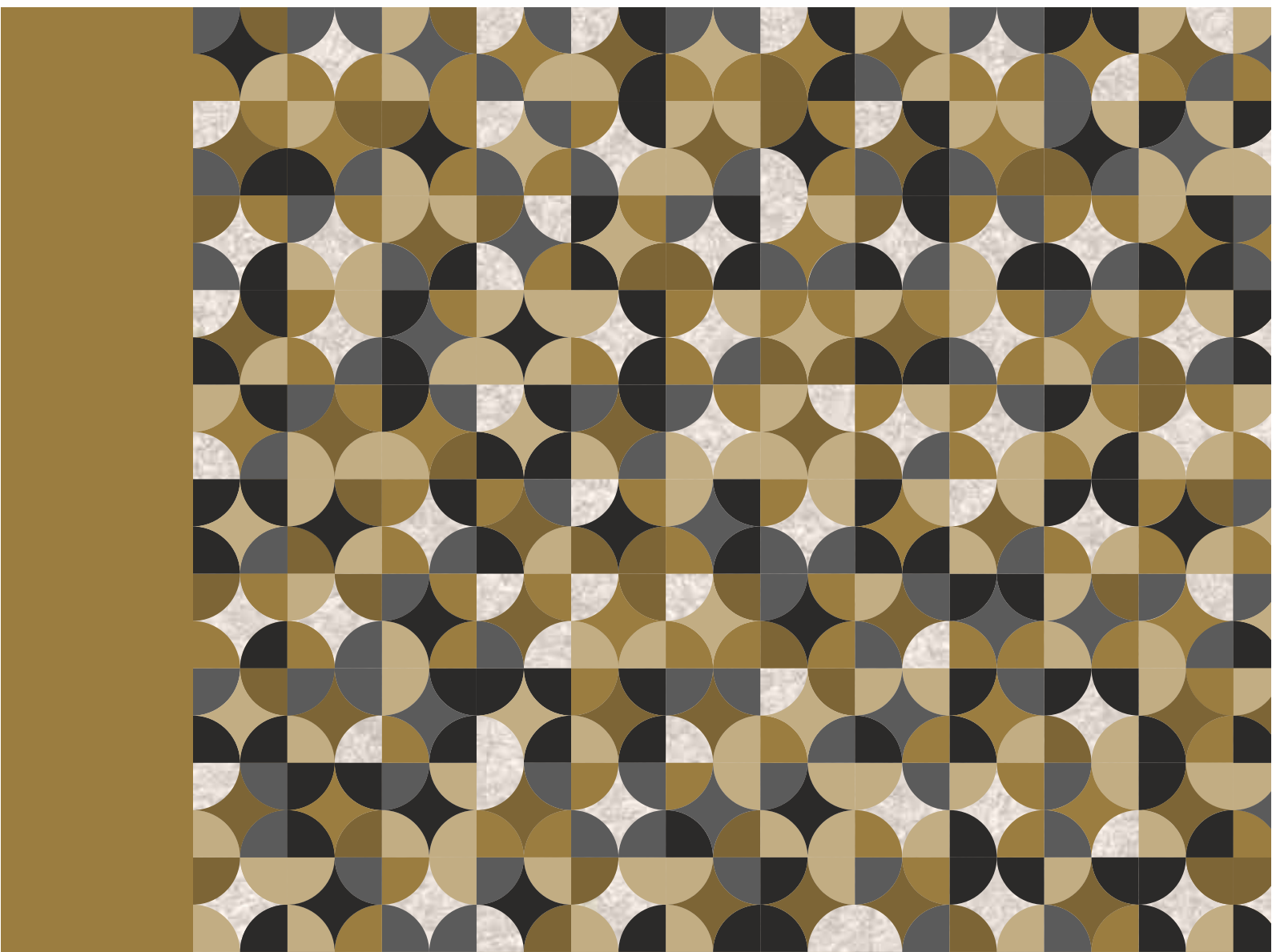


Annual Report

Activities and Financial Statements 2016



BANCO DE PORTUGAL
EUROSYSTEM



Annual Report

Activities and Financial
Statements 2016



**BANCO DE
PORTUGAL**
EUROSYSTEM

Lisbon, 2017 • www.bportugal.pt

Contents

Mission and values of Banco de Portugal | 5

Message by the Governor | 9

Management of Banco de Portugal | 11

I Activities in 2016

Highlights in 2016 | 21

BOX 1 | Implementation of the Strategic Plan 2014-2016 | 25

BOX 2 | Strategic Plan 2017-2020 | 28

1. Financial stability within the European context | 31

1.1. Macroprudential policy and European regulatory framework | 31

1.2. Prudential supervision | 32

1.3. Banking conduct supervision | 33

1.4. Legal enforcement | 35

1.5. Resolution function | 36

1.6. Deposit guarantee and resolution funds | 37

1.7. Payment Systems Oversight | 37

2. Functions as monetary authority | 38

2.1. Economic research and advice | 38

2.2. Monetary policy implementation | 38

2.3. Asset management | 40

2.4. Statistics | 41

2.5. Payment systems | 41

2.6. Cash issuance | 43

2.7. International representation and cooperation | 44

3. Organisation and resource management | 47

3.1. Governance model | 47

3.2. Risk management | 47

3.3. Internal audit | 48

3.4. Information and communication systems | 48

3.5. Human resources management | 49

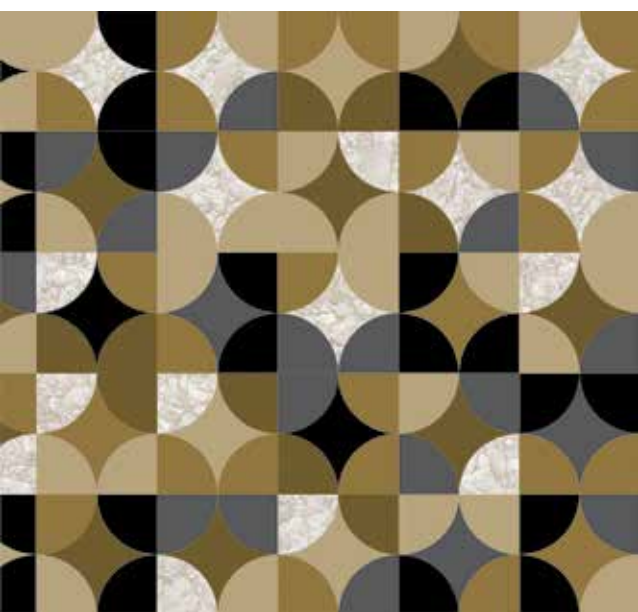
3.6. Budget and building management | 51

BOX 3 | The risk management and compliance functions of Banco de Portugal | 53

- 4. Openness to society | **55**
 - 4.1. Communication | **55**
 - 4.2. Provision of services to the public | **59**
 - 4.3. Social responsibility initiatives addressed to the community | **60**

II Financial Statements

- 1. Presentation | **65**
 - 1.1. Developments in the balance sheet | **65**
 - 1.1.1. Claims and liabilities related to monetary policy operations | **67**
 - 1.1.2. Gold, foreign reserves and euro assets (net) | **69**
 - 1.1.3. Other balance sheet assets | **72**
 - 1.1.4. Banknotes in circulation | **72**
 - 1.1.5. Intra-Eurosystem liabilities | **72**
 - 1.1.6. Other liabilities | **74**
 - 1.1.7. Own funds | **74**
 - 1.2. Developments in the Profit and Loss Account | **76**
- 2. Financial Statements | **82**
- 3. Notes on the Financial Statements | **86**
 - 1.1. Bases of presentation | **86**
 - 1.2. Synopsis of the main accounting policies | **86**
 - 1.3. Post-balance-sheet events | **93**
 - 1.4. Other subjects | **93**
- 4. External Auditors' Report | **131**
- 5. Report and Opinion of the Board of Auditors | **135**



Mission and values of Banco de Portugal



Mission

Banco de Portugal is the central bank of the Portuguese Republic. It is part of the European System of Central Banks and the Eurosystem, the Single Supervisory Mechanism and the Single Resolution Mechanism.

Banco de Portugal's mission is to:

- Maintain price stability; and
- Promote financial stability.

Values

Banco de Portugal's values are:

- **Integrity** – Banco de Portugal's staff place society and public interest at the centre of their action 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, which is a prerequisite for compliance with its mission. Independence requires a clear mandate, the impossibility of seeking or taking 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 is accountable to the Portuguese Parliament, the government and society for what it does, and why and how it does it;

- **Team spirit** – Banco de Portugal's staff act in accordance with the principles of mutual assistance, 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.

The conduct of Banco de Portugal's staff is in accordance with high ethical standards enshrined in *Regulamento da Comissão de Ética e dos Deveres Gerais de Conduta dos Trabalhadores do Banco de Portugal* (Regulation of the Ethics Committee and the General Duties of Conduct of the Employees of Banco de Portugal).



Carlos da Silva Costa

Message by the Governor

With Banco de Portugal's participation in the Single Supervisory Mechanism and Single Resolution Mechanism, its work in safeguarding financial stability for the most part became conditional on the European regulatory and institutional framework. In this 'new normal', Banco de Portugal's role in supervision and monetary policy will depend on its capacity to influence the response to the challenges arising from an ever-changing context.

In 2016 Banco de Portugal completed another strategic plan cycle, marked by the transition to a new model of banking supervision and bank resolution.

In the past three years Banco de Portugal participated with success in the creation and implementation of the European banking supervision and bank resolution systems – the Single Supervisory Mechanism and the Single Resolution Mechanism – and continued to reinforce its capacity as macroprudential authority, defining the strategy for preventing and mitigating risks for the Portuguese financial system.

Banco de Portugal was also involved in the definition and implementation of standard and non-standard monetary policy measures and acquired state-of-the-art IT systems to support Eurosystem operations with Portuguese financial institutions. Most important in terms of payments was the migration to TARGET2-Securities, a platform intended to facilitate liquidity and collateral management in Europe.

During the strategic plan cycle that has now come to an end, Banco de Portugal reinforced its role within Europe. In these new circumstances, Banco de Portugal's influence on decisions impacting the domestic and the euro area economies will

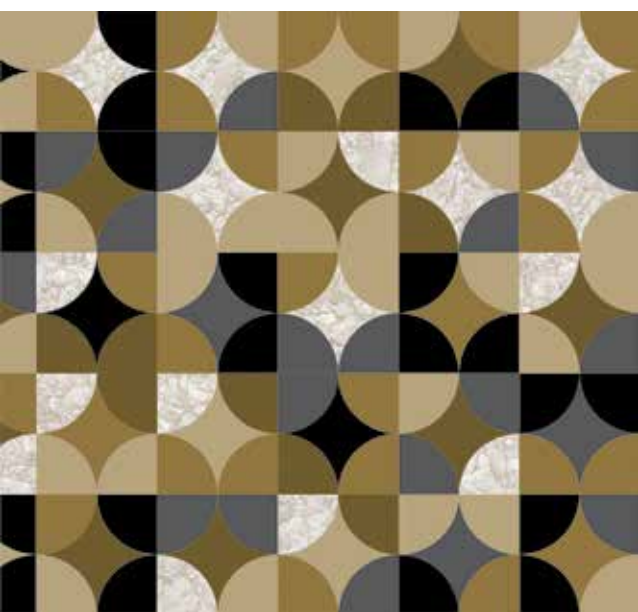
depend on its capacity to foresee and respond with competence, creativity and efficiency to the challenges resulting from the expanded mandate of central banks, European integration and technological development, with particular regard to financial products and services.

It should be noted that Banco de Portugal performs a wide range of functions beyond those typically carried out by most central banks. In fact, from among the 19 euro area national central banks, only seven – including Banco de Portugal – perform, on an exclusive basis, all competences arising from their mission of safeguarding financial stability (prudential supervision, banking conduct supervision and bank resolution). This, alongside the secondment of staff to domestic and international institutions, has an obvious impact on Banco de Portugal's staff numbers.

The *Strategic Plan 2017-2020* has precisely the goal of ensuring that Banco de Portugal performs all its missions well, continuing to prioritise the efficient management of the public resources entrusted to it, and remaining accountable for its actions, as is rightly expected of it.

Across the various strategic priorities defined for 2017-2020 is a commitment to outstanding performance, as befits an institution always doing better, honouring the 170 years of its history and justifying the mission conferred upon it by the country.

A handwritten signature in black ink, appearing to be 'Lambert', written in a cursive style.



Management of Banco de Portugal



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

Hélder Manuel
Sebastião Rosalino



Director

Elisa Maria da Costa
Guimarães Ferreira **



Director

Luís Augusto Máximo
dos Santos **

* As at 31 December 2016. Up to 1 June and 7 March 2016, respectively, João José Amaral Tomaz and António Carlos Custódio de Morais Varela held the position of Director.

** Appointed by Resolution of the Council of Ministers No 16-A/2016 of 16 June 2016, published in the Official Gazette No. 115, Series II, of 17 June 2016.

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

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

* He required suspension of his functions from August 2016.

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

*** Up to 28 September 2016.



Heads of department, regional delegations and district agencies*

General Secretariat

José Gabriel Cortez Rodrigues Queiró

Communication Directorate (DC)

Bruno Rafael Fernandes Proença

Compliance Office (GC)

Sofia Corte-Real Lencart e Silva Pimentel

Office of the Governor (GAB)

Marta Sofia Fonseca Carvalho David Abreu

Legal Enforcement Department (DAS)

João António Severino Raposo

Audit Department (DAU)

José António Cordeiro Gomes

Accounting Department (DCC)

José Pedro Pinheiro Silva Ferreira

Issue and Treasury Department (DET)

António Manuel Marques Garcia

Financial Stability Department (DES)

Maximiano Reis Pinheiro

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

International Relations Department (DRI)

Sílvia Maria Dias Luz

Administration 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

Information Systems and Technology Department (DSI)

António Jacinto Seródio Nunes Marques

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

District Agencies

Braga

Domingos Marques de Oliveira

Castelo Branco

José António Claro Gaudêncio

Coimbra

Maria João Botelho Raposo de Sousa

Évora

Paulo Ruben Alvernaz Rodrigues

Faro

Maria Teresa Gomes Sameiro Macedo

Viseu

Gentil Pedrinho Amado

* As at 31 December 2016.

Specialised Committees*

Specialised Committee for Financial Supervision and Stability (CESEF)

Chairman

Carlos da Silva Costa

Committee for Risk and Internal Control (CR)

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

Ethics Committee

Chairman

Vítor Manuel da Silva Rodrigues Pessoa

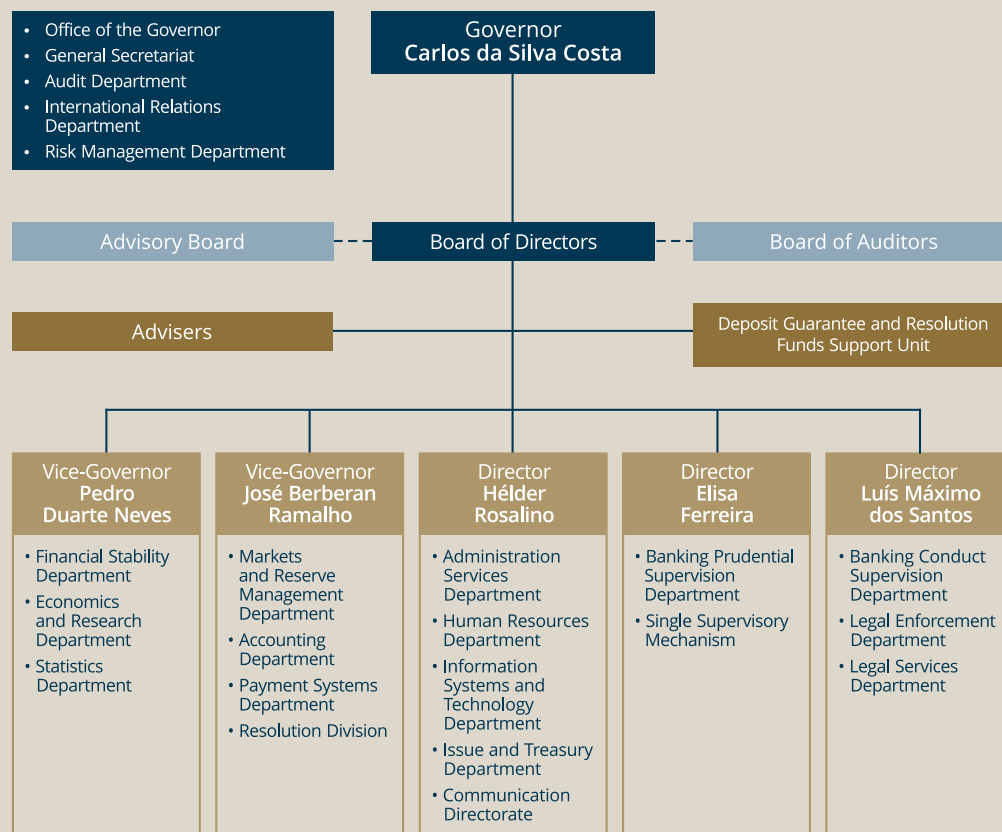
Member

Orlando Pinguinha Calião

Member

José da Cunha Nunes Pereira

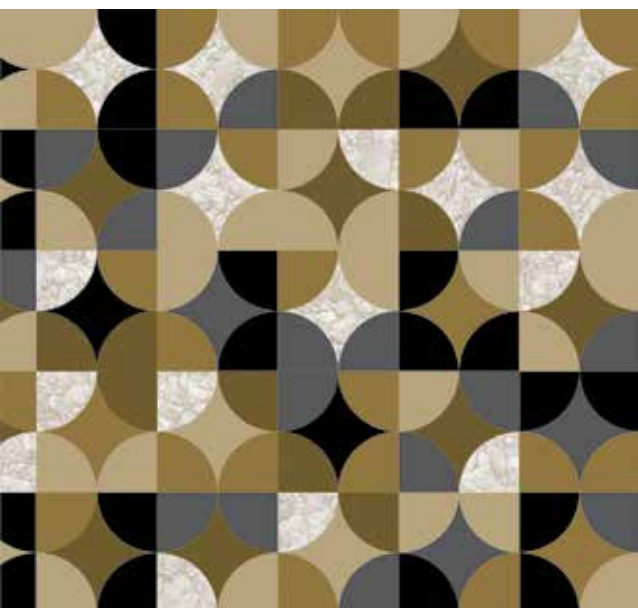
* As at 31 December 2016.



Organisational chart of Banco de Portugal as at 31 December 2016

Source: Banco de Portugal.





I

Activities in 2016

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

Highlights in 2016

In 2016 Banco de Portugal concluded the implementation of its Strategic Plan 2014-2016, working to safeguard financial stability and price stability in a particularly challenging and highly uncertain national and international environment.

Financial stability within the European context

Banco de Portugal:

- Reviewed the risks to financial stability and adopted macroprudential policy measures to minimise the probability of their materialisation and to heighten the resilience of the financial system;
- Participated in work developed by the European Banking Authority in the regulatory field, including on the EU Regulation and Directive on capital requirements and the Bank Recovery and Resolution Directive;
- Ensured participation in the Single Supervisory Mechanism and carried out the Supervisory Review and Evaluation Process of the supervised entities (*SREP*);
- Participated in the bilateral surveillance and post-Economic and Financial Assistance Programme monitoring missions conducted by the international institutions;
- Pursued the implementation of the resolution measures applied to Banif – Banco Internacional do Funchal, S. A., monitoring the activity of Oitante, S. A. and Banif, and to Banco Espírito Santo, S. A. (BES);
- Relaunched the sale process of Novo Banco, S. A.;
- Promoted the search for solutions to reduce non-productive assets on the banks' balance sheets;
- Created an electronic service – Application for Authorisation and Registration – which allows supervised entities to submit requirements, notifications and communications and monitor authorisation and registration procedures;

- Strengthened the supervision of consumer credit, particularly through credit cards;
- Strengthened its work in repressing illicit financial activity and preventing money laundering and terrorist financing. In terms of enforcement activity, Banco de Portugal concluded 217 administrative proceedings and initiated 276;
- Participated in the Single Resolution Mechanism's consolidation work and in the implementation of the Single Resolution Fund. Prepared resolution plans for the major Portuguese credit institutions;
- Developed the accounting system supporting the Deposit Guarantee Fund, the Mutual Agricultural Credit Guarantee Fund and the Resolution Fund.

Monetary authority

Banco de Portugal:

- Produced analyses and studies, especially on monetary policy and financial intermediation in the euro area and on the Portuguese economy;
- Participated in the definition and implementation of standard monetary policy and non-standard programmes of the Eurosystem;
- Launched a new system for open market operations (the IT system for tenders – *SITENDER*), thereby concluding the development process of integrated IT systems within the scope of monetary policy;
- Made available a new credit-rating tool for access to Eurosystem operations, the In-house Credit Assessment System of Banco de Portugal (*SIAC*);
- Managed an ECB portfolio denominated in USD and the foreign reserves allocated to the central bank of Lithuania;
- Made available micro data on the Portuguese economy to internal and external researchers, via the new Microdata Research Laboratory (*Laboratório de Investigação de Microdados – BPLim*);

- Ensured the migration of the Portuguese community to TARGET2-Securities, the pan-European platform for securities settlement in central bank money;
- Installed new equipment to check the authenticity and quality of euro banknotes in Porto;
- Participated in 462 groups of international organisations and organised 129 cooperation initiatives with counterparts from emerging and developing countries, focusing on Portuguese-speaking countries.
- Reformulated the operational communication channel between Banco de Portugal and the financial system: *BPnet*;
- Provided clarifications related to the resolution measures applied to BES and Banif and to the Novo Banco sale process;
- Published the *White Paper on Regulation and Supervision of the Financial Sector*;
- Launched the *Report on Cash Issuance*;
- Organised 350 financial training sessions across the whole country, involving 12,122 participants, and participated in the initiatives of the National Plan for Financial Education, promoted by the National Council of Financial Supervisors;

Organisation and resource management

Banco de Portugal:

- Implemented new Principles of Organisational Structure (*Princípios de Estrutura Orgânica*), with a view to simplifying and streamlining its internal organisational model and strengthened the annual appraisal model of the departments;
- Strengthened the ethical and internal conduct regime, aligning it with the principles adopted in the Eurosystem and Single Supervisory Mechanism;
- Prepared the Strategic Plan for 2017-2020;
- Implemented a new career model and a simplified remuneration structure;
- Created an Advanced Leadership Programme (*Programa Avançado de Liderança*) for middle managers, within the scope of the new Banco de Portugal Academy (*Academia do Banco de Portugal*), and also launched a programme to map and develop staff skills.
- Launched new statistics in six domains, and published over 328,000 statistical series in *BPstat* website and 7,000 in the *Statistical Bulletin*;
- Within the scope of its social responsibility initiatives, joined the *Voluntários da Leitura* (Reading Volunteers) programme, hosted by the Centro de Investigação para Tecnologias Interativas of Universidade Nova de Lisboa and the Associação para o Voluntariado de Leitura.

Openness to society:

Banco de Portugal

- Launched a new institutional website, better adjusted to the needs of the site's target users;
- Inaugurated the Money Museum, which was nominated for the European Museum of the Year Award, promoted by the European Museum Forum in cooperation with the Council of Europe;

Banco de Portugal's activity in numbers

	2015	2016
As at 31 December		
Number of employees	1,777	1,797
Number of active employees ^(a)	1,696	1,718
Average age of staff	44.1	43.8
Number of institutions registered in Portugal ^(b)	377	370
ECB foreign reserves managed by Banco de Portugal (EUR millions)	1,559	1,619
Gold portfolio		
(tonnes)	382.5	382.5
(EUR millions)	11,968	13,503
International institutional representation (groups in which Banco de Portugal participates)	391	462
Annual total (volume)		
Administrative proceedings initiated	283	276
Recommendations and specific orders – retail banking markets	1,034	1,020
Transactions settled through <i>TARGET2</i> -PT (thousands)	1,754	1,783
Transactions settled through SICOI (millions)	2,205	2,354
Processed euro banknotes (millions)	641	628
Counterfeit euro banknotes seized ^(c)	8,587	7,757
Cooperation initiatives carried out	106	129
Internal audits carried out	43	36
Statistical series reported to international organisations	628,371	690,541
Visitors to the Money Museum	29,142	58,467
Donated meals	11,213	10,529
On average		
Average balance of open market operations and standing facilities – resident counterparties (EUR millions)	26,972	24,024
Average balance of monetary policy portfolios in Banco de Portugal's balance sheet (EUR millions)	10,250	24,729
Visits to Banco de Portugal's new institutional website (daily average) ^(d)	–	41,210
Visits to the Bank Customer Website (daily average)	8,182	8,823

(a) Excluding staff on secondment or on unpaid leave.

(b) Credit institutions, financial corporations and payment institutions.

(c) In cooperation with the criminal police.

(d) Available since 19 November 2016.

BOX 1 | Implementation of the Strategic Plan 2014-2016

During the lifetime of the *Strategic Plan 2014-2016*, Banco de Portugal acted to implement four Broad Strategic Guidelines (BSG), aiming to be:

- A reference institution in safeguarding financial stability (BSG1);
- An influential partner in the Eurosystem and Portuguese society (BSG2);
- An efficient and accountable organisation, with a management model inspired on international best practice (BSG3);
- An open institution, respected by society (BSG4).

The activity guidelines over the past three years were followed in a particularly challenging national and international environment, in which Banco de Portugal was faced with a range of challenges and significant unplanned events. The most significant developments in this three-year period were associated with Banco de Portugal's participation in the Eurosystem and the construction of the Banking Union, its capacity as macroprudential authority and national resolution authority, and the application of resolution measures to Banco Espírito Santo, S. A. (BES) and Banif – Banco Internacional do Funchal, S. A. Furthermore, initiatives also focused on strengthening corporate culture and openness to society.

Within the framework of the Banking Union, Banco de Portugal began its participation in

the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The adjustment of the national resolution function to the new European framework coincided with the work related to the application of the resolution measures to BES in August 2014 and to Banif in December 2015. In its capacity as national macroprudential authority, Banco de Portugal developed instruments to review, prevent and mitigate vulnerabilities and risks for financial stability.

Banco de Portugal continued to participate actively in different discussion *fora* on monetary policy measures and ensured the implementation of monetary policy decisions and the entry into circulation of the new series of euro banknotes, the *Europa* series.

Finally, as regards the corporate culture and openness to society, the main results include a strengthening of the internal governance model by reorganising mechanisms to support decision-making bodies and creating the Compliance Officer function, the revision of human resources policies within the scope of career management, training and the compensation system, and the development of an integrated communication policy.

The table below presents the main strategic initiatives implemented in the 2014-2016 period:

Broad Strategic Guidelines	Main initiatives
1 – Financial stability within the European context	<ul style="list-style-type: none"> • Participating in the definition and implementation of the SSM, in the implementation of the regulatory and institutional framework of the Banking Union and its transposition into national law. • Cooperating in the transposition into national law and implementation of prudential regulation in the European Union, applicable to credit institutions and investment firms; • Developing methodologies and indicators to signal risks and vulnerabilities for financial stability; • Publishing the strategy for the implementation of macroprudential policy, selection of instruments and activation of macroprudential measures;

- Participating in the implementation of the Economic and Financial Assistance Programme and in bilateral supervisory missions and post-programme monitoring;
- Deepening the regulatory framework of retail banking markets, with focus on strengthening information requirements on consumer credit and access to minimum banking services and promoting the simplification and standardisation of demand deposit accounts;
- Capacity building as resolution authority, preparing resolution plans, reviewing and debating the definition of minimum requirements for own funds and eligible liabilities (*MREL*), improving understanding of institutions' operation, in terms of the relevant aspects for the function;
- Participating in the setting up and implementation of the SRM;
- Developing work related to the resolution of BES and Banif, including the strengthened prudential monitoring of Novo Banco, the sale process of Novo Banco and the winding up of BES and Banif, the initiation of particularly complex and sizeable sanction procedures, the procedural management of litigation and the cooperation with the Parliamentary Committees of Inquiry.

2 – Exercise of its tasks as monetary authority

- Participating in the definition and implementation of non-standard measures defined by the Governing Council of the ECB, including the implementation of the public sector purchase programme;
 - Providing new systems for collateral and operations management (COLMS) and open-market quick tender procedures (SITENDER) to credit institutions in Portugal;
 - Revising methodologies for the compilation and production of statistics and adoption of the IMF's more demanding statistical dissemination standard – SDDS Plus;
 - Creating the Microdata Research Laboratory (BPLim) to increase the use of microdata of the Portuguese economy by researchers;
 - Migrating Interbolsa and Banco de Portugal to the new pan-European platform for the settlement of securities in central bank money – TARGET2-Securities;
 - Implementing the Single Euro Payments Area (SEPA);
 - Participating in the development of the second series of euro banknotes, the *Europa* series;
 - Celebrating 25 years of cooperation with counterpart institutions of emerging and developing economies, focusing on Portuguese-speaking economies.
-

3 – Organisation and efficient management of resources

- Reorganising functions to support the management bodies of Banco de Portugal, particularly the creation of the General Secretariat;
- Redrafting the internal organisational model in accordance with best practice and the institutional framework related to the start of the SSM;
- Creating the Compliance Office and the Ethics Committee to ensure the implementation of the ethical regime enshrined in new ethics and conduct regulations applicable to Banco de Portugal's staff and to the members of the Board of Directors;
- Implementing a new model for appraising departmental performance and a policy of greater containment of human and financial resources;
- Simplifying and easing compensation and career systems;
- Improving the efficiency of financial reporting to Banco de Portugal;
- Creating the Banco de Portugal Academy to support technical and academic training of staff members and launching a talent-management programme;
- Defining a five-year strategic plan of information and communication technologies;
- Approving the strategies for the Digital Bank 2020 and Sourcing and Cloud associated with IT systems;
- Reducing consumption of energy in the main office buildings by around 7 per cent.

4 – Openness to society

- Implementing a new institutional communication model;
- Launching Banco de Portugal's new institutional website and the new *BPnet* website;
- Inaugurating the Money Museum;
- Promoting the financial information and training of bank customers: organisation of three initiatives on credit, accounts and means of payment in different venues in the country, and involvement in the National Financial Education Plan by promoting financial training in schools and strengthening financial training of entrepreneurs and managers of micro, small and medium-sized enterprises;
- Launching online consultation of the Database of Banking Accounts;
- Regularly publishing statistical press releases and bringing forward the deadlines for the dissemination of published statistics;
- Developing a social responsibility policy addressed at the community.

BOX 2 | Strategic Plan 2017-2020

The *Strategic Plan 2017-2020 (SP17-20)*, approved by the Board of Directors in January 2017, sets out Banco de Portugal's priorities for 2017-2020.

Recent developments in European integration and the widening of the remit of central banks' mandates, as well as the risk and complexity of the activities carried out, pose fundamental challenges over the coming years. Over the 2017-2020 time horizon, Banco de Portugal must consolidate its position in national and European contexts, and adjust to a 'new normal' for its activity.

The *SP17-20* was the result of an in-depth diagnostic exercise into Banco de Portugal, including a consultation of the senior management teams, a questionnaire open to all staff members and reflection on the mission functions and major cross-cutting policies. The exercise was conducted by an inter-departmental team, monitored by a steering committee and coordinated by the Board of Directors.

The priorities defined for 2017-2020 – organised in *Broad Strategic Guidelines* – arise from the mission entrusted to Banco de Portugal and from the values and vision for 2020.

Vision for 2020

In 2020, Banco de Portugal shall be:

- A reference institution regarding the maintenance of financial stability, effective and technically respected in Portugal and in Europe;
- A proactive and influential central bank in the conduct of monetary policy and in the performance of the other tasks carried out by the Eurosystem, as well as in other fora where it intervenes;
- An independent and influential institution in the Portuguese economic debate;
- An efficient central bank regarding the use of resources, with a risk management policy aligned with best practice.

"Always doing better" is Banco de Portugal's challenge in the *SP17-20*: each employee, department, mission function and decision-making body is invited to be self-responsible each and every day, always focusing on what and how to do better.

Broad Strategic Guidelines

Priorities



1st Broad Strategic Guideline | Emphasise Banco de Portugal's capacities as monetary authority, at both an internal and external level

- Actively contribute to the single monetary policy in the euro area, based on the risk-sharing principle;
- Continue to research fundamental topics within monetary policy, including monetary policy's role in the future, interaction with macroprudential policy, the effects of non-standard measures and the link with other macroeconomic policies;
- Prudently manage financial risks, while ensuring stable criteria in the definition of return to the State and safeguarding Banco de Portugal's soundness;
- Develop internal capacity in monitoring Banco de Portugal's role in view of technological challenges and digital evolution, with particular regard to payment systems and means of payment.



2nd Broad Strategic Guideline | Participate in the definition of regulatory frameworks and implementation of supervisory practices, in order to ensure the soundness and stability of the national financial system and confidence among economic agents

- Promote a comprehensive approach of risk assessment for the definition and implementation of prudential policies, with recourse to the different competences of Banco de Portugal and in cooperation with other national and international financial supervisory authorities;
- Strengthen Banco de Portugal's role among European authorities, contributing to the soundness and stability of the national financial system;
- Strengthen performance in regulation, supervision and crisis management, based on the development of prudential policy instruments, in close cooperation with European institutions and supervisory authorities, and other national central banks;
- Ensure a balanced relationship between financial institutions and their customers, guided by high standards of behaviour and appropriate financial education, in cooperation with the other national supervisory authorities.



3rd Broad Strategic Guideline | Promote understanding of the Portuguese economy and European integration, helping inform and educate

- Pursue the research agenda on relevant issues for Banco de Portugal's mission;
- Produce and foster understanding of the Portuguese economy and European integration, using the competences and information available in Banco de Portugal, and promoting partnerships that increase efficiency;
- Regularly consult the stakeholders to identify important topics early and ensure the usefulness of information and knowledge generated in Banco de Portugal.



4th Broad Strategic Guideline | Be among the most efficient central banks in the Eurosystem

- **Internal governance** – Improve Banco de Portugal's internal governance model and strengthen the organisation, planning and control function, in order to ensure high performance and accountability for results;
- **Information** – Define a governance model and an information management model, develop a corporate data warehouse, enhance the support technology, and standardise and rationalise information requests, enabling Banco de Portugal to have access to comprehensive, high-quality and timely information;
- **Human resources** – Develop a human resources management model using competence profile mapping, invest in training and individual development, foster strong leadership, and adjust incentive and payment systems to merit-based criteria, in order to ensure motivation and intensify collaboration;

- **Systems and technologies** – Develop a new digital workplace model, investing in tools that boost productivity and enhance collaboration, ensure Banco de Portugal's information security, particularly regarding cyber-attacks, revise the business continuity plan and develop the IS/IT function in the context of the digital transformation strategy;
- **Communication** – Define the communication strategy, focus communication on stakeholders, make it modern, diversified and inclusive, and reformulate the responsibilities of the communication function, aligning communications with the defined strategy and the duty of accountability to society.

The *Strategic Plan 17-20* will be implemented with the flexibility necessary for responding to context developments and challenges and its execution will be regularly monitored and

reported to the staff. Banco de Portugal will make itself accountable to the general public, on an annual basis, in the *Annual Report – Activities and Financial Statements*.

1. Financial stability within the European context

This Chapter describes Banco de Portugal's action in 2016 in the field of financial stability, the first of the Broad Strategic Guidelines for 2014-2016.

Safeguarding the stability of the Portuguese financial system is a key task of Banco de Portugal. To fulfil this task, it has broad powers in regulation and supervision (macroprudential, microprudential and banking conduct), legal enforcement, resolution, and oversight of payment systems. Banco de Portugal is part of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) and participates actively in several national and international financial supervision and regulation fora, including the National Council of Financial Supervisors, the European Systemic Risk Board (ESRB), and the European Banking Authority (EBA).

1.1. Macroprudential policy and European regulatory framework

Macroprudential policy

In 2016 Banco de Portugal continued to develop and evaluate indicators to signal risks and vulnerabilities to financial stability, including indicators to aid decisions on capital reserves, one of the main macroprudential policy instruments.

Banco de Portugal analysed the funding and capital plans of Portuguese banks, submitted in accordance with new reporting models, based on the accounting and prudential reporting frameworks, Financial Reporting (FINREP) and Common Reporting (COREP), applicable to the entities under the supervision of Banco de Portugal and the SSM.¹ It analysed the quality of assets in the banks' balance sheets, banking credit developments, the (national and international) determinants of profitability in the banking sector, and sector efficiency. It further deepened its analysis of the real estate market and the financial sector's exposure to it, reassessing the loan-to-value and loan-to-income ratios.² The assessment of risks to financial stability carried out by Banco

de Portugal continued to be publicly disclosed mainly through the publication of the (semi-annual) *Financial Stability Report* and quarterly analyses of the banking system.³

In compliance with the Recommendation of the European Systemic Risk Board (ESRB) on recognising and setting countercyclical buffer rates for exposures to third countries⁴, Banco de Portugal identified the list of third countries that are relevant for the national banking system. As regards the recommendation on the assessment of cross-border effects and voluntary reciprocity of macroprudential policy measures, Banco de Portugal regulated the release of decisions it may adopt in the wake of macroprudential measures implemented by the authorities of other Member States.⁵ In this context, it decided to reciprocate the measures taken by other macroprudential supervision authorities.⁶

Banco de Portugal revised its decision to bring forward the capital conservation buffer, and resumed the phased introduction provided for in European banking regulations, establishing a capital conservation buffer of 0.625 per cent of the total exposure amount in 2016, 1.25 per cent in 2017, 1.875 per cent in 2018 and 2.5 per cent in 2019. This revision was due to the need to ensure that national credit institutions operate in the same conditions as most institutions covered by the SSM. It also decided to phase in the capital buffer for systemically important institutions, between 2018 and 2019. On a quarterly basis, it reassessed and maintained unchanged the countercyclical capital buffer – at 0 per cent.

European regulatory framework

In 2016 Banco de Portugal participated in the work of the EBA on the regulatory front, especially the preparation of: guidelines and draft technical standards related to the Capital Requirements Directive and Regulation (CRDIV/CRR); amendments to the Bank Recovery and Resolution Directive (BRRD); and the *Final Report*

on MREL – Report on the implementation and design of the MREL framework. It also participated in European Commission working groups that contributed to the preparation of the legislative package submitted by the Commission in November to complement the regulatory programme launched in the wake of the financial crisis. Banco de Portugal started following the negotiation process of these proposals – from both the prudential and resolution perspectives – in collaboration with the Ministry of Finance and the Permanent Representation of Portugal at the European Union, thus contributing to the definition of a national position. It also participated in negotiations on the Commission's proposal to set up a European deposit guarantee scheme (the third pillar of Banking Union).

The implementation at national level of the regulation on prudential requirements proceeded,⁷ and a new simplified regime was created, applicable to affiliated savings banks, based on proportionality criteria. Preparatory work was undertaken to monitor the implementation of International Financial Reporting Standard 9 on financial instruments (IFRS 9) by resident institutions subject to supervision by the SSM and Banco de Portugal.

1.2. Prudential supervision

In 2016 prudential supervision activity focused on five priority areas: (i) business model and profitability; (ii) credit; (iii) capital adequacy; (iv) internal governance and risk management; and (v) liquidity. These priorities were identified taking into account the international context of the financial sector and the assessment of the main risks faced by the institutions under supervision.

The Supervisory Review and Evaluation Process (SREP) of the entities under supervision was carried out, in line with the EBA's and SSM's methodologies. In this context, the analyses scheduled (risk evaluation, revision of the capital adequacy assessments, revision of stress tests, inter alia) were carried out and the SREP decisions were prepared, involving capital quantitative measures and other supervisory measures.

Banco de Portugal continued the project to reduce non-productive assets on the banks' balance sheets, stimulating efforts on the part of the supervised institutions and different fora to seek measures that might contribute to that purpose. Against this background, it intensified supervisory action, conducted cross-sectional reviews, held meetings with the main institutions and the respective external auditors, analysed strategic plans to reduce this type of credit and integrated the planning of the respective treatment into the SREP process.

Semi-annual post-programme monitoring missions, in the wake of the conclusion of the Economic and Financial Assistance Programme in 2014, as well as work by the Parliamentary Committees of Inquiry into Banif – Banco Internacional do Funchal, S. A. and Caixa Geral de Depósitos S. A., required an effort cutting across various areas of Banco de Portugal.

In line with the initiatives developed within the SSM, the subject of crisis prevention took on an important role in the dialogue with credit institutions and in the analysis of their recovery plans, namely the evaluation of the proposed recovery measures, the respective early warning indicators and activation.

In 2016 the Application for Authorisation and Registration service was implemented, integrated in the BPnet system and regulated by an instruction that defines the procedures for the utilisation of this tool in institutions' application for authorisation by Banco de Portugal.⁸ This service was intended to improve the procedures for the authorisation and analysis of members of the institutions' corporate bodies and to accelerate the decision-making process. The procedures related to statutory changes, changes in networks, branches and subsidiaries, and authorisation to acquire qualifying holdings were significantly improved with the implementation of this interface with the institutions.

Banco de Portugal followed the evolving supervision of banking conduct and corporate culture, an innovative area within supervision,

under development in the SSM. According to this approach, group dynamics and individual behaviours are material sources of risk, in particular when occurring in the institutions' boards of directors, internal supervisory boards and senior management, given the crucial role played by leaders in defining the organisations' culture. Institutions are responsible for ensuring that, in addition to formal governance structures, their culture promotes values consistent with sound and prudent management. In this field, Banco de Portugal carried out a number of interviews with different members of corporate bodies with requests for authorisation pending.

In 2016 1,400 members of corporate bodies of the institutions under supervision were registered (Table 1.1). The sharp increase in the number of registrations from the previous year (754 more) is chiefly due to the simultaneous change in the mandates of the corporate bodies of mutual agricultural credit banks.⁹ In all cases, Banco de Portugal assessed the suitability, qualifications and professional experience and incompatibilities. Significant efforts were developed in terms of on-site inspections and changes were introduced in corporate bodies with a view to safeguarding institutions' stability.

Table 1.1 • Members of the corporate bodies registered

Corporate bodies	Number of registrations		
	2015	2016	Δ 2016-2015
Board of Directors	332	602	270
Management	5	1	-4
Supervisory Board (natural persons)	55	388	333
Supervisory Committee	14	0	-14
General and Supervisory Board	15	36	21
Audit Committee	9	10	1
Supervisory Board (legal persons)	4	0	-4
Sole Supervisor	57	33	-24
Other (Statutory Auditor)	37	13	-24
General Meeting	118	317	199
Total	646	1400	754

Source: Banco de Portugal

The number of credit institutions, financial companies and payment institutions registered in Portugal decreased from 377 at the end of 2015 to 370 at the end of 2016 (Table 1.2).

1.3. Banking conduct supervision

In 2016 Banco de Portugal paid special attention to the assessment of institutions' compliance with the regulatory framework related to consumer credit, given the buoyancy of this type of credit. Action focused on products and

marketing practices, with the goal of assessing new characteristics and marketing methods, particularly of revolving credit products (namely credit cards, overdraft facilities and overrunning). Through its on-site inspections of institutions' central services, Banco de Portugal oversaw the conformity of credit granting procedures, evaluating compliance with information duties to customers and the adequacy of data-processing systems underlying the contracts. It also checked the observance of the arrears regime, focusing

on the definition of the date of failure to comply, the maximum arrears interest surcharge and the maximum commission chargeable when recovering arrears, and the completeness of

the information provided on the applicable penalties. It also carried out a cross-sectional review of the credit contract templates used in marketing revolving credit products.

Table 1.2 • Institutions registered in Portugal

	Institutions registered		Registrations		Cancellations	
	Number of institutions		Number of institutions		Number of institutions	
	2015	2016	2015	2016	2015	2016
Credit institutions	176	173	2	1	4	4
Financial companies	102	96	4	2	6	8
Payment institutions ^(a)	41	44	6	8	0	5
Electronic money institutions	3	5	2	2	0	0
Representative offices of credit institutions and financial companies having their head office abroad	19	20	0	1	1	0
Holding companies	36	32	1	0	2	4
Total	377	370	15	14	13	21
Credit institutions having their head office in an EEA ^(b) country, providing cross-border services	507	513	22	19	11	13
Payment institutions having their head office in an EEA ^(b) country, providing cross-border services	251	306	56	69	8	14
Electronic money institutions having their head office in an EEA ^(b) country, providing cross-border services	51	93	15	43	1	1

Source: Banco de Portugal.

Notes: (a) Of which, on 31 December 2016, one was undergoing winding-up proceedings. (b) European Economic Area.

Another priority was related to checking appropriate implementation by institutions of recent changes to the regulatory framework. In this context, Banco de Portugal assessed compliance with the annual obligation to invoice customers and the duties related to consumers' credit statements. In order to assess compliance with the changes to the minimum banking services regime, inspections were made of institutions' branches, involving "mystery customer" initiatives. The number of advertisements for banking products and services disseminated by credit institutions increased in 2016 (especially concerning housing credit), which was reflected in a 13 per cent rise in the number of advertisements analysed by Banco de Portugal. Banco de Portugal has also monitored price lists, maximum rates on consumer credit and pre-contractual information on indexed and dual

deposits. Institutions' action was also monitored through analysis of bank customers' complaints. Banco de Portugal received 14,141 complaints on subjects within the scope of its banking conduct supervision competences (4.8 per cent more than in 2015), with special reference to complaints on demand deposit accounts and payment cards.

In order to correct the irregularities detected, 1,020 recommendations and specific orders were issued to 73 institutions under supervision, mostly covering compliance with legal and regulatory rules governing consumer credit (Table 1.3).

Table 1.3 • Recommendations and specific orders

	2015	2016
Advertising	66	87
Price lists	59	20
Deposits	150	94
Housing credit and other mortgage credit	297	17
Consumer credit and other credit	310	755
Payment instruments	123	43
Complaints book	29	1
Other	0	3
Total	1,034	1,020

Source: Banco de Portugal.

To promote financial information and education of bank customers, Banco de Portugal used its bank customer website to launch awareness initiatives, and organised training sessions across the country, via its regional network (Chapter 4).

As part of the National Plan for Financial Education, Banco de Portugal was involved, with the other financial supervisors, in promoting financial education in schools and in the financial training of entrepreneurs and managers of micro, small and medium-sized enterprises and social entrepreneurs. The results of the *2nd Survey on Financial Literacy of the Portuguese Population* made it possible to identify the areas and population groups with greater deficits in terms of financial literacy.¹⁰

Banco de Portugal participated in the work of the EBA and the Joint Committee of the European Supervisory Authorities on banking consumer protection, as well as in various international discussion fora on the regulation and supervision of the conduct of the institutions. Noteworthy among these is the International Consumer Protection Organisation. Banco de Portugal was elected to its vice-chairmanship and chaired the working group that prepared the report *On-line and mobile payments: supervisory challenges to mitigate security risks*, presented in different initiatives organised in the context of G20, the Bank for International Settlements and the OECD.

1.4. Legal enforcement

In 2016 Banco de Portugal adjusted the internal structure of the legal enforcement function, with a view to strengthening its performance in the investigation and repression of illicit financial activity and in the preventive supervision of money laundering and terrorist financing.

In terms of repressing illicit financial activity, it carried out off-site and on-site inspections in the context of 195 proceedings. These initiatives led to proposals to wind up four financial companies engaged in illicit activity, to the initiation of seven administrative proceedings, to the addressing of 15 notices to the Prosecutor-General's Office reporting suspicious criminal offences, to the issuance of public warnings on ten persons and entities as well as another on fraudulent practice associated with alleged granting of easy credit. Banco de Portugal also cooperated with the police and judicial authorities, participating in investigations.

In the field of preventing money laundering and terrorist financing (MLTF), Banco de Portugal undertook on-site activities in supervised institutions to check the adequacy and robustness of existing control mechanisms and to assess compliance with the duties set out in the legislation. As a result, it issued 135 corrective measures (107 specific orders, 27 recommendations and one communication to a foreign supervisor), eight notices to the Prosecutor-General's Office and the Criminal Police and two crime notifications and submitted a proposal to revoke authorisation and/or reassess suitability. The off-site monitoring was chiefly carried out through the analysis of mandatory reporting to Banco de Portugal (*RPB – Relatório de Prevenção do BCFT* and *QAA – Questionário de Autoavaliação*). Banco de Portugal was engaged in the transposition of the package of measures on preventing and countering MLTF, approved by the European Union in 2015, and in the negotiation process of a directive intended to introduce amendments therein, on transparency and the fight against terrorist financing. Also in this

area, it issued a notice which aimed to regulate the registration and communication to Banco de Portugal of fund transfers to offshore jurisdictions¹¹ and disseminated relevant information throughout the financial system, including on the application of international sanctions and other restrictive measures imposed by the UN and the EU and on jurisdictions with strategic inadequacies in the

fight against MLTF, as identified by the Financial Action Task Force (FATF).

Enforcement activity included the conclusion of investigations in some sizeable and complex proceedings. The number of proceedings concluded increased expressively and the number of proceedings initiated remained broadly in line with developments in 2015 (Table 1.4).

Table 1.4 • Administrative proceedings

Overall indicators	2013	2014	2015	2016	Δ2016-2015
Proceedings carried forward from the previous year	85	134	171*	382*	211
Proceedings initiated	183	128	283	276	-7
Proceedings settled	134	99	82	217	135
Proceedings pending at the end of the year	134	163	372	441	69

Source: Banco de Portugal.

* The difference between the number of proceedings pending at the end of the year and proceedings carried forward from the previous year refers to decisions issued in summary proceedings which were no longer accepted in the following year.

As regards non-enforcement activity, ten proceedings were analysed relating to the possible withdrawal of authorisation of credit institutions, financial companies and payment institutions, based on supervening facts, 22 proceedings were initiated, related to a possible reassessment of the suitability of the members of the boards of directors and boards of auditors of the institutions under supervision. Banco de Portugal also monitored 16 winding-up proceedings, under the responsibility of State commissioners, judicial liquidators or liquidation committees appointed for the purpose. The relationships between Banco de Portugal and the ECB in this field were deepened, given that, in the context of the SSM, concerted action is required in the preparation of proposals for the withdrawal of authorisation of credit institutions and the reassessment of suitability of the members of the boards of directors and board of auditors of significant credit institutions.

1.5. Resolution function

In 2016 resolution-related activity by Banco de Portugal focused on monitoring the implementation

of resolution measures applied in the two previous years and on the intensification of work within the Single Resolution Mechanism (SRM), in the context of its full implementation.

A significant share of the implementation work related to the resolution measures applied at the end of 2015 to Banif – Banco Internacional do Funchal, S. A. was undertaken in 2016. In addition to implementing a range of critical functions immediately after the application of the resolution measure, it was necessary to monitor the activity of Oitante, S. A. and Banif and to address requests for clarification of the meaning and scope of the perimeter for the transfer of assets, liabilities, off-balance sheet items and assets under management to the asset-management vehicle and Banco Santander Totta, S. A.. Work by the Parliamentary Committee of Inquiry related to the process that led to the sale and resolution of Banif – in operation between 3 February and 12 October 2016 –, and the legal disputes initiated in the wake of the application of the resolution measures, warranted additional efforts of analysis, compilation and treatment

of information, broadly based across different functions of Banco de Portugal.

It continued its work stemming from the resolution measure applied to Banco Espírito Santo, S. A. in August 2014. In this context, the sale process of Novo Banco, S. A. was relaunched in two simultaneous tracks: (i) a strategic sale process regarding the direct and competitive sale, targeted at strategic investors; and (ii) a market sale process.¹² An analysis of the proposals received was under way at the end of the year, in the light of previously published criteria.

In the context of the full implementation of the SRM and the start of operation of the Single Resolution Board (SRB), work developed by Banco de Portugal intensified, particularly through its participation in the different committees created by the SRB and in internal resolution teams set out by the SRM. With a view to providing pertinent information on issues related to bank resolution, the SRB and Banco de Portugal organised in Lisbon the *1st Industry Dialogue Meeting on Bank Resolution*, with the participation of Portuguese credit institutions, represented at the highest level. Within the scope of the SRM, Banco de Portugal prepared resolution plans for the main Portuguese banking groups. It also participated in the implementation work of the Single Resolution Fund, as well as in the processes for the calculation, collection and delivery of periodical contributions in 2016.

1.6. Deposit guarantee and resolution funds

In 2016 Banco de Portugal continued to provide the technical and administrative services required for the smooth operation of the Deposit Guarantee Fund, the Mutual Agricultural Credit Guarantee Fund and the Resolution Fund. In particular, it provided the means and human resources, including secretariat, accounting processing of the operations and preparation of the financial statements, as well as legal support, including the regular monitoring of activity, the issue of opinions, or representation in court.

Banco de Portugal developed the accounting system supporting these autonomous funds, so as to comply in a timely manner with reporting requirements of financial and budgetary information.

Its support also covered the management of the financial resources and the procedures for the collection of annual contributions.¹³ In the case of the Resolution Fund, it also provided the necessary support to the exercise of functions as sole shareholder of Novo Banco, S. A. and Oitante, S. A.

Banco de Portugal set the parameters for calculating the contributions due by the institutions that are members of these Funds.

1.7. Payment Systems Oversight

Banco de Portugal monitors and assesses the payment systems and financial market infrastructures to ensure their reliability and efficiency.

In 2016 it reassessed Multibanco card system in view of new oversight requirements and carried out the first survey of providers of online payment solutions in Portugal. It also continued to monitor the functioning of retail payment systems (SICOI – Portuguese Interbank Clearing System) and large-value payment systems (*TARGET2-PT*), assessing their operation and analysing liquidity, concentration and credit risks. These systems worked smoothly and no risks were identified.

With the entry into operation of the TARGET2-Securities (T2S) platform, European regulators formalised a memorandum of understanding between the ECB, ESMA and the authorities responsible for its oversight, including Banco de Portugal.

2. Functions as monetary authority

The main developments in 2016 in the various functions performed by Banco de Portugal as monetary authority within the Eurosystem/ European System of Central Banks (ESCB) are described in more detail in the following sections.

2.1. Economic research and advice

Banco de Portugal produced analyses and economic research in areas related to its core functions, focusing on monetary policy and financial intermediation in the euro area, as well as on the Portuguese economy within the European context. In the euro area, the adoption of policies leading to price stability and sustained growth remained challenging, amid increased global uncertainty. The Portuguese economy recovered moderately, while some structural imbalances remained. Naturally, these topics were pursued by Banco de Portugal in its economic advice and addressed by wide-ranging analytical and research work. The results of this work were released, with due allowance for the different target audiences, in the form of analytical texts and projections on the Portuguese economy, as well as articles and working papers authored by economists working at Banco de Portugal, often co-written by external researchers.

In the *Economic Bulletin*¹⁴, special issues looked into the household savings rate in Portugal, the participation of Portuguese enterprises in international trade, and monetary policy transmission in a negative interest rates environment. Boxes in the *Bulletin* addressed current economic issues, in particular, the economic impact of Brexit and the exposure of the Portuguese economy to Angola.

Banco de Portugal's *Economic Studies* series¹⁵ featured signed articles on topics relevant to the Portuguese economy, including analyses on the drivers of GDP and unemployment rate developments, the financial position of households and enterprises, and monetary policy

implementation in a context of low inflation. The series also included articles on the development of new analytical forecast tools for the Portuguese economy, more specifically, new approaches to forecasting GDP and tourism exports. At the time of their release, the discussion of some of these articles was extended to well-informed selected public representatives.

Banco de Portugal published three new *Central Balance Sheet Studies*,¹⁶ on developments in non-financial corporations, pharmaceutical companies and the wood, cork and paper sectors.

Mirroring the investment made in research and knowledge sharing, 18 working papers and one occasional paper were published, as well as 25 articles in scientific journals and books of international standing. Furthermore, 32 seminars open to the public and one (biennial) conference on econometrics were held. Banco de Portugal welcomed 19 visiting researchers and organised three courses, conducted by external researchers and attended by members of the academic community, on international trade, financial intermediation theory and other banking sector functions, and open economy macroeconomics. Within the Eurosystem, Banco de Portugal participated in research networks and organised workshops attended by members of the international scientific community.

2.2. Monetary policy implementation

In 2016, as part of the decentralised implementation of Eurosystem monetary policy, Banco de Portugal conducted operations with resident credit institutions, managed their collateral, produced the daily forecast of the liquidity needs of the banking system and monitored compliance with minimum reserve requirements.

In March, the ECB Governing Council cut the main refinancing operation and marginal lending facility rates by 5 basis points each (to 0 per cent and 0.25 per cent respectively) and the deposit facility rate

by 10 basis points (to -0.40 per cent). As regards non-standard monetary policy measures, the ECB expanded the monthly purchases under the asset purchase programme (APP) to €80 billion and extended it to include corporate bonds, with the establishment of the corporate sector purchase programme (CSPP). Furthermore, it decided to launch a new series of four targeted longer-term refinancing operations (TLTRO-II), each with a maturity of four years and an interest rate that may be linked to the deposit facility rate or the rate applied in main refinancing operations prevailing at the time of allotment, depending on each participating bank's lending activities. In December, the Governing Council decided to extend the APP until December 2017, setting the target for monthly purchases at €60 billion from April to December, and to adjust some parameters to ensure full implementation of the APP.

Of the 37 institutions established in Portugal that were eligible to participate in the Eurosystem's

open market operations and standing facilities, 68 per cent participated in at least one operation (Table 2.1).

The Eurosystem conducted 136 open market operations, including US dollar-denominated liquidity-providing operations, i.e. 6 per cent more than in the previous year. Institutions established in Portugal participated in 83 of those operations. Recourse to the deposit and marginal lending facilities decreased, by 32 per cent, compared with 2015, reflecting increased excess liquidity in cash management and a disincentive to use the deposit facility, given that it provides the same negative return as excess reserves.

Following the full implementation of the asset purchase programmes and the decision to expand the monthly purchases under the APP, the average balance of monetary policy portfolios on Banco de Portugal's balance sheet increased markedly in 2016, reaching €24,729 million.

Table 2.1 • Monetary policy implementation – main indicators

	2013	2014	2015	2016	Δ 2016-2015
Number of Eurosystem open market operations	288	249	128	136	6 %
Number of open market operations in which resident institutions participated	102	120	74	83	12 %
Number of uses of standing facilities by resident institutions	260	185	88	60	-32 %
Number of eligible (resident) counterparties	39	38	39	37	-5 %
Number of (resident) counterparties participating in open market operations and standing facilities	28	28	23	25	9 %
Average balance of open market operations and standing facilities (resident counterparties, EUR millions) ^(a)	49,698	39,455	26,972	24,024	-11 %
Average balance of collateral pools (resident counterparties, EUR millions)	80,303	68,596	54,913	52,938	-4 %
Average balance of monetary policy portfolios (EUR millions)	6,612	5,506	10,250	24,729	141 %

Source: Banco de Portugal.

Nota:(a) The average balance of open market operations and standing facilities corresponds to the balance of liquidity-providing operations net of the average balance of liquidity-absorbing operations.

As regards the list of eligible assets for Eurosystem credit operations, Banco de Portugal determined the eligibility of securities traded in Portuguese markets, with 34 new securities included and 1,117 changes made to the list. At the end of the year, Banco de Portugal had reported 139 securities (totalling 34,172). It also created a new credit-rating tool – the In-house Credit Assessment

System (Portuguese acronym: SIAC)¹⁷ – providing the resident financial system with an additional tool to evaluate the credit quality of collateral accepted for Eurosystem credit operations.

Turning to the information systems supporting monetary policy implementation, Banco de Portugal concluded the monetary policy operations management project, launched in 2011, which

included two new systems: (i) the Collateral Management System (Portuguese acronym: COLMS), to process monetary policy operations and the associated collateral mobilisation and management (in 2015), and (ii) the IT system for tenders (SITENDER), used to conduct open market operation tenders (in 2016). In addition to improving the interaction between Banco de Portugal and other members of the Eurosystem, these systems now support information flows with credit institutions, making it possible for Banco de Portugal to replace its market electronic transfer system (Portuguese acronym: SITEME), which had been used since 1998.

2.3. Asset management

Banco de Portugal manages two types of portfolios: (i) the ECB's foreign reserve portfolio, corresponding to the initial transfer of foreign reserve assets from Banco de Portugal, according to the ECB's capital key, and (ii) Banco de Portugal's own investment asset portfolio. Banco de Portugal's non-monetary policy holdings are constrained by the limit established in the Agreement on Net Financial Assets between the euro area national central banks and the ECB.¹⁸ In 2016, the average balance of net financial assets held by Banco de Portugal was €10,388 million.

ECB foreign reserve management

The management of the ECB's foreign reserves is decentralised, in the pursuance of an agency agreement established with the Eurosystem national central banks. On the basis of the currency specialisation model, Banco de Portugal has managed a US dollar-denominated portfolio as of early 2012 and the ECB's reserves allocated to the central bank of Lithuania since January 2015. As at 31 December 2016, the portfolio amounted to USD 1,706 million (€1,619 million).

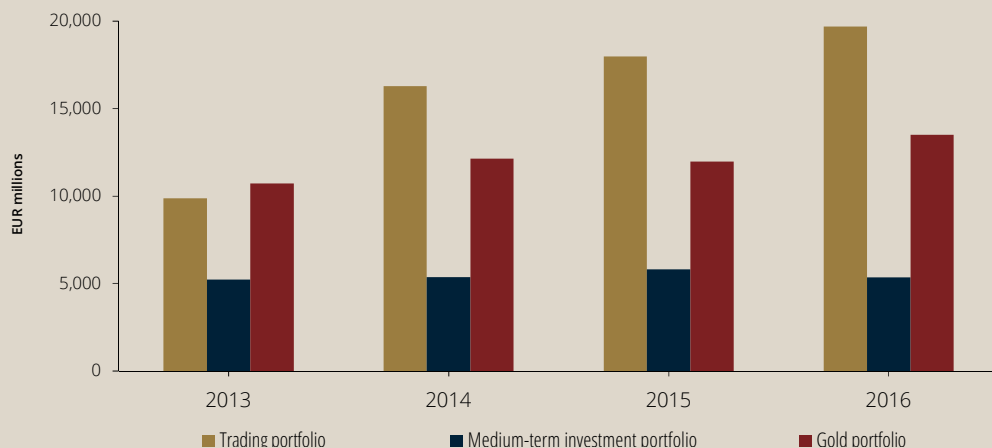
Management of Banco de Portugal's own investment assets

Banco de Portugal's own investment asset portfolio is composed of assets denominated in euro, foreign currency and gold. Assets in the trading portfolio denominated in foreign currency and a large share of euro-denominated assets are actively managed and valued at market prices. Assets in the medium-term investment portfolio are held to maturity and valued at amortised cost. Assets in gold are valued at market prices.

As at 31 December 2016, Banco de Portugal's own investment asset portfolio amounted to €38,529 million, i.e. 7.8 per cent more than in the previous year, owing to the increase in value of assets and, to a large extent, the decision to increase their volume (Chart 2.1).

Chart 2.1 •
Own investment
asset portfolio
| EUR millions

Source: Banco de Portugal.



The medium-term investment portfolio decreased by 8.2 per cent, due to the transfer of funds to the trading portfolio, to comply with the eligibility criteria of asset management standards and the prohibition of investments yielding a negative return. Consequently, the trading portfolio, at year-end prices and exchange rates, increased by 9.5 per cent, with 69.2 per cent of its funds invested in euro-denominated securities. Similarly to previous years, the quantity of gold held by Banco de Portugal remained unchanged (382.5 tonnes). In euro, the value of this gold increased by 12.8 per cent, reflecting the marked rise in US dollar-denominated gold prices and the appreciation of the US dollar against the euro.

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.¹⁹

Banco de Portugal fully complied with the targets set in its *Statistical Activity Plan for 2016*.²⁰

Microdata databases of the Central Balance Sheet Database, the Central Credit Register and the Securities Statistics Integrated System continued to be managed using an integrated approach, thus providing cross-functional support. Also, Banco de Portugal started to make Portuguese microdata available to in-house and external researchers via *BPlim* (Banco de Portugal's Microdata Research Laboratory). This made it possible to access microdata on Portugal, provided that a set of rules that safeguard the confidentiality of individual data is strictly observed. The systematic use of microdata also allowed financial institutions that act as monetary policy operation counterparties to use the In-house Credit Assessment System.

Preparations were also made for the establishment of the International Network for Exchanging Experiences on Statistical Handling of Granular Data (INEXDA),²¹ which results from the cooperation between five EU central banks (from Germany, France, Italy, United Kingdom and Portugal). This

cooperation aims to streamline access to and the exploitation of microdata for statistical purposes and other central bank activities, namely research.

Banco de Portugal completed the last of three years as chair of the European Committee of Central Balance-Sheet Data Offices (ECCBSO) and continued to chair the BACH (Bank for the Accounts of Companies Harmonized) Working Group, under the aegis of the ECCBSO, and the ESCB's Statistics Accessibility and Presentation Group.

After formally joining the Legal Entity Identifier (LEI) project in 2014, Banco de Portugal continued to foster the development in Portugal of a single and universal identifier of entities that participate in financial transactions, and sponsored the application of Instituto dos Registos e do Notariado (Institute of Records and Notaries) to become a Local Operating Unit. LEI will make it easier to identify internationally active entities and to explore databases using this identifier.

Pursuant to the Law on the National Statistical System, Banco de Portugal, as statistical authority, attended the plenary meetings of the Statistical Council, as well as the meetings of relevant sections and substructures, and chaired its Standing Section of Statistical Coordination.

2.5. Payment systems

Gross payment systems

In 2016, the Portuguese component of the real-time gross settlement system for euro payments operated by Portugal (TARGET2-PT) maintained operational availability at 100 per cent and processed 1.78 million transactions, to the amount of €2,104 billion (Chart 2.2). The 1.7 per cent increase in the volume of transactions compared with 2015 was chiefly due to a rise in inter-institutional transactions (customer and interbank transfers), which offset the decrease in the number of transactions processed by Interbolsa, owing to the Portuguese community's migration

to TARGET2-Securities (T2S). Overall, the amount settled declined by 27 per cent, to a large extent due to a 66 per cent reduction in transactions with Banco de Portugal.

Securities settlement system

In 2016, Banco de Portugal, Interbolsa and the national community successfully migrated to T2S on the scheduled dates (between 24 and 29 March 2016). Banco de Portugal set up the national community data, organised and monitored connectivity tests and participated in two trial migrations. The national community settled 226,000 transactions in T2S, to the amount of €192 billion. Compared with 2015, the volume of transactions processed by Interbolsa (settled

in TARGET2 until March, and subsequently in T2S) decreased by 6 per cent, while amounts settled rose by 29 per cent (Chart 2.3).

Retail payment systems

Banco de Portugal ensures the smooth running of the Interbank Clearing System (Portuguese acronym: SICOI), which processes retail payment operations by economic agents. In 2016, SICOI cleared approximately 2.4 billion operations, to the amount of €386 billion, which accounts for 7 and 8 per cent increases respectively compared with the previous year. The growing trend in the use of electronic payment systems continued, while the use of cheques decreased markedly. Turning to electronic payments, there was a

Chart 2.2 •
Overall
transactions
through
TARGET2-PT

| Volume in thousands
and value in € billions

Source: Banco de Portugal.

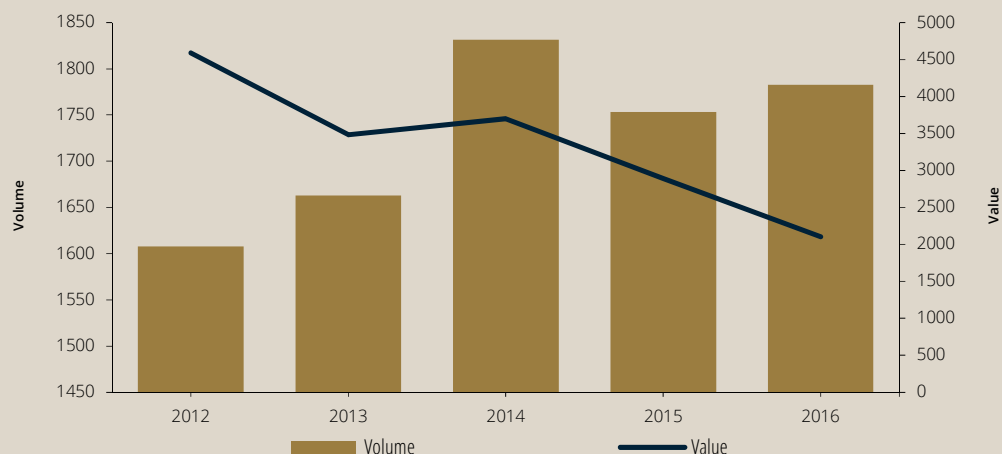
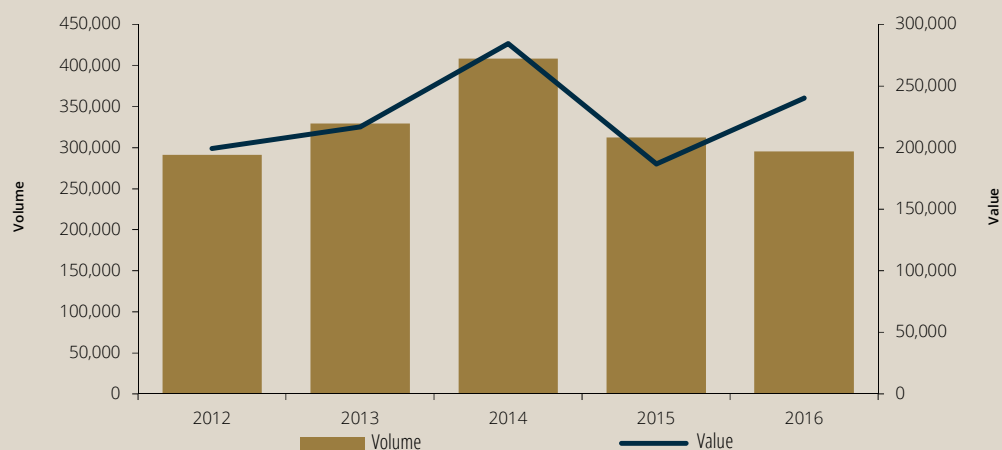


Chart 2.3 •
Settlement of
securities by
the national
community (a)

| Volume in units
and value in € billions

Source: Banco de Portugal.
(a) Figures for the period between 2012 and March 2016 refer to Interbolsa operations settled in TARGET2.



considerable upturn in direct debits (Charts 2.4 and 2.5).

The main innovations introduced in SICOI were: (i) in direct debits, the reactivation of the function that allows creditor companies to receive, in book-entry form, direct debit mandates granted by debtors via Multibanco ATMs and banks' websites; (ii) in mobile payments, the growing use of the MB Way app, which was launched in 2015, to make purchases or immediate bank transfers using a smartphone/tablet.

Banco de Portugal contributed to the work on the Directive on payment services in the internal market, more specifically as regards the security of payments and communication between payment service providers.²²

Restrictions on the use of cheques

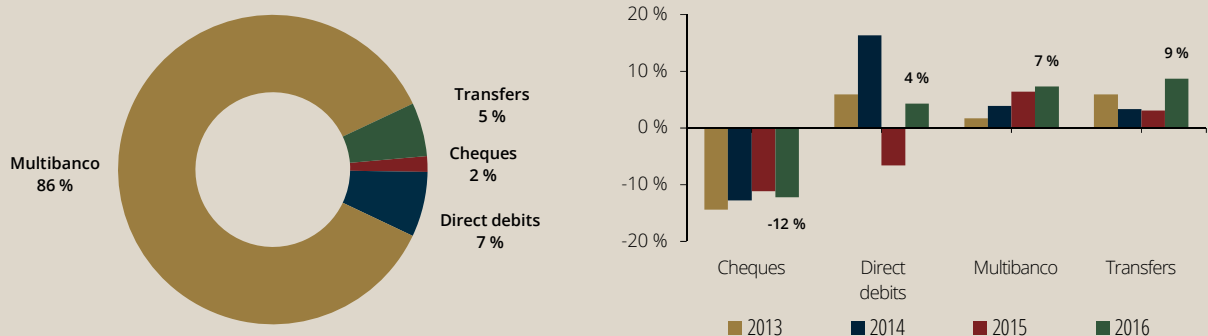
In order to prevent the unlawful use of cheques, Banco de Portugal manages and publishes a List of Cheque Defaulters across the banking system. In 2016, 11,786 entities were added to the list, while 14,979 were removed, following a decision of Banco de Portugal or upon expiry of the applicable legal period. At the end of the year, the list included 19,931 entities.

2.6. Cash issuance

Banknote production

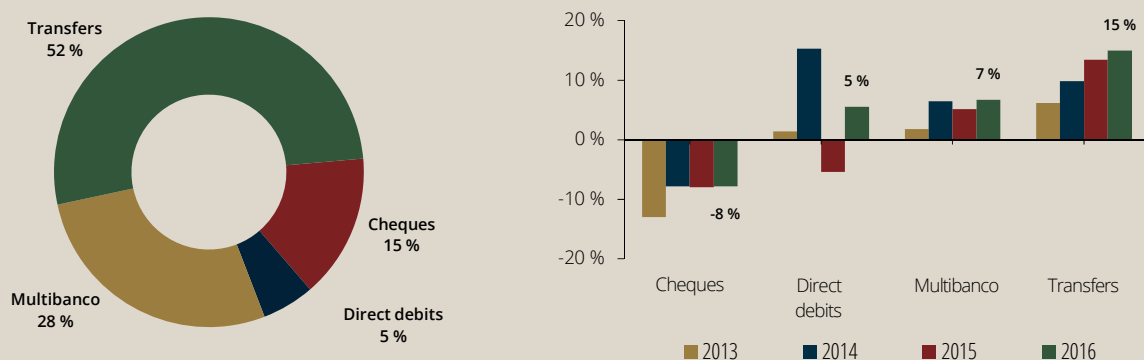
At national level, Banco de Portugal is entrusted with the production of banknotes. Since the euro was introduced, the production tender

Chart 2.4 • Relative weight of payment instruments in SICOI in 2016 and year-on-year growth rates
| Volume of transactions



Source: Banco de Portugal.

Chart 2.5 • Relative weight of payment instruments in SICOI in 2016 and year-on-year growth rates
| Value of transactions



Source: Banco de Portugal.

for Portugal has been awarded to Valora S. A., a printing works fully owned by Banco de Portugal. In 2016, Banco de Portugal made considerable efforts to interact with other national central banks, the ECB and private printing works to capitalise on Valora's production capacity. As a result, for the first time since being fully owned by Banco de Portugal, Valora produced banknotes for shipment outside the euro area.

At the same time, the Europa series €20 banknote – the most commonly used denomination in Portugal – was introduced, and preparations were started for the introduction of the €50 banknote (also of the Europa series), with various campaigns to train and inform both the public and professional cash handlers. Banco de Portugal also took action to help banknote equipment manufacturers adapt their sorting and distribution machines to the new banknote to ensure that their machines meet the standards for checking the new banknote for authenticity and fitness and, for that purpose, organised two seminars (in Porto and Lisbon).

2016 was marked by the ECB's announcement, in May, of the decision to stop the production of the €500 banknote and to exclude it from the Europa series. Behind this decision were concerns that this banknote could facilitate illicit activities. The issuance of the €500 banknote will be stopped around the end of 2018, close to the planned introduction of the €100 and €200 banknotes of the Europa series.

The €500 banknote will remain legal tender for a long period of time and can therefore continue to be used as a means of payment and store of value. The date when this denomination ceases will be announced well in advance. The €500 banknote, like the other denominations of euro banknotes, will retain its value and can be exchanged at the Eurosystem national central banks for an unlimited period of time.

Banknote and coin sorting

In Portugal, cash sorting complies with the criteria set for the euro area and is conducted by Banco de

Portugal and duly authorised market operators. In 2016, new banknote sorting machines, which are similar to those used in the Carregado Complex, were installed in the Porto Branch. With the new machines, the proceedings in two main cash handling premises of Banco de Portugal can be streamlined, thus making it easier to check banknotes in circulation for authenticity and fitness. Banco de Portugal processed 627.5 million banknotes received from the public and credit institutions, withdrawing 7,757 counterfeit banknotes from circulation (approximately 1 per cent of total counterfeits seized in the euro area). Counterfeiters continued to target preferentially the €20 and €50 banknotes.

A module has been added to the interface software used by cash-in-transit companies and credit institutions for the integrated management of withdrawals and deposits (Portuguese acronym: GOLD). This module is used to record surplus stocks of circulation and collector coins and provides all GOLD participants with an opportunity to report and consult surplus stocks across all coin packaging types used within the system, by credit institution, location and cash-in-transit company. This meets the need identified by credit institutions and cash-in-transit companies to dispose of coin surplus stocks without the need for central bank intermediation. It also fosters a balance between supply and demand and streamlines the exchange process among agents.

2.7. International representation and cooperation

In 2016 the most pressing issues on the international agenda were the assessment and discussion of the outlook and risks to world economy and policy options when fostering balanced, sustainable and inclusive growth.

Banco de Portugal's international representation is chiefly linked to its participation in the Eurosystem/ESCB, the Banking Union and other EU institutions, particularly EBA (Figure 2.1). It also participates in other international bodies, most notably the International Monetary Fund (IMF), the Bank for

International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD). At the end of 2016 around 360 staff members participated in over 460 groups, which reflects the growing trend of the past decade (Chart 2.6). Banco de Portugal cooperates with national central banks in emerging and developing countries, in particular its counterparts in Portuguese-speaking countries.

At Eurosystem/ESCB level, Banco de Portugal took part in monetary policy decisions, most notably

those linked to the continuation of the asset purchase programme, and the discussion on the main issues shaping the international agenda.

As regards the Banking Union, 2016 was marked by the launch of the Single Resolution Board. The Single Supervisory Mechanism concluded its second year of operation and released the overall results for the Supervisory Review and Evaluation Process (SREP) in 2016. The high level of non-performing loans in several European countries was widely discussed across international fora.

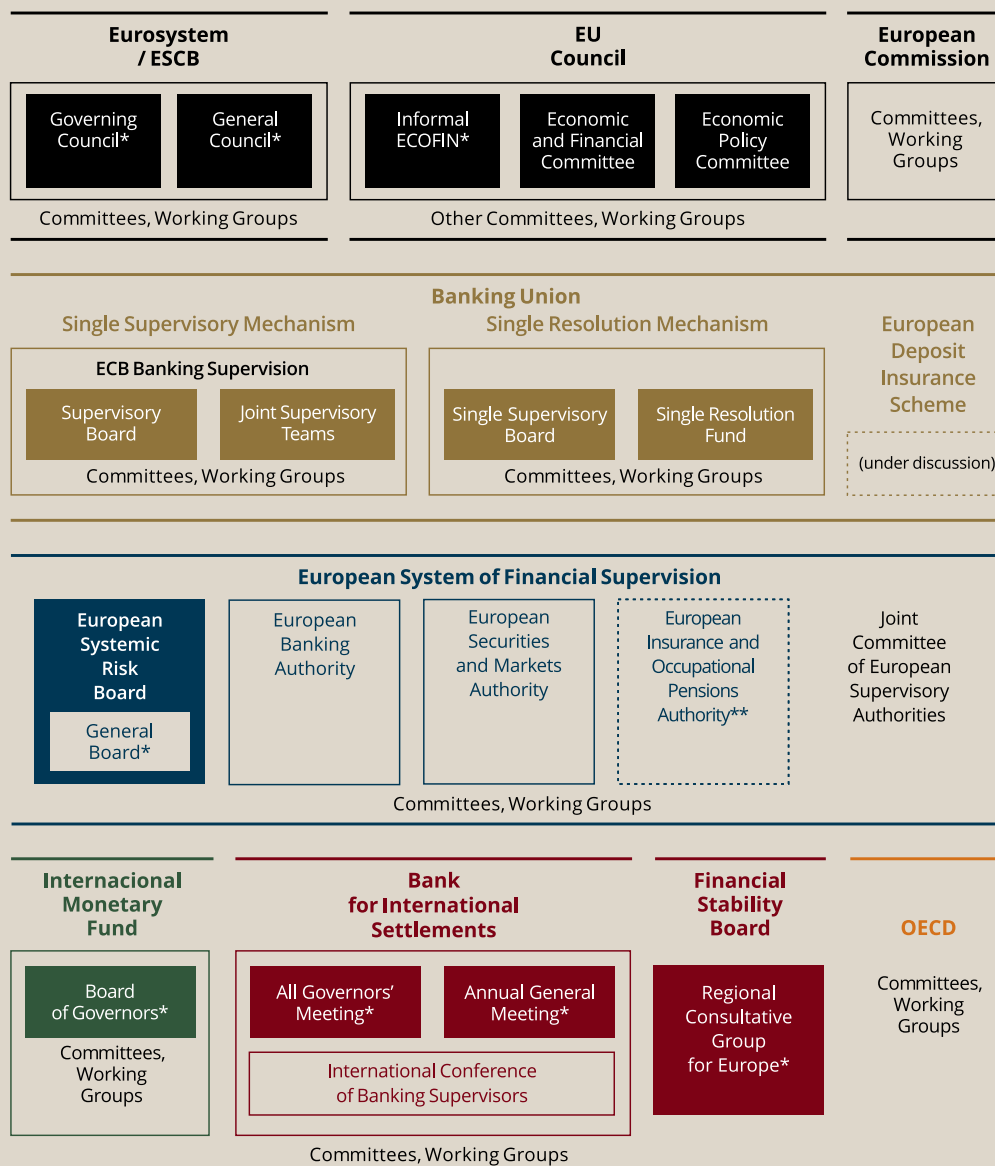


Figura 2.1 •
Main international
bodies –
Representation
of Banco
de Portugal
and the Governor

Source: Banco de Portugal.
* The Governor's
representation is underlined.
** Banco de Portugal
does not participate
in any specific group.

Turning to the IMF, following the enactment of the 2010 reform of members' quotas and governance, Banco de Portugal paid Portugal's quota increase in February 2016. There were also discussions on the fitness of the global financial safety network and the IMF's role, more specifically its financial capacity and the effectiveness of its financing instruments. The decision on the New Arrangements to Borrow, in which Banco de Portugal is involved, was renewed until November 2022, and, in October, the Chinese renminbi was added to the Special Drawing Rights basket. The annual consultation under Article IV of the IMF Articles of Agreement was conducted in Portugal, as well as the third, fourth and fifth post-EFAP (Economic and Financial Assistance Programme) monitoring missions, together with the post-programme surveillance missions by European institutions.

Bimonthly meetings at BIS continued to be a valuable discussion forum for central bank governors. As is usually the case, the Annual General Meeting was a key opportunity to take stock, which was particularly important in 2016 given the efforts towards finalising the Basel III regulatory reforms.

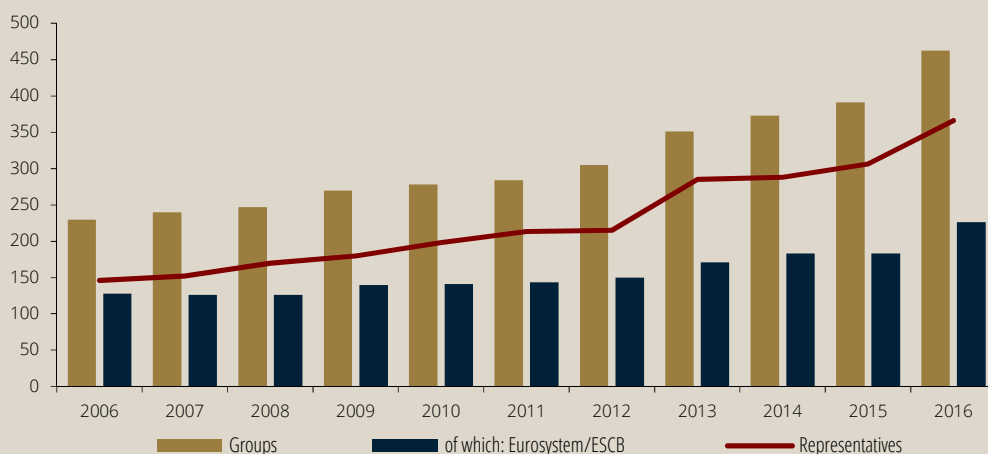
With regard to cooperation activities, Banco de Portugal was involved in 129 cooperation initiatives with its counterparts in Portuguese-speaking countries as well as other emerging and

developing countries, which accounts for a nearly 25 per cent increase compared with 2015. Banco de Portugal participates in high-level events, notably the Meeting of Central Bank Governors of the Center for Latin American Monetary Studies (CEMLA), which was hosted in Lisbon, and the 26th Lisbon Meeting. Following the Lisbon Meeting, principles and recommendations were adopted governing cooperation between central banks of Portuguese-speaking countries, with the purpose of paving the way for cooperation to face new challenges, reflecting the common experience acquired over more than 25 years.

There are two main aspects to Banco de Portugal's cooperation. The first comprises several types of action – technical assistance, multilateral projects, internships, visits, meetings, seminars, courses, conferences and scholarships – among central banks, particularly from Portuguese-speaking countries. In 2016, these actions chiefly targeted statistics, supervision and financial stability, auditing, risk management and legal issues.²³ The second, focusing on macroeconomic monitoring and advice, covers Banco de Portugal's participation 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 •
Developments in
the international
representation of
Banco de Portugal
| 2006-2016

Source: Banco de Portugal.



3. Organisation and resource management

3.1. Governance model

Banco de Portugal has reinforced its organisational and internal governance model so as to incorporate the best practice in governance and management. In 2016 new Principles of Organisational Structure (*Princípios de Estrutura Orgânica*) entered into force, with the purpose of simplifying and streamlining Banco de Portugal's organisational structure, by applying less hierarchical and more flexible models. This measure facilitated the adaptation of Banco de Portugal's organisational model to its new tasks, powers and circumstances.

The departments' annual appraisal model was reviewed, and *objectives and commitments dashboards* were set out, based on compliance with qualitative and quantitative objectives (including financial, HR and specific KPI targets).

The ethics and conduct regime applicable to Banco de Portugal's staff has been enhanced, in line with the ethical principles approved by the ECB for the Eurosystem and the Single Supervisory Mechanism. For that, the Codes of Conduct have been comprehensively reviewed and the *Regulation of the Ethics Committee and of the General Duties of Conduct of the Employees of Banco de Portugal*²⁴ has been approved. The Compliance Office and the Ethics Committee ensure implementation of the regimes set forth in the aforementioned Regulation and Codes, as well as other responsibilities under the internal governance model (Box 3).

The *Strategic Plan for 2017-2020*²⁵ was drafted based on diagnostic exercises and specific reflections on the challenges facing Banco de Portugal. The priorities and initiatives identified result from a very close interaction with the Board of Directors, joining the top down and bottom up approaches (Box 2). To develop the *Strategic Plan for 2017-2020*, Banco de Portugal's outsourcing strategy and model were set out for the next five

years, as well as the strategy for the information systems and technologies (*Digital Bank 2020* programme).

Structural and functional adjustments were also made in the Information Systems and Technology, Banking Conduct Supervision, Legal Enforcement, and Issue and Treasury Departments.

3.2. Risk management

In 2016 Banco de Portugal pursued a policy of integrated management of financial risks – mainly associated with asset management and participation in Eurosystem monetary policy – and operational risks, resulting from the activities carried out in its different lines of action (Box 3).

The risk of asset management operations was controlled by imposing eligibility criteria on the operations, instruments and institutions and setting maximum exposure limits. These criteria and limits were established taking into account the credit, exchange rate and interest rate risks of the assets and operations.

The risks of monetary policy operations were also controlled by applying eligibility criteria and limits approved within the framework of the Eurosystem. Banco de Portugal also monitored and analysed the performance of the internal ratings-based (IRB) systems used by credit institutions accepted as counterparties for monetary policy operations, as well as the new in-house credit assessment system made available by Banco de Portugal (Chapter 2).

Overall financial risk developments were monitored through the calculation of various indicators, such as value at risk and expected shortfall, complemented by the monitoring of risk coverage and the so-called financial buffers that are part of Banco de Portugal's balance sheet (provisions, reserves and profits). Banco de Portugal started a project to create a structured data repository,

incorporating all financial risk information. To support risk management, it conducted a series of medium-term projection exercises for the major financial variables affecting its accounts, including stress testing.

In the operational risk area, Banco de Portugal consolidated the incident analysis and risk quantification processes, and reinforced identification of the main risks to its activity. The results suggested that the risk levels are compatible with the degree of tolerance established. A new governance model for business continuity management was approved.

3.3. Internal audit

In 2016 internal audit carried out its activity taking into consideration: (i) the effectiveness

and efficiency of operations; (ii) the reliability, integrity and availability of financial, operational and management information; (iii) compliance with the law, regulations, contracts and other applicable rules; and (iv) the safeguarding and security of Banco de Portugal's assets.

Audit and consultancy focused on Banco de Portugal's strategic risks and resulted in recommendations for improving the organisation, processes and information technologies. A process of standardisation of the life cycle of audit projects and activity automation was initiated, through development of an audit management tool. 36 audits were carried out, 30 of which were exclusively internal to Portugal and six related to systems and procedures that are common or shared with the Eurosystem/ESCB (Table 3.1).

Table 3.1 • Audits

	Internal	ESCB	Total
Investigations directly supporting the Boards	2	–	2
Autonomous funds	4	–	4
Supervision	1	1	2
Monetary policy and reserve management	3	2	5
Payments systems and means	1	-	1
Economic research and statistics	2	-	2
Issue and treasury	4	1	5
Control activities	6	1	7
Support activities	6	1	7
Third parties	1	-	1
Total	30	6	36

Source: Banco de Portugal.

3.4. Information and communication systems

In 2016 Banco de Portugal reorganised the department responsible for information systems and technology (IS/IT), with the purpose of improving the service provided to the internal and external users of the technological systems and platforms it provides (including over 4,500

financial institution users) and preparing the institution for new IS/IT sourcing models.

In the context of the *Digital Bank 2020* programme, a *Go to Cloud* strategy was set out, envisaging the adoption of cloud services to facilitate the in-house response to new requests, and decisive steps were taken in the development of Banco de Portugal's data centres. Against this background,

the new institutional website was made available on a public cloud (Chapter 4).

The implementation of systems for the integrated management of supervisory procedures, the exploitation of supervisory information and the submission of the registration process continued. There was also progress in projects relating to the repayment of deposits and real estate market information. The implementation of the monetary policy operations management system was concluded, with the launch of the Tender system and the Credit claims handling system. The construction of an in-house solution for linking to the TARGET2 Securities platform was also concluded (Chapter 2).

In 2016 work continued on the future statistics website of Banco de Portugal, a study was concluded on the redesign of the centralised credit register system to meet the new requirements associated with the AnaCredit (Analytical Credit Datasets) project within the Eurosystem framework. The in-house credit assessment system was implemented and the Microdata Research Laboratory continued to be developed (Chapters 1 and 2).

In the context of the development of the Information Management System in the SSM, Banco de Portugal

carried out architecture consulting initiatives for the analytical solution and monitoring of implementation, based on the in-house solution developed to exploit supervisory information.

In terms of security, progress was made in the implementation of internal and external cybersecurity means and processes, namely within the scope of the ESCB.

3.5. Human resources management

Staff developments

At the end of 2016 the number of employees of Banco de Portugal amounted to 1,797 (Table 3.2), of which 1,718 were active (79 were on secondment, public interest assignment or unpaid leave). The limit set out by the Board of Directors of 1,750 active staff members for the end of 2016 was thus observed. The reinforcement of staff in functions related to supervision and financial stability continued, resulting from the wide-ranging tasks assigned to Banco de Portugal in these fields. Over the course of the year 112 staff members were recruited, against 92 who left the Bank, of which 62 retired and 30 were dismissed. In addition, there were 47 internships.

Table 3.2 • Staff developments

	2009	2010	2011	2012	2013	2014	2015	2016
Total staff	1,713	1,648	1,689	1,682	1,733	1,777	1,777	1,797
Active (a)	1,673	1,621	1,639	1,628	1,676	1,685	1,696	1,718
Supervisory tasks (b)	225	237	263	270	352	378	409	431
On unpaid leave/seconded	40	27	50	54	57	92	81	79

Source: Banco de Portugal.

Notes: (a) Active staff members at Banco de Portugal (excluding those on unpaid leave and public interest assignment). (b) Active staff members in the fields of prudential supervision, banking conduct supervision, financial stability, legal enforcement and resolution.

The gender balance trend was maintained, with women accounting for 49.2 per cent of staff (48.6 per cent in 2015), and the gradual rejuvenation of the staff continued, whose average age declined to 43.8 years (44.1 in

2015), as a reflection of the renewal of Banco de Portugal's staff (Table 3.3).

A new career model entered into force (for streamlining and standardisation purposes), with an impact on the distribution of staff members by

function. In the current model the number of staff members falling into the new professional staff category increased (70 per cent of the total). In

addition, 18 per cent of staff members performed management tasks (Table 3.4).

Table 3.3 • Staff developments: gender, movements and age groups

		2013	2014	2015	2016	Δ 2016-2015
Gender	Male	894	911	913	913	0.0 %
	Female	839	866	864	884	2.3 %
	Total	1,733	1,777	1,777	1,797	1.1 %
Movements	Recruitments	126	101	109	112	2.8 %
	Retirements	69	48	70	62	-11.4 %
	Dismissals	5	13	37	30	-18.9 %
Age group	<=25	64	64	65	72	10.8 %
	[26;30]	246	264	257	243	-5.4 %
	[31;35]	223	252	289	327	13.1 %
	[36;40]	154	166	178	203	14.0 %
	[41;45]	139	142	142	150	5.6 %
	[46;50]	122	131	134	129	-3.7 %
	[51;55]	362	263	180	159	-11.7 %
	[56;60]	337	396	428	389	-9.1 %
	[61;65]	81	96	94	116	23.4 %
	>=66	5	3	10	9	-10.0 %

Source: Banco de Portugal.

Table 3.4 • Staff: breakdown by function

	Male	Female	Total	%
Senior management	37	15	52	3 %
Middle management	140	122	262	15 %
Professional staff	570	686	1,256	70 %
Technical-administrative staff and support services	126	22	148	8 %
Seconded/on unpaid leave	40	39	79	4 %
Total	913	884	1,797	100 %

Source: Banco de Portugal.

Compensation policy

A simplified wage structure was implemented for staff who started to work in the banking sector after March 2009 and who are members of the general social security scheme.

Following a six-year pay freeze, wage scales were updated by 0.75 per cent, in accordance with the banking sector's collective bargaining instruments.

Career management

The *Banco de Portugal Academy* (*Academia do Banco de Portugal*) was created and includes courses for staff training and development (Table 3.5) as well as initiatives in partnership with external entities for the updating of knowledge and reinforcement of individual and group skills. Within this scope, the *Advanced Leadership Programme* was started,

addressed to Banco de Portugal's middle management.

The *Conhecer para Desenvolver* (Knowledge for Development) programme was launched and will be one of the priorities for human resources (HR) management in the next few years. It aims to map progressively each employee's skills and boost their potential through professional development plans, in terms of either technical specialisation or team management and leadership. These plans are integrated into HR management, career

management and the plans developed by *Banco de Portugal Academy*.

The first Banco de Portugal Open Day was held with the purpose of promoting Banco de Portugal's image and awareness in schools, with the presence of 100 final-year students from the main Lisbon Economics and Management Schools. A profile on the LinkedIn platform has also made it possible to promote contents related to Banco de Portugal's activity, publicise job opportunities and intensify networking.

Table 3.5 • Vocational training

	2013	2014	2015	2016	Δ 2016-2015
Participants	1685	1708	1641	1733	5,6 %
Hours	57 799	61 706	60 025	59 793	-0,4 %
Participation rate*	97,2 %	96,2 %	92,3 %	96,4 %	4,4 %

Source: Banco de Portugal.

* The participation rate corresponds to the percentage of staff of Banco de Portugal who have participated in at least one vocational training course.

3.6. Budget and building management

Pension funds

As at 31 December 2016 the assets of the Pension Fund – Defined-Benefit Plan – a closed-end pension fund covering staff who started working in the banking sector before March 2009 and the health benefits plan, which covers all staff – amounted to €1,818.6 million invested in euro area bonds and liquidity (85.3 per cent), equity (5.9 per cent) and real estate (8.1 per cent). The remaining 0.7 per cent concerned net claims on third parties. In addition, the Fund had an exposure to euro area bond futures and equity futures corresponding respectively to -14.0 per cent and +7.7 per cent of the asset portfolio's market value. On the same date, the overall funding level of the Pension Fund – Defined-Benefit Plan was 103.2 per cent, i.e. above the minimum level established in Notice of Banco de Portugal No 12/2001 (98.0 per cent). In 2016 the Pension Fund – Defined-Benefit Plan had a profitability of 8.5 per cent.

At the end of 2016 the Pension Fund – Defined-Contribution Plan – a supplementary pension plan that is voluntary for staff who started to work in the banking sector after March 2009 – had 664 participants, as the majority of new staff members have opted for this fund. It is composed of three investment portfolios: portfolio 1, suited for younger participants, privileges exposure to equity and interest rate instruments with longer maturities; portfolio 2, recommended to participants at an intermediate stage of their career, which has a lower exposure to equity and privileges shorter average maturities in interest rate instruments; and portfolio 3, suited for participants at the end of their career, which is composed of short-term interest rate instruments, with a residual weight in equity. As at 31 December portfolios 1, 2 and 3 amounted to €11.2 million, €11.2 million and €3.1 million respectively. In 2016 the Fund's investment policy was revised, translating into more flexible limits applicable to investments in equity, corporate debt and debt of issuers of lower creditworthiness. The composition of investment portfolios and

their profitability reflected these changes. At the end of the year the exposure of portfolios 1, 2 and 3 to the stock market was 31.2 per cent, 20.8 per cent and 3.7 per cent of the respective total market value. In 2016 the Pension Fund – Defined-Contribution Plan reached a profitability of 1.2 per cent.

Budget management

Execution of the medium and long-term projection of financial statements for the 2014-16 period was concluded, and the exercise for the 2017-2020 period was conducted. For this purpose, the main assumptions to be considered in the new baseline scenario were reviewed and sensitivity analyses were made to the main determinants in the income and risk projection of Banco de Portugal's balance sheet. The outcome is the new strategic benchmark for decision-making in the budgetary exercises for the next four-year period.

Building management

The drafting was completed of the functional programme and the comparative study on the maintenance, operation and safety costs of the four Lisbon buildings (Portugal Building, Disaster Recovery Centre, Castilho and Matinha) and of the office building to be constructed. Jointly with Sociedade Gestora dos Fundos de Pensões do Banco de Portugal (Banco de Portugal Pension Funds Management Company), the process for the location, selection and acquisition of the real estate for installing the new building was started.

The public tender to supply electricity to all Banco de Portugal's facilities on the mainland was concluded and implementation of the ISO 9001-2015 Quality Management System was started at the Carregado Complex.

The maintenance costs of the main Lisbon buildings declined by around 6 per cent.

BOX 3 | The risk management and compliance functions of Banco de Portugal

In the past few years Banco de Portugal has reinforced its governance model, organisation and processes, reinforcing the support functions to internal governance and the management control mechanisms, notably in terms of risk and compliance. The consolidation and deepening of these transformations are instrumental for developing a 'risk management policy aligned with best practice', as expressed in the *Strategic Plan for 2017-2020* (Box 2).

In terms of **internal organisational structure**, the changes to the risk management and control model were a result of the acknowledgment of the strategic importance of a global and integrated approach to risk. Hence, in 2012 the **Risk Management Department (DGR)** and the **Committee for Risk and Internal Control (CRCI)** were created. The latter saw its powers reinforced in 2016 and its name was changed to **Risk Committee (CR)**.

The new department centralised functions that were previously scattered, covering identification, assessment, control and management of the various financial and operational risks associated with Banco de Portugal's activity, ensuring that these remain at levels consistent with the risk profile and degree of risk tolerance set out by the Board of Directors. Hence, there is a clear distinction of powers between the structures responsible for the business functions and the unit entrusted with quantifying and integrating the financial risks stemming from the different activities – the DGR.

The CRCI/CR is a forum for dialogue and reflection between the Board of Directors and senior managers on issues related to Banco de Portugal's business risk management and control. The Committee has taken on tasks in the field of own investment asset management (e.g. guidelines and strategic benchmarking) and in aspects related to operational risk, cybersecurity and business continuity management.

A **Compliance Office** and an **Ethics Committee** were also set up. The former, incorporated in the management bodies' support services, was created in 2015 as an autonomous functional unit tasked with 'implementing and promoting an internal organisational culture based on high ethical standards suitable for controlling and preventing compliance risk, understood as the risk of financial losses or negative impacts on Banco de Portugal's image, reputation and credibility, resulting from attitudes or behaviours not complying with the ethical and conduct rules defined internally'. The **Ethics Committee**, created in 2016, completed the functional architecture sustaining the new ethics and conduct regime and is responsible for monitoring this regime with the Board of Directors. The two structures are complementary and work in close collaboration, materialising the Board's orientation according to which the institution's ethics culture should be established in a horizontal and comprehensive manner, involving all dimensions of Banco de Portugal's activity.

At the regulatory level, this new in-house culture took shape with the approval in 2016 of a series of instruments setting up rules and guidelines to be observed by Banco de Portugal's staff and members of the management bodies in the performance of their tasks: the *Regulation of the Ethics Committee and of the General Duties of Conduct of the Employees of Banco de Portugal*; the *Code of Conduct of the Members of the Board of Directors of Banco de Portugal*; the *Code of Conduct for the Employees of Banco de Portugal*; and the *Code of Conduct of the Members of the Audit Board of Banco de Portugal*. These developments are part of the strategy set out by the European Central Bank (ECB) to 'strengthen the ethics rules in place and further enhance the corporate governance'²⁶, not only of the ECB itself, but also of the institutions composing the European System of Central Banks, the Eurosystem and the Single Supervisory Mechanism.

The greatest challenge of the Compliance Office is to instil in Banco de Portugal's staff members a perception of the importance of a compliance culture, which involves going beyond strict observance of the law and taking responsibility for valuing Banco de Portugal's public interest mission, guiding the performance of their tasks by the principles of loyalty, impartiality, independence and reserve – 'Go beyond what is legally binding and embrace broader standards of integrity and ethical conduct'.²⁷

In parallel with structural and organisational changes, new **risk assessment tools, methods and techniques** were developed, and Banco de Portugal's **international activity** started to play a more relevant role in the fields of risk management and compliance, especially within the Eurosystem.

Within the scope of financial risk, Banco de Portugal ensured that its risk analysis was consistent with that produced in the Eurosystem, adopted an integrated view of the different risk categories and sources, expanded the financial statements' projection exercises (adopting a forward-looking view), and reinforced the monitoring (namely through inspections) of the banks' internal ratings-based systems. In 2016 it released the new in-house credit assessment system of Banco de Portugal (SIAC) in Eurosystem credit operations.²⁸

As regards non-financial risk, Banco de Portugal focused on identifying, assessing and monitoring risks associated with persons, processes, systems

and external events important to its activity. In the past few years, the system for recording incidents has established itself as a key part of operational risk management, facilitated by the introduction of an electronic form (in 2014), greater interaction with business areas and the dissemination among Banco de Portugal's employees of the advantages of a 'risk management culture'. There was also greater involvement of operational risk management in decision-making.

Furthering the business continuity policy introduced in 2003, in 2016 a new business continuity management model was implemented, strengthening its holistic design. The new model aims to ensure the institution's resilience, through timely and effective response to real or potential events, with an impact on its regular functioning, safeguarding its assets, reputation and critical activities.

The convergence of Banco de Portugal's risk management and control architecture towards the practices adopted by renowned institutions relying on the so-called 'three lines of defence' model²⁹ resulted in a clear separation between the business and risk assessment functions. The reinforcement of independence, the promotion of specialisation and the consolidation of the cross-cutting approach to risk assessment facilitate the monitoring of Banco de Portugal's overall risk by the Risk Management Department and the Risk Committee, in liaison with the Audit Department, the Compliance Office and the Audit Board.

4. Openness to society

Banco de Portugal provides the public all relevant information on its activity and offers households, enterprises and the financial community a number of services related to its mission and functions. It also maintains a policy of social and environmental responsibility. The following sections describe Banco de Portugal's activities in 2016 in the achievement of this strategic guideline of openness to society.

4.1. Communication

In 2016 Banco de Portugal launched the new institutional website, a key step in the communication strategy set out in 2015. With a contemporary design and simpler browsing and language, the new website allows Banco de Portugal to communicate in a more diversified and pro-active way, adjusted to needs of the site's target users. Since it was launched on 19 November, up to the end of the year, the new website recorded a daily average of 41,210 pageviews.

Banco de Portugal released its first institutional video, reflecting a focus on the diversification of communication formats. Taking advantage of the new institutional website's functionalities, the projections for the Portuguese economy for the 2016-19 period in the December issue of the *Economic Bulletin* were also released on video.

In 2016 a substantial part of the communication effort continued, however, to focus on clarifying issues related to the resolution measures applied to Banco Espírito Santo, S. A. (BES) and Banif – Banco Internacional do Funchal, S. A., as well as Novo Banco's sale process. Twelve press releases were published within this scope.

To support the Parliamentary Committee of Inquiry into the process leading up to the sale and resolution of Banif, running from February to October, Banco de Portugal responded to requests from the Assembly of the Republic through letters and various documents.

After releasing in 2015 the recommendations addressed to it by two independent working groups, Banco de Portugal released in 2016 another contribution to the discussion it promoted, as required by the Governor, in the wake of the financial crisis and the process leading up to the application of the resolution measure to BES: the *White Paper on Regulation and Supervision of the Financial Sector*. The White Paper makes a series of recommendations for improvement of the institutional and regulatory framework and the supervisory model.

Information for bank customers

Banco de Portugal released information on the Bank Customer Website on precautions to be taken in online banking and payment transactions and on the characteristics of payment cards and choosing the payment brand in point-of-sale terminals.

It also published information on the Bank Customer Website on retail banking markets' framework and developments, especially the new consumer rights in alternative dispute resolution, the mandatory use of the IBAN in credit transfers and direct debits, and the requirements that institutions should observe when creating and marketing retail banking products. Banco de Portugal also announced the main international supervisory initiatives of retail banking markets, including those of the European Banking Authority, the Joint Committee of the European Supervisory Authorities, the European Commission, and the International Financial Consumer Protection Organisation. The average number of pageviews of the Bank Customer Website rose by 8 per cent from the previous year. On average, the website was visited 8,823 times a day and the most viewed pages were the credit and services to the public areas (Chart 4.1).

With the support of its regional network, Banco de Portugal organised 350 financial training courses, which gathered 12,122 participants (150 courses

and 3,622 participants more than in 2015). It also released new classes and materials in the 'Todos Contam' (Everybody Counts) e-learning platform.

Banco de Portugal was also significantly involved in the initiatives of the Portuguese National Plan for Financial Education, in partnership with the other financial supervisors (Chapter 1).

Promoting public understanding of the Portuguese economy and the Bank's activity

Banco de Portugal publishes regularly a range of publications covering its different operating areas and contributing to public understanding of the Portuguese economy (Table 4.1). A detailed analysis of the Portuguese economy and the release of macroeconomic projections are found in the *Economic Bulletin* (Chapter 2).

In 2016 Banco de Portugal launched a new publication, the *Report on Cash Issuance*, to disseminate its activities in the production, circulation and fitness control of banknotes and coins.

Banco de Portugal also published the third edition of the study *The social costs of retail payment instruments in Portugal* and the results of the second edition of the *Household Finance and Consumption Survey*, undertaken with Statistics Portugal within the scope of the European project with the same name.

Banco de Portugal released new statistics in the *Statistical Bulletin* and *BPstat* in six domains: i) economic and financial indicators on private non-financial corporations; ii) loans granted by the resident financial sector; iii) activity of investment funds in Portugal and the euro area; iv) international banking statistics on a consolidated basis; v) impact on the deficit and on debt of measures to support the financial system; and vi) financial accounts on assets and liabilities of the various economic sectors by counterparty sector. Presentations were organised for journalists on the new statistical information on loans granted by the financial sector and on national financial accounts. In addition, three *Supplements to the Statistical Bulletin* were published, with methodological notes, analyses on the statistical information and articles presented in national and international fora. In 2016, 136 statistical press releases were issued (14 in 2015), regularly accompanying the publication of statistics, and the deadlines for three statistical domains were brought forward (national financial accounts, statistics on the non-financial corporations of the central balance-sheet database, and balance of payments and international investment position statistics). Over the year Banco de Portugal published over 328,000 statistical series on *BPstat* and 7,000 in the *Statistical Bulletin*. *BPstat* had around 2.3 million pageviews (Chart 4.2).

Chart 4.1 •
Structure of Bank
Customer Website
pageviews,
by area | 2016

Source: Banco de Portugal.

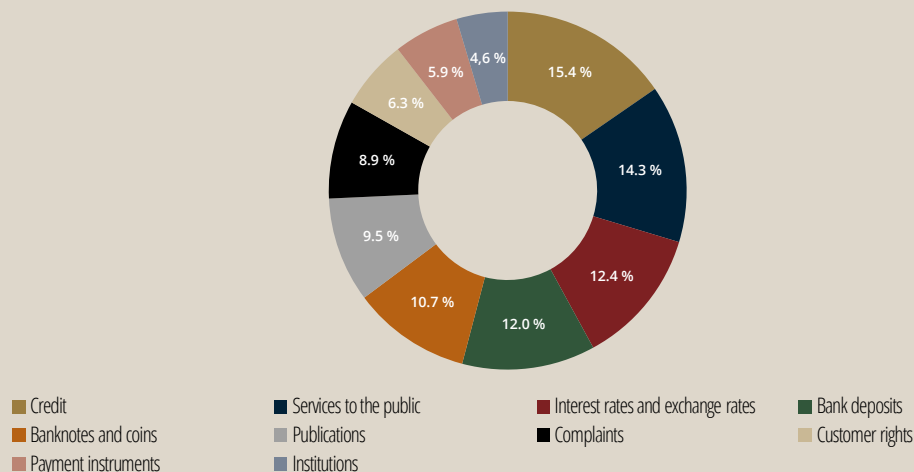


Table 4.1 • Regular publications | 2016

Publication	Objective	Frequency	Language*
<i>Annual Report</i>	Describes Banco de Portugal's activities and financial statements	Annual	PT and EN
<i>Boletim Oficial (Official Bulletin)</i>	Comprises all legal acts produced by Banco de Portugal in its regulatory capacity	Monthly	PT
<i>Economic Bulletin</i>	Provides a detailed analysis of the Portuguese economy and releases macroeconomic projections	Quarterly	PT and EN
<i>Banco de Portugal Economic Studies</i>	Publishes theoretical and applied studies prepared by Banco de Portugal's economists, frequently co-written by external researchers	Quarterly	PT and EN
<i>Coincident Indicators</i>	Publishes the coincident indicators for economic activity and private consumption in Portugal	Monthly	PT and EN
<i>Spillovers Newsletter</i>	Publishes research, economic analysis and economic events promoted by Banco de Portugal	Semi-annual	EN
<i>Bank Lending Survey</i>	Presents detailed results for Portugal taken from the Eurosystem's survey	Quarterly	PT and EN
<i>Financial Stability Review</i>	Assesses emerging risks in the Portuguese markets and financial system	Semi-annual	PT and EN
<i>Portuguese Banking System: latest developments</i>	Reports developments in 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>Banking Conduct Supervision Report</i>	Provides information on the regulation and audit of retail banking markets, as well as on Banco de Portugal's initiatives in terms of financial information and training	Annual	PT Note: English version of the executive summary and selected chapters only.
<i>Summary Report on Banking Conduct Supervision</i>	Provides summary information on Banco de Portugal's retail banking markets supervision in the first half of each year. Published between issues of the Banking Conduct Supervision Report	Annual	PT and EN
<i>Retail Banking Markets Monitoring Report</i>	Presents developments in markets for simple term deposits, structured deposits, mortgage credit and consumer credit	Annual	PT Note: English version of the executive summary only.
<i>Statistical Bulletin</i>	Presents Banco de Portugal's statistics	Monthly	PT and EN
<i>Plano da Atividade Estatística (Statistical Activity Plan)</i>	Sets out Banco de Portugal's statistical objectives and priorities	Annual	PT
<i>Relatório da Atividade Estatística (Statistical Activity Report)</i>	Describes Banco de Portugal's activities as national statistical authority	Annual	PT
<i>Report on Payment Systems</i>	Presents the most relevant facts on the operation of payment systems	Annual	PT Note: English version of the executive summary only.
<i>Report on Cash Issuance (New)</i>	Describes Banco de Portugal's cash issuance activities and main indicators	Annual	PT and EN
<i>Boletim Notas e Moedas (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

Source: Banco de Portugal.

* PT – Portuguese; EN – English.

Banco de Portugal reported around 690,000 statistical series to international organisations, namely ECB, EUROSTAT, IMF, OECD and BIS –, which accounts for a 10 per cent increase from 2015 (Table 4.2). Within this scope, it reported statistics on insurance corporation balance sheets to the ECB for the first time, in accordance with the provisions of the ECB Regulation on statistical reporting requirements for these corporations.³⁰

Table 4.2 • Reporting to international organisations

	2014	2015	2016
Total reports	1,413	1,448	1,490
of which with a delay*	0	0	0
Total series	586,379	628,371	690,541

Source: Banco de Portugal.

* From the date envisaged in reporting schedules.

In addition to the indicators and studies published, Banco de Portugal hosted various discussions on the Portuguese economy and the financial system. These initiatives include the *8th Conference on the Portuguese Economic Development in the European Union*, which discussed the future of the euro area and European integration, and the *Workshop on Digital Banking and Fintech: Challenges and Threats for the Banking System*, which gathered a group of international experts to reflect on the new trends in the provision of financial services. The *15th Conference on Audit, Risk and Governance*

on risk management in financial institutions, and the second session of the *5th Conference of the Central Balance-Sheet Database* on export sector companies were also held.

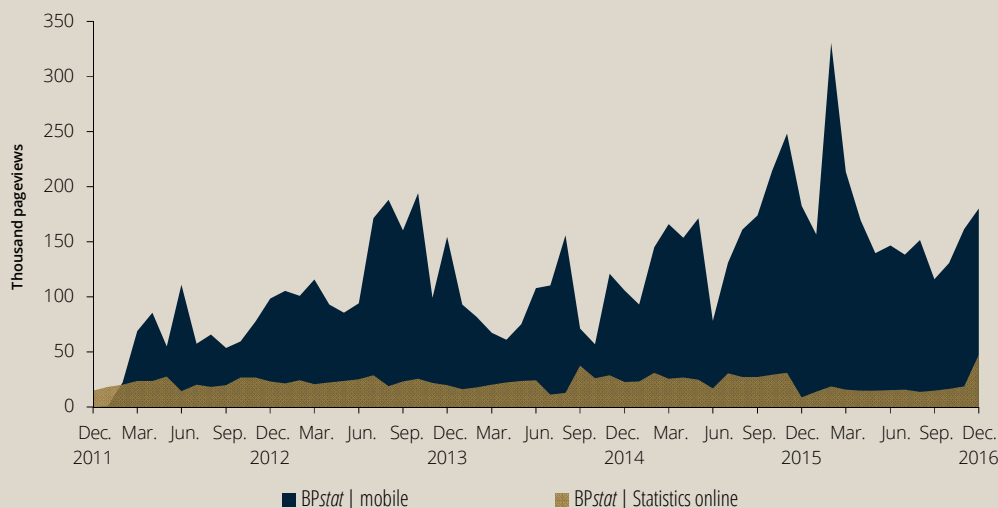
Communication initiatives within the Eurosystem

The ECB, in collaboration with the Eurosystem national central banks, launched an information campaign on the €50 banknote of the *Europa* series in 2016. To present the new banknote, avoid potential theft situations and call attention to the importance of the timely adaptation of banknote handling equipment, Banco de Portugal held two seminars in Lisboa and Porto, open to the media. The participants in these seminars were banking institutions, entities that manage, handle and distribute cash, and others that play an important role in the use of banknotes, notably large-scale distribution in trade, services and tourism.

Banco de Portugal organised the fifth Portuguese component of the *Generation Euro Students' Award*, an initiative of the ECB and the Eurosystem national central banks to bring attention to the importance of monetary policy. 760 students from 78 schools from across the country took part in the competition (361 students from 44 schools in 2015). Banco de Portugal also supported the ECB in the organisation of the *ECB Forum on Central Banking*, which took place in Sintra from 27 to 29 June 2016.

Chart 4.2 •
Trend of the
number of
pageviews in
BPstat | Statistics
online and BPstat
| mobile

Source: Banco de Portugal.



4.2. Provision of services to the public

Similarly to the previous year, the demand for services provided by Banco de Portugal increased,

especially consultation of the Central Credit Register (6.1 million consultations and 1.7 million charts issued) (Table 4.3).

Table 4.3 • Services provided: main indicators | 2013-2016

Services	Indicators	2013	2014	2015	2016
Database of Banking Accounts	Charts issued	–	–	135 thousand	165 thousand
	Costumers	–	–	78 thousand	93 thousand
Central Credit Register	Charts issued	1,1 million	1,3 million	1,5 million	1,7 million
	Costumers	250 thousand	290 thousand	350 thousand	390 thousand
	Consultations by participating institutions	5,6 million	5,6 million	5,9 million	6,1 million
Prohibition of the use of cheques	Consultations of the List of Cheque Defaulters	9724	6523	6893	7033
Information on personal identification documents	Requests	524	508	380	304
Requests for information	Telephone calls received	40 thousand	32,3 thousand	33,9 thousand	28,9 thousand
	Conversation minutes	91,5 thousand	89,4 thousand	80,6 thousand	60,1 thousand
	Messages received via info@bportugal.pt	5774	4878	4828	5065
	Requests from bank customers	2864	2644	2673	2372
Complaints on financial institutions	Complaints received	17,9 thousand	14,2 thousand	13,5 thousand	14,1 thousand
Cash office	Visits to customer services	83 thousand	130 thousand	172,5 thousand	190,5 thousand
Library	Consultations	5496	5869	5444	5523
Historical archive	Documents consulted	130	404	1850	1291

Source: Banco de Portugal.

Corporate services

Banco de Portugal released to enterprises on its website, and particularly in the 'Área de Empresa' (Corporate Area), economic and financial indicators on its activity and on the sector to which they belong. It also made the consultation of databases available – the Central Credit Register, Database of Banking Accounts and List of Cheque Defaulters

– and efficient ways to comply with Banco de Portugal's reporting requirements. In November 2016 a new functionality was released, consisting of the issuance of summary charts of *Comunicações de Operações e Posições com o Exterior* (COPE – reporting of external operations and positions) reported by enterprises. Table 4.4 presents the main indicators of business services:

Table 4.4 • Business services: main indicators | 2013-2016

Services	Indicators	2013	2014	2015	2016
Enterprise and sector tables (information on enterprises and respective industry)	Enterprises covered	370 thousand	371 thousand	364 thousand	381 thousand
Database of Banking Accounts	Charts issued	–	–	16 thousand	32 thousand
Central Credit Register	Charts issued	249 thousand	266 thousand	293 thousand	330 thousand
Prohibition of the use of cheques	Consultations of the List of Cheque Defaulters	8,6 thousand	5,9 thousand	6,3 thousand	6,4 thousand
Reporting of information used to calculate balance of payments statistics	Files submitted by the enterprises	221 thousand	274 thousand	286 thousand	292 thousand

Source: Banco de Portugal.

Provision of services to the financial community

In 2016 BPnet, Banco de Portugal's operational channel for communication with the financial system, was subject to an in-depth overhaul. This intervention made it possible to improve quality and security in the provision of services,

expedite the associated management processes and considerably reduce the operational and financial costs borne by Banco de Portugal and the participating financial institutions. On 31 December Banco de Portugal provided a total of 114 services to the financial community via BPnet, nine services more than in 2015 (Table 4.5).

Table 4.5 • Services provided to the financial community: BPnet indicators | 2013-2016

	2013	2014	2015	2016	Δ 2016-2015
Available services	90	97	105	114	8,6 %
Number of users	4,211	4,217	4,060	4,548	12,0 %
Participating financial institutions	331	324	326	323	-0,9 %
Number of times services were accessed	353,452	352,290	348,266	366,692	5,3 %
Help desk	5,668	5,915	5,013	7,775	55,1 %

Source: Banco de Portugal.

Money Museum

In 2016 Banco de Portugal opened the Money Museum, subsequently nominated for the European Museum of the Year Award (EMYA) presented by the European Museum Forum in collaboration with the Council of Europe.

Housed in the former church of São Julião in the Pombaline Baixa, the Museum presents, using a contemporary approach, the most emblematic exhibits from Banco de Portugal's collection of banknotes and coins, compelling its visitors to learn about the history of money from all over the world. It includes the Interpretation Centre for King Dinis' Wall, opened to the public in 2014. In 2016 the Money Museum and the Interpretation Centre for King Dinis' Wall received 58,467 visitors (29,142 visitors in 2015).

Over the whole year the Museum maintains cultural and educational programmes that include temporary exhibitions, cinema sessions, theatre, debates, concerts, workshops for families, guided tours, courses, conferences and activities for schools. In 2016 it received seven temporary exhibitions: four contemporary art exhibitions, two archaeological exhibitions and one exhibition in

partnership with the Portuguese Mint and Official Printing Office. Overall, 913 activities were held, totalling 15,208 participants (510 activities and 8,289 participants in 2015).

4.3. Social responsibility initiatives addressed to the community

Banco de Portugal runs various projects to fight educational underachievement and promote social inclusion of children and teenagers. In partnership with *EPIS – Empresários pela Inclusão Social* (Entrepreneurs for Social Inclusion), Banco de Portugal develops three tutoring programmes for students enrolled in lower secondary education: the *Vocações + Matemática* (Vocations + Maths, since 2012), the *Vocações + Português* (Vocations + Portuguese, since 2014) and the *Vocações + Inglês* (Vocations + English, since 2015). Together with Ajudaris, it develops the *Ler + Histórias* (Reading + Stories) project and *Hora do Conto* (Story Time), to provide support to in-patient children in Dona Estefânia Hospital in Lisbon.

In 2016 Banco de Portugal also joined the *Voluntários da Leitura* (Reading Volunteers) programme, hosted by the Centro de Investigação para Tecnologias

Interativas of Universidade Nova de Lisboa and the Associação para o Voluntariado de Leitura, with the purpose of fostering literacy and a liking for reading in two schools in the vicinity of the Bank's buildings.

The initiatives hosted by Banco de Portugal over the year had 157 volunteers. The *Vocações* programmes supported 36 students.

In 2016 Banco de Portugal and the cafeteria concessions donated a total of 10,529 meals within

the scope of the *Zero Desperdício* (zero waste) project, fostered by the DariAcordar association (Chart 4.3).

To reduce its ecological footprint, Banco de Portugal has adopted a new waste management policy, based on shared recycling bins, and a new in-house water distribution policy to reduce the consumption of plastic.

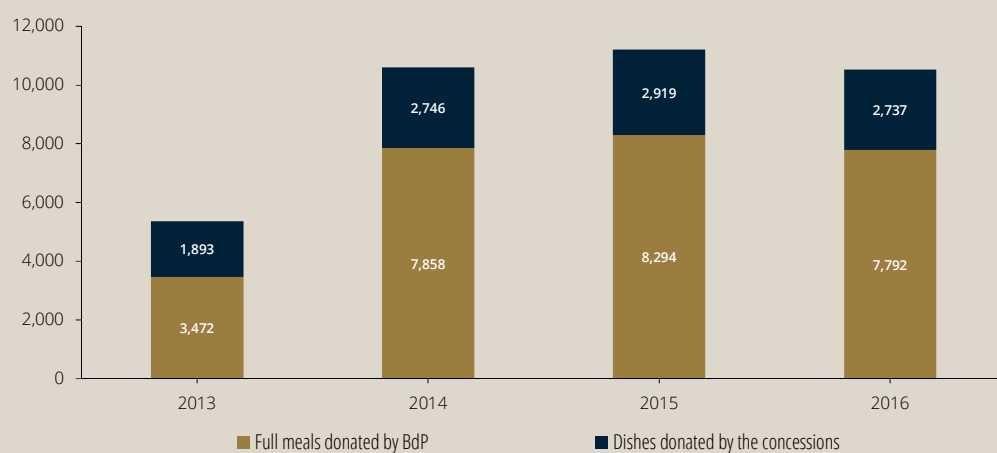
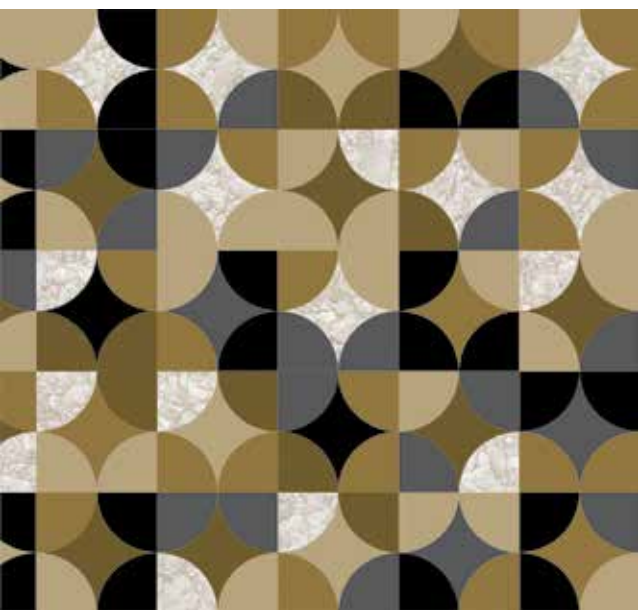


Chart 4.3 •
Zero Waste Project
| 2013-2016

Source: Banco de Portugal.

Notes

1. For further details, see [Banco de Portugal's website](#).
2. Within the scope of the property market analysis, work developed in cooperation with Statistics Portugal make it possible to develop a [methodology for a price index for commercial property](#).
3. Available at Banco de Portugal's website: [Financial Stability Report and Portuguese Banking System](#).
4. [Recommendation ESRB/2015/1](#).
5. [Recommendation ESRB/2015/2](#) and [Notice of Banco de Portugal No 3/2016](#).
6. For further information, see [Banco de Portugal's website](#).
7. [Regulation \(EU\) No 575/2013 of the European Parliament and of the Council](#).
8. [Instruction No 7/2016 of 20 May](#).
9. Since 2010 (Decree-Law No 142/2009 of 16 June), 88 institutions (mutual agricultural credit banks), including the Central Mutual Agricultural Credit Bank, have simultaneously changed their corporate bodies for three-year periods, leading to an increase of 600 more individual appraisals and corresponding authorisations for the exercise of functions and registration with Banco de Portugal.
10. For more information, see [Banco de Portugal's website](#).
11. [Notice of Banco de Portugal No 8/2016](#).
12. [Press release of Banco de Portugal of 31 March 2016](#).
13. Additional information on these funds may be obtained from the respective websites: www.fgd.pt, www.fgcam.pt, www.fundoderesolucao.pt.
14. Available on [Banco de Portugal's website](#).
15. Available on [Banco de Portugal's website](#).
16. Available on [Banco de Portugal's website](#).
17. See Banco de Portugal's [press release](#).
18. For more information, see the [ECB's website](#).
19. For more information, see [Relatório de Atividade Estatística](#) (Statistical Activity Report – in Portuguese only).
20. Available on [Banco de Portugal's website](#) (in Portuguese only).
21. See [Banco de Portugal's press release of 31 January 2017](#).
22. See [Directive \(EU\) 2015/2366](#), of 25 November 2015.
23. For more details, see the [Relatório Anual de Atividades de Cooperação](#) (Annual Report on Cooperation Activities – in Portuguese only).
24. [Regulation and Codes of Conduct of Banco de Portugal](#).
25. [Strategic Plan for 2017-2020](#).
26. [Decision \(EU\) 2015/433 of the European Central Bank of 17 December 2014 concerning the establishment of an Ethics Committee and its Rules of Procedure \(ECB/2014/59\)](#).
27. [Compliance and the compliance function in banks](#), Basel Committee on Banking Supervision, April 2005.
28. For further information, see [Banco de Portugal's website](#) (in Portuguese only).
29. The first line of defence is provided by business units, the second line results from the activities of the risk management, control and compliance structures, and the third line is linked to the audit function, which is responsible for assessing and issuing an independent and objective opinion on the effectiveness of the governance/management, risk management and internal control processes, as well as the systems supporting Banco de Portugal's operation.
30. [Regulation ECB/2014/50](#).



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 2016¹ (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*).

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.). In accordance with

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.).

1.1. Developments in the balance sheet

The table below shows the developments in the year-end positions of Banco de Portugal's main balance sheet items for the 2012-2016 period:

Table 1

	2012	2013	2014	2015	2016	EUR millions Δ 2016/2015
ASSETS	119,406	111,592	105,608	116,899	137,717	20,818
Gold	15,509	10,714	12,147	11,968	13,503	1,535
IMF (net)	301	288	272	247	248	0
Foreign reserves and euro assets (net)	15,015	14,883	21,410	23,308	24,606	1,298
Foreign currency	871	1,168	3,114	4,747	6,083	1,337
Euro	14,144	13,715	18,296	18,561	18,523	-39
Trading portfolio	8,402	8,593	13,025	13,121	13,580	459
Medium-term investment portfolio	5,742	5,122	5,271	5,441	4,943	-498
Claims related to monetary policy operations	59,768	53,895	36,462	42,851	54,626	11,775
Lending to credit institutions	52,784	47,864	31,191	26,161	22,372	-3,789
Securities held for monetary policy purposes	6,984	6,031	5,272	16,690	32,254	15,564
Intra-Eurosystem claims	26,347	29,471	33,172	36,315	38,945	2,631
Participating interest and transfer of foreign reserve assets to the ECB	1,210	1,235	1,214	1,214	1,214	0
Other intra-Eurosystem claims	25,136	28,236	31,958	35,100	37,731	2,631
Other claims	1,526	1,439	1,184	1,184	1,364	180
LIABILITIES AND OWN FUNDS	119,406	111,592	105,608	116,899	137,717	20,818
Banknotes in circulation	21,003	22,303	23,299	24,686	25,661	975
Banknotes put into circulation (net)	-4,022	-5,895	-8,621	-10,394	-11,976	-1,582
Adjustments to circulation	25,025	28,198	31,920	35,080	37,636	2,557
Liabilities to credit institutions related to monetary policy operations	8,136	8,218	3,589	7,712	5,649	-2,064
Liabilities to other entities denominated in euro	5,484	7,629	7,989	6,630	13,011	6,381
Intra-Eurosystem liabilities	66,026	59,565	54,638	61,705	71,588	9,884
Other liabilities	356	386	342	303	426	123
Provisions	8	0	0	0	0	0
Own funds	17,454	12,589	14,789	14,837	16,957	2,121
Revaluation accounts	12,657	7,758	9,637	9,296	11,027	1,731
General risk provision	3,192	3,322	3,567	4,047	4,247	200
Capital and reserves	1,474	1,483	1,534	1,594	1,641	47
Retained earnings	-318	-227	-252	-333	-397	-64
Profit for the year	449	253	304	233	441	208

Analysis of the developments in Banco de Portugal's balance sheet in 2016 shows that the increase of €20,818 million derives mainly from the sharp increase in Claims related to monetary policy operations and, to a lesser extent, from the increase in the market value of gold, from Foreign reserves and euro assets

and from the increase in Intra-Eurosystem claims, chiefly due to adjustments to Banknotes in circulation. Changes from the end of the previous year in the balance sheet's main items are presented below, in the order in which they are analysed in this Report:

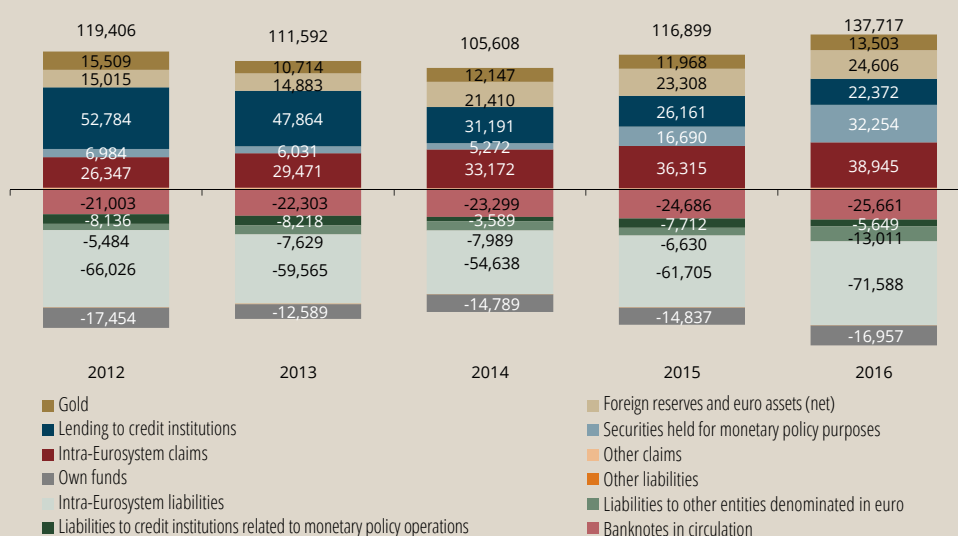
Table 2

EUR millions

	2015	2016	Δ 2016/2015
1.1.1 Claims and liabilities related to monetary policy operations	35,139	48,977	13,839
Claims related to monetary policy operations	42,851	54,626	11,775
Lending to credit institutions	26,161	22,372	(3,789)
Securities held for monetary policy purposes	16,690	32,254	15,564
Liabilities to credit institutions related to monetary policy operations	(7,712)	(5,649)	2,064
1.1.2 Gold and foreign reserves and euro assets (net)	35,276	38,109	2,833
Gold	11,968	13,503	1,535
Foreign reserves and euro assets (net)	23,308	24,606	1,298
1.1.3 Other balance sheet assets	37,746	40,557	2,811
IMF (net)	247	248	0
Intra-Eurosystem claims	36,315	38,945	2,631
Other claims	1,184	1,364	180
1.1.4 Banknotes in circulation	24,686	25,661	975
Banknotes put into circulation (net)	(10,394)	(11,976)	(1,582)
Adjustments to circulation	35,080	37,636	2,557
1.1.5 Intra-Eurosystem liabilities	61,705	71,588	9,884
1.1.6 Other liabilities	6,933	13,437	6,504
Liabilities to other entities denominated in euro	6,630	13,011	6,381
Other liabilities	303	426	123
1.1.7 Own funds	14,837	16,957	2,121
Revaluation accounts	9,296	11,027	1,731
General risk provision	4,047	4,247	200
Capital and reserves	1,594	1,641	47
Retained earnings	(333)	(397)	(64)
Profit for the year	233	441	208

Chart 1 •
Evolution
of the main
balance sheet
items

EUR millions



1.1.1. Claims and liabilities related to monetary policy operations

Claims and liabilities related to monetary policy operations together increased €13,839 million in 2016, as a result of the €11,775 million increase in assets (to €54,626 million) and the €2,064 million decrease in liabilities (to €5,649 million).

In 2016, the main changes to Banco de Portugal's balance sheet lie in the developments in the monetary policy operations items regarding the **non-standard monetary policy programmes**, namely the purchases of securities held for monetary policy purposes and the targeted longer-term refinancing operations, following decisions taken by the Governing Council of the ECB (Charts 2 to 4).

Banco de Portugal's **portfolio of securities held for monetary policy purposes** has been affected by various programmes decided by the Governing Council of the ECB, namely (i) the securities markets programme (SMP) and the covered bond purchase programmes (CBPP and CBPP2), currently closed to new purchases, the behaviour of which only reflects the maturing of securities in the portfolio and (ii) the third covered bond purchase programme (CBPP3) and the public sector purchase programme (PSPP), still open to new purchases, which are included under the asset purchase programme (APP).

The item Securities held for monetary policy purposes on Banco de Portugal's balance sheet totalled €32,254 million in December 2016, an increase of €15,564 million on 2015 (Chart 3). All the portfolios in this item are valued at amortised cost less potential impairment losses, not reflecting gains that may materialise in the case of the early sale of securities.

In 2016, the Governing Council of the ECB decided to increase the programmes under the APP, which affected the CBPP3 and, even more so, the PSPP on Banco de Portugal's balance sheet. The APP also includes the asset-backed securities purchase programme (ABSPP) and the corporate sector purchase programme (CSPP).

There was sharp growth in the PSPP on Banco de Portugal's balance sheet in 2016, not only due to the purchase of Portuguese public debt securities (which had already begun in 2015), but also the purchase of supranational securities (which began during the year under review). In nominal value, the government securities item increased €11,253 million in 2016 (to €21,357 million) and the supranational securities item reached €5,057 million at the end of 2016. The PSPP item of government securities falls outside risk-sharing at Eurosystem level. Purchases made under this programme increase Banco de Portugal's financial risks, and are an inevitable

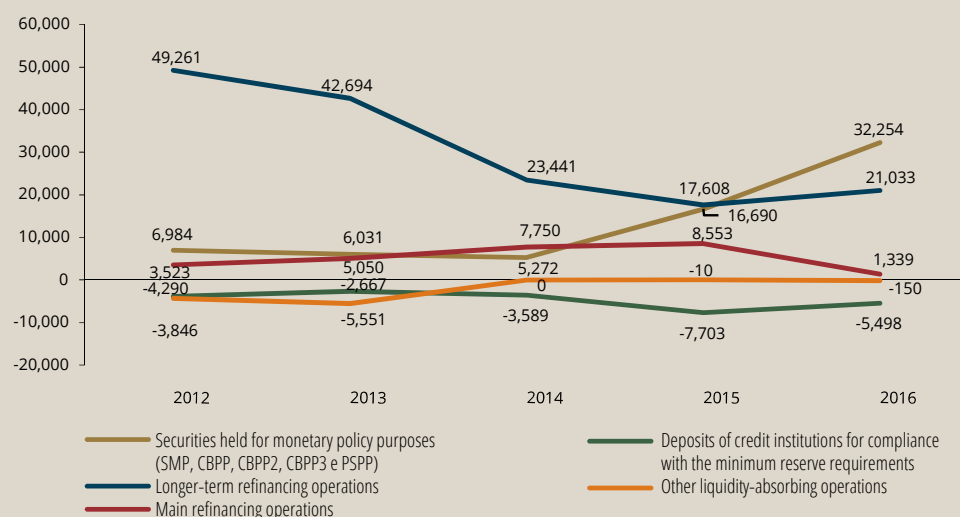
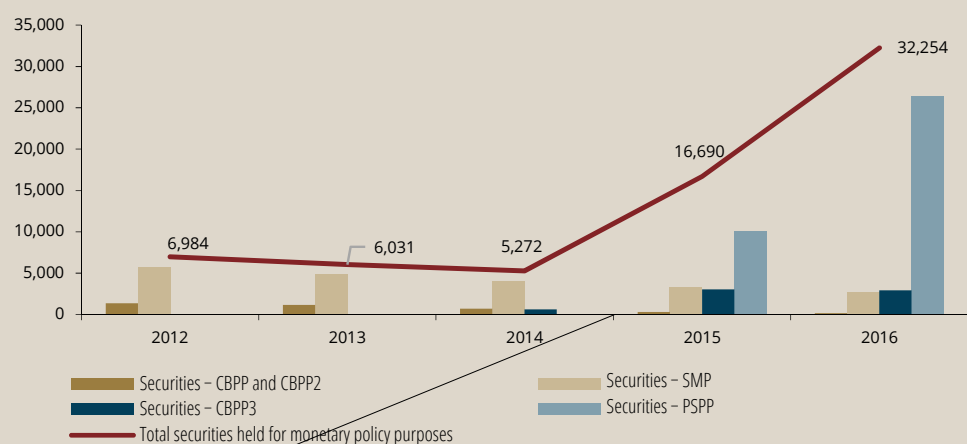


Chart 2 •
Aggregates
of monetary
policy operations

EUR millions

Chart 3 •
Securities held
for monetary
policy purposes

EUR millions



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

EUR millions

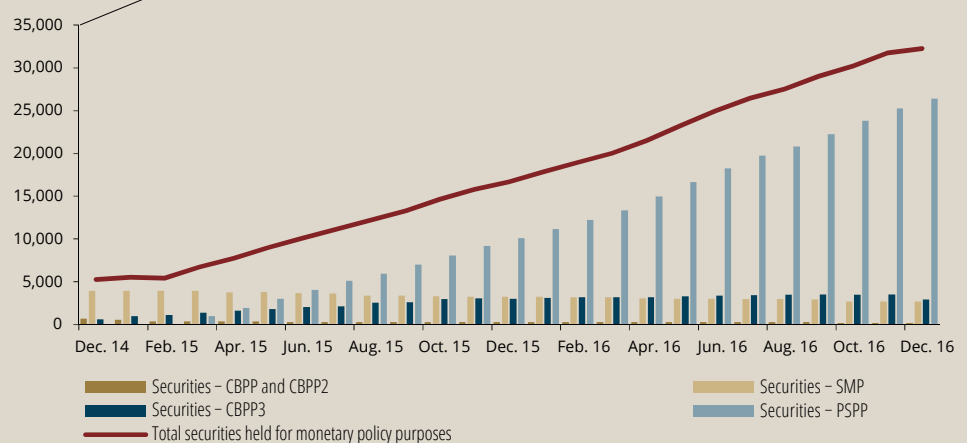
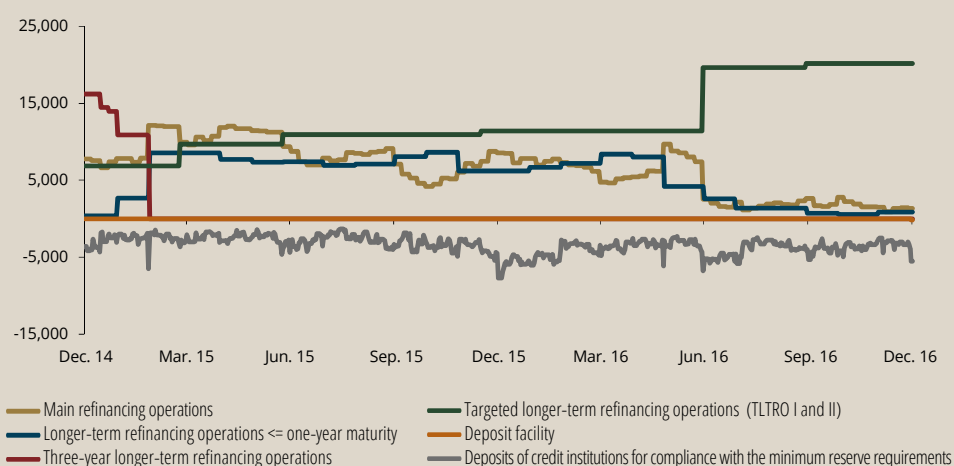


Chart 4 •
Daily balances in
monetary policy
operations (excl.
securities held for
monetary policy
purposes)

EUR millions



exogenous restriction for the risks assumed. These risks are measured and monitored closely, and the main mitigation measure is the strengthening of Banco de Portugal's financial buffers.

The investment levels in these programmes are decided by the Governing Council of the ECB and are altered whenever it sees a sustained adjustment in the path of inflation. In December 2016, the Governing Council decided to continue the Eurosystem APP purchases until the end of 2017 or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. If, in the meantime, the outlook becomes less favourable, or if financial conditions become inconsistent with that progress, the Governing Council intends to increase the programme in terms of size and/or duration.

Furthermore, in regard to non-standard monetary policy operations, on 10 March 2016 the ECB announced the **second series of targeted longer-term refinancing operations** (TLTRO II), to provide additional accommodation to the Eurosystem's monetary policy and incentivise bank lending to the real economy. TLTRO-II operations have a four-year maturity, with the possibility of repayment after two years. The applicable interest rate for TLTRO-II operations will be between the rate on the main refinancing operations (MRO) and the rate on the deposit facility at the time of allotment. Within this interval, the rate will be lower the more the net eligible financing achieved by each institution, between the date of each TLTRO-II allotment and January 2018, exceeds its lending benchmark.

Banks' adoption of these non-standard operations, which began in June 2016, triggered a substitution effect within the item Lending to credit institutions, reducing the main refinancing operations and longer-term refinancing operations with a maturity of 1 year or less and 3 years (Chart 4).

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

- Gold

Banco de Portugal's Gold reserve increased by €1,535 million from 2015 to €13,503 million, due to the increase in this asset's market value, through positive developments in its price, with the volume remaining at 382.5 tonnes. This increase is offset by a change of an equal amount in the balance sheet item Revaluation accounts (Chart 5).

In 2016, time deposits were made in gold and gold swaps for foreign currency were entered into, with the aim of profiting from gold assets.

- Foreign reserves and euro assets (net)

The item Foreign reserves and euro assets (net) of Banco de Portugal increased its total value year-on-year (by €1,298 million, to €24,606 million) (Chart 6).

This rise was mostly due to the increase in the Trading portfolio denominated in foreign currency, which reflects Banco de Portugal's investment decision for 2016, 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 national central banks (NCBs) of the euro area and the European Central Bank (ECB), which sets rules and limits for non-monetary policy holdings that are related to national tasks of the NCBs.

- Trading portfolios (denominated in foreign currency and euro)

As regards the composition by instrument of the trading portfolios denominated in foreign currency and euro, the structure differs from previous years, essentially as a result of outstanding gold swap operations for foreign currency as at 31 December 2016. Thus the liabilities denominated in foreign currency reflect the funds taken in these gold swap

Chart 5 •
Evolution
of gold

EUR millions

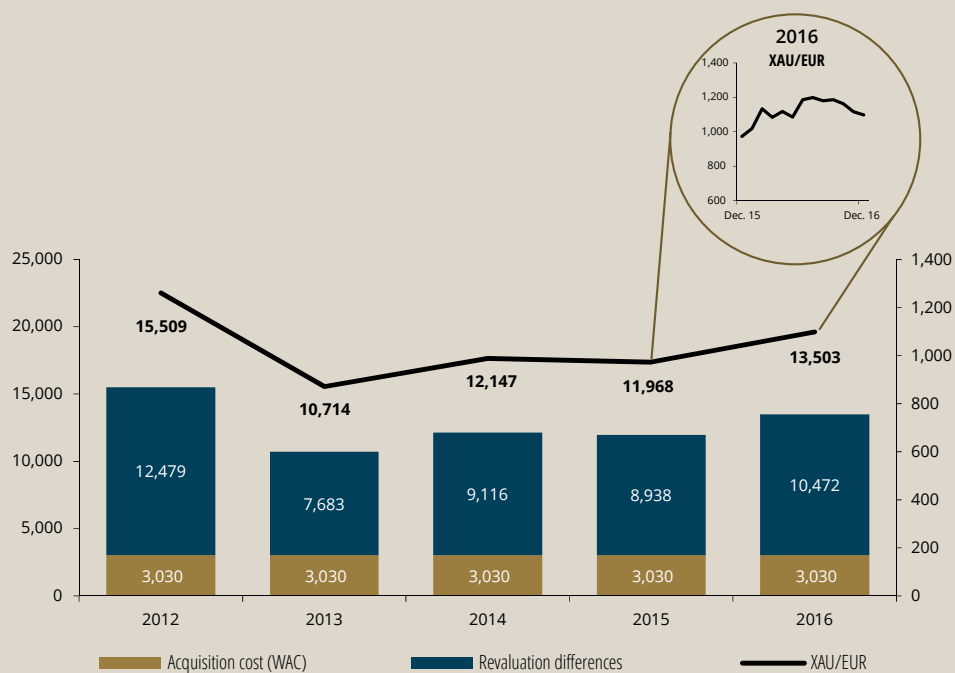


Chart 6 •
Foreign reserves
and euro assets
(net)

EUR millions

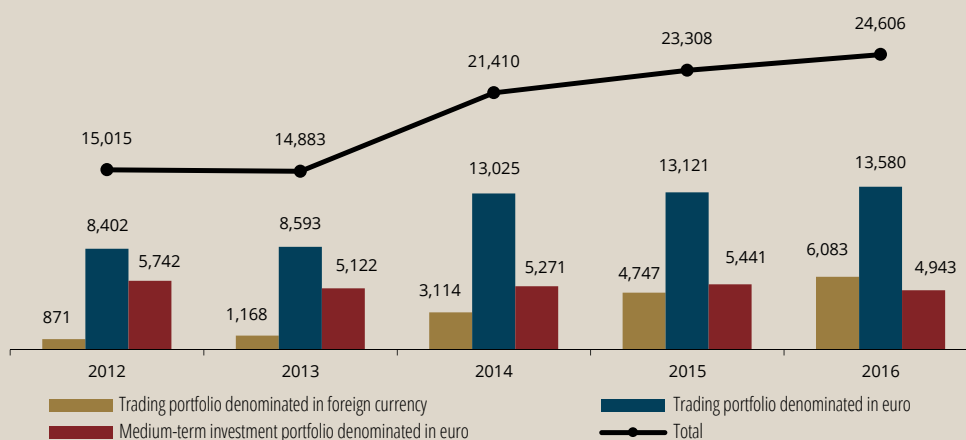
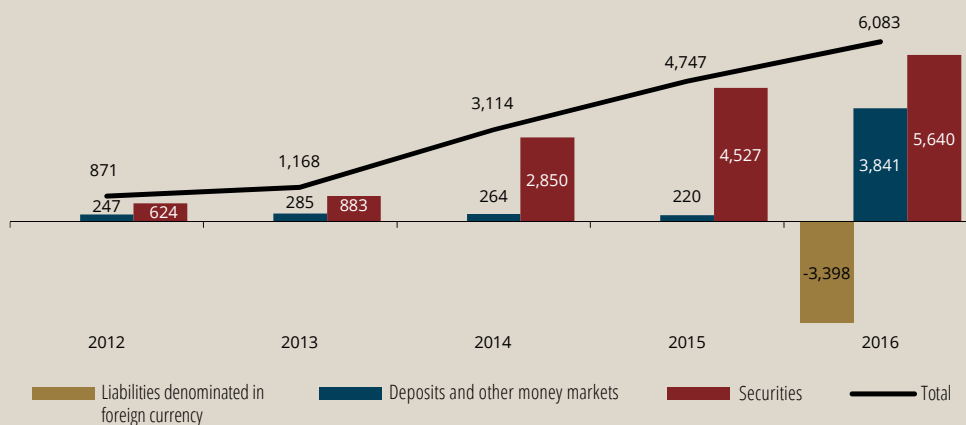


Chart 7 •
Composition
of the trading
portfolio
denominated in
foreign currency

EUR millions



operations, with these funds invested in assets also in foreign currency. These operations contribute positively to the profitability of the management of assets (Chart 7).

There was also an increase from 2015 of €1,114 million in the portfolio of securities denominated in foreign currency. This portfolio is valued at market prices.

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 90% of total investment in foreign currency in 2016 compared with 87% in 2015 and 90% in 2014).

The trading portfolio denominated in euro remained virtually unchanged in December 2016 compared with the end of 2015, at €13,580 million (€13,121 million in 2015). In terms of the composition by financial instrument, this portfolio is almost completely made up of securities (99.8% of the total) (Chart 8), mainly issued by euro area residents (€13,165 million). By type of issuer, government debt bonds accounted for €12,408 million and paragonovernmental and supranational bonds for €1,029 million.

Regarding the **reference interest rates** for managing Banco de Portugal's portfolios, in 2016, the main monetary authorities maintained the accommodative monetary policies, with the lowest interest rates of recent years, continuing

to pursue price stability and economic growth objectives.

Against this background, the rate on the ECB's MRO moved from 0.05% to 0% in March 2016, an all-time low. This level reflects the monetary policy decisions taken by the ECB, in a low-inflation economic environment, both observed and expected. The money market interest rates again achieved record lows in 2016, with EONIA and three-month EURIBOR even more negative than the year before (Chart 9).

The euro area sovereign debt markets, where most of Banco de Portugal's financial investments are, continued their broad-based decline in rates, reaching negative levels in most of the markets for short- and medium-term rates (here represented by three-month and two-year rates), with only the long-term rates remaining generally positive and recording some increase towards the end of the year. The general context of falling interest rates contributed to the increase in value of portfolios of fixed-rate debt securities, with a positive impact on asset management. Nevertheless, this continued to require high accuracy and efficiency (Charts 9, 10, 11 and 12).

– Medium-term investment portfolio

The medium-term investment portfolio (Chart 13) is, as at 31 December 2016, fully composed

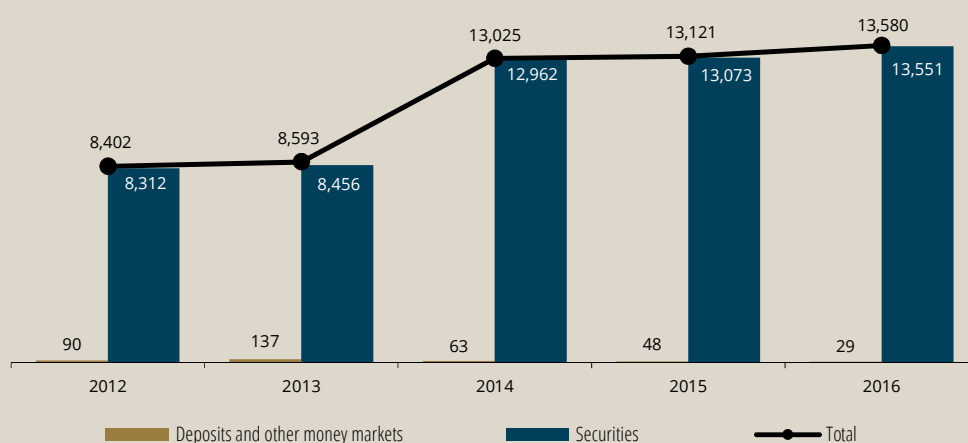


Chart 8 •
Composition
of the trading
portfolio
denominated
in euro

EUR millions

of securities held to maturity, denominated in euro, and valued at amortised cost less potential impairment losses. This portfolio decreased by €498 million to €4,943 million from 2015 to 2016, chiefly as a result of the respective coupons and principals maturing in this portfolio being invested in the trading portfolios, given the context of negative yields.

1.1.3. Other balance sheet assets

The other asset items on Banco de Portugal's balance sheet (which together increased by €2,811 million to €40,557 million) included Intra-Eurosystem claims, with a significant share of the balance sheet total, and a steady positive evolution in recent years. This item includes the remunerated position relating to adjustments in banknotes in circulation, which were made in accordance with Decision ECB/2010/29. In December 2016, these adjustments total €37,636 million (an increase of €2,557 million on December 2015). As in previous years, the growth of this asset position reflects the rise in the Eurosystem's banknote circulation and the widening in the positive difference between banknotes withdrawn from circulation and

banknotes put into circulation by Banco de Portugal (Chart 14).

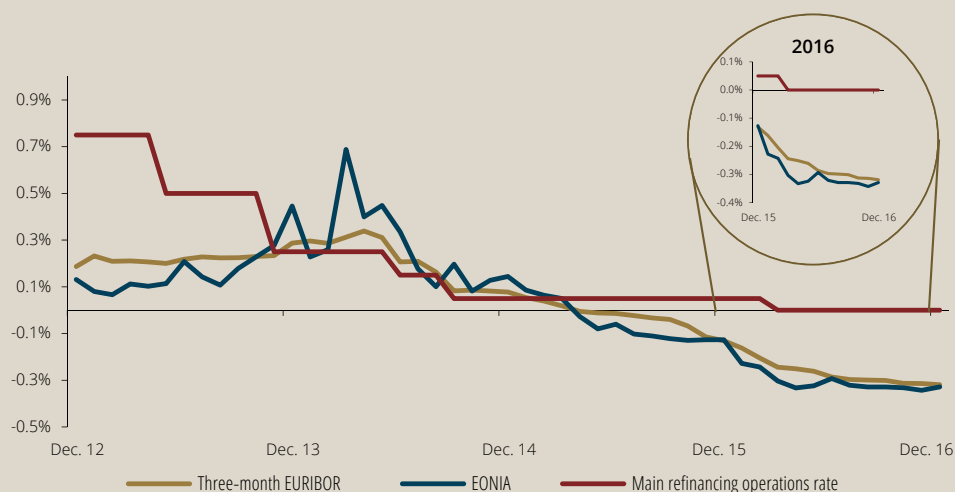
1.1.4. Banknotes in circulation

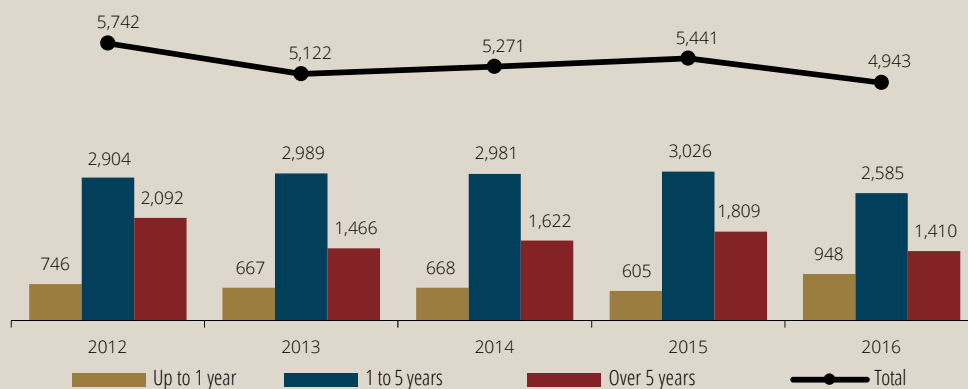
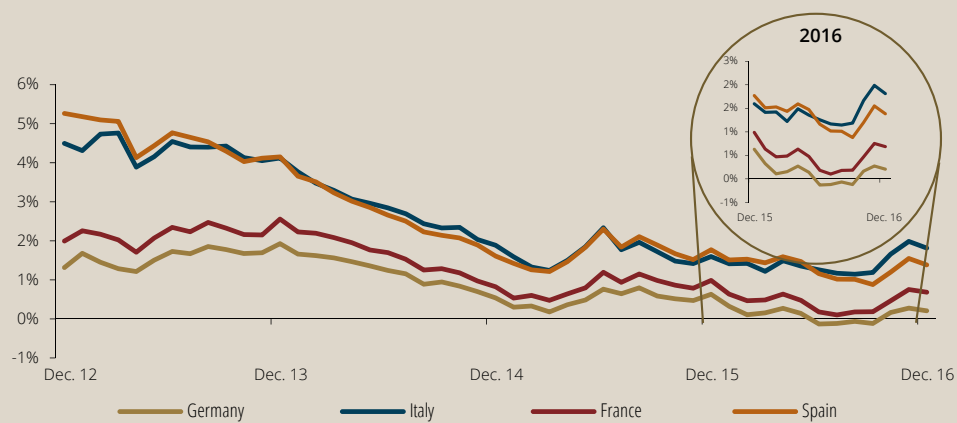
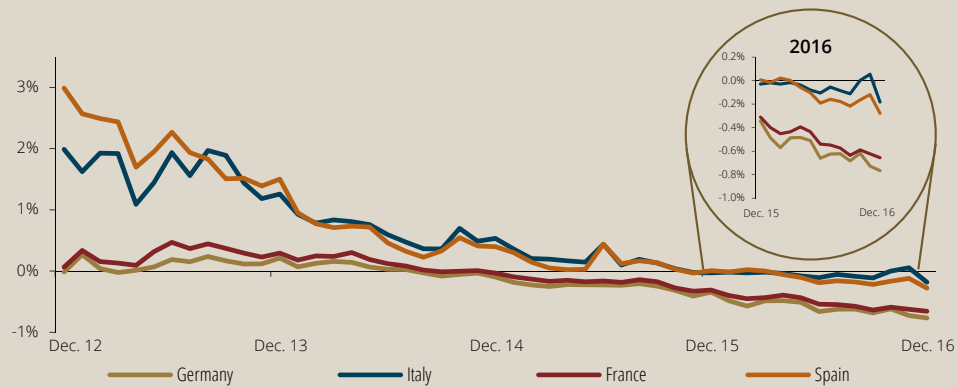
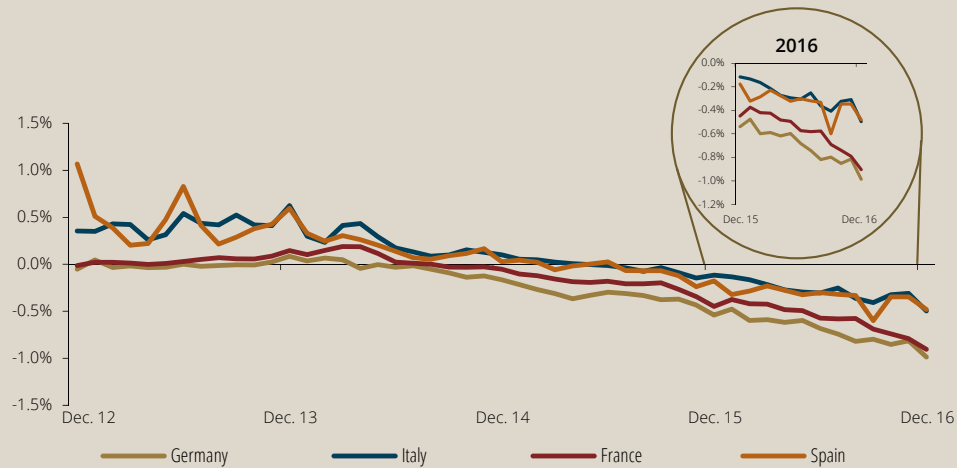
The aggregate Banknotes in circulation, recorded on the liabilities side of the balance sheet of Banco de Portugal, reflects the share allocated to Portugal in the Eurosystem (Chart 14). This aggregate continued on a steady growth path, since the euro entered into circulation, reflecting a rise in circulation at Eurosystem level (increasing by €975 million to €25,661 million).

1.1.5. Intra-Eurosystem liabilities

On 31 December 2016, the value of Intra-Eurosystem liabilities (mostly liabilities arising from TARGET accounts) showed an increase of €9,884 million from 2015, reaching €71,588 million as at 31 December 2016. This increase is explained principally by the financing of purchases of securities held for monetary policy purposes (outlined above), the increase in the positive difference between the banknotes withdrawn from circulation and banknotes put into circulation by Banco de Portugal, the reduction in the item Liabilities to credit institutions related

Chart 9 •
Money market
interest rates





to monetary policy operations and the settlement of operations that led to the above-mentioned rise in the trading portfolio. These effects are partly offset by the impact of the increase in liabilities associated with the general government current accounts (1.1.6 Other liabilities) and the reduction in Lending to credit institutions (Chart 15).

1.1.6. Other liabilities

The €6,504 million change in the Other liabilities aggregate (to €13,437 million) mainly reflects the rise 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 (€11,845 million and €1,084 million respectively as at 31 December 2016).

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 funds from the EU under the Economic and Financial Assistance Programme to Portugal (*Programa de Assistência Económica e Financeira a Portugal – PAEF*).

1.1.7. Own funds

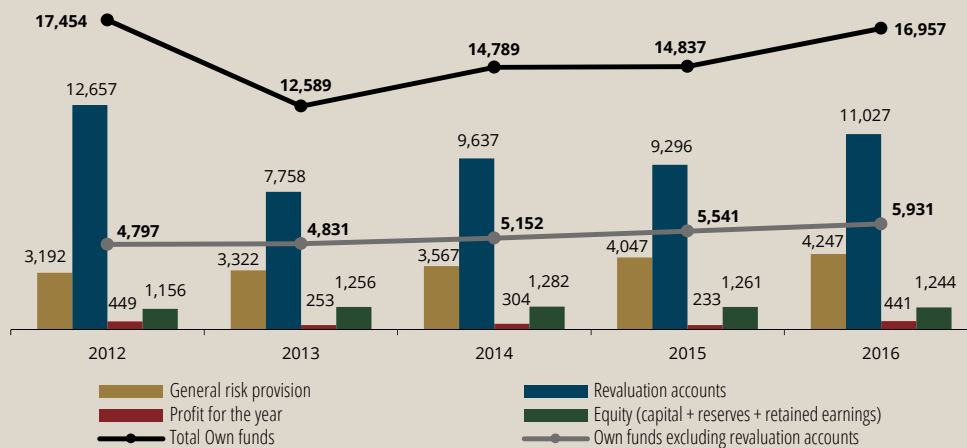
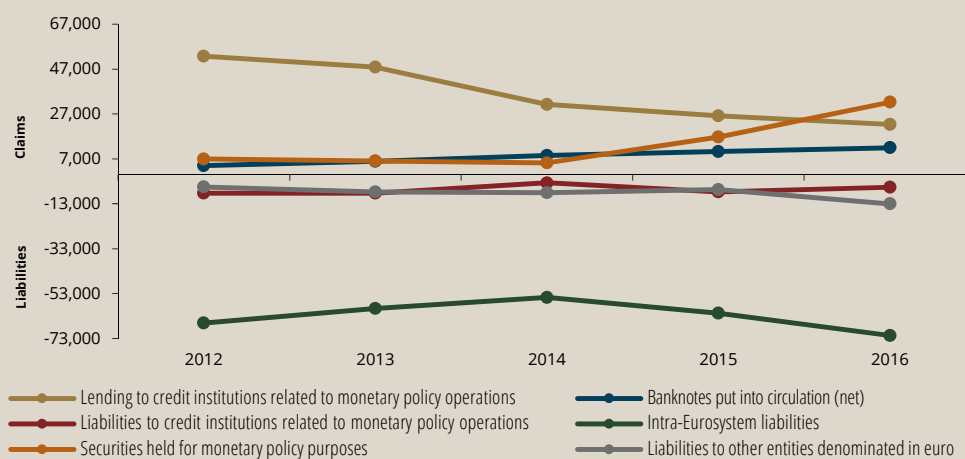
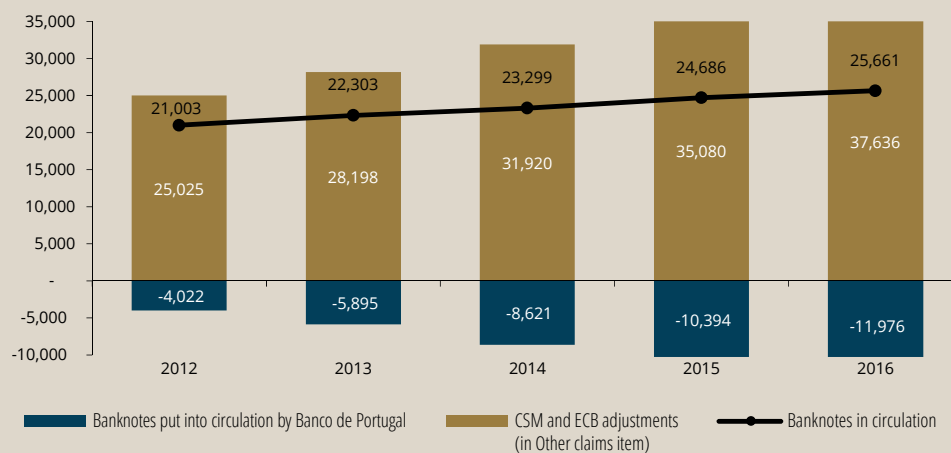
Banco de Portugal's own funds (the items Revaluation accounts, General risk provision, Equity and Profit for the year) rose by €2,121 million in 2016 (to €16,957 million), largely due to the €1,731 million increase in the Revaluation accounts item and the €200 million increase in the General risk provision, as well as the inclusion of the positive Profit for the year (totalling €441 million) (Chart 16).

Contributing to the positive change in the revaluation accounts was the €1,535 million increase in potential gains from Gold, along with the €77 million increase in potential gains from trading portfolio securities and a €118

million increase from potential exchange rate gains from assets denominated in foreign currency.

Excluding revaluation accounts, this aggregate grew €390 million from 2015, due to the combined effect of (i) the €200 million increase in December 2016 of the General risk provision; (ii) the recognition of €441 million in net profit for 2016; (iii) the impact of the distribution of €186 million in dividends to the State by investing the net profit for 2015; and (iv) the recognition in retained earnings of actuarial and financial losses of 2016, relating to the Pension Fund – Defined-benefit plan (a decrease of €79 million), current tax adjustments (a €17 million increase) and deferred tax adjustments (a €1 million decrease).

The General risk provision was increased by €200 million in 2016, reaching a total of €4,247 million in December. Movements in this provision are analysed annually and take into consideration, among other factors, the risk assessment for the period under review, as well as the projection of these risks over the medium term, strengthening own funds and holding the capital ratio at appropriate levels for Banco de Portugal's mission, thereby enabling it to cover potential losses at any moment, including those resulting from risk-sharing with the Eurosystem. This provision is similar to a reserve in that it is permanent, due to its purpose, as mentioned above, of covering potential balance sheet losses over the medium and long term.



1.2. Developments in the Profit and Loss Account

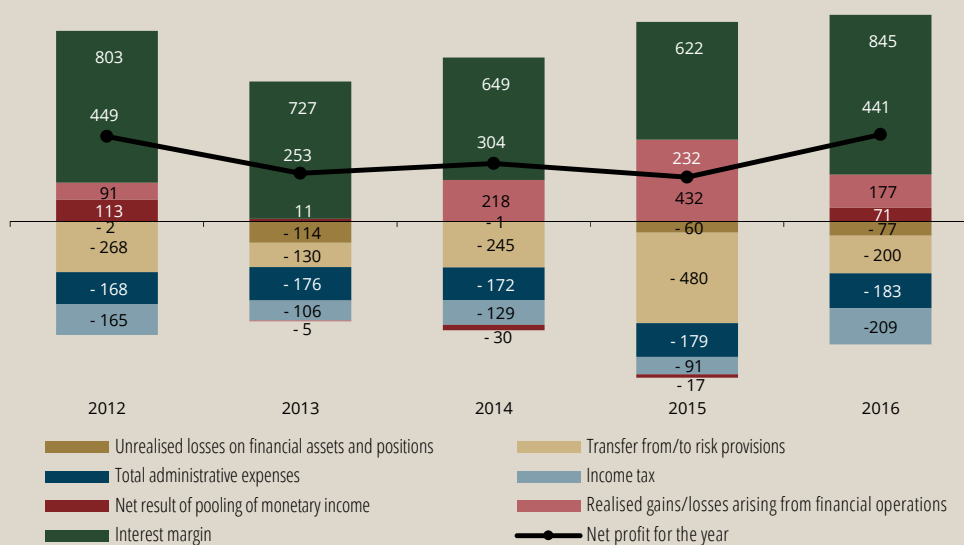
The main components of the Profit and Loss Account from 2012 to 2016 are shown in the table below:

Table 3

	2012	2013	2014	2015	2016	Δ 2016/2015
EUR millions						
Interest margin	803	727	649	622	845	223
Interest income	1,513	1,156	766	653	882	229
Interest expense	(710)	(429)	(117)	(30)	(36)	(6)
Realised gains/losses arising from financial operations	91	(5)	218	432	177	(255)
Unrealised losses on financial assets and positions	(2)	(114)	(1)	(60)	(77)	(17)
Income from equity shares and participating interests	20	54	25	26	33	7
Net result of pooling of monetary income	113	11	(30)	(17)	71	88
Total administrative expenses	168	176	172	179	183	4
Staff costs	108	123	115	120	122	2
Related to supervision	17	22	23	25	26	1
Excluding those related to supervision	91	102	91	95	96	0
Supplies and services from third parties	41	38	42	47	48	0
Related to extraordinary factors	5	1	6	7	5	(2)
Related to exogenous factors to the management of Banco de Portugal	1	1	2	2	3	1
Excluding those related to extraordinary or exogenous factors	35	35	34	38	39	2
Other administrative expenses	1	1	1	1	1	-
Depreciation and amortisation for the year	18	14	14	11	13	2
Banknote production costs	15	13	13	16	15	(1)
Other net profit/loss	41	4	4	(3)	(1)	3
Income before provisions and taxes	882	488	678	804	850	46
Transfer from/to risk provisions	(268)	(130)	(245)	(480)	(200)	280
Income before taxes	614	358	433	324	650	326
Income tax – current	-	(75)	(128)	(91)	(191)	(100)
Income tax – deferred	(165)	(31)	(1)	-	(18)	(18)
Net profit for the year	449	253	304	233	441	208

Chart 17 •
Evolution
of the main
profit/loss items

EUR millions



Net profit for the year 2016 stood at €441 million, considerably higher than in previous years and €208 million more than in 2015.

Income before provisions and taxes grew to €850 million (€46 million more than in 2015), mainly due to the sharp increase in Interest margin and the increase in Net result of pooling of monetary income (which was negative in 2015), largely offset by the considerable reduction in Realised gains/losses arising from financial operations.

Furthermore, in 2016 the increase to the General risk provision was lower, following consideration of the various factors relevant to its movements, as identified above.

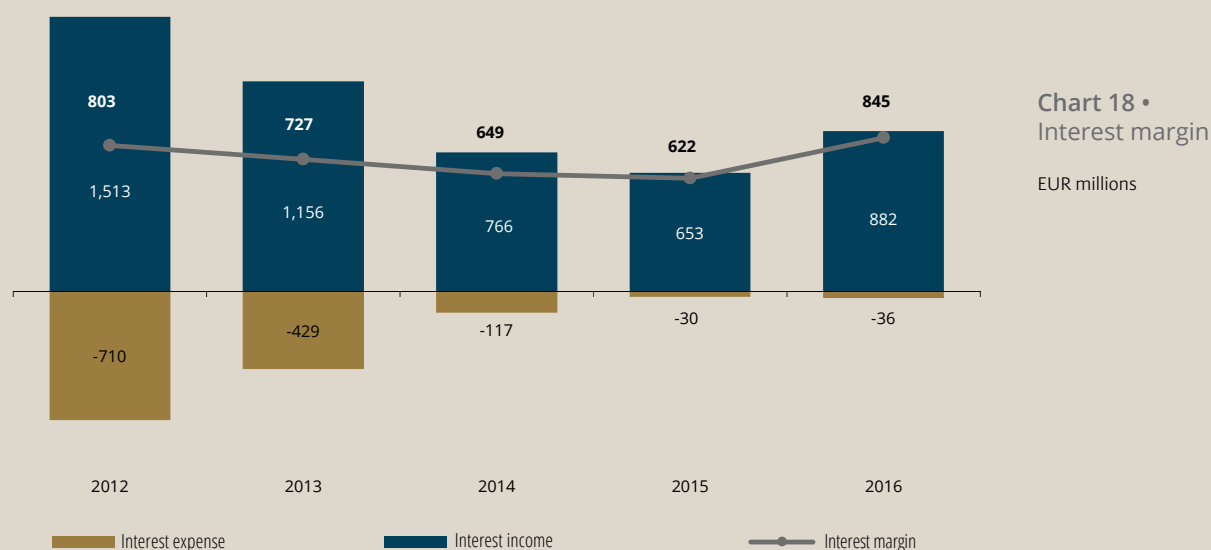
Finally, the Net profit for the year calculation includes the effect of the increase in income tax, in line with the higher Income before taxes.

Banco de Portugal's Interest margin, the main component of its Profit and Loss account, reached €845 million in 2016, a sharp increase of €223 million (+35.9%) from 2015 (Chart 18). This is a reversal of the negative trend in place since 2012 and results from interest income growth being higher than that of interest expense, which grew quite modestly.

The sharp increase in interest receivable is mainly due to the interest on the portfolio of securities held for monetary policy purposes, specifically the sharp growth in volume of the PSPP's government securities component. These assets by nature have average yields substantially higher than most other interest-bearing assets on the portfolio, but all these assets posted yields below their averages of the year before.

As a result, the impact on the interest margin made by the growth in volume of the portfolio of monetary policy securities was partly offset by the broad-based fall in returns on the main assets. As outlined above, the rate on the ECB's MRO decreased to 0% in March 2016 and remained unchanged throughout the year, with a direct impact on the return on monetary policy assets and liabilities. Interest on the net adjustment to banknotes in circulation was negative, partly offset by the increase in its average balance.

Furthermore, the asset item Lending to credit institutions became a liability, due to the introduction of the new TLTRO-II operations. Given that the actual rate on these operations is only known in 2018 and a reliable estimate is not possible, a harmonised approach across the Eurosystem has been taken, using the



deposit facility rate for calculating this interest for the year, as this was deemed prudent.

Realised gains/losses arising from financial operations reached a cumulative total of €177 million in 2016, far lower than in 2015, by €255 million (Chart 19). The primary driver of this was the sharp fall in income from foreign exchange transactions (from €345 million in 2015 to €41 million in 2016). This fall was chiefly due to the dollar price approaching the average cost of Banco de Portugal's US dollar stock during 2016, with currency trading, both spot and forward, creating lower gains than those achieved the year before (Chart 20).

Realised gains/losses arising from financial instruments held in the trading portfolio denominated in euro increased by €173 thousand from 2015, but these gains were partly offset by the €98 thousand increase in realised losses arising from interest rate futures, which are entered into to cover interest rate risk from the trading portfolio denominated in euro and US dollar.

Regarding unrealised losses on financial assets and positions, the overall amount of €77 million recognised in 2016 is for potential losses almost entirely from price decreases in securities held in the trading portfolio denominated in foreign currency and euro

Chart 19 •
Net result
of financial
operations and
unrealised losses

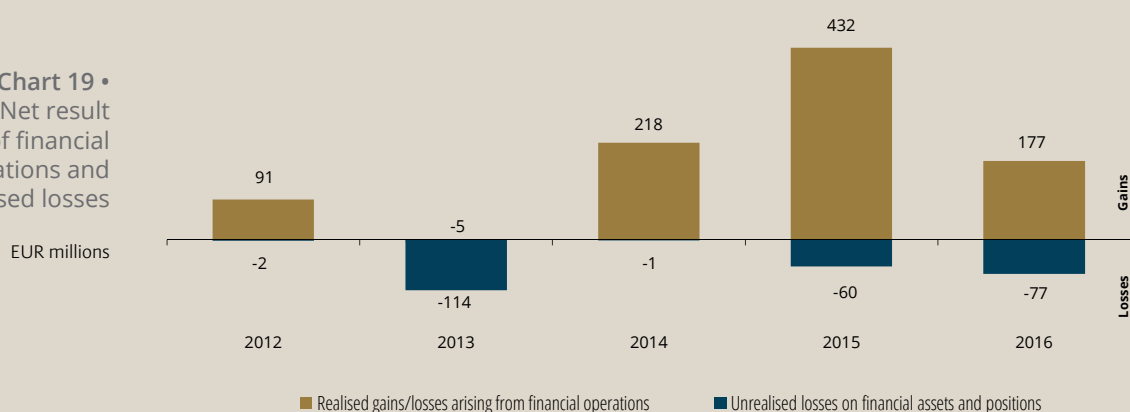
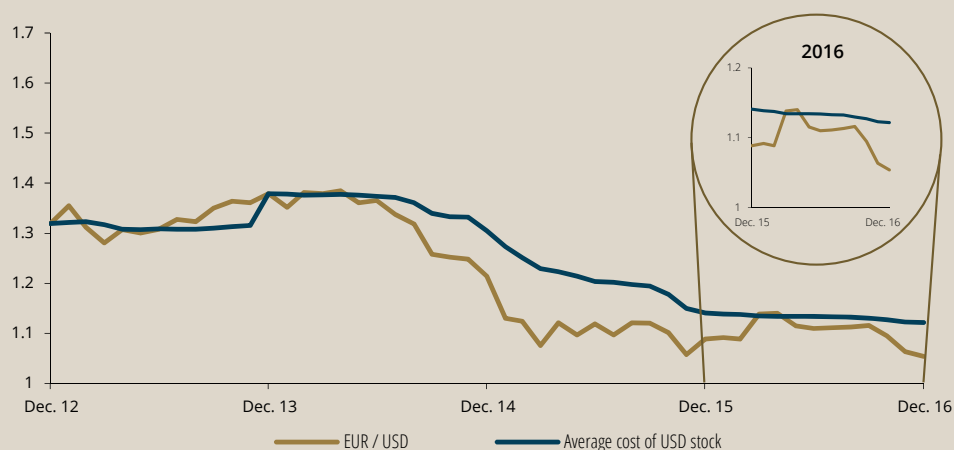


Chart 20 •
Evolution of the
USD exchange
rate

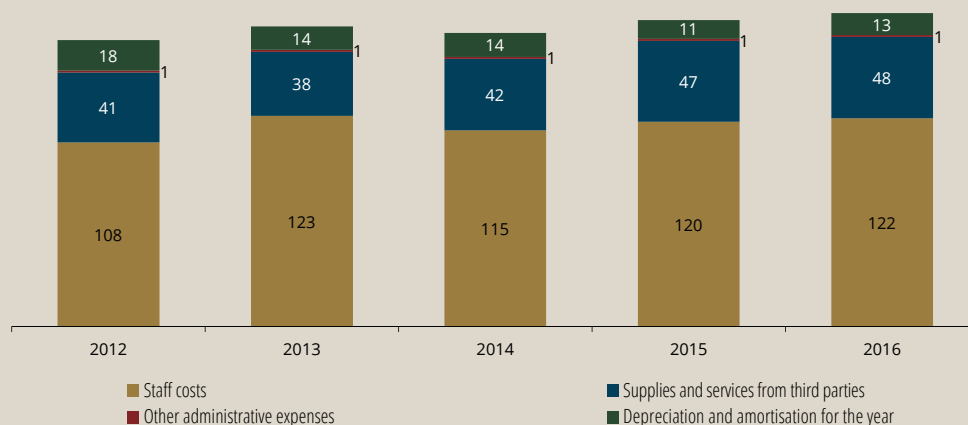
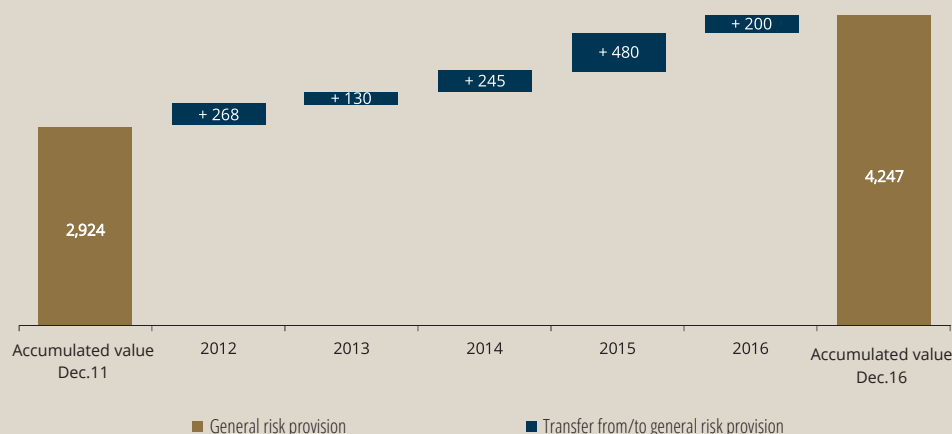


(€51 million and €27 million respectively). In accordance with the harmonised accounting rules of the Eurosystem, unrealised losses are recognised as expenses for the period as at 31 December, while unrealised gains continue to be recognised in the balance sheet in the respective revaluation differences items.

At the end of the year, the General risk provision was reinforced by €200 million, following the €480 million increase in 2015 (Chart 21). This reinforcement takes into consideration the overall financial risk position on the balance sheet faced by Banco de Portugal over the medium term, calculated in accordance with the methodologies and instruments used

by the Eurosystem to measure financial risks, considering also the prudence criteria prescribed in the *PCBP*.

In 2016, 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 €71 million). The significant increase in this item (of €88 million) is due to the sharp fall in 2016 of Banco de Portugal's net contribution as a share of the total Eurosystem contribution, reversing the situation in 2015 where this share was higher than Banco de Portugal's adjusted capital key. This justifies the amount to be received in 2016 from the other Eurosystem NCBs.



In 2016, administrative expenses rose by €4 million (+2.3%) from 2015, to €183 million (Chart 22). This change is mainly due to the €2 million increase in staff costs, the main component of administrative expenses, and a further €2 million in depreciation and amortisation for the year.

This €2 million increase in staff costs in 2016 (+1.8% from the year before) is due to the €2 million increase in the compensation of employees (+2.1% from the year before). Contributing to this growth primarily was the effect of the 0.75% salary update under the revision of the collective labour agreement for the banking sector (ACT), with retroactive effect to January 2016. Also contributing to staff costs was the continued rise in Banco de Portugal's professional staff, to address its increased responsibilities in the financial regulation and banking supervision functions. The annual average headcount in 2016 allocated to the supervision area increased by 29, offsetting the reduction by six in other areas.

The item Supplies and services from third parties (accounting for about 26% of total administrative expenses) was virtually unchanged in 2016 compared to 2015, as a result of the netting of changes in opposite directions across different expense items.

In terms of extraordinary measures, legal advice expenses related to the resolution measure applied to Banco Espírito Santo, S.A. and to BANIF, S.A. decreased by €2 million. The Supplies and services from third parties relating to factors exogenous to Banco de Portugal, which in 2016 included expenses from development of IT software and systems within the scope of the Eurosystem, increased by around €1 million, principally due to the finalisation of the development and go-live in 2016 of the *TARGET2-Securities (T2S)* software, the costs of which are borne by Banco de Portugal in combination with other central banks.

Excluding these effects of expense items related to extraordinary factors or exogenous factors to the management of Banco de Portugal, Supplies and services from third parties are €2 million higher than in 2015 (+4%), largely due to the functional reorganisation of supervision-related areas, which involved the new building in Rua Castilho becoming operational in May 2015, but which had an impact on expense growth that was only felt full-year in 2016. The increase in costs regarding this building relates essentially to building rent, security and surveillance, utilities and maintenance. Also contributing to the increase in Supplies and services from third parties were the additional expenses relating to legal services and specialised work relating to external consultancy on specific departmental activity in Banco de Portugal, namely in regard to organisational strategy and taxation, as well as outsourcing costs for logistical, support and cleaning services.

Offsetting these increases and resulting from the expenditure containment efforts and efficient resource management, there were cost reductions in training, data, voice and connectivity communications, and transport. These reductions are particularly important as they reflect significant management efforts, given that Banco de Portugal is in growth, both in terms of headcount and in terms of functions and responsibilities associated to it.

Finally, there has been a 15% increase from 2015 in depreciation and amortisation for the period, fundamentally due to the closure of projects at the end of 2016 relating mainly to IT systems, key

among which due to their materiality were the *TARGET2-Securities (T2S)* system, as mentioned above, and the monetary policy operations management system (GOMP), among others.

Lisbon, 21 March 2017

BOARD OF DIRECTORS

Governor

Carlos da Silva Costa

Vice-Governors

Pedro Miguel de Seabra Duarte Neves
José Joaquim Berberan e Santos Ramalho

Directors

Hélder Rosalino
Elisa Ferreira
Luís Máximo dos Santos

Profit distribution

The 2016 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 2016, to the amount of €440.59 million, was distributed as follows:

10% to the legal reserve	€44,058,986.17
10% to other reserves	€44,058,986.17
The remainder to the State, as dividends	€352,471,889.37

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. 2016		31 Dec. 2015	
		Gross assets	Depreciation, amortisation and impairment	Net Assets	Net Assets
1 Gold and gold receivables	2	13,502,843		13,502,843	11,967,904
2 Claims on non-euro area residents denominated in foreign currency		10,373,902		10,373,902	5,832,251
2.1 Receivables from the IMF	3	1,275,723		1,275,723	1,273,932
2.2 Balances with banks and security investments, external loans and other external assets	4	9,098,179		9,098,179	4,558,319
3 Claims on euro area residents denominated in foreign currency	4	382,896		382,896	188,334
4 Claims on non-euro area residents denominated in euro	5	387,737		387,737	418,204
4.1 Balances with banks, security investments and loans		387,737		387,737	418,204
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	22,372,120		22,372,120	26,160,880
5.1 Main refinancing operations		1,339,000		1,339,000	8,552,500
5.2 Longer-term refinancing operations		21,033,120		21,033,120	17,608,380
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	27,526		27,526	33,113
7 Securities of euro area residents denominated in euro		45,418,446		45,418,446	29,371,911
7.1 Securities held for monetary policy purposes	7	32,253,673		32,253,673	16,689,856
7.2 Other securities	5	13,164,773		13,164,773	12,682,055
9 Intra-Eurosystem claims	8	38,945,315		38,945,315	36,314,509
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		37,636,454		37,636,454	35,079,789
9.5 Other intra-Eurosystem claims		94,842		94,842	20,702
10 Items in the course of settlement		20		20	3
11 Other assets		6,561,045	254,460	6,306,584	6,611,856
11.1 Coins of the euro area		29,545		29,545	28,468
11.2 Tangible fixed assets and intangible assets	9	368,621	246,877	121,744	120,131
11.3 Other financial assets	10	4,995,158		4,995,158	5,495,024
11.4 Off-balance-sheet instruments revaluation differences		778		778	-
11.5 Accruals and prepaid expenses	11	822,745		822,745	623,095
11.6 Sundry	12/19	344,197	7,583	336,613	345,139
Total depreciation and amortisation			246,877		
Total impairment	19		7,583		
Total assets		137,971,851	254,460	137,717,390	116,898,965

			EUR thousands	
	Liabilities, revaluation accounts, general risk provision and equity	Note number	31 Dec. 2016	31 Dec. 2015
1	Banknotes in circulation	13	25,660,832	24,685,930
2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	5,648,523	7,712,082
2.1	Current accounts of credit institutions for compliance with minimum reserve requirements		5,498,141	7,702,568
2.2	Deposit facility		150,000	5,500
2.3	Fixed-term deposits		-	-
2.4	Fine-tuning reverse operations		-	-
2.5	Deposits related to margin calls		383	4,013
3	Other liabilities to euro area credit institutions denominated in euro		-	-
5	Liabilities to other euro area residents denominated in euro	15	13,010,559	6,630,018
5.1	General government		11,845,234	5,593,433
5.2	Other liabilities		1,165,325	1,036,584
6	Liabilities to non-euro area residents denominated in euro	16	413	415
7	Liabilities to euro area residents denominated in foreign currency		-	-
8	Liabilities to non-euro area residents denominated in foreign currency	4	3,397,681	-
8.1	Deposits, balances and other liabilities		3,397,681	-
8.2	Liabilities arising from the credit facility under ERM II		-	-
9	Counterpart of special drawing rights allocated by the IMF	3	1,027,936	1,026,484
10	Intra-Eurosystem liabilities	8	71,588,292	61,704,676
10.1	Liabilities related to the issuance of ECB debt certificates		-	-
10.2	Net liabilities arising from balances of TARGET accounts		71,588,283	61,686,658
10.3	Net liabilities related to the allocation of euro banknotes within the Eurosystem		-	-
10.4	Other net liabilities within the Eurosystem		9	18,018
11	Other liabilities		425,678	302,647
11.1	Off-balance-sheet instruments revaluation differences		-	-
11.2	Accruals and income collected in advance	17	56,237	25,656
11.3	Sundry	18	369,441	276,991
12	Provisions		-	-
13	Revaluation accounts	20	11,026,701	9,296,197
14	General risk provision	19	4,246,622	4,046,622
15	Equity	21	1,243,563	1,261,003
15.1	Capital		1,000	1,000
15.2	Reserves and retained earnings		1,242,563	1,260,003
16	Profit for the year		440,590	232,892
Total liabilities, revaluation accounts, general risk provision and equity			137,717,390	116,898,965

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. 2016	31 Dec. 2015
1. Interest income		881,792	651,506
2. Interest expense		36,494	29,404
3. Net interest income	22	845,298	622,102
4. Realised gains/losses arising from financial operations	23	176,757	432,128
5. Unrealised losses on financial assets and positions	24	77,421	60,471
6. Transfer from/to risk provisions	19	(200,000)	(480,000)
7. Net result of financial operations, unrealised losses and risk provisions		(100,663)	(108,343)
8. Fees and commissions income		5,027	5,321
9. Fees and commissions expense		8,174	6,918
10. Net income from fees and commissions		(3,147)	(1,597)
11. Income from equity shares and participating interests	25	32,930	26,226
12. Net result of pooling of monetary income	26	70,903	(17,431)
13. Other income	27	5,198	12,064
14. Total net income		850,518	533,022
15. Staff costs	28	121,980	119,810
16. Supplies and services from third parties	29	47,524	47,413
17. Other administrative expenses		1,269	1,123
18. Depreciation and amortisation for the year	9	12,630	11,003
19. Total administrative expenses		183,402	179,349
20. Costs of banknote production		14,884	16,015
21. Other expenses	27	2,731	13,960
22. Losses for impairment of assets (losses/reversals)		(5)	(38)
23. Transfer to the reserve relating to capital gains on gold sales		-	-
24. Total costs and losses (net)		201,012	209,286
25. Income before taxes		649,506	323,735
26. Income tax		208,916	90,844
26.1. Income tax – current	30	190,977	90,598
26.2. Income tax – deferred	30	17,939	245
27. Profit for the year		440,590	232,892

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 2014 (1)		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 (2)		-	30,414	30,414	-	-	(304,139)	(243,311)
Changes in 2015								
Actuarial gains/losses of the Pension Fund	32					(75,286)		(75,286)
Adjustments on account of deferred taxes	30					(6,245)		(6,245)
Sub-total of changes in 2015 (3)		-	-	-	-	(81,531)	-	(81,531)
Net profit for the year (4)							232,892	232,892
Comprehensive income for the year (5) = (3) + (4)		-	-	-	-	(81,531)	232,892	151,361
Position as at 31 December 2015 (6) = (1) + (2) + (5)		1,000	328,611	1,264,813	-	(333,421)	232,892	1,493,895
Position as at 31 December 2015 (7)		1,000	328,611	1,264,813	-	(333,421)	232,892	1,493,895
2015 profit distribution								
Dividends distribution to shareholders	21						(186,313)	(186,313)
Other operations	21		23,289	23,289	-		(46,578)	-
Sub-total of 2015 profit distribution (8)		-	23,289	23,289	-	-	(232,892)	(186,313)
Changes in 2016								
Actuarial gains/losses of the Pension Fund	32					(79,371)		(79,371)
Income tax – current	30				16,610			16,610
Adjustments on account of deferred taxes	30					(1,257)		(1,257)
Sub-total of changes in 2016 (9)		-	-	-	16,610	(80,628)	-	(64,018)
Net profit for the year (10)							440,590	440,590
Comprehensive income for the year (11) = (9) + (10)		-	-	-	16,610	(80,628)	440,590	376,572
Position as at 31 December 2016 (12) = (7) + (8) + (11)		1,000	351,900	1,288,102	16,610	(414,049)	440,590	1,684,153

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) the Accounting Guideline of the European Central Bank (ECB) (hereinafter "the ECB Accounting Guideline"),³ which, taking into account 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'), establishes the adoption of the mandatory rules defined by the Governing Council of the ECB on the treatment of core central banking activity, with Banco de Portugal having decided to also adopt the optional rules recommended in that Guideline for participating interests; and (ii) technical guidance on the recognition and measurement based on the IFRS⁴ for the other 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. 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 Banco de Portugal's activity. These participating interests are measured in compliance with the accounting policy described in Section 1.2 (e) of this note. Given the immaterial nature of the results of a possible consolidation process, as well as the lack of economic sense justifying it, Banco de Portugal 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), Banco de Portugal uses the harmonised procedures laid down by the ECB as a basis. 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.

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 2016 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 Banco de Portugal 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

Banco de Portugal applies an asymmetric valuation approach to unrealised gains in accordance with the ECB Accounting Guideline. Thus, over the course of the period, revaluation differences (i.e. 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 is no netting of revaluation differences in any one security (ISIN code), or in any currency.

Realised gains and 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.

In accordance with the Eurosystem's accounting framework, each balance sheet sub-item's interest payable or receivable is presented net under 'Interest Income' or 'Interest Expense' depending on whether its value is positive or negative.

e) Measurement of balance sheet items

Gold, foreign exchange transactions and securities in the trading portfolio are valued at the end of the period 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.

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 are recorded in twelfths, according to the straight-line method, by applying annual depreciation and amortisation rates (according to the estimated useful life) which fall within the fiscally accepted intervals under Regulatory Decree No 25/2009:

	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.

Assets under construction are valued at the total expenses already charged to Banco de Portugal 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 Banco de Portugal, 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, currently closed; (iv) the asset-backed securities purchase programme – ABSPP, currently centralised on the balance sheet of the ECB; (v) the public sector purchase programme – PSPP; and (vi) the corporate sector purchase programme – CSPP, in which Banco de Portugal holds no securities.

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 are in 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 costing method adopted by Banco de Portugal uses the adjusted weighted average cost of the accumulated amortisation of the premium or discount. The difference between the value of sales and the adjusted weighted average cost of the security is treated as realised gain/loss.

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.

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 totally independently of the other 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 on 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 cash flows resulting from the change in the respective margin account.

In accordance with the Eurosystem's accounting framework, gold swaps are treated as repurchase agreements and gold flows relating to these operations do not affect gold reserve levels. A gold swap for foreign currency (or for euro) is treated as the taking of funds, in which interest is agreed (the difference between the spot and forward prices) and is accrued over the transaction's life.

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 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 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 32, 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 32.

The recognition of costs and liabilities related to retirement pensions is made in accordance with IAS 19. 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.

The Pension Fund – Defined-benefit plan comprises two benefit plans, i.e. the Pension Plan and the Healthcare Plan, described in detail in note 32.

As regards these Plans, contributions made for the Fund aim to ensure the Plans' 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 of Banco de Portugal – 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 2009, 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 32.

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 Banco de Portugal.

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 on 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 cash flows.

In accordance with IAS 37, provisions are recognised when: (i) Banco de Portugal 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, Banco de Portugal 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 it is similar to a reserve, although its increases and decreases are directly made against the Profit and Loss Account. Given its similarity to a reserve, the General risk provision is only increased when the results created previously allow it.

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).

The General risk provision amount is defined taking into consideration, among other factors, the assessment of balance sheet risks from a medium-term perspective, ensuring that own funds are sufficient for the liabilities taken on by Banco de Portugal, and that the capital ratio is held at levels allowing the coverage of potential losses, including those resulting from decisions taken by the Governing Council of the ECB with an impact on Banco de Portugal's accounts.

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, based on an in-depth technical assessment of developments in the financial statements, balance sheet risks – following methodologies common to the Eurosystem Central Banks – and financial buffers that allow the aforementioned risks to be covered over a medium-term time horizon.

r) Reserves and retained earnings

Banco de Portugal'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.

1.4 Other subjects

Given the role of Banco de Portugal as a central bank, publication of the statement of cash flows was deemed not to provide additional information of importance for readers of the financial statements.

Banco de Portugal, 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, Banco de Portugal follows Eurosystem best practice to this end.

Note 2 • Gold and gold receivables

	31 Dec. 2016		31 Dec. 2015	
	Fine ounces(*)	EUR thousands	Fine ounces(*)	EUR thousands
Gold stored at the Bank	5,549,238	6,093,319	5,549,245	5,400,664
Gold sight accounts	3,611,918	3,966,053	6,747,916	6,567,241
Gold allocated to swaps	3,136,000	3,443,472	-	-
Gold reserve	12,297,156	13,502,843	12,297,161	11,967,904

(*) Ounce of fine gold.

As at 31 December 2016 the value of gold increased by €1,534,939 thousand compared with the 2015 end balance. This increase was essentially due to positive developments in the price of gold denominated in euro. The variation in the gold reserve level arises from small changes (i) in the conversion from grams to fine ounces of gold, in order to align Banco de Portugal's practice with that used at Eurosystem level and (ii) in the execution of gold transactions.

On 31 December 2016, Banco de Portugal's gold reserve was valued at the market price of €1,098.05 per fine ounce of gold, which

corresponds to a 12.8% price increase, from €973.23 on 31 December 2015.

There were also gold swap transactions for foreign currency in 2016, although these do not affect the gold reserve level, as described in Section 1.2 (g) of note 1 on accounting policy.

Unrealised gains resulting from this asset (€10,472,463 thousand on 31 December 2016) 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 invested in deposits is as follows:

Location	31 Dec. 2016		31 Dec. 2015	
	Fine ounces	EUR thousands	Fine ounces	EUR thousands
Bank of England	2,852,934	703,472	5,988,932	5,828,578
Bank for International Settlements (BIS)	640,658	3,132,653	640,658	623,504
Federal Reserve Bank – United States	118,327	129,928	118,327	115,159
Total	3,611,918	3,966,053	6,747,916	6,567,241

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

	31 Dec. 2016		31 Dec. 2015	
	SDR thousands	EUR thousands	SDR thousands	EUR thousands
IMF quota	2,060,100	2,625,803	1,029,700	1,310,602
IMF's holdings	(1,594,602)	(2,032,480)	(821,838)	(1,046,035)
Reserve tranche position in the IMF	465,498	593,323	207,862	264,567
SDR holdings	535,384	682,400	793,027	1,009,365
Claims on the IMF	1,000,881	1,275,723	1,000,889	1,273,932
Counterpart of special drawing rights allocated by the IMF	(806,477)	(1,027,936)	(806,477)	(1,026,484)
Liabilities to the IMF	(806,477)	(1,027,936)	(806,477)	(1,026,484)

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 2016, of Portugal's quota in the IMF, corresponding to the initial participation and subsequent payments, less the IMF's holdings with Banco de Portugal. In 2016, Banco de Portugal implemented a quota increase of SDR 1,030,400 thousand under the 14th General Review of Quotas, with the accompanying increase in IMF current account deposits and the reduction of the

SDR holdings position, which relates to the equivalent in euro of the SDR amount assigned to Banco de Portugal, totalling €682,400 thousand (SDR 535,384 thousand).

The liability position corresponds to the item Counterpart of special drawing rights allocated by the IMF, which showed a €1,027,936 thousand (SDR 806,477 thousand) liability to the IMF on 31 December 2016.

The changes in the different claim and liability items also include the effect of the slight SDR appreciation against the euro (0.14%), from 1.2728 on 31 December 2015 to 1.2746 on 31 December 2016.

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

	31 Dec. 2016	31 Dec. 2015
Claims on non-euro area residents denominated in foreign currency		
Securities	5,295,414	4,480,678
Balances with banks, deposits and other money markets	3,802,765	77,642
	9,098,179	4,558,319
Claims on euro area residents denominated in foreign currency		
Securities of euro area residents denominated in foreign currency	344,949	45,930
Balances with banks, deposits and other money markets	37,948	142,404
	382,896	188,334
Liabilities to non-euro area residents denominated in foreign currency		
Deposits, balances and other liabilities	(3,397,681)	-
Total security investments denominated in foreign currency	5,640,363	4,526,608
Total balances with banks, deposits and other money markets in foreign currency (net)	443,031	220,046
	6,083,394	4,746,654

currency arising from Banco de Portugal's strategic investment options. The rise resulted mainly from the volume increase in the securities portfolio, valued at market prices. On 31 December 2016, the securities portfolio accounted for 93% of total claims denominated in foreign currency (2015: 95%), broken down as follows:

	31 Dec. 2016	31 Dec. 2015
Securities of non-euro area residents denominated in foreign currency		
Government debt	4,203,140	2,495,689
Paragovernmental and supranational	1,092,274	1,984,989
	5,295,414	4,480,678
Securities of euro area residents denominated in foreign currency		
Paragovernmental and supranational	344,949	45,930
	344,949	45,930
	5,640,363	4,526,608

In 2016 there was an increase in the trading portfolio of claims denominated in foreign

Gold swaps for foreign currency were also entered into in 2016 (Note 2), resulting in an increase in the Balances with banks, deposits

and other money markets item (under Claims on non-euro area residents denominated in euro) and an accompanying increase of the same amount in Liabilities to non-euro area residents denominated in foreign currency, as described in Section 1.2 (g) of note 1.

In terms of the composition by currency, as at 31 December 2016 the portfolio denominated in foreign currency was mainly composed of US dollars (around 90% of total foreign currency) as had been the case in 2015 (87% 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. 2016	31 Dec. 2015
Claims on non-euro area residents denominated in euro		
Securities	386,178	390,815
Balances with banks, deposits and other money markets	1,559	27,389
	387,737	418,204
Claims on euro area residents denominated in euro		
Securities	13,164,773	12,682,055
Balances with banks, deposits and other money markets	27,526	20,613
Emergency lending operations	-	12,500
	13,192,299	12,715,168
Total security investments denominated in euro	13,550,951	13,072,870
Total balances with banks, deposits and other money markets denominated in euro	29,085	48,002
Emergency lending operations	-	12,500
	13,580,036	13,133,372

The volume of the trading portfolio denominated in euro (securities and balances with banks, deposits and other money markets) rose slightly from December 2015, retaining the same structure in terms of composition by financial instrument and origin of issuer. In accordance with Banco de Portugal's strategic options, the domestic securities component continues to account for the largest share in this portfolio (97% of total claims in 2016 and 2015).

This item included €12,500 thousand in 2015 in relation to a fully collateralised emergency lending operation outside the Eurosystem's monetary policy operations with a domestic credit institution. It was settled in 2016.

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

	31 Dec. 2016	31 Dec. 2015
Securities of non-euro area residents denominated in euro		
Paragovernmental and supranational	353,734	343,662
Companies/financial institutions	32,444	47,153
	386,178	390,815
Securities of euro area residents denominated in euro		
Government debt	12,468,115	11,827,617
Paragovernmental and supranational	675,582	827,371
Companies/financial institutions	21,076	27,067
	13,164,773	12,682,055
	13,550,951	13,072,870

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

On 31 December 2016 the euro value of the refinancing operations to euro area credit institutions relating to monetary policy operations denominated in euro at Eurosystem level reached €595,874,145 thousand (2015: €558,989,120 thousand), of which Banco de Portugal held €22,372,120 thousand (2015: €26,160,880 thousand). The breakdown of these operations on the balance sheet of Banco de Portugal as at 31 December 2016 is as follows:

	31 Dec. 2016	31 Dec. 2015
Main refinancing operations	1,339,000	8,552,500
Longer-term refinancing operations	21,033,120	17,608,380
	22,372,120	26,160,880

The main refinancing operations (MROs) are liquidity-providing reverse transactions usually with a frequency and a maturity of one week. Since October 2008 these operations have been conducted as fixed rate tender procedures. On 31 December 2016 the total amount placed by Banco de Portugal amounted to €1,339,000 thousand (2015: €8,552,500 thousand). Despite the total amount having fallen since 31 December 2015, these operations continue to play a key role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance.

The longer-term refinancing operations (LTROs) are liquidity-providing reverse transactions with maturity of between three and 48 months. These operations were conducted at fixed rate with allotment of the total amount bid.

In March 2016, the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (denoted TLTRO II). These operations have a four-year maturity, with a possibility of repayment after two years. The applicable interest rate for TLTRO-II operations will be between the MRO

rate and the deposit facility rate at the time of the allotment. Within this interval, the rate will be lower the more the net eligible financing achieved by each institution, between the date of each TLTRO-II allotment and January 2018, exceeds its lending benchmark. Therefore, given that the actual rate will only be known in 2018 and a reliable estimate is not possible at this juncture, the deposit facility rate has been used for calculating the TLTRO-II interest for the year, in a harmonised way at Eurosystem level, as this is deemed a prudent approach.

On 31 December 2016 the combined LTRO balance outstanding of the amount placed by Banco de Portugal reached €21,033,120 thousand (2015: €17,608,380 thousand).

The Eurosystem also provides the marginal lending facility, corresponding to overnight loans at the specified rate for these operations. On 31 December 2016 and 2015, Banco de Portugal's recourse to this facility was nil.

All financing operations related to monetary policy are fully collateralised by eligible assets (Note 31).

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. The Governing Council of the ECB has excluded a specific part of the collateral from risk-sharing, including assets that may be accepted by NCBs at their own discretion.

Note 7 • Securities held for monetary policy purposes

On 31 December 2016, 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),¹² in its governmental and supranational components (Section 1.2 (f) of note 1).

	31 Dec. 2016		31 Dec. 2015	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes				
Eurosystem's securities markets programme (SMP)	2,714,662	3,055,645	3,239,424	3,701,192
Covered bond purchase programme (CBPP)	121,849	134,329	200,623	218,414
Covered bond purchase programme 2 (CBPP2)	58,037	70,195	96,770	112,064
Covered bond purchase programme 3 (CBPP3)	2,945,142	2,961,463	3,048,963	3,043,945
Public sector purchase programme (PSPP) – Government securities	21,356,768	20,264,946	10,104,076	9,975,672
Public sector purchase programme (PSPP) – Supranational securities	5,057,214	4,934,412	-	-
	32,253,673	31,420,990	16,689,856	17,051,286

The following table presents the movements in these programmes during the year 2016:

	31 Dec. 2015	Purchases	Maturing securities	Accrual of premiums and discounts	31 Dec. 2016
Securities held for monetary policy purposes					
Eurosystem's securities markets programme (SMP)	3,239,424	-	555,000	30,239	2,714,662
Covered bond purchase programme (CBPP)	200,623	-	79,000	225	121,849
Covered bond purchase programme 2 (CBPP2)	96,770	-	40,350	1,617	58,037
Covered bond purchase programme 3 (CBPP3)	3,048,963	626,472	680,700	(49,593)	2,945,142
Public sector purchase programme (PSPP) – Government securities	10,104,076	11,471,564	-	(218,872)	21,356,768
Public sector purchase programme (PSPP) – Supranational securities	-	5,069,719	-	(12,505)	5,057,214
	16,689,856	17,167,755	1,355,050	(248,889)	32,253,673

Under the SMP, the ECB and the NCBs purchased securities in order to correct 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 2015 and 2016 no purchases were made for this portfolio. The reduction in this item, in 2016, 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 improving 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 2016 was due to bonds that matured.

Under the asset-backed securities purchase programme (ABSPP),¹³ the ECB and the NCBs may purchase senior and guaranteed mezzanine tranches of asset-backed securities in both primary and secondary markets, to improve credit provision to the euro area economy. The ECB exclusively is purchasing these securities.

In 2016 the Eurosystem programmes constituting the expanded asset purchase programme (APP), i.e. the third covered bond purchase programme (CBPP3), the ABSPP and the PSPP, were supplemented with the corporate sector purchase programme (CSPP).¹⁴ Under the CSPP, NCBs may purchase euro-denominated bonds issued by eligible corporations established in the euro area. In 2016 Banco de Portugal did not make any purchases under this programme.

In March 2016, the Governing Council also decided that from April 2016 to March 2017, the Eurosystem would increase monthly purchases of securities under the APP from €60 billion to €80 billion on average. In December 2016, the Governing Council decided to extend the purchasing period for a further nine months, resuming the monthly pace of €60 billion in net purchases from March 2017 to the end of December of that year or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. If, in the meantime, the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intends to increase the programme in terms of size and/or duration. The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the APP.

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

Within the monetary policy programmes, the total Eurosystem NCBs' holding of securities amounts to €94,802,907 thousand in the SMP portfolio (2015: €114,080,002 thousand), €11,756,253 thousand in the CBPP portfolio (2015: €18,796,171 thousand), €6,222,063 thousand

in the CBPP2 portfolio (2015: €8,790,150 thousand), €186,965,412 thousand in the CBPP3 portfolio (2015: €131,882,766 thousand), €1,002,725,278 thousand in the PSPP – Governmental securities portfolio (2015: €392,017,706 thousand), €139,638,955 thousand in the PSPP – Supranational securities portfolio (2015: €59,759,557 thousand), and €51,069,303 thousand in the CSPP portfolio, which began in 2016.

In accordance with Article 32.4 of the Statute of the ESCB, losses from monetary policy operations, if they were to materialise, may be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes. 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 2016 and were approved by the Governing Council.

With regard to the impairment test conducted on securities programme portfolios held by Eurosystem NCBs (CBPP, CBPP2, PSPP – Governmental securities, PSPP – Supranational securities and CSPP), the Governing Council decided that no impairment indicator was observed, and as a result all estimated future cash flows on these securities are expected to be received.

In the context of the impairment test conducted as at the end of 2016 on securities in the CBPP3 portfolio, the Governing Council identified an impairment indicator relating to the holdings of counterparty Monte dei Paschi di Siena (MPS), arising from the unsuccessful capital increase process and the subsequent request for precautionary recapitalisation. The Governing Council considered that the governmental intervention is resulting in an improvement in solvency ratios, safeguarding creditworthiness and liquidity needs, with no evidence, based on the information available on 31 December 2016, of changes to the estimated future cash flows relating to the holdings of MPS.

No impairment losses were therefore recorded at the year-end in respect of these securities. Banco de Portugal does not hold securities from

this issuer. Furthermore, no impairment losses were recorded in respect of the other securities purchased under the CBPP3 programme.

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.¹⁵

Banco de Portugal's share in the subscribed capital of the ECB has remained at 1.7434% since 1 January 2015, and the value of Banco de Portugal's share, including supplementary payments due to the adjustment of accumulated reserves, came to €203,700 thousand.

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

Banco de Portugal's share of the ECB's capital, subscribed and paid up by the NCBs of the Eurosystem, has remained at 2.4767% since 1 January 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 there were no changes to the ECB's capital key in 2016, 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 2016.

- 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). Since 1 January 2015, Banco de Portugal's share in the banknote allocation key has remained at 2.2785%.

The increase in this asset position compared with 31 December 2015 (from €35,079,789 thousand to €37,636,454 thousand) is due to the combination of a rise in overall circulation in the Eurosystem (4% up from 2015) and a rise in Banco de Portugal's asset position relating to the difference between banknotes put into circulation and banknotes withdrawn from circulation (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 2016 the balance of the item Other intra-Eurosystem claims, to the amount of €94,842 thousand, referred to: (i) the calculation method of the monetary income of 2016, totalling €70,911 thousand, settled on 31 January 2017 (Note 26); and (ii) an amount receivable of €23,931 thousand in respect of part of the early distribution of 2016 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 31 January 2017, following a decision of the Governing Council of the ECB (Note 26).

On 31 December 2016, the balance of the item Other intra-Eurosystem liabilities, to the amount of €9 thousand, referred to Eurosystem adjustments to the calculation method of the monetary income relating to previous years, settled on 31 January 2017 (Note 26).

- Net liabilities arising from balances of TARGET accounts

On 31 December 2016, Net liabilities arising from balances of TARGET accounts (Section 1.2 (h) of note 1) showed a credit position of €71,588,283 thousand (on 31 December 2015: €61,686,658 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. 2016	31 Dec. 2015
Tangible fixed assets		
Land	8,888	8,888
Buildings and other constructions	107,923	107,888
Facilities	82,467	81,257
Equipment	93,450	88,963
Museum and art collections	9,280	9,178
	302,007	296,173
Intangible assets		
Computer software	60,509	55,832
Other intangible assets	9	8
	60,518	55,840
Tangible fixed assets and intangible assets under construction	6,096	3,859
Total gross tangible fixed assets and intangible assets	368,621	355,872
Accumulated depreciation and amortisation		
Depreciation of tangible fixed assets	(199,972)	(193,255)
Amortisation of intangible assets	(46,905)	(42,486)
	(246,877)	(235,741)
Total net tangible fixed assets and intangible assets	121,744	120,131

In 2015 and 2016 movements in this item were as follows:

	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	-	-	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

	31 Dec. 2015 Net balance	Additions	Disposals	Depreciation and amortisation for the year	31 Dec. 2016 Net balance
Tangible fixed assets					
Land	8,888	-	-	-	8,888
Buildings and other constructions	56,245	35	-	1,625	54,655
Facilities	19,406	1,269	6	3,015	17,655
Equipment	9,202	6,119	193	3,571	11,558
Museum and art collections	9,178	104	2	-	9,280
	102,918	7,528	201	8,211	102,035
Intangible assets					
Computer software	13,346	4,678	-	4,417	13,606
Other intangible assets	8	1	-	2	7
	13,354	4,678	-	4,419	13,613
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	3,857	7,699	5,459	-	6,096
Advances	2	-	2	-	-
	3,859	7,699	5,461	-	6,096
	120,131	19,905	5,662	12,630	121,744

The increase in Facilities relates essentially to the New Museum Project and the Security Facilities at the Carregado Complex. The increase in Equipment was mainly driven by acquisitions of IT equipment as part of the Digital Bank Project 2020 and of cash handling equipment.

The sharp increase in Intangible assets is mainly due to the go-live of IT systems, namely the monetary policy operations management system

(GPM – Release2), the bank loan handling system, the new official website of Banco de Portugal and various support systems to the statistics area.

Finally, the high level of tangible fixed assets and intangible assets under construction, on 31 December 2016 is chiefly due to projects under way related to the IT systems and cash handling equipment, which automatically sort and destroy banknotes unfit for circulation.

Note 10 • Other financial assets

	31 Dec. 2016	31 Dec. 2015
Participating interest in non-euro area resident entities	21,650	21,650
Participating interest in euro area resident entities	30,770	32,740
Medium-term investment portfolio	4,942,611	5,440,566
Other assets	129	69
	4,995,158	5,495,024

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

Banco de Portugal's participating interests are broken down as follows:

	31 Dec. 2016		31 Dec. 2015	
	% 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 SGFPBP, S. A.	97.85%	3,244	97.84%	3,179
In Valora, S. A.	100.00%	27,524	100.00%	29,560
In Swift	0.01%	1	0.01%	1
		30,770		32,740

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). Banco de Portugal used provisional financial statements from the entities in which it has a participating interest to value these interests with reference to 31 December 2016 and 2015, which according to the entities gave values fairly close to the final values.

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. In December 2016, the medium-term investment portfolio decreased €497,956 thousand from 2015, as a result of the value of the securities that matured in the course of the year and the reinvestment in trading portfolios of coupons received from securities in this portfolio, in a context of negative yields. As mentioned above, these assets are subject

to impairment tests and no evidence was found of changes to the estimated future cash flows, and no impairment loss was therefore recorded. The breakdown of this portfolio by type of financial instrument is as follows:

	31 Dec. 2016	31 Dec. 2015
Medium-term investment portfolio		
Government debt	4,841,697	5,288,761
Paragovernmental and supranational	100,914	151,805
	4,942,611	5,440,566

The market value of this portfolio is presented in note 33 for information purposes.

Note 11 • Accruals and prepaid expenses

	31 Dec. 2016	31 Dec. 2015
Accruals		
Interest and other income receivable from central bank operations	659,561	393,721
Other accruals	1,008	1,090
	660,568	394,811
Prepaid expenses		
Prepaid expenses from central bank operations	106,417	152,014
Other prepaid expenses	13,448	14,753
Deferred tax assets	42,311	61,517
	162,176	228,283
	822,745	623,095

On 31 December 2016 accruals relating to Income receivable from central bank operations include essentially outstanding accrued interest receivable on: (i) securities held for monetary policy purposes totalling €513,210 thousand (2015: €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 totalling €138,024 thousand (2015: €144,581 thousand), (iii) lending to credit institutions for monetary policy operations totalling €1,576 thousand (2015: €13,583 thousand), (iv) gold swaps for foreign currency (€4,115 thousand) and (v) deposits in Banco de Portugal from general government and the autonomous funds, remunerated at negative interest rates, totalling €1,616 thousand (2015: €189 thousand).

The item Prepaid expenses relating to central bank operations chiefly consists of accrued coupon interest on securities held in Banco de Portugal'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 Banco de Portugal on the maturity date of the respective coupon or upon the sale of the securities. Key among the values in this item is interest on the securities held for monetary policy purposes (€82,526 thousand in 2016 and €106,027 thousand in 2015).

The amount registered in Other prepaid expenses includes, inter alia, €9,848 thousand (2015: €11,165 thousand) relating to the recognition of the updated value of the difference between cash 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 30 presents a more detailed description of the amount of deferred tax assets in 2016 and 2015.

Note 12 • Other assets – sundry

	31 Dec. 2016	31 Dec. 2015
Lending to employees	152,861	145,887
Special credit situations – BP/Finangeste Agreement	1,238	69,653
Other special credit situations	439	439
Claims related to reorganisation of credit institutions	5,899	-
Pension Fund – Defined-benefit plan	56,998	67,202
Pension Fund – Defined-contribution plan – Reserve account	23,503	3,770
Sundry debtors	514	548
Corporate Income Tax – Payments on account and additional payment on account	80,993	114,760
Billing to third parties	15,754	8,277
Other reduced value accounts	5,997	4,707
	344,197	415,244
Impairment of recoverable amounts	(7,583)	(70,105)
	336,613	345,139

Lending to employees corresponds mostly to mortgage loans to employees.

As at 31 December 2015, Special credit situations recorded €69,653 thousand in recoverable credit from Finangeste, S.A. under the Banco de Portugal/Finangeste Arrangement of 9 January 1995, which mandated this entity to recover or divest credit and other assets arising from the winding up of Caixa Económica Açoreana, S.A., receiving a fee for this that varies according to the type of assets recovered. Under this Arrangement, Finangeste has provided information on a yearly basis to Banco de Portugal on the proceeds from this asset recovery activity, giving detail on the amounts recovered. Capital gains and losses are also reported for each process, as well as the revenues and expenses directly associated to

them. These values are also fully supported by Banco de Portugal in accordance with the Arrangement. An impairment for the total value of these assets has been recognised.

In 2016, the Arrangement was renewed with a new annex to the original contract, in which Finangeste presents a recoverable amount of credit under its management of €1,238 thousand. Assets valuing €62,516 thousand were derecognised, but did not result in any gains or losses for the period however, as an impairment had been recognised for the full value, as mentioned above. Furthermore, €5,899 thousand was also subtracted from the total 2015 value and moved into the balance sheet item Claims related to reorganisation of credit institutions, as the recovery of this credit is the responsibility of the judicial liquidator designated by Banco de Portugal itself. The recoverable amounts remaining on the balance sheet in the two abovementioned items continue to have a corresponding impairment at their full value, for reasons of prudence (Notes 19 and 30).

The amounts paid as payments on account, in 2015 and in 2016, under Corporate Income Tax comply with the provisions of Articles 104 and 104-A of the Corporate Income Tax Code.

As at 31 December 2016, the item Billing to third parties relates essentially to contracts concluded by Banco de Portugal as part of the sale process of Novo Banco, S.A., following the resolution of BES, S.A.. Under Article 153-O of the Legal Framework of Credit Institutions and Financial Companies these costs will be charged to the Resolution Fund.

The item Pension Fund – Defined-benefit plan relates to this Fund's surplus on 31 December 2016, resulting from the fact that this Fund on that date had a funding ratio above 100% (Note 32).

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 2016, valued at market price, on that date (Note 32).

Note 13 • Banknotes in circulation

Euro banknotes in circulation on 31 December 2016 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. 2016	31 Dec. 2015
Banknotes in circulation		
Banknotes put into circulation (net)	(11,975,623)	(10,393,859)
Adjustments to circulation in the Eurosystem	37,636,454	35,079,789
	25,660,832	24,685,930

In 2016 the total value of euro banknotes in circulation in the Eurosystem increased by 4%. In accordance with the banknote allocation key, on 31 December 2016 Banco de Portugal recorded an aggregate value of banknotes

in circulation of €25,660,832 thousand, compared with €24,685,930 thousand on 31 December 2015. The difference between banknotes put into circulation and banknotes withdrawn from circulation recorded again on 31 December 2016 a debtor balance, rising from 2015. 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

As at 31 December 2016, the item Liabilities to euro area credit institutions related to monetary policy operations denominated in euro, amounting to €5,648,523 thousand, relates almost exclusively to the current accounts of credit institutions with Banco de Portugal (2016: €5,498,141 thousand, as against 2015: €7,702,568 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).

As at December 2016, this item also includes (i) the balance on deposit facility operations outstanding on this date (€150,000 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 (€383 thousand).

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

The sub-item General government relates to deposits from the Portuguese Treasury and Government Debt Agency (*Agência de Gestão da Tesouraria e da Dívida Pública – IGCP*), chiefly regarding the management of funds from the European Union originating from the Economic and Financial Assistance Programme to Portugal (*Programa de Assistência Económica e Financeira a Portugal – PAEF*), totalling €11,845,234 thousand as at 31 December 2016, with reference to the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stabilisation Facility (EFSF)

(31 December 2015: €5,593,433 thousand). 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 held at Banco de Portugal on current accounts of autonomous funds and deposits of other residents, totalling respectively €1,084,316 thousand and €81,010 thousand (€975,334 thousand and €61,250 thousand, respectively, as at 31 December 2015).

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 2016 and 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. 2016	31 Dec. 2015
Income collected in advance		
Other income collected in advance	3	2
Deferred tax liabilities	328	338
	331	340
Accruals		
Accruals from central bank operations	35,596	3,067
Other accruals	20,311	22,249
	55,907	25,316
	56,237	25,656

The amount recorded in Accruals from central bank operations includes the accrued interest

payable on lending to credit institutions (€34,741 thousand), which relates to operations under the new series of targeted longer-term refinancing operations (TLTRO II). For prudence, the Eurosystem accrues interest at the deposit facility rate as the actual rate is only known in 2018, as explained in note 6 and note 22.

Other accruals reflects essentially the above-mentioned accrued staff costs (€18,139 thousand) and accrued supplies and services from third parties payable (€2,172 thousand).

Note 18 • Other liabilities – sundry

	31 Dec. 2016	31 Dec. 2015
Banknotes withdrawn from circulation	154,674	155,770
Third parties	17,943	17,773
Liabilities relating to the payment to employees of seniority bonuses	13,200	11,981
Estimate for income taxes	174,367	90,598
Other central bank liabilities	8,670	-
Other accounts of reduced individual value	587	869
	369,441	276,991

The item Banknotes withdrawn from circulation represents Banco de Portugal'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 2016 and 2015, therefore the reductions recorded in this item were exclusively due to the delivery to Banco de Portugal 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 2016 reflects the present 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 2016 actuarial gains/losses were negative and were recognised under Other expenses (Notes 27 and 32).

The estimate for income tax is set out in note 30.

Note 19 • Impairment, provisions and general risk provision

Accounting movements in the items Impairment and Provisions during the period ended on 31

December 2016 may be summarised as follows:

	Balance as at 31 Dec. 2015	2016				Balance as at 31 Dec. 2016
		Increase	Transfer	Decrease	Net value	
Impairment of assets						
Adjustments for Special credit situations – BP/Finangeste Arrangement	69,653	-	(5,899)	(62,516)	(68,415)	1,238
Adjustments for claims related to reorganisation of credit institutions	-	-	5,899	-	5,899	5,899
Adjustments for other special credit situations	439	-	-	-	-	439
Adjustments for other recoverable amounts	13	-	-	(5)	(5)	8
	70,105	-	-	(62,522)	(62,522)	7,583

The Impairment of assets sub-item includes Adjustments for Special credit situations regarding the BP/Finangeste Arrangement. As at 31 December 2016, these adjustments total €1,238 thousand, which is considerably below that of December 2015 (€69,653 thousand) as a result of the outlook on unrecoverable credit given by Finangeste within this Arrangement's

renewal process, as explained in note 12. Assets valuing €5,899 thousand were also removed from the Arrangement as part of this renewal process, becoming the responsibility of the judicial liquidator designated by Banco de Portugal itself, presented in the item Adjustments for claims related to reorganisation of credit institutions.

	Balance as at 31 Dec. 2015	2016		Balance as at 31 Dec. 2016
		Increase	Decrease	
General risk provision	4,046,622	200,000	-	4,246,622

The General risk provision was increased by €200,000 thousand in 2016.

Movements in this provision are analysed annually by Banco de Portugal and take into consideration, among other factors, the medium-term income projection and risk assessment – calculated according to the methodology adopted by the Eurosystem. These are used to define a strategic risk coverage goal for a set time horizon, deemed satisfactory for holding the capital ratio at levels allowing the coverage, if necessary, of potential losses, including those resulting from decisions taken by the Governing Council of the ECB with an impact on Banco de Portugal's accounts (Section 1.2 (q) of note 1).

The 2016 increase in the General risk provision follows a significant increase in 2015 (of €480,000 thousand) in a context of sharply rising risks over the last few years, largely

due to Banco de Portugal's participation in monetary policy programmes. As the General risk provision is designed to cover potential medium-term risks, and should be increased in periods when Banco de Portugal has the financial capacity to do so, the increases made in each period also take into consideration the estimated future income and the risk projection for subsequent periods.

The policy of increasing provisions such as Banco de Portugal's General risk provision has been followed at Eurosystem level, in line with the substantial increase in the risks associated with the need for central bank intervention following developments in the euro area economies since the financial crisis was triggered in 2008. This policy of increasing provisions is formally recommended by the Governing Council, in Article 6a of the ECB Accounting Guideline (as amended).

Note 20 • Revaluation accounts

	31 Dec. 2016	31 Dec. 2015
Gold revaluation differences	10,472,463	8,937,525
Foreign currency revaluation differences	379,312	261,183
Securities revaluation differences	174,926	97,489
Revaluation accounts	11,026,701	9,296,197

Gold increased €1,534,938 thousand, as a result of the increase in unrealised gains

resulting from the appreciation of the gold price in euro (Note 2).

Positive revaluation differences of foreign currency are largely due to investments denominated in US dollars (€327,924 thousand) and in SDR (€33,136 thousand).

The increase in unrealised gains resulting from fluctuations in the price of securities relates fundamentally to securities denominated in euro (€148,697 thousand in 2016 compared with €72,366 thousand in 2015).

Note 21 • Equity

Movements in Equity for the 2015 and 2016 periods are set out in the Statement of Changes in Equity.

The capital of Banco de Portugal amounts to €1,000 thousand and it may be increased, 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. The net profit for the year 2015 gave rise to the transfer of €23,289 thousand to the legal reserve and an equal amount to other reserves, and to the distribution of dividends to the State totalling €186,313 thousand.

Movements in 2016 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 2016 (Notes 30 and 32).

Note 22 • Net interest income

	31 Dec. 2016	31 Dec. 2015
Interest income		
Gold	48	-
Securities	108,630	118,223
Denominated in foreign currency	64,692	48,576
Denominated in euro	43,938	69,647
Balances with banks, deposits and other money markets	15,518	3,165
Denominated in foreign currency	7,009	623
Denominated in euro	8,509	2,542
International Monetary Fund	1,028	623
Lending to euro area credit institutions	803	20,609
Securities held for monetary policy purposes	588,922	322,097
Intra-ESCB claims	3,759	17,423
Medium-term investment portfolio	146,615	166,578
Off-balance-sheet instruments	2,153	229
Other claims	777	879
Current accounts of credit institutions for compliance with minimum reserve requirements	7,999	1,119
Liquidity-absorbing operations	7	4
General government	1,698	-
Other liabilities to euro area residents denominated in euro	3,837	556
	881,792	651,506
Interest expense		
Liabilities to euro area residents denominated in euro	-	168
Liabilities denominated in foreign currency	1,090	0
International Monetary Fund	853	510
Intra-Eurosystem liabilities	6,641	28,508
Off-balance-sheet instruments	705	219
Longer-term refinancing operations	27,205	-
	36,494	29,404
Net interest income	845,298	622,102

The increase in the Net interest income item in 2016 was essentially driven by the sharp rise in volume in Securities held for monetary policy purposes, as a result of the PSPP investment. Due to the nature of their assets, the securities held for monetary policy purposes have much higher yields than most of the interest-bearing assets on the portfolio, however, these levels were below those of 2015.

This increase was offset by the decrease in the main components of interest receivable and payable, chiefly due to the general reduction in yields among principal interest assets and liabilities. In this regard, the Governing Council of the ECB reduced the rate used for main refinancing operations to 0% in March 2016, its lowest ever, where it remained all year, with a direct impact on returns on monetary policy assets and liabilities.

In 2016, the asset item Longer-term refinancing operations presented negative interest, arising from the introduction of the new TLTRO-II

operations, by decision of the Governing Council. Given that the actual rate on these operations is only known in 2018 and a reliable estimate is not possible, the deposit facility rate (which is currently negative) has been used for calculating the TLTRO-II interest for the year, as this is deemed a prudent approach across the Eurosystem (Note 6).

In order to standardise the presentation of positive and negative interest on monetary policy operations across the Eurosystem, in 2016 Banco de Portugal will present these items at their net value under either Interest income or Interest expense, depending on whether they are positive or negative in value. For reasons of consistency, this decision extends to interest on other Banco de Portugal liabilities. In 2015, positive and negative interest related with these operations was presented gross on Interest income and Interest expense respectively. The comparable amounts for 2015 have been adjusted as follows:

	31 Dec. 2015 Adjusted	Adjustment	31 Dec. 2015 Reported
Interest income			
Other claims	879	(2,683)	3,562
Current accounts of credit institutions for compliance with minimum reserve requirements	1,119	1,119	-
Liquidity-absorbing operations	4	4	-
Other liabilities to euro area residents denominated in euro	556	556	-
	2,558	(1,004)	3,562
Interest expense			
Liabilities to euro area credit institutions	-	(923)	923
Liabilities to euro area residents denominated in euro	168	(81)	249
	168	(1,004)	1,172

Finally, the income from the new gold swaps for financial currency are recorded under the items Interest on balances with banks, deposits and other money markets in foreign currency and Interest on liabilities in foreign currency.

Note 23 • Realised gains/losses arising from financial operations

	31 Dec. 2016	31 Dec. 2015
Foreign exchange transactions	40,910	344,941
Other financial operations in foreign currency	(27,693)	(1,811)
Financial operations in euro	455,337	282,334
Interest rate futures	(291,798)	(193,337)
	176,757	432,128

Realised gains/losses arising from financial operations in 2016 were significantly below that of 2015. Contributing to this was the fall in

gains from spot and forward foreign exchange operations, essentially regarding sales of US dollars.

Furthermore, capital gains increased from sale operations of securities in the trading portfolio in euro, partly offset by the increase in realised losses on interest rate futures. These results for management purposes are analysed together with those of related assets, as these operations are undertaken from a perspective of interest rate risk hedging associated with the trading portfolios.

Note 24 • Unrealised losses on financial assets and positions

	31 Dec. 2016	31 Dec. 2015
Unrealised exchange rate losses	1	47
Unrealised losses on investments in foreign currency	50,790	14,479
Unrealised losses on euro operations	26,630	45,944
	77,421	60,471

Unrealised losses recorded a slight year-on-year increase in the components related to financial operations denominated in euro and in foreign currency 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 €23,931

thousand relating to this income in 2016 (2015: €20,114 thousand).

In 2016 this item also included dividends received for Banco de Portugal's participating interests in 2015, chiefly: (i) in the ECB, to the amount of €6,679 thousand (2015: €3,690 thousand); and (ii) in the Bank for International Settlements (BIS), to the amount of €2,320 thousand (2015: €2,422 thousand).

Note 26 • Net result of pooling of monetary income

This item contains the net result of pooling of monetary income, amounting to €70,903 thousand¹⁶ (2015: €-17,431 thousand¹⁷).

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 (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 an 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 2015 and 2016, 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 €174,477 thousand, and its allocation under the aforementioned capital key, amounting to €245,388 thousand, less the adjustments made this year regarding 2015 to the amount of negative €9 thousand, is the net result arising from the pooling of monetary income (€70,903 thousand).

		31 Dec. 2016	31 Dec. 2015
A	Total contribution from all Eurosystem NCBs	9,907,797	8,980,640
B	Paid-up capital key	2.4767%	2.4767%
C = A x B	Total reallocation to Banco de Portugal	245,388	222,425
D	Total effective contribution from Banco de Portugal	174,477	240,443
E = C - D	Result of the method	70,911	(18,018)
F	Eurosystem adjustments to the result of the method relating to previous years	(9)	587
G	Net result of pooling of monetary income	70,903	(17,431)

Note 27 • Other income and expenses

	31 Dec. 2016	31 Dec. 2015
Other income		
Capital gains on tangible and intangible fixed assets	42	2,345
Previous fiscal years income	138	916
Sales and supply of services to third parties	3,664	4,289
Sundry income	1,354	4,515
	5,198	12,064
Other expenses		
Capital losses on tangible and intangible fixed assets	66	69
Previous fiscal years expenses	653	65
Sundry expenses	2,011	13,826
	2,731	13,960
	2,467	(1,896)

The item Sales and supply of services to third parties relates essentially to services provided by Banco de Portugal through the BpNet portal (€2,913 thousand).

The item Sundry income includes: (i) profit resulting from the adjustment of the value of Banco de Portugal'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 (€290 thousand and €65 thousand respectively); and (ii) €243 thousand relating to

gains in the Reserve Account, relating to the Pension Fund of Banco de Portugal – Defined-contribution plan (Note 32).

The Sundry expenses item in 2016 includes €1,340 thousand for negative actuarial deviations for the year-end assessment of liabilities from Seniority bonuses (Note 32).

Note 28 • Staff costs

	31 Dec. 2016	31 Dec. 2015
Remuneration of the members of the Board of Directors and Board of Auditors	1,249	1,251
Employees' salaries	82,027	80,310
Compulsory social charges	32,064	31,701
Voluntary social charges	4,903	4,650
Other staff costs	1,737	1,898
	121,980	119,810

Staff costs increased €2,170 thousand in 2016, essentially due to the items Employees' salaries and Compulsory social charges.

This growth was partly due to the 0.75% salary update under the revision of the collective labour agreement for the banking sector (ACT), with retroactive effect to January 2016. Furthermore,

the process continued of reinforcing Banco de Portugal's professional staff to address its increased responsibilities in the present economic and financial environment, in particular in the banking supervision field. Thus Banco de Portugal increased average headcount in 2016 by 23, comprising +29 members of staff in the supervisory areas and -6 in other areas.

Salary containment measures approved by the Board of Directors of Banco de Portugal were maintained in 2016. 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.

Note 29 • Supplies and services from third parties

	31 Dec. 2016	31 Dec. 2015
Electricity, fuel and water	3,677	3,627
Travel, accommodation and other transport	2,785	2,914
Litigation and notary services	6,207	4,266
Maintenance and repairs	5,216	5,174
Rentals	2,725	1,948
Specialised work		
Surveillance and security	3,833	3,524
IT	1,779	1,734
Use of databanks	2,534	2,478
Other specialised work	6,372	10,451
Software licensing and maintenance	6,886	5,211
Other supplies and services from third parties	5,510	6,085
	47,524	47,413

The increased expense in 2016 from Rentals, Specialised surveillance and security, Maintenance and repairs and Electricity, fuel and water, are

mainly justified by the usage of the building in Rua Castilho, to accommodate Banco de Portugal's supervision areas, which only started in May 2015, but with an impact, in terms of a complete year, only in the year under review.

The increase in Litigation and notary services relates mainly to legal services associated with the specific activity of Banco de Portugal's Legal Services Department (€554 thousand increase) and the provision of legal services associated with the resolution measures for Banco Espírito Santo, S.A. and BANIF, S.A. (€1,386 thousand increase). However, total expenses regarding the resolution measures fell by €2,142 thousand as a result of the €3,546 thousand reduction in external consultancy services, recorded under the item Other specialised work.

The increase in Software licensing and maintenance is due to the go-live in 2016 of *TARGET2-Securities (T2S)*, the costs of which are borne by Banco de Portugal in conjunction with other national central banks.

Note 30 • Income tax

Banco de Portugal 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 Banco de Portugal'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 2016 and 2015 the item income tax was broken down as follows:

	31 Dec. 2016	31 Dec. 2015
Current tax	174,367	90,598
On Profit for the year	190,977	90,598
On Retained earnings	(16,610)	-
Deferred tax	19,196	6,490
On Profit for the year	17,939	245
On Retained earnings	1,257	6,245
	193,563	97,089

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

	2016	2015
Calculation of current income tax		
Profit/loss before taxes	649,506	323,735
Negative balance sheet variations not reflected in profit or loss	(21,319)	(21,319)
Pension Fund and seniority bonuses	(32,260)	268
Tax benefits	(2,773)	(2,696)
Cancellation of the Net Asset Value effect	(356)	(3,306)
Adjustments from previous periods	641	65
Charges not fully documented	176	226
Depreciation and amortisation not deductible as costs	157	106
Accounting capital gains/losses	24	9,290
Tax gains/losses	(34)	1,279
Donations not defined in the Tax Benefits Statute	0	1,871
Other	73	189
Taxable income/(tax loss)	593,835	309,709
Deductible tax loss	-	-
Tax base	593,835	309,709
Collection (1)	124,705	65,039
Municipal corporate tax (2)	8,850	4,615
State surtax (3)	40,673	20,785
Autonomous taxation (4)	138	160
Current income tax	174,367	90,598
Reconciliation between current tax-related losses for the period and the balance sheet balance		
- Recognition as current losses for the year (1)+(2)+(3)+(4)	174,367	90,598
- Less: payments on account and additional payments on account	80,993	114,760
- Less: withholdings at source	9	6
- Current balance (recoverable)/payable	93,365	(24,168)

On 31 December 2015 and 2016 the balances on deferred tax assets and liabilities can be broken down as follows:

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

Computation of deferred taxes	Assets and liabilities				Profit/loss	
	31 Dec. 2016		31 Dec. 2015		31 Dec. 2016	
	Assets	Liabilities	Assets	Liabilities	Profit/loss	Retained earnings
Pension Fund – Defined-benefit plan	31,299	-	37,470	-	-	6,171
Credit impairment	2,222	-	20,533	-	18,311	-
Seniority bonuses	3,876	-	3,510	-	(366)	-
Interest rate subsidies	-	-	4	-	4	-
Excess amortisation	-	(328)	-	(338)	(10)	-
Early retirements	4,915	-	-	-	-	(4,915)
	42,311	(328)	61,517	(338)	17,939	1,257

The deferred tax asset for early retirements, valued at €4,915 thousand, results from the fact that contributions made to the Pension Fund to cover this benefit are not tax-deductible against corporate income tax at the time that they are made. Only amounts effectively paid to their beneficiaries for early retirements are tax-deductible, up to the total of the respective contributions made.

The derecognition from the accounts of assets associated with the BP/Finangeste Arrangement, as explained in note 12, did not lead to a deduction for usage of this impairment

in the estimated current tax calculation, since uncertainties remain currently as to whether the necessary conditions are in place for its acceptance by the tax authority. For reasons of prudence, the deferred tax asset relating to this was restored, being offset against Profit/loss for the year. However, Banco de Portugal continues to expect that this tax will be recovered in the future when the diligence eliminating the above-mentioned uncertainties is complete.

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

Note 31 • Off-balance-sheet instruments

	31 Dec. 2016	31 Dec. 2015
Contracted financial operations	(4,686,739)	(1,239,989)
Collateral given	(1,464,598)	(487,632)
Collateral received	61,499,576	63,217,231
Items held in custody	46,679,976	49,277,196
Irrevocable credit lines	(3,454,849)	(4,178,523)

Contracted financial operations

This item records open positions in financial operations that are under contract but still outstanding at the year-end. As at 31 December 2016 and 31 December 2015, these positions relate only to derivative financial instruments designed essentially to manage risks associated with their assets and liabilities, as follows:

	31 Dec. 2016					31 Dec. 2015	
	Contract value (1)		Market value (2)	Profit/loss (3)	Accrued interest (4)	Contract value (1)	
	Purchases	Sales	Net	Net	Net	Purchases	Sales
Currency forwards	11,445	(11,445)	781	781	0	-	-
Currency swaps	184,927	(184,927)	(413)	(391)	(22)	-	-
Interest rate futures	1 159,767	(5,846,506)	-	-	-	2,314,495	(3,554,484)

(1) Theoretical or notional value of the contract. (2) The market value corresponds to income or expenses associated with the potential closing of open positions, taking into account current market conditions and the valuation models commonly used. (3) The effect on profit/loss corresponds to the impact on the Profit and Loss Account of the potential closing of open positions, taking into account current market conditions and the valuation models commonly used. (4) The value of accrued interest corresponds to interest income and expense plus open positions until the balance sheet date.

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

Collateral given includes the promissory note issued by Banco de Portugal in favour of the IMF, under Article III, Section 4 of the IMF's Articles of Agreement.

Collateral received principally includes collateral related to the monetary policy operations of the Eurosystem (€61,493,001 thousand on 31 December 2016), including collateral used via the Correspondent Central Banking Model (CCBM).

Items held in custody essentially comprises (i) securities owned by the Portuguese State

(€17,547,184 thousand); (ii) securities held in custody by Banco de Portugal as collateral in monetary policy operations with other NCBs, under the CCBM (€12,007,831 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 €15,848,628 thousand (Note 15).

The item Irrevocable credit lines records the limit on the credit lines of the Portuguese financial system to the amount of €2,456,200 thousand and a credit line granted to the IMF to the amount of SDR 784 million under the New Arrangements to Borrow (NAB) (€998,649 thousand).

Note 32 • 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 2011 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 – CAFEB¹⁸ (family allowance fund of bank employees) and covered by the Pension Fund – Defined-benefit plan, are now integrated in the general social security scheme with respect to statutory retirement pensions.

Thus, the Pension Fund – Defined-benefit plan in terms of the statutory retirement/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 remained totally under the Fund's responsibility also.

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 contract establishing the Pension Fund – Defined-benefit plan 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 payment 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 2009). The Healthcare Plan is open for all staff of Banco de Portugal.

The benefits associated with the above-mentioned schemes of the Pension Fund include old-age pensions of members/statutory retirement (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 by the sponsor of charges, including inherent charges to SAMS (social

health assistance service for banking sector employees) related to pensions in payment.

In 2016 liabilities associated with additional retirement benefits were incorporated in the Pension Fund – Defined-benefit plan, following an early retirement programme taking place in 1993. This benefit covers a closed group of 12 retired employees and corresponds to a liability, calculated as at 31 December 2016, of €428 thousand, already incorporated in the Fund's values presented below.

Within the scope of the revision of the collective labour agreement for the banking sector (ACT) in 2016, given that the changes to said agreement, only apply to a small number of employees covered by it and overall are less favourable for the said employees, representing implementation costs that exceed potential savings for the Bank, the Board of Directors decided to refrain from implementing those changes until the end of the revision process of the company-level agreements (*Acordos de Empresa*), with the exception of the wage increases and other pecuniary payments, which were included in the actuarial valuations of the Fund.

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 take-up of subsidised clinical services 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. Scheme members

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

Number of scheme members	31 Dec. 2016	31 Dec. 2015
Active members	1,146	1,212
Retired members	1,935	1,931
Pensioners	585	581
	3,666	3,724

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

Average life expectancy (years)	31 Dec. 2016	31 Dec. 2015
Active members	32	32
Retired members	13	13
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 adopted are the following:

Actuarial and financial assumptions used				
	31 Dec. 2016	01 Jan. 2016	31 Dec. 2015	01 Jan. 2015
Discount rate	1.619%	2.170%	2.170%	2.339%
Expected return rate on the Pension Fund's assets	n.a.	2.170%	n.a.	2.339%
Wage growth rate				
1st year	1.750%	1.000%	1.000%	1.000%
Subsequent years	2.682%	2.466%	2.466%	2.439%
Pensions growth rate				
1st year	0.750%	0.000%	0.000%	0.000%
Subsequent years	1.682%	1.466%	1.466%	1.439%
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 3 months		66 years and 2 months	
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 bonds whose liquidity, denomination and maturity are adequate to the term structure of the Pension Fund's liabilities.

- Healthcare plan

- a. Scheme members

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

Number of scheme members	31 Dec. 2016	31 Dec. 2015
Active members	1,793	1,775
Retired members and pensioners	2,475	2,466
	4,268	4,241

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

Average life expectancy (years)	31 Dec. 2016	31 Dec. 2015
Active members	38	38
Retired members	13	13
Pensioners	11	11

- b. Methodology, assumptions and accounting policy

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

established according to IAS 19. The most important are the following:

	Actuarial and financial assumptions used			
	31 Dec. 2016	01 Jan. 2016	31 Dec. 2015	01 Jan. 2015
Discount rate	1.619%	2.170%	2.170%	2.339%
Expected return rate on the Pension Fund's assets	n.a.	2.170%	n.a.	2.339%
Growth rate of the average/annual expenses				
Disability pensions	5.512%	5.290%	5.290%	5.232%
Other	4.075%	3.853%	3.853%	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 of Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme (1st year)	66 years and 3 months		66 years and 2 months	
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. 2016			31 Dec. 2015		
	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	929,698	664,365	1,594,063	860,544	584,495	1,445,039
Pensions' inherent charges to SAMS	53,455	35,671	89,126	49,501	30,545	80,046
Death grants	2,080	793	2,873	1,854	656	2,510
Healthcare	49,065	26,524	75,589	45,959	22,670	68,629
	1,034,297	727,353	1,761,650	957,857	638,366	1,596,223

The table below presents developments in past service liabilities of the Pension Fund in 2016 and 2015.

Past-service liabilities	2016	2015
Value at the beginning of the year	1,596,223	1,576,898
Current service cost	14,147	13,829
Benefits payable (expected value)	(66,116)	(64,621)
Interest cost	34,638	36,884
Actuarial gains/losses	182,330	33,233
Past-service cost	428	-
Value at the end of the year	1,761,650	1,596,223

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 December 2016	10 b.p. reduction in pensions/healthcare discount rate	One-year increase in life expectancy
Impact on the Pension Fund's assets	1.2%	0.0%
Impact on the Pension Fund's liabilities	1.5%	4.5%
Impact on the Pension Fund's funding ratio	-0.3%	-4.5%

On 31 December 2016, the modified duration of liabilities stood at 15.3 years (2015: 14.7) 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 -3.2 years (2015: -4.2 years).

The value of the Pension Fund's assets in 2015 and 2016 was as follows:

Fund's assets	2016	2015
Value at the beginning of the year	1,663,425	1,637,797
Current contributions paid to the Fund	14,344	11,814
Contributions paid on account of early retirements	11,240	4,980
Extraordinary contributions paid to the Fund	56,700	77,200
Benefits and inherent charges to SAMS	(69,523)	(66,610)
Net income of the Fund	142,462	(1,755)
Value at the end of the year	1,818,648	1,663,425

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

Fund's investments	31 Dec. 2016	31 Dec. 2015
Real estate	120,831	117,457
Variable income securities	135,596	138,056
Fixed income securities	1,517,489	1,339,962
Cash and bank deposits	9,674	20,684
Other	35,058	47,266
	1,818,648	1,663,425

Securities portfolio of the Fund	31 Dec. 2016	31 Dec. 2015
Variable income securities		
Participation units – Investment funds	135,596	138,056
Fixed income securities		
Government debt	1,498,477	1,339,962
Other	19,012	-
	1,653,085	1,478,018

At the end of 2016 the funding ratio of the Pension Fund stood at 103.2%, i.e. lower than at the end of 2015 (104.2%).

Actuarial gains and losses in 2015 and 2016 can be broken down as follows:

	31 Dec. 2016	31 Dec. 2015
Actuarial gains/losses		
Population movements	(16,793)	(16,308)
Technical gains and losses	10,205	8,824
Wage growth	(3,850)	(3,335)
Increase in pensions	(4,745)	1,263
Change in average healthcare expenses	537	456
Adjustments to the model	1,485	-
Other gains and losses	6,353	(325)
Indexation of assumptions		
Wage growth	(23,815)	4,649
Increase in pensions	(13,018)	10,328
Discount rate	(138,689)	(38,786)
	(182,330)	(33,233)
Financial gains and losses		
Gains and losses in paid pensions	(3,407)	(1,990)
Gains and losses in expected income of the Fund	106,366	(40,063)
	102,959	(42,053)
	(79,371)	(75,286)

The adjustment of the discount rate level induced an increase in the Fund's liabilities of approximately €138,689 thousand, chiefly due to declining interest rates (with an impact of €108,435 thousand) and a similar effect resulting from an improvement in the credit quality of the debt used in the calculation of the discount rate.

The item Other gains and losses recognises mainly the value of actuarial losses resulting from the increase in the Minimum Guaranteed Monthly Wage and in the social support indexant, as well as from the update of the indicator of the average life expectancy at 65 years, released by INE (Statistics Portugal).

The change in the value of past service liabilities (€428 thousand), which as mentioned above results from the incorporation in the Pension Fund – Defined-benefit plan of liabilities associated with additional retirement benefits awarded following an early retirement programme taking place in 1993, was directly recognised under Profit/loss.

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

	2016	2015
Staff costs		
Current service cost(*)	11,669	11,453
Interest cost	34,638	36,884
Expected return on the Fund's assets	(36,096)	(38,308)
	10,211	10,029

(*) 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	2016	2015
Value at the beginning of the year	11,981	12,814
Seniority bonuses paid	(1,285)	(1,756)
Current service cost	965	945
Interest cost	199	229
Actuarial gains/losses	1,340	(251)
Value at the end of the year	13,200	11,981

On 31 December 2016 the modified duration of liabilities stood at 10.21 years (2015: 9.8 years).

The value of actuarial gains/losses referring to these liabilities was recognised directly under Profit/loss (Note 27).

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

	Actuarial and financial assumptions used			
	31 Dec. 2016	01 Jan. 2016	31 Dec. 2015	01 Jan. 2015
Discount rate	1.276%	1.663%	1.663%	1.785%
Expected wage growth rate				
1st year	1.750%	1.000%	1.000%	1.000%
Subsequent years	2.524%	2.207%	2.207%	2.068%
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 3 months		66 years and 2 months

The population considered for the calculation of these liabilities in December 2016 is 1,793 participants (2015: 1,775).

Pension Fund of Banco de Portugal – Defined-contribution plan

The changes introduced into Banco de Portugal's company-level agreements, 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 2009 (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 2016 the supplementary pension plan funded through this Pension Fund covered 664 members (2015: 583).

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 of the sponsor. 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).

In 2016 the Reserve account was increased by €20 million with a view to addressing the Fund's operational and financial constraints in connection with the reduced amount under management.

As at 31 December 2016 the assets of the Fund amounted to €25,522 thousand, broken down as follows:

Participation units (in value)	31 Dec. 2016	31 Dec. 2015
Reserve account (Note 12)	23,503	3,770
Members' individual accounts	2,018	1,497
	25,522	5,267

Note 33 • Risk management

Risk management in Banco de Portugal is designed to ensure the sustainability and profitability of Banco de Portugal itself, safeguarding its independence and guaranteeing 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 Risk Committee and Banco de Portugal's other departments, being monitored by the Board of Auditors and the Board of Directors of Banco de Portugal.

Banco de Portugal also has a Compliance Officer position, responsible for advising and monitoring ethics and conduct, 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 resulting 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 Banco de Portugal (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.

Banco de Portugal's own investment assets are managed by the Markets and Reserve Management Department based on a strategic benchmark, reflecting the preferences of the Board of Directors of Banco de Portugal in terms of risk-profitability. This benchmark reflects the discussion of scenarios and forecasts for the main economic and financial variables and the undertaking of various optimisation exercises to determine 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 Banco de Portugal.

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 the medium term, 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 Banco de Portugal's financial buffers. This exercise is also used in the assessment of 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 2016 and 2015 is as follows:

	31 Dec. 2016		31 Dec. 2015	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes (Note 7)	32,253,673	31,420,990	16,689,856	17,051,286
Medium-term investment portfolio (Note 10)	4,942,611	5,230,079	5,440,566	5,721,234
	37,196,283	36,651,069	22,130,422	22,772,520

Quotations from active markets were used to assess the market value of the securities, as presented previously.

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 Banco de Portugal'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 Banco de Portugal's activity and assets.

Banco de Portugal'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 Banco de Portugal, and take into account the international standards as well as the policies and practices followed by the community of central banks.

Banco de Portugal is equipped with tools that provide a comprehensive and consistent outlook of financial and non-financial risks, specialising in the identification and assessment of the main risks facing financial activity. The results of that assessment suggest that the main risks identified are in zones compatible with the tolerance level in force, reflecting the effectiveness of the controls implemented.

Note 34 • Legal proceedings in progress

Within the scope of its day-to-day activity, Banco de Portugal is the defendant in litigation initiated by third parties. As at 31 December 2016, Banco de Portugal was denounced in various legal proceedings. The progress of lawsuits is followed regularly by the Board of Directors of Banco de Portugal, which is in turn supported closely by technical and legal analysis and monitoring undertaken by its Legal Services Department and, in certain cases, law firms specialising in the lawsuits in question.

The main lawsuits currently in progress fall into the following categories: common

lawsuits, administrative lawsuits, precautionary measures, administrative offence proceedings (judicial phase), monitoring of winding up of credit institutions and financial companies and monitoring of proceedings related to labour disputes.

Although the Board of Directors of Banco de Portugal regularly monitors administrative offence proceedings and the winding up of credit institutions and financial companies in progress, they do not have a direct impact on the financial statements of Banco de Portugal as they result from its regulatory and supervisory activity.

The Board of Directors' assessment of Banco de Portugal's current position in the most important lawsuits, considering both the quantity and subject of proceedings in question, is presented below:

- Resolution measure applied to Banco Espírito Santo, S.A. ("BES")

By its nature, the resolution process of Banco Espírito Santo, S.A. (hereinafter "BES"), in the form of the transfer of most of that institution's activity and assets to a bridge bank, Novo Banco, S.A. (hereinafter "Novo Banco"), led to a significant increase in litigation with Banco de Portugal, brought in (civil and administrative) national courts specifically in virtue of its activity as national resolution authority, under the terms of its Organic Law and the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* – hereinafter *RGICSF*).

Within Banco de Portugal's remit as supervisory and resolution authority of the Portuguese financial sector, by deliberation of the Board of Directors of Banco de Portugal of 3 August 2014, under Article 145-G(5) of *RGICSF*, approved by Decree-Law No 298/92 of 31 December 1992, Novo Banco was established following Banco de Portugal's application of a resolution measure to BES, under the terms of Article 145-C(1) and (3)(c) of *RGICSF*.

In this regard, as determined by the second point of the deliberation of the Board of Directors of Banco de Portugal of 3 August 2014 (8pm), as amended by the deliberation of the same Board of Directors of 11 August 2014 (5pm), the assets, liabilities, off-balance-sheet items and assets under management of BES were transferred to Novo Banco, under the terms and for the purposes of the provisions of Article 145-H(1) of *RGICSF*, in accordance with the criteria defined in Annex 2 to the deliberation.

Following the application of this measure, various proceedings were filed in court, as described below.

a) Court order proceedings for the provision of information and issuance of certificates

Pending at the Administrative Court of the Lisbon District are court order proceedings for the provision of information and issuance of certificates. Most of these proceedings were opened in August 2016, requesting that Banco de Portugal make available certain document types related to the BES resolution measure, principally relating to the Deloitte Report for the purposes of Article 145-H of *RGICSF* ("no creditor worse off" principle).

Banco de Portugal contested all these lawsuits, on the grounds of certain documents not existing, where applicable, and through invocation of supervisory secrecy, to which it is subject in relation to other documents in question, under Article 80 of *RGICSF*. Banco de Portugal also emphasised that disclosing certain material and information was impossible, as they are reserved under Article 6(6) of the Law for Access to Administrative Documents (*Lei de Acesso aos Documentos Administrativos*).

In certain proceedings, the courts have already delivered judgements that the public interest (in not disclosing confidential documents) should prevail over individuals' right to information. In the isolated cases in which Banco de Portugal was sentenced to supply the requested documents (although in most cases with the redaction of material deemed reserved, naturally), Banco de Portugal appealed against those decisions, reaffirming the grounds invoked before the Administrative Court of the Lisbon District. In those cases where the redaction of the confidential information was allowed, despite the sentence to disclose the documents, Banco de Portugal reasoned that the redaction of the reserved material would make the documents unintelligible, thus violating Article 11(2) of the Law for Access to Administrative Documents.

These proceedings therefore are awaiting their final developments. However, to-date Banco de Portugal has not disclosed any document that it deems confidential, and it should

further be noted that these proceedings do not carry any financial risk for Banco de Portugal, but only the risk of the documents deemed confidential being disclosed in their respective legal proceedings, should this be the final decision of the court.

b) Requests for cancellation of the resolution measure applied

Pending at the Administrative and Fiscal Courts are proceedings requesting the cancellation of the deliberations of the Board of Directors of Banco de Portugal regarding the BES resolution measure, chiefly the deliberations of 3 and 11 August 2014 and 29 December 2015. These lawsuits were mostly brought within the three-month limit following publication of the deliberations of the Board of Directors of Banco de Portugal, in compliance with Article 58(1)(b) of the Administrative Courts Procedure Code (which sets this limit for requesting the cancellation of administrative deeds).

These lawsuits also carry no direct financial risk for Banco de Portugal, as it would not be sentenced to pay any amount, aside possibly from legal costs, should the lawsuits be judged to be well-founded. In those lawsuits where the cancellation of the applied resolution measure exclusively was requested, Banco de Portugal believes, supported by the opinion of its internal and external legal counsel, that those proceedings do not represent financial risks for Banco de Portugal at present, since the legal framework in force at the time of the resolution awards responsibility for any compensation claims to the Resolution Fund.

Prior hearings have taken place in two proceedings, while the other proceedings are still in the initial exchange of information phase (filing of the lawsuit through the initial petition and corresponding objection from Banco de Portugal in which the irregularities attributed to the deliberations are always contested, sometimes presenting defence based on grounds of exception).

In these lawsuits, no judgement of any kind has been delivered yet, and therefore Banco de Portugal is waiting for its final phases.

c) Requests for reimbursement of sums transferred and/or compensation

Pending at the Civil Courts and also certain Administrative and Fiscal Courts (where the contesting of the deliberations relating to the BES resolution measure is accompanied by a compensation request) are proceedings requesting a sentence for Banco de Portugal and/or the Resolution Fund to pay compensation for physical and non-physical damages arising from deposits in BES. Most of the proceedings were brought in July and August 2016.

These lawsuits are in the initial exchange of information phase, with Banco de Portugal objecting to the alleged facts in the initial petitions and in most cases presenting defence based on grounds of exception (namely the absolute and relative incompetence of the courts) or, in certain cases, in the prior hearing phase.

No judgements on the substance have been delivered in these proceedings, but, following the defence based on grounds of exception presented by Banco de Portugal, a considerable number of favourable formal judgements have been delivered absolving Banco de Portugal in certain cases and more frequently the Resolution Fund.

The fact that these proceedings have no legal precedent and involve considerable legal complexity precludes any prediction of the courts' decisions, or even the decisions' tendency. These factors, combined with the general procedural dynamic and the vicissitudes of legal proceedings, impede the determination of the risks involved for Banco de Portugal in this phase and the calculation of possible sums sentenced resulting from them, although, in any case, abstractly it appears that they are not material to the financial statements of Banco de Portugal.

d) Oak Finance (including the proceedings filed by Goldman Sachs, Oak Finance, Guardians of the New Zealand Superannuation Fund and others)

Pending at the Administrative Court of the Lisbon District are eight lawsuits brought by Goldman Sachs, Oak Finance and the Guardians of the New Zealand Superannuation Fund, which request the contesting of the deliberations of the Board of Directors of Banco de Portugal of 22 December 2014, 15 September and 29 December 2015.

The lawsuits are at the initial exchange of information phase, with the courts having delivered no formal judgement or judgement on the substance yet.

An injunction proceeding also originated in the Administrative Court of the Lisbon District (No 580/15.6BELSB) which was remitted to the Supreme Court of Justice. The Appeal Ruling laid down that the proceeding should return to the Southern Administrative Central Court to establish the legitimacy of Goldman Sachs International in the main lawsuit in greater detail, in which the injunction proceeding is instrumental.

The fact that these proceedings have no legal precedent and involve considerable legal complexity precludes any prediction of the courts' decisions, or even the decisions' tendency. These factors, combined with the general procedural dynamic and the vicissitudes of legal proceedings, impede the determination of the risks involved for Banco de Portugal in this phase and the calculation of possible sums sentenced resulting therefrom.

Therefore an adequate reassessment of these circumstances must be put back until the final developments of the proceedings.

e) Other requests related to the resolution measure applied to BES

Furthermore, aside from one, all the injunction proceedings filed as a result of the BES resolution measure, which aimed to safeguard the respective right petitioned by the complainants while a final judgement on the main lawsuit is not delivered,

were judged to be unfounded. The sole exception relates to a pending injunction proceeding to order Banco de Portugal not to arrange the sale of Novo Banco. This does not lead to any financial contingency for Banco de Portugal.

Finally, there are also the lawsuits of the members of the Board of Directors of BES contesting the precautionary retention of the bonds that they had acquired in BES.

The fact that only one injunction proceeding is pending, which does not lead to any financial contingency for Banco de Portugal and, also, the fact that the injunction proceedings are instrumental to the main lawsuits (as they only safeguard the rights of individuals for a final judgement in the main lawsuit not to be delivered), means that there is no financial contingency for Banco de Portugal, as mentioned above.

- Resolution measure applied to Banif – Banco Internacional do Funchal, S.A. ("Banif, S.A.")

Within its remit as supervisory and resolution authority of the Portuguese financial sector, and supported by Article 17-A of the Organic Law of Banco de Portugal and Articles 145-E and 146 of RGICSF, on 19 and 20 December 2015, Banco de Portugal applied a resolution measure to Banif – Banco Internacional do Funchal, S.A. (hereinafter "Banif, S.A."), as it deemed that this was "the only solution to protect depositors and to ensure continuity of the essential financial services provided by BANIF, safeguarding the stability of the financial system with fewer costs for the public purse". The resolution measure mainly consisted of "declaring that BANIF is failing or likely to fail, according to and for the purposes of Article 145-E(2)(a) of RGICSF" and taking "the steps required towards the sale of the business of BANIF, with Banco Popular Español, S.A., and Banco Santander Totta, S.A.". Subsequently, BANIF was sold to Banco Santander Totta, S.A., in accordance with the deliberation of 20 December 2015.

Currently there are administrative lawsuits contesting the deliberations of 19 and 20 December regarding the resolution measure adopted for Banif, S.A. by the Board of Directors of Banco de Portugal, which are all in the initial

exchange of information phase (initial petition and corresponding objection by Banco de Portugal).

In order to analyse the risk of these lawsuits, the purpose of the Resolution Fund must be taken into consideration, which is, under Article 153-C of RGICSF, to provide financial assistance to the application of the resolution measures adopted by the resolution authority. The rationale behind the resolution regime, both in the version prior to publication of Law No 23-A/2015 and in the current version, is that the Resolution Fund is the entity that provides financial support to the resolution measure and to its implementation. On grounds of consistency, if a resolution measure were to be annulled by a final decision and the resolution authority deems that, for public interest and financial stability reasons, the effects of the resolution measure should continue, then it shall be the Resolution Fund that supports any compensation payable for the continuation of the resolution measure subject to the judicial decision. However, this compensation is distinct, naturally, from others that may arise from any civil responsibility lawsuits against Banco de Portugal on any other grounds.

The fact that these proceedings have no legal precedent and involve considerable legal complexity precludes any prediction of the courts' decisions, or even the decisions' tendency.

These factors, combined with the general procedural dynamic and the vicissitudes of legal proceedings, impede the determination of the risks involved for Banco de Portugal in this phase and the calculation of possible sums sentenced resulting therefrom.

- Winding up proceedings of Banco Privado Português, S.A. ("BPP, S.A.")

The winding up legal proceedings of Banco Privado Português, S.A. (hereinafter "BPP, S.A.") are based on withdrawal of authorisation to carry on the activity of BPP, S.A., following the deliberation of Banco de Portugal of 15 April 2010.

The winding up of BPP, S.A., at the request of Banco de Portugal to the Commerce Court of Lisbon, aims to be a full liquidation with the objective of satisfying its creditors through

the winding up of the assets of the insolvent debtor and the distribution of the proceeds obtained among the creditors.

Following the order to proceed, the winding up proceedings followed legal protocol, with the sentencing qualifying the insolvency as wrongful on 12 May 2014. This was confirmed by the Lisbon Court of Appeal Ruling of 9 July 2015. Currently therefore, there is no risk of Banco de Portugal facing financial losses in the future regarding these proceedings.

- Overall assessment of the Board of Directors of Banco de Portugal

The aforementioned considerable increase in litigation (300% higher than the 2015 total number of legal proceedings) has warranted the additional allocation in 2016 of specialised internal resources in the Legal Services Department and the contracting of external legal services, to respond to Banco de Portugal's needs in terms of legal representation in court. The overwhelming majority of lawsuits described above are in an initial procedural phase, and are thus expected to be conducted over several years. Given their nature and complexity, they may result in additional or complementary legal proceedings.

Finally, as the lawsuits relating to the resolution measures are without legal precedent, it is impossible to employ the legal precedent criterion in making a prudent assessment of the associated potential legal and financial risk. However, based on the facts summarised above, and given the applicable legislation and the reasoned opinion of the internal and external legal counsel, the Board of Directors of Banco de Portugal, taking as a basis the information available, firmly believes that the ruling on these lawsuits will not have an unfavourable outcome for Banco de Portugal, and therefore there is no specific provision recognised for the lawsuits in progress as at 31 December 2016.

In compliance with its Organic Law, Banco de Portugal has established a General risk provision (Section 1.2 (q) of note 1), movements of which are decided upon by the Board of Directors, to cover risks for Banco de Portugal which are not covered by specific provisions.

Note 35 • Related parties

On 31 December 2016, 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 Banco de Portugal 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. 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) = total assets less total liabilities of entities in which Banco de Portugal has a participating interest, multiplied by the percentage level of that participating interest.
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), OJ L 124, 20.5.2010, p. 8.
11. Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18 and Decision of the ECB of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17), OJ L 297, 16.11.2011, p. 70 and Decision of the ECB of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40), OJ L 335, 22.10.2014, p. 22.
12. Decision of the ECB of 4 March 2015 on the implementation of the secondary markets public sector asset purchase programme (ECB/2015/10), OJ L 121, 14.5.2015, p. 20.
13. Decision of the ECB of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45).
14. Decision of the ECB of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16).
15. The capital key is also adjusted as a result of the accession of new Member States to the EU.
16. Includes the proceeds of the calculation of monetary income for 2016, to the amount of €70,911 thousand and adjustments from 2015, amounting to €-9 thousand.
17. 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.
18. Dissolved by this Decree-Law.

4. External Auditors' Report



External Auditor's Report

Opinion

We have audited the accompanying financial statements of Banco de Portugal, which comprise the balance sheet as at 31 December 2016 (totalling €137,717,390 thousand, with total own funds amounting to €1,684,153 thousand, including net profit of €440,590 thousand) the profit and loss account, the statement of changes in equity for the year then ended, and the explanatory notes on the financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Banco de Portugal as at 31 December 2016 and of the results of its operations for the year then ended, in accordance with the accounting principles laid down in the Chart of Accounts of Banco de Portugal, which are summarised in Note 1 of the Notes on the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical rules and guidelines of the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section. We are independent of Banco de Portugal in accordance with Portuguese law and we comply with the other ethical requirements pursuant to the Code of Ethics of the Portuguese Institute of Statutory Auditors.

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

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for:

- (a) the preparation and fair presentation of the financial position of Banco de Portugal and of the results of its operations, in accordance with the accounting principles laid down in the Chart of Accounts of Banco de Portugal;
- (b) the creation and maintenance of an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- (c) the adoption of accounting policies and criteria that are appropriate in the circumstances; and
- (d) the assessment of Banco de Portugal's ability to continue as a going concern, disclosing, as applicable, matters related to going concern that may cast significant doubt.

Auditor's responsibilities for the Audit of the Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- (a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- (b) obtain an understanding of internal control relevant to the audit 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 Banco de Portugal's internal control;
- (c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- (d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Banco de Portugal's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause Banco de Portugal to cease to continue as a going concern;
- (e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- (f) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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**

EUROSYSTEM

OPINION OF THE BOARD OF AUDITORS

2016

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 Banco de Portugal 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 2016, the Board of Auditors, in use of the above-mentioned powers, monitored the activity of Banco de Portugal through (i) its members' participation, without voting rights, in the meetings of the Board of Directors, (ii) the review of the minutes of the Executive Committee for administrative and staff-related issues and (iii) the regular monitoring of Banco de Portugal's functions and activities, which fall within its remit under the regulatory framework in force.

The Board of Auditors monitored with particular attention the functions and activities performed by (i) risk management, internal control and compliance, (ii) financial reporting, (iii) external auditing, and (iv) internal auditing. Monitoring was essentially focused on (i) review and discussion of a number of reports and information produced by the Accounting Department, the Risk Management Department, the Audit Department and other departments and structural units in Banco de Portugal, responsible for the performance of said functions and (ii) meetings and requests for additional information on subjects being monitored, in particular, situations deemed to have significant risk, whenever necessary or convenient.

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 2016 – approved in the meeting of the Board of Directors held on 21 March 2017 – 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 of matter.



BANCO DE PORTUGAL
EUROSYSTEM

In addition, the Board of Auditors analysed the proposal for the distribution of profit for 2016, to the amount of €440,589,861.71. The Board of Directors, in accordance with Article 53 (2) of the Organic Law of Banco de Portugal, will submit to the Minister of Finance the following proposal for the distribution of profit:

- 10% to the legal reserve €44,058,986.17
- 10% to other reserves... .. €44,058,986.17
- Dividends to the State €352,471,889.37

In light of the above, the Board of Auditors raises no objection to the approval of the 2016 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 Banco de Portugal its appreciation for their cooperation.

Lisbon, 24 March 2017

The Board of Auditors



João Costa Pinto



António Gonçalves Monteiro



Ana Paula Serra

