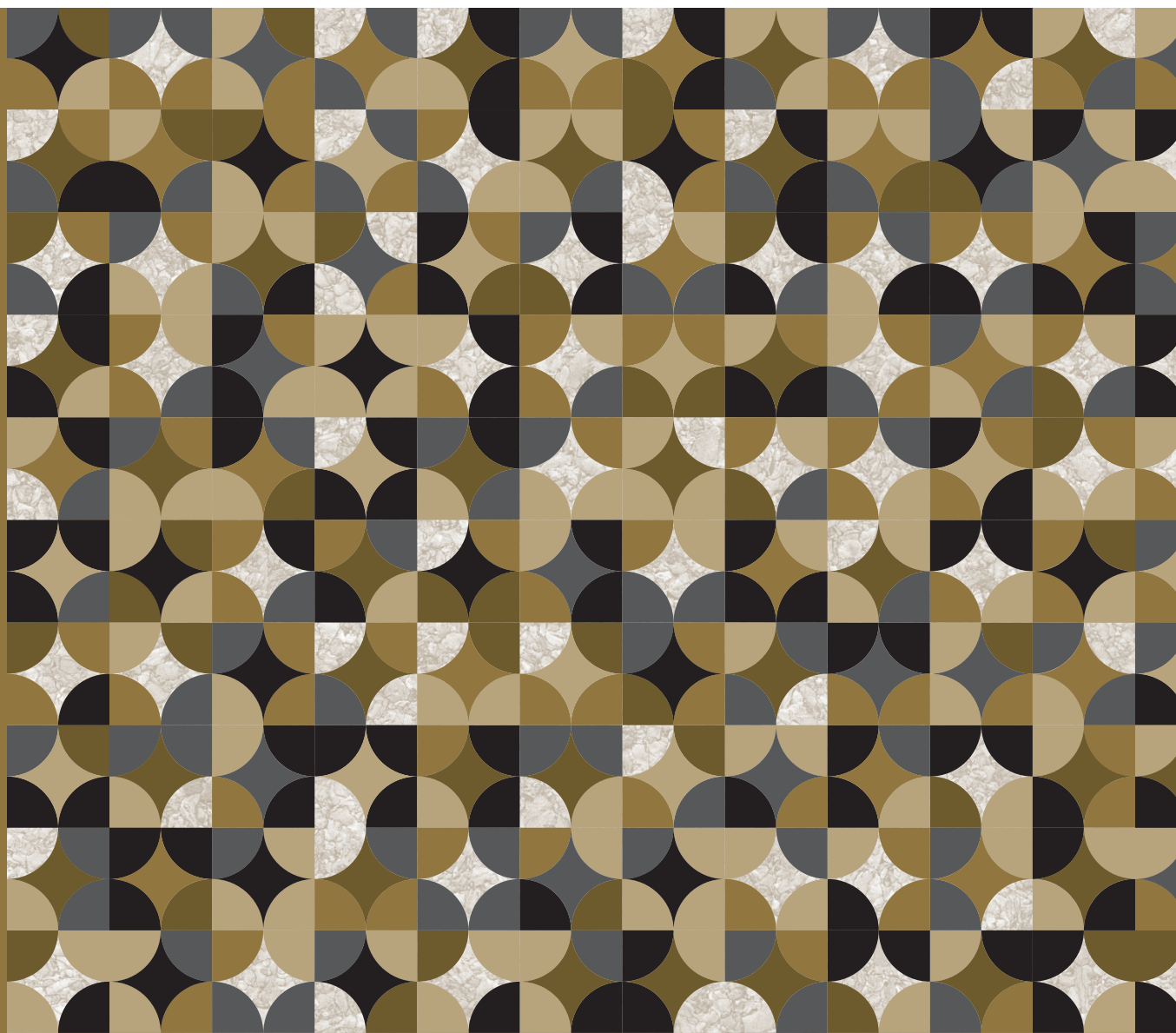


Annual Report

Activities and Financial Statements 2015



BANCO DE PORTUGAL
EUROSYSTEM



Annual Report

Activities and Financial
Statements 2015



**BANCO DE
PORTUGAL**
EUROSYSTEM

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Contents

Mission and values of Banco de Portugal | 7

Message from the Governor | 9

Management of the Bank | 11

Strategic Plan for 2014-16 | 19

I ACTIVITIES IN 2015

Highlights in 2015 | 23

1. Financial stability within the European context | 26

1.1. Macroprudential supervision and regulatory framework | 26

1.2. Prudential supervision | 27

1.3. Banking conduct supervision | 28

1.4. Legal enforcement | 29

1.5. Resolution function | 31

1.6. Deposit guarantee and resolution funds | 31

1.7. Payment systems oversight | 31

BOX 1 | Banco de Portugal's participation in international financial regulatory and supervisory bodies | 32

BOX 2 | The single supervisory mechanism after one year of operation – implications for Banco de Portugal's supervisory activities | 34

2. Functions as monetary authority | 36

2.1. Economic research and advice | 36

2.2. Monetary policy implementation | 37

2.3. Asset management | 38

2.4. Statistics | 39

2.5. Payment systems | 40

2.6. Currency issuance | 41

2.7. International representation and institutional cooperation | 42

BOX 3 | Participation of Banco de Portugal in international *fora* on the production and discussion of statistics | 45

BOX 4 | 25 years of cooperation | 48

3. Organisation and resource management | 51

3.1. Governance model | 51

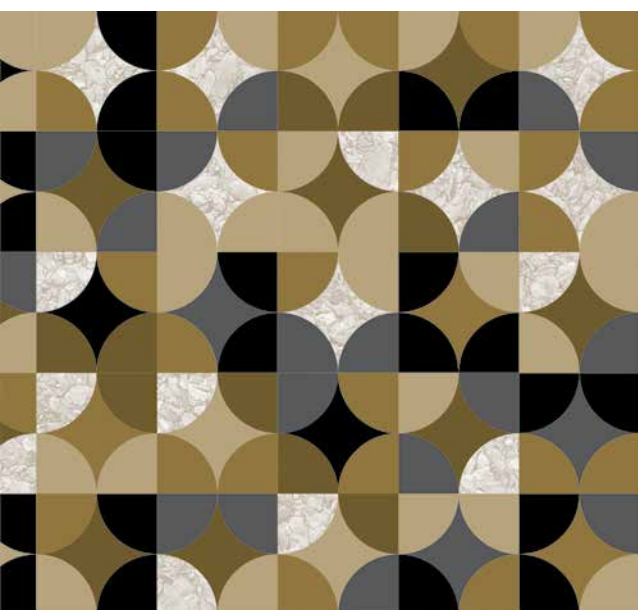
3.2. Risk management | 52

3.3. Internal audit | 53

- 3.4. Information and communication systems | **53**
- 3.5. Human resource management | **53**
- 3.6. Budget and building management | **55**
- BOX 5 | Internal management of Banco de Portugal – ongoing changes | **57**
- 4. Openness to society | **59**
 - 4.1. Communication | **59**
 - 4.2. Provision of services to the public | **65**
 - 4.3. Social responsibility initiatives addressed to the community | **67**

II FINANCIAL STATEMENTS

- 1. Presentation | **73**
 - 1.1. Developments in the balance sheet | **73**
 - 1.1.1. Claims and liabilities related to monetary policy operations | **75**
 - 1.1.2. Gold, foreign reserves and euro assets (net) | **76**
 - 1.1.3. Other balance sheet assets | **80**
 - 1.1.4. Banknotes in circulation | **81**
 - 1.1.5. Intra-Eurosystem liabilities | **81**
 - 1.1.6. Other liabilities | **82**
 - 1.1.7. Own funds | **82**
 - 1.2. Developments in the Profit and Loss Account | **83**
- 2. Financial Statements | **88**
- 3. Notes on the Financial Statements | **92**
 - 1.1. Bases of presentation | **92**
 - 1.2. Synopsis of the main accounting policies | **93**
 - 1.3. Post-balance-sheet events | **99**
- 4. External Auditors' Report | **133**
- 5. Report and Opinion of the Board of Auditors | **135**



Mission and values of Banco de Portugal



Mission

Banco de Portugal's mission is to:

- Maintain price stability; and
- Promote and safeguard financial stability.

Values

Banco de Portugal's values are:

- **Integrity** – The Bank's staff place society and public interest at the centre of their activities and uphold high ethical standards.
- **Competence, effectiveness, efficiency** – Banco de Portugal employs highly qualified staff in its business areas. Its governance model, internal organisation and processes use best practices as a benchmark.
- **Independence** – Banco de Portugal is independent in functional, institutional, personal and financial terms. This principle is legally established and a prerequisite for the Bank's compliance with its mission. Independence requires a clear mandate, the impossibility to seek or take instructions from third parties, the protection of the status of members of decision-making bodies and financial independence.
- **Transparency and accountability** – In compliance with its tasks in the context of the Eurosystem, Banco de Portugal reports to the Portuguese Parliament, the government and society on its activities and why and how they are carried out. Transparency on the Bank's governance model and activities and accountability for its results are essential complements to the principle of independence.
- **Team spirit** – Banco de Portugal staff act in accordance with the principles of mutual aid, knowledge sharing, loyalty and transparency.
- **Social and environmental responsibility** – Banco de Portugal acts in a socially and environmentally responsible manner, operating as a social actor and advocate of corporate ethics.



Carlos da Silva Costa

Message from the Governor

In 2015, Banco de Portugal concluded a decisive stage of the work carried out over the last five years, to strengthen supervision and the safeguarding of financial stability, completing the process of joining the Single Supervisory Mechanism. With the Banking Union, the responsibilities entrusted to Banco de Portugal have become even more complex.

In 2015, Banco de Portugal consolidated its process of joining the new European banking supervision system – the Single Supervisory Mechanism (SSM) – in operation since November 2014. This was a particularly demanding period for the Bank, which is now responsible for the prudential supervision of institutions within a shared responsibility

model, with profound implications for internal organisation and processes. Banco de Portugal is represented in the decision-making body of the SSM – the Supervisory Board, is part of the joint teams responsible for the supervision of European institutions qualifying as significant, and carries out direct, but delegated, supervision of less significant institutions, under a common European framework and general instructions defined by the European Central Bank (ECB).

The year was also marked by the development of the Single Resolution Mechanism (SRM), the second Banking Union pillar, which started full operations on 1 January 2016. The adjustment of the resolution function to the new European framework proceeded in a particularly complex context, as it coincided with the implementation of the resolution measure applied to Banco Espírito Santo, S. A. which has been ongoing since August 2014, and with Banif's sale in a context of resolution. Although recourse to resolution is by its very nature exceptional, Banco de Portugal's intervention has made it possible, in both cases, to safeguard confidence

in the banking system, the safety of deposits and the financing of the economy. This was in fact an important test for resolution as a financial stability instrument and to Banco de Portugal's installed capacity to implement it.

This year has also consolidated Banco de Portugal's role within the Eurosystem, where we continued to participate extensively in working groups related to the different areas of operation and ensured the implementation of the monetary policy measures decided by the Governing Council of the ECB. Relevant in this context is the public sector purchase programme (PSPP), which contributes to the fulfilment of the mandate to maintain price stability by reducing financial market fragmentation in the euro area.

Also important was the Bank's work as national statistical authority. It was decisive for Portugal to be part, in 2015, of a very small group of countries joining SDDS Plus, the International Monetary Fund's most demanding statistical dissemination standard. In 2015, we also celebrated 25 years of structured technical cooperation with the central banks of emerging and developing economies. This strategic option has contributed to macroeconomic stability in those countries and to develop closer ties with Portugal, particularly in the case of Portuguese-speaking countries.

At the same time, the Bank continued to strengthen its model for governance, organisation and processes, improving the mechanisms supporting internal governance and management control. It also implemented a comprehensive overhaul of its communication model, laying the foundations for new forms of relationships with society. In this regard, the Bank has introduced significant changes in its main publications, improving access to information and analyses of the Portuguese economy.

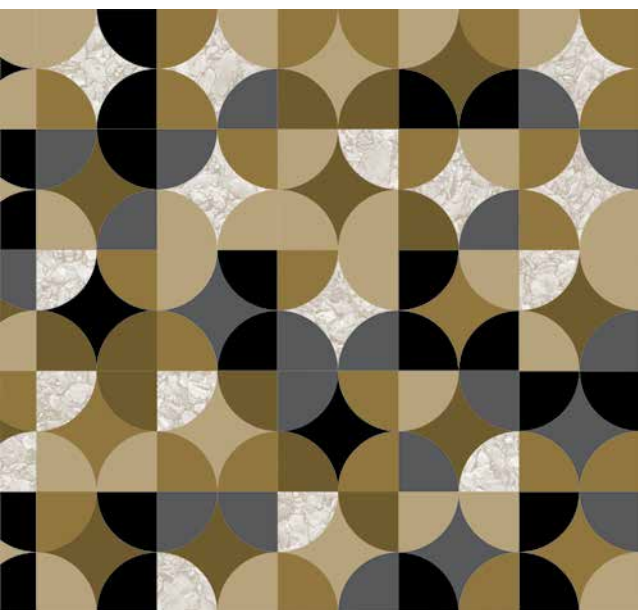
Although 2015 was a very demanding year for the Bank, the coming years will be equally challenging. First, because the Banking Union is work in progress, and there are still gaps in its institutional architecture and applicable instruments. This hinders the role of national authorities, which continue to be responsible

for financial stability at national level. Although a European supervisory system is already in operation, a common deposit guarantee scheme must be created and the capacity of the European Resolution Fund must be strengthened.

The coming years will also be characterised by the consolidation of the management model and internal processes, with the start of a new strategic planning cycle in 2017. The Bank will continue to pursue a policy of cost rationalisation and focus on results, based on making the best use of expertise and skills, as well as available resources. Given that transparency and accountability are a fundamental counterpart of the independence principle, the Bank continues to be committed to further developing the relationship with the various interested parties, by means of clear and pro-active communication.

Finally, I would like to express my gratitude to the staff of Banco de Portugal, who, faced with extraordinary circumstances, have again shown their outstanding response capacity. The commitment of all will continue to be key for Banco de Portugal to successfully perform its tasks and be able to consolidate the confidence of society.





Management of the Bank



Governor

Carlos da Silva Costa

Board of Directors



Vice-Governor

Pedro Miguel de Seabra
Duarte Neves



Vice-Governor

José Joaquim Berberan
e Santos Ramalho



Director

João José
Amaral Tomaz



Director

António Carlos Custódio
de Morais Varela



Director

Hélder Manuel
Sebastião Rosalino

Board of Auditors

Chairman

João António Morais da Costa Pinto

Members

Ana Paula de Sousa Freitas Madureira Serra

António Gonçalves Monteiro



Advisory Board

Carlos da Silva Costa

Pedro Miguel de Seabra Duarte Neves

José Joaquim Berberan e Santos Ramalho

José da Silva Lopes*

Vítor Manuel Ribeiro Constâncio

José Alberto Vasconcelos Tavares Moreira

Luís Miguel Couceiro Pizarro Beleza

António José Fernandes de Sousa

João António Morais da Costa Pinto

Emílio Rui da Veiga Peixoto Vilar

José Manuel Gonçalves de Morais Cabral**

Valentim Xavier Pintado

Fernando Faria de Oliveira

Cristina Maria Nunes da Veiga Casalinho

Roberto de Sousa Rocha Amaral

Rui Manuel Teixeira Gonçalves

* Up to March 2015.

** He required suspension of his functions from June 2015.



Secretary to the boards

Vasco Manuel da Silva Pereira*

Heads of department, regional delegations and district agencies**

General Secretariat

José Gabriel Cortez Rodrigues Queiró

Head of Communication Directorate (DC)

Bruno Proença

Office of the Governor (GAB)

Marta Sofia Fonseca Carvalho David Abreu

Legal Enforcement Department (DAS)

José Manuel Bracinha Vieira

Audit Department (DAU)

Francisco Martins da Rocha

Accounting Department (DCC)

José Pedro Pinheiro Silva Ferreira

Issue and Treasury Department (DET)

António Manuel Marques Garcia

Financial Stability Department (DES)

Maria Adelaide Morais Cavaleiro Joaquim

Statistics Department (DDE)

João António Cadete de Matos

Economics and Research Department (DEE)

Isabel Horta Correia

Human Resources Department (DRH)

Pedro Miguel de Araújo Raposo

Risk Management Department (DGR)

Helena Maria de Almeida Martins Adegas

Markets and Reserve Management Department (DMR)

Rui Manuel Franco Rodrigues Carvalho

Organisation and Information Technology Department (DOI)

António Jacinto Serôdio Nunes Marques

International Relations Department (DRI)

Nuno Homem Leal de Faria

Administrative Services Department (DSA)

Eugénio Fernandes Gaspar

Banking Conduct Supervision Department (DSC)

Maria Lúcia de Almeida Leitão

Banking Prudential Supervision Department (DSP)

Carlos Torroaes Albuquerque

Legal Services Department (DJU)

José Joaquim Rocha Rodrigues Brito Antunes

Payment Systems Department (DPG)

Jorge Manuel Egrejas Francisco

Porto Branch

Ana Olívia de Morais Pinto Pereira

Regional Delegations

Regional Delegation of the Azores

Ibéria Maria de Medeiros Cabral Serpa

Regional Delegation of Madeira

Rui António da Silva Santa Rajado

*Up to 1 November 2015.

**As at 31 December 2015.

District Agencies

Braga

Domingos Marques de Oliveira

Évora

Paulo Ruben Alvernaz Rodrigues

Castelo Branco

Maria Teresa Gomes Sameiro Macedo

Faro

Fernanda da Conceição Barros*

Coimbra

Maria João Botelho Raposo de Sousa

Viseu

Gentil Pedrinho Amado

Specialised committees for interdepartmental coordination

Specialised Committee for Financial Supervision
and Stability (CESEF)

Chairman

Carlos da Silva Costa

Committee for Risk and Internal Control (CRCI)

Chairman

Carlos da Silva Costa

Budget Monitoring Committee (CAO)

Chairman

José Joaquim Berberan e Santos Ramalho

Specialised Committee for Information Systems
and Technologies Management (CEGIT)

Chairman

Hélder Manuel Sebastião Rosalino

*Up to 1 December 2015.

Strategic Plan for 2014-16

Banco de Portugal's Strategic Plan for 2014-16, which was approved by the Board of Directors in January 2014, lays down the goals and main actions to be implemented in the course of the three-year period.

The Plan establishes four Broad Strategic Guidelines and nine strategic goals to ensure

that Banco de Portugal continues to be a leading entity in the safeguarding of financial stability, a respected partner within the Eurosystem and an independent institution with considerable influence on the Portuguese economic debate.

Strategic Plan for 2014-16

Broad Strategic Guidelines

Strategic goals

Financial stability within the European context

Assert microprudential supervision in the framework of the Single Supervisory Mechanism;

Foster financial stability by deepening the scope and the analytical and regulatory framework of macroprudential supervision, in conjunction with microprudential and banking conduct supervision;

Strengthen the Bank's institutional capacity and expertise as national resolution authority, including in the context of the establishment of a European Single Resolution Mechanism.

Effective and fully-fledged contribution to the exercise of its tasks as monetary authority within the framework of the Eurosystem

Ensure an influential participation in the Eurosystem and other fora where the Bank intervenes and excel in the implementation of monetary policy decisions;

Safeguard and reinforce the Bank's financial independence within the framework of the Eurosystem.

Organisation and efficient management of resources

Strengthen corporate culture and match human resources to the Bank's functions;

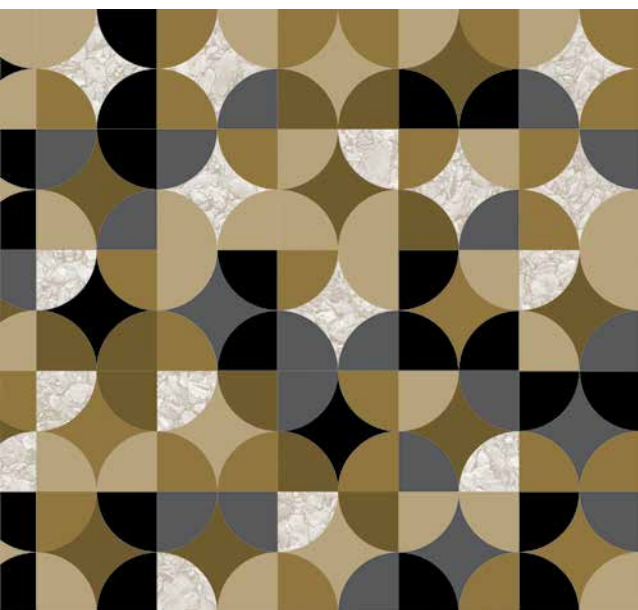
Focus supporting departments on greater efficiency and satisfaction levels within the Bank.

Fostering an open institution, respected by society

Contribute to a more informed society regarding the country's economic and financial situation and the Bank's activities;

Reduce context costs in the Bank's areas of activity.





I

Activities in 2015

1. Financial stability within the European context
2. Functions as monetary authority
3. Organisation and resource management
4. Openness to society

Highlights in 2015

In 2015, Banco de Portugal acted to safeguard financial stability and price stability within a context marked by the construction of the Banking Union and the challenges of the structural adjustment of the Portuguese economy.

Financial stability within the European context

Banco de Portugal:

- Defined and published the macroprudential policy execution strategy, selected macroprudential instruments and activated preventive measures, assessed the risks to financial stability, worked on the identification of new risk indicators and further developed its analysis of the financial sector's exposure to the real estate market;
- Adapted its structures, methodologies and supervisory activity to the Single Supervisory Mechanism's model and contributed to the development of new prudential supervision methods within the scope of the European Central Bank (ECB) and the European Banking Authority;
- Reinforced the supervision of the institutions' internal governance and risks and participated in biannual post-programme surveillance missions, following the end of the Economic and Financial Assistance Programme;
- Imposed new information and reporting rules on credit institutions in terms of minimum banking services, commissions payable on banking products and services, as well as consumer credit, and organised over 200 financial training sessions involving approximately 8,500 participants;
- Undertook particularly intense enforcement activity, both in terms of proceedings initiated and of the dimension and complexity of some proceedings under way;

- Continued the resolution process of Banco Espírito Santo, S. A., in particular promoting the sale of the Resolution Fund's shareholding in Novo Banco;
- Applied resolution measures to Banif – Banco Internacional do Funchal, S. A. by way of a partial sale of its business and the segregation and transfer of some of its business to an asset management vehicle to ensure the normal operation of the services provided by the institution and the protection of its depositors;
- Participated in the creation and operationalisation of the Single Resolution Mechanism.

Functions as monetary authority

Banco de Portugal:

- Produced studies which have enabled a structural approach to the operation of markets and enterprises and an analysis of the consequences of fiscal policy and the efficiency in the use of public resources;
- Within the scope of the Eurosystem's monetary policy implementation IT support systems, provided credit institutions in Portugal with a new collateral management system, COLMS;
- Participated in the implementation of the Public Sector Purchase Programme (PSPP) created by the Governing Council of the ECB;
- Took on the management of the ECB's foreign reserves allocated to the central bank of Lithuania;
- Successfully completed the first migration wave to the new pan-European platform for the settlement of securities in central bank money – TARGET2-Securities – which is an important milestone in deepening financial integration in the European Union;
- Participated in the pilot production of the €50 banknote of the Europa series and ensured

the entry into circulation of the new €20 banknote;

- Coordinated the work undertaken with Statistics Portugal and the Ministry of Finance enabling Portuguese statistics to adhere to the International Monetary Fund's stricter standards of statistical disclosure, SDDS Plus;
- Participated in 391 international working groups related with its areas of activity and celebrated 25 years of cooperation with counterpart institutions in emerging and developing economies.

Organisation and resource management

Banco de Portugal:

- Integrated the support functions of the Bank's management bodies in the General Secretariat to provide better support to the Board of Directors;
- Created the Communication Directorate, which includes all the responsibilities of managing the external and internal communications of the Bank;
- Nominated a Compliance Officer* responsible for guaranteeing compliance with internal and external regulations;
- Reviewed the purchasing function, perfected the budgetary model and developed measures to simplify and make the remuneration and careers systems more flexible;
- Assessed the IT and communications systems and set out a five-year strategic plan for IT and communications;
- Launched the Banco de Portugal Academy (*Academia do Banco de Portugal*) to support technical and academic training for employees.

Openness to society

Banco de Portugal:

- Approved a strategic communications plan and implemented a new management model for external and internal communication;

- Started to renew its institutional website and launched two applications for smartphones and tablets;
- Provided information regarding the resolution measures applied to BES – in particular within the scope of the Parliamentary Committee of Inquiry – and Banif, and published a vast amount of information on the Bank Customer Website regarding legislative and regulatory changes in the retail banking markets;
- Improved its way of disclosing information and economic analyses, concentrating the main indicators of the Portuguese economy in the *Statistical Bulletin* and analysis of the Portuguese economy in the *Economic Bulletin*. Created the Banco de Portugal Economic Studies to publish the work of its researchers, started publishing coincident indicators for economic activity and private consumption in Portugal in a separate publication, *Coincident Indicators*, and launched new statistics on foreign direct investment and Portuguese banks' assets;
- Launched online consultation of the Database of Banking Accounts;
- Within the scope of the Money Museum, invested in a structured activity programme aimed at protecting and valuing historical heritage and promoting access to culture;
- Reinforced its policy of social responsibility, including combating school failure rates by launching, through a partnership with *EPIS – Empresários pela Inclusão Social* (Entrepreneurs for Social Inclusion), the *Vocações + Inglês* programme.

* As at 31 December 2015, Sofia Pimentel.

Banco de Portugal's activity in numbers

	2014	2015
As at 31 December		
Number of employees	1,776	1,777
Average age of staff	44.5	44.1
Number of institutions registered in Portugal ⁽¹⁾	375	377
ECB foreign reserves managed by Banco de Portugal (EUR millions)	1,433	1,559
Gold portfolio		
(tons)	382.5	382.5
(EUR millions)	12,147	11,968
International institutional representation (groups in which the Bank participates)	373	391
Annual total (volume)		
Administrative proceedings initiated	128	283
Recommendations and specific orders - retail banking markets	849	1,034
Transactions settled through TARGET2-PT (thousands)	1,831	1,754
Transactions settled through SICOI (millions)	2,104	2,205
Processed euro banknotes (millions)	760	641
Counterfeit euro banknotes seized	9,250	8,587
Cooperation initiatives carried out	142	106
Internal audits carried out	39	43
Statistical reporting to international organisations	1,413	1,448
Visitors to the Money Museum	21,604	29,142
Donated meals	10,604	11,213
On average		
Average balance of monetary policy operations - institutions established in Portugal (EUR millions)	39,455	26,972
Average balance of monetary policy portfolios in the Bank's balance sheet (EUR millions)	5,506	10,250
Visits to Banco de Portugal's institutional website (daily average)	98,923	102,596
Visits to the Bank Customer Website (daily average)	9,259	8,182

1 Credit institutions, financial companies and payment institutions.

1. Financial stability within the European context

A key mission of Banco de Portugal is to safeguard the stability of the Portuguese financial system. To this end, the Bank performs functions and has powers in the areas of macroprudential, prudential and banking conduct regulation and supervision, legal enforcement, resolution of credit institutions, and oversight of payment systems. The bank is member of the Single Supervisory Mechanism (SSM), which, as of 4 November 2014, has been responsible for the prudential supervision of credit institutions of participating European Union Member States. In its capacity as national resolution authority, the Bank is also part of the Single Resolution Mechanism (SRM).

This chapter describes Banco de Portugal's action in 2015 in the field of financial stability, the first of the Bank's Broad Strategic Guidelines for 2014-2016. The Bank's participation in international financial regulatory and supervisory bodies is highlighted (Box 1), and there is an assessment of the impact on the Bank's activity of the SSM's first year of operation (Box 2).

1.1. Macroprudential supervision and regulatory framework

In 2015, Banco de Portugal continued to work to identify leading indicators to signal risks and vulnerabilities to financial stability, including indicators to aid decisions on capital reserves, one of the main macroprudential policy instruments.

The Bank analysed the Funding and Capital Plans of Portuguese banks and prepared new reporting models adapted to the accounting and prudential reporting frameworks subsequently introduced (Financial Reporting – FINREP and Common Reporting – COREP).

In 2015, the European Central Bank (ECB) carried out a comprehensive assessment of nine European banks which had not participated in the 2014 exercise when the SSM was created. Banco de Portugal collaborated in the

development of the stress test of Novo Banco S.A., the only Portuguese institution involved in the 2015 exercise.¹ As in the preceding exercise, a common methodology and macroeconomic scenario were used for all the banks.

The Bank also deepened its analysis of the real estate market and the financial sector's exposure to it, undertaking a first assessment of the ratios between the value of loans for house purchase and the value of the mortgage and income of the borrower.

The Bank's assessment of the risks to financial stability was complemented by the half-yearly publication of the Financial Stability Report and quarterly analyses of the banking system.²

In compliance with the Recommendation of the European Systemic Risk Board (ESRB) on intermediate objectives and instruments of macroprudential policy,³ at the end of 2015, the Bank defined and published its strategy to execute this policy.⁴ It also selected macroprudential instruments and activated measures aimed at preventing the main sources of systemic risk to the Portuguese financial system,⁵ amongst which are: (i) bringing forward the creation of a capital conservation buffer of 2.5 per cent of the risk-weighted positions, from January 2016;⁶ (ii) identification and imposition of additional capital buffers on systemically important institutions at a national level, to be complied with from January 2017;⁷ and (iii) setting the countercyclical capital buffer calibrated at 0 per cent, to prevail in the first quarter of 2016.⁸

The Bank participated in the work to define and implement technical standards related with the CRR/CRD IV package (Capital Requirements Regulation and Directive) and, within the context of the SSM, with the draft regulation and guide of the ECB on exercising options and discretions in terms of the prudential requirements applicable to credit institutions. In domestic terms, the Bank standardised the accounting regime applicable to the entities subject to its supervision.⁹

The Bank has pursued intense activity in the different national and international fora related to financial stability and prudential regulation, with stress on the National Council of Financial Supervisors, the ESRB, the ECB and the European Banking Authority (EBA) (Box 1).

1.2. Prudential supervision

In 2015, Banco de Portugal had to adapt its prudential supervision activity to the new systems, methodologies and procedures resulting from the SSM's first year of operation, both in terms of significant institutions and less significant institutions (Box 2). The interconnection between all the teams of Bank staff, the use of common methodologies in SSM countries, the multilateral and multidisciplinary support within the scope of the inspection teams and horizontal analyses, and the final decisions resulting from the supervisory process were developed in line with the requirements of the new European supervisory system.

The Bank consolidated its articulation with the SSM's structures and completed the reorganisation of its internal microprudential supervisory structure. The model inspection and validation functions were given autonomy to ensure their independence in terms of the areas of direct supervision, which bear the main responsibility for the prudential supervision of the institutions. In this context, the Bank undertook 24 on-site activities: 15 inspections and nine investigations relating to the validation of internal models. Of these activities, 62.5 per cent were at significant institutions.

The supervision of institutions' internal governance was reinforced through on-site inspections of the management structures and internal control functions. In this context, the Bank assessed the suitability of the members of the management and supervisory boards of the supervised institutions, in terms of good repute, professional experience and qualification, availability and independence. The respective qualified participants were also assessed according to good repute and professional qualification criteria.

The Bank implemented supervisory methodologies and processes in line with those developed by the EBA and SSM, namely the Supervisory Review and Evaluation Process (SREP). These procedures, undertaken annually for each entity, aim to guarantee that the supervised entities have adequate own funds and liquidity to face the risks they are, or may become exposed to, and that they have solid and comprehensive governance, internal control and risk management processes. The SREP assesses the need to apply supervisory measures, including the imposition of specific own funds requirements in excess of the minimum regulatory capital requirements. The Bank has issued specific recommendations and assessed corrective measures, whose implementation is monitored regularly.

Following the end of the Economic and Financial Assistance Programme in 2014, the Bank participated in biannual post-programme surveillance missions which covered the area of prudential supervision, as the monitoring of the Portuguese banking system is included in the respective agendas. The monitoring of some Portuguese banking institutions' exceptional situations also required additional effort by the Bank's human resources allocated to supervision, namely due to the situation of Banif – Banco Internacional do Funchal, S.A. (Section 1.5).

The Bank monitored the viability and sustainability of banking groups, based on the supervisory model adopted since 2011, which is more intrusive, more focused on risk, and more cross-sectional and forward-looking.

The number of credit institutions, financial companies and payment institutions registered in Portugal increased from 375 at the end of 2014 to 377 at the end of 2015, countering the decline observed in recent years (Table 1.1).

Table 1.1 • Institutions registered in Portugal

	Institutions registered		Registrations		Cancellations	
	Number of Institutions		Number of Institutions		Number of Institutions	
	2014	2015	2014	2015	2014	2015
Credit institutions ⁽¹⁾	189	176	2	2	6	4
Financial companies ⁽²⁾	93	102	0	4	7	6
Payment institutions	35	41	8	6	1	
Electronic money institutions	1	3	1	2		
Representative offices of credit institutions and financial companies having their head office abroad	20	19	1		2	1
Holding companies	37	36		1	7	2
Total	375	377	12	15	23	13
Credit institutions having their head office in an EEA country,* providing cross-border services	496	507	21	22	13	11
Payment institutions having their head office in an EEA country,* providing cross-border services	203	250	43	56	5	9
Electronic money institutions having their head office in an EEA country,* providing cross-border services	37	51	14	15		1

Source: Banco de Portugal.

1. Of which, on 31 December 2015, two were undergoing winding-up proceedings.

2. Of which, on 31 December 2015, fifteen were undergoing winding-up proceedings.

*European Economic Area

1.3. Banking conduct supervision

In 2015, Banco de Portugal supported, as regulator and supervisor, the implementation of changes to the regulatory framework of the retail banking markets which entered into force during the year.

In July, the rules concerning information requirements on consumer credit agreements entered into force,¹⁰ with institutions being obliged to send their customers a regular statement – on a monthly basis, as a rule – stating the evolution of such agreements. Thus, a right which already existed for housing credit and deposit accounts has been extended.

As a result of the change to the rules regarding minimum banking services,¹¹ the Bank reviewed the information requirements of credit institutions regarding the conditions to access these services,¹² broadened the reporting requirements,¹³ and reviewed the information published regarding this matter on the Bank Customer Website (Chapter 4 (only in Portuguese)). The number of minimum banking services accounts increased 73 per cent in 2015, reaching approximately 24,000 accounts by the end of the year.

As regards the commissioning of banking products and services, the principle that commissions charged by credit institutions have to correspond to the services actually provided was legally defined. Furthermore, rules were also established regarding the information to be made available on commissions and fees associated with demand deposits and returned cheques.¹⁴

Within the context of the growing acceptance of payments made with contactless cards, the Bank supplied the credit institutions with a number of best practices on the information to be provided within the scope of the use of these cards.¹⁵

As regards inspections, priority was given to supervising the regimes for prevention and management of non-compliance and consumer credit, focusing on compliance with maximum interest rates and information and conduct requirements. The availability of pre-contractual information and compliance with the requirement to provide customer service were assessed for the main credit and deposit products. As a result of changes to the minimum banking services regime, this was also subject to inspections.

The Bank has monitored advertising and maximum rates on consumer credit, and pre-contractual information of indexed and dual deposits, which have increased by 14 per cent. It also monitored the behaviour of the institutions by analysing bank customers' complaints. 13,487 complaints were received concerning issues related with the Bank's competencies within the scope of market conduct supervision, *i.e.* five per cent fewer than in 2014.

In order to correct the irregularities detected, 1,034 recommendations and specific orders were issued, mostly covering compliance with legal and regulatory rules governing consumer credit and housing credit, including issues related to default management (Table 1.2). 215 administrative offence proceedings were also initiated.

Table 1.2 • Recommendations and specific orders

	Number
Advertising	66
Price lists	59
Deposits	150
Housing credit and other mortgage credit	297
Consumer credit and other credit	310
Payment instruments	123
Complaints book	29
Total	1,034
Memo Item:	
Regimes for prevention and management of arrears on credit agreements	361
Arrears regime	68
Legal framework of minimum banking services	36

Source: Banco de Portugal.

Note: Recommendations and specific orders fall within the scope of the legal framework applicable to each of the regimes identified.

To promote the financial information and education of bank customers, the Bank used the Bank Customer Website as a priority channel and organised training sessions, with an increasing participation of its regional network of agencies and the Branch (Chapter 4).

As part of the National Plan for Financial Education, the Bank developed various initiatives with the other financial supervisors. Special mention should be made to the Bank's collaboration with the Ministry of Education and Science, within

the scope of the implementation of financial education in schools and to the partnerships with CASES – *Cooperativa António Sérgio para a Economia Social* (António Sérgio cooperative for social economy) and with the Public Agency for Competitiveness and Innovation (*Agência para a Competitividade e Inovação I.P.* – IAPMEI), in projects aimed at social entrepreneurs and managers of micro, small and medium-sized enterprises, respectively. An e-learning platform was also launched.¹⁶

At international level, the Bank participated in the work of the European Commission and the EBA in terms of consumer protection as well as in various international discussion fora on the regulation and supervision of the conduct of the institutions and in the International Financial Consumer Protection Organisation (FinCoNet),¹⁷ where it led a working group on the security risks for online and mobile payments.

1.4. Legal enforcement

In 2015, The Bank reviewed nine proceedings regarding the possible withdrawal of authorisation granted to credit institutions and financial companies, and initiated 33 proceedings of possible re-evaluation (based on supervening facts) of the suitability of members of the management and auditing boards of institutions subject to Banco de Portugal's supervision and registration. In some cases, these proceedings led to the cancellation of the respective registration with Banco de Portugal for the exercise of the functions in question, or to renouncing the exercise of such functions, on the initiative of those concerned. The Bank also monitored 11 winding-up proceedings of credit institutions and financial companies, under the responsibility of State commissioners, judicial liquidators or liquidation committees appointed for the purpose. The relationship between the Bank and the ECB strengthened in the context of the SSM, as a concerted effort was required to analyse and prepare proposals to cancel the authorisation of entities subject to Banco de Portugal's supervision.

Enforcement activity was especially demanding in 2015. On the one hand, there was a very substantial increase in the number of

administrative offence proceedings initiated (155 more than in 2014). On the other hand, the Bank worked on proceedings of substantial size and complexity, which mobilised a very significant part of the resources allocated

to legal enforcement. In fact, this explains the slight decrease in the total number of proceedings settled during the year (17 fewer than in 2014) (Table 1.3).

Table 1.3 • Administrative proceedings

Overall indicators	2012	2013	2014	2015	Δ 2015-2014
Proceedings carried forward from the previous year	91	85	134	171*	37
Proceedings initiated	76	183	128	283	155
Proceedings settled	82	134	99	82	-17
Proceedings pending at the end of the year	85	134	163	372	209

Source: Banco de Portugal.

*The difference between the number of proceedings under way at the end of 2014 and the proceedings carried forward to 2015 refers to decisions issued in 2014 in summary proceedings which were no longer accepted in 2015.

In terms of repressing non-authorised activity, the Bank undertook on and off-site investigations in the context of 197 proceedings which resulted in 12 administrative proceedings. It enforced the winding-up of three commercial companies which carried on illicit financial activity, addressed nine notices to the Prosecutor-General's Office reporting suspicious or alleged criminal offences, and issued six specific orders to correct the conduct of agents not authorised to operate in the financial system. It also issued public warnings on 17 persons and entities as well as another on financial pyramid schemes. During the year, 50 inquiries into non-authorised activity were started and 66 were closed. At the end of December, 131 proceedings were under way. The Bank also cooperated with the police and judicial authorities, participating in investigations and exchanging common interest information.

In the field of preventing money laundering and terrorist financing (MLTF), the Bank undertook on-site activities at supervised institutions to check the adequacy and robustness of the existing control mechanisms and assess compliance with the duties set out in the legislation.¹⁸ The Bank carried out seven general inspections and four prior evaluations of the adequacy of systems and procedures of the entities wishing to commence financial activities, as a result of which 188 corrective measures were issued (158 specific orders

and 30 recommendations). Two of these specific orders imposed the full suspension of operations on the recipient payment institutions following suspicion of money laundering. The off-site monitoring of the relevant entities was done essentially through the analysis of mandatory reporting to Banco de Portugal (RPB – *Relatório de Prevenção do Branqueamento* and QAA – *Questionário de Autoavaliação*). The Bank directly accompanied the negotiation process for the EU package of measures on preventing and countering MLTF,¹⁹ participated in EBA working groups and national and international group meetings on the theme,²⁰ integrated the working group which prepared the MLTF National Risk Assessment,²¹ and participated in the preparatory work to create the Anti-Money Laundering/Combating the Financing of Terrorism Coordination Committee (*Comissão de Coordenação das Políticas de Prevenção e Combate do BCFT*).²² Also in this area, the Bank submitted a draft Notice for public consultation which aimed to regulate the registration and communication to Banco de Portugal of funds transfers to offshore jurisdictions and disseminated relevant information throughout the financial system, including on the application of international sanctions and other restrictive measures imposed by the UN and EU and on jurisdictions with strategic inadequacies in MLTF prevention as identified by the FATF.

1.5. Resolution function

In 2015, Banco de Portugal continued work related to the implementation of the resolution measures applied to Banco Espírito Santo, S. A. (BES) in August 2014. The Bank promoted the sale process of the Resolution Fund's holding in Novo Banco, S. A. which was launched in December 2014 and was interrupted in September 2015, as the terms and conditions of the existing binding offers were unsatisfactory.²³ The Bank also exercised other powers arising from the setting-up of a bridge bank, clarifying and delimiting the perimeter for the transfer of assets, liabilities, off-balance-sheet items and assets under management to Novo Banco. In December, the Bank adopted a number of decisions that completed the resolution measure applied to BES, including the decision to confer again on that bank the rights and liabilities arising from non-subordinated bonds intended for institutional investors and issued with a denomination of €100 thousand.²⁴ The work of the Parliamentary Committee of Inquiry into the management of BES and Grupo Espírito Santo, which was established from October 2014 to May 2015, also led to an increased effort of analysis and compilation of information across the various functions of the Bank (Chapter 4).

The Bank's activity in the exercise of the resolution function was also marked, at the end of the year, by the resolution measures applied to Banif – Banco Internacional do Funchal, S. A. This consisted in the partial sale of Banif's activity and the separation and partial transfer of its activity to an asset management vehicle. This decision has made it possible to ensure the regular operation of the services provided by the institution and to protect depositors.²⁵

Technical work was also pursued to support the transposition of the Directive establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) and the Directive on deposit-guarantee schemes.

In 2015, the Single Resolution Mechanism came into force and the Single Resolution Board started its activity, taking on all

resolution powers on 1 January 2016. The Bank participated in initiatives related to the setting up and launch of that mechanism, started joint work for the preparation and design of the resolution plans and ensured the procedures for the calculation and collection of the contributions, as laid down in the Commission Delegated Regulation complementing the BRRD in terms of ex ante contributions to resolution funding mechanisms.²⁶

1.6. Deposit guarantee and resolution funds

Banco de Portugal provided the technical and administrative services required for the regular operation of the Deposit Guarantee Fund, the Mutual Agricultural Credit Guarantee Fund and the Resolution Fund. In particular, the Bank provided the means and human resources, including secretariat, accounting processing of the operations and preparation of the financial statements, as well as legal support. The Bank's support covered the management of the financial resources and the procedures for the collection of annual contributions.²⁷ In the case of the Resolution Fund, it also provided the necessary support to the exercise of functions as single shareholder of Novo Banco, S. A. In the regulatory field, the Bank set the relevant parameters for the calculation of contributions due by the institutions that are members of these Funds.

1.7. Payment systems oversight

In 2015, Banco de Portugal assessed the system processing retail payment transactions in Portugal (SICOI – Portuguese Interbank Clearing System) and the operational system supporting the Portuguese component of the large-value payment system (TARGET2-PT), and concluded that both comply with the applicable international oversight requirements. The Bank also started an assessment of the technological infrastructure of SIBS Forward Payment Solutions, S. A., the entity providing critical services to the payments market in Portugal, and concluded that the resilience, efficiency and governance levels are in line with international best practice.

BOX 1 | Banco de Portugal's participation in international financial regulatory and supervisory bodies

Banco de Portugal participates in international financial regulatory and supervisory bodies as member of the European System of Central Banks, prudential supervisory authority, resolution authority and macroprudential authority.

The Bank's international activity has been gaining accrued relevance, as a result of the EU's institutional transformation following the 2008 financial crisis. The EU's financial system was strengthened, a single rulebook was created and a European System of Financial Supervision was established. As a second step, the construction of Banking Union was started in response to the sovereign debt crisis in the euro area and the resulting financial fragmentation.

However, the fundamental changes in financial architecture in recent years were not limited to Europe. The global economic and financial crisis generated reforms worldwide and broad discussion on the structure and operation of the international monetary and financial system, including within the scope of the bodies in which the Bank is also involved. The international representation of Banco de Portugal in financial regulatory and supervisory bodies may be broken down into two main areas of activity: the European Union, especially at Banking Union level, and the other bodies at a global scale (Figure 1).

The Bank's involvement is necessarily deeper **within the scope of Banking Union**, in particular due to the direct impact of the decisions of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) on the national financial system. In this new framework, the activity of the Bank's staff is inseparable from the procedures carried out in the SSM and the SRM, particularly in the prudential supervision and financial stability areas. The Bank participates in approximately 20 technical groups, and 40 staff members take part in the SSM's Joint Supervisory Teams allocated to Banking Union's significant

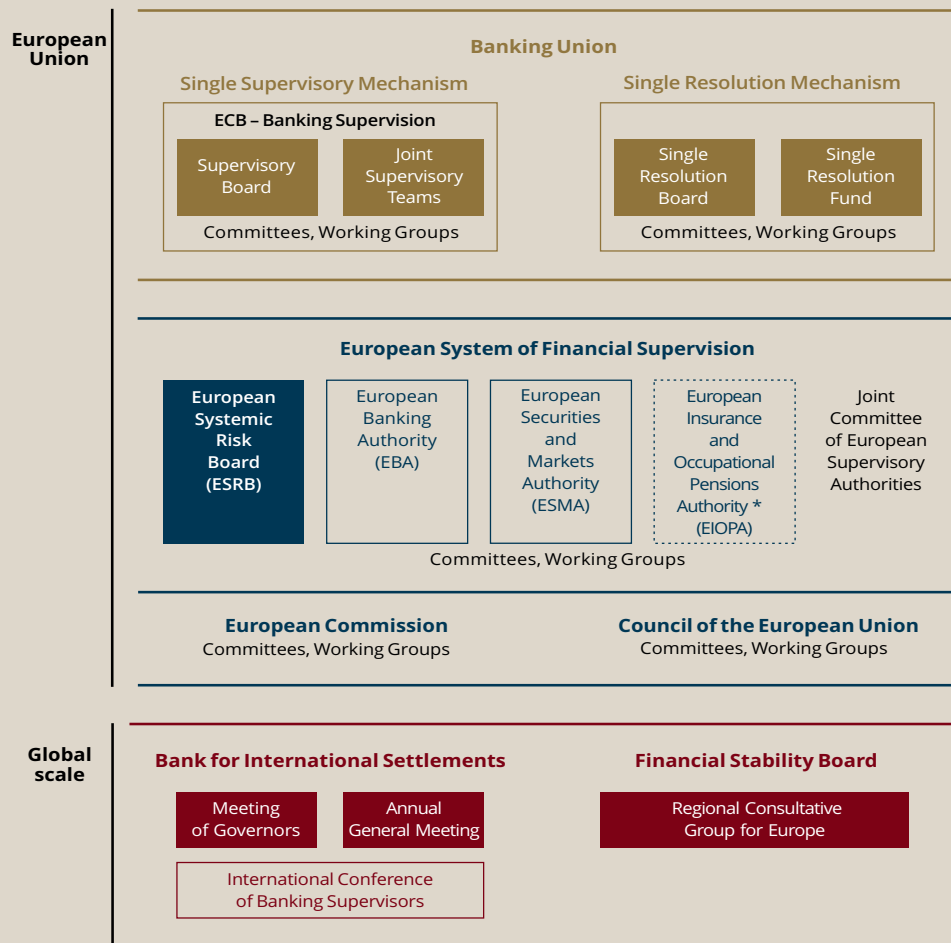
institutions. In addition, the representation on these mechanisms' highest decision-making bodies (Supervisory Council and Single Resolution Board) requires the involvement of the Bank's resources to monitor the respective agendas closely. Although the SSM and the SRM have only been fully operational since November 2014 and January 2016 respectively, the involvement of the Bank dates back to the start of the preparatory work in setting up these bodies. This included participation in the comprehensive assessment of major banks in the euro area carried out as part of the creation of the SSM.

Also as regards EU bodies, the recent deepening of financial integration, based on institutional reform and regulatory strengthening, required further coordination among Member States and, as a result, increased participation by Banco de Portugal in technical groups focusing on the financial area, namely within the European Commission and the EU Council. After the entry into operation of the European System of Financial Supervision in 2011, the Bank has also participated in various groups within the scope of the European Systemic Risk Board (ESRB) and the European Banking Authority (EBA), and is also represented in the Joint Committee of the European Supervisory Authorities. The Governor participates in the ESRB General Board, the entity responsible for macroprudential supervision of the financial system in the EU and the Bank is represented in 16 other groups of that body. In turn, EBA pursues its fundamental mission to ensure consistent prudential regulation and supervision in the EU. Its tasks include the direct contribution to the creation of a single rulebook for financial services and the identification of risks and vulnerabilities within the EU banking system, namely by developing EU-wide stress tests. EBA is also active within the scope of market conduct supervision, with a view to protecting consumers of retail banking products and services, monitoring

financial innovation and guaranteeing secure, simple and efficient payment services in the EU. Similarly to the SSM and the SRM, EBA's activities have a direct impact on the national banking system, requiring the involvement of Banco de Portugal, which translates into its participation in the highest decision-making body – one of the Bank's Vice-Governors is the Vice-Chair of EBA – and in more than 50 working groups.

At global level, the Governor participates in the Bank for International Settlements (BIS), specifically in the meetings of Governors, which are held on a bi-monthly basis, and in the Annual General Meeting. The Governor is also a member of the Regional Consultative Group for Europe of the Financial Stability Board (FSB). The BIS and the FSB are privileged *fora* of international cooperation for monetary and financial stability, and therefore are followed regularly by Banco de Portugal.

Figure 1 • Banco de Portugal's participation in international financial regulatory and supervisory bodies



*Banco de Portugal does not participate in specific groups of the European Insurance and Occupational Pensions Authority.

BOX 2 | The single supervisory mechanism after one year of operation – implications for Banco de Portugal's supervisory activities

The entry into force of the Single Supervisory Mechanism (SSM) on 4 November 2014 had significant implications for the supervisory activities, structures and methodologies of Banco de Portugal both at the preparatory phase and in 2015.

The SSM aims to promote a European banking system that is robust and efficient, and is supported by close cooperation between the ECB and the competent national authorities. This requires the harmonisation of the regulatory framework and the supervisory practices of participating Member States.

The SSM model of supervision separates significant credit institutions (under the ECB's direct supervision) and less significant credit institutions (under the direct supervision of competent national authorities, in cooperation with and reporting to the ECB), on the basis of quantitative and qualitative criteria (for example, the value of the institution's assets and its importance for a country's economy). This classification is regularly updated, which means an institution may be re-classified from significant to less significant or vice versa. At the end of 2015, the number of significant institutions totalled 129, accounting for almost 82 per cent of the euro area's banking assets.

The four largest Portuguese credit institutions (Caixa Geral de Depósitos, Banco Comercial Português, Banco BPI and Novo Banco) are part of the group of significant institutions. Since its creation, the SSM's prudential supervision is directly coordinated by the ECB, in cooperation with Banco de Portugal. In operational terms, the supervision is conducted by Joint Supervisory Teams (JSTs). These JSTs are mostly composed of Banco de Portugal staff (30 in these four teams). In addition to being part of the joint teams allocated to the four Portuguese banking groups, the Bank has staff in JSTs allocated to other significant institutions having their parent undertaking abroad. In total, 40 of the Bank's staff are members of the JSTs. The

supervision of less significant institutions is the direct responsibility of Banco de Portugal, which has its own direct supervision units, with an overall coordination, monitoring and technical support of the ECB's specific areas.

In 2015, as a result of joining the SSM and the operation of the new model of supervision, Banco de Portugal and the ECB made a considerable effort to establish and develop common methodologies that would be most appropriate. This had implications for analysis and risk assessment tools, the design of organisational structures and the management of resources. At a technical level, the Bank contributed to the development of new prudential supervision methods in ECB and EBA working groups, in addition to participating in the managing bodies of these authorities (Box 1). In the areas of prudential supervision and financial stability, as a whole, the Bank was involved in around 20 international working groups with particularly demanding agendas, which considerably increased the volume of work of teams involved and the number of missions.

In order to decrease the impact inherent to the entry into force of the SSM, the Bank's supervisory teams went through a gradual process of learning and applying the new methodologies and procedures defined by the SSM, in accordance with the guidance developed by the working groups described above.

With a view to facilitating communication and interaction with the ECB, Banco de Portugal adjusted its internal structure to that of the ECB, namely by separating the functions of direct off-site supervision, and on-site inspection and model validation. The Bank also invested strongly in the supervision of the institutions' internal governance. These developments have helped make the supervision process more complete, more solid and more comparable.

Under the SSM, the Supervisory Review and Evaluation Process (SREP) – the first

harmonised assessment of all euro area significant institutions – was carried out, combining quantitative and qualitative elements. A critical component of the SREP was the assessment of the different types of risk that institutions are exposed to, which was developed by the JSTs composed of Banco de Portugal and ECB staff. This annual assessment was also important to establish supervisory priorities and to issue recommendations and specific orders (Chapter 1).

In addition to its microprudential powers, with the entry into force of the SSM, the ECB was given macroprudential powers, which are shared with the national authorities of participating countries. Although national authorities are primarily responsible for defining macroprudential policy, the ECB may apply macroprudential requirements or measures that are more stringent than those set out by these authorities, regarding harmonised regulations across the EU (with the reciprocal obligation of issuing ex ante

notifications on measures to be adopted). Taking into account the strong interaction between national authorities and the ECB in this respect, the Bank contributed to developing a framework for the assessment of risks to financial stability and the operation of the SSM's macroprudential policy. In 2015 the Bank implemented macroprudential measures to prevent identified sources of risk, including bringing forward the capital conservation and additional capital buffers imposed on systemically important institutions (Chapter 1), and accompanied the macroprudential measures adopted by other EU countries.

Faced with the growing demand and complexity of supervisory and financial stability functions, the Bank has strengthened the human resources allocated to these areas both in number and expertise. This rejuvenated the staff in these areas and increased the share of staff with higher education, which accounted for 93.7 per cent at the end of 2015 (91.5 per cent in 2014).

Table 1 • Supervision and financial stability | Permanent staff by age and education

		2013	2014	2015	Δ 2015-2014
Total		352	378	441	63
Age group	<=25	19	27	25	-2
	[26;30]	98	102	107	5
	[31;35]	80	94	133	39
	[36;40]	42	43	56	13
	[41;45]	40	32	33	1
	[46;50]	20	21	28	7
	[51;55]	25	19	16	-3
	[56;60]	24	34	38	4
	[61;65]	3	5	3	-2
	>=66	1	1	2	1
Level of education	PhD	8	8	10	2
	Master's degree*	87	111	139	28
	Graduation*	227	227	264	37
	Other	30	32	28	-4
Course	Management	97	97	110	13
	Law	84	97	120	23
	Economics	69	74	91	17
	Finance	32	31	45	14
	Other	70	79	75	-4

Source: Banco de Portugal.

* Including pre-Bologna and Bologna.

2. Functions as monetary authority

As monetary authority, Banco de Portugal performs several shared tasks within the Eurosystem/ European System of Central Banks (ESCB). This chapter describes the main developments in each of these areas in 2015. It highlights the Bank's participation in international fora on the production and discussion of statistics (Box 3) and it also takes stock of the past 25 years of structured technical cooperation with central banks of emerging and developing economies (Box 4).

2.1. Economic research and advice

Impartial and high-quality economic analysis is key to an influential intervention at Eurosystem level, in Portuguese society and in academia. In 2015 Banco de Portugal drafted and published research on various fields, which resulted in texts with analyses and projections for the Portuguese economy, as well as articles signed by economists of the Bank.

In 2015, the first year following the exit from the Economic and Financial Assistance Programme, the Portuguese economy grew at a modest pace, close to that of the euro area, while major structural adjustment challenges remained. The discussion about the design and implementation of the institutional changes and policy measures needed to secure sustained growth and the consolidation of the integration process remained high on the euro area agenda. The research published by the Bank fostered greater knowledge of these dynamics and supported its participation in the Eurosystem and the economic advice it provided. This research continued to look into the interaction between micro and macroeconomic dimensions as well as real and financial developments. The Bank took a structural approach to understand the behaviour of markets and firms, and looked into fiscal policy issues and the efficient use of public funds. The articles included in the *Banco de Portugal Economic Studies* series share these key features. The research on ECB monetary

policy, financial intermediation in the euro area, and the Portuguese financial system and the labour market in Portugal deserves a special mention due to its relevance.

In the *Economic Bulletin*, the special issues aimed to articulate the research and analysis on recent developments and medium-term outlook for the Portuguese economy. Indeed, by looking into key structural issues, research and analysis contextualise and strengthen the short-term analysis and projections prepared by the Bank. In 2015 the issues focused on *The Portuguese labour market and the Great Recession*, *ECB's unconventional monetary policy: what has been done and did it work?*, *Demographic transition and growth in the Portuguese economy*, *European fiscal rules and the calculation of structural balances* and *An interpretation of the low sovereign yields in the euro area*.

Four new *Central Balance Sheet Studies* were published, on developments in non-financial corporations in Portugal from 2010 to 2015, enterprises in the export sector and the mechanical engineering and maritime sectors. These studies help to better characterise the Portuguese economy and provide firms with the opportunity to assess their position in the market.

Reflecting the Bank's investment in high-quality academic research, 27 articles were published in leading scientific journals, and various contributions were made to books of international standing. At the level of fundamental and applied research, biennial conferences were held on monetary economy and financial intermediation, as well as 26 seminars open to the public. Within the Eurosystem, the Bank participated in research networks, most notably those relating to macroprudential issues and corporate competitiveness, and organised related workshops attended by members of the international scientific community.

2.2. Monetary policy implementation

With regard to the decentralised implementation of Eurosystem monetary policy, Banco de Portugal conducts operations with credit institutions established in Portugal, manages collateral for credit operations, produces the daily forecast of the liquidity needs of the banking system and monitors compliance with minimum reserve requirements.

During the course of 2015 the Governing Council of the ECB made several decisions aimed at loosening financial conditions, promoting the recovery of inflation expectations and creating more favourable credit conditions for firms and households.

As regards standard measures, in December 2015 the ECB cut the interest rate on the deposit facility by 10 basis points (to -0.30 per cent) and decided to extend the fixed-rate procedures with full allotment for liquidity-providing operations at least until the last reserve maintenance period of 2017.

Turning to non-standard measures, and following the launch of two asset purchase programmes (the asset-backed securities purchase programme (ABSPP) and the third covered bond purchase programme (CBPP3)), in January 2015 the Governing Council decided to expand debt purchases to bonds issued by euro area central governments, agencies and European institutions, thus establishing the public sector purchase programme (PSPP). The combined monthly asset purchases of the three programmes will amount to €60 billion, to be carried out until at least September 2016. In order to support the effectiveness of the targeted longer-term refinancing operations (TLTROs) as key instruments supporting lending to the private non-financial sector, in January 2015 the Governing Council decided to adjust the interest rate on TLTROs by eliminating the 10 basis points spread applied in the first two operations conducted in 2014.

In December the Governing Council extended the deadline for the purchase of assets under the programmes until at least March 2017, to accept the purchase of debt instruments issued by regional and local governments and to reinvest the principal payments on the securities purchased as they mature in new securities to be purchased under the programme.

In 2015 the number of Eurosystem's open market operations fell markedly – to approximately half of the 2014 figure (Table 2.1). This was mostly due to the three-year longer-term refinancing operations maturing in January and February and, accordingly, the suspension of associated early repayments (100 in 2014 and only 10 in 2015). The suspension of one-month refinancing operations and weekly liquidity-absorbing fine-tuning operations associated with the Securities Market Programme (SMP) also contributed to this decline in the number of operations.

The 38 per cent decrease in open market operations in which institutions established in Portugal participated led to a reduction in the average balance of monetary policy operations to around €27 billion (Table 2.1). Recourse to the deposit and marginal lending facilities also fell significantly compared with 2014 (by 52 per cent), given that institutions only deposited funds with this facility once in the course of the year.

Following the full implementation of the asset purchase programmes (CBPP3, ABSPP and PSPP), the average balance of monetary policy portfolios in the Bank's balance sheet increased from €5,506 million to €10,250 million.

Table 2.1 • Monetary policy operations - main indicators

	2012	2013	2014	2015	Δ 2015-2014
Number of Eurosystem open market operations	194	288	249	128	-49%
Number of open market operations in which resident institutions participated	79	102	120	74	-38%
Number of uses of standing facilities by resident institutions	1,424	260	185	88	-52%
Average balance of monetary policy operations (resident institutions, EUR million)	53,771	49,698	39,455	26,972	-32%
Average balance of collateral pools (resident institutions, EUR million)	77,605	80,303	68,596	54,913	-20%
Average balance of monetary policy portfolios (EUR million)	7,194	6,612	5,506	10,250	86%

Source: Banco de Portugal.

Note: The average balance of monetary policy operations corresponds to the average balance of liquidity-providing operations net of the average balance of liquidity-absorbing operations.

As regards the updated list of eligible assets, the Bank analyses securities in the official quotation market of Euronext Lisbon and the Special Market For Public Debt. In 2015, 34 new securities were included in the list and 1,663 changes were made. At the end of the year, the Bank had reported 143 securities (a total of 33,561). Turning to assets mobilised as collateral by Portuguese counterparties, the overall average balance declined by around 20 per cent, standing at approximately €55 billion in 2015.

In the context of developments in information systems supporting monetary policy implementation, on 29 June 2015 the first version of the Collateral Management System (COLMS) was launched, providing functionalities associated with collateral management, monetary policy operations and the intraday credit line on TARGET2. Progress was made on the new IT system for tenders (SITENDER), which will be used to conduct Eurosystem open market operations as of the first quarter of 2016, making it possible to phase out SITEME, Banco de Portugal's market electronic transfer system. The unsecured Interbank Money Market platform (MMI/SG) was deactivated on 1 July 2015, as a result of a fall in activity in this market.

2.3. Asset management

The Bank manages two types of asset portfolios: (i) the ECB's foreign reserve portfolio,

corresponding to the initial transfer of foreign reserve assets from Banco de Portugal, according to its capital key; and ii) the Bank's own investment asset portfolio.

The Bank's non-monetary policy holdings are conditioned by the limit established in the Agreement on Net Financial Assets between the national central banks of the euro area and the ECB²⁸.

ECB foreign reserve management

The management of the ECB's foreign reserves is decentralised, in compliance with rules, procedures and guidelines defined by the ECB. On the basis of a currency specialisation model, Banco de Portugal manages a portfolio denominated in US dollars as of early 2012 and the ECB's reserves allocated to Lietuvos Bankas since January 2015. As at 31 December 2015 this portfolio accounted for USD 1,697 million, *i.e.* €1,559 million.

Management of the Bank's own investment assets

The Bank's own investment asset portfolio is composed of assets denominated in euro, foreign currency and gold. Assets in the trading portfolio are actively managed and valued at market prices, while those in the medium-term investment portfolio are held to maturity and valued at amortised cost. Although valued at market prices, assets in gold are passively managed.

As at 31 December 2015 the Bank's own investment asset portfolio amounted to €35,276 million, increasing by 5.1 per cent year-on-year largely due to the decision to raise the amount of assets.

The trading portfolio at market prices and year-end exchange rates increased by 10.7 per cent. 73.2 per cent of the total relates to euro-denominated securities. The medium-term investment portfolio increased by 8.2 per cent due to the reinvestment of funds and the incorporation of income generated. As in previous years, the quantity of gold held by Banco de Portugal remained unchanged (at 382.5 tons). In euros, the value of gold decreased by 1.5 per cent. This change was due to a decrease in USD-denominated gold prices, which was partly offset by the depreciation of the euro.

Net financial assets

In the scope of the Agreement on Net Financial Assets, which sets rules and limits for non-monetary policy holdings of participating central banks, as at 31 December 2015 the Bank held €16,147 million in net financial assets.

2.4. Statistics

Banco de Portugal compiles and produces monetary, financial, foreign exchange and balance of payments statistics, inter alia as part of its ESCB tasks.

In 2015 the Bank had in place an integrated management system for microdata databases (the Central Balance Sheet Database, the Central Credit Register and the Securities Statistics Integrated System), thus helping to improve quality, detail and consistency of its statistics and supporting the preparation of studies and analyses on the Portuguese economy. The Bank also chaired for the second of a three-year mandate the European Committee of Central Balance-Sheet Data Offices (ECCBSO) and continued to chair the Working Group on Bank for the Accounts of Companies Harmonised (BACH) under the aegis of the ECCBSO and the ESCB's Statistics Accessibility and Presentation Group (Box 3).

After formally joining the Legal Entity Identifier (LEI) project in 2014, following a G20 recommendation, the Bank continued to foster the development in Portugal of a single and universal identifier of entities. LEI will make it possible to identify transactions between entities at international level and cross-check information from various international databases.

Pursuant to the Law on the National Statistical System, the Bank, as statistical authority, participated in the plenary meetings of the Statistical Council, as well as in meetings of relevant sections and substructures.

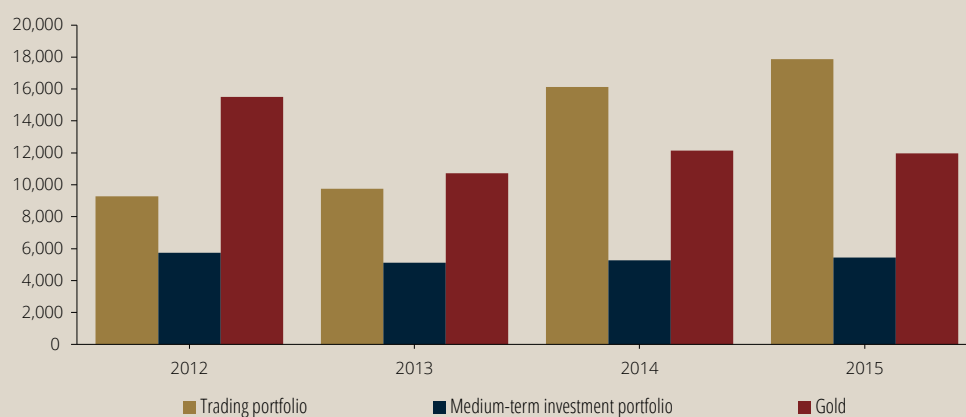


Chart 2.1 •
Own investment
asset portfolio
| Million euros

Source: Banco de Portugal.

Institutional cooperation in statistical production, both at national and international level, materialised in the form of 20 technical assistance and cooperation initiatives and 69 presentations in seminars, conferences and other events.

2.5. Payment systems

Gross payment systems

In 2015 the real-time gross settlement system for euro payments operated by Portugal (TARGET2-PT) processed 1.75 million transactions, to the amount of €2,892 billion. Compared with 2014, the settled volume and amounts fell by 4.3 and 21.8 per cent respectively (Chart 2.2). Overall, the downward trend was broadly based across all types of transactions. However, it was particularly marked for cross-border inter-institutional transactions, which accounted for 59 per cent of this decline. Over the course of the year, the system's operational availability was at 100 per cent.

Securities settlement platform

On 22 June 2015 the new pan-European platform for securities settlement in central bank money went live: TARGET2-Securities – T2S. The first migration wave was successfully concluded and the following stages should be finalised by 2017. The preparation of the second migration wave, which was scheduled

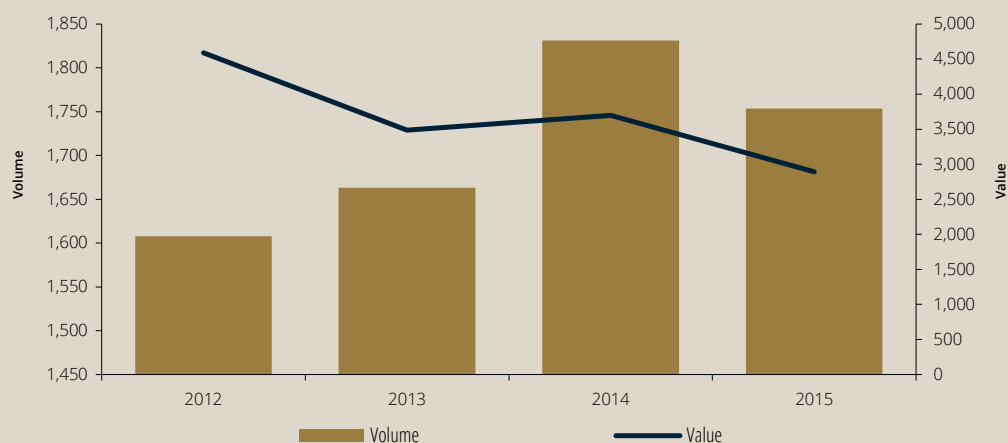
for 28 March 2016, involved the testing of the T2S platform and user training activities.

Retail payment systems

The payment systems where retail payment operations by economic agents are cleared (Interbank Clearing System – SICOI) processed approximately 2.2 billion operations in 2015, to the amount of €357 billion. Payment cards (Multibanco) and transfers were the most widely used payment instruments, in terms of volume and value respectively. Over the past few years, the use of electronic payment instruments has increased, to the detriment of cheques. In 2015 this trend shifted only in the case of direct debits, largely due to the fact that a number of domestic creditors started to collect via foreign banks (Charts 2.3 and 2.4).

Banco de Portugal led a number of initiatives related to the implementation of the Single Euro Payments Area (SEPA), most notably to make payment service providers, firms and government bodies aware of the need to adopt practices compatible with European rules²⁹ and, as such, to guarantee that payments and collections continue to be processed in an orderly way. The Bank also participated in EU-level discussions about intermediation rates applicable to card-payment transactions and the provision of payment services at domestic level.³⁰

Chart 2.2 •
Overall
transactions
through
TARGET2-PT
| Volume in
thousands
and value
in € billions



Restrictions on the use of cheques

In order to prevent the unlawful use of cheques, Banco de Portugal manages and publishes a List of Cheque Defaulters across the banking system. In 2015, 13,324 entities were added to the list, while 20,586 were removed (upon expiry of the legal period or following a decision of Banco de Portugal, within the tasks entrusted to it by the legal framework governing bad cheques). As at 31 December 2015 the list included 23,124 entities.

2.6. Currency issuance

Banco de Portugal issues euro banknotes, which are legal tender and have discharging power,

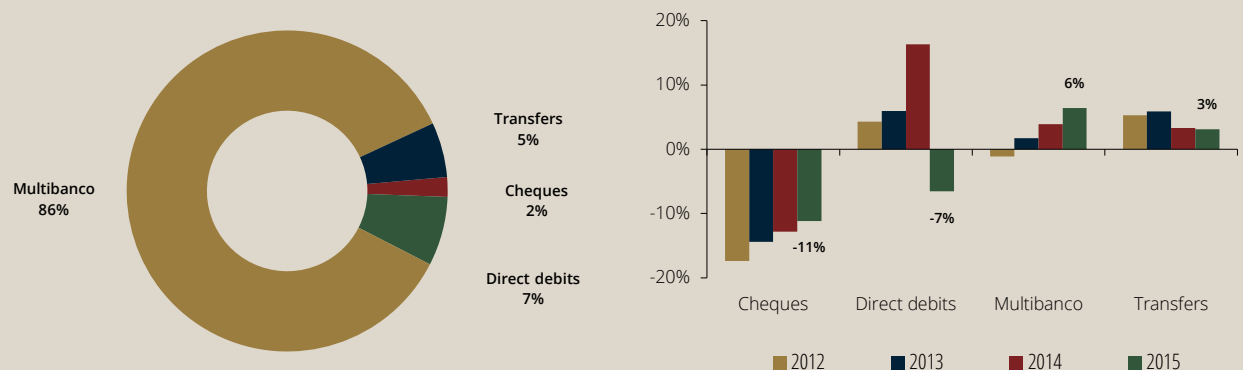
and puts metal coins into circulation, including commemorative and collector coins. The European Central Bank has the exclusive right to authorise their issue.

In 2015 the Bank participated in the development of the second series of euro banknotes (the Europa series), also by helping bringing the new €20 banknote into circulation.

Euro banknote production

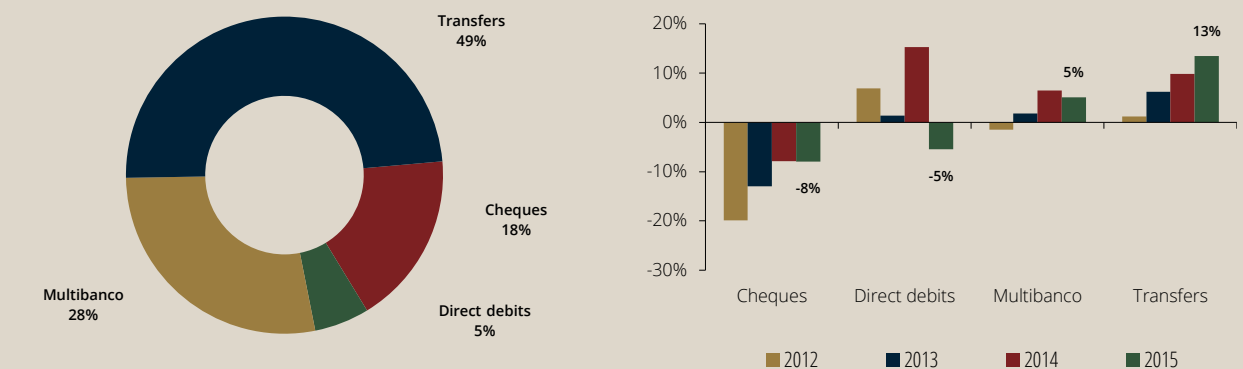
The production of euro banknotes is decentralised within the ESCB. Each national central bank is responsible for the annual production of one or more denominations, to meet its own needs and to distribute among other NCBs.

Chart 2.3 • Relative weight of payment instruments in SICOI in 2015 and year-on-year growth rates | Volume of transactions



Source: Banco de Portugal.

Chart 2.4 • Relative weight of payment instruments in SICOI in 2015 and year-on-year growth rates | Volume of transactions



Source: Banco de Portugal.

In 2015, as in previous years, the production tender for Portugal was awarded to Valora S. A., a printing works fully owned by Banco de Portugal. Valora produced 132.03 million banknotes of the Europa series: 29.2 million €20 banknotes, 80.6 million €5 banknotes and 22.3 million banknotes as part of the pilot project to produce the €50 banknote. In compliance with the delivery schedule among NCBs, the Bank sent 260 million banknotes and received 178 million, involving various denominations and several Eurosystem central banks.

In 2015 Banco de Portugal implemented the ECB's requirements on the specific NCB security checks that must be met when producing euro banknotes.³¹

Banknote sorting

All banknotes deposited with Banco de Portugal are counted and checked one by one

for authenticity and fitness. The Bank thus ensures that all recycled cash is genuine and meets minimum quality requirements. In 2015 the Bank processed 640.6 million banknotes, 179.5 million of which were deemed unfit for recycling.

Detection of counterfeit banknotes and coins

In 2015, 8,587 counterfeit banknotes were withdrawn from circulation, 663 fewer than in the previous year (Table 2.2). Total banknotes withdrawn in Portugal corresponded to 1 per cent of total banknotes seized in the euro area. €20 and €50 banknotes continued to be seized the most, similar to the Eurosystem as a whole.

Table 2.2 • Counterfeit banknotes seized in Portugal | 2012-2015

Denomination (€)	Volume of banknotes				
	2012	2013	2014	2015 ⁽¹⁾	Δ 2015-2014
500	38	651	26	44	18
200	98	171	83	96	13
100	534	650	477	600	123
50	5,855	5,897	2,888	2,404	-484
20	4,229	3,331	4,755	4,755	0
10	571	459	946	611	-335
5	115	69	75	77	2
Total	11,440	11,228	9,250	8,587	-663

Source: Banco de Portugal (CMS2).

1 Data from the Counterfeit Monitoring System as at 11 January 2016.

Over the same period, 3,424 counterfeit coins were withdrawn from circulation, 929 fewer than in the previous year. Total coins seized in Portugal accounted for 2.3 per cent of total coins detected in the euro area. Counterfeit €2 coins continued to be seized the most, as was the case in the Eurosystem as a whole.

2.7. International representation and institutional cooperation

In an increasingly integrated and interconnected economy, the exercising of day-to-day tasks entrusted to Banco de Portugal depends

progressively more on a cross-cutting and intense international activity. At the end of 2015 approximately 300 staff members participated in over 390 groups related to the Bank's various areas of operation (Chart 2.5). The Bank's international representation mostly focuses on its participation in the Eurosystem/ESCB and other EU institutions (Figure 2.1). Banco de Portugal also participates in other international economic and financial institutions, such as the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD).

Banco de Portugal also cooperates closely with emerging and developing countries, in particular its counterparts in Portuguese-speaking countries.

In 2015 the ECB's agenda continued to focus chiefly on monetary policy decisions, most notably non-standard measures. This was also the first full operational year of the Single

Supervisory Mechanism (SSM) (Box 2), and the TARGET2-Securities platform was launched: two important milestones towards a deepening of EU financial integration.

Banco de Portugal and the Governor are entrusted with responsibilities under the framework of Portugal's relationship with the IMF, including financial and other

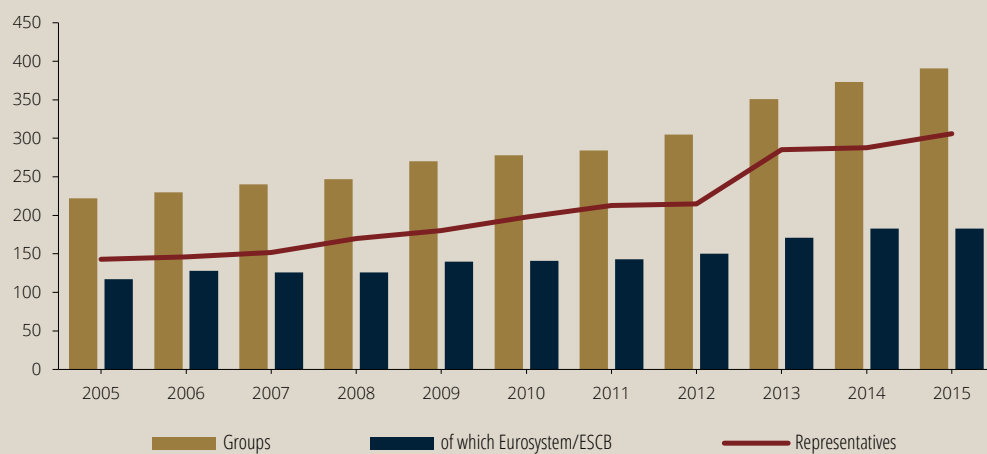


Chart 2.5 •
International
institutional
representation of
Banco de Portugal
| 2005-2015

Source: Banco de Portugal.

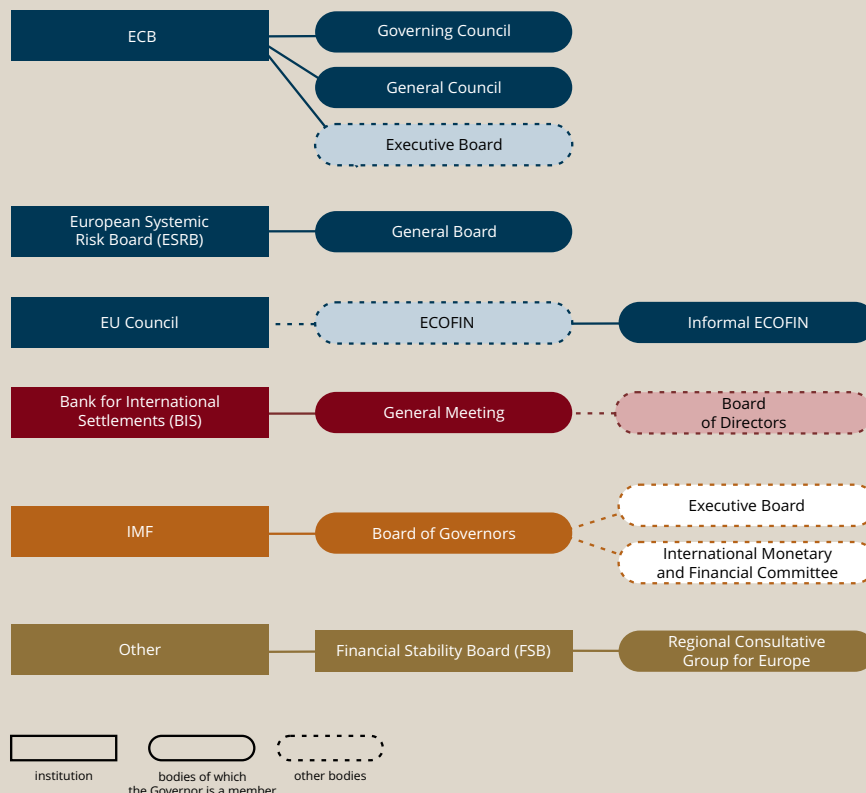


Figure 2.1 •
International
representation
of the Governor –
main institutions

Source: Banco de Portugal.

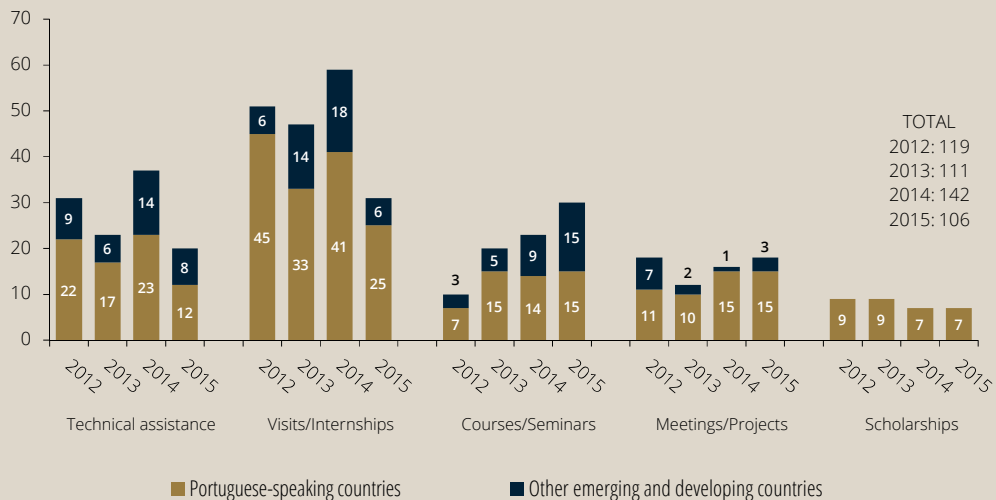
responsibilities related to the Fund's agenda and decision-making processes. In 2015 the IMF's agenda focused on the implementation of the 2010 reform of members' quotas and governance (which was concluded in early 2016), work related to the provision of financial assistance and economic advice to members, the review of the Special Drawing Rights (SDR) valuation method (and subsequent decision to include the renminbi in the SDR basket), the assessment of the IMF's role during the global financial crisis and major decisions on sustainable development and development funding. A regular consultation under Article IV of the IMF Articles of Agreement was conducted in Portugal as well as the second post-programme monitoring mission, in parallel with the post-programme surveillance mission by European institutions.

In 2015 the Bank commemorated the 25th anniversary of structured technical cooperation with emerging and developing countries (Box 4). As well as initiatives linked to this celebration,

the Bank held the 25th Lisbon Meeting between Portuguese-speaking central banks, which is an annual forum bringing together the highest officials from these institutions and where the most recent developments in Portuguese-speaking countries and issues of common interest are discussed. In 2015 the number of cooperation initiatives decreased (Chart 2.6), which was chiefly due to two exogenous factors: (i) adjustment processes in the activities of a number of central banks of Portuguese-speaking countries, and (ii) the conclusion of technical assistance projects to central banks of candidate countries and potential candidates to the EU, within the cooperation framework coordinated by the ECB and funded by the EU. The Bank continued to actively participate in the bodies responsible for the sound operation of the Exchange Rate Cooperation Agreement between Portugal and Cabo Verde and the Economic Cooperation Agreement between Portugal and São Tomé and Príncipe.

Chart 2.6 •
Cooperation plan
| Number of
initiatives
| 2012-2015

Source: Banco de Portugal.



BOX 3 | Participation of Banco de Portugal in international fora on the production and discussion of statistics

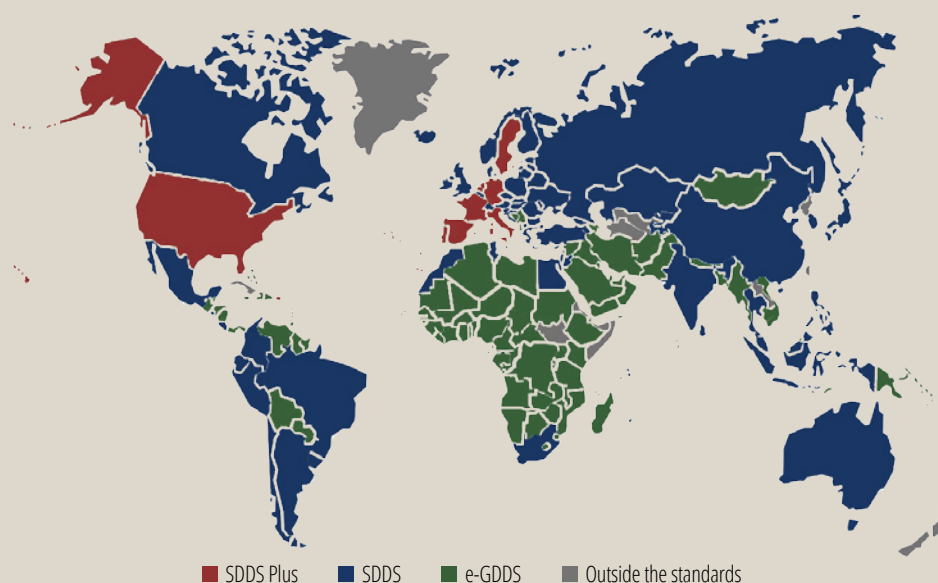
Banco de Portugal collects and prepares monetary, financial, foreign exchange and balance of payments statistics, particularly within the scope of its collaboration with the ECB. The Bank's responsibilities in the production of statistics are set out in its Organic Law and the Law on the National Statistical System, which recognises the capacity of the Bank as statistical authority. The Bank also complies with the statistical requirements of other international organisations, namely Eurostat, the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD). In 2015 the quality of Portuguese statistics was proven when the country adhered to the Special Data Dissemination Standard Plus (SDDS Plus), the IMF's most stringent standard for statistical dissemination. Portugal became part of a restricted group of eight countries

that comply with this new standard (Figure 1) and is the only one that fully observed the nine categories from the start. Participation in SDDS Plus was the result of intense work, which was coordinated by Banco de Portugal and involved Statistics Portugal and the Ministry of Finance.

Banco de Portugal cooperates with a considerable number of foreign entities with responsibilities in the field of statistics, specifically by: (i) chairing committees and working groups in international fora on the production and discussion of statistics; (ii) participating in steering or advisory committees operating under the aegis of several international organisations relevant for statistical purposes; (iii) developing cooperation and technical assistance initiatives; and (iv) speaking at seminars and conferences.

Banco de Portugal has assumed important responsibilities in several international fora, such as: (i) chairing (2011 to 2012) and

Figure 1 • IMF Dissemination Standards



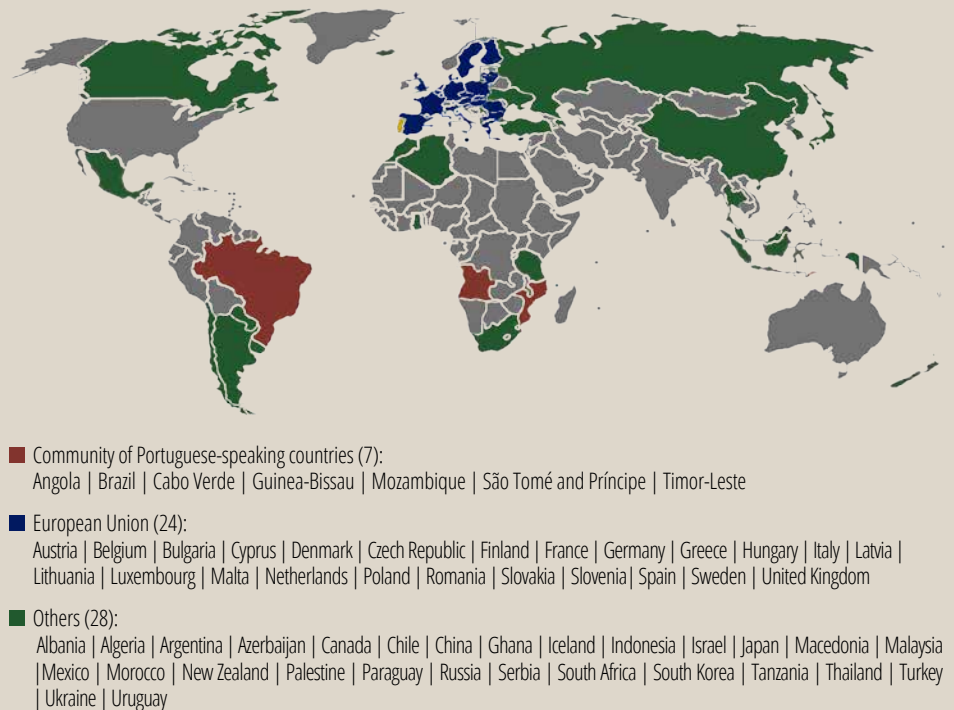
Source: IMF (<http://dsbb.imf.org/>).

participating in (from 2009) the Executive Body of the Committee on Monetary Financial and Balance of Payments Statistics (CMFB),³² the main forum for the coordination of European statistical activities; (ii) chairing the European Committee of Central Balance-Sheet Data Offices (ECCBSO) (from 2013),³³ which aims to improve the analysis of non-financial corporations on the basis of information from the national Central Balance-Sheet Data Offices; (iii) chairing the Statistics Accessibility and Presentation Group (STAP) (since its creation in 2013), created by the ESCB Statistics Committee to improve the accessibility of ESCB statistics; (iv) chairing the Working Group on Bank for Accounts of Companies Harmonised (BACH) (from 2012), which manages a database containing harmonised annual accounts statistics of non-financial corporations; (v)

co-chairing the Joint Task Force on Analytical Credit Datasets, responsible for the AnaCredit project, launched by the ECB in 2011.

Since 2014, the Bank also participates in: (i) the executive committee of the Irving Fisher Committee on Central Bank Statistics (IFC), which operates under the auspices of the BIS and is the main global forum for discussing central bank statistics; (ii) the Government Finance Statistics Advisory Committee – by invitation of the IMF – created with the aim of promoting the development of government finance statistics; (iii) the Advisory Committee of the Financial Information Forum (FIF) – by invitation of the Center for Latin American Monetary Studies (CEMLA) – created to be a forum for Latin American and Caribbean Central Banks to improve their financial information models; and (iv) the Regulatory Oversight Committee

Figure 2 • Banco de Portugal cooperation and technical assistance initiatives within its statistical function in the past 15 years



Source: Banco de Portugal.

(ROC), responsible for developing the Legal Entity Identifier (LEI) project, a unique universal identifier for entities that engage in financial transactions and, progressively, of all statistically relevant entities.

For the past 15 years, Banco de Portugal also developed, within the statistical function and the management of micro-databases, cooperation and technical assistance initiatives with 59 countries from five continents (Figure 2). In 2015 the Bank participated in initiatives with entities from 18 countries.

Among the presentations by the Bank in international seminars and conferences on

statistics in 2015, the following are the most relevant:

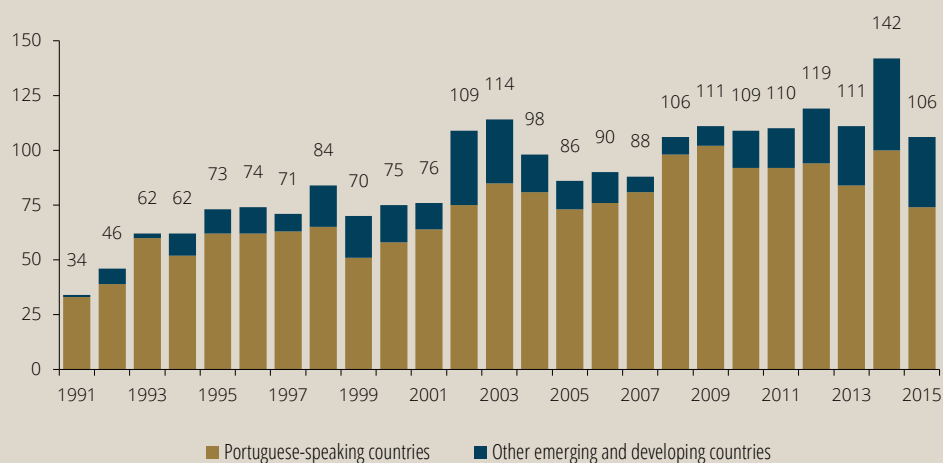
- (i) the ECB Conference European Statistics by the ESCB, to celebrate the World Statistics Day;³⁴
- (ii) the Conference ISI 2015 – 60th World Statistics Congress;³⁵
- (iii) the 1st Conference Statistics for Economic and Financial Analysis, organised by the Central Bank of Chile;³⁶
- (iv) the Workshop Combining micro and macro statistical data for financial stability analysis, organised by the Narodowy Bank Polski;³⁷
- and (v) the 1st meeting of CEMLA's Financial Information Forum.³⁸

BOX 4 | 25 years of cooperation

In 2015 Banco de Portugal celebrated 25 years of structured technical cooperation with counterpart institutions in emerging and developing economies, particularly the central banks of the Portuguese-speaking countries. Although these partnerships have older roots, they were significantly restructured at the start of the 1990s, when various initiatives and innovative cooperation formats were launched,

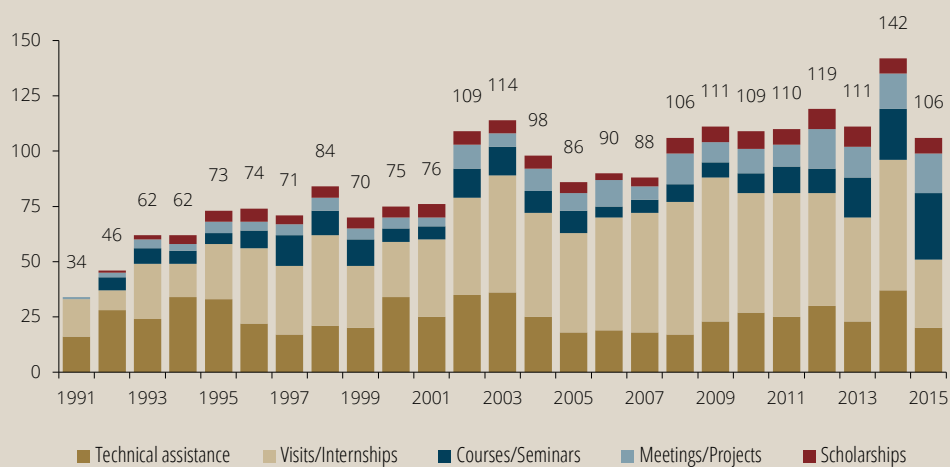
in particular: the organisation, in 1991, of the 1st Lisbon Meeting among the Governors of the Portuguese-speaking central banks; the opening, in 1992, of a Banco de Portugal Delegation in Angola (at the same time as a Banco Nacional de Angola Delegation opened in Portugal, both operational until 2004); and also the launch, in 1993, of experts' meetings among Portuguese-speaking central banks.

Chart 1 • Cooperation activity | Number of activities



Source: Banco de Portugal.

Chart 2 • Type of activity | Number of activities



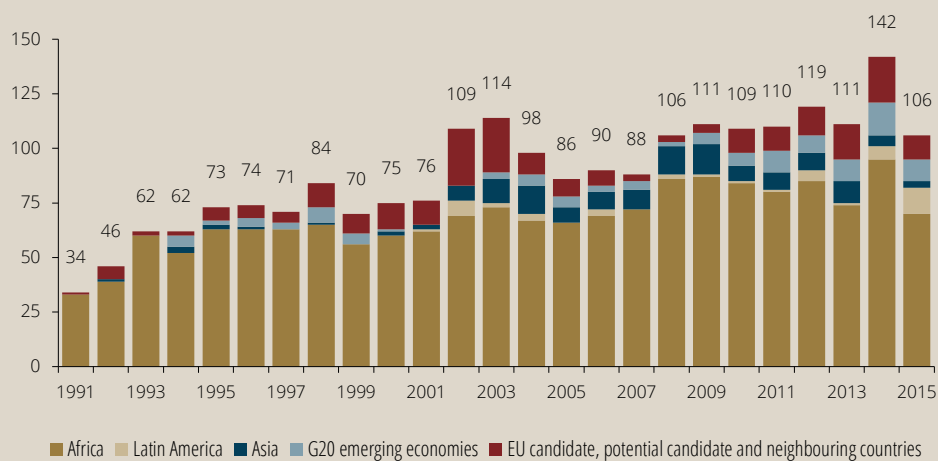
Source: Banco de Portugal.

Since then, the cooperation activity of Banco de Portugal has covered all areas of central banking, adapting to its developments and growing demands. This cooperation takes several forms, including technical assistance, work visits, internships, courses, seminars, meetings, multilateral projects and scholarships, which have resulted in over 100 initiatives a year. Through these initiatives, Banco de Portugal has remained in contact with more than 60 central banks over these 25 years.

In the first few years, activity focused essentially on supporting restructuring processes for the financial systems of the Portuguese-speaking African countries, stemming from the separation of the central bank and retail banking functions, which previously had been carried out by a single institution.

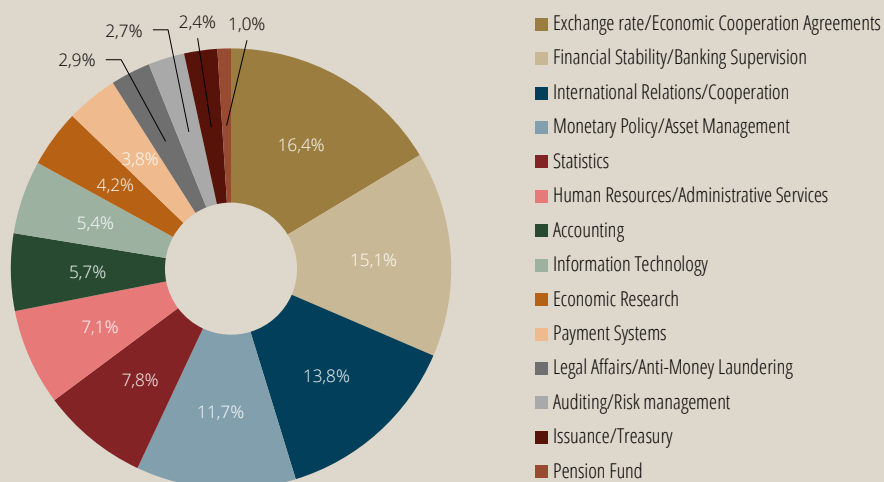
Thereafter, the Bank's cooperation activity spread to other geographies, focusing, in particular, on the participation in technical assistance programmes for Central and

Chart 3 • Activity geography | Number of activities



Fonte: Banco de Portugal.

Chart 4 • Areas of activity (1991-2015) | Human resources, monthly full-time equivalent



Fonte: Banco de Portugal.

Eastern European countries, as they prepared for membership of the European Union. More recently, the Bank has focused on multilateral activities among Portuguese-speaking central banks, in which debate and exchange of views between participants is fostered. One example of this partnership was the launch, in 2010, of the Portuguese-speaking central banks website (www.bcplp.org), which, in addition to helping disseminate cooperation activities, facilitates collaboration between these institutions.

In this respect, the Bank prepares and publishes a wide range of information and analysis on topics related with emerging and developing

economies, such as *Economic Developments in Portuguese-speaking African Countries and Timor-Leste*, *Cooperation Journals* and *#Lusofonia* (Table 4.1). To commemorate 25 years of cooperation activities, the Bank published the book *25 years of cooperation among Central Banks and Historical Macroeconomic Series of the Portuguese-speaking Countries*.

Cooperation activity has helped Banco de Portugal affirm its role as a partner of reference among central banks. The challenges posed by globalisation and the experience accumulated over this quarter century justify continuing with this strategic option.

3. Organisation and resource management

3.1. Governance model

Banco de Portugal is strongly committed to management focused on judicious use of resources (Box 5). In 2015 important functional changes were made to the internal management and communication models. The support functions to the Bank's management bodies, which include the legal, strategic and organisational and functional development areas, as well as performance assessment, compliance and communication, were integrated into the General Secretariat, which is under the remit of the Governor and, at some specific functional levels, of the Board member responsible for internal management (Figure 3.1). This new unit gives the Board of Directors a more integrated perspective of the organisation, facilitating the decision-making process.

The Communication Directorate was created within the General Secretariat, incorporating

and managing all the Bank's external and internal communication responsibilities.

With regard to ethics and compliance with codes of conduct and other internal rules, Banco de Portugal formalised the setting-up of a Compliance Officer, responsible for identifying, preventing and assessing compliance risk and implementing the respective monitoring and control mechanisms. In accordance with ECB guidelines, a revision was initiated of the codes of conduct applicable to the Bank's staff, and the members of the Board of Directors and Board of Auditors.

In addition, the procurement function was revised, which was reflected in a new decision-making model, with a greater sharing of responsibility and a reinforcement of control mechanisms.³⁹ Aiming at the effectiveness and efficiency of the procurement activity, the Bank currently participates in 15 joint procurement initiatives within the scope of the Eurosystem Procurement Coordination Office.

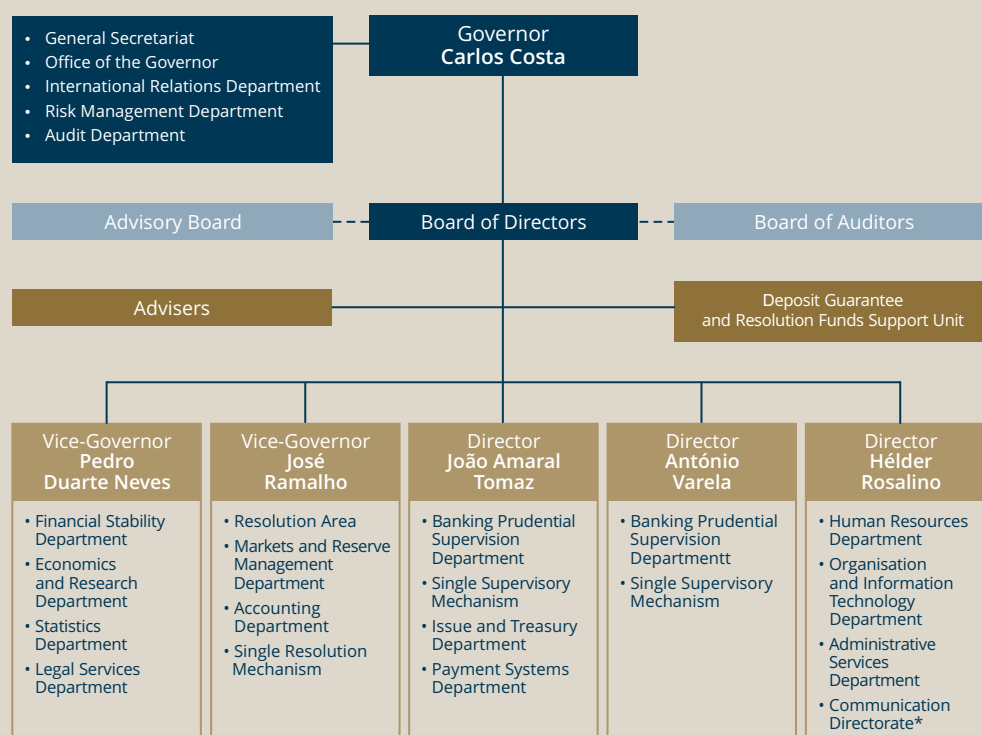


Figure 3.1 • Distribution of remits in Banco de Portugal as at 31 December 2015

* For operational and day-to-day management matters.

3.2. Risk management

Banco de Portugal pursues an integrated financial and operational risk management policy. Financial risks originate in asset management operations and the Bank's participation in setting out and implementing the Eurosystem's monetary policy, and may be classified as market or credit risks.

The asset management operations' risk is controlled through a series of eligibility criteria, which are imposed so that operations, instruments, and institutions may be accepted, as well as through the establishment of maximum exposure limits. These criteria and limits are established taking into account the credit risk (countries, counterparties and issuers), the exchange rate risk, and the interest rate risk assigned to assets and operations.

Monetary policy operations' risks are also controlled by applying eligibility criteria and limits, approved within the framework of the Eurosystem. The overall trend of the financial risks of asset management and monetary policy operations is accompanied through the calculation of diversified indicators, notably of value at risk and expected shortfall, complemented by the monitoring of the degree of risk coverage by the so-called financial buffers on the Bank's balance sheet (provisions, reserves and income).

To support management, medium-term projection exercises of the main financial variables affecting the Bank's accounts are also regularly held, simulating various stress scenarios.

In 2015, in the context of the Eurosystem's monetary policy, Banco de Portugal reinforced the analysis of government and private bonds (asset-backed securities and covered bonds) and pursued the monitoring and analysis of the performance of the internal ratings-based (IRB) systems used by credit institutions accepted as counterparties in monetary policy operations. In addition to off-site validations, on-site inspections were conducted, in line with the established requirements.

As regards operational risk management, the Bank enhanced the incident analysis process and initiated the revision of the risk management policy guidelines for managing this type of risk. It also held initiatives to quantify operational risks, taking into account the limitations stemming from the absence of a specific theoretical reference framework for a central bank and the lack of relevant historical data.

3.3. Internal audit

The audit function aims to improve Banco de Portugal's operations by using a systematic and disciplined approach to assess and contribute to improve the effectiveness of the risk management, control and internal governance processes.

In 2015 43 audits were carried out, 35 of which were exclusively internal and eight related to systems and procedures that are common or shared with the ESCB/Eurosystem (Table 3.1), a growing weight having been assigned to core business audits and audits targeted at Banco de Portugal's control and support processes.

In June the Bank hosted the *14th Conference on Audit, Risk and Governance* taking the theme *Models and Processes of Governance, Control and Audit of Financial Institutions*, which had about 300 participants from the Portuguese financial community and the central banks of the Portuguese-speaking countries.

Table 3.1 • Audits

	Internal	ESCB	Total
Investigations directly supporting the Boards	3	1	4
Autonomous funds	4	-	4
Supervision	3	-	3
Monetary policy and reserve management	3	2	5
Payment systems and means	-	2	2
Economic research and statistics	1	1	2
Issue and treasury	5	1	6
Control activities	3	1	4
Support activities	12	-	12
Third parties	1	-	1
Total	35	8	43

Source: Banco de Portugal.

3.4. Information and communication systems

In 2015 the Bank's applications and infrastructures were assessed, so as to be optimised and rationalised. This assessment's recommendations made it possible to set out an ICT strategic map for the next five years.

To ensure that information systems are adjusted to the new mobility challenges, areas for potential development were analysed and a short-term plan was prepared, which included initiatives such as the migration of the email platform, a new network filing system, a solution for remote access to files, the widening of a mobile and real-time communications solution, and the improvement of mobile security.

In the field of supervision, there was important progress in designing and implementing the systems for the integrated management of supervisory procedures, for the exploration of supervisory information, and for the submission of the registration procedure, designed to facilitate communication between financial institutions and Banco de Portugal in the context of authorisation and registration procedures and the respective follow-up.

Within the scope of monetary policy execution, the step-by-step implementation of the monetary policy operations' management system continued, with the completion of the first version of the collateral management system module and the start of the module of the IT system for tenders (Chapter 2).

As regards payment systems, an internal solution to link to the TARGET2 Securities (T2S) platform continued development.

In the field of statistics, the new statistics website continued development, as well as a study on the redesign of the central credit register system to comply with the new requirements associated with the AnaCredit (Analytical System on Credit) project.⁴⁰

3.5. Human resource management

Staff developments

For the first time in the last three years the staff of Banco de Portugal remained stable, given that the 109 recruitments were offset by an equivalent number of exits, mostly retirements. At the end of 2015 the total number of Bank employees (including seconded and on unpaid

leave) was 1,777 (Chart 3.1). The number of seconded staff/staff on unpaid leave declined from 94 at the end of 2014 to 81 at the end of 2015, as a result of a stricter policy when granting unpaid leave. Hence, at the end of the year there were 1,696 employees, in compliance with the target of 1,800 staff members established by the Board of Directors for 2015 (Box 5).

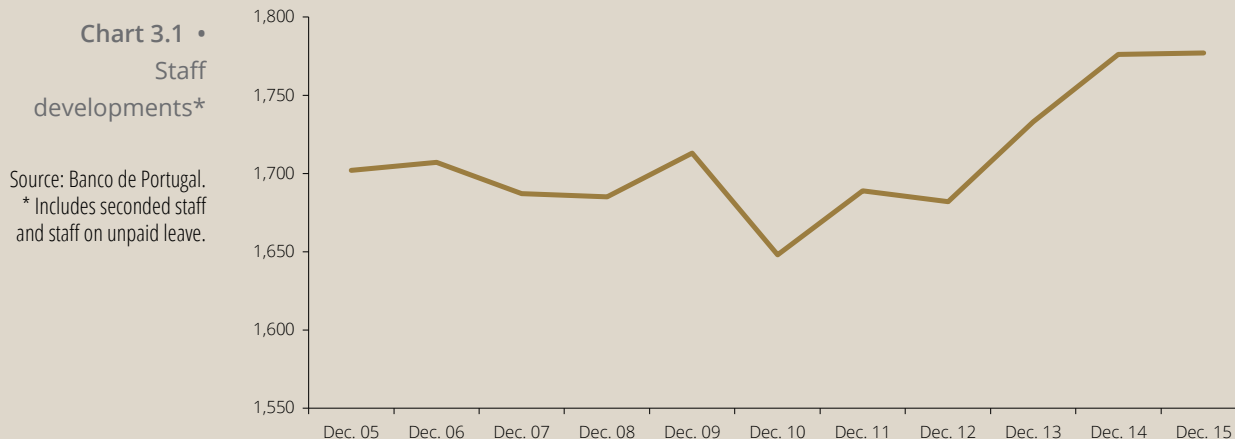
The composition by gender remained balanced, with females accounting for around 48.6 per cent, and a tendency towards younger staff, whose average age dropped to 44.1 (44.5 in 2014). A breakdown by age group reflects the Bank's renewing of its staff (Table 3.2).

A breakdown by function shows that 17 per cent of staff performed management tasks (Table 3.3).

Table 3.2 • Staff developments: gender, movements, and age group

		2012	2013	2014	2015	Δ 2015-2014
Developments	Staff	1,682	1,733	1,776	1,777	0.1%
Gender	Male	878	894	910	913	0.3%
	Female	804	839	866	864	-0.2%
Movements	Recruitments	50	126	101	109	7.9%
	Retirements	51	69	48	70	45.8%
	Dismissals	5	5	13	37	184.6%
Age group	<=25	55	64	64	65	1.6%
	[26;30]	217	246	264	257	-2.7%
	[31;35]	183	223	252	289	14.7%
	[36;40]	145	154	166	178	7.2%
	[41;45]	136	139	142	142	0.0%
	[46;50]	128	122	131	134	2.3%
	[51;55]	429	362	263	180	-31.6%
	[56;60]	294	337	396	428	8.1%
	[61;65]	87	81	95	94	-1.1%
	>=66	8	5	3	10	233.3%

Source: Banco de Portugal.



The composition by gender remained balanced, with females accounting for around 48.6 per cent, and a tendency towards younger staff,

whose average age dropped to 44.1 (44.5 in 2014). A breakdown by age group reflects the Bank's renewing of its staff (Table 3.2).

Table 3.3 • Staff: breakdown by function

	Male	Female	Total	%
Senior management	36	15	51	3
Middle management	136	111	247	14
Senior professional/professional staff	407	486	893	50
Technical-administrative staff and support services	293	212	505	28
Seconded/unpaid leaves	41	40	81	5
Total	913	864	1,777	100

Source: Banco de Portugal.

Compensation policy

In 2015 the Bank's compensation policy continued to reflect the objective of containing staff costs (see Financial Statements), similarly to the four previous years.

Cost rationalisation measures were applied, the correlation between compensation paid and staff performance was reinforced, and mechanisms were adopted to render internal structures more flexible.

Measures were also developed to simplify compensation and career schemes and make them more flexible, so as to widen professional horizons through differentiated management of careers based on merit, talent, and the potential development of each employee.

Recruitment and training

In compliance with the principles of transparency, procedural rigour, and staff qualification, Banco de Portugal ran 43 recruitment procedures: 14 external competitions, 11 internal competitions, 11 internal mobility notices, 2 invitations with assessment, and 5 targeted searches.

The policy to optimise staff potential through internal mobility resulted in 116 interdepartmental transfers.

The *Academia do Banco de Portugal* was set up to support technical and academic training in universities, with candidates selected by

a jury, which also decides on the support to be granted, based on an annual endowment of €100,000. In addition, investment was made in cross-cutting in-house initiatives on specific central bank matters, behavioural, management, leadership, and teamwork skills, including departmental team building and internal communication initiatives.

3.6. Budget and building management

Pension funds

As at 31 December 2015, the assets of the Defined Benefit Pension Fund – a closed-end fund that finances the pension plan covering staff who started working in the banking sector before March 2009 and the healthcare plan for all the staff – amounting to €1,663.4 million invested in euro area bonds and liquidity (83.3 per cent), equity (6.3 per cent), and real estate (9.1 per cent), with the remaining 1.3 per cent concerning net claims on third parties. On the same date, the funding level was 104.2 per cent, i.e. above the minimum level established in Notice of Banco de Portugal No. 12/2001 (98.1 per cent).

At the end of 2015 the Defined Contribution Pension Fund – a supplementary pension plan that is voluntary for staff who started working in the banking sector after March 2009 – had 583 participants, which shows that the new staff of Banco de Portugal overall decided to

participate in this fund. Up to 7 April 2015 participants continued to be given the choice between two investment portfolios – a portfolio comprising only interest rate instruments and another comprising interest rate instruments and equity. After 7 April 2015, the investment policy changed to a lifecycle perspective, with the Fund formed by three investment portfolios: portfolio 1, suited for younger participants, which favours equity and longer-term interest rate instruments; portfolio 2, recommended for participants at the intermediate stage of their careers, which incorporates less equity and favours lower average maturities in interest rate instruments; and portfolio 3, suited for participants at the end of their career, and formed by short-term interest rate instruments, with a residual proportion of equity. As at 31 December portfolios 1, 2 and 3 amounted to €2.1 million, €2.1 million, and €1.1 million respectively. On the same date, the proportion of equity in these portfolios was 17.0 per cent, 9.1 per cent, and 2.4 per cent of the respective total value.

Budget management

In 2015 work continued to execute and project medium to long-term financial statements. In this context, the Bank accommodated changes stemming from the decisions of the Governing Council of the ECB on income projection and the risks of widening non-standard monetary policy programmes, in the wake of the setting-up of the public sector purchase programme (PSPP).

The budgetary model continued to be enhanced: the collection process was simplified with the introduction of a 'unified needs diagnosis', and benchmark indicators were created for resource management. The Bank implemented a solution for the digital treatment of invoices received, with improvements in processing times and resources allocated to the processes.

Given that the Deposit Guarantee Fund, the Mutual Agricultural Credit Guarantee Fund, and the Resolution Fund now fall inside the

perimeter of general government, the Bank is thus in compliance with the new financial and fiscal reporting requirements.

Building management

In 2015 the transfer of three of the Bank's departments to a building in Rua Castilho in Lisbon was concluded on schedule and within the expected budget, which allowed for a more efficient distribution of spaces in the other Bank's buildings.

In view of the goal of generalised containment of buildings, facilities and equipment running costs, public tenders were launched for the maintenance of the buildings of the Porto Branch, the District Agency of Braga, Rua Castilho and the Head Office, and the cleaning of the regional network buildings (see Financial Statements).

A project was initiated for the construction in the medium term of a new office building to gather in a single space all the Bank's departments and services.

BOX 5 | Internal management of Banco de Portugal – ongoing changes

Main developments in 2014-15

Over the past few years, Banco de Portugal has strengthened its governance model, by implementing substantial changes in its organisational structures to bolster supporting mechanisms to internal governance and by strengthening both its strategic planning exercises and monitoring and management control instruments.

When managing its human capital, the Bank's priority areas are the harnessing of in-house

talent, and the promotion of differentiation and recognition based on merit. The rejuvenation of the Bank's staff has posed additional challenges, in terms of cross-generational cohesion among staff members and their alignment with the Bank's values and ethical standards.

As regards resource management, Banco de Portugal pursues a cost-containment and internal efficiency-enhancing policy, based on more cooperative, flexible and result-oriented management practices.

Governance model and organisation

Main changes	Objectives
Redistribution of Board members' remits based on a business-oriented logic 2014	<p>Foster synergies in terms of mission and support functions.</p> <p>Break down responsibilities into financial and price stability functions, and those related to the supervision of institutions.</p>
Reorganisation of direct support functions to the Governor and the Boards 2015	<p>Separate the direct support function to the Governor, with the Office of the Governor focusing exclusively on highly specialised technical consultancy activities to the Governor, geared towards supporting his institutional representation functions at national and international level.</p> <p>Create the post of Secretary General of the Bank, who is entrusted with the overall management of all General Secretariat units. The Secretary General acts as Secretary to the Boards and general advisor, on legal matters, to the Board of Directors in its decision-making processes.</p> <p>Strengthen institutional communication as a key tool to manage the Bank's public image, to confirm its independence and ability to engage with society, by establishing a Communication Directorate entrusted with the management of contacts with the press, public relations and protocol, image and design, the web channels and internal communication coordination.</p> <p>Organically consolidate and institutionalise strategic planning, performance analysis and management control, and organisational development, answering directly to the Board of Directors.</p> <p>Create the post of Compliance Officer, to guarantee the coordination, identification, management, monitoring, control, correction and mitigation of compliance risk within the Bank.</p>
Separation of the resolution function 2015	<p>Respond to Directive 2014/59/EU of the Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.</p>
Business continuity management 2015	<p>Create an overall benchmark model for operational continuity and recovery.</p> <p>Bring business continuity management closer to operational risk.</p>
Creation of a working group to revise the Codes of Conduct 2015	<p>Revise the Codes of Conduct applicable to Board and staff members, following the best practices in this field and in compliance with Eurosystem and SSM guidelines.</p>
Revision of the IT systems' governance model 2014	<p>Broaden the tasks entrusted to the Specialised Committee on Information and Technology Management.</p>
Creation of the Microdata Research Laboratory (BPLIM) 2014-15	<p>Foster internal and external research using the Bank's microdata.</p> <p>Develop closer ties with academia, by means of a protocol on curricular internships with the Faculties of Economics in Porto and Minho Universities.</p>

Human resource management

Main changes	Objectives
Staff cost containment policy (adopted in 2010) and reinforcement of planning and control mechanisms for Bank staff. Objective for 2015: 1,800* Objective for 2016: 1,750 * <i>*excluding seconded staff/staff on unpaid leave</i>	Accommodate the necessary growth in staff without a commensurate increase in staff costs. Meet the objective for 2015: 1,696 active staff as at 31 December 2015. Reduce the number of seconded staff/staff on unpaid leave from 94 at the end of 2014 to 81 at the end of 2015.
New professional career model 2015, in force since 1 January 2016.	Dissolve the administrative career. Simplify the wage scale for staff that started working after 2 March 2009.
Creation of <i>Academia do Banco de Portugal</i>	Establish a support mechanism to academic training by staff, with a jury deciding whether this training bears any interest for the Bank and selecting and deciding on the supports given.

Fostering efficiency and effectiveness

Main changes	Objectives
Assessment of the Bank's IT function 2015	Diagnose the Bank's systems and technology status. Five-year strategic plan ('Digital Bank').
New model for procurement management and business travel management processes 2015	Centralise all acquisition procedures and reinforce control mechanisms for internal acquisition procedures. Implement stricter control requirements for procedures related to compliance with public procurement rules. Increase control within the decision-making process. Implement an in-house travel bureau, to deal directly with staff members. Introduce a stricter business travel expenses policy.
Development of office space optimisation policies 2015	Transfer the supervisory departments to the Rua Castilho building, within the planned deadline and budget. Launch a project to build, in the medium term, a new office building with the purpose of concentrating the Bank's departments and services in a single building. Introduce a new facility maintenance model: <ul style="list-style-type: none"> – Hire maintenance services according to an integrated management model; – Standardisation of building maintenance and systematisation of contractual conditions for the various service providers, namely in terms of obligations, response levels and costs; – Reduce the administrative burden associated with the management of different maintenance contracts, according to their speciality; – Free up human resources entrusted with maintenance tasks.
Physical security management 2015	Establish a new internal career regime for the Bank's security staff, towards greater technical specialisation and increased management skills. Increase outsourcing for more operational activities.

4. Openness to society

Banco de Portugal discloses all relevant information on its activity and is accountable for its results, provides a range of services related to its mission and functions, and contributes to the development of the community by means of an active policy of social responsibility. The sections below describe the action of the Bank in 2015 in the achievement of this strategic guideline of openness to society.

4.1. Communication

For 2015, in the context of the new communication management model (Chapter 3), the Bank defined a strategic communication plan, a communication activity plan, and a digital communication plan, and started, among other projects, to reformulate the institutional website, its main channel of external communication. Taking advantage of the most recent technological solutions, the new Bank's website will enable more pro-active and efficient communication with the different target audiences. New internal rules have also been approved on communication management, ensuring more integrated, coherent and timely communication by the Bank.

The Bank has devoted a substantial share of its communication activities to clarify the decisions adopted within the scope of the resolution measure applied to Banco Espírito Santo S. A. and the Novo Banco sale process. Particular emphasis was put on work developed to provide the Parliamentary Committee of Inquiry into the management of BES and Grupo Espírito Santo with all the information needed to establish the facts leading to the application of the resolution measure. In total, 54 letters and more than 440 documents related to the process were sent to this Committee, e.g. information requested and other items the Bank deemed useful for the Committee's work. In the same vein, the Bank decided to publish the recommendations of the Evaluation Commission on Banco de Portugal's decisions and actions in supervising Banco Espírito Santo S. A. as well as the recommendations of the Working Group analysing the Models and

Practices of Governance, Control and Audit of the Financial Institutions. In articulation with the ECB, the Bank also published the results of the stress test on Novo Banco, carried out in the context of the Single Supervisory Mechanism.

At the end of the year, the Bank strove to provide the public and the media with the necessary clarifications for a good understanding of the resolution measure applied to Banif – Banco Internacional do Funchal, S. A. and the deliberations complementing the resolution measure applied to BES, announced on 20 and 29 December respectively. In the case of Banif, and in addition to the deliberations related to the resolution measure, the Bank published sundry information in Portuguese and English on its institutional website, addressed to bank customers, shareholders and other bank creditors. By 31 December, the Bank had received 660 phone calls from the public on Banif and BES, totalling 3,632 minutes of conversation, and received and dealt with 471 email messages on these issues.

Information for the bank customer

The Bank has disseminated a wide range of information on retail banking markets, focusing on legislative and regulatory amendments to consumer credit agreements, minimum banking services, fees applicable to returned cheques and card payments in the European Union.⁴¹ In order to prevent situations of fraud, the Bank identified a number of best practices in the use of contactless cards and has issued 15 warnings on non-authorised financial activity. In addition to information on the measures applied to BES and Banif, the Bank has also provided clarifications on the Euribor rates applied to loan and financing contracts. In this context, two training sessions were organised for journalists, one on Euribor and the other on financial training. The Bank also published the main initiatives of the European Banking Authority, the European Commission and the European supervisory authorities regarding retail banking markets.

New information areas have been created in the Bank Customer Website, which has improved access to the contents related to loans and deposits. In 2015 there were, on average, 8,182 visits per day to the Website, i.e. below the level attained in the previous year (Chart 4.1). The most viewed areas were loans and services to the public, which include consultations of the Database of Banking Accounts and the Central Credit Register (Chart 4.2).

Through its regional network of agencies and the Porto Branch, the Bank organised more than 200 financial training sessions across the country, with around 8,500 participants. Other initiatives have been taken within the scope of the National Plan for Financial Education, in cooperation with the other supervisors, the Ministry of Education and Science, and other partners (Chapter 1).

Promoting public knowledge on the Portuguese economy and the Bank's activity

In order to facilitate access to information on the Portuguese economy and strengthen the quality of the reviews published, the Bank has made some changes to its main regular publications (Table 4.1). The analysis of the Portuguese economy is now exclusively made in the *Economic Bulletin*, published on a quarterly basis, which resulted in the discontinuation of the publication *Annual Report – The Portuguese Economy*. The regular detailed analysis on developments of the Portuguese economy in the previous year is now published in the first issue of the year of the *Economic Bulletin*, released in May. The *Monthly Economic Indicators* have also been discontinued: the Bank now publishes coincident indicators for economic activity and private consumption

Chart 4.1 •

Daily average visits to the Bank Customer Website
| 2012-2015

Source: Banco de Portugal.

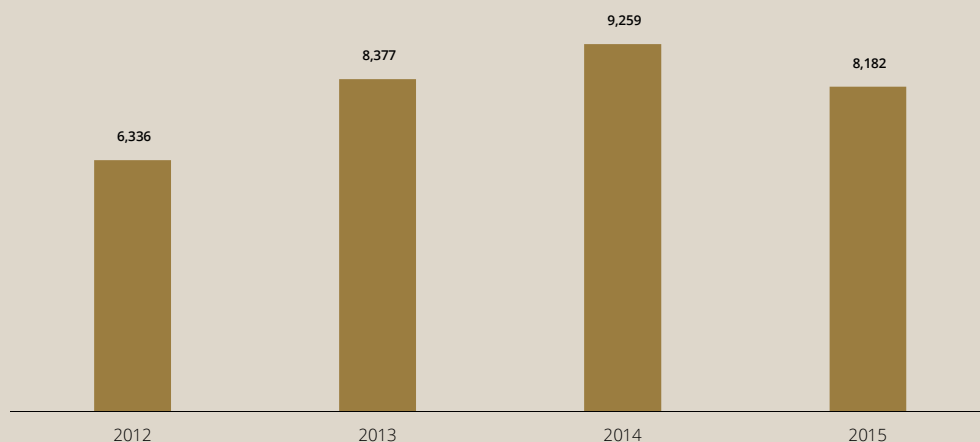
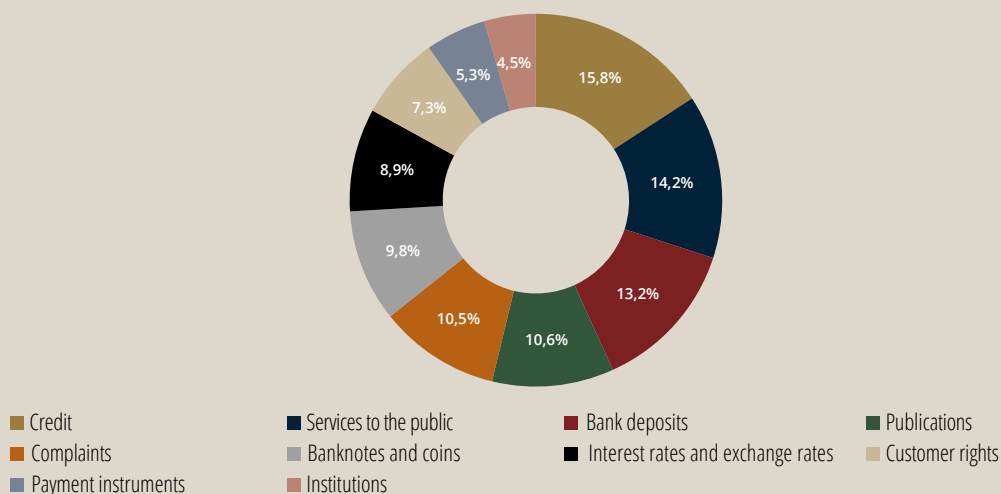


Chart 4.2 •

Structure of the visits to the Bank Customer Website, by area
| 2015

Source: Banco de Portugal.



in an autonomous monthly publication (*Coincident Indicators*). Other information on the Portuguese economy and international economy is concentrated in Chapter A ('Main Indicators') of the *Statistical Bulletin*.

The *Economic Bulletin* has ceased to include articles, since it relays the official position of Banco de Portugal on relevant economic

policy matters. Research undertaken by the economists of the Bank is now integrated in a new publication, *Banco de Portugal Economic Studies*.⁴² The purpose of this quarterly publication, in Portuguese and English versions, is to contribute to informed discussions on the Portuguese economy.

Table 4.1 • Regular publications | 2015

Publication	Objective	Frequency	Language*
<i>Official Bulletin</i>	Comprises all legal acts produced by the Bank in its regulatory capacity	Monthly	PT
<i>Annual Report</i>	Describes the Bank's activities and financial statements	Annual	PT and EN
<i>Financial Stability Review</i>	Assesses emerging risks in the Portuguese markets and financial system	Semi-annual	PT and EN
<i>Economic Bulletin</i>	Provides a detailed analysis of the Portuguese economy and contains macroeconomic projections	Quarterly	PT and EN
<i>Statistical Bulletin</i>	Presents Banco de Portugal's statistics	Monthly	PT and EN
<i>Coincident Indicators (NEW)</i>	Publishes the coincident indicators for economic activity and private consumption in Portugal	Monthly	PT and EN
<i>Bank Lending Survey</i>	Presents detailed results for Portugal taken from the Eurosystem's survey	Quarterly	PT and EN
<i>Banco de Portugal Economic Studies (NEW)</i>	Publishes theoretical and applied studies prepared by Bank economists, frequently co-written by external researchers	Quarterly	PT and EN
<i>Newsletter Spillovers</i>	Publishes research, economic analysis and economic events promoted by the Bank	Semi-annual	EN
<i>Report on Payment Systems</i>	Presents the most relevant facts on the operation of payment systems	Annual	Note: English version of the executive summary only.
<i>Banking Conduct Supervision Report</i>	Provides information on the regulation and audit of retail banking markets, as well as on the Bank's initiatives in terms of financial information and training	Annual	Note: English version of the executive summary only.
<i>Summary Report on Banking Conduct Supervision</i>	Provides summary information on retail banking market supervision in the first half of each year. Published between issues of the Banking Conduct Supervision Reports	Annual	PT
<i>Retail Banking Markets Monitoring Report</i>	Presents developments in markets for simple term deposits, structured deposits, mortgage credit and consumer credit	Annual	PT
<i>Developments in the Banking System</i>	Reports the developments of the Portuguese banking system, based on indicators on the balance-sheet structure, asset quality, liquidity and funding, profitability, solvency and leverage, as well as other information on the macroeconomic environment	Quarterly	PT and EN
<i>Bulletin on Banknotes and Coins</i>	Discusses cash-related topics	Semi-annual	PT
<i>Economic Developments in Portuguese-speaking African Countries and Timor-Leste</i>	Provides an analysis of the economic environment in Portuguese-speaking African countries and Timor-Leste and their economic and financial relations with Portugal	Annual	PT and EN
<i>#Lusofonia</i>	Presents individual and aggregate indicators on the economies of the eight Portuguese-speaking countries	Annual	PT and EN
<i>Cooperation Journals</i>	Presents macroeconomic indicators for the Portuguese-speaking African countries and Timor-Leste, an overview of cooperation initiatives undertaken between Banco de Portugal and counterpart institutions, and articles on international economic topics	Semi-annual	PT and EN

* PT – Portuguese; EN – English.

In 2015 the Bank also launched new statistics on foreign direct investment (Portuguese direct investment abroad and foreign direct investment in Portugal) and on international financial assets of Portuguese banks on a consolidated basis. In total, around 7,000 series were published in the *Statistical Bulletin* and around 300,000 series in the BPstat | Statistics online website, thus meeting the pre-announced dissemination schedule. Demand for the Bank's statistics increased again: BPstat | Statistics online (traditional and mobile) was consulted more

than 2.2 million times, representing 57 per cent growth from the previous year (Chart 4.3).

Furthermore, the Bank reported 628,000 series to international bodies – including the ECB, EUROSTAT, IMF, OECD and BIS – seven per cent more than in 2014 (Table 4.2). Thanks to work coordinated by Banco de Portugal also involving Statistics Portugal and the Ministry of Finance, Portuguese statistics have joined the IMF's most demanding statistical data communication system, the SDDS (Special Data Dissemination Standard) Plus (Box 3).

Table 4.2 • Reporting to international bodies | 2012-2015

	2012	%	2013	%	2014	%	2015	%
Total	1,449	tvh: 2%	1,431	tvh: -1%	1,413	tvh: -1%	1,448	tvh: 2%
deviation* = 0	1,145	79%	1,158	81%	1,220	86%	1,308	90%
deviation* < 0	304	21%	273	19%	193	14%	140	10%
deviation* > 0	0	0%	0	0%	0	0%	0	0%
Total series	490,213	tvh: 9%	572,700	tvh: 17%	586,379	tvh: 2%	628,371	tvh: 7%

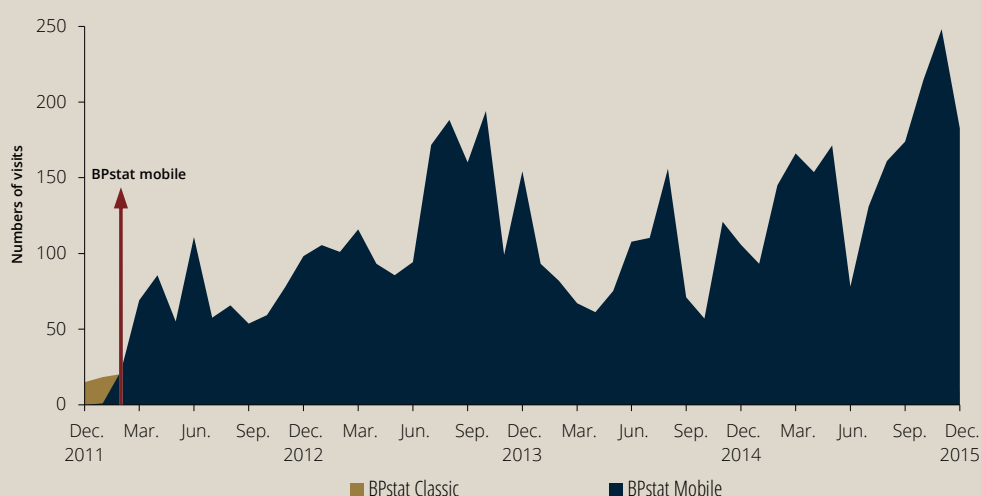
Source: Banco de Portugal.

*Deviation from the data foreseen in the reporting schedules.

Chart 4.3 •

Number of visits to BPstat classic and mobile | 2012-2015

Source: Banco de Portugal.



With a view to disseminating its new series and main statistics, the Bank published 14 Statistical Press Releases, two *Supplements to the Statistical Bulletin* and four new *Studies of the Central Balance-Sheet Database* (Chapter 2). The Bank also published recast versions of Booklets Nos 5 and 7, on the Central Credit Register and the Central Balance-Sheet Database respectively. A session was organised for journalists, to present the new statistics on foreign financial assets of Portuguese banks on a consolidated basis. In order to strengthen the relationship between the academy and central banks, the Bank cooperated with NOVA University IMS – Information Management School in the development of a Postgraduate Course on Statistical Systems, specialising in central bank statistics, backed by the ECB and Irving Fisher Committee on Central Bank Statistics, and accredited by EUROSTAT.

In addition to the indicators and studies published, the Bank promoted different think-tanks on the Portuguese and international economy, which counted on the participation of world-renowned experts. These included the following conferences: *Financial Stability and Macroprudential Policy* (February), *Growth and Reform in Europe in the Wake of Economic Crisis*⁴³ (May), *Investment and Financing Policies: Debt Sustainability and Debt Caps*⁴⁴ (June), *Conference on Monetary Economics* (June), *Financial Intermediation* (July), a *Conference in honour of José da Silva Lopes* (December) following the death of the former Governor; and 26 seminars by experts and members of the academic community. In partnership with the Embassy of the Federal Republic of Germany and the Economists Association, the Bank hosted an address by the President of the Bundesbank, Jens Weidmann (December). Following the publication of the second and third editions of the *Economic Studies*, two discussions were organised on the labour market and the financial system in Portugal, which gathered academics and representatives from several national institutions. The first session of the 5th

Conference of the Central Balance-Sheet Database on exporting sector corporations was held in November. The 14th *Conference on Audit, Risk and Governance* was organised for the financial community in June. In total, all these initiatives⁴⁵ welcomed around 2,000 participants.

In order to raise awareness of the activities developed, and acknowledging the importance of community-oriented communication, the Bank launched two apps for smartphones and tablets. Through the ‘Banco de Portugal’ app, available in Portuguese and English, it is possible to access the most recent information on the Bank, to learn about the main statistical indicators on Portugal and the euro area, to calculate exchange rates and obtain interest rate simulations. The ‘BdP Edições’ app provides interactive consultation of the Bank’s main publications. By the end of the year, these apps had been downloaded 4,299 times.

The institutional website’s homepage has been redesigned in order to facilitate interaction with its users.⁴⁶ In fact, the institutional website continued to be the Bank’s main channel of communication. Average daily hits to the Bank’s website increased by 4.1 per cent from 2014 (Table 4.3). Similarly to previous years, statistics was the most visited area.

Table 4.3 • Visits to the institutional website | 2012-2015

						Daily average
		2012	2013	2014	2015	Δ 2015-2014
Total number of visits		56,309	102,338	98,923	102,596	4,10%
Total number of visits	Statistics	17,588	24,508	24,069	22,234	-7,6%
	Banco de Portugal and the Eurosystem	7,335	9,044	8,287	17,785	114,6%
	Services to the public	5,134	14,133	16,572	18,276	10,3%
	Economic research	3,092	4,891	4,025	3,883	-3,5%
	Supervision	1,492	2,555	2,404	2,364	-1,7%
	Financial stability	-	-	419	619	47,7%
	Publications and interventions	1,158	1,687	1,704	1,580	-7,3%
	Legislation and regulations	846	1,258	1,297	1,641	26,5%
	Monetary policy	840	883	682	448	-34,3%
	Banknotes and coins	832	1,221	1,194	1,195	0,1%
	Payment Systems	474	566	1,454	1,636	12,5%
	Corporate area	5,013	12,051	8,214	7,061	-14,0%

Source: Banco de Portugal.

The Bank published the *Annual Reports* from 1949 to 1995 on its institutional website, thus concluding the task of making all annual reports produced since 1900 available to the public.

Communication initiatives within the Eurosystem

The ECB, in cooperation with the Eurosystem's national central banks, organised an information campaign on the new €20 banknote. In addition to sponsoring the broadcast of an advertisement produced by the ECB (on RTP1, RTP Açores, RTP Madeira, SIC and TVI, totalling 225 viewing opportunities), Banco de Portugal participated in programmes on RTP1, SIC, TVI, Lusa, Rádio Renascença and TSF to speak about the new banknote, organised a press conference on the banknote launch, agreed the dissemination of information via ATMs with the Interbank Services Company (SIBS), and provided support to information campaigns by the GNR, PSP and PJ police forces, banking institutions and several associations. The Bank also organised two seminars in Lisbon and Porto, addressed at banking institutions,

entities managing, handling and distributing cash, and other entities widely using banknotes, namely in areas such as large-scale distribution, trade, services and tourism, and monitored the adjustment process of the banknote equipment of large retailers and public transport operators.

With a view to promoting knowledge on euro banknotes and coins, the Bank organised training sessions addressed at professional cash handlers, security forces, schools, retailers and the general public, with 12,357 participants. 18,924 professionals acquired, through e-learning, the ability to check the authenticity and quality of banknotes.

For the fourth year in a row, the Bank joined the ECB and national central banks in the organisation of the Generation Euro Students' Award, on the single monetary policy, which involved 361 students and 44 upper secondary schools from the whole country.

The Bank also supported the ECB in the organisation of the second *ECB Forum on Central Banking*, which took place from 21 to 23 May in Sintra.

4.2. Provision of services to the public

In 2015 Banco de Portugal launched online access to the Database of Banking Accounts. Through this service, the general public and corporations may obtain information on registrations in their

name regarding deposit, payment, credit and financial instrument accounts.

Overall, demand for services provided by the Bank has increased, especially consultation of the Central Credit Register (Table 4.4).

Table 4.4 • Services provided: main indicators | 2013-2015

Services	Indicators	2013	2014	2015
Database of Banking Accounts	Charts issued	-	-	135 thousand
	Customers	-	-	78 thousand
Central Credit Register	Charts issued	1.1 million	1.3 million	1.5 million
	Customers	250 thousand	290 thousand	350 thousand
	Consultations by participating institutions	5.6 million	5.6 million	5.9 million
Prohibition of the use of cheques	Consultations of the List of Cheque Defaulters	9,724	6,502	6,893
Information on personal identification documents	Requests	524	508	380
Information requests	Telephone calls received	40 thousand	32.3 thousand	33.9 thousand
	Conversation minutes	91.5 thousand	89.4 thousand	80.6 thousand
	Messages received via info@bportugal.pt	5,774	4,878	4,865
	Requests received via the Bank Customer Website	2,662	2,437	2,499
Complaints on financial institutions	Complaints received	17.9 thousand	14.2 thousand	13.5 thousand
Cash office	Visits to customer services	83 thousand	130 thousand	172.5 thousand
Library	Consultations	5,496	5,869	5,444
Historical archive	Documents consulted	130	404	1,850
	Documents handled*	n.a.	2,608	5,081

Source: Banco de Portugal.

*Files and books.

Corporate services

Corporations may consult, in the 'Corporate Area' of Banco de Portugal's website, a range of economic and financial indicators on their activity and the sector to which they belong. They may also obtain information about registrations in their name in the Bank's databases – Database of Banking Accounts, Central Credit Register and List of Cheque Defaulters – and provide the information

necessary to meet their reporting obligations towards the Bank. Table 4.5 presents the main indicators of the services provided to corporations in 2015.

Table 4.5 • Services provided to corporations: main indicators | 2013-2015

Services	Indicators	2013	2014	2015
Enterprise and Sector Tables	Enterprises covered	369.9 thousand	371 thousand	363.5 thousand
Database of Banking Accounts	Charts issued	-	-	15,5 thousand
Central Credit Register	Charts issued	248.6 thousand	265.7 thousand	292.9 thousand
Prohibition of the use of cheques	Consultations of the List of Cheque Defaulters	8,551	5,917	6,261
Report of information used in the calculation of balance of payments statistics	Files submitted by the enterprises	220.9 thousand	274.3 thousand	285.6 thousand

Source: Banco de Portugal.

Provision of services to the financial community

In 2015 the Bank launched eight new services aimed at the financial community, related to new prudential reporting and reporting of

minimum banking services. At the end of the year, BPnet – Banco de Portugal's extranet for operational communication with the financial community – provided 105 services (Table 4.6).

Table 4.6 • Services provided to the financial community: BPnet indicators | 2012-2015

	2012	2013	2014	2015	Δ 2015-2014
Available services	84	90	97	105	8.20%
Number of users	4,152	4,211	4,217	4,060	-3.70%
Participating financial institutions	335	331	324	326	0.60%
Number of times services were accessed	373,628	353,452	352,290	348,266	-1.10%
Help desk	6,027	5,668	5,915	5,013	-15.20%

Source: Banco de Portugal.

Money Museum

The Money Museum project is the result of Banco de Portugal's strategic interests in terms of protecting and valuing cultural assets and encouraging access to culture. Although the Museum is still being set up in 2014, the Bank decided to bring forward the inauguration of the Interpretation Centre for King Dinis' Wall (National Monument) and to develop a structured activity programme valuing the archaeological discoveries brought to light during the refurbishment of its head office and that put the future Money Museum on Lisbon's museum and cultural map.

In 2015 the Bank inaugurated a temporary exhibition in the future Money Museum: Lisbon (Re)Foundations – Pombaline Stake Underpinning, providing visitors with a rare opportunity to see an ensemble of Pombaline stakes, the symbol of the city of Lisbon, rebuilt after the 1755 earthquake.

In the year as a whole, the Interpretation Centre for King Dinis' Wall received 29,142 visitors (153 visitors per day, 13 more than in the previous year). The number of participants in the Museum's cultural and educational activities increased by 56 per cent. In total, 510 activities took place – e.g. conferences, seminars,

workshops, concerts, cinema shows, organised visits and guided tours – which received a total of 8,289 visitors. The results of the evaluation surveys of the visitors showed a high level of satisfaction with the Museum (90 per cent) and its programming (85 per cent). Within the scope of activities related to the Interpretation Centre, a book was published: *A Muralha de D. Dinis e a Cidade de Lisboa*,⁴⁷ (King Dinis' Wall and the city of Lisbon) by Artur Rocha, the coordinator of the archaeological work carried out as part of the rehabilitation of Banco de Portugal's head office.

In October, in order to raise the visibility of the museum project and to reach new audiences, the Bank launched the Money Museum website (www.museudodinheiro.pt/en), which had 26,737 visitors in the last months of the year. In addition to other initiatives, it was also agreed to disseminate information on the Museum in Lisbon's interactive TOMI tourist information boards and through the channels of the Lisbon Tourism Association.

In 2015, the Money Museum was awarded special merit in the Multimedia management application award by the Portuguese Association of Museology.

4.3. Social responsibility initiatives addressed to the community

Banco de Portugal continues to pursue an integrated policy of social responsibility,

based on the Triple Bottom Line model (social, environmental and economic responsibility). In this context, it develops a wide range of initiatives for the community in general, its staff and their families (through the Social Fund of Banco de Portugal), and promotes environmental sustainability.

As regards initiatives addressed at the community with a view to fighting educational underachievement and promoting social inclusion of children and teenagers, Banco de Portugal, in partnership with *EPIS – Empresários pela Inclusão Social* (Entrepreneurs for Social Inclusion), launched the *Vocações + Inglês* programme in 2015. Similarly to the *Vocações + Matemática* and *Vocações + Português* programmes, which have been developed since 2012 and 2014 respectively, the *Vocações + Inglês* programme is intended for school children in years 7 to 9, who are tutored by volunteers from the Bank at the Bank's premises.

The Bank also continued the *Ler + Histórias* programme, together with Ajudaris, providing support to children hospitalised in Dona Estefânia Hospital in Lisbon. Another related initiative was also implemented, *Hora do Conto* (story time), in which volunteers tell stories to the children in the different hospital wards, to give them a break in the hospital routine.

Within the scope of the *Zero Desperdício* (zero waste) project, 11,213 meals were donated by Banco de Portugal and the Bank's cafeteria concessions (Table 4.7).

Table 4.7 • Zero Waste project | 2013-2015

	2013*	2014	2015	Δ 2015-2014
Full meals donated by the Bank	3,472	7,858	8,294	5.55%
Dishes donated by the concessions	1,893	2,746	2,919	6.30%
Total	5,365	10,604	11,213	5.74%

Source: Banco de Portugal.

*This project was started in February 2013.

The Bank also promoted other campaigns to collect donations in partnership with Entrajuda and Ajudaris, as well as initiatives to collect plastic bottle tops, used toys and books, and

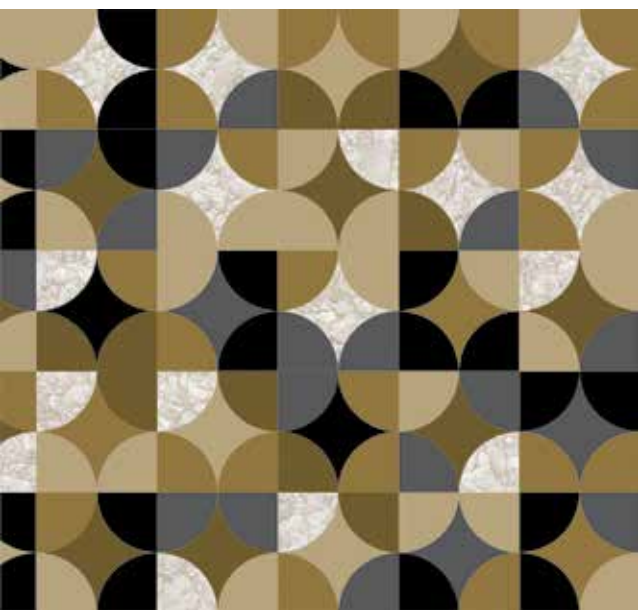
collaborated with Make-A-Wish, making it possible to grant the wish of a child with life-threatening medical conditions.

Notes

1. For further details see Box 3 of the *Financial Stability Report*, November 2015.
2. Available from <http://www.bportugal.pt/en-US/EstabilidadeFinanceira/Publicacoes/Pages/Publicacoes.aspx>.
3. Recommendation ESRB /2013/1.
4. Macroprudential Policy Strategy.
5. <http://www.bportugal.pt/en-US/EstabilidadeFinanceira/MedidasMacroprudenciais/Pages/MedidasMacroprudenciais.aspx>
6. Notice of Banco de Portugal No. 1/2015 (in Portuguese only).
7. <http://www.bportugal.pt/en-US/EstabilidadeFinanceira/MedidasMacroprudenciais/ReservaOSII/Pages/inicio.aspx>.
8. <http://www.bportugal.pt/en-US/EstabilidadeFinanceira/MedidasMacroprudenciais/ReservaContraciclca/Pages/inicio.aspx>.
9. Notice of Banco de Portugal No. 5/2015 of 7 December 2015 (in Portuguese only).
10. Notice of Banco de Portugal No. 10/2014 (in Portuguese only).
11. Law No. 66/2015 of 6 July 2015 (in Portuguese only).
12. Notice of Banco de Portugal No. 2/2015 (in Portuguese only).
13. Instruction of Banco de Portugal No. 15/2015 (in Portuguese only).
14. Law No. 66/2015 of 6 July 2015 (in Portuguese only).
15. Circular Letter of Banco de Portugal No. 68/2015/DSC (in Portuguese only).
16. <http://elearning.todoscontam.pt/#apresentacao> (in Portuguese only).
17. <http://www.finconet.org/>
18. With emphasis to Law No. 25/2008 of 5 June 2008, and Notice of Banco de Portugal No. 5/2013 of 18 December 2013.
19. Directive (EU) 2015/849 of 20 May 2015 and Regulation (EU) 2015/847 of 20 May 2015.
20. Emphasis to the FATF – Financial Action Task Force, the European Commission's Expert Group on Money Laundering and Terrorist Financing and the EBA's Anti-Money Laundering Committee.
21. Created by Decision No. 9125/2013 of the Minister of State and Finance of 1 July 2013.
22. Created by Resolution of the Council of Ministers No. 88/2015 of 1 October 2015.
23. <http://www.bportugal.pt/en-US/OBancoEuroSistema/ComunicadoseNotasdeInformacao/Pages/comb20150915.aspx>. The sale process of the Resolution Fund's holding in Novo Banco was resumed in January 2016.
24. <http://www.bportugal.pt/en-US/OBancoEuroSistema/ComunicadoseNotasdeInformacao/Pages/comb20151229-2.aspx>.
25. <http://www.bportugal.pt/en-US/OBancoEuroSistema/ComunicadoseNotasdeInformacao/Pages/comb20151220.aspx>.
26. Commission Delegated Regulation (EU) 2015/63, of 21 October 2014.
27. Further information on these Funds may be obtained from the respective websites: <http://www.fgd.pt/en-US/Pages/inicio.aspx>, <http://www.fgcam.pt/en-US/Pages/inicio.aspx>, <http://www.fundoderesolucao.pt/en-US/ofundo/Pages/OFundo.aspx>.
28. Press release by the ECB of 5 February 2016: *"ECB explains the Agreement on Net Financial Assets"*.
29. Regulation (EU) No. 260/2012, of 14 March 2012.
30. This culminated in the publication of Regulation (EU) No. 2015/751 of the European Parliament and of the Council of 29 April 2015, and Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015.
31. Requirements established in Decision ECB/2013/54.
32. Press release by Banco de Portugal of 29 July 2010.
33. Press release by Banco de Portugal of 14 October 2013.
34. Presentation Response by the statistics function of the ESCB to the financial crisis: The perspective of a National Central Bank.
35. Presentation *Conceptual issues related to the definition of government debt*.
36. Presentation *Using financial accounts to better understand sectoral financial interlinkages*.
37. Presentations *How to keep statistics' customers happy? Use micro-databases! and The Portuguese Central Credit Register: a powerful multi-purpose tool, relevant for many central bank's functions*.
38. Presentation *Micro-data for financial assets' statistics*.
39. Deliberation No. 1953/2015, *Official Gazette*, 2 October 2015.
40. AnaCredit will be a dataset with detailed information on individual bank loans in the euro area. Further information is available at: <https://www.ecb.europa.eu/explainers/tell-me-more/html/anacredit.en.html>.
41. Notice of Banco de Portugal No. 10/2014 set out the new rules on consumer credit. Amendments were introduced by Law No 66/2015 of 6 July in minimum banking services and fees for returned cheques. The new rules on card-based payment transactions in the EU are laid down in Regulation (EU) 2015/751 of the European Parliament and of the Council.

42. In addition to the *Economic Studies*, the Bank also publishes research in its series: *Working Papers*, *Occasional Papers* and *Financial Stability Papers*.
43. Information on the conference and documentation are available at <http://confeuroeconomy.bportugal.pt/en-US/Home/Pages/default.aspx>.
44. Conference brochure available at <http://www.bportugal.pt/pt-PT/PublicacoesIntervencoes/Banco/Cooperacao/Biblioteca%20de%20Tumbnails/Políticas%20de%20investimento%20e%20financiamento-%20sustentabilidade%20da%20dívida%20e%20limites%20de%20endividamento.pdf>.
45. Additional information on the events organised by the Bank may be found at <http://www.bportugal.pt/en-US/OBancoEurosisistema/Eventos/Pages/default.aspx>.
46. The new homepage was made available in January 2016.
47. Also available, in Portuguese only, at <http://www.museudodinheiro.pt/uploads/2015/12/a-muralha-de-d-dinis-e-a-cidade-de-lisboa.pdf>.





II Financial Statements

1. Presentation
2. Financial Statements
3. Notes on the Financial Statements
4. External Auditors' Report
5. Report and Opinion of the Board of Auditors

1. Presentation

For the purposes laid down in Article 54 of the Organic Law of Banco de Portugal, this Report presents the financial statements for the year 2015¹ (Sections 2. and 3.), which have been prepared according to the Chart of Accounts of Banco de Portugal (*Plano de Contas do Banco de Portugal – PCBP*), currently in force.

The annual accounts of Banco de Portugal are subject to an external audit, pursuant to the provisions laid down in Article 46 of its Organic Law (Section 4.). Pursuant to the provisions of

Article 43 of the same Law, the Board of Auditors prepared a report and issued an opinion on the financial statements (Section 5.). The Advisory Board issued its opinion on the Bank's accounts.

1.1. Developments in 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 2011-2015 period:

Table 1

	2011	2012	2013	2014	2015	Δ 2015/2014
	EUR millions					
ASSETS	109,768	119,406	111,592	105,608	116,899	11,291
Gold	14,964	15,509	10,714	12,147	11,968	(179)
IMF (net)	306	301	288	272	247	(25)
Foreign reserves and euro assets (net)	16,011	15,015	14,883	21,410	23,308	1,898
Foreign currency	594	871	1,168	3,114	4,747	1,633
Euro	15,417	14,144	13,715	18,296	18,561	266
Trading portfolio	9,351	8,402	8,593	13,025	13,121	96
Medium-term investment portfolio	6,067	5,742	5,122	5,271	5,441	170
Claims related to monetary policy operations	53,270	59,768	53,895	36,462	42,851	6,388
Lending to credit institutions	46,002	52,784	47,864	31,191	26,161	(5,030)
Securities held for monetary policy purposes	7,269	6,984	6,031	5,272	16,690	11,418
Intra-Eurosystem claims	23,019	26,347	29,471	33,172	36,315	3,143
Participating interest and transfer of foreign reserve assets to the ECB	1,181	1,210	1,235	1,214	1,214	-
Other intra-Eurosystem claims	21,838	25,136	28,236	31,958	35,100	3,143
Other claims	1,241	1,526	1,439	1,184	1,184	0
LIABILITIES AND OWN FUNDS	109,768	119,406	111,592	105,608	116,899	11,291
Banknotes in circulation	20,452	21,003	22,303	23,299	24,686	1,387
Banknotes put into circulation (net)	(1,369)	(4,022)	(5,895)	(8,621)	(10,394)	(1,773)
Adjustments to circulation	21,821	25,025	28,198	31,920	35,080	3,159
Liabilities to credit institutions related to monetary policy operations	5,691	8,136	8,218	3,589	7,712	4,123
Liabilities to other entities denominated in euro	4,869	5,484	7,629	7,989	6,630	(1,359)
Intra-Eurosystem liabilities	60,964	66,026	59,565	54,638	61,705	7,067
Other liabilities	516	356	386	342	303	(39)
Provisions*	23	8	-	-	-	-
Own funds	16,295	17,454	12,589	14,789	14,837	47
Revaluation accounts	12,061	12,657	7,758	9,637	9,296	(341)
General risk provision*	2,924	3,192	3,322	3,567	4,047	480
Capital and reserves	1,420	1,474	1,483	1,534	1,594	61
Retained earnings	(142)	(318)	(227)	(252)	(333)	(82)
Profit for the year	31	449	253	304	233	(71)

* The items Provisions and General risk provision were adjusted in accordance with the rules of the PCBP in force since 2012 for all years shown.

Balances of the main items disclosed in the balance sheet of Banco de Portugal as at 31 December 2015, as well as their changes from

end-2014, are presented below. The logic followed in the order of these items is the same as that of the analyses made in this Report:

Table 2

	EUR millions		
	2014	2015	Δ 2015/2014
1.1.1 Claims and liabilities related to monetary policy operations	32,873	35,139	2,265
Claims related to monetary policy operations	36,462	42,851	6,388
Lending to credit institutions	31,191	26,161	(5,030)
Securities held for monetary policy purposes	5,272	16,690	11,418
Liabilities to credit institutions related to monetary policy operations	(3,589)	(7,712)	(4,123)
1.1.2 Gold and foreign reserves and euro assets (net)	33,556	35,276	1,720
Gold	12,147	11,968	(179)
Foreign reserves and euro assets (net)	21,410	23,308	1,898
1.1.3 Other balance sheet assets	34,628	37,746	3,118
IMF (net)	272	247	(25)
Intra-Eurosystem claims	33,172	36,315	3,143
Other claims	1,184	1,184	0
1.1.4 Banknotes in circulation	23,299	24,686	1,387
Banknotes put into circulation (net)	(8,621)	(10,394)	(1,773)
Adjustments to circulation	31,920	35,080	3,159
1.1.5 Intra-Eurosystem liabilities	54,638	61,705	7,067
1.1.6 Other liabilities	8,331	6,933	(1,398)
Liabilities to other entities denominated in euro	7,989	6,630	(1,359)
Other liabilities	342	303	(39)
1.1.7 Own funds	14,789	14,837	47
Revaluation accounts	9,637	9,296	(341)
General risk provision	3,567	4,047	480
Capital and reserves	1,534	1,594	61
Retained earnings	(252)	(333)	(82)
Profit for the year	304	233	(71)

1.1.1. Claims and liabilities related to monetary policy operations

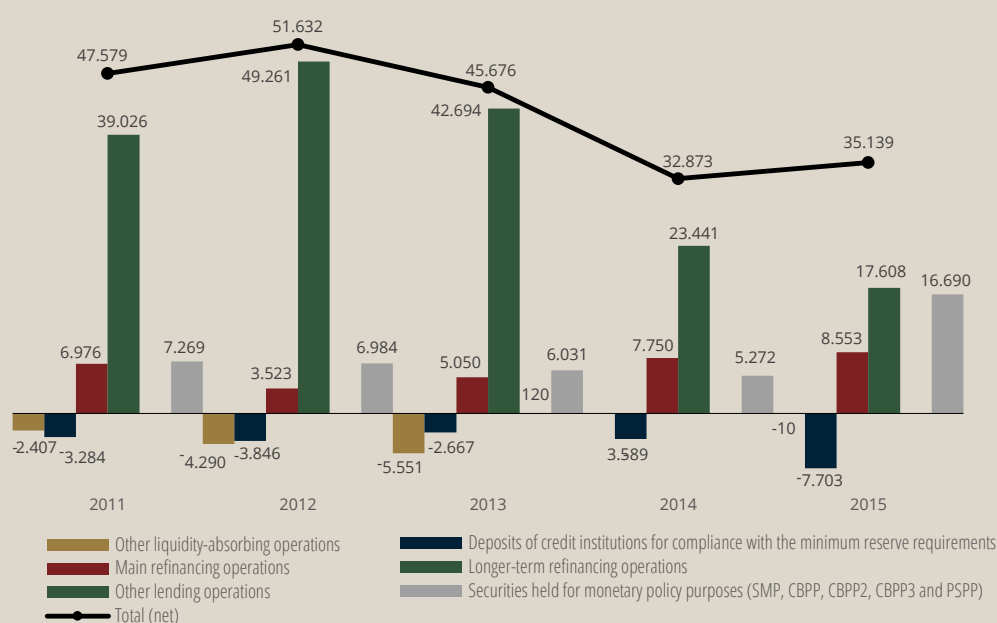
The main changes in the Banco de Portugal balance sheet in 2015 relate to the monetary policy operations decided within the Eurosystem framework and carried out by Banco de Portugal under its responsibilities as central bank.

In 2015, securities portfolios held for monetary policy purposes increased sharply, while the regular lending operations however continued their decline (which began in 2012) (Charts 1 and 2).

Within the securities held for monetary policy purposes, in January 2015, the Governing Council of the ECB decided to broaden the non-standard monetary policy programmes by creating the new secondary markets public sector asset purchase programme (PSPP). This new programme aims to create the monetary and financial conditions necessary to stimulate consumption and investment in the euro area, and ultimately to bring inflation to appropriate levels, with purchases starting in March 2015. This portfolio is entirely made up of Portuguese public debt securities and totals €10,104 million on the Banco de Portugal balance sheet in December 2015. This growth was accompanied by security purchases under the third covered bond purchase programme (CBPP3), which started in October 2014.

Offsetting this was the maturity of securities under the securities markets programme (SMP), along with that of previous covered bond purchase programmes (CBPP and CBPP2), which have been closed to new purchases since September 2012, June 2010 and October 2012 respectively (Chart 2 and Chart 3).

The asset-backed securities purchase programme (ABSPP) that started in November 2014 has continued. These operations are recorded on the balance sheet of the ECB, although the income is shared by the national central banks (NCBs) of the Eurosystem through distribution of the ECB's dividends. The purchases of securities under CBPP3, PSPP and ABSPP will continue until March 2017 or even later if necessary, and in any case until the Governing Council of the ECB deems inflation to be on a sustained adjustment path, consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term. The investment amounts presented in these securities portfolios show Banco de Portugal's participation in the stabilisation programmes approved by the Eurosystem, as part of its role of shared execution of the non-standard monetary policy operations. The characteristics of each programme are decided by the Governing Council of the ECB, including the amounts, type of debt purchased by each NCB and whether risk is shared or not.



The total of these portfolios on Banco de Portugal's balance sheet in December 2015 is €16,690 million, an €11,418 million increase versus the end of 2014 (Charts 2 and 3). All these portfolios are valued at amortised cost, less potential impairment losses. These securities portfolios in total have reversed the falling trend for the non-standard operations overall, with this growth expected to continue at least until 2017, in a context of risks that may compromise the acceleration of economic activity and low inflation levels. Given that these portfolios are material in nature and that their risks are not shared at Eurosystem level, Banco de Portugal's participation in the PSPP programme involves a significant increase in financial risk for the Bank, an inevitable exogenous restriction from the risks assumed. These risks are measured and monitored closely, and the main mitigation measure is the strengthening of the Bank's financial buffers.

The regular lending operations, in turn, have decreased by €5,030 million (from €31,191 million to €26,161 million), or by €9,153 million (from €27,602 million to €18,449 million) when calculated net of liquidity-absorbing operations. An important driver of these developments was the continued fall in the amount outstanding of the longer-term refinancing operations (LTROs), although it fell less than in 2014, due to the deleveraging of national credit institutions' balance sheets. Essentially this involved the repayment, partly early at the behest of the credit institutions, of the three-year LTROs (entered into in late 2011 and early 2012) (Chart 5), although the repayments took place shortly before their respective maturities. This reduction was partly offset by the increase in the amount outstanding of targeted longer-term refinancing operations (TLTROs) with a four-year maturity, which began in September 2014 and were strengthened throughout 2015, as well as by the year-on-year increase in value of longer-term refinancing operations with a maturity of one year or less.

The intra-annual analysis of the regular operations' daily balances (Charts 4 and 5) show that in 2015, the variations are gradual over the year, reflecting the developments outlined above. Thus in regard to the refinancing of the credit institutions, there was a gradual decline up to the end of the year, with some symmetrical fluctuations between the amounts outstanding of the main refinancing operations (MROs) and the LTROs, as well as between LTROs with different maturities. An example is the offsetting of the three-year LTRO repayments (mentioned above) with the practically equal strengthening of the other refinancing operations. The liquidity-absorbing operations remained at fairly stable levels in the period under review.

1.1.2. Gold, foreign reserves and euro assets (net)

- Gold

The gold reserve of Banco de Portugal remained unchanged from 2014 in volume terms (remaining at 382.5 tonnes). Therefore, the slight decrease in the value of the gold reserve from December 2014 (by €-179 million to €11,968 million), was due to negative developments in the price of gold, being offset by a change of an equivalent amount in the item Revaluation accounts (Chart 6).

- Foreign reserves and euro assets (net)

Foreign reserves and euro assets of Banco de Portugal increased in 2015 compared with 2014 (by €+1,898 million to €23,308 million).

This rise was mostly due to the increase in the trading portfolio denominated in foreign currency, which reflects the Bank's investment decision for 2015, within the flexibility allowed by the agreements established at Eurosystem level, and the trade-off between risk and profitability, given the present economic and financial situation. One of the agreements reached was the Agreement on Net Financial Assets (ANFA),² between the euro area NCBs and the ECB, which sets rules and limits

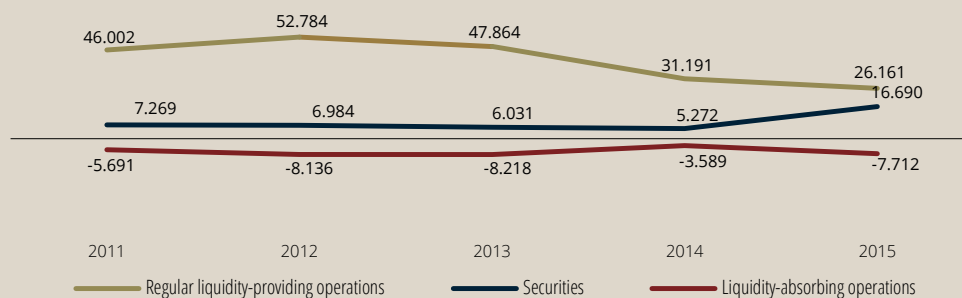


Chart 2 •
Aggregates of
monetary policy
operations

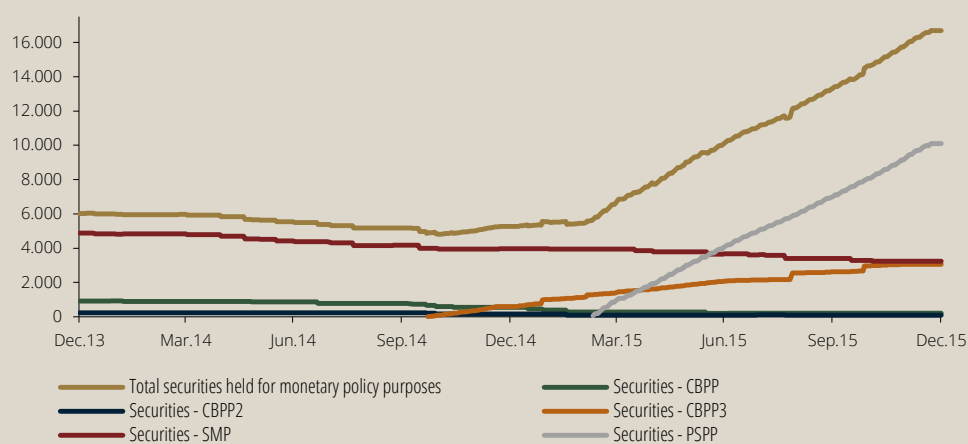


Chart 3 •
Daily balances in
the portfolios
of securities held
for monetary
policy purposes

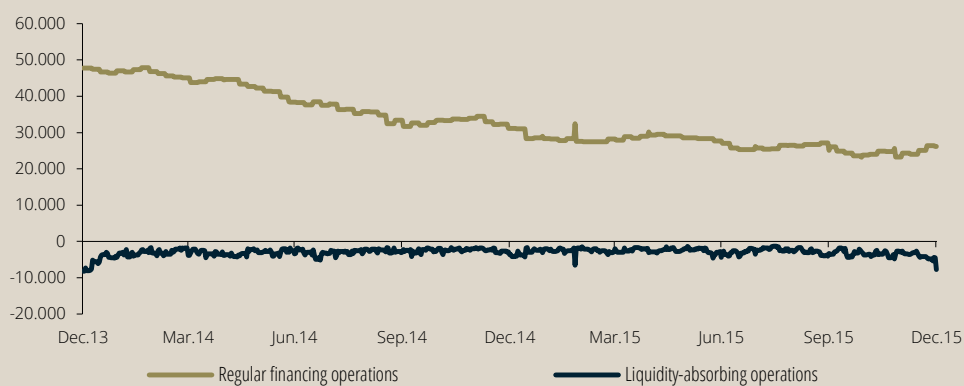


Chart 4 •
Daily balances in
aggregates of
regular
monetary policy
operations

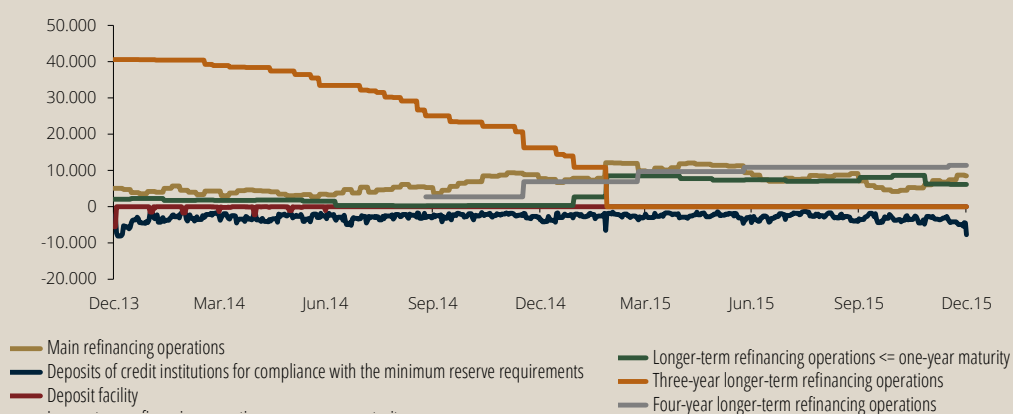


Chart 5 •
Daily balances
in regular
monetary policy
operations

Chart 6 •
Price of gold
(per fine ounce
of gold)

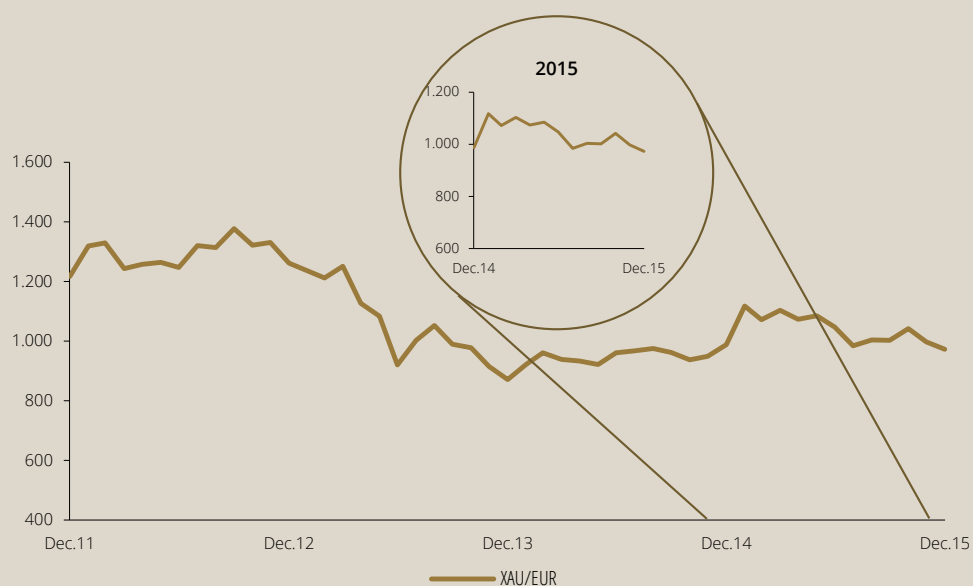


Chart 7 •
Foreign reserves
and euro assets
(net)

EUR millions

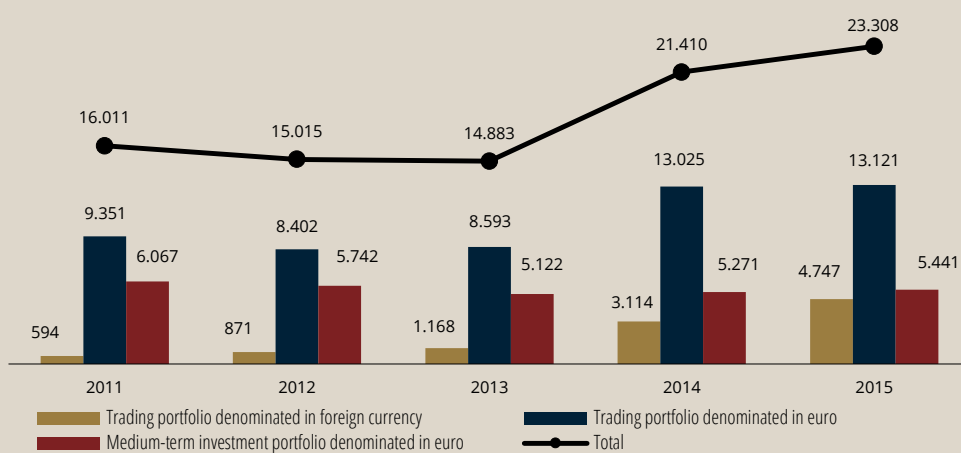
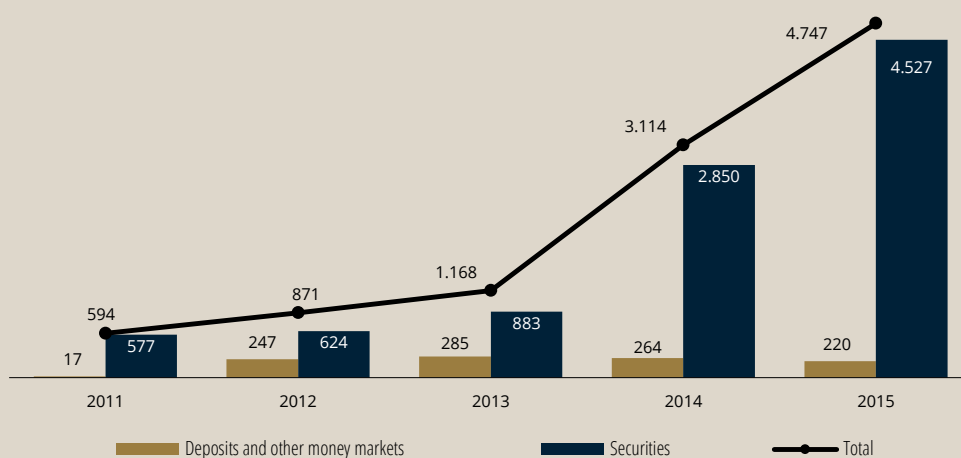


Chart 8 •
Composition
of the trading
portfolio
denominated in
foreign currency

EUR millions



for non-monetary policy holdings that are related to national tasks of the NCBs. As at 31 December 2015, the Net Financial Assets of Banco de Portugal totalled €16,147 million.

The overall structure of foreign reserves and euro assets remains unchanged from the past few years, favouring in particular investment in euro-denominated assets (Charts 7, 8 and 9).

- Trading portfolio (denominated in foreign currency and euro)

As regards the composition by instrument, the trading portfolios denominated in foreign currency and in euro continue to be mainly composed of securities, in line with the pattern seen in previous years (Charts 8 and 9). Securities in this portfolio are valued at market price.

In terms of the composition by currency, the strengthening of the portfolio denominated in foreign currency continued to be mainly composed of US dollars (around 87% of total investment in foreign currency in 2015 compared with 90% in 2014 and 91% in 2013).

In December 2015, the trading portfolio denominated in euro has a similar value to that of the end of 2014, at €13,121 million (€13,025 million in 2014). In terms of the composition by financial instrument, this portfolio is almost completely made up of securities (99.6%

of the total), mainly issued by euro area residents (€12,682 million). By type of issuer, this portfolio is mainly composed of government debt bonds (€11,828 million) and paragonovernmental and supranational bonds (€1,171 million).

Regarding the reference interest rates for managing Banco de Portugal's portfolios, in 2015, the main monetary authorities continued to pursue accommodative monetary policies, maintaining low interest rates in order to achieve price stability and economic growth targets.

Against this background, the interest rate on the ECB's MROs remained unchanged at 0.05% during 2015 (they have been at this level since September 2014), its historical minimum. This level reflects the monetary policy decisions taken by the ECB, in an economic context of low growth and low inflation, both observed and expected. In 2015, money market interest rates reached historical lows, with EONIA and three-month EURIBOR at negative levels from the 2nd quarter of the year (Chart 10).

The euro area sovereign debt markets, where most of the Bank's financial investments are concentrated, also recorded a broad-based reduction in rates, reaching negative figures in the most markets. Only long-term rates remained positive, with the falling interest rates contributing to an increase in the value of the portfolios composed of fixed-rate debt securities,

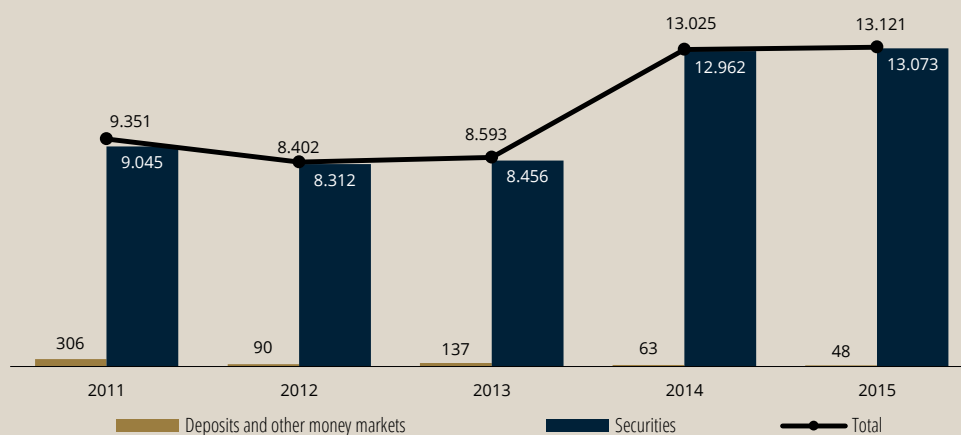


Chart 9 •
Composition
of the trading
portfolio
denominated
in euro

EUR millions

with a positive impact on asset management, which however continued to require high accuracy and efficiency (Charts 10, 11, 12 and 13).

– Medium-term investment portfolio

The medium-term investment portfolio (Chart 14), fully denominated in euro, valued at amortised cost less potential impairment losses and held to maturity, on 31 December 2015 was exclusively composed of securities. Compared with 2014, this portfolio increased slightly by €170 million to €5,441 million, chiefly as a result of the continuation of the 2014 decision to reinvest in this portfolio the entirety of the principal resulting from maturing securities and the respective income.

1.1.3. Other balance sheet assets

Key among the other asset items on the balance sheet of Banco de Portugal (which in total increased €+3,118 million to €37,746 million), were the Intra-Eurosystem claims due both to their weight in the total balance sheet and their steady positive evolution in recent years. This item includes the remunerated item relating to adjustments in banknotes in circulation, which were made in accordance with Decision ECB/2010/29. In December 2015 these adjustments totalled €35,080 million (€+3,159 million from December 2014). As in previous years, the increase in this asset position reflects a rise in circulation at Eurosystem level and the widening of the positive difference between banknotes withdrawn from circulation and banknotes put into circulation by the Bank (Chart 15).

Chart 10 • Money market interest rates

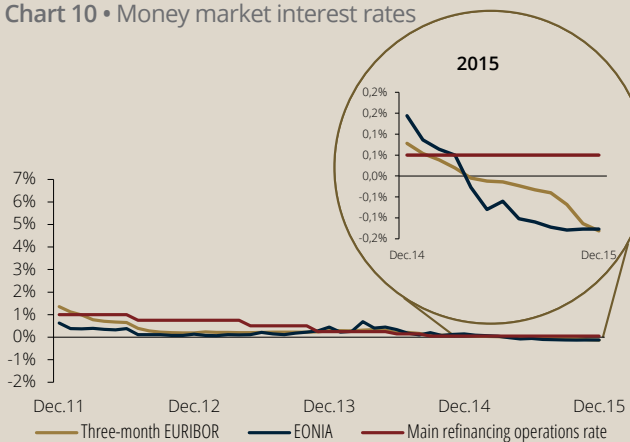


Chart 11 • Three-month interest rates

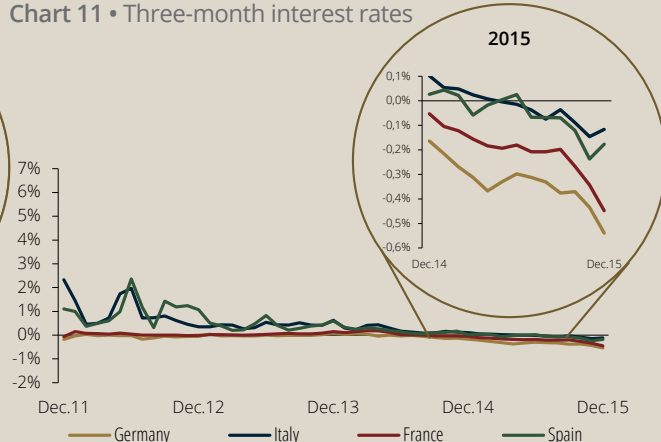


Chart 12 • Two-year interest rates

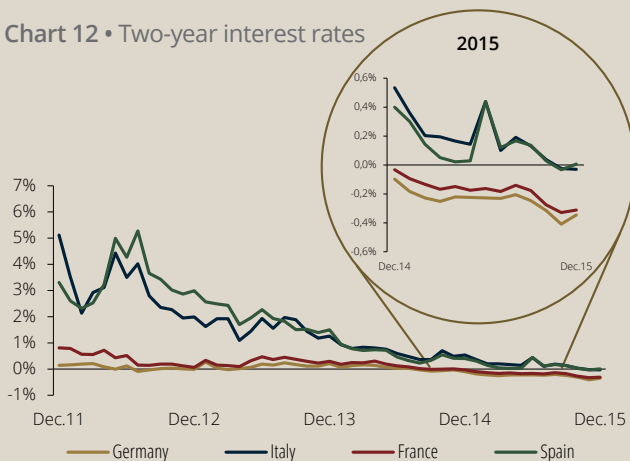
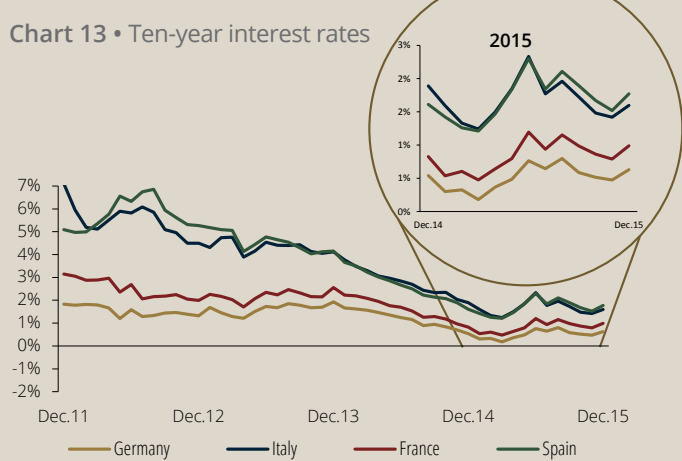


Chart 13 • Ten-year interest rates



As at 31 December 2015 there was also an emergency lending operation totalling €13 million that falls outside the scope of the Eurosystem monetary policy operations, issued to a domestic credit institution. This operation is fully collateralised.

Although without material impact on its accounts, Banco de Portugal sold its participating interest in Finangeste, S. A. in full in 2015 (44.442% of this entity's equity), for €16 million.

1.1.4. Banknotes in circulation

The aggregate Banknotes in circulation, recorded on the liabilities side of the balance sheet of Banco de Portugal, reflects the share allocated to Portugal in the Eurosystem (Chart 15). This aggregate continued to be on a steady growth path, since the euro entered into circulation, reflecting a rise in circulation at Eurosystem level (increasing by €+1,387 million to €24,686 million).

1.1.5. Intra-Eurosystem liabilities

On 31 December 2015, the value of Intra-Eurosystem liabilities (mostly liabilities arising from TARGET accounts) showed a sharp increase of €+7,067 million from 2014 (to €61,705 million). This increase is explained principally by the financing of purchases of securities held for monetary policy purposes (outlined above), as well as (i) the increase in the positive difference between the banknotes withdrawn from circulation and banknotes put into circulation by Banco de Portugal; (ii) the reduction in liabilities associated with the balances of the general government current accounts (see 1.1.6 Other liabilities); and (iii) the settlement of operations that led to the above-mentioned rises in the trading portfolio. These effects are partly offset by the impact of the reduction in lending to credit institutions and the increase in liabilities to credit institutions related to monetary policy operations (Chart 16).

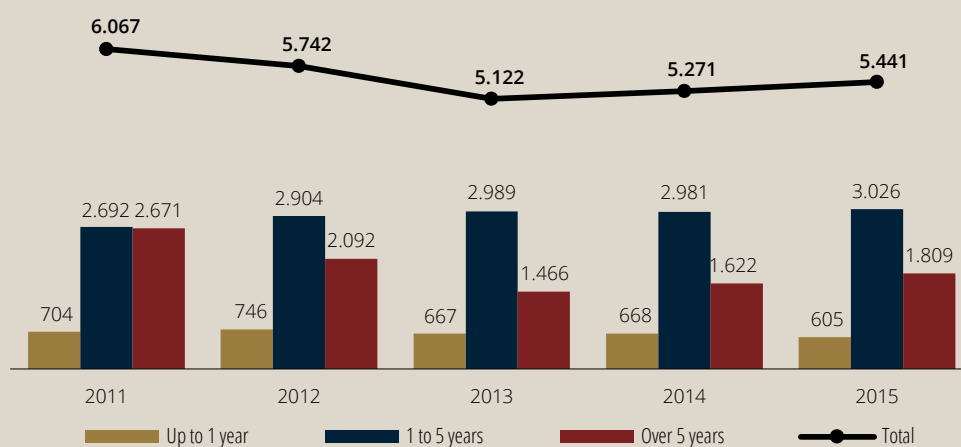


Chart 14 • Composition of the medium-term investment portfolio by maturity

EUR millions

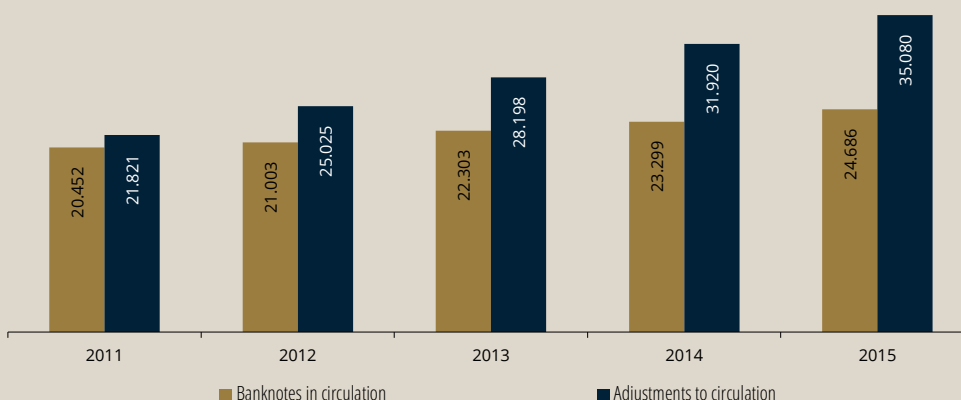


Chart 15 • Banknotes in circulation and adjustments to circulation

EUR millions

1.1.6. Other liabilities

The change in the aggregate Other liabilities (€-1,398 million to €6,933 million) mainly reflects the fall in the Liabilities to other euro area entities denominated in euro, which essentially comprises the general government current accounts and autonomous funds' deposits held by Banco de Portugal (€5,593 million and €975 million respectively as at 31 December 2015).

The general government current accounts are mainly held by the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP) and relate to loan disbursements from the European Union (EU) under the Economic and Financial Assistance Programme to Portugal (Programa de Assistência Económica e Financeira a Portugal – PAEF). These accounts fell by €-2,237 million since December

2014 (to €5,593 million). Transactions on these accounts are the sole responsibility of IGCP.

Deposits of the autonomous funds (the Deposit Guarantee Fund, the Resolution Fund and the Mutual Agricultural Credit Guarantee Fund) recorded significant year-on-year growth (+€816 million), chiefly due to management decisions taken by these entities.

1.1.7. Own funds

Banco de Portugal's own funds (revaluation accounts, general risk provision, equity and net profit for the year) in 2015 present a €47 million increase to €14,837 million, largely due to the combination of the increase in the general risk provision (€+480 million) and the fall in the revaluation accounts (€-341 million) (Chart 17).

Chart 16 •
Intra-Eurosystem
liabilities and
main offsetting
balance sheet
items
EUR millions

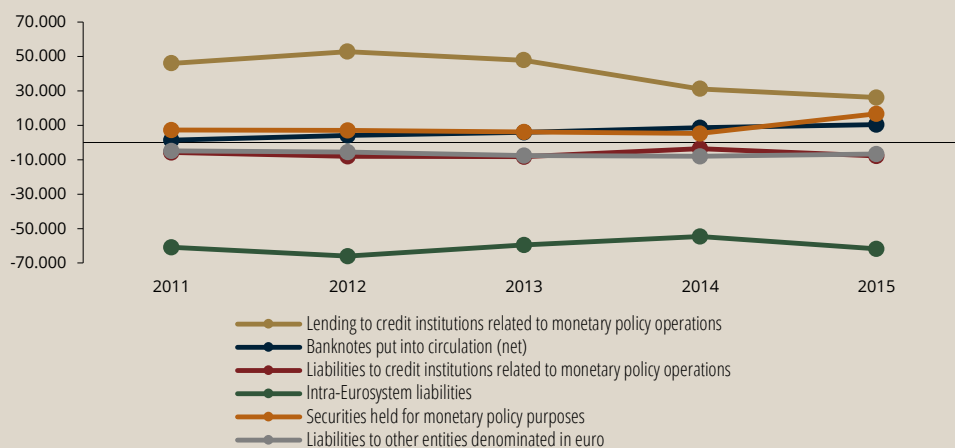
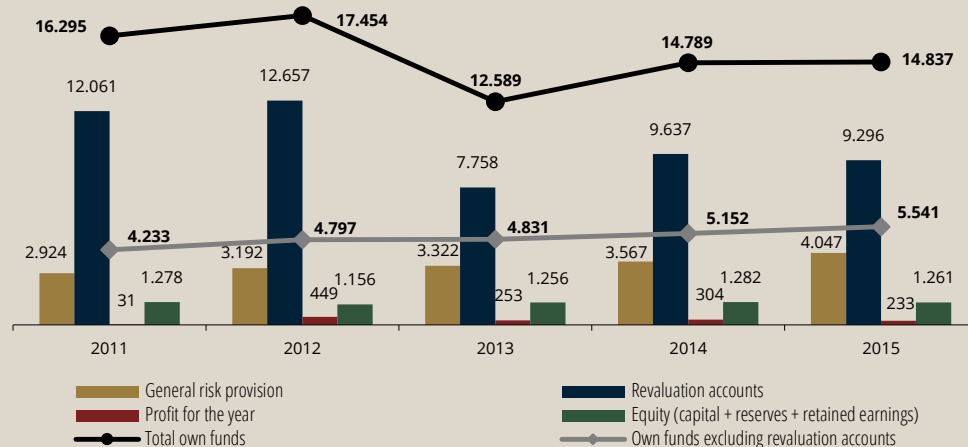


Chart 17 •
Own funds
EUR millions



Regarding the positive change in the revaluation accounts, the €-341 million fall is the result of decreases in potential gains from Gold (€-179 million) and from trading portfolio securities (€-188 million).

Excluding revaluation accounts, the change in this aggregate was of €+389 million from 2014, resulting from the combined effect of (i) the increase in December 2015 of the general risk provision (€+480 million); (ii) the recognition of net profit for 2015 (€+233 million); and (iii) the impact of the distribution of €243 million of dividends to the State by investing the net profit for 2014; and (iv) the recognition in retained earnings of actuarial losses of 2015, relating to the Pension Fund – Defined-benefit plan (totalling €-75 million) and deferred tax adjustments (€-6 million).

The general risk provision is equivalent to a reserve, considering its permanent nature, designed to cover potential balance sheet risks in a medium to long-term perspective. In December 2015 it amounted to €4,047 million. The increase

in this provision in 2015 takes into consideration the increased risk on the Bank's balance sheet, mainly linked to the sharp growth in the portfolio of government debt securities held for monetary policy purposes – PSPP – whose risks are not shared at Eurosystem level. The continuation of this programme, which is projected to extend into the near future, is an exogenous and inevitable restriction (as mentioned above), which, under the methodologies and instruments used by the Eurosystem to measure financial risks, will tend to increase these risks and reduce their hedging. In order to mitigate these risks, own funds have to be strengthened, allowing maintenance of financial autonomy levels suited to the Bank's mission.

1.2. Developments in the Profit and Loss Account

The main components of the Profit and Loss Account from 2011 to 2015 are shown in the table below:

Table 3

	2011	2012	2013	2014	2015	EUR millions Δ 2015/2014
Interest margin	729	803	727	649	622	-27
Interest income	1,614	1,513	1,156	766	653	-113
Interest expense	-885	-710	-429	-117	-30	87
Realised gains/losses arising from financial operations	-70	91	-5	218	432	214
Unrealised losses on financial assets and positions	-18	-2	-114	-1	-60	-59
Transfer from/to risk provisions	-460	-268	-130	-245	-480	-235
Income from equity shares and participating interests	25	20	54	25	26	2
Net result of pooling of monetary income	-9	113	11	-30	-17	13
Total administrative expenses	165	168	176	172	179	7
Staff costs	111	108	123	115	120	5
Related to supervision	16	17	22	23	25	2
Excluding those related to supervision	95	91	102	91	95	4
Supplies and services from third parties	37	41	38	42	47	5
Related to PAEF, SSM and ESCB	2	6	2	6	2	-4
Related to resolution measures – Legal advice services	-	-	-	2	7	6
Excluding those related to PAEF, SSM, ESCB and resolution measures	35	35	35	34	38	3
Other administrative expenses	1	1	1	1	1	-
Depreciation and amortisation for the year	16	18	14	14	11	-3
Costs with banknote production	12	15	13	13	16	3
Other net profit/loss	16	41	4	4	-3	-7
Income before taxes	37	614	358	433	324	-109
Income tax – current	-201	-	-75	-128	-91	37
Income tax – deferred	195	-165	-31	-1	-	1
Net profit for the year	31	449	253	304	233	-71

Net profit for the year 2015 stood at €233 million, in line with the average of the past few years, but falling by €71 million from 2014.

The year-on-year fall in profit was driven mainly by the strong increase in the strengthening of the general risk provision, as a result of the consideration of the various factors governing its movement, as identified above. Also contributing to the fall in net profit was the year-on-year increase in unrealised losses and the reduction in the interest margin. Partly offsetting these negative effects was the strong growth in realised gains/losses arising from financial operations and the increase in the net result of pooling of monetary income. The decrease in income before taxes and the reduction of the taxation rate has led to a decrease in income tax.

The Bank's interest margin, the main component of its Profit and Loss Account, fell €-27 million in net terms versus 2014 (-4%) (Chart 18), continuing the downward trend in place since 2012. This decrease, in a similar way to previous years, results from the fact that the reduction in interest income was higher than the reduction in interest expense.

A key factor behind these reductions is the generalised fall in annual average interest rates, which are at historical minimums, affecting both profitability among the medium-term securities portfolio and the security portfolios held for monetary policy purposes. The negative impact of these factors was strengthened by the reduction in average balances of some of the major assets, most notably, due to its material nature, lending to credit institutions.

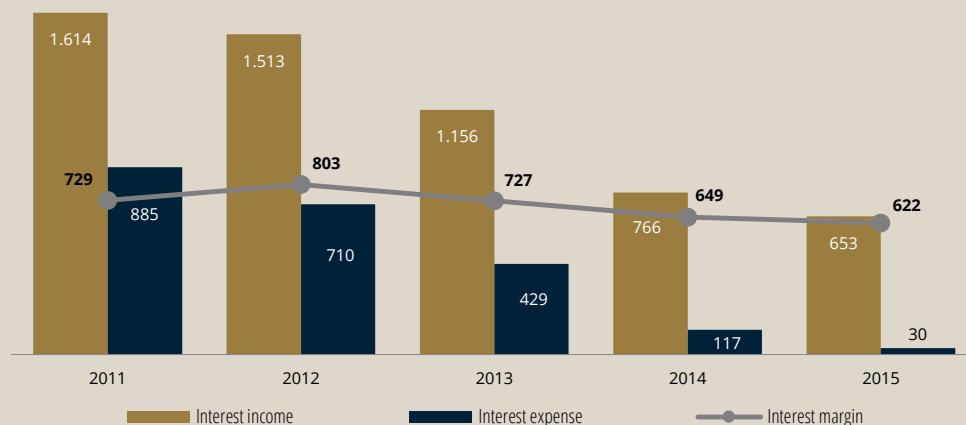
On the other hand, the fall in interest income was mitigated both by the considerable investment in the portfolio of securities held for monetary policy purposes, more specifically in regard to the PSPP (which, due to the nature of these assets, presents much higher yields than most of the interest-bearing assets on the portfolio), and by the ongoing growth of the interest-bearing asset associated with the net position of adjustments to the banknotes in circulation, with the impact of the increase in the respective average amounts outstanding being higher than the negative impact of the respective falls in the associated profitability rates.

The realised gains/losses arising from financial operations in 2015 recorded an accumulated positive amount of €432 million, substantially higher than in 2014 (Chart 19). These gains relate mostly to realised gains in foreign exchange operations and to financial instruments held in the trading portfolio denominated in euro (essentially gains arising from securities sales), generally associated with the appreciation of the US dollar during the year (the main component of the Bank's foreign currency portfolio) and, in relation to the securities operations, the realised gains at the start of 2015 after a sharp fall in yields in 2014.

Regarding unrealised losses on financial assets and positions, the overall value recognised in 2015 represents potential losses almost exclusively associated with price devaluations of securities in the trading portfolio denominated in euro and in foreign currency (respectively €46 million and €13 million). In accordance with the harmonised accounting rules of the Eurosystem, unrealised

Chart 18 •
Interest margin

EUR millions

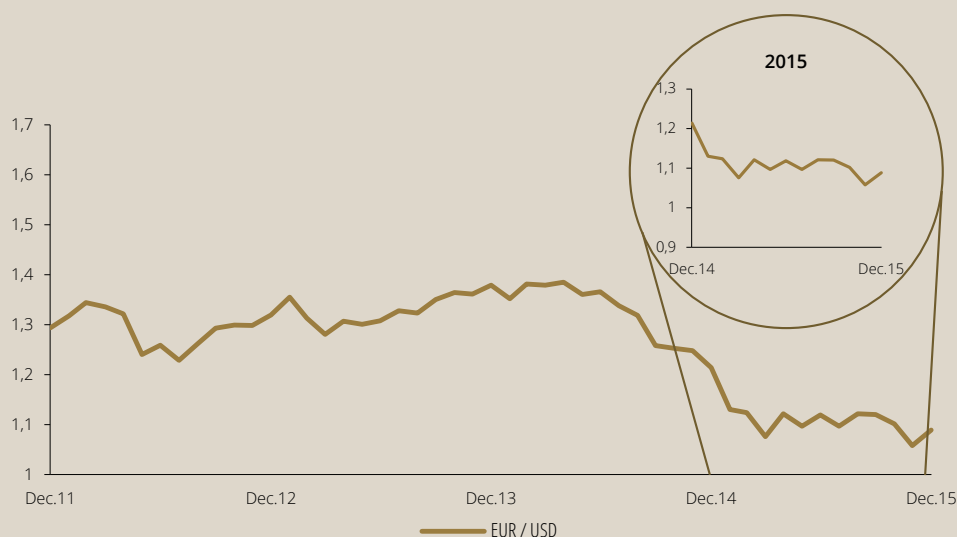
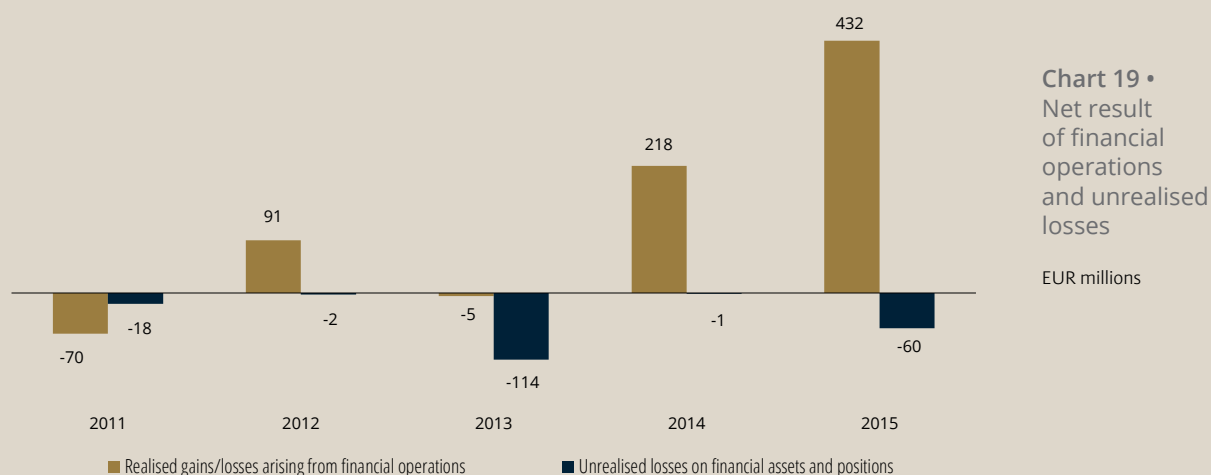


losses are recognised as expenses for the period as at 31 December, while unrealised gains continue to be recognised in the balance sheet in the respective revaluation differences items.

At the end of the year the general risk provision was reinforced by €480 million (Chart 21). This reinforcement takes into consideration the medium and long-term overall risk positions in the balance sheet to which the Bank is exposed, which, as set out above, deteriorated over the year under review, under the methodologies and instruments used by the Eurosystem to measure financial risks, essentially due to the strengthening of the portfolio of securities held for monetary policy purposes, more specifically the PSPP. This reinforcement also takes into consideration the prudence criteria prescribed in the PCBP.

In 2015, the item Net result of pooling of monetary income reflects the result of the method of sharing monetary income for the year under review (totalling €-17 million). The significant increase in this item (in 2014 €-30 million was recorded) is due to the decrease in the share of Banco de Portugal's net contributions in the Eurosystem's total contributions compared to the year before. However, this share remains above Banco de Portugal's adjusted capital key, which explains why a value is still payable to the Eurosystem.

In 2015 administrative expenses rose by +4% from 2014 (€+7 million), standing at €179 million (Chart 22). This change is mainly due to the combination of the increase in staff costs (€+5 million), the main component of administrative expenses, and in supplies and



services from third parties (€+5 million), and the reduction of the value of depreciations and amortisations for the period (€-3 million).

The growth in staff costs in 2015 (€+5 million, +4% compared with the year before) is largely due to the increase in the compulsory social charges component (€+3 million, +12%). Behind this growth was the significant increase in the annual transfer to the Pension Fund – Defined-benefit plan, the result of the actuarial valuation made by Sociedade Gestora dos Fundos de Pensões do Banco de Portugal, S. A. – SGFPBP (Pension Funds Managing Company) (year-on-year growth of €+3 million), and reflects above all the impact of the reduction of the liabilities' discount rate.

The remaining increase in the staff costs item is almost entirely due to the continued rise in Banco de Portugal's professional staff, to address the increased responsibilities entrusted to the Bank, in particular in the financial regulation and banking supervision functions. The annual average

headcount in 2015 was strongly affected by the wave of recruits at the end of 2014, although at year-end the headcount was the same for both years (+27 members of staff on average, of which +22 work in supervision-related areas).

A final note relates to the continuation in 2015 of the policy of reducing staff costs, in place since 2010, which has helped the headcount in the Bank to grow without proportional growth in total staff costs.

The item Supplies and services from third parties in 2015 (accounting for about 26% of total administrative expenses) increased by €+5 million (+12%) year-on-year. This increase was accounted for by the net impact of changes with opposite signs in different expenditure components.

In terms of extraordinary measures, on one hand consultancy expenses to support the implementation of the Single Supervisory Mechanism (SSM) fell (€-4 million), and on the

Chart 21 •
Transfer from/
to risk provisions

EUR millions

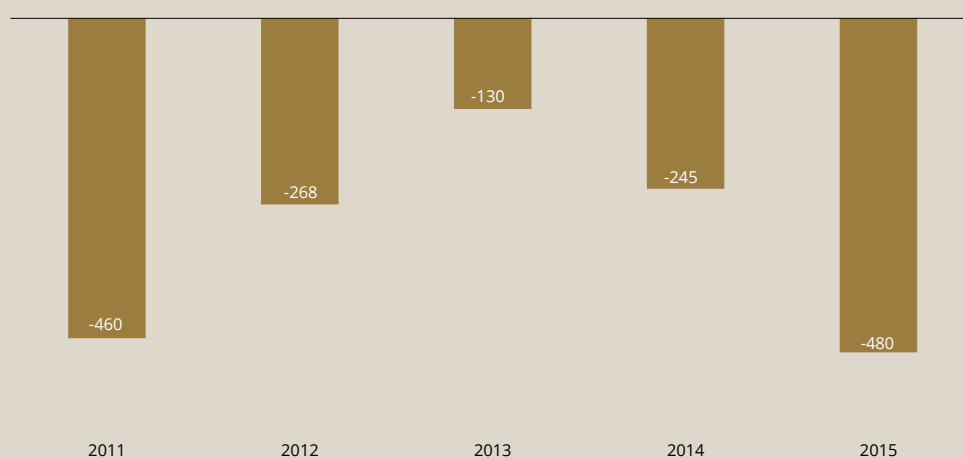
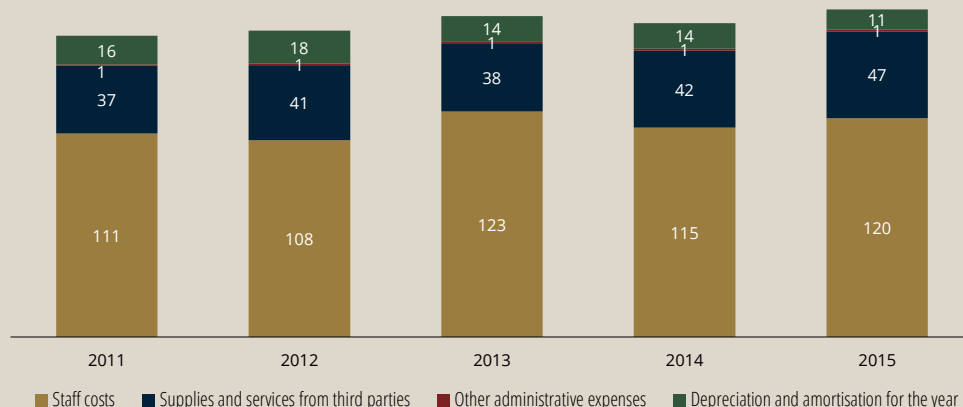


Chart 22 •
Administrative
expenses

EUR millions



other, the legal advice expenses related to the resolution measure applied to Banco Espírito Santo, S. A. and on BANIF, S. A. increased (€+6 million).

Excluding the effects of the extraordinary expense items, Supplies and services from third parties are still higher than in 2014 (€+3 million, +10%), largely explained by the functional reorganisation of supervision-related areas, which involved the new building in Rua Castilho becoming operational. This new building addresses a lack of space, which has intensified over the last few years as a result of the above-mentioned increased headcount. Moving to the new building has involved an increase in building rent, maintenance costs, and utilities, security and surveillance expenses.

Supplies and services from third parties expenses also grew due to the increase in utilities rates, the increased outsourcing of surveillance and security, and IT (in part offset by reductions in staff allocated to these activities, reflected in staff costs), and the increase in IT maintenance expenses from new, relevant systems for the Bank's activity and from

the use of databanks, which have proved critical for the Bank to operate properly.

Offsetting these increases and resulting from the expenditure containment efforts and efficient resource management, there were cost reductions in data, voice and connectivity communications, travel and accommodation and workshop materials (relating mainly to operations undertaken in the Issue and Treasury Department). These reductions are particularly important as they reflect significant management efforts, given that the Bank is in growth, both in terms of headcount and in terms of functions and responsibilities associated to it.

Finally, there has been a sharp year-on-year reduction in the depreciation and amortisation item for the period (-21%), which is fundamentally due to the end of the depreciation/amortisation period for some of the Bank's significant assets, including the Carregado Complex and the machinery associated with this building, as well as the Bank's document management system.

Lisbon, 7 March 2016

BOARD OF DIRECTORS

Governor

Carlos da Silva Costa

Vice-Governors

Pedro Miguel de Seabra Duarte Neves

José Joaquim Berberan e Santos Ramalho

Directors

João José Amaral Tomaz

António Varela

Hélder Rosalino

Profit distribution

The 2015 Accounts of Banco de Portugal were approved under the terms laid down in Article 54 (2) of the Organic Law of Banco de Portugal. The net profit for the year 2015, to the amount of €232.89 million, was distributed as follows:

10 % to the legal reserve	€23,289,156.23
10 % to other reserves	€23,289,156.23
The remainder to the State, as dividends	€186,313,249.88

pursuant to the provisions of Article 53 (2) of the Organic Law of Banco de Portugal.

2. Financial Statements

Balance sheet of banco de portugal

Assets	Note number	31 Dec. 2015		31 Dec. 2014	
		Gross assets	Depreciation, amortisation and impairment	Net Assets	Net Assets
1 Gold and gold receivables	2	11,967,904	-	11,967,904	12,146,754
2 Claims on non-euro area residents denominated in foreign currency		5,832,251	-	5,832,251	3,996,893
2.1 Receivables from the IMF	3	1,273,932	-	1,273,932	1,233,671
2.2 Balances with banks and security investments, external loans and other external assets	4	4,558,319	-	4,558,319	2,763,222
3 Claims on euro area residents denominated in foreign currency	4	188,334	-	188,334	350,801
4 Claims on non-euro area residents denominated in euro	5	418,204	-	418,204	354,338
4.1 Balances with banks, security investments and loans		418,204	-	418,204	354,338
4.2 Claims arising from the credit facility under the Exchange Rate Mechanism II (ERM II)		-	-	-	-
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	26,160,880	-	26,160,880	31,190,840
5.1 Main refinancing operations		8,552,500	-	8,552,500	7,750,000
5.2 Longer-term refinancing operations		17,608,380	-	17,608,380	23,440,840
5.3 Fine-tuning reverse operations		-	-	-	-
5.4 Structural reverse operations		-	-	-	-
5.5 Marginal lending facility		-	-	-	-
5.6 Credits related to margin calls		-	-	-	-
6 Other claims on euro area credit institutions denominated in euro	5	33,113	-	33,113	58,708
7 Securities of euro area residents denominated in euro		29,371,911	-	29,371,911	17,883,329
7.1 Securities held for monetary policy purposes	7	16,689,856	-	16,689,856	5,271,566
7.2 Other securities	5	12,682,055	-	12,682,055	12,611,763
9 Intra-Eurosystem claims	8	36,314,509	-	36,314,509	33,172,001
9.1 Participating interest in the ECB		203,700	-	203,700	203,700
9.2 Claims equivalent to the transfer of foreign reserves to the ECB		1,010,318	-	1,010,318	1,010,318
9.3 Net claims arising from balances of TARGET accounts		-	-	-	-
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		35,079,789	-	35,079,789	31,920,350
9.5 Other intra-Eurosystem claims		20,702	-	20,702	37,632
10 Items in the course of settlement		3	-	3	6
11 Other assets		6,917,702	305,846	6,611,856	6,454,494
11.1 Coins of the euro area		28,468	-	28,468	34,919
11.2 Tangible fixed assets and intangible assets	9	355,872	235,741	120,131	119,568
11.3 Other financial assets	10	5,495,024	-	5,495,024	5,349,242
11.4 Off-balance-sheet instruments revaluation differences	-	-	-	-	-
11.5 Accruals and prepaid expenses	11	623,095	-	623,095	667,278
11.6 Sundry	12/19	415,244	70,105	345,139	283,486
Total depreciation and amortisation		-	235,741	-	-
Total impairment	19	-	70,105	-	-
Total assets		117,204,811	305,846	116,898,965	105,608,164

EUR thousands			
Liabilities, revaluation accounts, general risk provision and equity	Note number	31 Dec. 2015	31 Dec. 2014
1 Banknotes in circulation	13	24,685,930	23,299,051
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	7,712,082	3,589,088
2.1 Current accounts of credit institutions for compliance with minimum reserve requirements		7,702,568	3,589,088
2.2 Deposit facility		5,500	-
2.3 Fixed-term deposits		-	-
2.4 Fine-tuning reverse operations		-	-
2.5 Deposits related to margin calls		4,013	-
3 Other liabilities to euro area credit institutions denominated in euro		-	-
5 Liabilities to other euro area residents denominated in euro	15	6,630,018	7,989,193
5.1 General government		5,593,433	7,830,113
5.2 Other liabilities		1,036,584	159,080
6 Liabilities to non-euro area residents denominated in euro	16	415	416
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	1,026,484	961,643
10 Intra-Eurosystem liabilities		61,704,676	54,638,058
10.1 Liabilities related to the issuance of ECB debt certificates		-	-
10.2 Net liabilities arising from balances of TARGET accounts	8	61,686,658	54,591,105
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		-	-
10.4 Other net liabilities within the Eurosystem	8	18,018	46,954
11 Other liabilities		302,647	341,411
11.1 Off-balance-sheet instruments revaluation differences		-	-
11.2 Accruals and income collected in advance	17	25,656	21,681
11.3 Sundry	18	276,991	319,730
12 Provisions		-	-
13 Revaluation accounts	20	9,296,197	9,636,837
14 General risk provision	19	4,046,622	3,566,622
15 Equity	21	1,261,003	1,281,706
15.1 Capital		1,000	1,000
15.2 Reserves and retained earnings		1,260,003	1,280,706
Profit for the year		232,892	304,139
Total liabilities, revaluation accounts, general risk provision and equity		116,898,965	105,608,164

Head of the Accounting Department

José Pedro Silva Ferreira

Note: Totals/sub-totals included in the financial statements may not equal the sum of the figures presented due to rounding, since this section presents figures in EUR thousands.

Profit and loss account

EUR thousands

Items	Note number	31 Dec. 2015	31 Dec. 2014
1. Interest income		652,510	765,766
2. Interest expense		30,408	117,069
3. Net interest income	22	622,102	648,697
4. Realised gains/losses arising from financial operations	23	432,128	217,740
5. Unrealised losses on financial assets and positions	24	60,471	1,414
6. Transfer from/to risk provisions	19	(480,000)	(245,000)
7. Net result of financial operations, unrealised losses and risk provisions		(108,343)	(28,674)
8. Fees and commissions income		5,321	5,565
9. Fees and commissions expense		6,918	5,655
10. Net income from fees and commissions		(1,597)	(90)
11. Income from equity shares and participating interests	25	26,226	24,564
12. Net result of pooling of monetary income	26	(17,431)	(30,267)
13. Other income	27	12,064	6,577
14. Total net income		533,022	620,806
15. Staff costs	28	119,810	114,687
16. Supplies and services from third parties	29	47,413	42,101
17. Other administrative expenses		1,123	1,126
18. Depreciation and amortisation for the year	9	11,003	13,990
19. Total administrative expenses		179,349	171,904
20. Costs of banknote production		16,015	13,082
21. Other expenses	27	13,960	2,680
22. Losses for impairment of assets (losses/reversals)	30	(38)	(77)
23. Transfer to the reserve relating to capital gains on gold sales			
24. Totals costs and losses (net)		209,286	187,590
25. Income before taxes		323,735	433,217
26. Income tax		90,844	129,078
26.1. Income tax – current	31	90,598	127,736
26.2. Income tax – deferred	31	245	1,342
27. Profit for the year		232,892	304,139

Head of the Accounting Department

José Pedro Silva Ferreira

Note: Totals/sub-totals included in the financial statements may not equal the sum of the figures presented due to rounding, since this section presents figures in EUR thousands.

Statement of changes in equity

EUR thousands

Description	Note number	Paid up capital	Legal reserves	Other reserves	Distributable retained earnings	Non-distributable retained earnings	Net profit for the year	Total equity
Position as at 31 December 2013 (1)		1,000	272,896	1,209,098	-	(226,988)	253,014	1,509,019
2013 profit distribution								
Dividends distribution to shareholders							(202,411)	(202,411)
Other operations			25,301	25,301	-		(50,603)	-
Sub-total of 2013 profit distribution (2)		-	25,301	25,301	-	-	(253,013)	(202,411)
Changes in 2014								
Actuarial gains/losses of the Pension Fund	33					(15,303)		(15,303)
Adjustments on account of deferred taxes	31					(9,599)		(9,599)
Sub-total of changes in 2014 (3)		-	-	-	-	(24,902)	-	(24,902)
Net profit for the year (4)							304,139	304,139
Comprehensive income for the year (5) = (3) + (4)		-	-	-	-	(24,902)	304,139	279,237
Position as at 31 December 2014 (6) = (1) + (2) + (5)		1,000	298,197	1,234,399	-	(251,890)	304,139	1,585,845
Position as at 31 December 2014 (7)		1,000	298,197	1,234,399	-	(251,890)	304,139	1,585,845
2014 profit distribution								
Dividends distribution to shareholders	21						(243,311)	(243,311)
Other operations	21		30,414	30,414	-		(60,828)	-
Sub-total of 2014 profit distribution (8)		-	30,414	30,414	-	-	(304,139)	(243,311)
Changes in 2015								
Actuarial gains/losses of the Pension Fund	33					(75,286)		(75,286)
Adjustments on account of deferred taxes	31					(6,245)		(6,245)
Sub-total of changes in 2015 (9)		-	-	-	-	(81,531)	-	(81,531)
Net profit for the year (10)							232,892	232,892
Comprehensive income for the year (11) = (9) + (10)		-	-	-	-	(81,531)	232,892	151,361
Position as at 31 December 2015 (12) = (7) + (8) + (11)		1,000	328,611	1,264,813	-	(333,421)	232,892	1,493,895

Head of the Accounting Department

José Pedro Silva Ferreira

Note: Totals/sub-totals included in the financial statements may not equal the sum of the figures presented due to rounding, since this section presents figures in EUR thousands.

3. Notes on the Financial Statements

(Figures in EUR thousands, save as otherwise stated)

Note 1 • Bases of presentation and main accounting policies

1.1 Bases of presentation

The financial statements of Banco de Portugal have been prepared in accordance with the Chart of Accounts of Banco de Portugal (Plano de Contas do Banco de Portugal – PCBP), approved by the member of Government responsible for Finance, in accordance with the provisions laid down in Article 63 (1) of the Organic Law of Banco de Portugal, and entered into force on 1 January 2012. The PCBP is a regulation specifically and appropriately designed for the central bank activity.

The bases for preparation of the financial statements, envisaged in the PCBP in force, rely on two major regulations: (i) Accounting Guideline of the European Central Bank (ECB),³ which adopts – taking into account the provisions laid down in Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the ‘Statute of the ESCB’) – the mandatory rules applicable to the treatment of core central banking activities and the optional rules recommended for participating interests; and (ii) technical guidance on the recognition and measurement based on the IFRS⁴ for the remaining activities, which will be applied provided the cumulative conditions laid down in the PCBP are met.

The PCBP defined two single balance sheet items: (i) Revaluation accounts, representing potential gains that are not recognised in Profit/loss (Section 1.2 (d) and (p) of this note); and (ii) the General risk provision, which unlike the other provisions, is equivalent to a reserve, although its increases and reductions are directly made against Profit/loss (Section 1.2 (q) of this note). These two items are recorded in the balance sheet between Liabilities and Equity.

In accordance with the ECB Accounting Guideline, the classification of assets and liabilities shall be made according to the residence in the euro area criterion. Thus, euro area assets and liabilities are those relating to euro area residents.

Participating interests in subsidiaries and associated companies have a long-standing nature and their maintenance is connected with the Bank's activity. These participating interests are measured in compliance with the accounting policy described in Section 1.2 (e) of this note. However, given the immaterial nature of the results of a possible consolidation process, the Bank does not prepare consolidated financial statements.

With regard to the disclosures of positions relating to the participation in the operation of the European System of Central Banks (ESCB), the Bank follows the harmonised procedures laid down by the ECB. As to the other business areas, the disclosures are on the information defined by the IFRS, whenever it does not collide with (i) the day-to-day activity of the markets and market players; (ii) the purposes of the operations conducted by Banco de Portugal; and (iii) the objective of Banco de Portugal as the central bank.

The Bank, as an integral part of the ESCB, is subject to the provisions laid down in Article 27 (1) of the Statute of the ESCB, according to which the annual accounts of the national central banks (NCBs) of the Eurosystem shall be audited by independent external auditors. For the purpose of ensuring the independence of the external auditors, the Bank follows the good practice defined by the Eurosystem to this end.

1.2 Synopsis of the main accounting policies

The main accounting policies and valuation criteria used in the preparation of the financial statements of Banco de Portugal for the year 2015 are the following:

a) Accounting assumptions and qualitative characteristics of the financial statements

The financial statements of Banco de Portugal reflect the economic reality of its assets and liabilities and are prepared in accordance with the following accounting assumptions: accrual basis of accounting principle (in relation to most financial statement items, namely with regard to interest income and interest expense, which is recognised in the accounting period in which it is generated and not according to the moment in time in which it is paid or received) and continuity. The qualitative characteristics of the financial statements are understandability, relevance, reliability and comparability.

b) Recognition of assets and liabilities

Assets are resources controlled by the Bank on an individual basis, or by the Eurosystem on a collective basis (pooling), resulting from past events and which are expected to generate future economic benefit. Liabilities are commitments resulting from past events and their settlement is expected to result in an outflow of funds or investment of resources representing economic benefit.

c) Recognition date

Assets and liabilities in general are recognised on the settlement date rather than on the trade date. When the year ends between the settlement date and the trade date, transactions are recognised in off-balance sheet accounts on the trade date.

Foreign exchange forward transactions are recognised in the balance sheet not on the settlement date, but on the trade date, having an influence on the average cost of the foreign currency position as from that date.

The spot leg of foreign exchange swaps is recognised on the spot settlement date. The forward leg is recognised on the settlement date of the spot leg by the same amount, the difference between the two legs being treated as interest and recorded over the life of the swap on a straight-line basis (Section 1.2 (g) of this note).

d) Recognition of gains and losses

The Bank applies an asymmetric valuation approach to unrealised gains in accordance with the ECB Accounting Guideline. Thus, in the course of the period, revaluation differences (difference between the market value and the weighted average cost) are recognised in the balance sheet, in specific revaluation accounts for each type of asset and currency. At the end of the fiscal year, negative revaluation differences are recognised in the Profit and Loss Account under 'Unrealised losses on financial assets and positions'. There shall be no netting of revaluation differences in any one security (ISIN code), or in any currency.

Realised gains/losses arising from financial operations, determined by the difference between the transaction value and the weighted average cost, are recognised in the Profit and Loss Account on the settlement date under 'Realised gains/losses arising from financial operations', except in the situations envisaged in the 'economic approach' alternative method, described in the ECB Accounting Guideline. In these situations, where the operations are traded in one year but settlement only occurs in the subsequent year, gains and losses arising from financial operations are immediately recognised on the trade date.

e) Measurement of balance sheet items

Gold, foreign exchange transactions and securities in the trading portfolio are valued at the end of the fiscal year at the exchange rates and market price prevailing on the reporting date. The securities classified as held-to-maturity and securities held for monetary policy purposes regarding the programmes currently implemented are measured at amortised cost less potential impairment losses (Section 1.2 (f) of this note).

Foreign currency revaluation is made on a currency-by-currency basis and no distinction is made between spot and forward currency positions. Securities price revaluation is also made on a security-by-security basis (ISIN code).

Special Drawing Rights (SDRs) are treated as a currency for accounting purposes. Currency holdings underlying the SDR basket are treated jointly with the SDRs, forming a single holding.

No distinction is made between the gold price revaluation and the foreign currency revaluation. A single revaluation shall be made based on the price in euro per defined unit of weight of gold.

The accounting treatment of gold and foreign currencies is similar, with the average cost of the gold stock being only changed when the amount purchased on a given day is higher than the amount sold.

Participating interests in subsidiaries and associated companies, recorded under Other financial assets, are valued in accordance with the recommendations of the ECB Accounting Guideline, through the Net Asset Value valuation method.⁵ The remaining participating interests are recognised according to the acquisition cost criterion, subject to potential impairment losses.

Tangible fixed assets and intangible assets are measured at the acquisition cost less accumulated depreciation and amortisation, in accordance with the rules laid down in IAS 16 and IAS 38 respectively. This acquisition cost includes expenditure directly attributable to the acquisition of goods.

Depreciation and amortisation is recorded in twelfths, according to the straight-line method, by applying annual depreciation and amortisation rates according to the estimated useful life:

	Number of years
Tangible fixed assets	
Buildings and other constructions	10 to 50
Facilities	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
Intangible assets	3 to 6

According to IAS 36, whenever there is any indication that a tangible fixed asset or an intangible asset may be impaired, the asset's recoverable amount must be estimated, with an impairment loss recognised in the Profit and Loss Account whenever the estimated recoverable amount is below the net carrying amount. The recoverable amount is calculated as the higher of its net selling price and its value in use, with the latter calculated based on the present value of the estimated future cash flows expected to be derived from continuing use of the asset and its disposal at the end of its useful life.

Assets under construction are valued at the total expenses already charged to the Bank and transferred to tangible fixed assets and intangible assets when they start to be available for use, and when their amortisation/depreciation starts also.

Accounts receivable and payable and deposits with third parties and held by third parties with the Bank, as well as the remaining balance sheet positions denominated in euro not previously mentioned in this item, are recognised at nominal value, less any impairment losses where applicable (Section 1.2 (o) of this note).

f) Securities

Banco de Portugal holds in its portfolio marketable securities (trading portfolio), held-to-maturity securities (medium-term investment portfolio) and securities held for monetary policy purposes.

Premiums or discounts arising on securities are calculated and presented as part of interest income and are amortised over the remaining life of the securities, either according to the straight-line method, in the case of coupon securities, or the internal rate of return (IRR) method, in the case of zero coupon securities.

- Securities held for monetary policy purposes

The item Securities held for monetary policy purposes includes securities related to non-standard monetary policy operations, namely: (i) the covered bond purchase programmes – CBPP, CBPP2 and CBPP3; (ii) the securities markets programme – SMP; (iii) the outright monetary transactions programme – OMT, not currently active; (iv) the asset-backed securities purchase programme – ABSPP, currently centralised on the balance sheet of the ECB; and (v) the public sector purchase programme – PSPP.

The securities currently held for monetary policy purposes are measured at amortised cost, being subject to impairment tests conducted at Eurosystem level, regardless of the holding intention (in terms of how long they will be held for).

- Securities for other than monetary policy purposes

Securities for other than monetary policy purposes include the following portfolios:

- Trading portfolio

The portfolio of marketable securities is measured at market price. The market value of this portfolio is assessed using indicative market quotes.

The calculation and recognition of profit/loss in marketable securities is carried out according

to the valuation method of the weighted average cost for each type of security. According to this method, the acquisition cost of the daily purchases is added to the weighted average cost of each type of security from the previous working day, so that a new weighted average cost can be calculated. Sales are deducted from the stock at the weighted average cost for the sale's value date, which already incorporates all the purchases made on that day.

The adjusted weighted average cost (or amortised cost) refers to the sum of the security's weighted average cost and the accumulated amortisation of the premium or discount. The difference between the value of sales and the amortised cost of the security is treated as realised gain/loss.

Revaluation differences correspond to the difference between the amortised cost of the security and the respective market value, and are recognised as referred to in Section 1.2 (d) of this note.

- Medium-term investment portfolio

The portfolio of held-to-maturity securities, is measured at amortised cost, calculated in a totally independent manner from the remaining securities classified as trading securities, and is subject to impairment tests according to the model defined by Banco de Portugal, which follows the guidelines defined at Eurosystem level. The accounting treatment of interest and premiums and discounts of securities held in this portfolio is similar to that of the portfolio of marketable securities.

g) Derivative financial instruments

Foreign exchange forward transactions and forward legs of foreign exchange swaps are recognised in on-balance-sheet and off-balance-sheet accounts. In the case of foreign exchange forward transactions, the difference between the market exchange rate of the trade date and the agreed exchange rate is recognised as interest and recorded on a straight-line basis

during the lifetime of the transaction. In the case of foreign exchange swaps, this interest is determined by the difference between the agreed currency spot rate and the agreed forward rate of exchange.

Interest rate swaps and interest rate futures are recorded in the balance sheet and revalued on a case-by-case basis. As to interest rate swaps, the revaluation gain/loss is treated as described in Section 1.2 (d) of this note. In the case of interest rate futures, the result of the daily revaluation is recognised in 'Realised gains/losses arising from financial operations', in line with the financial flows resulting from the change in the respective margin account.

h) Intra-ESCB balances

Pursuant to the Statute of the ESCB, the NCBs of the ESCB are the sole subscribers to and holders of the capital of the ECB (Article 28). The subscription of capital is made according to the key established in Article 29. Thus, Banco de Portugal's share in the capital of the ECB and claims allocated by 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. Banco de Portugal's share in the capital of the ECB is recorded in the balance sheet in Assets under Participating interest in the ECB.

Intra-Eurosystem balances, recognised under Claims/liabilities arising from balances of TARGET accounts, result from cross-border payments in the EU that are settled in euro. These transactions are for the most part initiated by private entities and are initially settled in TARGET2 – Trans-European Automated Real-time Gross settlement Express Transfer system – and give rise to bilateral balances in the TARGET accounts of EU central banks. These bilateral balances are netted out by each NCB on a daily basis, leaving each NCB with a single position vis-à-vis the ECB only.

The intra-Eurosystem balance arising from the transfer of reserve assets to the ECB when Banco de Portugal joined the Eurosystem

is denominated in euro and is recorded in the balance sheet under Transfer of foreign reserve assets to the ECB.

Intra-Eurosystem balances arising from the allocation of euro banknotes are included as a net single position and are recorded in the balance sheet under Claims related to the allocation of euro banknotes within the Eurosystem (Section 1.2 (i) of this note).

i) Banknotes in circulation

The ECB and the NCBs of the euro area, which together comprise the Eurosystem, put euro banknotes in circulation.⁶ The ECB and 12 of these NCBs have issued euro banknotes since 1 January 2002; the central bank of Slovenia adopted the euro on 1 January 2007; the central banks of Cyprus and Malta adopted the euro on 1 January 2008; the central bank of Slovakia adopted the euro on 1 January 2009; the central bank of Estonia adopted the euro on 1 January 2011; the central bank of Latvia adopted the euro on 1 January 2014; and the central bank of Lithuania adopted the euro on 1 January 2015. 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'.⁷

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 the key for subscription to the ECB's capital (adjusted capital key). The share of euro banknotes allocated to each NCB is disclosed under the balance sheet item Banknotes in circulation.

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the difference between banknotes put into circulation and banknotes withdrawn from circulation by that NCB also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,⁸ are disclosed under the sub-items Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem.

When 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. These 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 bank's banknote allocation table. 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.

The interest income and expense on these balances is cleared through the account of the ECB and disclosed in the Profit and Loss Account of NCBs under the item Net interest income.

j) Distribution of the ECB's 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, as well as income from the securities purchased by the ECB under the SMP, CBPP3, ABSPP and PSPP portfolios, shall be due to the NCBs in the same period it accrues and distributed on the last working day of January of the following financial year in the form of an interim distribution of profit.⁹ It shall be distributed in full unless the ECB's net profit for the year is expected to be lower than its income earned on euro banknotes in circulation and the above-mentioned securities purchase programmes and subject to any decision by the Governing Council to reduce this income in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. The Governing Council may also decide to transfer all or part of the ECB's seigniorage income to a provision for foreign exchange rate, interest rate, credit and gold price risks.

The amount distributed is recorded in the Profit and Loss Account under the item Income from equity shares and participating interest.

k) Pension Fund of Banco de Portugal – Defined-benefit plan

The Bank's liabilities related to the Pension Fund, detailed in note 33, are calculated on an annual basis, on the cut-off date for the accounts, by Sociedade Gestora dos Fundos de Pensões do Banco de Portugal – SGFPBP, using the Projected Unit Credit Method. The main actuarial assumptions (financial and demographic) used in the calculation of these liabilities are also presented in note 33.

The recognition of costs and liabilities related to retirement pensions is made in accordance with IAS 19, incorporating the latest amendments endorsed by the European Union. According to the provisions laid down therein, the amount recorded in staff costs refers to the current service cost and to net interest cost, which is calculated by applying a single interest rate to the Fund's assets and liabilities. Actuarial gains/losses arise mainly (i) from differences between actuarial and financial assumptions used and the values actually recorded; and (ii) from changes introduced in actuarial and financial assumptions. These gains and losses will be directly recognised under Retained earnings.

Upon a decision of the Board of Directors of Banco de Portugal, in 2014, the Bank's liabilities related to other post-employment benefits, until then directly assumed by Banco de Portugal, were transferred to the Pension Fund – Defined-benefit plan. These post-employment benefits related to (i) the allocation of retirement and survivors pensions to retired employees and pensioners who were not covered by the Pension Fund of Banco de Portugal; (ii) the extraordinary subsidy granted to the Bank's employees retired on or before 31 December 1993; and (iii) the contribution to retired employees and pensioners' healthcare and funeral expenses, are also part of the Pension Fund – Defined-benefit plan. There is a distinction between the Pension Plan and the Healthcare Plan, as explained in note 33.

Contributions made for the Pension Plan and the Healthcare Plan within the Fund aim to ensure its solvency. The minimum funding ratio required is 100% for current liabilities towards

pensioners and retired employees and 95% for past service liabilities of active members.

l) Pension Fund – Defined-contribution plan

The employees who have started working at the Bank after 3 March 2009, pursuant to Decree-Law No 54/2009 of 2 March, are covered by the general social security scheme. Nonetheless, these employees may opt for a supplementary pension plan, for which Banco de Portugal contributes with 1.5% of the actual monthly compensation. However, since this is a defined-contribution plan, the Bank has no legal or constructive obligation to pay any additional contribution.

m) Seniority bonuses

Banco de Portugal recognises on the liabilities side of its balance sheet the present value of liabilities for years of service, regarding seniority bonuses.

The SGFPBP calculates the current value of benefits with seniority bonuses on an annual basis, on the cut-off date for the accounts, using the Projected Unit Credit Method. The main actuarial assumptions (financial and demographic) used in the calculation of the present value of these benefits are presented in note 33.

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

n) Income tax

Charges for the year from income tax are calculated in accordance with the provisions laid down in the Corporate Income Tax Code (Código do Imposto sobre o Rendimento das Pessoas Coletivas – CIRC) 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. In compliance with IAS 12, deferred taxes are calculated taking as a basis the best estimate of the amount of tax to recover and pay in the future and are recognised in Profit/loss, except when they are related to items directly recognised in equity, in which case they are also recorded against equity.

o) Impairment and provisions

Impairment of assets is recognised in the balance sheet and shall be deducted from the book value of those assets, in accordance with IAS 36. The value of this impairment results from the best estimate of losses associated with each asset class and takes as a reference the best estimate of future financial flows.

In accordance with IAS 37, provisions are recognised when: (i) the Bank has a present, legal or constructive obligation, (ii) their payment is likely to be required and (iii) a reliable estimate can be made of the value of that payment obligation. These provisions are recognised in liabilities through the best estimate of the payment amount, as at the date of preparation of the financial statements.

The PCBP also provides for the setting up of provisions resulting from risk shared with all other euro area NCBs, according to decisions and within the limits set by the Governing Council of the ECB. These provisions are deductible for tax purposes. For other provisions or impairment, the Bank follows the regime defined in the Corporate Income Tax Code.

p) Revaluation accounts

Revaluation differences are calculated as described in Section 1.2 (d) of this note. When these differences are positive, they are retained in the balance sheet in order not to distribute unrealised gains. Positive revaluation differences at the end of the year are presented on an item-by-item basis in the balance sheet between Liabilities and Equity.

At the end of the year, in accordance with the principle of prudence, when the revaluation differences are negative they are transferred to the Profit and Loss Account in the item Unrealised losses, contributing to the calculation of net profit/loss for the year.

q) General risk provision

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

The PCBP provides for the setting up of a general risk provision, which is different from the other provisions, as its nature is equivalent to that of a reserve, although its increases and reductions are directly made against the Profit and Loss Account.

The definition of the amount of the general risk provision, among other factors, takes into consideration the assessment of risks for the period under review, against a background of strengthened own funds and the maintenance of financial autonomy levels suited to the Bank's mission, enabling it, at any time, to cover potential losses, including those resulting from risk sharing with the Eurosystem. Movements in the general risk provision are decided upon by the Board of Directors, in accordance with Article 5 (2) of the Organic Law of Banco de Portugal.

The general risk provision is considered as a separate item on the balance sheet, recorded between Liabilities and Equity (Section 1.1 of this note).

r) Reserves and retained earnings

The Bank's reserves are set up and used according to the provisions of the Organic Law of Banco de Portugal, being divided as follows: (i) legal reserve; (ii) special reserve relating to gains on gold sales; and (iii) other reserves.

The special reserve relating to gains on gold sales, provided for in Article 53 (1) (b) of the Organic Law of Banco de Portugal is annually endowed with the exact amount of gains on these operations, with no maximum limit. Annual appropriations to increase this reserve are recognised in the Profit and Loss Account and contribute to the calculation of net profit/loss for the year.

Retained earnings represent profit/loss of previous years pending distribution by the Board of Directors, or profit/loss not recognised in the Profit and Loss Account as set out in the accounting rules.

1.3 Post-balance-sheet events

In compliance with IAS 10, the assets, liabilities and profit and loss of Banco de Portugal are adjusted for favourable or unfavourable events which occur between the balance sheet date and the financial statements' approval date, where there is evidence that these events existed at the balance sheet date. Events indicative of a condition that arose after the balance sheet date which did not give rise to any adjustment are disclosed in this appendix to the accounts.

Note 2 • Gold and gold receivables

	31 Dec. 2015		31 Dec. 2014	
	Fine ounces(*)	EUR thousands	Fine ounces(*)	EUR thousands
Gold stored at the Bank	5,549,245	5,400,664	5,549,245	5,481,372
Gold sight accounts	6,747,916	6,567,241	6,747,916	6,665,383
Gold reserve	12,297,161	11,967,904	12,297,161	12,146,754

(*) Ounce of fine gold.

As at 31 December 2015 the value of gold fell by €178,850 thousand compared with the 2014 end balance. This decrease was solely due to negative developments in the price of gold denominated in euro, as there was no change to the amounts of gold on reserve.

On 31 December 2015, the Bank's gold reserve was valued at the market price of €973.23 per ounce of fine gold, which corresponds to

a 1.5% price reduction, from €987.77 on 31 December 2014.

Unrealised gains resulting from this asset (€8,937,525 thousand on 31 December 2015) are recognised on the Balance Sheet (Note 20) as positive revaluation differences according to the accounting policy described in Section 1.2 (e) and (p) of note 1.

The location of gold reserves is as follows:

Location	31 Dec. 2015		31 Dec. 2014	
	Fine ounces	EUR thousands	Fine ounces	EUR thousands
In Portugal	5,549,245	5,400,664	5,549,245	5,481,372
Abroad				
Bank of England	5,988,932	5,828,578	5,988,932	5,915,681
Bank for International Settlements (BIS)	640,658	623,504	640,658	632,822
Federal Reserve Bank – United States	118,327	115,159	118,327	116,879
Total	12,297,161	11,967,904	12,297,161	12,146,754

Note 3 • Lending and deposit operations with the International Monetary Fund (IMF)

	31 Dec. 2015		31 Dec. 2014	
	SDR thousands	EUR thousands	SDR thousands	EUR thousands
IMF quota	1,029,700	1,310,602	1,029,700	1,227,814
IMF's holdings	(821,838)	(1,046,035)	(821,876)	(980,004)
Reserve tranche position in the IMF	207,862	264,567	207,824	247,810
SDR holdings	793,027	1,009,365	792,787	945,319
Other claims on the IMF	-	-	34,000	40,542
Claims on the IMF	1,000,889	1,273,932	1,034,612	1,233,671
Counterpart of special drawing rights allocated by the IMF	(806,477)	(1,026,484)	(806,477)	(961,643)
Liabilities to the IMF	(806,477)	(1,026,484)	(806,477)	(961,643)

The positions in the IMF are denominated in Special Drawing Rights (SDRs), which are treated as a foreign currency, as described in Section 1.2 (e) of note 1.

The Reserve tranche position in the IMF reflects the equivalent in euro, on 31 December 2015, of Portugal's quota in the IMF, corresponding to the initial participation and subsequent payments, to the total value of €1,310,602 thousand (SDR 1,029,700 thousand) less €1,046,035 thousand (SDR 821,838 thousand) of the IMF's holdings with Banco de Portugal. In 2015 Portugal's quota

in the IMF remained unchanged and the change in its value denominated in euro resulted exclusively from changes in the SDR quotation compared with December 2014. Furthermore, in February 2016, Banco de Portugal increased its quota by SDR 1,030 million (€1,303 million), under the 14th General Review of Quotas.

The item Claims on the IMF also includes the SDR holdings position as at December 2015, which relates to the equivalent in euro of the SDR amount assigned to Banco de Portugal,

totalling €1,009,365 thousand (SDR 793,027 thousand). In December 2014, the item Other claims on the IMF also recognised Portugal's share of loans under the New Arrangements to Borrow (NAB), totalling SDR 34,000 thousand (which had already been reduced by SDR 30,000 thousand due to the repayment of the first tranche of these loans). NAB are financial agreements between the IMF and some of its member countries with financial capacity to help the international monetary system, enabling the IMF to obtain resources under pre-established terms and conditions in order to act when

needed. The other tranches of these loans were fully repaid in 2015.

The liability position corresponds to the item Counterpart of special drawing rights allocated by the IMF, which showed a €1,026,484 thousand (SDR 806,477 thousand) liability to the IMF on 31 December 2015.

The changes in the different claim and liability items also include the effect of the SDR appreciation against the euro (6.7%), from 1.1924 on 31 December 2014 to 1.2728 on 31 December 2015.

Note 4 • Balances with banks and security investments, loans and other assets denominated in Foreign Currency

	31 Dec. 2015	31 Dec. 2014		31 Dec. 2015	31 Dec. 2014
Claims on non-euro area residents denominated in foreign currency			Securities of non-euro area residents denominated in foreign currency		
Securities	4,480,678	2,750,124	Government debt	2,495,689	2,628,804
Balances with banks, deposits and other money markets	77,642	13,098	Paragovernmental and supranational	1,984,989	121,320
	4,558,319	2,763,222		4,480,678	2,750,124
Claims on euro area residents denominated in foreign currency			Securities of euro area residents denominated in foreign currency		
Securities of euro area residents denominated in foreign currency	45,930	99,585	Government debt	-	99,585
Balances with banks, deposits and other money markets	142,404	251,216	Paragovernmental and supranational	45,930	-
	188,334	350,801		45,930	99,585
Total security investments denominated in foreign currency	4,526,608	2,849,709		4,526,608	2,849,709
Total balances with banks, deposits and other money markets in foreign currency	220,046	264,314			
	4,746,654	3,114,022			

In 2015 there was an increase in the trading portfolio of claims denominated in foreign currency arising from strategic investment options of the Bank. The rise resulted mainly from an increase in securities portfolio, valued at market prices, which on 31 December 2015 accounted for 95% of total claims denominated in foreign currency (2014: 91.5%), broken down as follows:

In terms of the composition by currency, as at 31 December 2015 the portfolio denominated in foreign currency was mainly composed of US dollars (around 87% of total foreign currency) as it was already the case in 2014 (90% of total foreign currency corresponded to US dollars).

Note 5 • Balances with banks and security investments, loans and other assets denominated in euro

	31 Dec. 2015	31 Dec. 2014
Claims on non-euro area residents denominated in euro		
Securities	390,815	349,817
Balances with banks, deposits and other money markets	27,389	4,521
	418,204	354,338
Claims on euro area residents denominated in euro		
Securities	12,682,055	12,611,763
Balances with banks, deposits and other money markets	20,613	58,708
Emergency lending operations	12,500	-
	12,715,168	12,670,471
Total security investments denominated in euro	13,072,870	12,961,580
Total balances with banks, deposits and other money markets denominated in euro	48,002	63,230
Emergency lending operations	12,500	-
	13,133,372	13,024,809

The volume of the trading portfolio denominated in euro (securities and balances with banks, deposits and other money markets) changed little from December 2014, retaining the same structure in terms of composition by financial instrument and residence. According to the Bank's strategic options, the domestic securities component continues to account for the largest share in this portfolio (97% of total claims in 2015 and 2014).

This item includes €12,500 thousand in relation to an emergency lending operation outside the Eurosystem's monetary policy operations with a domestic credit institution. As at 31 December and on the date of this report, this operation is fully collateralised.

The securities trading portfolio denominated in euro, valued at market prices, is broken down as follows:

	31 Dec. 2015	31 Dec. 2014
Securities of non-euro area residents denominated in euro		
Paragovernmental and supranational	343,662	317,696
Companies/financial institutions	47,153	32,120
	390,815	349,817
Securities of euro area residents denominated in euro		
Government debt	11,827,617	11,695,354
Paragovernmental and supranational	827,371	857,341
Companies/financial institutions	27,067	59,068
	12,682,055	12,611,763
	13,072,870	12,961,580

Note 6 • Lending to euro area Credit Institutions related to monetary policy operations denominated in euro

On 31 December 2015 the value of the refinancing operations to euro area credit institutions related to monetary policy operations denominated in euro at Eurosystem level stood at €558,989,120 thousand (2014: €630,340,810 thousand), of which Banco de Portugal held €26,160,880 (2014: €31,190,840 thousand).

The main refinancing operations (MROs) are liquidity-providing reverse transactions with a weekly frequency and a maturity of one week. Since October 2008 these operations have been conducted as fixed rate tender procedures with full allotment. On 31 December 2015 the total amount placed by Banco de Portugal

amounted to €8,552,500 thousand (2014: €7,750,000 thousand). These operations are a main instrument for pursuing interest rate objectives, for managing the liquidity situation in the money market and for signalling the ECB's monetary policy stance.

The longer-term refinancing operations (LTROs) are liquidity-providing reverse transactions with maturity of between three and 48 months. On 31 December 2015 the combined balance outstanding of the amount placed by Banco de Portugal stood at €17,608,380 thousand (2014: €23,440,840 thousand), with a fixed rate, or with a rate indexed to the prevailing MRO rates. On this date only the operations with a maturity of three months were outstanding.

At the start of 2015, two 36-month refinancing operations matured, which had been conducted on 22 December 2011 and 1 March 2012. These LTROs were structured with a total or partial early repayment option from 30 January 2013. In the course of 2013 and 2015, a number of credit institutions made use of the said early repayment option, repaying part of the amounts they had been allotted in these operations.

On 5 June 2014 the Governing Council of the ECB approved the conduct of targeted longer-term refinancing operations with a maximum maturity of 48 months, to enhance the functioning of the monetary policy transmission mechanism

by supporting lending to the real economy. Six operations of this kind were conducted, two in 2014 and four in 2015, with the balance outstanding on 31 December 2015 of the amount placed by Banco de Portugal standing at €11,407,380 thousand (2014: €6,862,980 thousand).

In addition, the Eurosystem makes available the marginal lending facility, corresponding to overnight loans at the specified rate for these operations. On 31 December 2015 and 2014, recourse to this facility by Banco de Portugal was nil.

All lending related to monetary policy operations is fully collateralised (Note 32).

In accordance with Article 32.4 of the Statute of the ESCB, any risks from monetary policy operations, if they materialise, may be shared in part or in full by all Eurosystem NCBs, in proportion to the prevailing ECB capital key shares, on the date they materialise.

Losses on these operations will only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided is not sufficient to cover the respective losses. It should be noted that the Governing Council of the ECB has excluded from risk sharing a specific part of the collateral, which includes, above all, assets that can be accepted by NCBs at their own discretion.

Note 7 • Securities held for monetary policy purposes

On 31 December 2015, the portfolio of Securities held for monetary policy purposes contains public sector securities and covered bonds, acquired by Banco de Portugal under the securities markets

programme (SMP),¹⁰ the covered bond purchase programmes (CBPP, CBPP2 and CBPP3),¹¹ and the public sector purchase programme (PSPP) (Section 1.2 (f) of note 1).

	31 Dec. 2015		31 Dec. 2014	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes				
Eurosystem's securities markets programme (SMP)	3,239,424	3,701,192	3,959,867	4,494,913
Covered bond purchase programme (CBPP)	200,623	218,414	543,714	567,805
Covered bond purchase programme 2 (CBPP2)	96,770	112,064	161,511	182,119
Covered bond purchase programme 3 (CBPP3)	3,048,963	3,043,945	606,473	605,927
Public sector purchase programme (PSPP)	10,104,076	9,975,672	-	-
	16,689,856	17,051,286	5,271,566	5,850,765

The following table presents the movements in these programmes during the year 2015:

	31 Dec. 2014	Purchases	Maturing securities	Accrual of premiums and discounts	31 Dec. 2015
Securities held for monetary policy purposes					
Eurosystem's securities markets programme (SMP)	3,959,867	-	762,000	41,556	3,239,424
Covered bond purchase programme (CBPP)	543,714	-	343,400	309	200,623
Covered bond purchase programme 2 (CBPP2)	161,511	-	67,000	2,259	96,770
Covered bond purchase programme 3 (CBPP3)	606,473	2,491,336	16,200	(32,647)	3,048,963
Public sector purchase programme (PSPP)	-	10,174,514	-	(70,438)	10,104,076
	5,271,566	12,665,851	1,188,600	(58,961)	16,689,856

Under the SMP, the ECB and the NCBs purchased securities in order to address the malfunctioning in certain segments of the euro area debt securities markets and restore the proper functioning of the monetary policy transmission mechanism. The Governing Council of the ECB decided on 6 September 2012 to terminate this programme for new purchases. Therefore, in 2014 and 2015 no purchases were made for this portfolio. The reduction in this item, in 2015, was solely due to securities that matured.

Under the covered bond purchase programmes (CBPP and CBPP2), the ECB and the NCBs purchased covered bonds of euro area residents denominated in euro with the objective of easing funding conditions for credit institutions and enterprises as well as encouraging credit institutions to maintain or expand lending to their customers. Purchases under these programmes were fully implemented by 30 June 2010 (CBPP) and by 31 October 2012 (CBPP2). The reduction in these items in 2015 was due to bonds that matured. On 2 October 2014, the Governing Council of the ECB announced the technical details of the third covered bond purchase programme (CBPP3), through which the ECB and the NCBs started to purchase covered bonds of euro area residents denominated in euro with the same purpose as CBPP and CBPP2. Purchases under CBPP3 are expected to be carried out until March 2017.

Under the asset-backed securities purchase programme (ABSPP),¹² which started in 2014, the ECB and the NCBs may purchase senior and guaranteed mezzanine tranches of asset-backed securities in both primary and secondary markets, to facilitate credit provision to the euro area economy. The ECB exclusively is purchasing these securities and this programme will last for two years.

On 22 January 2015, the Governing Council of the ECB decided to expand its non-standard monetary policy programmes to include a secondary markets public sector asset purchase programme (PSPP). This programme aims to create the monetary and financial conditions necessary to stimulate consumption and investment in the euro area, and ultimately to bring inflation close to 2% over the medium term.

Under this programme, the ECB and the NCBs are available to buy, on the secondary market, securities denominated in euro issued by euro area governments and supranational European institutions. The aim is for the Eurosystem to reach €60 billion in monthly purchases of securities under CBPP3, ABSPP and PSPP until the end of March 2017, or beyond.

The securities purchased under these non-standard monetary policy programmes are measured at amortised cost and subject to impairment tests (Section 1.2 (f) of note 1).

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities purchased under the SMP, the CBPPs, the ABSPP and the secondary markets PSPP. Within the Eurosystem, in the context of the programmes of shared risk and pooling of income, the total Eurosystem NCBs' holding of securities amounts to €114,080,002 thousand in the SMP portfolio (2014: €134,162,443 thousand), of which Banco de Portugal holds €3,239,424 thousand, and €131,882,766 thousand in the CBPP3 portfolio (2014: €27,333,190 thousand), of which Banco de Portugal holds €3,048,963 thousand. In accordance with Article 32.4 of the Statute of the ESCB, any losses arising from holdings of SMP securities, if they materialise, will be shared by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

As referred to in Section 1.2 (f) of note 1, at the end of the year impairment tests were conducted on the securities held for monetary policy purposes, on the basis of the information available and estimated recoverable amounts as at 31 December 2015.

With regard to the impairment test conducted at the end of 2015 on securities purchased

under CBPP, CBPP2, CBPP3, ABSPP and PSPP, the Governing Council of the ECB decided that no impairment indicator was observed, and as a result all estimated future cash flows on these securities are expected to be received.

As to the impairment test conducted at the end of 2015 on the SMP portfolio, the Governing Council of the ECB identified one impairment indicator, relating to debt securities issued by the Hellenic Republic, which occurred in the course of 2015. This event is the result of the failure to pay principal and interest on these securities to the IMF and the Bank of Greece on 30 June 2015. The Governing Council of the ECB considered that the occurrence of this impairment indicator did not involve impairment losses in the ECB's holdings since, on the basis of the information available as at 31 December 2015, there is no evidence of changes in the estimated future cash flows. No impairment loss was therefore recorded at the year-end on the holdings of these securities.

Furthermore, there was no evidence of impairment in respect to the other securities comprised in the SMP portfolio.

Note 8 • Intra-eurosystem claims and liabilities

- Participating interest in the ECB

Pursuant to Article 28 of the Statute of the ESCB, the NCBs of the ESCB are the sole subscribers to and holders of the capital of the ECB. The subscription of capital shall be according to the key established in accordance with Article 29, specifically with paragraph 3, under which the weightings assigned to the NCBs shall be adjusted every five years after the establishment of the ESCB.¹³

Even though the ECB's capital key has not changed, since no new Member States have joined the EU, there have been changes to the Eurosystem's adjusted capital key, effective from 1 January 2015, with the entry of Lithuania into the euro area:

NCB	Country	Key for subscription of the ECB's capital	
		From 1 Jan. 2015	Up to 31 Dec. 2014
Nationale Bank van België/Banque Nationale de Belgique	Belgium	2.4778%	2.4778%
Deutsche Bundesbank	Germany	17.9973%	17.9973%
Eesti Pank	Estonia	0.1928%	0.1928%
Central Bank of Ireland	Ireland	1.1607%	1.1607%
Bank of Greece	Greece	2.0332%	2.0332%
Banco de España	Spain	8.8409%	8.8409%
Banque de France	France	14.1792%	14.1792%
Banca d'Italia	Italy	12.3108%	12.3108%
Central Bank of Cyprus	Cyprus	0.1513%	0.1513%
Latvijas Banka	Latvia	0.2821%	0.2821%
Lietuvos bankas	Lithuania	0.4132%	-
Banque centrale du Luxembourg	Luxembourg	0.2030%	0.2030%
Central Bank of Malta	Malta	0.0648%	0.0648%
De Nederlandsche Bank	The Netherlands	4.0035%	4.0035%
Oesterreichische Nationalbank	Austria	1.9631%	1.9631%
Banco de Portugal	Portugal	1.7434%	1.7434%
Banka Slovenije	Slovenia	0.3455%	0.3455%
Národná banka Slovenska	Slovakia	0.7725%	0.7725%
Suomen Pankki – Finlands Bank	Finland	1.2564%	1.2564%
Euro area NCBs		70.3915%	69.9783%
Българска народна банка/Bulgarian National Bank	Bulgaria	0.8590%	0.8590%
Česká národní banka	Czech Republic	1.6075%	1.6075%
Danmarks Nationalbank	Denmark	1.4873%	1.4873%
Hrvatska narodna banka	Croatia	0.6023%	0.6023%
Lietuvos bankas	Lithuania	-	0.4132%
Magyar Nemzeti Bank	Hungary	1.3798%	1.3798%
Narodowy Bank Polski	Poland	5.1230%	5.1230%
Banca Națională a României	Romania	2.6024%	2.6024%
Sveriges Riksbank	Sweden	2.2729%	2.2729%
Bank of England	United Kingdom	13.6743%	13.6743%
Non-euro area NCBs		29.6085%	30.0217%
		100.0000%	100.0000%

Banco de Portugal's share in the subscribed capital of the ECB remains at 1.7434%, and the value of the Bank's share, including supplementary payments due to the adjustment of accumulated reserves, came to €203,700 thousand on 31 December 2015.

The share of Banco de Portugal in the ECB's capital, subscribed and paid up by the NCBs of the Eurosystem, decreased from 2.4913% on 31 December 2014 to 2.4767% on 31 December 2015.

- Claims equivalent to the transfer of foreign reserves to the ECB

This item represents claims arising from the transfer of foreign reserve assets from Eurosystem participating NCBs to the ECB. These claims were translated into euro at the exchange rate prevailing on the transfer date and are remunerated daily at the latest available marginal interest rate for the Eurosystem's MROs, adjusted to reflect a zero return on the gold component.

As a result of the adjustments in the share that NCBs hold in the subscribed capital of the ECB and due to the entry of new NCBs into the Eurosystem, claims arising from the transfer of foreign reserve assets from participating NCBs to the ECB have also been adjusted, in accordance with the provisions of Article 30.3 of the Statute of the ESCB.

As there were no changes to the ECB's capital key in 2015, the position of Banco de Portugal in claims equivalent to the transfer of foreign reserves to the ECB remained at €1,010,318 thousand as at 31 December 2015.

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

The item Net claims related to the allocation of euro banknotes within the Eurosystem consists of Banco de Portugal's claims related to the allocation of euro banknotes within the Eurosystem (Section 1.2 (i) and (j) of note 1). As a result of the change to the Eurosystem's adjusted capital key, described above, Banco de Portugal's share in the banknote allocation key declined from 2.2920% on 31 December 2014 to 2.2785% on 31 December 2015.

The increase in this asset position compared with 31 December 2014 (from €31,920,350 thousand to €35,079,789 thousand) is due to the combination of a rise in overall circulation in the Eurosystem (7% up from 2014) and a rise in the Bank's asset position relating to the difference between banknotes put into circulation and banknotes withdrawn from circulation by the Bank

(Note 13). The asset position of the adjustment to circulation is remunerated at the marginal interest rate used by the Eurosystem for MROs.

- Other intra-Eurosystem claims/liabilities

On 31 December 2015 the balance of the item Other intra-Eurosystem claims, to the amount of €20,702 thousand, referred to: (i) Eurosystem adjustments to the calculation method of the monetary income, relating to previous years, totalling €587 thousand, settled on 29 January 2016 (Note 26); and (ii) an amount receivable of €20,114 thousand in respect of part of the early distribution of 2015 seigniorage income relating to euro banknotes issued by the ECB and of the securities purchased by the ECB under the SMP, CBPP3, ABSPP and PSPP portfolios also settled on 29 January 2016, following a decision of the Governing Council of the ECB (Note 25).

On 31 December 2015, the balance of the item Other intra-Eurosystem liabilities, to the amount of €18,018 thousand referred to the calculation method of the monetary income of 2015, settled on 29 January 2016 (Note 26).

- Net liabilities arising from balances of TARGET accounts

On 31 December 2015 Net liabilities arising from balances of TARGET accounts (Section 1.2 (h) of note 1) showed a credit position of €61,686,658 thousand (on 31 December 2014: €54,591,105 thousand). This position is remunerated at the marginal interest rate used by the Eurosystem for MROs.

Note 9 • Tangible fixed assets and intangible assets

	31 Dec. 2015	31 Dec. 2014
Tangible fixed assets		
Land	8,888	8,888
Buildings and other constructions	107,888	108,185
Facilities	81,257	80,411
Equipment	88,963	85,297
Museum and art collections	9,178	9,082
	296,173	291,862
Intangible assets		
Computer software	55,832	42,524
Other intangible assets	8	-
	55,840	42,524
Tangible fixed assets and intangible assets under construction	3,859	11,312
Total gross tangible fixed assets and intangible assets	355,872	345,698
Accumulated depreciation and amortisation		
Depreciation of tangible fixed assets	(193,255)	(185,937)
Amortisation of intangible assets	(42,486)	(40,192)
	(235,741)	(226,130)
Total net tangible fixed assets and intangible assets	120,131	119,568

In 2014 and 2015 movements in this item were as follows:

	31 Dec. 2013 Net balance	Additions	Disposals	Depreciation and amortisation for the year	31 Dec. 2014 Net balance
Tangible fixed assets					
Land	8,888	-	-	-	8,888
Buildings and other constructions	60,116	978	-	3,106	57,988
Facilities	22,410	2,933	13	3,575	21,755
Equipment	7,854	5,235	187	4,689	8,213
Museum and art collections	8,939	160	18	-	9,082
	108,206	9,306	218	11,370	105,925
Intangible assets					
Computer software	3,515	1,438	-	2,621	2,332
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	10,138	7,343	6,320	-	11,162
Advances	154	59	63	-	150
	10,292	7,402	6,382	-	11,312
	122,013	18,146	6,600	13,990	119,568

	31 Dec. 2014 Net balance	Additions	Disposals	Depreciation and amortisation for the year	31 Dec. 2015 Net balance
Tangible fixed assets					
Land	8,888	-	-		8,888
Buildings and other constructions	57,988	261	357	1,647	56,245
Facilities	21,755	932	20	3,262	19,406
Equipment	8,213	4,983	193	3,801	9,202
Museum and art collections	9,082	100	4	-	9,178
	105,925	6,276	573	8,709	102,918
Intangible assets					
Computer software	2,332	13,308	-	2,294	13,346
Other intangible assets	-	8	-	0	8
	2,332	13,316	-	2,294	13,354
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	11,162	5,593	12,898	-	3,857
Advances	150	-	148	-	2
	11,312	5,593	13,046	-	3,859
	119,568	25,185	13,619	11,003	120,131

The increase in the item Equipment is due mainly to purchases of IT equipment, banknote sorting machines and their adaptation to the new series of euro banknotes and furniture and material for the supervisory departments moving to the Rua Castilho building.

The sharp increase in Intangible assets is mainly due to the go-live of IT systems, namely the Target2-Securities system (€8,012 thousand), the collateral and operations management system (ColMS) (€1,435 thousand) and the

various systems supporting the prudential supervision area (totalling €1,232 thousand). In 2015, these systems moved from Fixed assets under construction to the relevant fixed asset item, explaining practically all of the reduction in that item.

Finally, the item Tangible fixed assets and intangible assets under construction on 31 December 2015 refers chiefly to projects under way related to the new Money Museum and IT systems.

Note 10 • Other financial assets

	31 Dec. 2015	31 Dec. 2014
Participating interest in non-euro area resident entities	21,650	21,650
Participating interest in euro area resident entities	32,740	56,730
Medium-term investment portfolio	5,440,566	5,270,838
Other assets	69	24
	5,495,024	5,349,242

The item Other financial assets essentially records participating interests of Banco de Portugal and the medium-term investment portfolio.

The Bank's participating interests are broken down as follows:

	31 Dec. 2015		31 Dec. 2014	
	% Share	Value	% Share	Value
Participating interest in non-euro area resident entities				
In the Bank for International Settlements (BIS)	1.57%	21,650	1.57%	21,650
Participating interest in euro area resident entities				
In Finangeste, S. A.	-	-	44.44%	27,297
In SGFPBP, S. A.	97.84%	3,179	97.81%	3,077
In Valora, S. A.	100.00%	29,560	100.00%	26,355
In Swift	0.01%	1	0.01%	1
		32,740		56,730

During the year under review, the Bank sold all its participating interest in Finangeste, S. A. at a disposal value of €15,731 thousand, realising a capital loss of €11,566 thousand, recorded in profit and loss for the period under Other expenses (Note 27).

Changes in the value of the other participating interests result chiefly from the use of the Net Asset Value valuation method, in which the valuation differences are directly recognised in Profit/loss for the year (Note 27). The Bank used provisional financial statements of the participated entities to value these interests with reference to 31 December 2015 and 2014, which according to the respective entities gave values fairly close to the final ones.

This procedure was not applied to participating interests in BIS and SWIFT, as the respective shares are residual (1.57% and 0.01%), being valued at acquisition cost, in accordance with the accounting policy described in Section 1.2 (e) of note 1.

Within the scope of Banco de Portugal's own fund management, the medium-term investment portfolio, given its characteristics, is included in Other financial assets. This portfolio is exclusively composed of securities denominated in euro and is valued at amortised cost less potential impairment losses. This portfolio increased by €169,729 thousand comparing December 2015 with December 2014, due to the reinvestment of the value of securities that matured in the

course of the year and the value of coupon interest on securities held in this portfolio. As mentioned above, these assets are subject to impairment tests and no evidence was found of changes in estimated future financial flows, and therefore no impairment loss was recorded. The breakdown of this portfolio by type of financial instrument is as follows:

	31 Dec. 2015	31 Dec. 2014
Medium-term investment portfolio		
Government debt	5,288,761	5,114,574
Paragovernmental and supranational	151,805	156,264
	5,440,566	5,270,838

The market value of this portfolio is presented in note 34 for information purposes.

Note 11 • Accruals and prepaid expenses

	31 Dec. 2015	31 Dec. 2014
Accruals		
Interest and other income receivable from central bank operations	393,721	498,694
Other accruals	1,090	1,063
	394,811	499,757
Prepaid expenses		
Prepaid expenses from central bank operations	152,014	84,236
Other prepaid expenses	14,753	15,267
Deferred tax assets	61,517	68,018
	228,283	167,521
	623,095	667,278

On 31 December 2015 accruals relating to Income receivable from central bank operations include essentially accrued interest on: (i) securities held for monetary policy purposes (€230,070 thousand); (ii) securities and other assets of trading portfolios denominated in euro and in foreign currency and of the medium-term investment portfolio denominated in euro (€144,581 thousand); (iii) lending to credit institutions for monetary policy operations (€13,583 thousand); and (iv) net claims/liabilities related to the allocation of euro banknotes, as referred to in Section 1.2 (i) of note 1 (€4,456 thousand). The decrease recorded from 2014 is largely related to the reduction in the amount of accrued interest receivable on lending related to monetary policy operations (€243,873 thousand on 31

December 2014), offset by the increases in the interest on the securities held for monetary policy purposes (€92,855 thousand on 31 December 2014).

The item Prepaid expenses relating to central bank operations chiefly consists of accrued coupon interest on securities held in the Bank's portfolios (i.e. trading portfolio, medium-term investment portfolio, and portfolio of securities held for monetary policy purposes) of outstanding interest paid to the counterparty at acquisition and which will be received by the Bank on the maturity date of the respective coupon or upon the sale of the securities. The increase in the value recognised in 2015 from 2014 is chiefly due to the interest on the securities held for monetary policy purposes.

The amount registered in Other prepaid expenses on 31 December 2015 includes, inter alia, €11,165 thousand relating to the recognition of the updated value of the difference between financial flows related to interest receivable on Bank lending to its employees, at the interest rate applicable according to Labour Agreements (Convenções Coletivas de Trabalho) and market interest rates. The equivalent to this value is recorded against a deduction in the assets referring to lending to employees (Note 12).

Note 31 presents a more detailed description of the amount of deferred tax assets in 2015 and 2014.

Note 12 • Other assets – sundry

	31 Dec. 2015	31 Dec. 2014
Lending to employees	145,887	141,016
Special credit situations	70,092	70,136
Pension Fund – Defined-benefit plan	67,202	60,898
Pension Fund – Defined-contribution plan – Reserve account	3,770	4,188
Sundry debtors	944	1,004
Corporate Income Tax – Payments on account and additional payment on account	114,760	72,084
Expenses to be billed to third parties	7,881	128
Other reduced value accounts	4,707	4,175
	415,244	353,629
Impairment of recoverable amounts	(70,105)	(70,143)
	345,139	283,486

Lending to employees corresponds mostly to mortgage loans to employees.

The value entered in Special credit situations refers mostly to receivables from Finangeste, S. A. under the Banco de Portugal/Finangeste Arrangement of 9 January 1995, to the amount of €69,653 thousand (2014: €69,697 thousand). An impairment for the value of this asset is recognised (Notes 19 and 30). The slight reduction recorded in 2015 relates to the nominal amount of claims recovered by this entity, transferred to the Bank through the calculation of the annual instalment, under the above arrangement.

The amounts paid as payments on account, in 2014 and in 2015, under Corporate Income Tax comply with the provisions of Articles 104 and 104-A of the Corporate Income Tax Code.

On 31 December 2015, the item Expenses to be billed to third parties increased in value. These expenses are essentially from contracts concluded by the Bank as part of the sale process of Novo Banco, S. A., following the resolution of BES, S. A. These costs will be charged to the Resolution Fund at the start of 2016 under Article 153-O of the Legal Framework of Credit Institutions and Financial Companies.

The item Pension Fund – Defined-benefit plan relates to this Fund's surplus on 31 December 2015, resulting from the fact that this Fund on that date had a funding ratio above 100% (Note 33).

The position concerning the Pension Fund – Defined-contribution plan – Reserve account reflects the value of the participation units of this Fund earmarked for Banco de Portugal on 31 December 2015, valued at market price, on that date (Note 33).

Note 13 • Banknotes in circulation

Euro banknotes in circulation on 31 December 2015 consist of Banco de Portugal's share in total euro banknotes in circulation in the Eurosystem (Section 1.2 (i) of note 1).

	31 Dec. 2015	31 Dec. 2014
Banknotes in circulation		
Banknotes put into circulation (net)	(10,393,859)	(8,621,299)
Adjustments to circulation in the Eurosystem	35,079,789	31,920,350
	24,685,930	23,299,051

In 2015 the total value of euro banknotes in circulation in the Eurosystem increased by 7%.

In accordance with the banknote allocation key, on 31 December 2015 Banco de Portugal recorded an aggregate value of banknotes in circulation of €24,685,930 thousand, compared with €23,299,051 thousand on 31 December 2014. The difference between banknotes put into circulation and banknotes withdrawn from circulation recorded again on 31 December 2015 a debtor balance, rising from 2014. These two effects combined account for the increase in the adjustment to circulation in the Eurosystem, which is recognised against an asset recorded in Other intra-Eurosystem claims (Note 8).

Note 14 • Liabilities to euro area Credit institutions – monetary policy operations denominated in euro

The balance on Liabilities to euro area credit institutions related to monetary policy operations denominated in euro, as at 31 December 2015, amounting to €7,712,082 thousand, relates almost exclusively to the current accounts of credit institutions with Banco de Portugal (2015: €7,702,568 thousand, 2014: €3,589,088 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.

The amount in minimum reserves is remunerated in accordance with Articles 1 and 2 of the Decision of the ECB of 5 June 2014 on the remuneration of deposits, balances and holdings of excess reserves (ECB/2014/23).

In December 2015, this item also included (i) the balance on deposit facility operations outstanding on this date (€5,500 thousand), corresponding to the overnight deposits of domestic credit institutions with Banco de Portugal, used as a means to access the liquidity-absorbing operations of the Eurosystem at the pre-specified rates for these operations; and

(ii) the balance of deposits related to margin calls on liquidity-providing operations (€4,013 thousand).

Note 15 • Liabilities to other euro area residents denominated in euro

Since 2011, the sub-item General government has largely reflected the recourse resulting from the Economic and Financial Assistance Programme to Portugal (Programa de Assistência Económica e Financeira a Portugal – PAEF). Therefore, on 31 December 2015 this item included the value of the current accounts relating to available loan disbursements from the EU, totalling €5,593,433 thousand, from the European Financial Stabilisation Mechanism – EFSM and the European Financial Stabilisation Facility – EFSF (on 31 December 2014: €7,830,113 thousand, which also included the Bank Solvency Support Facility – BSSF). The remuneration of these balances is subject to

Article 4 (3) of the Decision of the ECB of 5 June 2014 on the remuneration of deposits, balances and holdings of excess reserves (ECB/2014/23).

The sub-item Other liabilities includes the balances on current accounts with Banco de Portugal of autonomous funds and other financial intermediaries and auxiliaries (€975,334 thousand and €61,250 thousand, respectively, as at 31 December 2015). Its increase from 31 December 2014 is essentially due to the €816,263 thousand increase in the balances of deposits of the Autonomous funds (Deposit Guarantee Fund, Resolution Fund and Mutual Agricultural Credit Guarantee Fund).

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 2015 corresponds to the balances of

current accounts of several central banks and of international organisations (excluding the IMF).

Note 17 • Accruals and income collected in advance

	31 Dec. 2015	31 Dec. 2014
Income collected in advance		
Other income collected in advance	2	3
Deferred tax liabilities	338	348
	340	351
Accruals		
Accruals from central bank operations	3,067	2,818
Other accruals	22,249	18,512
	25,316	21,330
	25,656	21,681

The amount recorded in Accruals from central bank operations includes the accrued remuneration of the balance relating to TARGET for the month of December (€2,614 thousand in 2015 compared with €2,366 thousand in 2014). It also includes accrued interest on the minimum reserves, to the amount of €121 thousand (2014: €82 thousand).

Other accruals reflects essentially the above-mentioned accrued staff costs (€18,041 thousand) and accrued supplies and services from third parties payable (€4,208 thousand).

Note 18 • Other liabilities – sundry

	31 Dec. 2015	31 Dec. 2014
Banknotes withdrawn from circulation	155,770	156,930
Third parties	17,773	21,310
Liabilities relating to the payment to employees of seniority bonuses	11,981	12,814
Estimate for income taxes	90,598	127,736
Other accounts of reduced individual value	869	940
	276,991	319,730

The item Banknotes withdrawn from circulation represents the Bank's liability to the holders of banknotes denominated in Portuguese escudos (legacy currency), for as long as these can be exchanged. No banknote exchange period expired in 2015 and 2014, therefore

the reductions recorded in this item were exclusively due to the delivery to the Bank of banknotes denominated in escudos still within the exchange period.

The item Liabilities relating to the payment to employees of seniority bonuses as at 31 December 2015 reflects the value of liabilities for years of service, computed in an actuarial valuation carried out by SGFPBP. Actuarial gains/losses associated with these liabilities, calculated at the end of the period under review, are recorded in Profit/loss, as described in section 1.2 (m) of note 1. In 2015 actuarial gains/losses were positive and were recognised under Other income (Notes 27 and 33).

The estimate for income tax is detailed in note 31.

Note 19 • Impairment, provisions and general risk provision

Accounting movements in the item Impairment, provisions and general risk provision during the

period ended on 31 December 2015 can be summarised as follows:

	Balance as at 31 Dec. 2014	2015			Balance as at 31 Dec. 2015
		Increase	Decrease	Net value	
Impairment of assets					
Impairment of debts receivable (Note 12)	70,143	6	44	(38)	70,105
General risk provision	3,566,622	480,000	-	480,000	4,046,622

With respect to impairment of assets, the value recorded relates mainly to the total adjustment of the value entered in Special credit situations concerning receivables from Finangeste, S. A. under the Banco de Portugal/Finangeste Arrangement of 9 January 1995, to the amount of €69,653 thousand (2014: €69,697 thousand) (Notes 12 and 30). The general risk provision was increased by €480,000 thousand in 2015.

This provision is analysed annually by the Bank and, among other factors, takes into account the assessment of risks for the period under analysis, against a background of strengthened own funds and the maintenance of financial autonomy levels suited to the Bank's mission, enabling it, at any time, to cover potential losses, including those resulting from risk sharing with the Eurosystem.

Note 20 • Revaluation accounts

	31 Dec. 2015	31 Dec. 2014
Gold revaluation differences	8,937,525	9,116,375
Foreign currency revaluation differences	261,183	234,749
Securities revaluation differences	97,489	285,713
Revaluation accounts	9,296,197	9,636,837

Gold decreased €178,850 thousand, as a result of the reduction of unrealised gains resulting from the fall in the gold price in euro (Note 2).

Positive revaluation differences of foreign currency are largely due to investments denominated in US dollars (€188,742 thousand) and in SDR (€32,827 thousand).

Furthermore, the decrease in unrealised gains resulting from fluctuations in the price of securities relates fundamentally to securities denominated in euro (€72,366 thousand in 2015 compared with €263,924 thousand in 2014).

Note 21 • Equity

Movements in Equity for the 2014 and 2015 periods are detailed in the Statement of Changes in Equity.

The capital of the Bank amounts to €1,000 thousand and it may be raised, namely by incorporation of reserves, pursuant to a decision of the Board of Directors and upon authorisation of the Minister of State and Finance.

In accordance with Article 53 (2) of the Organic Law of Banco de Portugal, the net profit for the year shall be distributed as follows: 10% to the legal reserve, 10% to other reserves to be decided by the Board of Directors and the remainder to the State, as dividends, or to other reserves, as approved by the Minister of State and Finance, on a proposal of the Board of Directors.

Net profit for the year 2014 was allocated in accordance with Decision No 73/15 of 10 April 2015 of the Minister of State and Finance by allocating the amount of €30,414 thousand to the Legal reserve and an equal amount to Other reserves and by paying to the State, as dividends, the amount of €243,311 thousand.

Movements in 2015 in non-distributable retained earnings, recorded in the Statement of Changes in Equity, refer to actuarial gains/losses of the liabilities related to the Pension Fund, as well as to deferred taxes, recognised on 31 December 2015 (Notes 31 and 33).

Note 22 • Net interest income

	31 Dec. 2015	31 Dec. 2014
Interest income		
Securities	118,223	138,784
Denominated in foreign currency	48,576	17,578
Denominated in euro	69,647	121,206
Balances with banks, deposits and other money markets	3,165	13,366
Denominated in foreign currency	623	2,905
Denominated in euro	2,542	10,461
International Monetary Fund	623	996
Lending to euro area credit institutions	20,609	71,239
Securities held for monetary policy purposes	322,097	306,997
Intra-ESCB claims	17,423	49,256
Medium-term investment portfolio	166,578	183,299
Off-balance-sheet instruments	229	97
Other claims	3,562	1,733
	652,510	765,766
Interest expense		
Liabilities to euro area credit institutions	923	3,000
Liabilities to euro area residents denominated in euro	249	16,720
International Monetary Fund	510	778
Intra-Eurosystem liabilities	28,508	95,816
Off-balance-sheet instruments	219	249
Other liabilities	-	506
	30,408	117,069
Net interest income	622,102	648,697

In net interest income, there was a decrease in the main interest income and expense components, chiefly as a result of the broad-based decline in yields. This impact was reinforced by a significant reduction in the average balances of some of the main interest income and interest expense items, namely lending to credit institutions, intra-Eurosystem liabilities and liabilities to euro area residents denominated in euro. These reductions were in part mitigated both by the sharp growth in the portfolio of securities held for monetary policy purposes, more specifically the investment in the PSPP (which, due to the nature of these assets, presents much higher

yields than most of the interest-bearing assets on the portfolio), and by the ongoing growth of the interest-bearing asset associated with the net position of adjustments to the banknotes in circulation, with the impact of the increase in the respective average amounts outstanding being higher than the negative impact of the respective falls in the associated profitability rates.

The item Interest income also includes interest earned on emergency lending to domestic credit institutions (Note 5).

Note 23 • Realised gains/losses arising from financial operations

	31 Dec. 2015	31 Dec. 2014
Foreign exchange transactions	344,941	37,155
Other financial operations in foreign currency	(1,811)	1,784
Financial operations in euro	282,334	566,032
Off-balance-sheet instruments	(193,337)	(387,232)
	432,128	217,740

Realised gains/losses arising from financial operations were significantly more positive in 2015 than in 2014. The breakdown includes realised gains arising from foreign exchange operations and from sale operations of securities in the trading portfolio denominated in euro. The gains arising from securities operations were partly offset by losses on interest rate futures (included in Off-balance-sheet instruments), whose results for management purposes are analysed together with those of the related assets.

Note 24 • Unrealised losses on financial assets and positions

	31 Dec. 2015	31 Dec. 2014
Unrealised exchange rate losses	47	53
Unrealised losses on investments in foreign currency	14,479	1,259
Unrealised losses on euro operations	45,944	101
	60,471	1,414

Unrealised losses recorded a year-on-year increase in the components related to financial operations denominated in euro and in foreign exchange assets, chiefly relating to the fall in value of securities in the trading portfolios denominated in euro and in foreign currency.

Note 25 • Income from equity shares and participating interests

The Governing Council of the ECB each year makes a decision about the distribution of (i) seigniorage income which arises from the 8% share of euro banknotes allocated to the ECB; and (ii) the ECB's income arising from securities purchased under the SMP, CBPP3, ABSPP and PSPP. The ECB shall distribute all of this income to the NCBs, unless otherwise decided by the Governing Council of the ECB in the financial year to which they relate. This item includes the

total amount of €20,114 thousand relating to this income in 2015 (2014: €20,945 thousand). In 2015 this item also included dividends received for Banco de Portugal's participating interests in 2014, chiefly: (i) in the ECB, to the amount of €3,690 thousand (2014: €1,536 thousand; and (ii) in the Bank for International Settlements (BIS), to the amount of €2,422 thousand (2014: €2,083 thousand).

Note 26 • Net result of pooling of monetary income

This item contains the net result of pooling of monetary income, amounting to €-17,431 thousand¹⁴ (2014: €-30,267 thousand¹⁵).

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income from a set of assets

– earmarkable assets – less interest (accrued or paid) on components of a set of liabilities – the liability base.

The remuneration rate described below is applied to the items comprising these earmarkable assets and the liability base (see the following table).

Earmarkable assets	Remuneration rate	Liability base	Remuneration rate
Amount of gold holdings in proportion to each NCB's capital key	0%	Banknotes in circulation	Not applicable
Claims equivalent to the transfer of foreign reserves to the ECB (except gold)	Main refinancing operations rate	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	Rate of return
Lending to euro area credit institutions related to monetary policy operations denominated in euro	Rate of return	Net liabilities arising from balances of TARGET accounts	Main refinancing operations rate
CBPP, CBPP2 and PSPP-GOV portfolio	Main refinancing operations rate	-	-
SMP and CBPP3 portfolio	Rate of return	-	-
Net claims related to the allocation of euro banknotes within the Eurosystem	Main refinancing operations rate	-	-
Accrued interest relating to regular monetary policy operations with a maturity of over 1 year	Not applicable	-	-

Where the value of a NCB's earmarkable assets exceeds the value of its liability base, the difference (called 'the gap'), calculated at the latest available rate for the Eurosystem's MROs, shall be deducted from the monetary income to be pooled. Where the gap is negative, i.e. the value of the earmarkable assets falls short of the value of its liability base, as was the case for Banco de Portugal in 2014 and 2015, this difference is added to the monetary income to be pooled. The sum of the monetary income and the gap is termed the net contribution.

The total net contribution from all Eurosystem NCBs is allocated to all NCBs in the Eurosystem in proportion to their paid-up shares in the capital of the ECB.

The difference between Banco de Portugal's net contribution, amounting to €240,443 thousand, and its allocation under the aforementioned capital key, amounting to €222,425 thousand, less the adjustments made this year regarding 2014 to the amount of €587 thousand, is the net result arising from the pooling of monetary income (€-17,431 thousand).

		31 Dec. 2015	31 Dec. 2014
A	Total contribution from all Eurosystem NCBs	8,980,640	9,946,741
B	Paid-up capital key	2.4767%	2.4913%
C = A x B	Total reallocation to Banco de Portugal	222,425	247,808
D	Total effective contribution from Banco de Portugal	240,443	294,761
E = C - D	Result of the method	(18,018)	(46,954)
F	Eurosystem adjustments to the result of the method relating to previous years	587	16,687
G	Net result of pooling of monetary income	(17,431)	(30,267)

Note 27 • Other income and expenses

	31 Dec. 2015	31 Dec. 2014
Other income		
Capital gains on tangible and intangible fixed assets	2,345	133
Previous fiscal years income	916	233
Sales and supply of services to third parties	4,289	3,206
Sundry income	4,515	3,005
	12,064	6,577
Other expenses		
Capital losses on tangible and intangible fixed assets	69	105
Previous fiscal years expenses	65	1,114
Sundry expenses	13,826	1,461
	13,960	2,680
	(1,896)	3,896

The item Sales and supply of services to third parties relates essentially to services provided by the Bank through the BpNet portal (€2,954 thousand).

The item Sundry income includes: (i) profit resulting from the adjustment of the value of the Bank's participating interests in Valora, S. A. and SGFPBP, due to the implementation of the Net Asset Value valuation method, as explained in Section 1.2 (e) of note 1 and note 10 (€3,205 thousand and €101 thousand respectively); and (ii) €251 thousand relating to positive actuarial gains and losses resulting from the year-end assessment of seniority bonuses (Notes 18 and 33).

Sundry expenses includes in 2015, the realised loss relating to the sale of all of the Bank's participating interest in Finangeste, S. A. (€11,566 thousand) (Note 10) and the Bank's donation to the IMF's Catastrophe Containment and Relief Trust, which provides exceptional grant assistance to vulnerable low income countries facing serious public health problems, such as the recent case of the Ebola outbreak (€1,871 thousand).

Note 28 • Staff costs

	31 Dec. 2015	31 Dec. 2014
Remuneration of the members of the Board of Directors and Board of Auditors	1,251	1,097
Employees' salaries	80,310	78,726
Compulsory social charges	31,701	28,379
Voluntary social charges	4,650	4,294
Other staff costs	1,898	2,192
	119,810	114,687

The salary containment measures approved by the Board of Directors of Banco de Portugal were maintained in 2015. These transitional measures adopted in previous years focused on remuneration components and other staff costs that are not legally and contractually binding and were implemented to join the effort made by Portuguese society in the present economic and financial context.

Despite these measures, staff costs increased €5,123 thousand in 2015, essentially due to the items Employees' salaries and Compulsory social charges.

Regarding the compulsory social charges, the greatest contributor to its change relates to the considerable increase in the annual transfer to the Pension Fund – Defined-benefit plan, which is the result of the actuarial valuation made by SGFPBP (Note 33).

This growth in employees' salaries results chiefly from the reinforcement of the Bank's professional staff to address its increased responsibilities in the present economic and financial environment, in particular in the banking supervision field. In 2015 the Bank added 27 members of staff to the average headcount, however at the end of the year the headcount was exactly the same as at the end of 2014.

Note 29 • Supplies and services from third parties

	31 Dec. 2015	31 Dec. 2014
Electricity, fuel and water	3,627	3,045
Travel	2,914	2,982
Litigation and notary services	4,266	2,265
Maintenance and repairs	5,174	5,151
Specialised work		
Surveillance and security	3,524	3,171
IT	1,734	1,517
Use of databanks	2,478	2,337
Payment systems	1,020	996
Other specialised work	9,431	9,264
Software licensing and maintenance	5,211	4,406
Other supplies and services from third parties	8,033	6,967
	47,413	42,101

The increase in 2015 of electricity, fuel and water expenses and expenses relating to specialised surveillance and security is partly justified by the new building in Rua Castilho becoming operational, to accommodate the Bank's supervision-related areas. The electricity, fuel and water expenses also increased because of the rise in utility rates that took place in the year under review.

The specialised surveillance and security work and IT expenses, aside from the factor mentioned above, rose also because of the increased use of outsourcing by the Bank.

The growth in litigation and notary services relates mainly to legal advice services provided to the Bank as part of the resolution measures.

Lastly, the item Other specialised work includes consultancy services provided as part of the resolution measures (€3,389 thousand), outsourcing of logistical support and maintenance services (€792 thousand) and survey support (€303 thousand).

Note 30 • Impairment of assets (losses/reversals)

In 2015 and 2014 this item records essentially the reduction of the adjustment made to Lending to other entities under the contract for

the assignment of debts signed with Finangeste, S. A., to the amount of €44 thousand (2014: €83 thousand) (Notes 12 and 19).

Note 31 • Income tax

The Bank is subject to corporate income tax and to the corresponding municipal corporate taxes.

Tax authorities are allowed a four-year period during which they can review the Bank's tax situation. Therefore, as a result of different interpretations of tax legislation, there may be additional payments. However, the Board of Directors of Banco de Portugal firmly believes that there will be no additional significant payments regarding previous financial periods. On 31 December 2015 and 2014 the item income tax was broken down as follows:

	31 Dec. 2015	31 Dec. 2014
Current tax	90,598	127,736
Deferred tax	245	1342
	90,844	129,078
Effective tax rate	28.1%	29.8%

The calculation of the current income tax can be summarised as follows:

	31 Dec. 2015	31 Dec. 2014
Calculation of current income tax		
Profit/loss before taxes	323,735	433,217
Negative balance sheet variations not reflected in profit or loss	(21,319)	(21,319)
Pension Fund and seniority bonuses	268	(1,123)
Cancellation of the Net Asset Value effect	(3,306)	(1,818)
Reversal of the adjustment of taxed assets	-	(83)
Tax benefits	(2,696)	(2,357)
Accounting capital gains/losses	9,290	(37)
Tax gains	1,279	69
Donations not envisaged in the Tax Benefits Statute	1,871	-
Charges not fully documented	226	118
Depreciation and amortisation not deductible as costs	106	116
Adjustments from previous periods	65	1,114
Other	189	84
Taxable income/(tax loss)	309,709	407,983
Deductible tax loss	-	-
Tax base	309,709	407,983
Collection (1)	65,039	93,836
Municipal corporate tax (2)	4,615	6,079
State surtax (3)	20,785	27,664
Autonomous taxation (4)	160	157
Current income tax	90,598	127,736
Reconciliation between current tax-related losses for the period and the balance sheet balance		
" Recognition as current losses for the year	90,598	127,736
(1)+(2)+(3)+(4)"		
Less: payments on account and additional payments on account	114,760	72,084
Less: withholdings at source	6	6
Current balance (recoverable)/payable	(24,168)	55,645

On 31 December 2014 and 2015 the balances on deferred tax assets and liabilities can be broken down as follows:

Also with respect to deferred taxes, it should be noted that temporary differences have no time limits.

Computation of deferred taxes	Assets and liabilities				Profit/loss	
	31 Dec. 2014		31 Dec. 2013		31 Dec. 2014	
	Assets	Liabilities	Assets	Liabilities	Profit/loss	Retained earnings
Pension Fund – Defined-benefit plan	43,715	-	53,315	-	-	9,599
Credit impairment	20,544	-	21,918	-	1,374	-
Seniority bonuses	3,754	-	3,755	-	1	-
Interest rate subsidies	5	-	7	-	2	-
Excess amortisation	-	(348)	-	(383)	(35)	-
	68,018	(348)	78,994	(383)	1,342	9,599

Computation of deferred taxes	Assets and liabilities				Profit/loss	
	31 Dec. 2015		31 Dec. 2014		31 Dec. 2015	
	Assets	Liabilities	Assets	Liabilities	Profit/loss	Retained earnings
Pension Fund – Defined-benefit plan	37,470	-	43,715	-	-	6,245
Credit impairment	20,533	-	20,544	-	11	-
Seniority bonuses	3,510	-	3,754	-	244	-
Interest rate subsidies	4	-	5	-	-	-
Excess amortisation	-	(338)	-	(348)	(11)	-
	61,517	(338)	68,018	(348)	245	6,245

Note 32 • Off-balance-sheet instruments

	31 Dec. 2015	31 Dec. 2014
Contracted financial operations	(1,239,989)	(3,099,662)
Collateral given	(487,632)	(487,632)
Collateral received	63,217,231	70,625,790
Items held in custody	49,277,196	53,218,190
Irrevocable credit lines	(4,178,523)	(4,977,106)

Contracted financial operations

The Bank, in the performance of its tasks, uses derivative financial instruments chiefly to manage risks associated with its assets, liabilities and off-balance-sheet instruments. On 31 December 2015 the only outstanding positions relating to derivative financial instruments concerned interest rate futures, with an overall amount of purchase contracts of €2,314,495 thousand (there is no comparative figure for 2014) and of sale contracts of €3,554,484 thousand (2014: €3,099,662 thousand).

Collateral given, collateral received, items held in custody and other commitments to third parties

Collateral given includes the promissory note issued by the Bank in favour of the IMF, under

Article III, Section 4 of the IMF's Articles of Agreement.

Collateral received includes collateral related to the monetary policy operations of the Eurosystem (€63,211,037 thousand on 31 December 2015), including collateral used via the Correspondent Central Banking Model (CCBM).

Items held in custody essentially comprises (i) securities owned by the Portuguese State (€16,438,068 thousand); (ii) securities held in custody by the Bank as collateral in monetary policy operations with other NCBs, under the CCBM (€11,232,594 thousand); and (iii) the value of the promissory note in favour of the IMF issued by the Portuguese Republic, under the Extended Fund Facility, to the amount of €20,519,290 thousand (Note 15).

The item Irrevocable credit lines records the limit on the credit lines of the Portuguese financial system to the amount of €2,215,700 thousand and a credit line granted to the IMF to the amount of SDR 1,542 million under the New Arrangements to Borrow (NAB) (€1,962,823 thousand) (Note 3).

Note 33 • Liabilities related to retirement pensions and other benefits**Pension Fund of Banco de Portugal – Defined-benefit plan**

• Overview

Until 31 December 2010 Banco de Portugal was the sole entity responsible for the payment of the retirement and survivors pensions of staff (and their dependents) hired by the Bank before 3 March 2009, who were covered by a substitutive social security scheme, enshrined in the collective labour regulations for the banking sector. Decree-Law No 1-A/2011 of 3 January laid down that, from 1 January 2011, the active employees of Banco de Portugal, who were registered in Caixa de Abono de Família dos Empregados Bancários – CAFEB

(family allowance fund of bank employees)¹⁶ and covered by the Pension Fund – Defined-benefit plan, are now integrated in the general social security scheme with respect to the old-age pensions (statutory retirement).

Thus, the Pension Fund – Defined-benefit plan in terms of the old-age pensions maintained under its responsibility the payment of past-service liabilities until 31 December 2010 and after 1 January 2011 the Pension Fund only covers the payment of the supplement intended to make up for the difference between the benefits calculated under the general social security scheme and the benefits defined in the respective pension plans, based

on the applicable labour agreements for the banking sector and on the Bank's internal regulations. The payment of disability and death grants also remained under the Fund's responsibility.

In 2014, new liabilities were transferred to the Pension Fund – Defined-benefit plan, among which healthcare costs and funeral expenses for the retired employees and pensioners. With this transfer of liabilities from Banco de Portugal to the Pension Fund, the Pension Fund – Defined-benefit plan contract was amended to include the existing two benefit plans: the Pension Plan, operating three benefit schemes and the Healthcare Plan, operating only one benefit scheme for the of healthcare costs and funeral expenses for the retired employees and pensioners. The three schemes of the Pension Plan are closed to staff that started working in the banking sector

after 2 March 2009 (Decree-Law No 54/2009 of 2 March), while the Healthcare Plan is open to all employees of Banco de Portugal.

The benefits associated with the above-mentioned schemes of the Pension Fund include retirement pensions of members who have reached the retirement age limit (as a supplement to those paid by the social security), disability pensions, early retirement pensions, survivors pensions, including the payment of supplementary benefits and death grants, as well as the settlement of the sponsor's charges, including charges to SAMS (social health assistance service for banking sector employees) related to pensions in payment.

The table below shows the most relevant risks among those arising from the Pension Plan and the Healthcare Plan:

Sub-risk category	Definition
Longevity risk	Potential risk attached to increasing life expectancy of the population, compared with that assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Disability risk	Risk attached to potential deviation in the disability rate, compared with that assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Health risk	Risk of claims amount being higher than assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Risk of regulatory changes to the general social security scheme	Risk attached to the occurrence of regulatory changes to the general social security scheme, impacting on the Pension Fund – Defined benefit plan.
Medical services inflation risk	Risk of an increase in medical services costs and higher inflation than assumed in actuarial valuations, resulting in an increase of liabilities of the Pension Fund – Defined benefit plan.
Risk of inflation implied in assumed wages and pensions growth rates	Risk of a reduction in the funding ratio arising from the materialisation of adverse movements in historical and/or expected inflation rates.
Interest rate risk	Risk of reduction of the funding ratio arising from adverse interest rate movements.

• Pension Fund Plans

– Pension Plan

a. Participants

The number of participants covered by the pension plan is shown in the table below:

Number of participants	31 Dec. 2015	31 Dec. 2014
Active members	1,212	1,291
Retired members	1,931	1,915
Pensioners	581	561
	3,724	3,767

The assumed average life expectancy for scheme members and beneficiaries is the following:

Average life expectancy (years)	31 Dec. 2015	31 Dec. 2014
Active members	32	33
Retired members	13	14
Pensioners	11	11

b. Methodology, assumptions and accounting policy

Liabilities arising from the Pension Plan funded through the Pension Fund – Defined-benefit plan were calculated on an actuarial basis by Sociedade Gestora dos Fundos de Pensões do Banco de Portugal – SGFPBP, using the Projected Unit Credit Method, in accordance with the principles laid down in IAS 19.

The main actuarial and financial assumptions, pursuant to IAS 19 are the following:

	Actuarial and financial assumptions used			
	31 Dec. 2015	01 Jan. 2015	31 Dec. 2014	01 Jan. 2014
Discount rate	2.170%	2.339%	2.339%	4.055%
Expected return rate on the Fund's assets	n.a.	2.339%	n.a.	4.055%
Wage growth rate				
1st year	1.000%	1.000%	1.000%	1.000%
Subsequent years	2.466%	2.439%	2.439%	3.166%
Pensions growth rate				
1st year	0.000%	0.000%	0.000%	0.000%
Subsequent years	1.466%	1.439%	1.439%	2.166%
Tables used				
- Mortality			TV 88/90	
- Disability			1978 – S.O.A. Trans. Male (US)	
- Turnover			T-1 Crocker Sarason (US)	
Retirement age under the Pension Fund – Defined-benefit plan	65 years		65 years	
Statutory retirement age under the general social security scheme	66 years and 2 months		66 years	
Percentage of married members	80%		80%	
Age difference between spouses	3 years		3 years	

The discount rate calculated by SGFPBP is based on the yield of a basket comprised of high-quality euro area sovereign bonds whose liquidity, denomination and maturity are adequate to the term structure of the Pension Fund's liabilities.

– Healthcare plan

a. Participants

The number of participants covered by the healthcare plan is shown in the table below:

Number of participants	31 Dec. 2015	31 Dec. 2014
Active members	1,775	1,771
Retired members and pensioners	2,466	2,448
	4,241	4,219

The assumed average life expectancy for scheme members and beneficiaries is the following:

Average life expectancy (years)	31 Dec. 2015	31 Dec. 2014
Active members	38	38
Retired members	13	14
Pensioners	11	11

b. Methodology, assumptions and accounting policy

The actuarial and financial assumptions used in the calculation of these liabilities are established in accordance with IAS 19. The most important are the following:

	Actuarial and financial assumptions used		
	31 Dec. 2015	01 Jan. 2015	31 Dec. 2014
Discount rate	2.170%	2.339%	2.339%
Expected return rate on the Pension Fund's assets	n.a.	2.339%	n.a.
Growth rate of the average/annual expenses			
Disability pensions	5.290%	5.232%	5.232%
Other	3.853%	3.795%	3.795%
Tables used			
- Mortality		TV 88/90	
- Disability		1978 - S.O.A. Trans. Male (US)	
- Turnover		T-1 Crocker Sarason (US)	
Retirement age under the Pension Fund – Defined-benefit plan	65 years		65 years
Statutory retirement age under the general social security scheme (1st year)	66 years and 2 months		66 years
Percentage of married members	80%		80%
Age difference between spouses	3 years		3 years

• Changes in assets and liabilities of the Pension Fund

	31 Dec. 2015			31 Dec. 2014		
	Retired members and pensioners	Active members	Total	Retired members and pensioners	Active members	Total
Total past service liabilities of the Pension Fund						
Retirement and survivors benefits	860,544	584,495	1,445,039	839,785	588,514	1,428,298
Pensions' inherent charges to SAMS	49,501	30,545	80,046	48,339	30,381	78,720
Death grants	1,854	656	2,510	1,787	648	2,434
Healthcare	45,959	22,670	68,629	45,414	22,031	67,445
	957,857	638,366	1,596,223	935,324	641,574	1,576,898

The table below presents developments in past service liabilities of the Pension Fund in 2015 and 2014.

Past-service liabilities	2015	2014
Value at the beginning of the year	1,576,898	1,310,633
Integration of liabilities with other post-employment benefits (*)	-	89,289
Current service cost	13,829	11,267
Benefits payable (expected value)	(64,621)	(67,575)
Interest cost	36,884	55,708
Actuarial gains/losses	33,233	177,575
Value at the end of the year	1,596,223	1,576,898

(*) Value of liabilities on the balance sheet of Banco de Portugal as at 31 December 2013.

Among the various assumptions adopted for assessing the Fund's liabilities, those relating to longevity and to the discount rate stand out due to their impact on the funding ratio.

The Fund's financial management is geared to cover the risks implied in assumed liabilities, liable of mitigation through financial instruments in order to preserve the funding ratio.

The table below shows sensitivity of the Fund's assets and liabilities to a reduction of 10 basis points (b.p.) in the discount rate and an increase of one year in life expectancy.

Sensitivity as at 31 Dec. 2015	10 b.p. reduction in pensions/healthcare differential	One-year increase in life expectancy
Impact on the Pension Fund's assets	1.0%	0.0%
Impact on the Pension Fund's liabilities	1.5%	4.0%
Impact on the Pension Fund's funding ratio	-0.5%	-4.0%

On 31 December 2015 the modified duration of liabilities stood at 14.7 years (2014: 14.8 years) and the difference between the modified duration of the bond portfolio and the modified duration of liabilities, adjusted so as to incorporate the size differences between these two aggregates, stood at -4.2 years (2014: -1.7 years).

The value of the Pension Fund's assets in 2014 and 2015 was as follows:

Fund's assets	2015	2014
Value at the beginning of the year	1,637,797	1,348,979
Current contributions paid to the Fund	11,814	11,846
Contributions paid on account of early retirements	4,980	3,127
Contributions paid on account of other post-employment benefits	-	91,740
Extraordinary contributions paid to the Fund	77,200	30,000
Benefits and inherent charges to SAMS	(66,610)	(73,540)
Net income of the Fund	(1,755)	225,645
Value at the end of the year	1,663,425	1,637,797

The Fund's assets can be broken down as follows:

Fund's investments	31 Dec. 2015	31 Dec. 2014
Real estate	117,457	60,540
Variable income securities	138,056	154,305
Fixed income securities	1,339,962	1,338,250
Cash and bank deposits	20,684	28,608
Other	47,266	56,092
	1,663,425	1,637,797

Securities portfolio of the Fund	31 Dec. 2015	31 Dec. 2014
Variable income securities		
Participation units – Investment funds	138,056	154,305
Fixed income securities		
Government debt	1,339,962	1,300,185
Supranational	-	38,065
	1,478,018	1,492,556

At the end of 2015 the funding ratio of the Pension Fund stood at 104.2%, i.e. higher than at the end of 2014 (103.9%).

Actuarial gains and losses in 2014 and 2015 can be broken down as follows:

	31 Dec. 2015	31 Dec. 2014
Actuarial gains/losses		
Population movements	(16,308)	(18,540)
Technical gains and losses	8,824	7,179
Wage growth	(3,335)	2,593
Increase in pensions	1263	(353)
Change in average healthcare expenses	456	725
Other gains and losses	(325)	(1,728)
Indexation of assumptions:		
Wage growth	4,649	79,352
Increase in pensions	10,328	69,627
Discount rate	(38,786)	(316,429)
	(33,233)	(177,575)
Financial gains and losses		
Gains and losses in paid pensions	(1,990)	(6,218)
Gains and losses in expected income of the Fund	(40,063)	168,490
	(42,053)	162,272
	(75,286)	(15,303)

The adjustment of the discount rate level induced an increase in the Fund's liabilities of approximately €38,786 million, chiefly due to an improvement in the credit quality of the debt basket used in the calculation of this assumption (with an impact of €64,506 million) and to a movement with opposite effect resulting from interest rate increases.

The item Other gains and losses recognises mainly the value of actuarial losses resulting from the increase in the National minimum wage and from the increase in the sustainability factor used in the general social security scheme, as a result of the average life expectancy being 65 years, as estimated in 2015 by Statistics Portugal (INE).

The amounts recognised in staff costs relating to the Pension Fund – Defined-benefit plan can be summarised as follows:

	2015	2014
Staff costs		
Current service cost(*)	11,453	8,862
Interest cost	36,884	55,708
Expected return on the Fund's assets	(38,308)	(57,155)
	10,029	7,415

(*) Excludes costs borne by staff and other entities.

Seniority bonuses

The table below shows the most relevant risks:

Risk sub-category	Risk definition
Interest rate risk	Risk of adverse interest rate movements, resulting in an increase of the liabilities arising from these benefits.
Risk of undervaluation of wage growth rate	Risk of career progress and inflation being higher than assumed in actuarial valuations, resulting in an increase of the liabilities arising from these benefits.

Changes in past service liabilities were as follows:

Past-service liabilities	2015	2014
Value at the beginning of the year	12,814	12,013
Seniority bonuses paid	(1,756)	(1,276)
Current service cost	945	835
Interest cost	229	403
Actuarial gains/losses	(251)	840
Value at the end of the year	11,981	12,814

On 31 December 2015 the modified duration of liabilities stood at 9.8 years (2014: 8.7 years).

The value of actuarial gains/losses referring to these liabilities was recognised directly under Profit/loss (note 2).

The main actuarial and financial assumptions used in the calculation of these liabilities are the following:

	Actuarial and financial assumptions used			
	31 Dec. 2015	01 Jan. 2015	31 Dec. 2014	01 Jan. 2014
Discount rate	1.663%	1.785%	1.785%	3.334%
Expected wage growth rate				
1st year	1.000%	1.000%	1.000%	1.000%
Subsequent years	2.207%	2.068%	2.068%	2.836%
Tables used				
- Mortality		TV 88/90		
- Disability		1978 – S.O.A. Trans. Male (US)		
- Turnover		T-1 Crocker Sarason (US)		
Retirement age under the Pension Fund of Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme (1st year)	66 years and 2 months		66 years	

The population considered for the calculation of these liabilities in December 2015 is 1,775 participants (2014: 1,771).

Pension Fund of Banco de Portugal – Defined-contribution plan

The changes introduced into Banco de Portugal's company-level agreements (Acordos de Empresa), published on 22 June 2009 in Boletim do Trabalho e Emprego (work and labour bulletin) provided for the setting up of a supplementary defined-contribution pension plan, financed by contributions from the Bank and its staff, as regards Banco de Portugal staff who started working in the banking sector after 3 March 2009 and are covered by the general social security scheme by virtue of Decree-Law No 54/2009 of 2 March (Section 1.2 (I) of note 1). This plan was created in 2010, backdated to 23 June 2009.

This supplementary defined-contribution pension plan, which is contributory with vested rights, is voluntary for the members and compulsory for the sponsor whenever the participant adheres to this pension plan.

Banco de Portugal set up a closed pension fund in order to create an alternative funding vehicle for its employees who wish to join it. Employees can join this Fund or another of a similar nature and are also responsible for choosing an investment profile for their contributions.

The funding vehicle can be changed annually on the employees' initiative.

At the end of 2015 the supplementary pension plan funded through this Pension Fund covered 583 members (2014: 486).

When the Pension Fund was set up, Banco de Portugal made an initial contribution of €5 million, which constituted a reserve account in its name, called Reserve account. Participation units of this reserve account will be transferred monthly to the individual accounts of its members by the amounts corresponding to:

- The contributions from Banco de Portugal;
- The contributions from the active members (by withholding each month these amounts when salaries are processed).

As at 31 December 2015 the assets of the Fund amounted to €5,267 thousand, broken down as follows:

Participation units (in value)	31 Dec. 2015	31 Dec. 2014
Reserve account (Note 12)	3,770	4,188
Members' individual accounts	1,497	1,058
	5,267	5,246

Note 34 • Risk management

Risk management in Banco de Portugal aims at guaranteeing the sustainability and profitability of the Bank itself, safeguarding its independence and ensuring its effective participation in the Eurosystem. Therefore, Banco de Portugal has defined and pursues a strict and prudent risk management policy, taking into account the risk profile and degree of tolerance defined by the Board of Directors of Banco de Portugal.

The integrated management of the financial and operational risks is the responsibility of the Risk Management Department in articulation with the Committee for Risk and Internal Control and the Bank's other departments, being monitored by the Board of Directors of Banco de Portugal.

With a view to continual improvement of its risk management policy, Banco de Portugal created the role of Compliance Officer in 2015, with the responsibility of advising and monitoring ethics and conduct topics in the Bank, and managing coordination, identification, monitoring, control and mitigation of compliance risk in Banco de Portugal.

- Financial risk management

Risk management policies

Financial risks primarily comprise market and credit risk chiefly arising from the management of own investment assets and from the participation in the monetary policy operations of the Eurosystem.

Market risk is associated with losses arising from fluctuations of prices and market rates, comprising interest rate risk, foreign exchange rate risk and gold price risk. Credit risk is associated with losses arising from the failure of a counterparty or an issuer to meet its financial obligations to the Bank (default risk). The reduction of the market value of assets, resulting from the deterioration of the credit profile of counterparties and issuers is also included under credit risk (migration risk).

Monitoring and control of these risks is made through Value at Risk (VaR) and expected shortfall indicators, among others, which are produced and released on a daily basis, as well as through regular sensitivity analysis and stress testing exercises.

The management of the Bank's own investment assets is made by the Markets and Reserve Management Department based mainly on a strategic benchmark, reflecting the preferences of the Board of Directors of Banco de Portugal in terms of risk-profitability. This benchmark, which is the main reference for asset management and is approved by the Board of Directors, on a proposal of the Committee for Risk and Internal Control, reflects the discussion of scenarios and forecasts for the main economic and financial variables and the carrying out of a number of optimisation exercises for determining efficient portfolios. The benchmark – which remains in force for the period of one year and may be reviewed at mid-term – plays an important role in guiding asset management and serves as a basis in setting the allowed asset management deviation margin.

The control of risk in asset management operations is based on the imposition of a number of eligibility criteria and limits which are set out in the Guidelines relating to the management of Banco de Portugal's own investment assets endorsed by the Board of Directors of Banco de Portugal. In the case of credit risk, the said criteria and limits are based on risk ratings assigned by rating agencies and incorporate a qualitative assessment of all information available, including the use of

market indicators. Market risk is controlled through the application of limits to VaR, as well as by setting limits to foreign currency positions, and monitoring developments in interest rate risk-sensitivity measures, such as the modified duration. The valuation, assessment, performance allocation and control of limits and restrictions of asset management operations is performed through an information system for the management of reserves and assets, similar to the one used by the ECB and by most NCBs of the Eurosystem. This system also executes the financial settlement of the operations and the monitoring of the positions and main risk measures. Complementing the calculation of VaR/expected shortfall and credit VaR (CVaR)/expected shortfall is state-of-the-art commercial software and the integrated financial risk model developed by the Eurosystem.

The exposure to credit risk arising from monetary policy operations results from the share of the Eurosystem's global exposure imputable to Banco de Portugal, according to its capital key, and from the operations whose risk is directly assumed by the Bank.

The risk of these operations is controlled by applying rules and procedures defined at Eurosystem level. Follow-up and monitoring is made through a series of aggregate risk indicators produced by the ECB, supplemented by internal measures for the intervention portfolios, created within the framework of the non-standard monetary policy measures. Compliance with the relevant restrictions and limits is checked through a number of application systems developed internally by Banco de Portugal.

Banco de Portugal runs a projection exercise of the financial statements and balance-sheet risks for a three-year horizon, which enables not only the monitoring of these risks against expected developments in assets and liabilities, but also the constant assessment of the risk coverage levels by the Bank's financial buffers. Account is also taken of this exercise in assessing annual movements in the General risk provision (Note 19).

Fair value

The comparison between the market value and the balance sheet value of the main financial

assets measured at amortised cost on 31 December 2015 and 2014 is as follows:

	31 Dec. 2015		31 Dec. 2014	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes (Note 7)	16,689,856	17,051,286	5,271,566	5,850,765
Medium-term investment portfolio (Note 10)	5,440,566	5,721,234	5,270,838	5,553,775
	22,130,422	22,772,520	10,542,404	11,404,540

Quotations from active markets were used to assess the market value of the above securities.

Quotations from active markets are also used to assess the market value of the financial assets recognised on the financial statements (Section 1.2 (f) of note 1).

- Operational Risk Management

Operational risk is related to losses arising from weaknesses, inadequate performance of internal business processes, staff, systems, or third-party actions.

The scope of the operational risk management process includes all processes, activities, functions,

tasks, operations and projects that may jeopardise the pursuance of the Bank's mission and goals arising from legislation, from its participation in the Eurosystem/ESCB and from other requirements that may have a material negative impact on the Bank's activity and assets.

The Bank's operational risk management policy and methodology broadly follow the framework for operational risk management endorsed at Eurosystem/ESCB level, adjusted for the specific aspects of the Bank, and take into account the international standards as well as the policies and practices followed by the community of central banks.

Note 35 • Legal proceedings in progress

Within the scope of its day-to-day activity, Banco de Portugal is subject to legal proceedings initiated by third parties. On 31 December 2015, the Bank was denounced in various lawsuits. Developments in these proceedings are accompanied regularly by the Board of Directors of Banco de Portugal.

The resolution process of Banco Espírito Santo, S. A. (BES) in the form of the transfer of the majority of the activity and assets of that institution to a bridge bank, Novo Banco, S. A., was at the origin of an increasing number of suits against Banco de Portugal, which, specifically due to its action as national resolution authority, under the terms of its Organic Law, has been sued in Portuguese courts (civil and administrative). Most of the lawsuits seek the annulment of the resolution measure applied to BES, which does not present a financial risk

for Banco de Portugal, in the understanding of its lawyers and external legal advisors, given the legal framework for enacting annulment decisions in administrative litigation and the coverage given ultimately by the Resolution Fund to any compensatory action, under the terms of the legal resolution framework and the deliberations of Banco de Portugal.

The aforementioned increase in legal proceedings has warranted the allocation of specialised internal resources by the Legal Services Department and the contracting of external services to respond to the Bank's needs in terms of legal representation in court.

The lawsuits relating to the resolution of BES have no legal precedent, which rules out using case law to assess it or estimate any financial effect it

may have. However, supported by the opinion of its internal and external legal advisors and the analysis undertaken to-date, the Board of

Directors does not foresee the judgment in these suits yielding an unfavourable outcome for Banco de Portugal.

Note 36 • Related parties

On 31 December 2015, the participating interest of Banco de Portugal in the equity of its related parties was 97.84% in SGFPBP and 100% in Valora, S. A. (Note 10). All transactions between the Bank and the related parties are contracted, accepted and conducted under terms or conditions essentially similar to those that would normally apply to independent entities in comparable operations.

Certain members of the Board of Directors of Banco de Portugal form part of the Management Committees of the Resolution Fund, the Deposit Guarantee Fund and the Mutual Agricultural Credit Guarantee Fund. There is also a member

of the Management Committee of the Resolution Fund that is a member of staff of the Bank. The Management Committees are the bodies responsible for managing these Funds' activity.

The Portuguese State is the owner of Banco de Portugal's equity. In accordance with Article 53 (2) of the Organic Law of Banco de Portugal, the net profit for the year shall be distributed as follows:

- 10% to the legal reserve, 10% to other reserves to be decided by the Board of Directors and the remainder to the State, as dividends, or to other reserves, as approved by the Minister of State and Finance, on a proposal of the Board of Directors.

Notes

1. Totals/sub-totals included in the financial statements may not equal the sum of the figures presented due to rounding, since this section presents figures in EUR millions.
2. Press release of the ECB of 5 February 2016, 'ECB explains the Agreement on Net Financial Assets'.
3. Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20) with its subsequent amendments – available from www.ecb.eu.
4. IFRS: International Financial Reporting Standards, as adopted in the European Union.
5. Net Asset Value (NAV) is the value of assets less the value of the liabilities of participated entities, multiplied by the share held by Banco de Portugal in those entities.
6. Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (ECB/2010/29), OJ L 35, 9.2.2011, p. 26.
7. '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 NCBS' share in that total.
8. Decision of the European Central Bank of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (ECB/2010/23), as amended by Decision of 3 November 2011 (ECB/2011/18).
9. Decision of the European Central Bank of 25 November 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the securities markets programme (ECB/2010/24), as amended by Decision of 19 December 2012 (ECB/2012/33).
10. Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5).
11. Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16) and Decision of the ECB of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17) and Decision of the ECB of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40).
12. Decision of the ECB of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45).
13. The capital key is also adjusted as a result of the accession of new Member States to the EU.
14. Includes the proceeds of the calculation of monetary income for 2015, to the amount of €-18,018 thousand and adjustments from 2014, amounting to €+587 thousand.
15. Includes the proceeds of the calculation of monetary income for 2014, to the amount of €-46,954 thousand and adjustments of previous years relating to insolvency proceedings of Eurosystem counterparties, to the total amount of €+16,687 thousand.
16. Dissolved by this Decree-Law.

4. External Auditors' Report



Auditor's Report

To the Board of Directors of Banco de Portugal

Introduction

1 We have audited the accompanying financial statements of Banco de Portugal, which comprise the balance sheet as at 31 December 2015, the profit and loss account, the statement of changes in equity for the year then ended, as well as a summary of the main 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 and for the internal control relevant to the preparation of financial statements that are free from material misstatement, due to fraud or error.

Auditor's responsibility

3 Our responsibility is to express an opinion on these financial statements based on our audit. We have 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.

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

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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 2015, its financial performance and the changes in equity 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 of the Notes on the financial statements.

X March 2016

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

José Manuel Henriques Bernardo, R.O.C.

5. Report and Opinion of the Board of Auditors



BANCO DE PORTUGAL

OPINION OF THE BOARD OF AUDITORS

2015

In accordance with the provisions laid down in Article 43 of the Organic Law of Banco de Portugal, the Board of Auditors monitors the business of the Bank and the observance of the laws and regulations applicable thereto and, among other functions, issues its opinion on the Financial Statements presented by the Board of Directors.

During the course of 2015, the Board of Auditors monitored the activity of the Bank in use of the above-mentioned powers, through its members' participation, without voting rights, in the meetings of the Board of Directors and through the analysis of the minutes of the Executive Committee for administrative and staff-related issues and of several reports produced by the Accounting Department, the Risk Management Department, the Audit Department and other departments and structural units in the Bank.

The Board of Auditors also monitored compliance with the accounting policies and practices adopted, focusing in particular on the financial information preparation and disclosure process and on the evaluation of the internal control systems' effectiveness.

The Board of Auditors also examined the financial information contained in the Financial Statements of the fiscal year ended on 31 December 2015 – approved in the meeting of the Board of Directors held on 7 March 2016 – and discussed the conclusions of the external audit work carried out by PricewaterhouseCoopers & Associados, SROC, Lda., which issued its opinion without any qualification or emphasis.



BANCO DE PORTUGAL
EUROSYSTEM

Board of Auditors

In addition, the Board of Auditors analysed the proposal for the distribution of profit for 2015, to the amount of €232,891,562.34. The Board of Directors, in accordance with Article 53 (2) of the Organic Law of Banco de Portugal, will submit to the Minister of State and Finance the following proposal for the distribution of profit:

- 10% to the legal reserve €23,289,156.23
- 10% to other reserves €23,289,156.23
- Dividends to the State €186,313,249.88

In light of the above, the Board of Auditors raises no objection to the approval of the 2015 Financial Statements of Banco de Portugal, nor to the proposal for the distribution of profit mentioned above.

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, 30 March 2016

The Board of Auditors

João Costa Pinto

António Gonçalves Monteiro

Ana Paula Serra

