external loans and other external assets in foreign currency		
Demand deposits with non-euro area residents denominated in foreign currency	1,878	1,169
Securities of non-euro area residents denominated in foreign currency	563,458	280,582
Investments with non-euro area residents denominated in foreign currency	159,497	414,104
	724,833	695,855
Claims on euro area residents denominated in foreign currency		
Demand deposits with euro area residents denominated in foreign currency	1	1
Investments with euro area residents denominated in foreign currency	7,185	638,112
	7,187	638,113
Total security investments denominated in foreign currency	563,458	280,582
Total balances with banks, external loans and other external assets in foreign currency	168,562	1,053,386
	732,020	1,333,968

On 31 December 2008 balances with banks and security investments, external loans and other external assets in foreign currency were chiefly denominated in Danish krona (DKK), accounting for a relative weight of 91% vis-à-vis the total value of this portfolio. In addition to this currency, it is worth mentioning investments denominated in NOK and JPY, in spite of their rather low weight (relative weights of 5% and 3% respectively).

Compared with the previous year, total external loans and other assets denominated in foreign currency declined, essentially against a continuing enhancement of the euro portfolio, more specifically of the medium to long-term investment portfolio (see Note 9). The decline in the portfolio denominated in foreign currency was essentially at the level of balances with banks, external loans and other external assets, with the securities portfolio showing values above those seen in the previous year.

Investments with euro area and non-euro area residents denominated in foreign currency refer almost fully to fixed-term deposits.

Security investments denominated in foreign currency are broken down by type of instrument, as follows:

	31 Dec. 2008	31 Dec. 2007
Securities of non-euro area residents denominated in foreign currency		
Treasury bills	-	103,930
Treasury bonds	563,458	176,652
	563,458	280,582

NOTE 5 | BALANCES WITH BANKS AND SECURITY INVESTMENTS, LOANS AND OTHER ASSETS DENOMINATED IN EURO

	31 Dec. 2008	31 Dec. 2007
Claims on non-euro area residents denominated in euro		
Securities of non-euro area residents denominated in euro	231,201	146,599
Balances with banks, loans and other assets denominated in euro	404,108	3,896,992
	635,309	4,043,591
Claims on euro area residents denominated in euro		
Securities of euro area residents denominated in euro	8,543,607	5,330,958
Other claims on euro area residents denominated in euro	503	264
	8,544,110	5,331,222
Total security investments denominated in euro	8,774,808	5,477,556
Total balances with banks, loans and other assets denominated in euro	404,611	3,897,257
	9,179,419	9,374,813

Securities denominated in euro are broken down as follows:

	31 Dec. 2008	31 Dec. 2007
Securities of non-euro area residents denominated in euro		
Floating rate notes	100,509	106,899
Bonds	66,884	-
Sundry	63,808	39,700
	<u>231,201</u>	<u>146,599</u>
Securities of euro area residents denominated in euro		
Treasury bills	1,729,073	3,137,965
Treasury bonds	6,048,832	1,997,746
	765,702	195,246
Sundry	8,543,607	5,330,958
	<u>8,774,808</u>	<u>5,477,556</u>

The euro trading portfolio decreased slightly from December 2007. It should be noted that, regarding its composition by financial instruments, there was a sharp increase in the securities portfolio, against disinvestments in balances with banks, loans and other assets.

NOTE 6 | LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

Main refinancing operations are aimed at pursuing the Eurosystem's open market objectives. They are liquidity-providing reverse transactions with a weekly frequency and a maturity of normally one week. On 31 December 2008 Banco de Portugal's operations outstanding accounted for €5,045,000 thousand (2007: €957,000 thousand), at the ECB's minimum bid rate on the main refinancing operations (MROs).

Longer-term refinancing operations are aimed at providing counterparties with additional longer-term refinancing and are executed by NCBs on the basis of standard tenders. They are liquidity-providing reverse transactions with a monthly frequency and generally with a maturity of three months. On 31 December 2008 the amounts allotted by Banco de Portugal accounted for €5,164,500 thousand (2007: €1,507,413 thousand), with rates of return standing between 2.5% and 5.58%.

NOTE 7 | INTRA-EUROSISTEM CLAIMS AND LIABILITIES

Participating interest in ECB

Pursuant to Article 28 of the Statute of the ESCB and of the ECB, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed under the provisions of Article 29.3 of the Statute, and these weightings must be adjusted every five years after the establishment of the ESCB. The first five-yearly adjustment of the weightings was

made on 1 January 2004. On 1 May 2004 a second change of the ECB's capital key followed as a result of the accession of ten new Member States to the European Union (EU). On 1 January 2007 there was a third adjustment of the capital key due to the EU enlargement to include 2 new Member States, Romania and Bulgaria.

Consequently, as at 1 January 2007 the Banco de Portugal's share in the subscribed capital of the ECB – totalling €5.761 million in accordance with Article 49.3 of the Statute – declined from 1.7653% to 1.7137%, and the asset item 9.1 “Participating interest in ECB” rose from €98,233 thousand to €98,720 thousand.

In addition, as a result of the aforementioned capital key changes, the relative shares of NCBs in the accumulated net profits of the ECB (also referred to as net equity) also changed. In this context, the item also includes the amount of €1,546 thousand corresponding to changes in 2004 and €599.5 thousand corresponding to changes in 2007, reflecting net increases in the Banco de Portugal's share in the accumulated net profits of the ECB.

Claims equivalent to the transfer of foreign reserves

This item represents claims arising from the transfer of foreign reserve assets from participating NCBs to the ECB. Claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations.

As a result of the above-mentioned changes in the share that NCBs hold in the subscribed capital of the ECB, on 1 January 2004, 1 May 2004 and 1 January 2007 claims arising from the transfer of foreign reserve assets from participating NCBs to the ECB were also adjusted, under the provisions of Article 30.3 of the Statute, to an overall value of €39,819 million on 1 January 2004, €39,782 million on 1 May 2004 and €40,042 million on 1 January 2007. In order to reflect the change in its capital key share, the claim of Banco de Portugal increased from €961,600 thousand up to 31 December 2003 to €1,006,450 thousand on 1 January 2004, decreased to €982,331 thousand on 1 May 2004 and increased to €987,203 thousand as of 1 January 2007, corresponding to a share of 2.4654% in the Eurosystem.

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

“Net claims related to the allocation of euro banknotes within the Eurosystem” consists of the claims of Banco de Portugal regarding the allocation of euro banknotes within the Eurosystem (see sections 1.2 (i) and 1.2 (j) of Note 1).

Claims related to other operational requirements within the Eurosystem

On 31 December 2008 “Claims related to other operational requirements within the Eurosystem” referred to (i) the result of the calculation method applied to 2008 monetary income (€40,555 thousand – see Note 26), settled on 31 January 2009 and (ii) the amount receivable regarding the distribution of the ECB's income derived from banknotes in 2008, which was delivered to Banco de Portugal on 5 January 2009 (€29,645 thousand – see Note 25).

Liabilities arising from balances of TARGET accounts

On 31 December 2008 “Net liabilities arising from balances of TARGET accounts” showed a liability position of €18,952,811 thousand, comprising all TARGET positions (31 December 2007: €6,206,153 thousand).

NOTE 8 | TANGIBLE AND INTANGIBLE FIXED ASSETS

	31 Dec. 2008	31 Dec. 2007
Tangible fixed assets		
Land	8,901	8,908
Buildings and other constructions	80,635	80,304
Premises	58,824	57,350
Equipment	68,948	67,352
Museum and art collections	7,987	7,359
	<u>225,296</u>	<u>221,272</u>
Intangible fixed assets		
Computer software	15,654	16,085
Assets under construction	<u>15,746</u>	<u>9,387</u>
Total gross tangible and intangible fixed assets	<u>256,695</u>	<u>246,744</u>
Accrued depreciation		
Depreciation of tangible fixed assets	(143,166)	(138,199)
Depreciation of intangible fixed assets	(14,939)	(15,068)
	<u>(158,105)</u>	<u>(153,267)</u>
Total net tangible and intangible fixed assets	<u>98,590</u>	<u>93,477</u>

During the year ended on 31 December 2008 the movements in this item were as follows:

	31 Dec. 2007 Net balance	Additions	Disposals	Depreciation for the year	31 Dec. 2008 Net balance
Tangible fixed assets					
Land	8,908	-	7	-	8,901
Buildings and other constructions	48,171	426	30	2,548	46,018
Premises	12,579	1,497	16	2,845	11,215
Equipment	6,056	,5,970	263	3,755	8,009
Museum and art collections	7,359	642	15	-	7,987
	<u>83,073</u>	<u>8,535</u>	<u>331</u>	<u>9,148</u>	<u>82,130</u>
Intangible fixed assets					
Computer software	1,017	534	-	837	715
Assets under construction					
Assets under construction - projects	48	17	48	-	17
Advances	<u>9,387</u>	<u>9,217</u>	<u>2,858</u>	<u>-</u>	<u>15,746</u>
	<u>93,477</u>	<u>18,286</u>	<u>3,189</u>	<u>9,984</u>	<u>98,590</u>

From 1 January 2008 onwards the depreciation of vehicles was made differently, depending on whether they were expected to be sold after four years or continue at the Bank's service. Hence, the former are depreciated at a rate of 13.75% over four years, considering a residual value of 45% at the end of this period, and the latter at a rate of 10% over eight years, considering a residual value of 20% at the end of this period.

Consequently, the accumulated depreciation value of the Bank's vehicles on that date was reversed, against retained earnings, to an amount of €1,063 thousand (see Note 21).

NOTE 9 | OTHER FINANCIAL ASSETS

	31 Dec. 2008	31 Dec. 2007
Participating interest in non-euro area resident entities		
In the Bank for International Settlements	21,650	21,650
Participating interest in euro area resident entities		
In Finangeste	32,244	36,425
In SGFP	2,194	1,127
In Valora	9,881	5,201
In Swift	42	42
Medium/long-term financial investments	4,621,067	4,077,082
	4,687,078	4,141,527
Adjustments of participating interests	-	(29,147)
	4,687,078	4,112,380

Following the change in the methodology used for the valuation of financial participating interests in subsidiaries and associated companies as of 1 January 2008 (see section 1.2 (h) of Note 1), the adjustment of the participating interest in *Finangeste* was fully reversed (€29,147 thousand) (see Note 29).

Changes in the value of participating interests result from (i) the implementation of the Net Asset Value valuation method and (ii) the purchase on 12 March 2008 of the remaining 25% of the participating interest in *Valora*, which was from that date onwards fully held by Banco de Portugal.

The value of the participating interest in *Valora* referring to December 2007 differs from that presented in the 2007 Annual Report, given that this balance sheet item now includes the amount referring to additional paid-in capital (€4,826 thousand) (see Note 12).

Within the scope of the Banco de Portugal's own fund management, the medium to long-term investment portfolio, given its characteristics (investments held to maturity) is recorded under "Other financial investments". Compared with 31 December 2007 this portfolio grew by €543,985 thousand, chiefly as a result of a transfer of funds from the portfolio denominated in foreign currency (see Note 4).

The breakdown of this investment portfolio by type of financial instrument is as follows:

	31 Dec. 2008	31 Dec. 2007
Securities denominated in euro		
Treasury bonds	3,760,771	3,085,723
Sundry	859,765	956,283
	<u>4,620,535</u>	<u>4,042,006</u>
Balances with banks, loans and assets denominated in euro	532	35,076
	<u>4,621,067</u>	<u>4,077,082</u>

NOTE 10 | OFF-BALANCE-SHEET INSTRUMENT REVALUATION DIFFERENCES

	31 Dec. 2008	31 Dec. 2007
Forward foreign exchange transactions	72	-
Interest rate swaps		
Price revaluation differences	6,327	11,499
Accumulated write-downs from previous fiscal years	(1,489)	(1,329)
	<u>4,910</u>	<u>11,170</u>
Net balance sheet variations	4,910	11,170

The value recorded under “Net balance sheet variations” reflects the difference between the asset and liability items of “Balance sheet variations from off-balance-sheet instruments”.

Therefore, the value of €4,910 thousand relating to 31 December 2008 represents the difference between €6,398 thousand recorded under assets essentially referring to potential gains calculated at the time of the revaluation of interest rate swaps at market prices (31 December 2007: €11,499 thousand) and €1,489 thousand recorded under liabilities, corresponding to accumulated potential losses from these operations (31 December 2007: €1,329 thousand).

NOTE 11 | ACCRUALS AND PREPAID EXPENSES

	31 Dec. 2008	31 Dec. 2007
Accruals		
Interest and other income receivable from central bank operations	338,126	302,662
Other accruals	786	708
	<u>338,911</u>	<u>303,370</u>
Prepaid expenses		
Prepaid expenses from central bank operations	114,147	46,410
Other prepaid expenses	59,911	82,272
Deferred tax assets	63,314	-
	<u>237,372</u>	<u>128,682</u>
	<u>576,283</u>	<u>432,052</u>

Accruals and other income receivable from central bank operations refer essentially to accrued interest on: (i) the net position arising from the issuance of banknotes, as referred to in section 1.2 (j) of Note 1 (ii) securities, loans and other assets of portfolios denominated in foreign currency and euro and (iii) monetary policy operations outstanding on 31 December 2008.

Prepaid expenses from central bank operations essentially refer to interest accrued up to the purchase date of coupon bearing securities, which were paid to the counterpart upon purchase and which will be received by the Bank on the maturity date of the respective coupon or upon the sale of the securities, if it occurs prior to the maturity date.

Other prepaid expenses include (i) €39,344 thousand (31 December 2007: €78,688 thousand) regarding retirement and survivors pensions. This value reflects the impact of the transition to IAS 19, implementing the provisions of Notice of Banco de Portugal No 4/2005. The reduction vis-à-vis 31 December 2007 reflects the value of the annual amortisation for 2008 (€39,344 thousand – see Note 32); and (ii) €17,462 relating to the recognition of credit to staff members at market value, arising from the adoption of the new *PCBP*.

The value recorded in deferred tax assets mainly stems from (i) the provision for risks arising from transactions with Eurosystem counterparties (deferred tax assets amounting to €22,238 thousand) and (iii) liabilities for the payment of seniority bonuses and other retirement-related allowances to employees (€3,283 thousand), which were non-tax deductible when set up.

NOTE 12 | OTHER ASSETS - SUNDRY

	31 Dec. 2008	31 Dec. 2007
Credit to staff	116,707	132,758
Special credit situations	83,924	85,895
Fluctuation of values relating to pensions	106,633	67,610
Assets under Funds Pension	1,725	7,976
Corporate Income Tax - payments on account	80,062	55,029
Sundry debtors	3,001	1,347
Other central bank claims	140,000	-
Other reduced value accounts	4,154	7,504
	<u>536,206</u>	<u>358,120</u>
Adjustments of special credit situations	(83,924)	(85,895)
	<u>452,282</u>	<u>272,225</u>

“Credit to staff” corresponds mostly to mortgage loans to employees.

The value recorded under “Special credit situations” refers mostly to receivables from *Finangeste* under the Banco de Portugal/*Finangeste* Arrangement of 9 January 1995, to the amount of €83,580 thousand (2007: €85,601 thousand).

The increase in the item “Fluctuation of values relating to pensions” reflects the recognition of negative net actuarial deviations for the year under analysis, chiefly stemming from the difference between expected income from the Fund’s assets and actual negative income (see Note 32).

Also related to the recognition on 31 December 2008 of actuarial and financial losses to an amount higher than the increase in contributions, recognised assets vis-à-vis the Fund accounted for €1,725 thousand. Although below the figure for December 2007, this continues to reflect a funding level above 100% (see Note 32).

The item “Sundry debtors” ceased to include the amount relating to additional paid-in capital of *Valora* (€4,826 thousand), which is now presented under “Other financial assets” (see Note 9). This change gives rise to differences between figures presented in the 2007 Report and those in this Report.

“Corporate Income Tax – payments on account” refers to the provisions of Articles 96 to 98 of the Income Tax Code.

The item “Other central bank claims” includes contingent credit transactions conducted during the year.

NOTE 13 | BANKNOTES IN CIRCULATION

Euro banknotes in circulation on 31 December 2008 consist of the Banco de Portugal’s share in total euro banknotes in circulation in the Eurosystem (see section 1.2 (i) of Note 1).

NOTE 14 | LIABILITIES TO EURO AREA CREDIT INSTITUTIONS

The balance on “Liabilities to euro area credit institutions related to monetary policy operations denominated in euro” reflects on 31 December 2008 current accounts of credit institutions with Banco de Portugal (€4,831,770 thousand) and the balance on deposit facility transactions outstanding on this date (€569,900 thousand).

Current accounts of credit institutions with Banco de Portugal serve a two-fold purpose: they are current/settlement accounts and accounts where funds are deposited for compliance with minimum reserve requirements, which are remunerated at the marginal rate for the Eurosystem’s main refinancing operations.

NOTE 15 | LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

The sub-item “General government” exclusively records the balance on the current account of the Directorate-General of the Treasury.

“Other liabilities” includes the balances on current accounts of other financial intermediaries and financial auxiliaries with the Bank.

NOTE 16 | LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

The balance on the item “Liabilities to non-euro area residents denominated in euro” on 31 December 2008 corresponds to the balances of current accounts of international organisations (excluding the IMF) and several central banks.

NOTE 17 | ACCRUALS AND INCOME COLLECTED IN ADVANCE

	31 Dec. 2008	31 Dec. 2007
Income collected in advance		
Other income collected in advance	1	1
Deferred tax liabilities	29,088	-
	<u>29,089</u>	<u>1</u>
Accruals		
Accruals from central bank operations	50,993	48,996
Other accruals	17,616	17,844
	<u>68,609</u>	<u>66,840</u>
	<u>97,698</u>	<u>66,841</u>

In “Accruals from central bank operations” stress should be laid on the contribution from the accrued remuneration of the December 2008 intra-ESCB balance relating to TARGET, to the amount of €42,416 thousand (2007: €38,567 thousand) and of the remuneration of reserve requirements since 10 December 2008, to the amount of €7,788 thousand (2007: as from 12 December, €9,599 thousand).

The value for deferred tax liabilities is almost fully related to assets recognised in the balance sheet relating to Banco de Portugal’s Pension Fund.

NOTE 18 | OTHER LIABILITIES – SUNDRY

	31 Dec. 2008	31 Dec. 2007
Banknotes withdrawn from circulation	196,313	202,128
Third parties	9,390	10,206
Liabilities relating to seniority bonuses and retirement-related allowances	12,390	13,136
Estimate for income taxes	162,122	99,962
Other accounts of reduced individual value	540	473
	<u>380,756</u>	<u>325,904</u>

“Banknotes withdrawn from circulation” represents the Bank’s liability to the holders of banknotes denominated in Portuguese *escudos* (legacy currency), as long as these can be exchanged.

“Liabilities relating to seniority bonuses and other retirement-related expenses” reflects the value as at 31 December 2008 of liabilities for years of service, computed through the actuarial calculation carried out by *SGFP*.

NOTE 19 | PROVISIONS AND ADJUSTMENTS

Movements in provisions and adjustments during the fiscal year ended on 31 December 2008 can be summarised as follows:

	Balance as at 31 Dec. 2007	Movements			Balance as at 31 Dec. 2008
		Increase	Decrease	Total	
ADJUSTMENTS TO ASSETS					
Adjustments of debts receivable	85,895	50	2,022	(1,972)	83,924
Adjustments of financial participating interests	29,147	-	29,147	(29,147)	-
	115,043	50	31,169	(31,119)	83,924
PROVISIONS FOR RISKS					
Provisions for gold price risks	1,028,076	96,395	-	96,395	1,124,471
Provisions for foreign exchange rate risks	358,562	-	138,972	(138,972)	219,590
Provisions for security price risks	287,906	74,968	8,020	66,948	354,854
Provisions for interest rate risks	309,433	7,170	-	7,170	316,603
Provisions for the coverage of ECB losses	-	141,037	-	141,037	141,037
	1,983,977	319,570	146,992	172,578	2,156,555
	2,099,020	319,620	178,161	141,459	2,240,479
Total adjustments to assets	115,043	50	31,169	(31,119)	83,924
Total provisions	1,983,977	319,570	146,992	172,578	2,156,555

As regards movements in provisions in 2008 the Bank reduced: (i) by €138,972 thousand the provision for foreign exchange rate risks, accounted for by the use of €5,560 for the coverage of write-downs on foreign currency recognised in profit and loss on 31 December 2008 and by the reduction of €133,412 thousand for the provision to stand within the limit established in the *PCBP*; (ii) by €8,020 thousand the provision for securities price risks referring to use for the coverage of write-downs recognised in profit and loss at the end of 2008.

Taking into account the prudential criteria set out in the *PCBP* and the Bank's overall risk positions, in 2008 the Bank increased: (i) by €96,395 thousand the provision for gold price risks, (ii) by €74,968 thousand the provision for securities price risks and (iii) by €7,170 thousand the provision for interest rate risks.

According to the accounting principle of prudence, in 2008 the Governing Council decided to establish a provision for risks arising from transactions with Eurosystem counterparties to a total amount of €5,736,000 thousand. In line with Article 32.4 of the ESCB Statute, this provision shall be allocated to the national central banks in proportion to their paid-up shares in the capital of the ECB in force on 31 December 2008. As a consequence, a provision of €141,037 thousand was recorded, equivalent to 2.4588% of the total provision.

NOTE 20 | REVALUATION DIFFERENCES

	31 Dec. 2008	31 Dec. 2007
Gold revaluation differences	4,613,461	3,958,030
Foreign currency revaluation differences	1,358	22
Securities revaluation differences	166,646	1,415
Off-balance-sheet revaluation differences	6,327	11,499
Revaluation differences	4,787,792	3,970,965

With regard to gold, there was an increase in unrealised capital gains resulting from the valuation of the gold price in euro (see Note 2).

The increase in positive foreign currency revaluation differences was mainly due to the depreciation of the euro against the DKK, the currency with the highest relative weight in the foreign currency portfolio (see Note 3).

The significant increase in unrealised capital gains referring to the fluctuation in securities prices relates mainly to securities denominated in euro, and is chiefly accounted for by a considerable increase in this portfolio in 2008 (see Note 5).

The decrease in off-balance-sheet revaluation differences is due to a reduction in the market value of the interest rate swap portfolio.

NOTE 21 | CAPITAL AND RESERVES

	Balance as at 31 Dec. 2006	Increases	Payment of dividends	Transfers	Balance as at 31 Dec. 2007
Capital	1,000	-	-	-	1,000
Legal reserve	116,521	-	-	28,179	144,700
Other reserves	1,037,042	-	(37,388)	84,537	1,084,191
Profit and loss for 2007	281,791	-	(169,074)	(112,716)	-
Profit and loss for 2008	-	349,230	-	-	349,230
	1,436,354	349,230	(206,463)	-	1,579,122

The net profit for 2007 was allocated on 14 May in accordance with Decision No 292/08/MEF of 29 April of the Minister of State and Finance by transferring to the legal reserve and to other reserves and by paying to the State, as dividends, the amount of €169,074 thousand.

With the adoption of the new *PCBP* on 1 January, the technical guidance based on the IFRS is now followed for the Bank's non-core activities (see Note 1.1). Following this regulatory change, the Bank adjusted the initial situation of a number of balance sheet positions, against "Retained earnings". The following table details movements in "Other reserves", which includes retained earnings.

Other reserves	
Balance as at 1 Jan. 2008	1,037,042
Impact of the adoption in 2008 of rules based on the IFRS	
NAV adjustments in financial participating interests	(3,717)
Recognition of the liability for the payment of interest rate subsidies	(1,821)
Reversal of the depreciation of vehicles	1,063
Initial recognition of deferred taxes	6,426
	1,952
Current movements	
Annual amortisation of the Pension Fund's deferred costs (Notice of Banco de Portugal No 4/2005)	(39,344)
Other movements	4
	(39,340)
Distribution of 2007 results	
Distribution of net 2007 results	84,537
	84,537
Balance as at 31 December 2008	1,084,191

NOTE 22 | NET INTEREST INCOME

	31 Dec. 2008	31 Dec. 2007
INTEREST INCOME		
Gold	138	139
Securities	241,462	214,581
In foreign currency	24,750	30,554
In euro	216,712	184,027
Deposits and other assets	215,694	233,840
In foreign currency	36,073	59,446
In euro	179,621	174,394
International Monetary Fund	3,078	5,077
Lending to euro area credit institutions	169,688	31,629
Intra-ESCB claims	594,489	437,221
Financial fixed assets	167,643	147,907
Off-balance-sheet instruments	4,351	4,562
Other claims	6,494	3,228
	1,403,038	1,078,185
INTEREST EXPENSES		
Liabilities to euro area credit institutions	174,677	152,512
Management liabilities in foreign currency	1,733	4
Management liabilities in euro	10	1,284
International Monetary Fund	1,474	2,418
Intra-Eurosystem liabilities	562,553	382,286
Off-balance-sheet instruments	2,347	1,456
Other liabilities	2	0
	742,797	539,361
NET INTEREST INCOME	660,241	538,224

NOTE 23 | REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

	31 Dec. 2008	31 Dec. 2007
Foreign exchange transactions	1,004	(16,267)
Other management operations in foreign currency	4,504	(3,378)
Management operations in euro	60,009	(25,815)
Medium and long-term investments	-	(82)
Off-balance-sheet instruments	(1,978)	196
	63,540	(45,346)

Realised gains/losses arising from financial operations in 2008 had a significant contribution from management operations in euro, which chiefly relate to the portfolio of securities denominated in euro.

In the 2008 fiscal year realised gains/losses in off-balance-sheet instruments refer almost exclusively to futures transactions entered into this year.

NOTE 24 | WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

	31 Dec. 2008	31 Dec. 2007
Write-downs on foreign exchange rates	5,556	24,657
Write-downs on investments in foreign currency	-	1,449
Write-downs on management operations in euro	8,019	14,956
Write-downs on off-balance-sheet instruments	160	-
	13,735	41,061

The value recorded in write-downs on foreign currency had the contribution from write-downs on investments denominated in NOK (€5,077 thousand), which were chiefly due to the appreciation of the euro against this currency.

Write-downs on investments in foreign currency and management operations in euro refer in both years to negative revaluation differences computed in the valuation of the securities portfolio.

NOTE 25 | INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

This item includes (i) dividends received for the 2007 profit and loss, regarding the participating interest of Banco de Portugal in the Bank for International Settlements (BIS) (€2,353 thousand) and (ii) the 2008 ECB's income on euro banknotes in circulation (€29,645 thousand).

NOTE 26 | NET RESULT OF POOLING OF MONETARY INCOME

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled. The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; a limited amount of each NCBs' gold holdings in proportion to each NCB's capital key share. Gold is considered to generate no income. Where

the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the ECB's minimum bid rate on the main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key. The difference between the monetary income pooled by Banco de Portugal, amounting to €636,206 thousand and reallocated to Banco de Portugal, amounting to €676,761 thousand is the net result arising from the calculation of monetary income (see Note 7).

NOTE 27 | OTHER INCOME AND EXPENSES

	31 Dec. 2008	31 Dec. 2007
Other income		
Capital gains on tangible and intangible fixed assets	1,507	34
Previous fiscal years income	788	322
Sales and supply of services to third parties	3,823	3,204
Sundry income	14,405	9,003
	20,524	12,563
Other expenses		
Write-downs on tangible and intangible fixed assets	140	26
Previous fiscal years expenses	10	107
Taxes	103	208
Other administrative costs	509	536
Sundry expenses	2,531	5,674
	3,292	6,551
	17,232	6,012

“Sundry income” includes in particular: (i) €1,867 thousand relating to the expiration of the time limit for the exchange of 500 escudos banknotes – portrait of King João II; (ii) profits resulting from the adjustment of the value of participating interests in *Valora*, *Finangeste* and *SGFP*, due to the implementation of the Net Asset Value, as explained in Note 1.2 (h) (€2,612 thousand, €1,942 thousand and €117 thousand respectively) and (iii) a gain of €6,971 thousand referring to positive deviation due to a surplus of past-service liabilities relating to the Pension Fund calculated on 31 December 2008 (see Note 32).

“Sundry expenses” includes (i) €955 thousand relating to the negative deviation calculated by *SGFP* on 31 December 2008 of liabilities for seniority bonuses and other retirement-related expenses, (ii) €773 thousand relating to write-downs and other expenses referring to the contract for the assignment of debts signed with *Finangeste* (2007: €5,238 thousand) and (iii) €678 thousand referring to extraordinary contributions to *SAMS* agreed with Banco de Portugal with the entry into force of the *Acordo de Empresa* (Works Council Agreement).

NOTE 28 | STAFF COSTS

	31 Dec. 2008	31 Dec. 2007
Remuneration of the members of the Board of Directors and Board of Auditors	1,373	1,440
Employees' salaries	75,638	72,309
Compulsory social charges	27,349	31,581
Voluntary social charges	7,732	7,622
Other staff costs	4,591	2,945
	116,683	115,897

Compulsory social charges include expenditure on retirement and survivors pensions to the amount of €15,197 thousand (2007: €18,702 thousand), which, in addition to expenditure on base plans, include expenditure on wage supplements (see Note 32).

The new *PCBP* now includes, under staff costs, expenses on allowances paid to employees. Thus, values presented in 2007 are higher than those in that year's Report, this difference being offset with "Supplies and services from third parties". Also due to the adoption of the new *PCBP*, income in kind paid to employees is now recorded under "Other staff costs".

On 31 December 2008 the Bank employed 1,685 staff (2006: 1,687). Among these, 48 are on secondment, on assignment and on unpaid leave, 12 are assigned to *Valora* and 33 to *SGFP*.

NOTE 29 | LOSSES FOR IMPAIRMENT OF ASSETS

In 2008 this item records the reversal of the whole adjustment to the participating interest in *Finangeste* (€29,147 thousand – see Note 9) and the reduction of the adjustment to "Lending to other entities" under the contract for the assignment of debts signed with *Finangeste* (€2,022 thousand).

As regards the 2007 fiscal year, the value now presented in this item was included in the profit and loss account in the balance of "Transfer to/from provisions for foreign exchange rate and price risks".

NOTE 30 | INCOME TAX

The Bank is subject to the Corporate Income Tax and to a local tax.

The Corporate Income Tax for 2008 was calculated on the basis of a nominal tax rate of 25%. The value of the tax on profits, calculated according to the best estimates available, is €162,122 thousand and reflects the accruals and deductions which are part of the taxable income, the corporate municipal tax and autonomous taxation.

	31 Dec. 2008	31 Dec. 2007
Calculation of the income tax		
Profit/loss before taxes	483,552	381,752
Non-tax deductible provisions	141,088	33
Pension Fund and seniority bonuses	(5,848)	-
Cancellation of the NAV effect	(4,672)	-
Decrease in taxed provisions	(2,022)	(5,293)
Accounting capital gains	(1,370)	(34)
Tax benefits	(728)	(503)
Tax gains	622	16
Depreciation and amortisation not deductible as costs	110	207
Recovery of non-deductible taxes	(86)	(95)
Other	568	743
Taxable income	611,214	376,827
Income tax (1)	152,804	94,207
Corporate municipal tax (2)	9,168	5,652
Autonomous taxation (3)	150	103
Income tax	162,122	99,962
Reconciliation between losses for the year and the balance sheet value		
Income tax		
Recognition as losses for the year (1)+(2)+(3)	162,122	99,962
Less: payments on account and special prepayments	80,062	55,029
Less: withholdings at source	5	10
Current balance payable	82,055	44,923

Tax authorities have the possibility of reviewing the Bank's situation with regard to taxes for a period of four years. Therefore, as a result of different interpretations of tax legislation, there can be additional payments. However, the Board firmly believes that there will be no additional significant payment regarding previous fiscal years, in the context of financial statements.

Deferred tax assets and liabilities are recorded when there is a difference between the value of an asset or liability and the respective taxable amount. Their value corresponds to the tax to be recovered or paid in future periods.

Movements regarding deferred taxes are as follows:

Description	Balance sheet				Profit/loss	Other reserves
	31 Dec. 2008		01 Jan. 2008		31 Dec. 2008	01 Jan. 2008
	Assets	Liabilities	Assets	Liabilities		
Provision for the coverage of ECB losses	37,375				37,375	
Pension fund		28,715		20,030	(8,685)	(20,030)
Provision for credit to other entities	22,238		22,760		(522)	22,760
Seniority bonuses and retirement-related expenses	3,283		3,481		(197)	3,481
Interest rate subsidies	332		483		(151)	483
Other	86	373	115	382	(19)	(267)
	63,314	29,088	26,839	20,413	27,800	6,426

NOTE 31 | OFF-BALANCE-SHEET INSTRUMENTS

In addition to other off-balance-sheet instruments, the Bank, in the performance of its tasks, uses derivative financial instruments chiefly intended to manage risks associated with its assets, liabilities and off-balance-sheet instruments. These instruments normally have an underlying (i) market risk inherent in price or interest rate fluctuations and (ii) a credit risk, generally corresponding to the advance settlement or replacement cost of contracts at current market prices and rates.

On 31 December 2008 and 31 December 2007 the Bank had the following transactions outstanding:

	31 Dec. 2008					31 Dec. 2007	
	Contract value (1)		Market value (2)	Effect on results (3)	Accrued interest (4)	Contract value (1)	
	Purchases	Sales	Net	Net	Net	Purchases	Sales
Forward foreign exchange transactions	20,009	20,009	614	614	6	-	-
Currency swaps	7,140	7,140	267	267	2	-	-
Interest rate swaps	218,783	218,783	4,838	6,327	373	200,019	200,019

(1) Theoretical or notional value.

(2) The market value corresponds to the potential income or cost in which the Bank would incur in the event it had to settle these transactions, and considering the current market conditions and evaluation models currently used.

(3) The effect on results corresponds to the impact on the profit and loss account in the event the Bank had to settle these transactions, and considering the current market conditions and evaluation models currently used.

(4) The value of accrued interest corresponds to interest receivable and payable accrued until the balance sheet date resulting from transactions outstanding.

The balance of currency swaps on 31 December 2008 refers to a forward transaction with the ECB within the scope of a facility for the short-term supply of USD liquidity, agreed on with the US Federal Reserve. In relation to this facility, Banco de Portugal records in its balance sheet, under "Claims on euro area residents denominated in foreign currency", a fixed-term deposit denominated in USD, backed by assets in euro.

NOTE 32 | POST-EMPLOYMENT BENEFITS

In accordance with the regulations in force and under the terms of the Pension Plan with defined benefits, the Bank is responsible for the payment of retirement and survivors pensions to its employees and their dependants, since most of them are not covered by the general social security scheme.

In accordance with the provisions of Notice of Banco de Portugal No 4/2005, in 2005 there was a transition to IAS 19 regulations, within the scope of post-employment benefits. In this context, the Pension Fund started to also finance the death grant envisaged in the applicable wage agreement and contributions to SAMS relating to pensions.

Banco de Portugal ensures through the Pension Fund (i) the right to presumable disability, disability and early retirement pensions, as well as survivors pensions; it also ensures the right to supplementary benefits, to a death grant and (ii) the settlement of inherent charges in the payment of pensions, due as contributions to the health system.

Retirement and survivors pensions result from the sum of percentages calculated according to each pensionable earnings component, in line with the applicable works agreement and the Bank's internal regulations.

The Pension Plan encompasses four benefit plans relating to basic salaries and seniority bonuses and three programmes relating to wage supplements.

The number of participants covered by the Pension Fund of Banco de Portugal is shown in the table below:

Number of participants covered by the Pension Fund	31 Dec. 2008	31 Dec. 2007
Active staff	1,688	1,689
Staff in retirement	1,739	1,728
Pensioners	504	486
	3,931	3,903

Liabilities arising from pension plans financed through the Fund were determined in an actuarial calculation prepared by *SGFP*, in accordance with the principles laid down in IAS 19.

Without prejudice to a number of one-off adjustments, the main actuarial and financial assumptions are the following:

	Actuarial and financial assumptions used	
	2008	2007
Discount rate	4.800%	5.153%
Expected return rate on the Fund's assets	5.153%	4.517%
Expected wage growth rate	2.764%	3.359%
Pension discount rate	1.764%	2.359%
Tables used		
- mortality	TV 88/90	
- disability	1978 – S.O.A. Trans. Male (US)	
- turnover	T-1 Crocker Sarason (US)	

The impact of the transition to current regulations, to be recognised in “Retained earnings”, under the provisions of Notice No 4/2005, was deferred according to an amortisation plan of five fixed annual instalments, amounting to €39,344 thousand, the recognition of the last amortisation taking place in 2009.

In 2008 there was an extraordinary contribution to the Pension Fund, which amounted to €20,000 thousand. This made it possible to maintain a coverage level identical to that of the previous year, addressing the negative net result arising from actuarial and financial gains/losses and allowing for changes in assumptions, pursuing the task of adjusting the discount rate used in actuarial valuations.

	31 Dec. 2008			31 Dec. 2007		
	Staff in retirement and pensioners	Active staff	Total	Staff in retirement and pensioners	Active staff	Total
LIABILITIES						
Past-service liabilities						
Retirement and survivors benefits	613,562	464,096	1,077,658	612,974	470,897	1,083,871
Contributions to SAMS for pensions	38,349	22,739	61,088	40,729	30,026	70,755
Death grant	12,032	8,804	20,836	11,685	8,988	20,673
Total	663,943	495,639	1,159,582	665,387	509,912	1,175,299
VALUE OF THE FUND			1,161,307			1,183,275
FUNDING LEVELS						
Overall coverage rate – past-service liabilities			100.1%			100.7%
Coverage rate – Notice No 4/2005			106.0%			110.5%
DEVELOPMENTS IN PAST-SERVICE LIABILITIES						
Value at the beginning of the year			1,175,299			1,226,239
Cost of the current service			18,617			20,549
Benefits maturing			(51,478)			(48,788)
Interest cost			60,558			55,389
Actuarial gains and losses			(36,442)			(77,822)
Past-service cost			(6,971)			(269)
Value at the end of the year			1,159,582			1,175,299
FUND DEVELOPMENTS						
Value at the beginning of the year			1,183,275			1,208,550
Current contributions paid to the Fund			24,001			22,677
Extraordinary contributions paid to the Fund			20,000			-
Pensions paid			(50,727)			(48,769)
Net income of the Fund			(15,241)			817
Value at the end of the year			1,161,307			1,183,275
VALUE TO BE RECOGNISED IN RETAINED EARNINGS						
Notice No 4/2005 – Impact of transition to IAS 19			39,344			78,688

According to the entry in the accounts referred to in section 1.2 (m) of Note 1, the following were recognised under the item “Fluctuation of values”: (i) actuarial gains to the amount of €36,442 thousand; (ii) negative deviation referring to the difference between the expected income of the Fund’s assets and their actual income (€76,216 thousand) and (iii) positive deviation between expected pensions and those actually paid in 2008 (€751 thousand).

Consequently, on 31 December 2008 the item “Fluctuation of values” amounted to an overall €106,633 thousand relating to accumulated deviations in 2005 (€39,160 thousand), 2006 (€52,514 thousand), 2007 (€-24,065 thousand) and 2008 (€39,023 thousand).

Values recognised in staff costs related to Base Plans and Pensionable Wage Supplement Regimes, to charges with SAMS for pensions, and to the death grant amounted to €15,197 thousand, as shown in the following table:

	2008	2007
PROFIT AND LOSS RECOGNISED IN STAFF COSTS		
Cost of the current service ⁽¹⁾	15,614	17,906
Interest cost	60,558	55,389
Expected return on the Fund’s assets	(60,975)	(54,593)
Total (see Note 28)	15,197	18,702

(1) Excludes costs borne by staff members and other entities.

NOTE 33 | SUBSEQUENT EVENTS

Changes in the composition of the Eurosystem

On 1 January 2009 the percentage share of national central banks in the Eurosystem was changed due to the enlargement of the Eurosystem to encompass Národná banka Slovenska. Hence, the share of Banco de Portugal in the ECB’s expanded capital key declined from 2.45881% on 31 December 2008 to 2.50804% on 1 January 2009.

Consequently, the share of Banco de Portugal in the ECB’s capital key also changed, from 2.2620% on 31 December 2008 to 2.3075% on 1 January 2009.

9.4. External Auditors' report



PricewaterhouseCoopers
& Associados – Sociedade de
Revisores Oficiais de Contas, Lda
Palácio Sottomayor
Rua Sousa Martins, 1 – 3º
1069 – 316 Lisboa
Portugal
Telephone +351 213 599 000
Fax +351 213 599 999

Auditor's Report

Introduction

1 We have audited the accompanying financial statements of Banco de Portugal, which comprise the balance sheet as at 31 December 2008, the profit and loss account for the year then ended, and the corresponding Notes on the financial statements, as well as a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the Financial Statements

2 The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles of the Chart of Accounts of Banco de Portugal. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor – Rua Sousa Martins, 1 – 3º, 1050 – 217 Lisboa
Matriculada na Conservatória do Registo Comercial sob o n.º 506 628 752 (ex n.º 11912)

Inscrita na lista dos Revisores oficiais de Contas sob o n.º 183 NIPC 506628752 Capital social €312 000
Inscrita na Comissão de Valores Mobiliários sob o n.º 9077



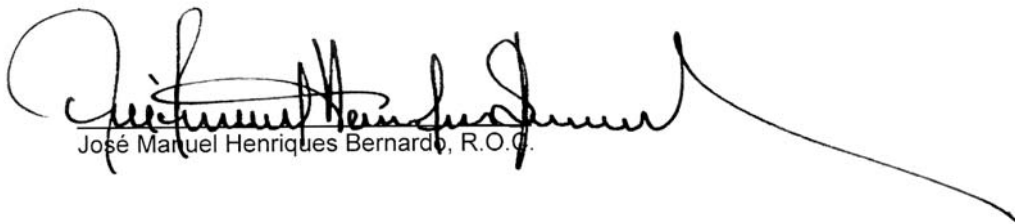
5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the financial statements present fairly, in all material respects, the financial position of Banco de Portugal as at 31 December 2008 and of its financial performance for the year then ended, in accordance with the accounting principles in the Chart of Accounts of Banco de Portugal, which are summarised in Note 1.2 of the Notes on the financial statements.

Lisbon, 10 March 2009

PricewaterhouseCoopers & Associados
– Sociedade de Revisores Oficiais de Contas, Lda.
represented by:



Handwritten signature of José Manuel Henriques Bernardo, R.O.C.

9.5. Report and opinion of the Board of Auditors

In accordance with the provisions laid down in Article 43 (1) (c) of the Organic Law of Banco de Portugal, the Board of Auditors submits its Report and issues its Opinion on the Report of the Board of Directors and the Financial Statements for the year ended on 31 December 2008, which were approved by the Board of Directors at its meeting on 24 March 2009.

Report

1. The Board of Auditors, in use of the powers conferred on it, and similarly to past years, monitored with the required frequency the day-to-day operation of the Bank, through the participation, without voting rights, of its members in the meetings of the Board of Directors and through the analysis of the documentation produced, namely by the Control and Accounting Department and the Audit Department.

The analysis of the monthly accounting data also enabled the Board of Auditors to monitor the management and the evolution of the Bank's economic and financial position.

The checks of existing assets and valuables held by the various areas of the Bank continued to be made by the officials in charge and by the Audit Department, within a prior programming schedule. The Board of Auditors monitored the end-of-year inspection of valuables carried out at the Bank's head office in Lisbon, at its Oporto branch and at the Carregado Complex.

The Board of Auditors appraised at its meetings data reported to it, preparing working documents and issuing opinions or making recommendations, whenever necessary, as described in the respective minutes.

Opinions were issued on the Bank's Operating Budget for 2009.

In addition to the tasks entrusted to it by the Organic Law of Banco de Portugal, the Board of Auditors, pursuant to the provisions of specific legislation, continued to monitor the operation of the Mutual Agricultural Credit Guarantee Fund, the Deposit Guarantee Fund and the Mutual Counterguarantee Fund, and to issue its opinion on the report and annual accounts of these institutions.

2. The Bank's activities are explained in the Report of the Board of Directors, which also contains comprehensive information on the financial statements for the 2008 fiscal year.

"Notes on the financial statements" include detailed information on both the financial statements and the main accounting policies and valuation criteria.

The new Chart of Accounts of Banco de Portugal which entered into force on 1 January 2008 establishes guidelines based on International Accounting Standards, implying minor changes to the opening balance sheet relating to the 2008 fiscal year.

Assets

- increase of €655.3 million in "Gold and gold receivables", resulting from positive developments (9.38%) in the gold quotation in dollars, and a 5.5% depreciation of the euro against the US dollar; there being no significant changes at quantity level;
- increase of €7,745.1 million in "Lending to euro area credit institutions related to monetary policy operations denominated in euro", corresponding to main refinancing operations (€4,088 million increase) and longer-term refinancing operations (€3,657.1 million increase).

This large increase was the result of a resumption of monetary policy operations arising from a general liquidity shortage in the money market;

- increase of €3,431.9 million in “Intra-Eurosystem claims”, essentially associated with “Net claims related to the allocation of euro banknotes within the Eurosystem”;
- increase of €904.5 million in “Other assets”, chiefly resulting from an increase of around €544.0 million in the medium and long-term investment portfolio.

Liabilities

- increase of €1,907.8 million in “Banknotes in circulation”, reflecting the increase in overall circulation at Eurosystem level and the share allocated to Banco de Portugal;
- decrease of €3,864.0 million in “Liabilities to euro area credit institutions related to monetary policy operations denominated in euro”, chiefly resulting from the aforementioned liquidity shortage in the market;
- increase of €12,746.7 million in “Intra-Eurosystem liabilities”, exclusively associated with TARGET accounts;
- increase of €172.6 million in “Provisions”, in particular a provision of around €141.0 million for risks arising from transactions with Eurosystem counterparties in accordance with the decision of the Governing Council of the ECB;
- increase of €816.8 million in “Revaluation accounts”, essentially resulting from a valuation of the gold quotation and of securities in portfolio.

Profit and Loss Account

- increase of €122.0 million in “Net interest income”, accounted for by the rise in remunerated assets and interest margins;
- decrease of €120.0 million in “Net result of financial operations, write-downs and risk provision”, resulting from (i) realised gains/losses arising from financial operations (€108.9 million), (ii) write-downs on financial assets and positions (€27.3 million), and (iii) transfer from/to provisions for foreign exchange rate and price risks (€-256.2 million);
- decrease of around €1 million in total administrative expenses;
- increase of €67.4 million in “Net profit and loss for the year”, mainly due to an improvement in the interest margin.

3. In 2008 Banco de Portugal recorded a profit of €349.2 million, i.e. an increase of approximately €67.4 million compared with the previous fiscal year. No proposal was put forward for the distribution of results.

4. The External Auditors issued no reserves in their report.

Opinion

In view of the data shown and on the basis of analyses carried out and information obtained, the Board of Auditors raises no objection to the approval of the 2008 Report of the Board of Directors and the Financial Statements.

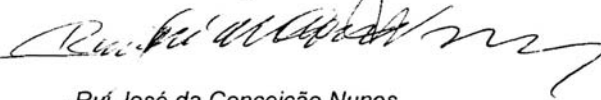
The Board of Auditors wishes to express to the Governor, the Board of Directors and the entire staff of the Bank its appreciation for their cooperation.

Lisbon, 24 March 2009

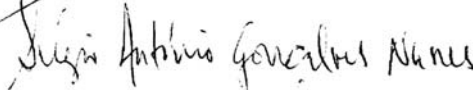
THE BOARD OF AUDITORS



Emílio Rui da Veiga Peixoto Vilar



Rui José da Conceição Nunes



Sérgio António Gonçalves Nunes



Amável Alberto Freixo Calhau