

ANNUAL REPORT

ACTIVITIES AND FINANCIAL STATEMENTS 2019



BANCO DE
PORTUGAL
EUROSYSTEM

ANNUAL REPORT

ACTIVITIES AND FINANCIAL STATEMENTS 2019



BANCO DE PORTUGAL
EUROSYSTEM

Lisboa, 2020 • www.bportugal.pt

Contents

Mission and values of Banco de Portugal | 5

Message by the Governor | 6

Management of Banco de Portugal | 10

I Activity | 19

Executive summary | 21

1 Monetary authority | 29

1.1 Monetary policy | 30

1.2 Asset management | 34

1.3 Payment systems and means | 36

Box 1 • Sustainability and sustainable finance | 43

Box 2 • Monetary policy in 2019 | 45

2 Financial stability | 48

2.1 Regulatory framework | 50

2.2 Stability of the Portuguese financial system | 52

2.3 Resolution | 63

2.4 Upholding the legality of the resolution and enforcement measures | 64

Box 3 • Banco de Portugal's role in the prevention of money laundering and terrorist financing | 65

Box 4 • Transfer of the deposit guarantee function from the Mutual Agricultural Credit Guarantee Fund to the Deposit Guarantee Fund | 67

3 Knowledge creation and sharing | 69

3.1 Analyses, studies and statistics | 69

3.2 Conferences and seminars | 72

3.3 Communication and stakeholder management | 74

3.4 International cooperation | 81

4 Internal management | 84

4.1 Internal governance | 84

4.2 Risk management | 86

4.3 Internal audit | 87

4.4 Human resources | 88

4.5 Premises | 90

4.6 Information systems, technology and management | 91

Box 5 • Administrative costs of Banco de Portugal | 92

II Report and Financial Statements | 97

1 Management Report | 99

1.1 Balance sheet | 100

1.2 Profit and loss account | 111

2 Financial Statements and Notes | 120

3 External Auditors' Report | 183

4 Report and Opinion of the Board of Auditors | 187



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;
- 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).

Message by the Governor

Over the last decade it has been my honour and privilege to lead Banco de Portugal. These have been quite demanding years, during which Banco de Portugal has faced a great number of challenges, putting the capacity of its decision-making bodies and staff members to the test. However, the Bank has proven in practice that behind great challenges are always great opportunities for change and renewal; it reorganised itself, promoted best practice, reaped the benefits of innovation and digital transformation, invested in the qualification of its staff and became a more open and supportive institution that is more attentive to Portuguese society and to environmental issues. In sum, the Bank has succeeded in transforming and modernising itself, incorporating new concerns whilst always remaining true to its standards of rigour, competence and reputation, which are acknowledged at both national and Eurosystem level.



Banco de Portugal's activity over the past ten years has been carried out against a particularly adverse and demanding background, marked by multiple and complex challenges that have had to be addressed. Let me stress five major types of challenge in particular:

- Those resulting from the international financial crisis and the sovereign debt crisis in the euro area, the subsequent in-depth revision of the financial system's regulatory and supervisory model – including the creation of the Banking Union – and the development of the Eurosystem's monetary policy, especially the adoption of non-standard measures;
- Those related to the Economic and Financial Assistance Programme, in which Banco de Portugal was responsible for a specific pillar – safeguarding the stability of the Portuguese financial system – and also intervened at the level of the other two pillars – fiscal consolidation and structural transformation of the Portuguese economy – within the scope of its mandate of providing economic and financial advice to the Government;
- Those associated to the impact of technological change and digital transformation on financial intermediation and payment systems;
- Those posed to the implementation of the strategy set out by Banco de Portugal to enhance its governance model, organisation and processes, promote the efficiency of resource management and greater openness to society;
- Those stemming from the need for renewed and qualified human resources at the Bank, so as to meet the demands resulting from the challenges above and address the retirement of a large number of staff members, recruited in the early 1980s.

In the context of these challenges, Banco de Portugal was called upon to take on new and complex responsibilities that required the reinforcement, adaptation and reorganisation of its tasks of

supervision and safeguard of financial stability, in the light of the best international practice. The microprudential, macroprudential, banking conduct, legal enforcement and resolution functions were developed and segregated up to Board of Directors level, each area having been assigned a specific mandate and rules, as well as appropriate resources. In addition, a high-level horizontal coordination body was created, the Specialised Committee for Financial Supervision and Stability (*Comissão Especializada para a Supervisão e Estabilidade Financeira*). This structural reform necessarily meant a reinforcement of the human resources allocated to this function. To be compatible with efficiency and sustainability goals, this has put great pressure on the Bank's other departments to ensure efficiency gains. In the past decade, around 150 posts were reduced in these departments.

This process was accompanied by the development of human resources management rules based on the principles of internal mobility and appointment of heads of unit, division or department through internal or external selection processes. There was also strong investment in the development of staff members' technical, behavioural and management skills through in-house training plans for both the general staff and middle and senior management. This strategy also reflects the acknowledgement that an active and influential participation of Banco de Portugal in the decision-making process at European level implies more demanding requirements in terms of its resources' qualifications.

In parallel, Banco de Portugal has perfected and reinforced its governance model, organisation, processes and governance support mechanisms, including strengthening the legal framework and compliance with professional ethics and rules of conduct, as well as the risk management and data protection areas. This was accompanied by the creation of specialised internal governance structures, such as the Budget Monitoring, the Ethics and the Risk Committees.

Banco de Portugal has always worked to promote the efficiency, effectiveness and transparency of

its action in carrying out all the missions entrusted to it. Therefore, it has upgraded the technological architecture supporting its activity, including models and solutions, rationalised information processing and sharing and reinforced security, including cybersecurity. Among other initiatives, it has promoted the integrated management of information and the gradual development of a Data Warehouse. It has created an innovation laboratory and – to ensure strategic coordination in these areas – set up the Specialised Committee for Information Systems and Technologies Management (*Comissão Especializada de Gestão da Informação e Tecnologia*).

Amid the growing digitalisation of the financial sector, new business models and new services have been promoted in the field of payments. As payment systems regulator, overseer and catalyst, Banco de Portugal has sought to closely follow technological innovation, by interacting with the market and innovation operators. This interaction is key to ensuring the smooth functioning of payment systems and promoting implementation of safe, efficient and innovative payment solutions in the Portuguese market.

Over the last ten years, Banco de Portugal has prioritised the improvement of its analytical and advisory abilities and the promotion and sharing of knowledge. To this end, the activities of its Economics and Research Department were assessed by an independent committee, a research agenda was launched, and the Bank's publications were subject to an assessment exercise, which included external advisors. These activities were carried out amid growing interaction with segments representative of Portuguese society and the economy. The creation of BPLIM, the Microdata Research Laboratory, made it possible for the Bank to also give access to its microdata sets on the Portuguese economy to in-house and external researchers. As a Portuguese statistical authority, it maintained high quality standards in the production and dissemination of monetary, financial, foreign exchange and balance of payments statistics.

To sum up, this has been a particularly demanding decade at both the domestic level and within the European framework where Banco de Portugal operates, and has been marked by intense work and profound structural changes. Over this period, the Bank has honoured its commitments to rigour and improvement, present across the various priorities established in the holistic context of its Strategic Plans, and has always been accountable for the work carried out and ready to contribute to an informed debate within the society of which it is part.

I am convinced that the actions pursued and the reforms introduced over the past ten years have rendered the institution more robust, more qualified and closer to Portuguese society, and consequently more prepared to face the challenges ahead.



Carlos da Silva Costa

Management of Banco de Portugal

Board of Directors*





- 1 Governor Carlos da Silva Costa
- 2 Vice-Governor Luís Augusto Máximo dos Santos
- 3 Director Hélder Manuel Sebastião Rosalino
- 4 Director Luís Manuel Sanches Laginha de Sousa
- 5 Director Ana Paula de Sousa Freitas Madureira Serra

* As at 31 December 2019. Elisa Maria da Costa Guimarães Ferreira ceased functions as Vice-Governor on 30 November 2019.

Board of Auditors*

Chair

Nuno Gonçalves Gracias Fernandes

Members

Member – Statutory Auditor

Óscar Manuel Machado de Figueiredo**

Member

Margarida Paula Calado Neca Vieira de Abreu

* As at 31 December 2019. António Gonçalves Monteiro ceased functions as Member on 31 May 2019.

** Appointed by Decision of the Secretary of State Assistant and of Finance No 5785/2019 of 31 May 2019, published in the Official Journal No 117, Series II, of 21 June 2019.



Advisory Board*

Carlos da Silva Costa

Luís Augusto Máximo dos Santos

Vítor Manuel Ribeiro Constâncio

José Alberto Vasconcelos Tavares Moreira

António José Fernandes de Sousa

Nuno Gonçalves Gracias Fernandes

Francisco Anacleto Louçã

Francisco Luís Murteira Nabó

João Luís Ramalho de Carvalho Talone

Luís Filipe Nunes Coimbra Nazaré

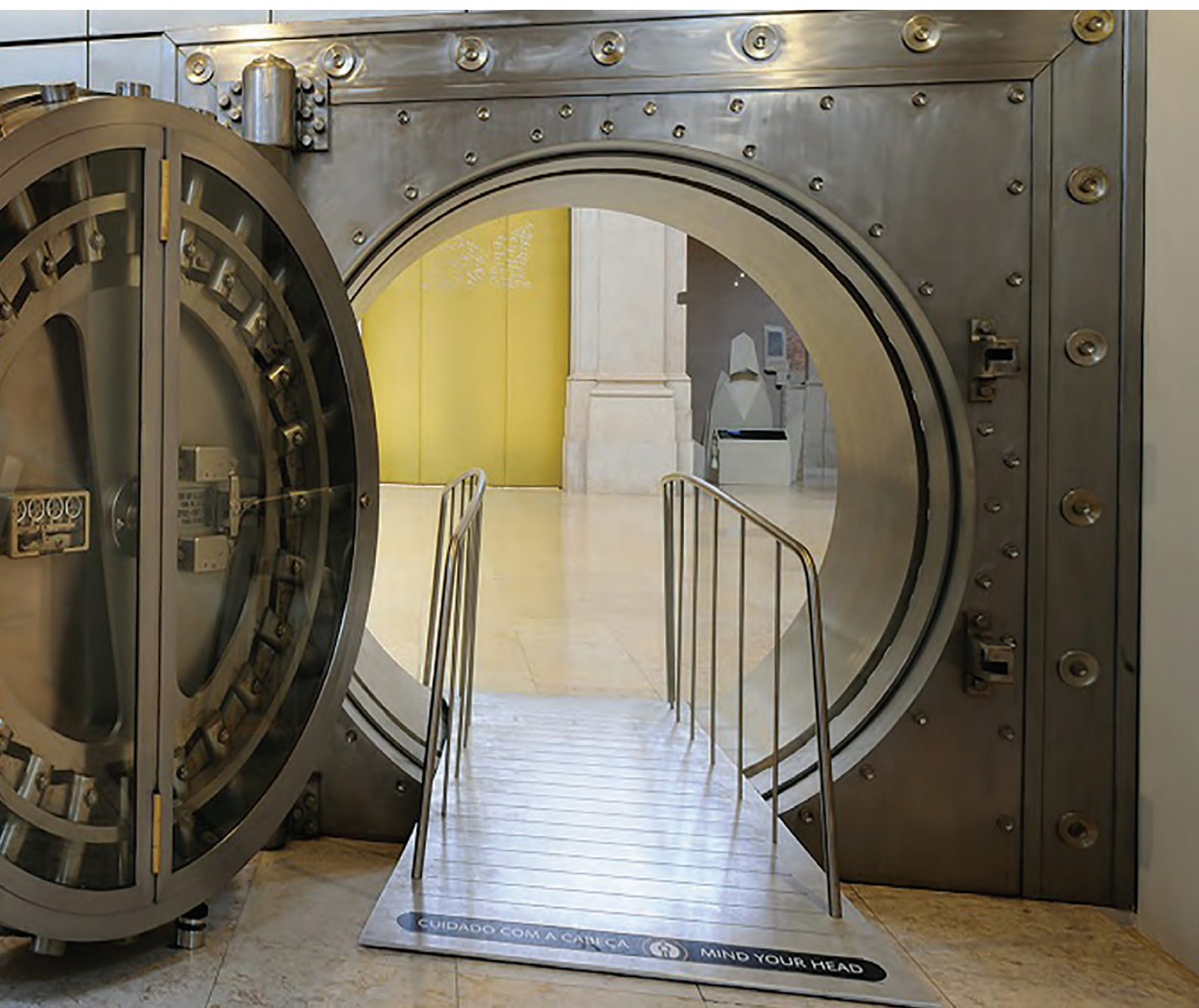
Fernando Faria de Oliveira

Cristina Maria Nunes da Veiga Casalinho

Roberto de Sousa Rocha Amaral

Pedro Miguel Amaro de Bettencourt Calado

* As at 31 December 2019, Vice-Governor Elisa Maria da Costa Guimarães Ferreira was a member of the Advisory Board until 30 November 2019.





Departments, Regional Delegations and District Agencies*

Heads of Departments

General Secretariat (SEC) José Gabriel Cortez Rodrigues Queiró
Compliance Office (GdC) Sofia Corte Real Lencart e Silva Pimentel
Data Protection Office (GPD) Maria Fernanda dos Santos Maças
Strategy and Organisation Directorate (SECDEO) Dinora Maria Costa Fernandes Alvim Barroso
Office of the Governor (GAB) Marta Sofia Fonseca Carvalho David Abreu
Audit Department (DAU) José António Cordeiro Gomes
Legal Enforcement Department (DAS) João António Severino Raposo
Communication and Museum Department (DCM) Bruno Rafael Fernandes Proença
Accounting Department (DCC) José Pedro Pinheiro Silva Ferreira
Issue and Treasury Department (DET) Pedro Jorge Oliveira de Sousa Marques
Financial Stability Department (DES) Ana Cristina de Sousa Leal
Statistics Department (DDE) António Manuel Marques Garcia
Economics and Research Department (DEE) Nuno Jorge Teixeira Marques Afonso Alves
Human Resources Department (DRH) Pedro Miguel de Araújo Raposo
Risk Management Department (DGR) Gabriel Filipe Mateus Andrade
Markets and Reserve Management Department (DMR) Helena Maria de Almeida Martins Adegas
International Relations Department (DRI) Sílvia Maria Dias Luz
Resolution Department (DRE) João Filipe Soares da Silva Freitas
Administration Services Department (DSA) Diogo Alberto Bravo de Macedo
Legal Services Department (DJU) Pedro Miguel da Silva Cerqueira Machado
Payment Systems Department (DPG) Jorge Manuel Egrejas Francisco
Information Systems and Technology Department (DSI) António Jacinto Serôdio Nunes Marques
Banking Conduct Supervision Department (DSC) Maria Lúcia Albuquerque de Almeida Leitão
Banking Prudential Supervision Department (DSP) Luís Fernando Rosa da Costa Ferreira

Porto Branch

Ana Olívia de Morais Pinto Pereira

Regional Delegations

Regional Delegation of the Azores Paulo Ruben Alvernaz Rodrigues
Regional Delegation of Madeira Bárbara José Calçada Sousa Castro

District Agencies

Braga Maria Teresa Gomes Sameiro Macedo
Castelo Branco João Ramos Rente
Coimbra Maria João Botelho Raposo de Sousa
Évora Catarina Sofia Amaral Silva Guerra
Faro Rui António da Silva Santa Rajado
Viseu Gentil Pedrinho Amado

* As at 31 December 2019.

Specialised Committees*

Specialised Committee for Financial Supervision and Stability (CESEF)

Chair Carlos da Silva Costa

Committee for Risk and Internal Control (CR)

Chair Carlos da Silva Costa

Budget Monitoring Committee (CAO)

Chair Hélder Manuel Sebastião Rosalino

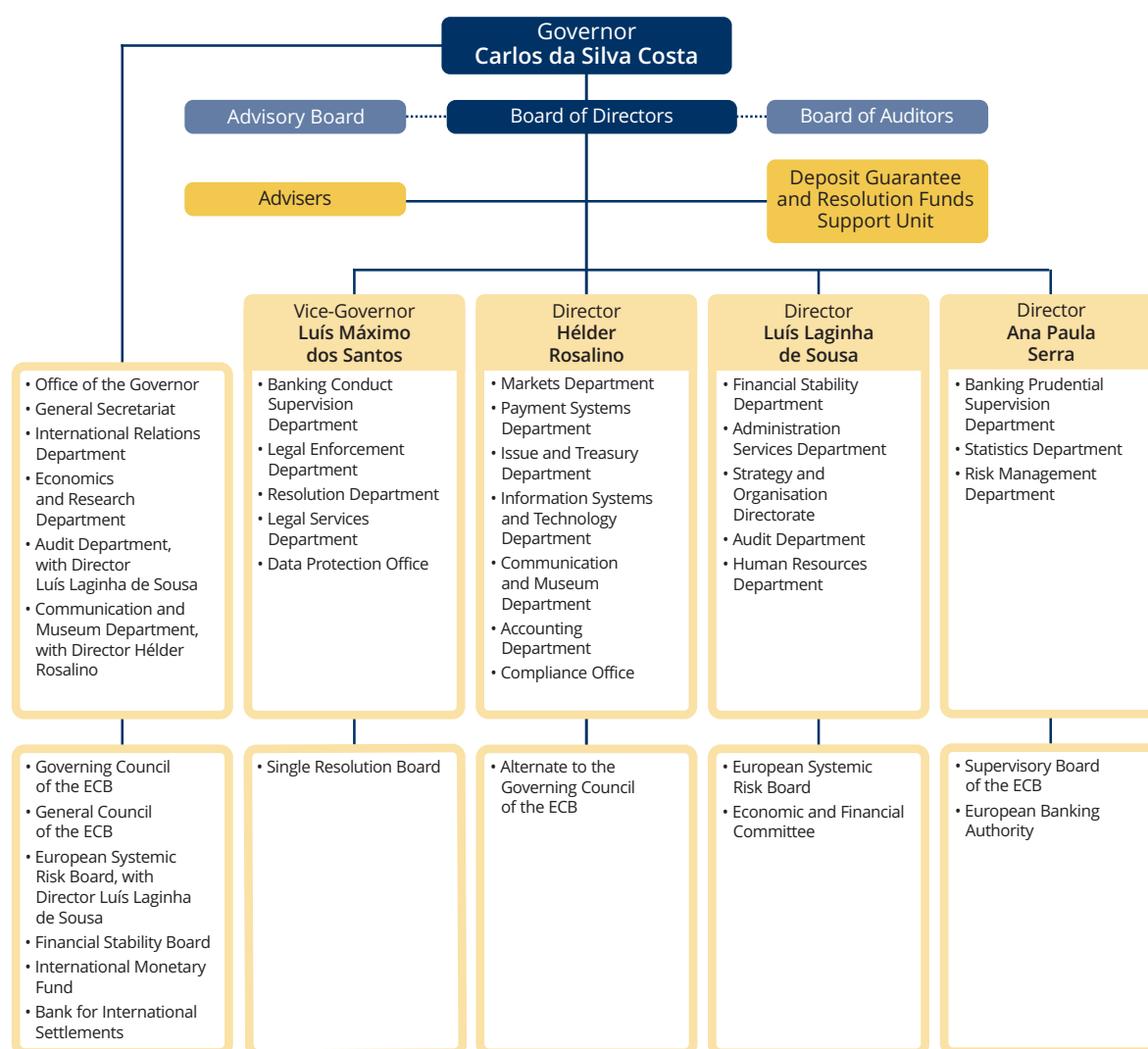
Specialised Committee for Information Systems and Technologies Management (CEGIT)

Chair Hélder Manuel Sebastião Rosalino

Ethics Committee**

Chair Vítor Manuel da Silva Rodrigues Pessoa

Figure 1 • Organisational chart of Banco de Portugal as at 31 December 2019

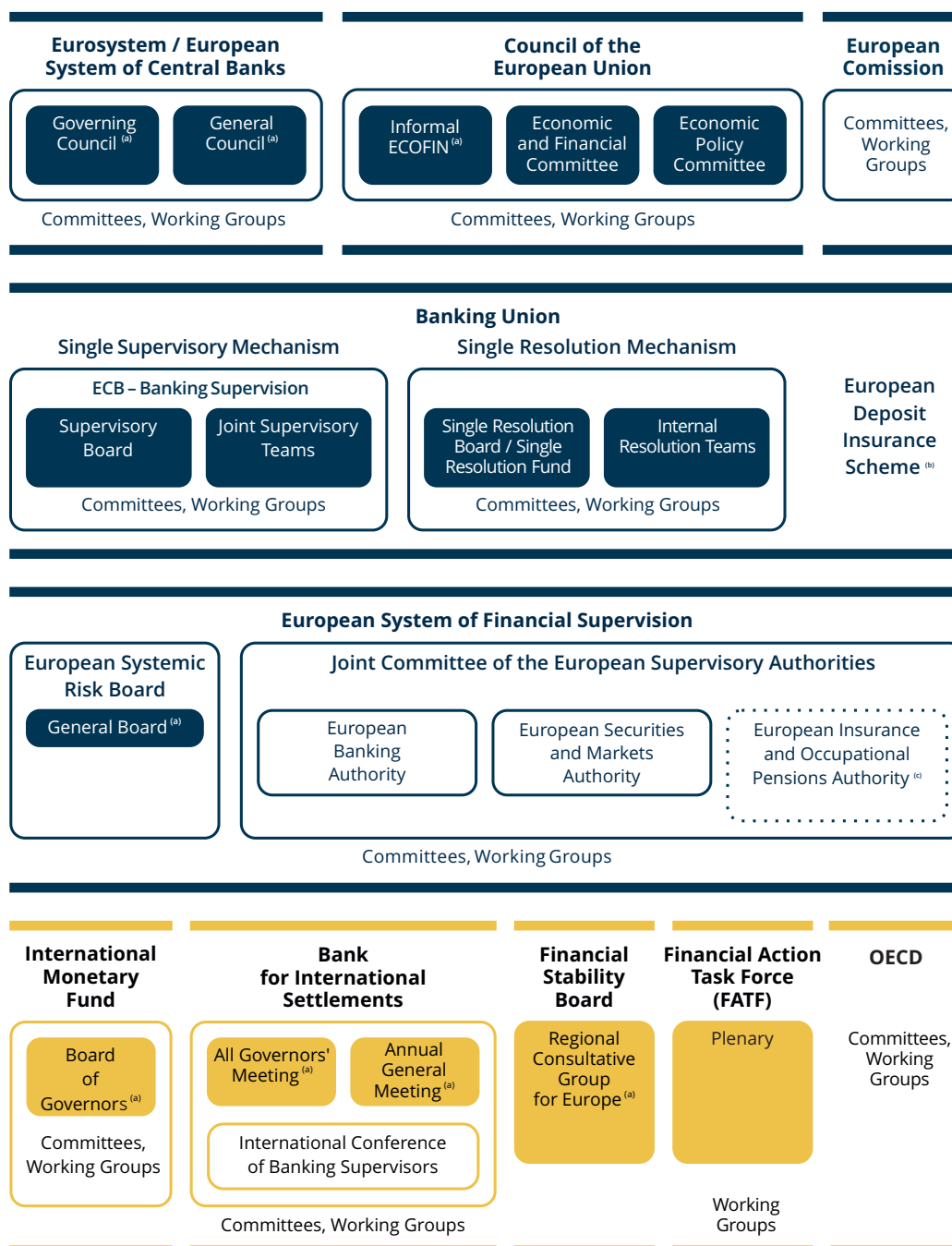


Source: Banco de Portugal.

* As at 31 December 2019.

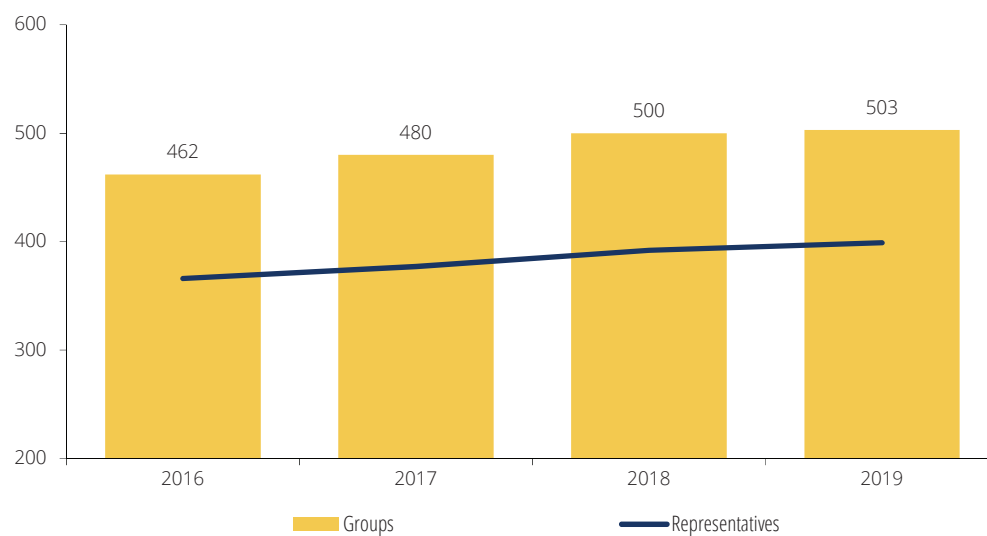
** As at 31 December 2019, José da Cunha Nunes Pereira and Vasco Manuel da Silva Pereira ceased functions as members in the last quarter of 2019. The appointment of new members is underway.

Figure 2 • Main international bodies: representation of Banco de Portugal



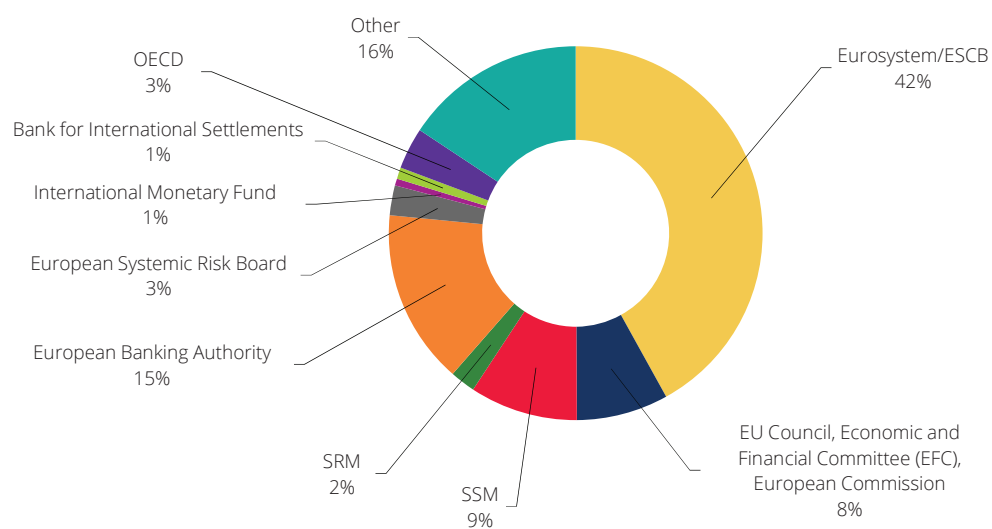
Source: Banco de Portugal | (a) Governor's participation. (b) under discussion. (c) Without Banco de Portugal's participation.

Chart 1 • Evolution of the international activity of Banco de Portugal



Source: Banco de Portugal.

Chart 2 • International representation structure in 2019 | In group percentage



Source: Banco de Portugal.



I Activity

- 1 Monetary authority
- 2 Financial stability
- 3 Knowledge creation and sharing
- 4 Internal management

Executive summary

In 2019 Banco de Portugal carried out its mission to maintain price stability and safeguard financial stability in accordance with the four priorities ("Broad Strategic Guidelines") set out in the Strategic Plan for the four-year period 2017-20: to emphasise Banco de Portugal's capacities as monetary authority, at both an internal and external level (1st Broad Strategic Guideline); to participate in the design 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 (2nd Broad Strategic Guideline); to promote understanding of the Portuguese economy and European integration, helping to inform and educate (3rd Broad Strategic Guideline); and to be among the most efficient central banks in the Eurosystem (4th Broad Strategic Guideline).

At European level, the year was marked by several changes in monetary policy and within the legal framework for financial stability, in which the Bank actively participated, be it discussions or preparatory work. At national level, priority was given to: the monitoring of the macroprudential measure adopted in 2018 aimed at mitigating the risks associated with new credit agreements with consumers; the reinforcement of the banking sector in terms of governance and internal controls, business models, asset quality, and capital and liquidity positions; and, within its supervision of the retail banking markets, the marketing of banking products and services through digital channels. A major change in 2019 was the publication of the decree-law that transferred the deposit guarantee function of the Mutual Agricultural Credit Guarantee Fund to the Deposit Guarantee Fund, and which resulted in the harmonisation of the rules applying to the deposit guarantee schemes and, therefore, the protection of depositors, the pillar of trust in the banking system. In 2019 new rules for electronic payments and the communication between payment service providers were enforced in Portugal and other EU Member States, to enhance security and integration in payment services.

Monetary authority

In its capacity as a Eurosystem national central bank, Banco de Portugal shares responsibilities in the design and implementation of the euro area monetary policy. In 2019 the Governing Council of the European Central Bank (ECB) strengthened the degree of monetary policy accommodation, preserving favourable bank lending conditions for the euro area economy, against a background of weakening economic activity, high global uncertainty and downside risks, and prospects that inflation would remain below levels consistent with the price stability objective. In March, it decided to introduce a third series of targeted longer-term refinancing operations (TLTRO III) and, in September, it cut the deposit facility rate from -0.4% to -0.5%, introduced a zero remuneration (two-tier) system for excess reserve holdings, and restarted monthly net purchases under the asset purchase programme (APP).

Banco de Portugal conducted monetary policy operations with resident credit institutions and purchased financial assets under the APPs. The average balance on Banco de Portugal's balance sheet, of monetary policy portfolios stemming from purchases under the APP increased by 6% from 2018, to stand at €52,102 million.

The Bank co-managed with the Bank of Lithuania a US dollar-denominated foreign reserve portfolio of the ECB and, as of February 2019, also a reserve portfolio in renminbi (CNY), which amounted

respectively to USD 1,152 million (€1,025 million) and CNY 4,058 million (€518 million) at the end of the year. As at 31 December 2019, Banco de Portugal's own investment asset portfolio totalled €36,010 million, i.e. 6.9% more than in the previous year, which chiefly reflected an increase in the price of gold. Indeed, although the quantity of gold held by the Bank remained unchanged (382.5 tons), its value in euro rose by 20.9%.

In line with the inclusion of environmental sustainability criteria in the management of own investment assets, Banco de Portugal participated in the advisory committee that outlined the key features of the first green bond investment fund created by the BIS and invested in units of this fund, thus becoming a pioneering central bank in this type of investment. This measure was adopted following a wider in-house discussion on sustainability and sustainable finance, which resulted in the publication (already in 2020) of *Banco de Portugal's Commitment to Sustainability and Sustainable Finance*, which sets out its guidelines on this issue.

Banco de Portugal regulates, oversees and promotes the smooth operation of payment systems. On 14 September 2019, new rules for electronic payments were enforced in Portugal and other EU Member States. As of that date, banks and other payment service providers are required to apply strong customer authentication to customers that access their payment account online, initiate an electronic payment transaction or carry out any action through a remote channel which may imply a risk of fraud or other abuse. They are also required to provide communication interfaces to allow secure communication with other payment service providers, with the purpose of granting access to payment accounts and, as such, providing account information services and payment initiation services. As the national competent authority as regards the implementation of the new technical standards, the Bank monitored banks and other payment service providers in the adoption of solutions that are compatible with the new requirements, aimed at fostering greater security, efficiency, innovation and integration of payment services in the European Union.

Banco de Portugal continued to interact closely with the market, with a view of both developing innovative payment solutions and monitoring new operators operating or intending to operate in the national market. It also worked with the national banking community on the preparation for: (i) joining the Eurosystem's TARGET Instant Payment Settlement service (TIPS), and (ii) consolidating two market infrastructures held and operated by the Eurosystem – TARGET2, the main European platform for processing large-value payments, and T2S, the Eurosystem securities settlement platform.

With regard to cash issuance, the Bank entered into an agreement to produce banknotes on behalf of the Central Bank of Ireland, as well as an agreement on the swap and delivery of excess euro circulation coins with that NCB, which caused €2 coins that were in excess in Portugal to be sent to Ireland, in exchange for €1 coins, in excess in that country. In May, the new €100 and €200 banknotes were put into circulation, which are the last two denominations of the second series of euro banknotes, launched in 2013. In 2019, 16,350 counterfeit banknotes were withdrawn from circulation, i.e. 9.4% less than in 2018.

Financial stability

In 2019 Banco de Portugal participated in the negotiation process of several European Commission legislative proposals and continued to monitor the matters related to the deepening of the Economic and Monetary Union. It also drafted opinions on legislative acts of the government and the Parliament. The most noteworthy of which are the participation in the negotiation processes aimed

at strengthening the prudential framework applicable to credit institutions and investment firms and revising the European System of Financial Supervision, as well as the provision of opinions on legislative proposals, most notably the reform of the domestic financial supervision, the transfer of the deposit guarantee function from the Mutual Agricultural Credit Guarantee Fund to the Deposit Guarantee Fund, amendments to the tax rules on impairments of credit institutions and other financial companies impairments, and the special regime applicable to deferred tax assets.

The main financial indicators of the domestic banking system continued to evolve favourably in 2019. The recovery in profitability and the dividend distribution policy made it possible to strengthen own funds: the CET1 ratio increased from 13.2% in 2018 to 14.1% in December 2019 and the total capital ratio from 15.2% to 16.7% over the same period. This strengthening took place after the Bank issued orders to guarantee levels of capital consistent with the risk profiles and the regulatory requirements. The liquidity coverage ratio rose from 196.4% to around 218% and deposits taken grew by €10.3 billion. Asset quality also improved significantly: the non-performing loans (NPL) ratio continued to follow the downward trend that began in mid-2016, reflecting the reduction in the stocks of NPLs on balance sheets, in line with the guidelines and plans to reduce non-performing loans submitted to supervisory authorities by banks. This was one of the most significant advances achieved by the domestic banking system. NPLs have fallen from a record high of €50.5 billion in June 2016 to €17.1 billion in December 2019, accounting for a decrease of more than €33 billion in only three years and a half.

In the performance of its national macroprudential authority functions, throughout the year the Bank underwent a continuous analysis of vulnerabilities and risks to financial stability. The Bank monitored the implementation of the macroprudential Recommendation in force within the legal framework of new credit agreements for consumers, which entered into force on 1 July 2018. The Recommendation introduces limits to the criteria used by the institutions when granting new credit, with the purpose of mitigating the build-up of risks, increasing financial sector resilience and promoting households' access to sustainable financing. The analysis indicates that the limits established are effective for compliance with the objectives set and that there is a significant convergence trend towards the limits set and an improvement in the borrowers' risk profile. This assessment was endorsed by the European Systemic Risk Board, which considered that the measure was adequate and sufficient to address identified risks. As part of this monitoring task, Banco de Portugal concluded that the maintenance of the upward trend of the average maturity and average amount of new consumer credit, in particular personal credit, may pose an increased risk for the financial system, as it implies that borrowers will be exposed to fluctuations in the business cycle for longer periods. Taking into account these developments and the risks observed in the current economic environment, on 29 January 2020 Banco de Portugal decided to reduce the maximum maturity of new personal credit to seven years.

The Bank developed a range of measures within the scope of prudential supervision to reinforce governance and internal control mechanisms and to strengthen the institutions' business models, as well as to improve capital and liquidity positions. These measures, which are geared towards the banks directly supervised by Banco de Portugal, supplement the supervisory priorities established by the Single Supervisory Mechanism for significant institutions. In 2019 the latter focused on credit risk and risk management in general. The priority given to the reinforcement of governance and internal control mechanisms was reflected in the shift of the management and supervisory bodies of several institutions: in the course of the year, 915 persons were registered and over 400 recommendations were issued, especially in terms of enhancing qualifications and preventing conflicts of interest.

Banco de Portugal regulates, monitors and supervises the conduct of credit institutions, financial companies, payment institutions, electronic money institutions and, as of 2018, credit intermediaries in the marketing of retail banking products and services. In 2019 Banco de Portugal concluded the inclusion of credit intermediaries into its perimeter of banking conduct supervision: it examined 5,169 applications for authorisation to carry out this activity and approved 3,757. At the end of the year, 4,681 entities were authorised to carry out this activity. When supervising the conduct of financial institutions in retail banking markets, Banco de Portugal paid particular attention to the growing marketing of products and services through digital channels, more specifically, consumer credit granted through online and mobile channels. It also published the results of the second questionnaire of financial institutions on developments in the subscription, availability and use of banking products and services through digital channels in Portugal. In July 2019, the Bank joined the e-platform 'Livro de Reclamações', so that bank customers can submit complaints through this channel as well. With this new channel, complaints received increased. In 2019 Banco de Portugal received 18,104 bank customer complaints, 18.7% more than in the previous year.

Under its banking conduct supervision function, the Bank promotes the financial literacy and education of bank customers. In 2019 it proceeded with the digital financial education campaign #TopTip, launched in 2018 to raise awareness among young people of the care to be taken when using digital channels. Banco de Portugal also signed a protocol with the Ministry of Labour, Solidarity and Social Security to improve awareness of the basic bank accounts at Social Security and Institute for Employment and Vocational Training information desks.

So as to prevent and repress illicit financial activity, Banco de Portugal conducted inquiries in 253 proceedings and issued public warnings to ten entities not authorised to conduct the financial activity they were carrying on. It also examined eight proceedings for the possible withdrawal of the authorisation of credit institutions, financial companies and payment institutions, and analysed 28 proceedings for a possible reassessment of the suitability of the members of the management and supervisory bodies of supervised institutions.

Under its supervisory work in the prevention of money laundering and terrorist financing (ML/TF), Banco de Portugal held two cross-sectional inspections to large supervised institutions, concluded a cycle of thematic inspections to higher-risk, particularly complex areas in ten entities, and checked whether the more than 400 supervisory measures issued to several institutions following inspections carried out in previous years had been implemented.

In 2019, following its supervisory action, the Bank initiated 115 and concluded 117 administrative offence proceedings.

At the Single Resolution Mechanism level, the Bank contributed to the marked progress in resolution planning work in 2019. On the one hand, by participating in the Single Resolution Board, whose work included the update and improvement of resolution plans for significant institutions and, for the first time, setting up the minimum requirements for eligible own funds and liabilities (MREL). On the other hand, by drafting resolution plans for less significant institutions, which meant that over 80% of these institutions had a resolution plan by the end of the year. Still under the Single Resolution Mechanism, Banco de Portugal contributed to the development and improvement of policies and methodologies to be adopted in the planning, implementation and enforcement of resolution measures.

The Bank continued its work in the resolution measures applied to BES and BANIF, most notably its support to the Resolution Fund in the follow-up of the agreements related to the sale of Novo Banco and in the monitoring of the activities of Oitante.

In the scope of its support to the Deposit Guarantee Fund and the Mutual Agricultural Credit Guarantee Fund, the Bank implemented Decree-Law No 106/2019, of 12 August 2019, which established the transfer of the deposit guarantee function from the Mutual Agricultural Credit Guarantee Fund to the Deposit Guarantee Fund. It also provided the necessary support to a stress-test exercise carried out on the Deposit Guarantee Fund mechanisms.

In 2019 litigation against Banco de Portugal and the funds it operates remained high. This reflects the large number of court cases handled as a result of the application of resolution measures in previous years, and the monitoring of the litigation managed by the Resolution Fund, including in foreign jurisdictions as well as in the European Court of Justice. In the cases in which Banco de Portugal, the Deposit Guarantee Fund and the Resolution Fund are prosecuted, particularly following the resolution processes of BES and BANIF, there were several rulings in favour of Banco de Portugal and the Funds in 2019, in interim injunction proceedings and main proceedings. The judgment rendered by the Administrative Court of the Lisbon District of 12 March 2019 is particularly relevant, as this court was unanimous in confirming the constitutionality of the legal framework on bank resolution and full legality of the resolution measure applied to BES.

Knowledge creation and sharing

Banco de Portugal prepares analyses and studies on the economy and the financial system and, as a national statistical authority, produces monetary, financial, foreign exchange and balance of payments statistics.

In 2019 researchers at Banco de Portugal, including 120 external co-authors, were involved in the preparation of 194 studies on topics identified as a priority in its research agenda. In the course of the year, 57 studies were completed, most with the purpose of being featured in Banco de Portugal's publications or other specialist publications. Through Banco de Portugal's Microdata Research Laboratory (BPLIM), located in the Porto Branch, the Bank gave access to its microdata sets on the Portuguese economy to in-house and external researchers. In 2019, 34 such projects (proposed by 162 researchers) were initiated. Banco de Portugal also released long series on the Portuguese banking system, providing in-house and external researchers with a comprehensive, coherent and reliable database on developments in the sector since 1990.

The Bank published the e-book "Portuguese economic growth: A view on structural features, blockages and reforms", based on a series of studies drawn up by economists affiliated to the Bank and other national and foreign institutions. It also launched the *Cadernos Jurídicos* (Legal Papers) series, with the purpose of disseminating legal thinking produced in its core business.

In its capacity as national statistical authority, the Bank released approximately 160 thousand statistical series and shared 833 thousand series with international organisations. It published revised series on public debt, the national financial accounts and external statistics. It redesigned BPstat, the portal through which it disseminates statistics on the Portuguese economy and the euro area economy, produced by Banco de Portugal and national and international statistical authorities. The new BPstat is easier to browse and allows users to cross check statistical data, build charts, share information, and access news and infographics to better understand published statistics.

In the course of the year, the Bank organised conferences and seminars with the purpose of adding to the debate on the Portuguese economy and the euro area. Due to their international

dimension, the most noteworthy were the following conferences: “Investment, innovation and digitalisation conference: the Portuguese case”, co-organised by the European Investment Bank; “Portugal: Reform and Growth Within the Euro Area”, co-organised by the International Monetary Fund; “The euro 20 years on: the debut, the present and the aspirations for the future”, as part of the programme celebrating the 20th anniversary of the euro; and the 3rd Conference on Financial Stability. The Bank also assisted the ECB in hosting the ECB Forum on Central Banking, in Sintra.

Banco de Portugal continued its efforts to make for a better understanding of economic and financial topics and strengthen its links to the community. For that purpose, it regularly disclosed information on its institutional website, the Bank Customer Website and social networks. In the course of the year, Banco de Portugal published 264 press releases, 62 speeches by senior officials and 45 decoders to explain concepts, topics and results related to its tasks. One of the Bank’s communication initiatives was a campaign to inform users on the new strong customer authentication procedures for electronic payments and a campaign to raise public awareness of illegal lending schemes and other fraudulent phenomena.

Demand for services provided by Banco de Portugal remained high, most notably consultations of the Central Credit Register, which grew by 20% from 2018. The Central Credit Register is a database on actual or potential credits granted by institutions in Portugal.

In 2019 Banco de Portugal’s Call Centre was transferred to the Castelo Branco Agency, thereby consolidating its inland presence. The Bank processed 38,949 phone calls and 45,863 messages sent by the public by e-mail or through the forms available on the institutional website and the Bank Customer Website.

At the Money Museum, which is now also open on Sundays, the Bank launched the Financial Education Centre activities, and completed a new permanent exhibition space, on the nature and functions of Banco de Portugal. The Museum held five temporary exhibitions and 1,127 educational and cultural activities. The number of visitors grew by 20% from the previous year.

In 2019 Banco de Portugal adopted a new financial and social support policy, with a view to ensuring that the partnerships built and the sponsored projects are in line with strategic goals and the internal ethical and conduct standards and, at the same time, that support is granted in an objective, impartial and transparent manner.

In the course of the year, the Bank held 159 cooperation initiatives with counterparties from emerging and developing countries: 106 with Portuguese-speaking countries, 24 with neighbouring EU countries, 16 with Latin American countries, 12 with countries in Asia and the Pacific region, and one with an African country. The Bank entered into a new technical cooperation agreement – this one (its 12th) with Banco Central de Chile – and renewed its cooperation agreement with Banco Nacional de Angola.

Internal management

In 2019 Banco de Portugal introduced changes to its organisational structure: it separated the support functions assisting the decision-making process of the Board of Directors and made adjustments to the structure of the Payment Systems Department, the Accounting Department and the Information Systems and Technology Department to accommodate its new responsibilities in SI/IT areas.

To fully implement the General Data Protection Regulation, the Bank put in place a data protection action plan, which included new procedures, information and training courses for staff members, and an adaptation of IT/IS systems.

Banco de Portugal started to release the calendars of members of the Board of Directors, which list all the meetings or events planned or organised with a working agenda or topic(s) for discussion. Staff in management positions are now subject to a cooling-off period between working for the Bank and working for supervised entities. The internal policy on conflicts of interest prevention was revised, as described in the Relatório Anual de Execução do Plano de Prevenção de Corrupção (Annual Report on the Implementation of the Corruption Prevention Plan). Banco de Portugal was the first Eurosystem central bank to host an awareness-raising initiative on ethics and business conduct sponsored by the European Central Bank.

The Bank proceeded with its integrated management policy on strategic, financial and non-financial risks to which it is exposed when carrying out its work. In this context, the Internal Statement of Risk Acceptance Principles, which describes the tolerance level for the risks to which Banco de Portugal is exposed, was supplemented by the approval of sub-categories for non-financial risks and the strategic risk budget. With the purpose of reinforcing the Bank's resilience in terms of business continuity, a team of system administrators was set up at the Porto Branch and the Bank's alternate data processing centre was transferred from Olivais, in Lisbon, to the Carregado complex.

36 internal audits were carried out, 29 of which were exclusively domestic and seven under the internal audit function of the European System of Central Banks, the Eurosystem and the Single Supervisory Mechanism.

As at 31 December 2019, the number of staff members employed by Banco de Portugal was 1,778, of which 1,700 were active, in line with the goal of 1,700 staff members by 2020, set out in the Strategic Plan for 2017-20. As regards human resources, one of the Bank's structural projects over the past few years has been the Banco de Portugal Academy (Academia do Banco de Portugal), which fosters the integrated management of staff training in line with the Bank's mission, values and strategic priorities. The Academy includes a Management and Leadership School. In 2019 the process of setting up a Data Science School was started, with the purpose of broadening its staff's skills in this matter.

Sound and efficient management of human and financial resources is a priority of Banco de Portugal. Over the past decade, administrative expenses posted a 1.3% average annual rate of change, in nominal terms (0.2%, after accounting for inflation). To these developments contributed expenditure-reducing and efficiency measures, which made it possible to offset the costs associated with the significant broadening of its tasks and extraordinary expenses, most notably those related to the implementation of the Economic and Financial Assistance Programme to Portugal, the reinforcement of the banking supervision and resolution areas, and the need to put in place new monetary policy programmes.

With regard to building management, and in line with environmental sustainability concerns, the Bank signed a new contract with an electricity supplier to switch to power from 100% renewable sources.

Banco de Portugal has taken up a data warehouse, an information repository with data on loans, prudential information and the balance sheet of financial institutions. The data warehouse will

make it possible for the Bank to manage in an integrated manner all relevant business data for shared internal use. At Banco de Portugal's Innovation Lab, experimental work was carried out to assess the responsiveness to business cases. A Computer Security Incident Response Team (CSIRT) was also created to respond to cybersecurity incidents in the national financial sector, with the purpose of promoting cooperation among stakeholders. The sectoral CSIRT was implemented and is now managed by Banco de Portugal.

1 Monetary authority

This chapter describes Banco de Portugal's actions in 2019 whilst monetary authority of the Eurosystem/European System of Central Banks (ESCB), aimed at actively contributing to the single monetary policy, the first Broad Strategic Guideline established for the four-year period 2017-2020.

Banco de Portugal's responsibilities in the definition of euro area monetary policy are shared within the Eurosystem and their primary objective is to maintain price stability. Monetary policy decisions are taken by the Governing Council of the European Central Bank (ECB), which consists of the governors of the Eurosystem national central banks (NCBs) and the members of the Executive Board of the ECB. In 2019 the Governing Council of the ECB met 18 times, eight of which to take monetary policy decisions. The Governor of Banco de Portugal had voting rights at six of these meetings, in accordance with the rotation scheme¹ in place for the governors of the Eurosystem NCBs. The Governor is also a member of the General Council, composed of the President and the Vice-President of the ECB and the governors of the NCBs of the 28 European Union (EU) Member States.

The technical preparation, monitoring and implementation of the decisions taken by these bodies is ensured by the Eurosystem/ESCB Committees (Figure I.1.1) and their substructures, where the Bank is represented. In 2019 Banco de Portugal participated in over 200 of these structures on issues covering most central bank activities.

Figure I.1.1 • Committees within the Eurosystem/ESCB



Sources: ECB and Banco de Portugal.

1. Countries were classified into two groups according to the size of their economies and their financial sectors. The governors of the countries in the first group – currently Germany, France, Italy, Spain and the Netherlands – share four voting rights. All others, including Portugal, share 11 voting rights. The governors use their voting rights on a monthly rotation. For the voting rights rotation schedule, see the ECB website.

In addition to monetary policy decisions, the following were particularly important for the ECB's agenda in 2019: issues related to payments and market infrastructures (arising from digital transformation and an expanding set of risks), risks to financial stability, preparatory work for the United Kingdom's withdrawal from the EU and the deepening of the Banking Union and the Economic and Monetary Union (EMU). The issue of sustainability and sustainable finance was increasingly on the ECB's agenda over the course of the year, in line with its growing importance in European and international debate (Box 1).

Banco de Portugal also participates in the EU Economic Policy Committee and in other economic and financial institutions worldwide, such as the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD) (Figure 2).

The Governor is a member of the IMF Board of Governors, its highest decision-making body, and Banco de Portugal is the country's representative at that institution, taking on several financial responsibilities and following the Fund's agenda and decision-making processes. In 2019 a high-level political agreement was reached to maintain the IMF's financial resources, crucial to ensuring its role as a global financial safety net. The agreement establishes a doubling of credit lines under the New Arrangements to Borrow, in which the Bank participates, and a further round of bilateral borrowing for member countries.²

In 2019 the IMF's agenda focused on issues related to digital innovation, sustainability and economic and social inequality, sovereign debt levels in member countries and the IMF's bilateral and multilateral surveillance mechanisms. Banco de Portugal participated in the Spring and Annual Meetings of the IMF/World Bank, which discussed the risks and outlook for the global economy as well as policy recommendations, including cooperative and multilateral solutions.

The IMF's regular Article IV consultation with Portugal and the tenth post-programme surveillance mission of the European institutions to Portugal took place in 2019. Banco de Portugal, within the scope of its tasks and responsibilities, was closely involved in these exercises, coordinating visits, providing information, participating in technical discussions and conveying positions as an authority.

As regards the OECD, Banco de Portugal took part in the work of the committees monitoring the economy and the financial markets.

Overall, in 2019 around 400 employees of Banco de Portugal were directly involved in the activities of international organisations of which it is a member or in which it participates.

1.1 Monetary policy

In 2019 the ECB's monetary policy remained accommodative to support a sustained return of euro area inflation towards its medium-term objective. Against a background of weakening economic activity, high global uncertainty and downside risks, and prospects that inflation would remain below levels consistent with the price stability objective, the Governing Council adopted successive measures over the course of the year to strengthen the degree of monetary accommodation (Box 2).

2. In response to the lack of agreement on an increase to the IMF's permanent resources (quotas).

Against this background, in 2019 the Governing Council decided to reduce the rate on the deposit facility from -0.4% to -0.5%, maintaining the rate on the main refinancing operations (MROs) at 0% and the rate on the marginal lending facility at 0.25%. The Governing Council expects interest rates to remain at present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

In addition, further non-standard monetary policy measures were announced, namely: (i) introduction of a two-tier system for remunerating excess reserve holdings; (ii) restart of net purchases under the asset purchase programme (APP) at a monthly pace of €20 billion, with the expectation that they end shortly before the ECB starts raising key interest rates; and (iii) the introduction of the third series of targeted longer-term refinancing operations (TLTRO III).³

Under the decentralised implementation of euro area monetary policy, Banco de Portugal conducted operations with resident credit institutions – by carrying out liquidity-providing and liquidity-absorbing tenders, processing standing facilities and managing the underlying collateral – and purchased financial assets under the APPs. The Bank also assessed the eligibility of securities admitted to trading on Portuguese markets and non-marketable assets subject to Portuguese law, monitored compliance with minimum reserve requirements by resident credit institutions, assessed the counterparty status of these institutions and produced daily forecasts of the domestic banking system's liquidity needs.

In 2019 of the 35 institutions established in Portugal that were eligible to access Eurosystem open market operations and standing facilities, only 11 participated in at least one operation. In total, the Eurosystem conducted 133 open market operations and resident institutions participated in 68 of these operations (58 in 2018). In 2019 recourse to the marginal lending and deposit facilities increased from 22 to 36, mainly due to recourse to the marginal lending facility. The average balance of open market operations and standing facilities continued the downward trend of the past few years – particularly since the APP started – totalling €18,461 million.

Regarding the type of open market operation and standing facility on Banco de Portugal's balance sheet (Chart I.1.1), there is a predominance of TLTROs. This is due to the conditions of these operations, which offer stable long-term funding at an interest rate similar to or even lower than the interest rate on the MROs (one-week maturity). December 2019 saw a slight replacement of the TLTRO-II with the TLTRO-III and recourse, albeit small, to the three-month LTROs.

At the end of 2019 the Eurosystem's list of assets eligible as collateral contained 119 securities under the responsibility of Banco de Portugal, from a universe of 26,411 eligible securities. Throughout the year, the Bank reported 30 new eligible securities to the ECB and introduced 853 updates, taking into account the securities traded in Portuguese markets.

The average balance of Portuguese counterparties' collateral pools grew by 3% from the previous year, totalling €52,123 million. Mortgage bonds and securities issued by central, regional and local governments continued to be the largest categories in these pools, with 71% of total assets used as collateral. In 2019 the average value of the collateral buffer (the difference between the value of the

3. Monetary policy press releases are available for consultation on the ECB website.

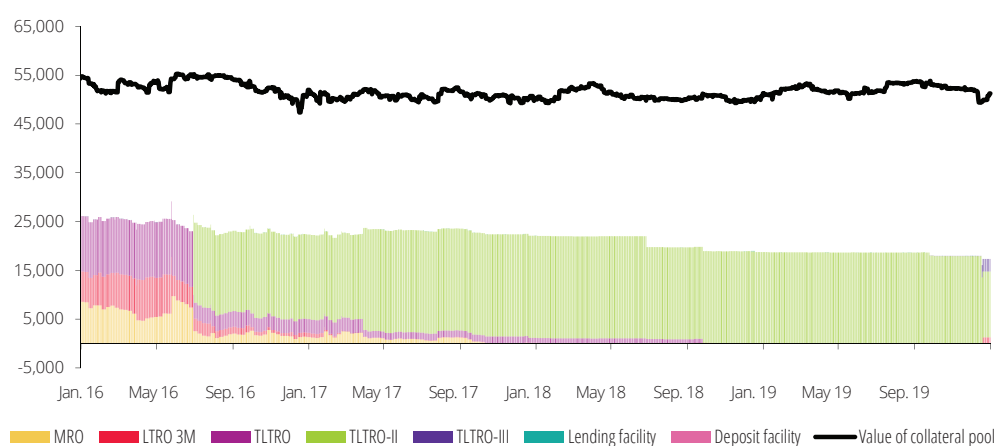
assets given as collateral and outstanding loans) was 13% higher than in 2018. Overall, the value of the buffer increased gradually over the past few years, although more markedly in 2019, as a result of the combination of a slight increase in the amount of collateral (3%) and an ongoing downward trend in credit granted (-10%). Collateral used by resident counterparties is valued by Banco de Portugal at market price or, in its absence, using theoretical valuation, benefiting from risk control measures defined in the Eurosystem framework and also applied by Banco de Portugal.

Table I.1.1 • Monetary policy implementation in Portugal – main indicators

	2016	2017	2018	2019	Δ 2019/2018
Number of Eurosystem open market operations	136	126	127	133	5%
Number of open market operations in which resident counterparties participated	83	71	58	68	17%
Number of standing facility operations involving resident counterparties	60	52	22	36	64%
Number of eligible (resident) counterparties	37	37	36	35	-3%
Number of (resident) counterparties participating in open market operations and standing facilities	25	14	12	11	-8%
Average balance of open market operations and standing facilities (resident counterparties, EUR millions)	24,023	22,862	20,621	18,461	-10%
Average balance of collateral pools (resident counterparties, EUR millions)	52,938	50,772	50,728	52,123	3%
Average balance of monetary policy portfolios (EUR millions)	24,729	40,174	49,319	52,102	6%

Source: Banco de Portugal. | Note: The average balance of open market operations and standing facilities corresponds to the balance of liquidity-providing operations less the average balance of liquidity-absorbing operations.

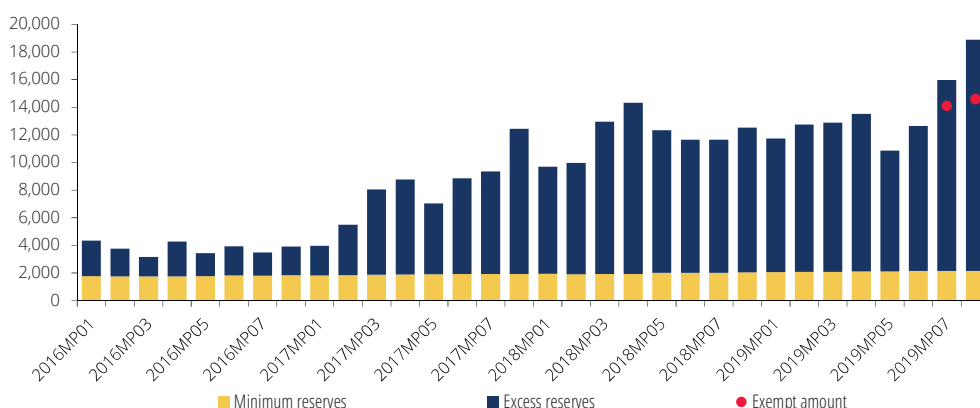
Chart I.1.1 • Balance and type of open market operation and standing facility and value of collateral pool – 2016-2019 | EUR millions



Source: Banco de Portugal.

The amount of minimum reserves held by Portuguese institutions remained virtually unchanged in 2019 (Chart I.1.2). In turn, excess reserves increased by around 58%, following the ECB Governing Council's decision announced on 12 September to exempt institutions' excess reserves from the deposit facility rate (-0.5%) up to six times the value of the minimum reserve requirements. Excess reserves exceeding the exempt amount remain subject to the deposit facility rate.

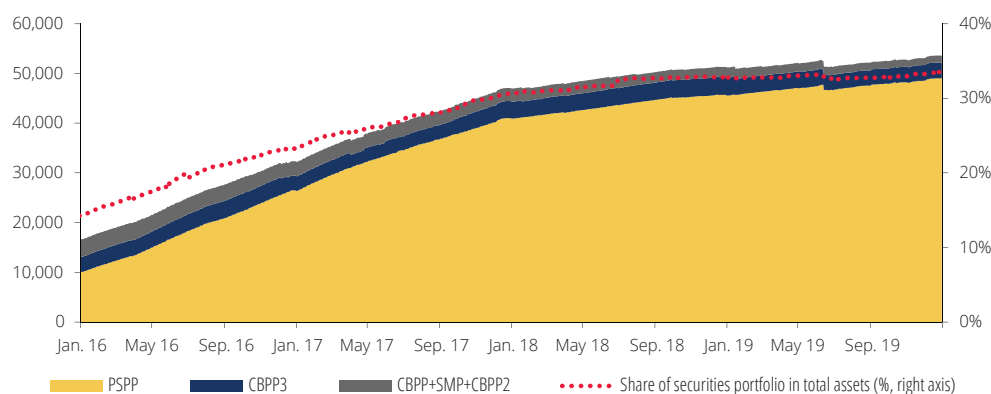
Chart I.1.2 • Developments in minimum reserves, excess reserves and exempt amount under the two-tier system – 2016–2019 | EUR millions



Source: Banco de Portugal. | Notes: Excess reserves are calculated as the difference between the average balance of deposit accounts with Banco de Portugal, over the reserve maintenance period, and the amount of minimum reserves. Maintenance periods are established by the ECB according to the ECB Governing Council monetary policy meetings. The amount exempt from the negative rate seen in the chart corresponds to the aggregate value of minimum reserves and the amount exempt from excess reserves under the two-tier system.

As for the APP, the balance of monetary policy portfolios on Banco de Portugal's balance sheet increased further, although to a lesser extent than in 2018, averaging €52,102 million in 2019 (Chart I.1.3). The public sector purchase programme (PSPP) continued to have the largest share, with an average of 91% of the total volume of portfolios. The share of the monetary policy securities portfolios in the Bank's total assets remained relatively stable, accounting for 34% of total assets at the end of 2019.

Chart I.1.3 • Balance and type of monetary policy portfolio | EUR millions



Source: Banco de Portugal. | Notes: PSPP – Public sector purchase programme. CBPP – Covered bonds purchase programme. SMP – Securities market programme.

The share of Portuguese debt accumulated by the Eurosystem in the total of the PSPP stood at 2.1% at the end of 2019, 0.2 percentage points (p.p.) closer to Banco de Portugal's share of the ECB's capital key⁴ (currently at 2.4%) compared to the end of 2018.

4. The capital key reflects the share of each NCB in the ECB's capital and is calculated based on the respective country's share in total population and gross domestic product of the EU.

Participation in the single monetary policy requires managing inherent risks, which are either borne by Banco de Portugal or shared by the whole Eurosystem based on each NCB's share in the capital key, depending on the purchase programme or collateral provided. In purchase programmes, risk is associated with direct exposure to the issuers of purchased assets. In credit granting operations, risk relates to counterparties and indirectly to the type of assets received as collateral (with direct exposure only existing in the event of counterparty default).

Banco de Portugal controlled risks associated with monetary policy operations by applying eligibility criteria to counterparties and their collateral, setting evaluation margins on these assets' value and imposing limits on their use, as envisaged within the operational framework of the Eurosystem to control counterparty risk and risks related to assets given as collateral. Overall developments in risk associated with monetary policy operations were monitored within the framework of the integrated management policy for financial risks and operational risks pursued by Banco de Portugal (Chapter 4).

Banco de Portugal also monitored and analysed the performance of the risk rating systems used by national credit institutions to evaluate assets given as collateral for Eurosystem credit operations.

1.2 Asset management

Banco de Portugal manages two types of asset portfolio: (i) a foreign reserve portfolio of the ECB, corresponding to the transfer of foreign reserve assets from Banco de Portugal to the ECB, at the beginning of EMU, based on its capital key; and (ii) its 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 NCBs and the ECB.⁵ In 2019 this limit was set at €26,653 million.

ECB foreign reserve management

The management of the ECB's foreign reserves is decentralised, under an agency agreement established with the Eurosystem NCBs. Within the scope of a currency specialisation model, Banco de Portugal has been responsible for managing a portfolio denominated in US dollars (USD) since the start of 2012. Since January 2015, this portfolio has been managed in collaboration with the central bank of Lithuania and comprises the amount of reserves allocated to the two countries. In February 2019, Banco de Portugal and the Bank of Lithuania also began managing the ECB's reserve portfolio in renminbi (CNY). As at 31 December 2019, the portfolio in USD amounted to USD 1,152 million (€1,025 million) and the portfolio in CNY totalled CNY 4,058 million (€518 million).

Management of own investment assets

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

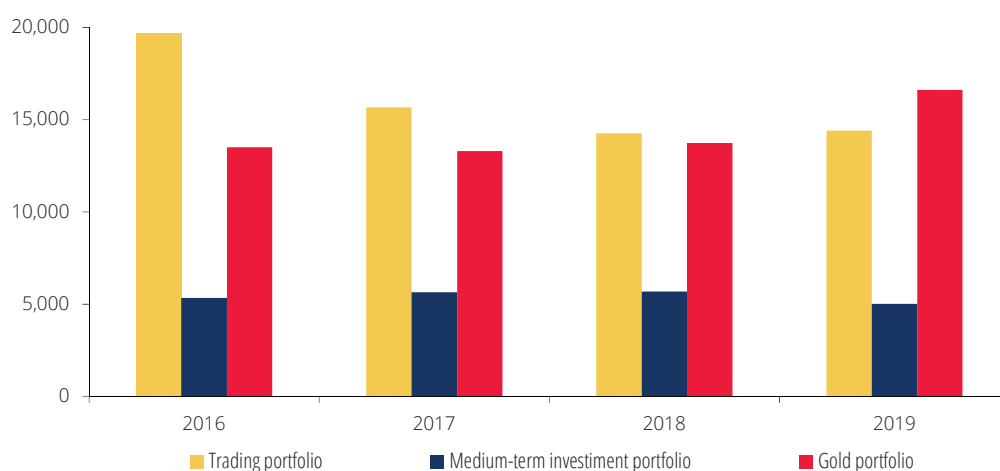
As at 31 December 2019, Banco de Portugal's own investment asset portfolio was valued at €36,010 million, a 6.9% increase from the previous year. This rise was largely the result of an increase in the price of gold with an impact on its valuation (Chart I.1.4).

5. For further details, see the [ECB website](#).



In 2019 the quantity of gold held by Banco de Portugal remained unchanged, but its value in euro increased by 20.9%.

Chart I.1.4 • Own investment asset portfolio – 2016-2019 | EUR millions



Source: Banco de Portugal.

The value of the trading portfolio at market prices and year-end exchange rates remained close to that observed at the end of 2018, with assets denominated in euro accounting for 86%.

The amount in the medium-term investment portfolio declined from the previous year, as the amounts that matured over the year were not reinvested given the current environment of negative euro area rates, including for longer maturities.

Similarly to previous years, the quantity of gold held by Banco de Portugal remained unchanged: 382.5 tonnes. Its value in euro increased by 20.9%, reflecting the joint effect of developments in the price of gold in USD and a depreciation in the euro against the dollar.

In line with the inclusion of environmental sustainability criteria in the management of own investment assets, Banco de Portugal purchased green bonds and participates in the green bond

fund created by the BIS in September 2019, becoming a pioneering central bank in this type of investment. Banco de Portugal thus strives to contribute, within its mandate, to the global effort to promote environmental objectives and, in particular, to tackle climate change (Box 1).

As regards the trading portfolio, the management of own investment assets is based on a strategic benchmark portfolio approved by the Board of Directors, on which a margin is set to provide some flexibility. This benchmark portfolio reflects scenarios and forecasts for main economic and financial variables and is effective for one year, but may be revised sooner.

The risk arising from own investment asset management operations is controlled by imposing eligibility criteria and limits on the institutions, countries, operations and instruments involved, taking into account the credit, exchange rate and interest rate risks of assets and operations (Chapter 4). These criteria and limits, approved by the Board of Directors, reflect the goal of optimising yield while preserving capital and keeping risk at a level that matches the coverage provided by Banco de Portugal's equity.

The valuation, return computation and control of limits and restrictions on asset management operations are performed daily through an internal information system similar to the one used by the ECB and most Eurosystem NCBs. This system also carries out the financial settlement of operations and monitoring of positions and main risk measures, enabling the risk management function to independently and systematically control operations from purchase to settlement.

1.3 Payment systems and means

Regulatory technical standards⁶ for strong customer authentication and common and secure open standards of communication came into force on 14 September 2019, promoting enhanced security and further European integration of payment services.

As of that date, banks and other payment service providers (PSPs) are required to apply strong customer authentication to customers that (i) access their payment account online, (ii) initiate an electronic payment transaction or (iii) carry out any action through a remote channel which may imply a risk of fraud or other abuse. They are also required to provide communication interfaces compatible with the requirements set out in the European standards to allow secure communication with third parties which are PSPs.

In October 2019 the European Banking Authority (EBA) clarified that, although the strong customer authentication requirements entered into force on 14 September 2019, national competent authorities (NCAs) might make use of supervisory flexibility regarding e-commerce card-based payment transactions up to the end of 2020.

Banco de Portugal was appointed national competent authority as regards the implementation of the new technical standards and adopted this position taken by the EBA. As such, Banco de Portugal is responsible for monitoring banks and other PSPs in the adoption of solutions that are compatible with these requirements both for strong customer authentication and common and secure communication. In order to ensure that the entry into force of the new strong customer authentication requirements runs smoothly, Banco de Portugal developed a communication campaign for bank customers on the new requirements and their impact (Chapter 3).

6. Commission Delegated Regulation (EU) 2018/389 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market (PSD2).



Image from a communication campaign for bank customers launched by Banco de Portugal on the new strong customer authentication requirements.

On a different issue, a new regulation on charges for cross-border payments in the EU and currency conversion charges was published on 29 March 2019.⁷ Among the changes with an impact on payment service users, particularly important was the principle equalising the cost of cross-border payments in euro with the cost of national payments in national currencies with the aim of (i) reducing charges for cross-border payments in euro within the Union, (ii) promoting the smooth functioning of the internal market and (iii) ending the inequalities between payment service users in the euro area and non-euro area payment service users.

At the same time, new obligations related to currency conversion practices were established, in order to increase transparency and ensure comparability of currency conversion charges, protecting consumers against excessive charges for currency conversion services and ensuring that they are given all information they need to make an informed choice.

Although this new regulation is directly and immediately applicable in all EU Member States without the need for national transposition, it must be implemented at national level. As such, the Ministry of Finance requested that the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros – CNSF) prepare draft proposals for legislation that might be needed to fully implement the regulation. Against this background, on 4 December 2019, Banco de Portugal submitted a draft Decree-Law to the Ministry of Finance, intended to adapt the Legal Framework for Payment Services and Electronic Money.⁸ Overall, this proposal aims to legislate the appointment of competent authorities to monitor the new standards and establish the specific penalty framework for cases of non-compliance.

Impact of digital transformation on the use of payment systems and instruments

Considering the growing digitalisation of the financial sector, changes in user behaviour and the emergence of new players in the payments market, the past decade has seen the development of new business models and the provision of new payment services.

Directive (EU) 2015/2366 of the European Parliament and of the Council (PSD2) regulates these new payment services – payment initiation services and account information services –promoting innovation as well as enhancing security in transactions.

Provision of these new payment services is based on the principle that access to payment accounts is granted to entities that are duly authorised to provide these services and only with the user's explicit consent. Most banks authorised to operate in Portugal have implemented a dedicated interface

7. Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009.

8. This framework implemented Regulation (EC) No 924/2009, now amended by Regulation (EU) 2019/518, into national law.

(Application programming interface – API), which ensures the secure exchange of information with providers of the new payment services. In this respect, Banco de Portugal assessed whether implemented APIs complied with a set of requirements established by the EBA and, in case of compliance, exempted institutions from the need to develop a fallback mechanism for situations where the API might be temporarily unavailable.

Banco de Portugal has accompanied ongoing technological developments and has interacted with potential new market operators. This proximity is crucial for the Bank to carry out its mission of regulating, monitoring and promoting the smooth functioning of payment systems.

In 2019 Banco de Portugal participated in the first edition of *Portugal FinLab*, a platform resulting from a partnership between Portugal FinTech and the three supervisory authorities of the national financial sector (Banco de Portugal, Portuguese Insurance and Pension Funds Supervisory Authority and the Portuguese Securities Market Commission). This platform facilitated communication between entrepreneurs in the digitalisation of the financial sector and these authorities, allowing participants to obtain more information on the regulatory framework applicable when creating and developing new projects in fintech and insurtech.

Banco de Portugal also continued to interact with the market to promote secure, efficient and innovative payment solutions. This interaction mainly takes place in the Portuguese Payment Systems Interbank Commission and the Payment Systems Forum, advisory structures to Banco de Portugal which have been working on promoting electronic payments and improving payment security.

Furthermore, Banco de Portugal continued to meet with fintech operators operating or intending to operate in the national payments market (through Fintech Meetings) in order to share information on the applicable regulation, assess opportunities of innovation and share detailed knowledge of new business models and solutions, whether these are under development or in production.

Gross payment and securities settlement systems

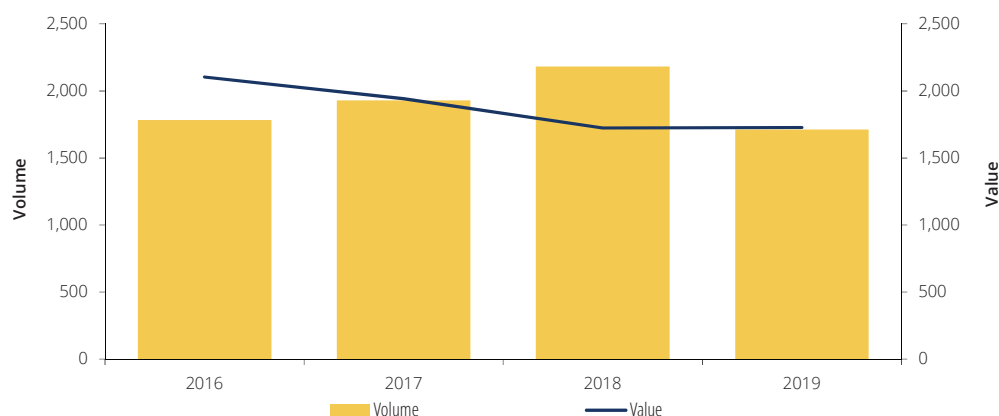
In 2019 TARGET2-PT (the Portuguese component of the real-time gross settlement system for payments in euro) achieved 100% availability and processed around 1.7 million transactions, to the amount of €1,727 billion (Chart I.1.5). The volume of settled transactions decreased by 21.5% from 2018, mostly due to the decrease in transactions between financial institutions (mainly customer transfers) and ancillary systems operations, in particular the Interbank Clearing System (*Sistema de Compensação Interbancária* – SICOI). Despite the steep decline in the number of payments, settled values recorded a slight increase of 0.2% from the previous year, for the first time since 2011.

The national community settled 230,142 securities transactions in TARGET2-Securities (T2S), worth close to €172 billion, a drop of 6% in volume and an increase of 0.5% in value from 2018 (Chart I.1.6). Dynamics continued to be strongly influenced by settlements related to the issue and redemption of Treasury bonds and bills.

In 2019 Banco de Portugal provided additional information to the national banking community on the project to consolidate two market infrastructures held and operated by the Eurosystem: TARGET2, the main European platform for processing large-value payments, and T2S, the Eurosystem's securities settlement platform. In this respect, the Bank continued to participate in work on the specification of functional requirements and to regularly monitor the degree of compliance by national participants with the targets set out for this project by the Eurosystem. Overall, the community of national participants has shown it is adequately prepared.

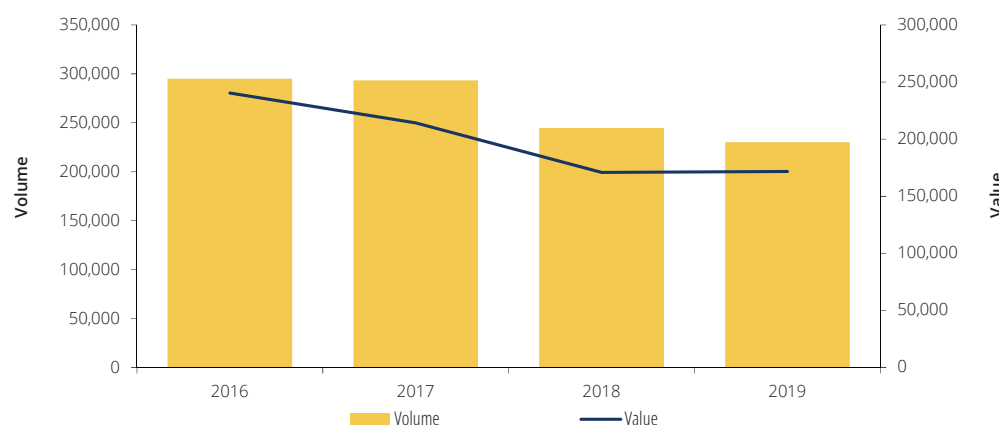
Following the decision by the national community to join TARGET Instant Payment Settlement (TIPS), the Eurosystem's pan-European instant payment settlement service, work was developed (in a first phase to provide information and training) to successfully pursue this objective, which was set for September 2020.

Chart I.1.5 • Overall transactions through TARGET2-PT – 2016–2019 | Volume in thousands and value in EUR billions



Source: Banco de Portugal.

Chart I.1.6 • Settlement of national community securities – 2016–2019 | Volume in thousands and value in EUR billions



Source: Banco de Portugal. | Note: Figures for the period up to March 2016 refer to Interbolsa operations settled in TARGET2.

Under the redesign and improvement of the communication procedures for payment instructions between institutions holding deposit accounts with Banco de Portugal and the Bank itself, these institutions were given access to a new Banco de Portugal application – the Payment Instruction Register (*Registo de Instruções de Pagamento* – RIPA) – on 1 July 2019.

As TARGET2 operator, the Eurosystem promotes efforts among participants to mitigate the risk of payment fraud. In 2019 Banco de Portugal continued to monitor compliance by the national community with the Eurosystem requirements on end-point security and the SWIFT Customer Security Programme, which aim to address potential information security risks resulting from the activity of participants in TARGET2, in particular those that are a potential systemic risk.

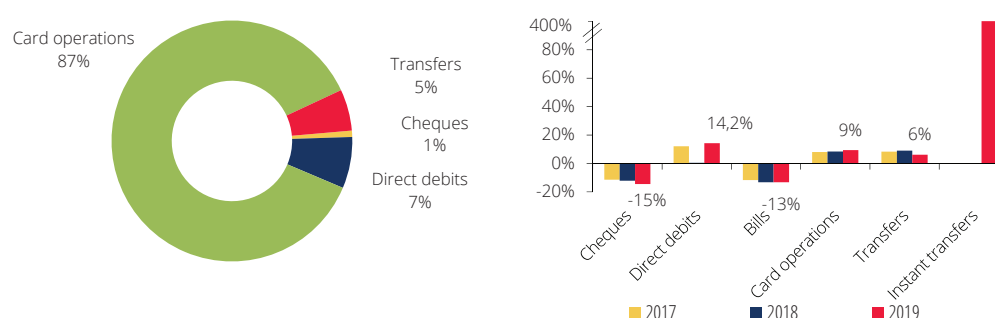
Retail payment system

In 2019 SICOI (a retail payment system that clears payments by cheque, bill of exchange, direct debit, credit transfer, bank card and instant transfer) processed three billion transactions, to the amount of €523 billion.

Compared to 2018, transactions grew 9.3% in volume and 6.4% in value, reflecting the growing use of electronic payment instruments (transfers, bank cards, direct debits and instant transfers), in line with previous years. In contrast, payments using paper-based instruments (cheques and bills of exchange) continued to decline both in volume and value.

Card payments continued to have the largest share in the system's total in terms of volume (87%) and credit transfers remained the most important in terms of value (52%) (Charts I.1.7 and I.1.8).⁹ In 2019 instant transfers operated for a full calendar year for the first time. Although these transactions are still residual in the system's total (accounting for 0.1% in volume and 0.8% in value), they did increase considerably over the course of the year.

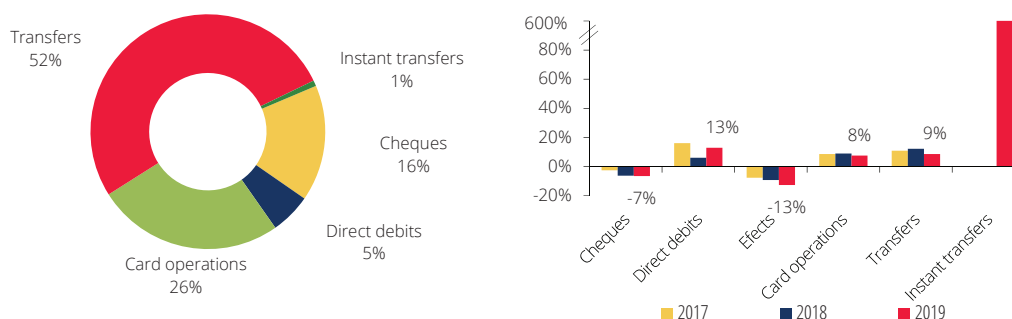
Chart I.1.7 • Share by payment instrument and year-on-year growth rates, volume of transactions in SICOI | 2019



Source: Banco de Portugal.

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 2019, 8,797 entities were added to the list and 9,624 were removed, following a decision of Banco de Portugal or upon expiry of the applicable legal period. On 31 December 2019, the list comprised 14,596 entities, a decrease of 5.4% from 2018.

Chart I.1.8 • Share by payment instrument and year-on-year growth rates, value of transactions in SICOI | 2019



Source: Banco de Portugal.

9. Additional information can be found in the *Report on Payment Systems*, published on Banco de Portugal's website.

Payment systems oversight

Banco de Portugal monitors and assesses the performance of financial market infrastructures, from an operations perspective and to analyse liquidity, concentration and credit risks, so as to ensure the smooth functioning of these infrastructures and maintain the confidence of economic agents in the financial markets. These infrastructures are increasingly important for the smooth functioning of market economies, and are consequently indispensable to the processing of payment transactions, the implementation of monetary policy operations and the stability of the financial system.

In 2019 the Bank ascertained that SIBS FPS had adopted the recommendations resulting from the assessment of the Multibanco card system and continued to regularly monitor the operation of SICOI, TARGET2-PT and T2S. The Bank began checking the effective implementation of the recommendations resulting from the assessment of both the SIBS technological infrastructure, in light of the oversight expectations applicable to critical service providers, and SICOI, in light of the principles for market infrastructures.¹⁰

The Bank monitored the implementation of the recommendations resulting from the authorisation process of the Portuguese central securities depository, Interbolsa.

In addition, Banco de Portugal carried out a second assessment of the cyber-resilience of three of the infrastructures relevant to the Portuguese market – SICOI, OMIClear (central counterparty of the Iberian energy market) and the Portuguese central securities depository, Interbolsa – with quite satisfactory results.

Finally, it conducted a survey on correspondent banking in euro in Portugal, with results pointing to an overall decrease in this activity, accompanied by a concentration in large international banks, in line with international trends.

Banknotes and metal coins

In 2019 the last two denominations (€100 and €200) of the second series of euro banknotes – the Europa series – were launched, completing a process that started in 2013 with the launch of the €5 banknote.

The number of banknotes deposited and withdrawn from Banco de Portugal declined by 9% and 7% respectively. This decline is not the result of a drop in the use of cash in Portugal (the increase in ATM cash withdrawals shows precisely the opposite), but rather the result of greater efficiency in banknote recirculation by credit institutions and cash-in-transit companies. In 2019 the Bank checked the authenticity and fitness of 635 million banknotes received from the general public and from credit institutions (63 million less than in 2018), of which 115 million were considered unfit. Although most banknotes are processed through high-speed machines, banknotes received by Banco de Portugal that are extremely damaged or fragmented are subject to a complex manual analysis and exchange process. In 2019 Banco de Portugal exchanged 36,688 euro banknotes and 767 escudo banknotes in these conditions, a figure very similar to that observed in 2018.

In 2019, 16,350 counterfeit banknotes were withdrawn from circulation (accounting for 2.9% of the total number of counterfeits seized in the euro area), mostly €50 and €20 banknotes. Compared to 2018, the number of banknotes withdrawn from circulation dropped by 9.4%, but representativeness within the euro area and the most frequent denominations remained the same.

10. *Principles for financial market infrastructures – Disclosure Framework and Assessment methodology*, published by CPSS-IOSCO in December 2012.

The cooperation agreement for the production of euro banknotes by Banco de Portugal and the central banks of Belgium and Austria entered into force in 2019. This agreement merges the production quotas of the three NCBs and divides them equally between Valora (a banknote printing company which is fully owned by the Bank) and the Austrian banknote printing works. Valora has already started producing banknotes for the 2020 quota. The Bank also entered into an agreement to produce banknotes for the Central Bank of Ireland's 2019 production quota, implemented in the same year, which allowed Valora to reach the highest annual production volume since its establishment.

In 2019 the Bank also signed a new coin swap agreement with the Central Bank of Ireland, which entered into force in January 2020 with 18 million €2 coins in excess in Portugal sent to Ireland in exchange for 36 million €1 coins in excess in Ireland. This agreement considerably mitigates the chronic excess of €2 coin stocks in Portugal.

In 2019 Banco de Portugal organised 459 training courses on euro banknotes and coins, which brought together 10,991 participants, and trained 11,786 professional cash handlers.



In 2019 the last two denominations of the Europa series were launched (the €100 and €200 banknotes), completing a process that started in 2013.

Box 1 • Sustainability and sustainable finance

In 2019 Banco de Portugal carried out a cross-cutting internal reflection on sustainability and sustainable finance. In tandem with global trends, this reflection covered the various dimensions of sustainability, but focused in particular on climate change and green finance. This work resulted in the publication already in 2020 of *Banco de Portugal's Commitment to Sustainability and Sustainable Finance*, which sets out its guidelines on this issue.

The notion of sustainability in terms of environmental, social and corporate governance parameters (ESG) is increasingly applied to the analysis of social and economic development, which is considered the more sustainable the better it aligns the needs of present and future generations with aspects such as use of natural resources, flow of investment or institutional changes. It is against this backdrop that we arrive at the concept of sustainable finance, broadly understood as the economic and financial factors related to promoting sustainable activities and behaviours.

The growing awareness of sustainability has been mainly driven by concerns over the impact of climate change. The Paris Agreement, signed in December 2015, played a very important role in putting this issue on the economic and financial agenda. First, as it advocates a process of profound transformation in how economies and societies function. Second, as it identifies the need to mobilise a large volume of financial resources over decades to come. For example, the EU has estimated additional investment needs in the range of €175 to €290 billion a year to attain carbon neutrality by 2050, i.e. net zero greenhouse gas emissions.

Central banks and financial system supervisory authorities are an integral part of this transition to higher levels of sustainability, although their concerns may differ depending on their specific mandates. On the one hand, there is consensus that climate change is a source of financial risk that is both: (i) a physical risk – related to more frequent and intense natural disasters or long-term climate effects and (ii) a transition risk – related to regulatory or tax changes, technological developments, shifts in consumer preferences, or litigation. On the other, they may have a role to play in promoting sustainability and sustainable finance, for example, by raising awareness among financial institutions of the importance of adopting ESG principles when managing their own asset portfolios or incorporating sustainable practices into their functioning as a corporation.

Banco de Portugal's Commitment to Sustainability and Sustainable Finance sets out a number of references the Bank considers important for its positioning, describes the state of play at the Bank at the end of 2019 and establishes four focus areas for the future:

- The first area corresponds to the **identification and assessment of climate change-related risks**, covering issues which are critical for the Bank's mandate, such as economic research, financial stability and banking regulation and supervision.
- The second area covers aspects of the Bank's **internal sustainability practices** related to the management of its own financial asset portfolio and its functioning as a corporation.
- The third area highlights the Bank's **intervention in the national and international debate** in order to leverage its actions by gaining access to privileged information, taking part in the discussion of measures with a potential impact on the financial system and by making contributions.
- The fourth area focuses on **communication and cooperation**, placing emphasis on networking and cooperating.

In addition, in 2019 Banco de Portugal developed a set of actions that are also part of the focus areas identified in the Commitment.

The Bank participated in a think tank on sustainable finance (Grupo de Reflexão para o Financiamento Sustentável), created in March 2019 on the initiative of the then Ministry of Environment and Energy Transition. In July, the Governor of Banco de Portugal signed the Letter of commitment to sustainable finance in Portugal, prepared by this think tank and also signed by representatives from the government, the other financial supervisors and industry institutions and associations. In this document, Banco de Portugal made a commitment to cooperate, within the scope of its tasks, on the analysis of the role of the financial system in identifying and managing environmental risks, in financing and investing in green and low-carbon projects, in a broader context of sustainable development and in accordance with European regulation and supervision. It also committed to continuing to monitor and participate in the work of the think tank on sustainable finance.

At international level, the Bank contributed to the work of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), which it joined in December 2018 and which brings together central banks and supervisors. On a voluntary basis, participants exchange experiences and share best practices focused on studying and managing environment and climate risk in the financial sector and mobilising finance to support the transition towards higher levels of sustainability. The NGFS prepared a first report providing six recommendations for monetary and supervisory authorities and other decision-makers to help focus the analysis and establish the best approach to tackle the issue.¹¹

The Bank is also part of several structures created within key international institutions, in particular at European level, that work on sustainability and climate change in the financial field. These include (i) the EBA, which launched a workplan and an action plan on these issues; (ii) the ECB/Eurosystem as regards financial stability and banking supervision, monetary policy and asset management, and efficient management of resources from the perspective of institutions as corporations; and (iii) the European Systemic Risk Board, which is mostly focused on establishing a framework monitoring climate risk and identifying and filling data gaps, thereby increasing the knowledge on the channels spreading these risks.

The Bank also accompanied the negotiation of European legislative initiatives and provided contributions to the national participation in these procedures.

In 2019 the Bank incorporated sustainability principles into its guidelines for the management of its own investment assets. It also participated in the advisory committee that outlined the key features of the first green bond investment fund in the BIS and, in September, invested in units of this fund. It also carried out an early qualitative and quantitative analysis of the ESG market, in particular of green bonds.

As a corporation, the Bank is committed to using resources in an efficient and responsible manner and in 2019 implemented measures with the aim of ensuring lower consumption of plastic and paper and more efficient waste management. In June, the Bank launched a project to define a strategy for sustainable development as an organisation, involving a systematic survey of internal practices, hearing main stakeholders, benchmarking exercises and drafting a first sustainability report to support management.

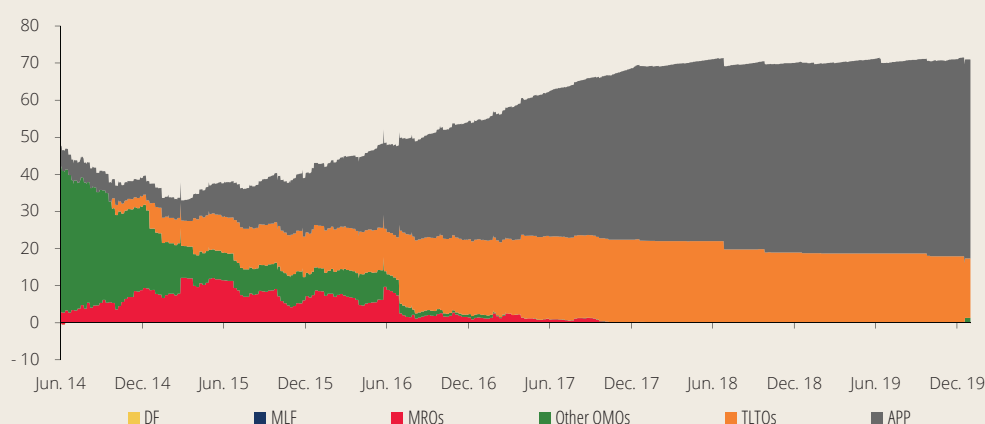
11. The report is accessible via the NGFS website.

Box 2 • Monetary policy in 2019

Over the course of 2019, the Governing Council of the ECB decided to reinforce the accommodative stance that has characterised euro area monetary policy since mid-2014 in order to support a sustained return of euro area inflation towards the medium-term objective. In addition to reactivating and reinforcing the instruments used in the past few years – specifically, the negative interest rate policy, forward guidance on the future path of ECB interest rates, asset purchase programmes and targeted longer-term refinancing operations – the Governing Council introduced a two-tier system for remunerating reserve holdings aimed at mitigating potential adverse effects from negative interest rates on banking intermediation. In addition, the Governing Council confirmed the symmetry of its medium-term inflation aim.

Banco de Portugal contributed to the decision-making process on monetary policy, through the participation of the Governor in the Governing Council of the ECB, and in preparing and outlining measures through contributions from Banco de Portugal representatives in the technical committees that assist the Governing Council. In addition, Banco de Portugal continued to ensure the execution of the adopted measures, namely with resident credit institutions, under the decentralised implementation of euro area monetary policy (Chart C2.1).

Chart C2.1 • Outstanding amount by type of monetary policy operation in Portugal | In EUR billions



Source: Banco de Portugal. | Notes: DF – deposit facility, MLF – marginal lending facility, MRO – main refinancing operations, Other OMOs – other open market operations, TLTRO – targeted longer-term refinancing operations, APP – asset purchase programme.

Against a background of weakening euro area economic activity, persistent uncertainty in the global economy, downside risks for activity and prospects that inflation would remain below the ECB objective, the main monetary policy measures – announced in March, June, July and September 2019 – were as follows:

- introduction of a new series of targeted longer-term refinancing operations (TLTRO-III). The parameters of the TLTRO-III were recalibrated in September, immediately before the first operation, with a more attractive interest rate and a longer maturity than initially announced;
- forward guidance on key rates was changed at various points in 2019 and the deposit facility rate was cut in September. In March and June, the Governing Council extended the minimum period during which it expected key interest rates to remain unchanged and, in July, it announced the

possibility of rates standing below the levels prevailing at that time. In September, the Governing Council cut the deposit facility rate by 10 basis points, from -0.40% to -0.50%, and announced that ECB interest rates were expected to remain at their present or lower levels until it had seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence had been consistently reflected in underlying inflation dynamics;

- restart of net purchases under the APP, at a monthly pace of €20 billion from November, with the expectation that they will end shortly before the ECB starts raising the key interest rates;
- introduction of a two-tier system for remunerating credit institutions' excess reserve holdings, in which part of these reserves are exempt from the negative deposit facility rate from 30 October 2019.

These measures are mutually reinforcing and promote a degree of monetary policy accommodation, preserving favourable bank lending conditions and ensuring an adequate transmission of monetary policy. This set of measures has reinforced the monetary policy contribution to growth in the euro area's economy and employment, including in Portugal, as observed since mid-2014.¹² This monetary accommodation is expected to gradually pass through to inflation in the euro area as a whole.

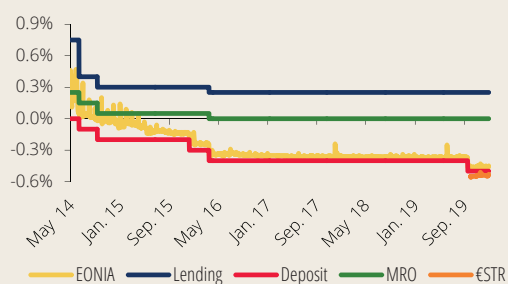
Transmission of this set of monetary policy decisions in the euro area is carried out through a variety of channels. At the shorter end of the yield curve, interest rates have remained at record low levels, in line with the deposit facility rate (Chart C2.2). For longer maturities, expectations for developments in monetary policy interest rates, anchored by the ECB's forward guidance, together with net asset purchases and the reinvestment policy, have also helped keep money market interest rates at low levels. The PSPP is also assumed to have a substantial impact on the decline in long-term interest rates on the government debt of euro area countries, including Portugal, which is expected to persist (Chart C2.3).¹³ In addition, TLTROs, which provide strong incentives for lending, are expected to have contributed to a greater willingness by the banking sector to grant new loans to enterprises and households at significantly lower rates (Charts C2.4 and C2.5). In turn, the two-tier system for remunerating excess reserve holdings is also expected to have eased monetary policy transmission through the banking system.

These effects had a favourable impact on economic agents in Portugal – households, financial and non-financial corporations, and public sector – either directly through the abovementioned channels, or indirectly through an improvement in the economic, monetary and financial conditions of Portugal's main partner countries.

12. See Rostagno, M., Altavilla, C., Carboni, G., Lemke, W., Motto, R., Saint Guilhem, A. and Yiangou, J. (2019), A tale of two decades: the ECB's monetary policy at 20, *ECB Working Paper* 2346.

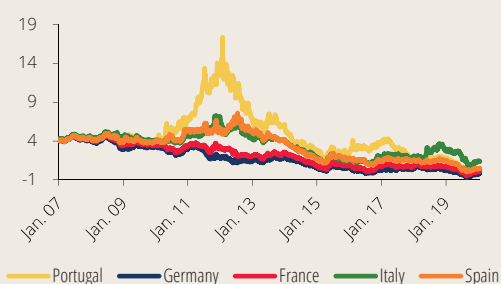
13. See Box 1 "The impact of the public sector purchase programme on euro area long-term yields", June 2019 issue of the *Economic Bulletin*, Banco de Portugal.

Chart C2.2 • Key interest rates



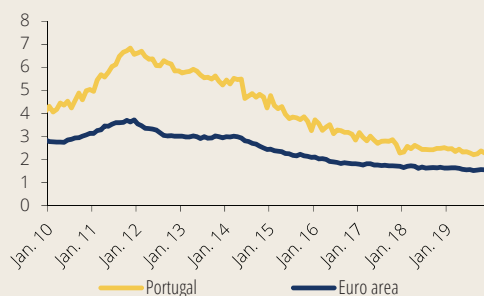
Sources: Bloomberg and Banco de Portugal.

Chart C2.3 • Yields on 10-year public debt
| Percentage



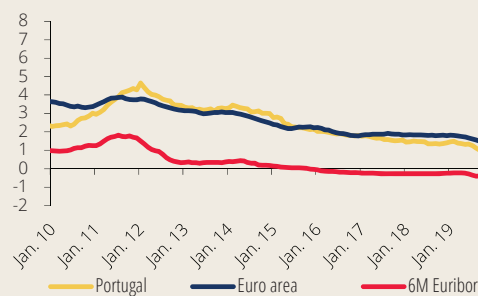
Sources: Bloomberg and Banco de Portugal calculations.

Chart C2.4 • Cost of bank loans to non-financial corporations | Percentage



Sources: Statistics Data Warehouse (ECB) and Banco de Portugal calculations. | Note: Charts were calculated on the basis of the ECB's composite cost-of-borrowing indicator, i.e. corresponding to the weighted average of short and long-term interest rates on loans granted to each type of economic agent.

Chart C2.5 • Cost of bank loans to households for house purchase | Percentage



2 Financial stability

Safeguarding financial stability is part of Banco de Portugal's mission. To accomplish this task, the Bank has regulatory and supervisory powers (macroprudential, microprudential and banking conduct), as well as legal enforcement and resolution powers. This chapter describes Banco de Portugal's work in 2019 to promote the robustness and stability of the domestic financial system, the second Broad Strategic Guideline established for the four-year period 2017-2020.

Banco de Portugal is part of the Single Supervisory Mechanism and the Single Resolution Mechanism, and participates in various national and international fora in financial regulation and supervision, in particular the National Council of Financial Supervisors, the European Systemic Risk Board and the European Banking Authority.

Participation in the decision-making structures of these bodies enables the Bank to contribute to the building-up and functioning of the Banking Union and to the regulatory framework, and influence the financial supervisory architecture.

Under the Single Supervisory Mechanism (SSM), which is the Banking Union's system for prudential supervision, Banco de Portugal intervenes at several levels: (i) it is represented on the Supervisory Board, the body responsible for planning and performing the supervisory tasks of the SSM; (ii) it collaborates in the supervision of significant institutions by participating in joint supervisory teams; (iii) it directly supervises less significant institutions; (iv) it authorises the exercise of the functions of the members of the management and supervisory bodies and key function holders in institutions subject to its direct supervision, and participates in the assessment of suitability for the exercise of functions in significant institutions; and (v) it participates in the procedures for granting and withdrawing authorisation to credit institutions and for assessing the acquisition of qualifying holdings. Banco de Portugal also participates in a number of technical working groups responsible for the development of methodologies and supervisory tools, as well as the promotion of the supervisory best practice, which is subsequently incorporated by the Bank.

In 2019 the ECB's Supervisory Board held 18 meetings, one of which at Banco de Portugal's head office in Lisbon. Throughout the year, 45 Banco de Portugal staff members joined the joint supervisory teams assigned to the significant institutions of the Banking Union, increasing the Bank's staff participation in inspections of banks from other SSM countries. Also within the SSM, Banco de Portugal led and participated in some cross-border inspection missions of large banking groups. This type of action contributes to the harmonisation of practices across the supervisory entities.

Banco de Portugal is also part of the Single Resolution Mechanism (SRM), which was established under the Banking Union for the resolution of credit institutions. Within the SRM, the powers and responsibilities for resolution are shared between the Single Resolution Board – which, essentially, exercises resolution functions on significant institutions or institutions with cross-border activity – and the national resolution authorities of the Member States of the Banking Union – which are responsible for directly exercising their resolution functions in relation to less significant institutions with no cross-border activity. In this context, Banco de Portugal intensified the resolution planning work. Regarding the Single Resolution Board, Banco de Portugal was represented in plenary sessions, as well as in the extended executive sessions whenever issues related to Portuguese credit institutions or institutions present in Portugal were at stake. In addition, the Bank's staff members

joined the internal resolution teams responsible for resolution planning work and assigned to banking groups that include Portuguese significant institutions and other institutions with head office in another Member State of the Banking Union. Banco de Portugal also participated in several committees and technical working groups of the SRM.

The SRM also integrates the Single Resolution Fund, which is funded by the banking sector and intended to support the resolution of banks which are failing or likely to fail. Banco de Portugal monitors the operation of the Fund, notably in the setting, collection and payment of periodic contributions by the Portuguese institutions.

In turn, the activity of the European Banking Authority (EBA), focusing on the regulation and convergence of supervisory practices in the European Union (EU), requires the regular involvement of several of Banco de Portugal's areas, namely financial stability, prudential supervision, banking conduct supervision, resolution, prevention of money laundering and terrorist financing, and payment systems. Banco de Portugal participates in EBA's highest decision-making body, the Board of Supervisors, which held seven meetings in 2019. In addition to the regular analysis of risks and vulnerabilities associated with the European banking sector, its focus on the monitoring of several capital and liquidity-related matters was maintained, with a view to promoting the convergence of supervisory practices. The Bank participated in the accomplishment of EBA work within the scope of its several mandates, namely in relation to internal governance and remuneration, credit risk and market risk, the treatment of non-performing loans, the implementation of the International Financial Reporting Standards (IFRS9), protection of consumers and depositors, resolution, deposit guarantee schemes, prevention of money laundering and terrorist financing, digitalisation of the financial sector, sustainable finance and the implementation of the second Payment Services Directive, in addition to tasks related to the monitoring of the UK's withdrawal from the EU (Brexit). Banco de Portugal also participated in the development of methodologies for stress-test exercise in the EU, which EBA planned to be carried out in 2020, now postponed to 2021.

The Governor of Banco de Portugal is a member of the General Board of the European Systemic Risk Board, the entity responsible for macroprudential supervision of the EU financial system and the prevention and mitigation of systemic risks. This body held four meetings in 2019 and discussed several issues, such as the main risks to financial stability, macroprudential measures taken by several Member States and, developments in the real estate market, particularly the revision of the Recommendation on closing real estate data gaps¹⁴ and the warning and recommendations to 11 EU Member States with regard to the need to adopt specific measures to mitigate the systemic risk associated with the residential real estate market. Work was also developed on the collection of information for macroprudential purposes in relation to branches of credit institutions having their head office in other Member States or a third country, on the assessment of the macroprudential implications of the banking sector's holding of Level 2 and 3 financial instruments, on the macroprudential tools for the insurance sector and on the assessment of the cyber-risk at systemic level.

The Bank also participates in the Macroprudential Forum, which regularly brings together the Governing Council of the ECB and the Supervisory Board of the Single Supervisory Mechanism to discuss topics of common interest from the micro- and macroprudential perspectives. In 2019 four meetings were held, in which the following issues were discussed: risks to financial stability more directly related to the banking sector, implications of the amendments to the prudential framework, the impact of Brexit and the framework for applying macroprudential tools.

14. Recommendation of the European Systemic Risk Board of 31 October 2016.

The work carried out under the aegis of the Joint Committee of European Supervisory Authorities includes the Bank's participation in various committees and working groups cutting across the financial system. In 2019 Banco de Portugal contributed to the issuance and updating of guidelines on assessing the risk of money laundering and terrorist financing, in addition to determining how such risks should be viewed by prudential supervision; to the updating of the list of groups constituting a financial conglomerate in the EU; to the half-yearly reports summarising the main inter and intrasectoral risks in the European financial system, and highlighting the main recommendations or measures issued by the three European supervisory authorities.

Banco de Portugal also participates in the Economic and Financial Committee of the EU and in several technical groups in the financial area, in particular at the European Commission and the EU Council, as well as in global institutions such as the Bank for International Settlements (BIS), the International Monetary Fund, the Financial Stability Board's Regional Consultative Group for Europe and the Financial Action Task Force (FATF).

The Governor represents Banco de Portugal at the BIS Annual General Meeting and at the governors' meetings, which are held every two months. The Bank for International Settlements is a privileged forum for international cooperation and discussion among central banks and other financial regulatory and supervisory authorities. In 2019 the discussions focused on an assessment of the global economic and financial situation and the main risks to financial stability. Other issues were also discussed, such as opportunities for and risks to the financial system arising from technological innovation, international financial regulation, assessment of the reforms implemented following the global financial crisis and the frameworks for conducting the monetary policy. Best practice for the central banks and supervisory entities governance were also shared.

Banco de Portugal also participates in the Central Banks and Supervisors Network for Greening the Financial System, which integrates central banks and supervisors globally and aims to promote the management of environmental risks in the financial sector and support the transition to a sustainable economy through "green finance". In 2019 Banco de Portugal participated in the preparation of technical documents and of the first report of this network, which make recommendations for its members and other public authorities (Box 1).

2.1 Regulatory framework

In 2019 Banco de Portugal continued to participate in the development of new legislation and regulation of the European Union (EU) applicable to institutions subject to its supervision.

In conjunction with the Ministry of Finance and the Permanent Representation of Portugal to the EU, Banco de Portugal participated in the negotiation process of several European Commission legislative proposals, especially those designed to: (i) strengthen the legal prudential framework applicable to credit institutions and investment firms; (ii) revise the European System of Financial Supervision (by updating the legal framework governing the activities of the European Banking Authority and the European Systemic Risk Board); (iii) establish the new prudential framework applicable to investment firms; (iv) develop a minimum harmonised regulatory framework for covered bonds,¹⁵ and (v) introduce rules on credit acquiring and/or managing entities.

15. See Box 2 of the December 2019 issue of the *Financial Stability Report*, available on Banco de Portugal's website.

Moreover, Banco de Portugal continued to monitor the matters related to the deepening of the Economic and Monetary Union, by providing technical support to the Ministry of Finance, preparing proposals and setting strategic guidelines on financial stability matters. For instance, the Bank monitored the processes associated with the creation of a European deposit insurance scheme, a backstop for the Single Resolution Fund, enhancement of the capital markets union and the possible harmonisation of the insolvency rules for credit institutions not compliant with the public interest criterion.

As for the creation of domestic rules, the Bank worked on the implementation of European Banking Authority guidelines and EU regulations, notably on criteria for simple, transparent and standardised securitisation, specifying the types of exposures which must be associated with high risk under the Capital Requirements Regulation, and the materiality threshold for credit obligations past due. The Bank further contributed to the transposition into Portuguese law of the provisions of the new Directive on the prevention of use of the financial system for the purposes of money laundering or terrorist financing,¹⁶ as well as submitted proposals for the materialisation of simplified/enhanced due diligence, suspicion indicators and reporting obligations of financial service providers operating under the freedom to provide services.

In addition, Banco de Portugal issued opinions on several legislative proposals, both as member of the National Council of Financial Supervisors and in the form of specific initiatives, namely: the reform of domestic financial supervision, the transfer of the deposit guarantee function from the Mutual Agricultural Credit Guarantee Fund to the Deposit Guarantee Fund, the transfer of Banco de Portugal's prudential supervisory powers on credit securitisation and investment fund management companies to the Portuguese Securities Market Commission in January 2020, the establishment of specialised alternative investment undertakings, amendments to the treatment of impairments of credit institutions and other financial companies impairments and to the special regime applicable to deferred tax assets, amendments to the Legal Framework for Payment Services and Electronic Money, in order to implement the principle equalising the cost of cross-border payments in euro with the cost of domestic payments in national currencies to ensure transparency and comparability of currency conversion costs incurred with such payments.

Together with the National Council of Financial Supervisors, the Bank was also involved in the analysis of the consequences of Brexit for the financial sector, thus participating in the preparation of the legislation approving contingency measures to be applied in the event of a no-deal Brexit.¹⁷

In compliance with Law No 15/2019 of 12 February 2019 on credit institutions which benefitted from public funds, Banco de Portugal prepared an extraordinary report containing relevant information on credit institutions that were subject to resolution, nationalisation, liquidation or recapitalisation and which directly or indirectly benefitted from public funds. This report was submitted to Parliament and published on 23 May 2019.

16. Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

17. Decree-Law No 147/2019 of 30 September 2019.

2.2 Stability of the Portuguese financial system

In 2019 the domestic banking system continued to improve its main financial indicators, notably with regards to profitability, efficiency, asset quality and solvency (Table I.2.1).

Table I.2.1 • Portuguese banking system indicators | 2016 - 2019

	Notes	Unit	2016	2017	2018	2019
Total assets (gross)/GDP (nominal)			2.1	1.9	1.9	1.8
Profitability (*)						
Return on assets (ROA)	(1)	%	-0.6	0.3	0.7	0.7
Operating result	(2)	%	0.7	0.8	1.0	1.0
Net interest income	(3)	%	1.5	1.6	1.6	1.6
Return on equity (ROE)	(4)	%	-7.3	3.3	7.1	8.1
Cost-to-Income	(5)	%	59.4	52.8	60.3	59.2
Net profit for the year		EUR, millions	-1,244.5	-87.7	1,078.2	1,791.8
Liquidity						
Central bank funding	(6)	%	6.4	6.3	5.3	4.4
Loan-to-deposit (Ltd) ratio	(7)	%	95.5	92.5	89.0	87.3
Liquidity coverage ratio (LCR)	(8)	%	150.8	173.5	196.4	218.4
Asset quality						
Ratio of non-performing loans (NPLs)	(9)	%	17.2	13.3	9.4	6.1
Households, house purchase	(9)	%	7.0	5.7	3.7	2.4
Households, consumption and other purposes	(9)	%	16.2	13.1	10.6	8.2
Non-financial corporations	(9)	%	29.5	25.2	18.5	12.3
NPL ratio (net of impairments)	(10)	%	9.4	6.7	4.5	3.0
Households, house purchase	(10)	%	5.5	4.4	2.7	1.8
Households, consumption and other purposes	(10)	%	6.0	4.9	4.2	3.4
Non-financial corporations	(10)	%	15.1	11.6	8.1	5.4
NPL impairment coverage ratio	(11)	%	45.3	49.4	51.9	51.3
Households, house purchase	(11)	%	21.0	22.8	27.1	26.2
Households, consumption and other purposes	(11)	%	63.2	62.6	60.2	58.9
Non-financial corporations	(11)	%	48.9	53.9	56.3	56.3
Total non-performing loans		EUR, millions	46,361	37,001	25,852	17,194
Total non-performing loans net of impairments		EUR, millions	25,364	18,728	12,432	8,372
Solvency						
Capital ratio	(12)	%	12.3	15.1	15.2	16.7
Common Equity Tier 1 (CET 1) ratio	(13)	%	11.4	13.9	13.2	14.1
Leverage ratio	(14)	%	6.6	7.8	7.3	7.8

Source: Banco de Portugal. | Notes: (*) Profitability indicators calculated with cumulative flows in the year, annualised. (1) Profit and loss before taxes as a percentage of average assets. (2) Net interest income and net fees and commissions less operational costs; as a percentage of average assets. (3) Difference between interest income and expenses on financial assets and liabilities; as a percentage of average assets. (4) Profit and loss before taxes as a percentage of average equity. (5) Ratio between operational costs and total operating income. (6) Central bank funding as a percentage of total assets. It corresponds almost entirely to Eurosystem funding. (7) Ratio of loan to deposits of customers. (8) Ratio of available liquid assets and net cash outflows calculated under a 30-day stress scenario. (9) Ratio between the gross value of the non-performing loans and the total gross value of the loans. (10) Ratio between the value of the non-performing loans net of impairments and the total gross value of the loans. (11) Ratio between impairments recorded for non-performing loans and their gross value. (12) Ratio of total own funds to risk-weighted assets. (13) Ratio between Common Equity Tier 1 capital and risk-weighted assets. (14) Ratio between Tier 1 capital and total exposure (including on- and off-balance-sheet assets, derivatives).

The profitability improvement reflected, on the one hand, factors of a structural nature, such as the sector's efforts to promote efficiency and, on the other, developments related to the cyclic position of the economy with evident consequences, such as the reduction of costs with provisions and impairments.

The recovery in profitability and the dividend distribution policy made it possible to strengthen own funds. This reinforcement occurred after the issuance orders by Banco de Portugal aiming at ensuring levels of capital consistent with the risk profiles and regulatory requirements, which contributed to more resilient credit institutions. In 2019 the CET 1 ratio increased to 14.1 % (13.2% in 2018) and the total capital ratio to 16.7% (15.2% in 2018). As mentioned above, the increase in own funds was chiefly due to developments in retained earnings and other comprehensive income components, but also benefitted from a number of debt securities issues. These debt securities also contribute to compliance with the minimum requirements for own funds and eligible liabilities (MREL) able to cover losses in the event of resolution.

Liquidity ratios also improved significantly in 2019, with an increase in the liquidity coverage ratio to about 218% and in customers' deposits taken by €10.3 billion, corresponding to a confidence indicator in the banking system.

In turn, the non-performing loans (NPL) ratio continued to follow the downward trend that began in mid-2016, mainly reflecting the reduction in the stocks of NPLs on balance sheets, in line with the guidelines and plans to reduce non-performing loans submitted to supervisory authorities by banks. These developments correspond to one of the most significant advances achieved by the Portuguese banking system: NPLs fell from a record high of €50.5 billion in June 2016 to €17.1 billion in December 2019, accounting for a decrease of more than €33 billion in only three years and a half. In addition, during the same period the NPL net of impairments decreased from €28.7 billion to €8.4 billion. The reduction in the NPL ratio was widespread across the banking sector, but more significant among institutions with a higher ratio, leading to a reduction of heterogeneity. Banco de Portugal monitored the implementation of plans to reduce NPLs, required revisions and updates, and imposed alternative measures in case of deviations.

The reduction of the high stock of NPLs was also considered a priority at the European level. In this context, Banco de Portugal participated in the development of several initiatives undertaken by the Single Supervisory Mechanism (SSM), as well as within the "Action Plan to Tackle Non-performing Loans in Europe", which was endorsed in July 2017 by the Economic and Financial Affairs Council of the European Union (ECOFIN). In 2019 the following initiatives should be highlighted:

- Establishment and entry into force (on 26 April 2019), for prudential purposes, of common minimum regulatory provisioning levels for newly originated exposures (the so-called prudential backstop). This is a legally binding measure and applicable to all banks established in the EU;
- Revision by the Single Supervisory Mechanism in August 2019 of the supervisory expectations for prudential provisioning of new non-performing exposures, bringing them closer to those set out in the prudential backstop;¹⁸
- Entry into force at the end of June 2019 of the guidelines of the European Banking Authority on managing non-performing and forborne exposures, extending their scope of application to all Member States of the European Union (EU) and all significant and less significant institutions;
- Introduction, by the European Banking Authority, of additional requirements on the reporting of information to the supervisory authority on non-performing and forborne exposures which are to be reported for the first time in 2020, with March 2020 as reference date.

18. See Box 4 of the December 2019 issue of the *Financial Stability Report*, available on Banco de Portugal's website.

Overall, these initiatives are intended to manage the existing stock of NPLs and, in due course, any new NPLs on bank balance sheets, as well as to prevent the excessive build-up of NPLs not covered by provisions on bank balance sheets.

In the performance of its tasks on safeguarding the stability of the financial system, throughout the year Banco de Portugal conducted a wide range of exercises and initiatives intended to assess the systemic risks and dissemination of the main findings and guidelines to relevant stakeholders, namely those within the banking system.

Macroprudential policy

As the national macroprudential authority, Banco de Portugal is responsible for identifying, monitoring and assessing systemic risk sources, and for proposing and adopting measures to prevent, mitigate or reduce this risk, so as to boost financial sector resilience.

In 2018 Banco de Portugal decided to implement a macroprudential measure in the form of a Recommendation aimed at mitigating the risks associated with new credit agreements with consumers. This measure came into force in July 2018. This Recommendation introduces limits to some of the criteria with which credit institutions should comply when assessing the borrower's creditworthiness. It aims to ensure that these institutions do not take excessive risks when granting new credit, so as to boost financial sector resilience to potential adverse shocks and promote access to sustainable funding on the part of consumers, minimising default risk.

In 2019 Banco de Portugal monitored the implementation of this measure by continuing to interact closely with the institutions for the preparation and collection of information and providing clarifications on issues raised by these institutions and their customers. In May 2019 Banco de Portugal published the first progress report on this measure.¹⁹ The analysis in the Report points to the effectiveness of the limits established in the Recommendation for compliance with the objectives set and a significant convergence trend towards the limits set and improvement in the borrowers' risk profile. Within the scope of this monitoring task, Banco de Portugal also concluded that the maintenance of the upward trend of the average maturity and average amount of new consumer credit, in particular personal credit, may pose an increased risk for the financial system, as it implies that borrowers will be exposed to fluctuations in the business cycle for longer periods. Taking into account these developments and the risks observed in the current economic environment, on 29 January 2020 Banco de Portugal decided to reduce the maximum maturity of new personal credit to seven years, except credit for education, healthcare and renewable energy, which will continue to have a maximum maturity of ten years.²⁰

In its assessment report of European residential real estate markets published in September 2019, the European Systemic Risk Board considered Banco de Portugal's Recommendation to be appropriate and sufficient to mitigate the risks identified. Moreover, this measure was considered a pioneering measure in some of its characteristics, particularly with regard to the governance model, and constitutes a benchmark for other European macroprudential authorities.

19. See the document issued in May 2019 entitled *Macroprudential Recommendation on new agreements for consumers – progress report*, available on Banco de Portugal's website.

20. See *Macroprudential measures – LTV, DSTI and maturity limits*, available on Banco de Portugal's website.

In 2019 Banco de Portugal continued to reassess the countercyclical capital buffer quarterly, which aims to increase the banking system's capacity to absorb losses during any downturn in the financial cycle, thus helping to mitigate any procyclical trends. Taking into account the available quantitative and qualitative information, Banco de Portugal decided to keep the countercyclical capital buffer rate at 0%. In the context of a revision of the analytical framework of the countercyclical capital buffer, and taking into account the timely detection of the sources of risk, Banco de Portugal developed a domestic cyclical systemic risk indicator.²¹

The other systemically important institution buffer (OSII) imposed on banking groups considered systemically important at the domestic level, is used to mitigate structural systemic risk associated with excessive risk-taking by institutions whose bankruptcy may have a significant impact on the financial system and the economy. The buffer rate is revised annually or in the event of a significant restructuring process, such as a merger or acquisition. In 2019 Banco de Portugal revised the list of institutions identified as O-SII. This list coincides with that published in 2018, except for Novo Banco S.A. which was replaced by LSF Nani Investments following the change in the shareholder structure. Banco de Portugal also revised the O-SII buffer requirement imposed on Banco Comercial Português, from 0.75% to 1.00%, following the increase of its systemic importance for the Portuguese financial system. In light of this change, Banco de Portugal granted Banco Comercial Português one additional year to comply with the 25 basis-point increase, i.e. its O-SII buffer should be fully completed as of 1 January 2022. For the other banking groups, the O-SII buffer rate and the phase-in period set in 2017 were maintained.

The annual exercise to identify third countries relevant to the Portuguese banking system was carried out and there was no change compared to the countries identified in the previous exercise. Banco de Portugal decided to voluntarily reciprocate the macroprudential measure taken by Sweden, which is related to exposures secured by residential property located in that country, and not to reciprocate the measure taken by the French authority, considering the reduced materiality of exposures of the Portuguese O-SIIs to the French non-financial companies sector.

Prudential supervision

In 2019 the Bank developed a range of measures within the scope of prudential supervision aimed at boosting the resilience of the main banks in light of potential risks and future challenges. These measures focused on three fields: (i) the reinforcement of governance and internal control mechanisms, (ii) the strengthening of the business models, and (iii) the reinforcement of institutions' capital and liquidity positions. The priorities were identified taking into account the international context of the financial sector, the assessment of the main risks to the institutions of the Portuguese banking system and the priorities set by the Single Supervisory Mechanism for credit risk and risk management in general for 2019.

In 2019 Banco de Portugal carried out several inspections with a focus on the institutions' internal governance, as well as several cross-cutting analyses, including policies to prevent conflicts of interest and related parties, remuneration policies, and internal policies for the selection and appointment of statutory auditors or audit firms.

21. See Box 3 of the June 2019 issue of the *Financial Stability Report*, available on Banco de Portugal's website.



In 2019 Banco de Portugal hosted one of the meetings of the Supervisory Board of the European Central Bank.

Assessment of the suitability of the members of the corporate bodies of the supervised institutions continued to be one of the most prominent features of the prudential supervision activity, intended to promote the selection by the institutions of more qualified, independent and suitable members of the management and supervisory body, who devote the necessary time to the exercise of their functions, aiming to ensure sound and prudent management of the institutions. The demand imposed on Banco de Portugal's activities was reflected in the shift of the management and supervisory bodies of several institutions, involving the registration of 915 people and the issuance of more than 400 recommendations, especially in terms of enhancing qualifications and preventing conflicts of interest (Table I.2.2). With regard to the banks that will soon have mandate renewal processes, and in anticipation of possible prudential concerns, Banco de Portugal communicated its expectations with respect to the institution's governance in advance.

In addition, Banco de Portugal continued to organise global communication initiatives with the sector in this field. In 2019 a conference was held with more than 50 non-executive members of credit institutions' management and supervisory bodies to discuss their role in the good governance of the institutions.

In 2019 Banco de Portugal encouraged institutions to strengthen their business models. Among other initiatives, it challenged and monitored institutions' strategic plans, assessed banks' ability to implement their digital transformation plans, assessed the concentration of exposure to certain types of assets, verified the robustness of internal investment policies, and assessed the policies, practices and pricing of credit granting in new credit operations.

Taking into account the growing digital innovation applied to the financial activity, a number of supervisory initiatives were developed in relation to the risks associated with information and communication systems (particularly cybersecurity), with challenges for traditional business models emerging from Fintech competition.

All these measures aimed to enhance the quality of the internal governance and internal control mechanisms and to strengthen the institutions' business models, as well as to improve capital and liquidity positions.

Within the scope of entity authorisation, the analysis of 185 processes was completed and verification of the legal and prudential requirements for access to the financial activity and strict compliance with the statutory time limits were ensured by the assessment of extensive and complex information.

A total of 1589 credit institutions, financial companies and payment institutions were registered, in addition to 227 qualifying holdings and 112 statutory amendments (Table I.2.2).

Table I.2.2 • Registration acts | 2017 – 2019

	Dec. 17	Dec. 18	Dec. 19	Δ 2019-2018
Members of corporate bodies registered:				
Management bodies	336	324	402	78
Supervisory bodies	210	228	327	99
Board of the general meeting	146	114	186	72
	692	666	915	249
National institutions registered:				
Credit institutions	170	165	165	0
Financial companies	95	90	89	-1
Payment institutions	45	46	47	1
Electronic money institutions	6	8	12	4
Holding companies	31	29	24	-5
Branches of subsidiaries of EU-based credit institutions	1	2	3	1
Branches of EU-based financial companies	1	1	2	1
Registered representative offices of credit institutions and financial companies based abroad	20	20	22	2
	369	361	364	3
Credit institutions based in EEA States, providing services	535	537	553	16
Payment institutions based in EEA States, providing services	348	360	438	78
Electronic money institutions based in EEA States, providing services	134	172	234	62
Registration acts with regard to qualifying holdings	212	228	227	-1
Statutory changes	75	56	112	56
Total	2,365	2,380	2,843	463

Source: Banco de Portugal.

Banking conduct supervision

In 2019 Banco de Portugal supervised financial institutions' compliance with the regulatory framework applicable to retail banking markets in a context of increasing technological innovation in banking activity, paying particular attention to the marketing of products and services through digital channels. At the same time, it addressed the challenges of broadening the perimeter of banking conduct supervision to credit intermediaries and training entities. Empowering bank customers for the adoption of security procedures in the use of digital channels was one of the priorities of digital financial education developed by Banco de Portugal for promoting financial information and training.

In monitoring compliance with the basic banking services regime, Banco de Portugal verified the information provided to customers by institutions on the convertibility of current accounts into basic bank accounts. It also assessed compliance with the rules that set out the conditions for access to the basic bank account and the parameters for the debit card linked to such account.

The institutions also checked compliance with the obligation to make available the annual statement of fees, a document standardised at European level, which contains information on the fees charged

for services linked to the current account during the preceding year. In order to promote an adequate provision of this information through digital channels, Banco de Portugal issued a set of recommendations for the provision of the statement of fees through online and mobile channels and e-mail.²²

Following the inspections of branches in 2018, to assess compliance with the obligations to provide assistance and information to bank customers, as described in the new framework on credit relating to residential immovable property and credit secured by a mortgage, in 2019 Banco de Portugal conducted inspections of the central services, which focused on the contracting process, namely the provision of pre-contractual and contractual information, APRC and interest calculation, the provision of periodic information during the lifetime of the credit agreement and the availability of the immovable property assessment report.

In monitoring compliance with the regulatory framework applicable to consumer credit, the inspections carried out focused on overdraft facilities and credit overrunning, credit cards, credit lines and current accounts, and car loans. The following were all assessed: reliability of information reported to Banco de Portugal, the provision of pre-contractual and contractual information, APRC calculation and compliance with applicable upper limits, the exercise of the right to early repayment, the provision of information during the lifetime of the contract and the application of the general arrears regime.

In a context of increasing supply of consumer credit through digital channels, the Bank focused its supervisory activity on the offering of these products, aiming to ensure compliance with the regulatory framework applicable to these channels (technological neutrality principle). Its monitoring focused on pre-contractual information and assistance obligations, as well as on the security requirements for the contracting process. In advertising and other information mediums, appropriate identification of the products and services offered and of the institution responsible for offering them was verified. Banco de Portugal held bilateral meetings with the institutions to analyse the report of signing-up flows through the online or mobile channels.

22. Circular Letter No CC/2019/00000083 of 23 December 2019.



As part of the digital financial education campaign #TopTip, Banco de Portugal distributed brochures at schools all over the country.

In 2019 the Bank published the results of the second questionnaire of financial institutions, carried out in December 2018, on the subscription, availability and use of banking products and services through digital channels in Portugal. The information collected made it possible to monitor their evolution as of the previous questionnaire, applied two years earlier.

In the context of supervising the advertisement of banking products and services, Banco de Portugal checked compliance with the information and transparency obligations in 9,684 advertisements (Table I.2.3). Most of these were related to consumer credit products.

Table I.2.3 • Key indicators for banking conduct supervision activity | 2018 – 2019

	2018	2019
Supervision of financial institutions		
Advertisements received	9,739	9,684
Key information documents for structured deposits	91	75
Remuneration rates on structured deposits	162	167
Consumer credit agreements concluded	1,543.743	1,598.744
Bank customer complaints	15,254	18,104
Inspections Entities covered ⁽¹⁾		
Current accounts and payment instruments (fees and charges) ^{(2), (3)}	123	119
Basic bank accounts ^{(2), (4)}	106	107
Consumer credit in digital channels	13	15
Consumer credit	24	8
Home loans and mortgage credit	29	3
Correction of irregularities and sanctions		
Specific orders and recommendations	922	921
Administrative offence proceedings initiated	47	27
Supervision of credit intermediaries		
Application proceedings concluded	1,052	5,169
Applications for authorisation accepted	924	3,757
Advertisements received ⁽⁵⁾	n.a.	57
Bank customer complaints ⁽⁵⁾	n.a.	114
Inspections ⁽⁵⁾	n.a.	45
Correction of irregularities and sanctions		
Specific orders and recommendations ⁽⁵⁾	n.a.	325
Certification of training entities		
Requests received	7	4
Training entities certified	4	3
Financial literacy		
Training initiatives ⁽⁶⁾	449	581
Number of participants	14,364	20,458

Source: Banco de Portugal. | Notes: (1) The figure corresponds to the number of institutions covered in each of the subjects. (2) The Central Mutual Agricultural Credit Bank and the 80 mutual agricultural credit banks of the SICAM are considered on a stand-alone basis (3) Inspections concerning the monitoring of the sending of the statement of fees by the institutions. (4) Inspections concerning the monitoring of the provision of information on account conversion of a current deposit account already existing in the institution. (5) During 2018 and in the first half of 2019, a transitional regime was in place under which the legislator waived registration with and authorisation from Banco de Portugal for natural and legal persons already operating as credit intermediaries. (6) Banco de Portugal's initiatives.

Compliance with the pre-contractual information provided in the “Key Information Document” (KID) of 75 structured deposits was assessed. Banco de Portugal confirmed the remuneration rates set by the institutions for the 167 deposits of this type that matured throughout the year.

In 2019 Banco de Portugal joined the e-platform 'Livro de Reclamações' (LRE). This additional complaints channel was made available to bank customers from July onwards. During the year, Banco de Portugal received 18,104 complaints from bank customers concerning the behaviour of the institutions, 2,635 of which through the LRE platform. In the year as a whole, global growth was 18.7% compared to 2018, almost entirely due to the availability of this new channel.

As in previous years, current accounts, consumer credit, and home loans were the products with the highest number of complaints, which is linked to the highest number of contracts concluded. About 61% of the closed complaints showed no evidence of infringement by the institution in question. In 39% of the closed complaints, the issue was resolved by the institution, either by its own initiative or through Banco de Portugal's intervention.

As a result of the inspections, the supervision of advertising and the analysis of complaints against financial institutions, the Bank issued 913 specific orders and recommendations demanding correction of the irregularities detected and initiated 27 administrative offence proceedings.

As part of the inclusion of credit intermediaries in the supervisory perimeter, in 2019 Banco de Portugal examined 5,169 applications for authorisation to exercise this activity and approved 3,757. Due to the high number of applications submitted in the last quarter of 2018, Banco de Portugal analysed and decided on a total of 4,659 applications until the end of the transitional period set by the legislator²³, 31 July 2019. The majority of registered credit intermediaries are legal persons (86%), whose main activities are trade, maintenance and repair of motor vehicles and motorcycles (50.3%), real estate activities (21%) and retail trade, except of motor vehicles and motorcycles (13.6%).

In 2019 the Bank reviewed 114 complaints from bank customers on the behaviour of credit intermediaries under its supervisory powers and audited 57 advertisements released by these entities in order to assess their compliance with information and transparency obligations. It also carried out inspections of 45 credit intermediaries. As a result of its supervision, Banco de Portugal issued 325 specific orders, demanding correction of the irregularities detected. The perimeter of banking conduct supervision was broadened to cover the monitoring of training entities of credit intermediaries and of employees of credit institutions involved in the marketing of home loan and mortgage credit agreements. The perimeter of banking conduct supervision was broadened to cover the monitoring of training entities of credit intermediaries and of employees of credit institutions involved in the marketing of home loan and mortgage credit agreements, whose certification and monitoring is incumbent on Banco de Portugal. In 2019 Banco de Portugal received four applications for certification and approved three. It also monitored the training activity of the certified entities.

Banco de Portugal's banking conduct supervision activities also cover the promotion of financial information and training. The Bank Customer Website is one of the main instruments of this activity, including news, decoders, videos and other information and training materials on the rights and obligations of bank customers. Banco de Portugal signed a cooperation protocol with the Ministry of Labour, Solidarity and Social Security, which relies on Social Security and Institute for Employment and Vocational Training information desks to improve dissemination of basic bank accounts. As part of the digital financial education campaign #TopTip, launched in 2018 to raise awareness among young people of the care to be taken when using digital channels, it distributed brochures at 3rd

23. Decree-Law No 81-C/2017 of 7 July 2017.

stage of basic education and secondary education schools and held training sessions. Supported by its network of branches and regional delegations, Banco de Portugal organised 581 financial training initiatives throughout the country, with a total of 20,458 participants, mostly from schools. It continued to participate with other financial supervisors in the initiatives of the National Plan for Financial Education.

Banco de Portugal is represented in the main banking conduct supervision international fora. In addition to those mentioned at the beginning of this chapter, it is also worth mentioning the work carried out at the International Financial Consumer Protection Organisation (FinCoNet), chaired by Banco de Portugal since 2019. Within this organisation, which brings together banking conduct supervisory authorities, the Bank coordinated works on responsible lending and consumer creditworthiness assessment and participated in the preparation of reports on the advertising of Suptech financial products and instruments (i.e. new supervisory technologies). The Bank also participated in OECD working groups focused on bank customer protection and the promotion of financial training best practices and followed the work of the G20/Global Partnership for Financial Inclusion platform, which it joined in 2017 with the status of participating non-G20 member country.

Legal enforcement

In 2019 significant advances were achieved in large-scale and complex administrative offence proceedings and the number of long-pending proceedings was reduced (Table I.2.4). Of the 117 proceedings with a final decision, only three were judicially appealed.

Table I.2.4 • Administrative offence proceedings | 2016–2019

Overall indicators	2016	2017	2018	2019	Δ 2019-2018
Proceedings carried forward from previous year	382	441	328 ⁽²⁾	247 ⁽²⁾	-81
Proceedings initiated	276	156 ⁽¹⁾	113	115	+ 2
Proceedings concluded	217	271	195	117	-78
Proceedings pending at the end of the year	441	327 ⁽²⁾	246 ⁽²⁾	245	-1

Source: Banco de Portugal. | Notes: (1) Correction of the number of proceedings initiated in 2017. (2) The difference between the number of proceedings pending at the end of the year and the number of proceedings carried forward to the following arises from the legal framework applicable to the decisions delivered in summary proceedings, whose final status depends on a formal non-rejection by the defendants in the relevant decisions.

In terms of prevention and repression of illicit financial activity, Banco de Portugal conducted off-site and on-site inquiries in 253 proceedings and conducted 11 inspections. These led to 23 notifications to the Prosecutor General of the Portuguese Republic for possible criminal offences, and public warnings to ten entities not authorised to conduct the financial activity they were carrying on. Furthermore, Banco de Portugal cooperated with the judiciary and police authorities, participating in investigations on matters of shared mission and competence.

Banco de Portugal relied on the press to promote a strong campaign to raise public awareness of illegal lending schemes and other fraudulent phenomena, warning about the harmful consequences resulting from interaction with entities outside the banking perimeter (Chapter 3).

Banco de Portugal continued to enhance its supervisory work in the prevention of money laundering and terrorist financing (ML/TF) (Box 3). In this area, the Bank completed 22 on-site inspections,

following which it issued 340 supervisory measures, conducted two full-scope onsite inspections of large supervised institutions, and evaluated the implementation of 439 measures adopted following inspections carried out in previous years. A cycle of thematic inspections (ten in total) was also completed to evaluate the controls adopted in the activity developed abroad through branches and subsidiaries in higher-risk countries, in addition to operations with offshore jurisdictions. The Bank also continued to intervene in processes for the acquisition of qualifying holdings in financial institutions, some of which were highly complex, by assessing the ML/TF risk associated with the shareholders. In 2019 a total of 15 new processes for the acquisition of qualifying holdings were opened and 6 of the same nature were closed.

Throughout the year, Banco de Portugal reviewed and prepared contributions to the national ML/TF risk assessment, conducted within the Anti-Money Laundering and Counter Terrorist Financing Coordination Commission, of which Banco de Portugal is member.

Given the increased awareness of the prevention of money laundering and the financing of terrorism, a substantial increase was observed in the requests from the Single Supervisory Mechanism concerning interaction with prudential supervision.

In terms of non-sanctioning enforcement, eight proceedings were examined for the possible withdrawal of authorisation granted to supervised institutions, with particular reference to Orey Financial – Instituição Financeira de Crédito, S.A., due to the complexity of this case. Based on supervening facts, 28 proceedings were analysed for a possible reassessment of the suitability of the members of the management and supervisory bodies of supervised institutions. In this area, the analysis of the independent special audit report on the management of Caixa Geral de Depósitos for the period 2000-2015 is noteworthy, particularly in terms of its scale and complexity, and from the perspective of its impact on the suitability of several members of the corporate bodies of entities supervised by Banco de Portugal. The activities of Banco de Portugal as to the preparation of proposals for the withdrawal of the authorisation of credit institutions, on the one hand, and the reassessment of the suitability of the members of the management and supervisory bodies of significant credit institutions, on the other hand, required significant interaction with the Single Supervisory Mechanism.

Banco de Portugal also monitored 19 winding-up proceedings under the responsibility of State commissioners, judicial liquidators or liquidation committees appointed for such purpose, especially the winding-up of BES and BANIF.

Deposit guarantee funds and the Resolution Fund

Banco de Portugal provided 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.²⁴



In 2019 Banco de Portugal issued ten public warnings to entities not authorised to conduct a financial activity and promoted a campaign to raise awareness on this matter.

24. For further information on the activities of each of the funds, see the reports and accounts available on their sites.

In 2019 the first stress-test exercise was carried out on the Deposit Guarantee Fund mechanisms provided for in European legislation, whose results were reported to the European Banking Authority for the first peer review.

Preparatory works were also developed for the entry into force on 1 January 2020 of DecreeLaw No 106/2019 of 12 August 2019, which transferred the deposit guarantee function from the Mutual Agricultural Credit Guarantee Fund to the Deposit Guarantee Fund (Box 4). This transfer involved, inter alia, financial transfers, communication with the depositors and credit institutions concerned and a review of the internal procedures of the Deposit Guarantee Fund.

With regard to the contribution schemes of each of the funds, Banco de Portugal set the parameters for calculating the contributions due by member institutions and carried out the procedures for calculating and collecting those contributions.

As the designated authority for the Deposit Guarantee Fund and the Mutual Agricultural Credit Guarantee Fund, Banco de Portugal continued to ensure its participation in the working group on deposit guarantee schemes, created by European Banking Authority to assist it in reviewing the progress made on the implementation of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 and in the peer review of the resilience of the deposit guarantee schemes.

As for the Resolution Fund, the Bank continued to provide the support required for the performance of its tasks as a shareholder of Novo Banco and Oitante, and more importantly, for the monitoring of the implementation of the agreements related to the sale of Novo Banco, particularly the share purchase and subscription agreement, and the contingent capitalisation agreement.

2.3 Resolution

In 2019 Banco de Portugal continued to intensify the resolution planning work.

With regard to groups and institutions under the direct responsibility of the Single Resolution Board (SRB), Banco de Portugal participated in the work of the internal resolution teams and implemented the decisions adopted by the SRB. Significant progress was made in the assessment of resolvability and in the determination of the Minimum Requirement for own funds and Eligible Liabilities (MREL), with the setting of MREL requirements and corresponding transition periods for all Portuguese significant institutions or for the groups of which they are part. Work was also initiated with the institutions to develop operational manuals for the implementation of the internal recapitalisation measure (bail-in).

As for the institutions considered less significant for the purposes of the Single Supervisory Mechanism and without cross-border activity in the Banking Union, Banco de Portugal prepared the first resolution plans for a large set of institutions. At the end of the year, over 80% of the institutions had resolution plans. Following a gradual and proportionate approach, the scope of the resolution plans developed in 2019 was broadened, especially for larger institutions. A dialogue on resolution with the sector was also organised, bringing together representatives from 28 less significant institutions and the Portuguese Banking Association, intended to contribute to the strengthening of the institutions' awareness of resolution-related matters.

Methodological guidelines and tools were developed (consistent with the applicable regulations and SRB policies) for key activities of the resolution planning tasks of the different institutions,

particularly to establish the minimum requirements for eligible own funds and liabilities (MREL), to identify critical functions for the economy and assess direct and indirect contagion impacts.

As part of its participation in the decision-making bodies, committees and working groups of the SRB, as well as in European Banking Authority's committees and groups related to resolution and deposit guarantee, Banco de Portugal contributed to the development of guidelines and methodologies related to the planning, implementation and enforcement of resolution measures. In 2019 Banco de Portugal organised a meeting of the SRB working group on MREL and a meeting of the Resolution Committee of the European Banking Authority at its head office.

2.4 Upholding the legality of the resolution and enforcement measures

In 2019 litigation against Banco de Portugal and the funds it operates remained high. This reflects the large number of court cases handled by the Bank as a result of the application of resolution measures in previous years, and the monitoring of the litigation handled by Novo Banco in Portuguese courts and foreign jurisdictions, as well as in the European Court of Justice, as a result of the obligations undertaken by the Resolution Fund as part of the sale of that institution.

In the cases in which Banco de Portugal, the Deposit Guarantee Fund and the Resolution Fund are prosecuted following the resolution processes of BES and BANIF, there were several rulings in favour of Banco de Portugal and the Funds, in interim injunction proceedings and main proceedings. The judgment rendered by the Administrative Court of the Lisbon District of 12 March 2019 is relevant, as this court was unanimous in confirming the constitutionality of the legal framework on bank resolution and full legality of the resolution measure applied to BES.

The judicial monitoring of cases related to the winding-up of credit institutions and financial companies continued, notably in the context of the liquidation of BES and BANIF, and particularly the intervention with regard to the legal exception submitted on BES insolvency qualification as culpable.

Banco de Portugal also intervened in trial hearings at the Portuguese Competition, Regulation and Supervision Court, at other instances of appeal, such as the Constitutional Court. The Lisbon Court of Appeal rendered a judgement confirming the facts established by Banco de Portugal in the first administrative offence proceedings initiated against BES.

Box 3 • Banco de Portugal's role in the prevention of money laundering and terrorist financing

Banco de Portugal has been granted competences for the preventive supervision of money laundering since 1993 and has exercised supervisory powers to prevent terrorist financing since 2008. These tasks are performed in strict cooperation with the other relevant entities in the fight against economic and financial crime.

The preventive supervision of money laundering and terrorist financing (ML/TF) is a task performed separately from the prudential and banking conduct dimensions, being assigned to a specific department, i.e. Banco de Portugal's Legal Enforcement Department.

ML/TF preventive supervision

Under the legal framework in force, it is Banco de Portugal's responsibility to assess whether supervised financial institutions comply with the rules and obligations relating to ML/TF prevention. Banco de Portugal's actions are preventive and aim to ensure that institutions have the necessary mechanisms at their disposal to be able to identify situations that may constitute ML/TF acts. In turn, supervised institutions are responsible for examining the transactions requested by their customers and reporting potentially suspicious ML/TF transactions to the competent authorities – the Public Prosecutor's Office and the Portuguese criminal police's Financial Intelligence Unit. It is incumbent upon the law enforcement and judicial authorities with which Banco de Portugal cooperates on an ongoing basis to investigate specific transactions that may lead to ML/TF acts.

Banco de Portugal's actions in this field are taken from the moment the application to set up the institution is submitted and are targeted at preventing the institution from being used for illicit purposes by its customers or whomsoever wants to hold shares in its capital. Indeed, against this background, Banco de Portugal verifies the origin of the funds used to subscribe to or increase the share capital of supervised institutions, identifies and analyses the suitability of true owners of supervisees' shareholdings and, in the case of the setting-up of new entities, also verifies the adequacy of the control mechanisms to be put in place immediately after commencement of activities.

In addition, Banco de Portugal checks whether, over the course of their activities, the supervised institutions have the appropriate internal procedures to detect any unlawful practices, especially when identifying customers and monitoring their transactions. Banco de Portugal checks whether the supervised institutions report possible ML/TF suspicions to the competent authorities, as they are legally bound to do.

Whenever it concludes that the controls implemented by the supervised institutions are failing, Banco de Portugal initiates enforcement procedures. Moreover, the Bank reports to the competent authorities potential ML/TF suspicions it detects during its verification of the supervised institutions' controls, when these suspicions have not been reported by the institutions themselves.

To verify compliance with ML/TF prevention obligations, Banco de Portugal applies a very wide range of supervisory techniques: among others, it carries out on-site full-scope or thematic inspections, analyses the reports submitted by the supervised institutions that are relevant for ML/TF prevention,²⁵ and investigates situations that apparently breach the regulatory framework in force. As a result, Banco de Portugal issues punitive and non-punitive supervisory measures addressed to the institutions,

25. Within the report processing activity, Banco de Portugal verifies the consistency and coherence of ML/TF risk matrices reported to it by the supervised institutions, assesses ML/TF prevention procedures reported to it and analyses the behaviour of the IT systems used by the institutions in the fight against financial crime.

generally as specific orders, recommendations or other corrective measures. In 2017 the Portuguese anti-money laundering and counter terrorist financing system was assessed by the Financial Action Task Force (FATF), a reference intergovernmental body that delivered a positive opinion on Banco de Portugal's supervisory approach in this area.²⁶

Since 2018 Banco de Portugal has completed 32 on-site inspections corresponding to three cycles of thematic inspections²⁷ and also full-scope inspections of financial institutions with representative size. In the same period Banco de Portugal issued more than 500 new supervisory measures and assessed around 800 measures resulting from inspections previously carried out.

Inspections and follow-up actions, jointly with remote analysis of the reports submitted by the supervised institutions, make it possible to identify gaps that can be addressed by disclosure of good practices. Following the thematic inspection cycle pursued at the end of 2018 for verifying the procedures for compliance with the restrictive measures issued by the United Nations and the European Union, Banco de Portugal has conducted a cross-sectional study on major procedural shortcomings with a view to issuing good practices. Such good practices, specifically addressed to the supervised institutions, also cover other topics of interest for the sector, such as the guidelines issued following disclosure of the so-called Panama Papers, which establish a series of specific measures to cope with the increased risks underlying this phenomenon.

Other ML/TF activities

Banco de Portugal also intervenes in the discussion, preparation and amendment of laws and regulations, while also participating or following the work carried out by the specialised national and international bodies and groups. More recently, Banco de Portugal participated at expert level in the negotiation of the 4th²⁸ and 5th²⁹ Directives on ML/TF prevention, and the transposition of the 4th Directive into Law No 83/2017 of 18 August 2017 establishing the current legal framework governing ML/TF prevention. Since then, Banco de Portugal has already revised the whole array of regulations adapting the exercise of ML/TF prevention obligations to the specificities of the financial sector, in particular Notice of Banco de Portugal No 2/2018 of 26 September 2018.

At the level of ML/TF prevention, Banco de Portugal also cooperates with other authorities with operational competence in this field and is represented in the national AML/CFT Coordination Commission, the entity that monitors and coordinates identification, assessment and response to the ML/TF risks to which Portugal is or may possibly be exposed. In addition, the Bank participates in missions targeted at the capacity building of other authorities (in particular counterparts from Portuguese-speaking countries) and is part of international assessment teams from other jurisdictions, particularly in the context of the mutual evaluations conducted by the FATF.

Banco de Portugal also participates in working groups devoted to this area within the European Banking Authority, the Joint Committee of the European Supervisory Authorities and the European Central Bank.

26. The report on this evaluation (*Anti-money laundering and counter-terrorist financing measures in Portugal – Mutual Evaluation Report*), published in December 2017, is available on the FATF website: <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Portugal-2017.pdf>.

27. Banco de Portugal has already organised thematic inspection cycles on the following topics: remote identification procedures, namely using videoconference; procedures for compliance with the restrictive measures issued by the United Nations and the European Union; controls applied to branches and subsidiaries abroad and to transactions with risk jurisdictions.

28. Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

29. Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849.

Box 4 • Transfer of the deposit guarantee function from the Mutual Agricultural Credit Guarantee Fund to the Deposit Guarantee Fund

When applying their savings in a deposit, bank customers are entitled to receive from the credit institution the repayment of the total sum deposited on the maturity date or date permitted for early withdrawal, where allowed.

In the event of the credit institution not having the financial capacity to repay the deposit, sums deposited are protected up to the maximum amount of €100,000 per credit institution and per depositor. This repayment is carried out in the shortest time possible (currently a maximum period of 15 working days) and without having to be requested by the depositor.

Recognising the importance of the deposit guarantee as a pillar of trust in the banking system, the creation of a European deposit insurance scheme is being considered. This project is based on the understanding that the uniform application of a set of rules on deposit protection, and access to a common deposit insurance fund – compulsory for all Member States and managed by a central authority – will contribute to the good functioning of financial markets and to financial stability.

As at 31 December 2019, there were two deposit guarantee schemes functioning in Portugal. The Deposit Guarantee Fund (*Fundo de Garantia de Depósitos*) was responsible for guaranteeing the deposits made with most credit institutions in Portugal, except for deposits held in the Central Mutual Agricultural Credit Bank (*Caixa Central de Crédito Agrícola Mútuo*) and its member mutual agricultural credit banks, which were guaranteed by the Mutual Agricultural Credit Guarantee Fund (*Fundo de Garantia do Crédito Agrícola Mútuo*). Until that date, each of these Funds was responsible for ensuring the repayment of deposits held in its participating institutions, in the event of deposits becoming unavailable in any of those institutions.

From 1 January 2020 onwards, the deposits held with the Central Mutual Agricultural Credit Bank and its member mutual agricultural credit banks are also guaranteed by the Deposit Guarantee Fund, which thus became the only deposit guarantee scheme in Portugal.

This change was introduced by Decree-Law No 106/2019, published on 12 August 2019, which transferred the deposit guarantee function from the Mutual Agricultural Credit Guarantee Fund to the Deposit Guarantee Fund.

As referred to in the preamble to the aforementioned Decree-Law, the harmonisation of the rules applying to the deposit guarantee schemes promotes a genuine mutualisation of risks and homogeneous protection for depositors, translating into a greater effectiveness of the scheme.

In addition to the responsibility of guaranteeing deposits, the Mutual Agricultural Credit Guarantee Fund was tasked with undertaking the action considered necessary to ensure liquidity and solvency of the participant banks. During its 32 years of existence, the Mutual Agricultural Credit Guarantee Fund entered into contracts with 44 banks of the Integrated Mutual Agricultural Credit Scheme, through which it granted subordinated loans to the overall amount of €252.7 million. With a view to assessing compliance with the objectives set in the recovery plans contained in these financial assistance contracts, the Mutual Agricultural Credit Guarantee Fund – with the technical and administrative support of Banco de Portugal – periodically analysed and monitored developments in the mutual agricultural credit banks belonging to the Integrated Mutual Agricultural Credit Scheme, focusing on the beneficiaries of the fund's financial assistance. It also analysed other mutual agricultural credit banks, whose economic and financial situations required preventive monitoring.

The transfer to the Deposit Guarantee Fund of the responsibility for guaranteeing deposits held with the Central Mutual Agricultural Credit Bank and its member mutual agricultural credit banks was accompanied by the transfer of financial resources to the Deposit Guarantee Fund, under terms ensuring that the financial robustness of the fund is maintained as well as the equality among all participant credit institutions. This operation implied a transfer of resources to the Deposit Guarantee Fund of €132,998,326.76.

On 9 January 2020, the Mutual Agricultural Credit Guarantee Fund became autonomous, governed by private law, functioning within the Central Mutual Agricultural Credit Bank, with the sole aim of fulfilling its assistance function to the Integrated Mutual Agricultural Credit Scheme. The new object of this Fund, its purpose, management and supervision, financing, functioning and new name are defined by rules of procedure to be adopted by the Central Mutual Agricultural Credit Bank after consultation of its member banks.

Banco de Portugal, as the entity responsible for ensuring the technical and administrative services necessary for the functioning of the Mutual Agricultural Credit Guarantee Fund, ensured the transition in order to ensure compliance with the provisions of Decree-Law No 106/2019, in articulation with the relevant parties, especially the Deposit Guarantee Fund and the Central Mutual Agricultural Bank.

3 Knowledge creation and sharing

One of Banco de Portugal's strategic goals for 2017-2020 is the promotion of knowledge on the Portuguese economy and European integration, its third Broad Strategic Guideline. Banco de Portugal undertook to help form an informed public opinion, taking advantage of its privileged access to information, its independent status, the technical expertise of its staff and its partnerships with academia and other national and international players. The following sections describe the Bank's actions in 2019 towards this goal, notably by producing analyses, studies and statistics, through its communication and links to the community, in addition to its cooperation with the central banks of the Portuguese-speaking countries and other emerging and developing countries.

3.1 Analyses, studies and statistics

Banco de Portugal prepares analyses and studies on the economy and the financial system and produces monetary, financial, foreign exchange and balance of payments statistics. In addition to providing the Bank with the necessary knowledge to pursue its mission, the analyses, studies and statistics are disseminated with the purpose of promoting economic and financial literacy and encouraging discussion on the Portuguese economy.

In its 2019 *Economic Bulletin* issues, Banco de Portugal released a detailed analysis of economic activity developments in Portugal and macroeconomic projections, which were supplemented by the discussion of topics of importance to understand the dynamics of the economy: the natural interest rate and the challenges to monetary policy; developments in labour productivity in Portugal; demographic changes and labour supply in Portugal; real convergence in the European Union and the relative performance of the Portuguese economy; and the investment of Portuguese firms from 2006 to 2017.

The *Financial Stability Report* focused on the assessment of vulnerabilities and risks to financial stability, and set out the action taken to strengthen the sector's resilience. In the June issue, this assessment

was supplemented by the main new features stemming from the revision of the resolution scheme and an analysis of the challenges to macroeconomic policy in the European Union. In the December issue, Banco de Portugal presented a review of the literature on the impact of the increase in financial institutions' capital ratios, in addition to an analysis on housing price assessment methodologies applied to Portugal and their findings.

Research carried out in Banco de Portugal addressed the topics identified as a priority in the research agenda (Table I.3.1). In 2019, 57 studies were completed (47 in 2018), of which 53 featured in Banco de Portugal's publications or other specialist publications. At the end of the year, 110 were in progress and 27 were in the final phase of revision (Table I.3.1). There were 120 external co-authors involved in the preparation of all these studies, including, among others, 18



In 2019 Banco de Portugal published an e-book on Portuguese economic growth, prepared on the basis of a series of studies drawn up by in-house and external economists.

from the Eurosystem, 9 from other national central banks, 18 from Portuguese universities and 67 from universities abroad.

Table I.3.1 • Studies completed, in revision and in progress at the end of the year, by topic | 2019

Priority topics for 2017-2020	Studies completed or in the final phase of revision	Studies in progress
New challenges facing monetary policy and financial stability		
Monetary policy after the crisis	14	21
Financial intermediation	9	23
Prudential policy and regulation	3	11
Portuguese economic growth within the euro area: constraints and sustainability		
Diagnosing and understanding the Portuguese economy	35	38
The future of the Portuguese economy	6	4
The future of institutions and public policies in Portugal and in the European Union		
Euro area and European Union institutions	7	2
Economic policies in Portugal: stocktaking and lessons for the future	10	11
Total	84	110

Source: Banco de Portugal.

Banco de Portugal published the e-book “Portuguese economic growth: A view on structural features, blockages and reforms”, prepared on the basis of a series of studies drawn up over the past few years by economists affiliated to the Bank and other national and foreign institutions, in a joint effort to examine the different dimensions of economic growth. Banco de Portugal's purpose in releasing this book is to enrich the debate on the Portuguese economy and the policies that may help bring Portugal closer to the best performing countries in Europe.

Banco de Portugal Economic Studies included 12 essays and, for the first time, four economics synopses. The economics synopses are texts in which the author(s) perform a critical analysis of a relevant topic, making use of available literature and including their own contribution; in 2019, they addressed the role of central banks in securing price stability, the research at Banco de Portugal on the link between credit and the economy over the past decade, business models and the performance of firms and the economics of the European Deposit Insurance Scheme. As of April, the articles in *Banco de Portugal Economic Studies* are preceded by a non-technical summary.

The *Working Papers and Occasional Papers* series included 25 articles of a more academic nature. The article “The Financial Channels of Labor Rigidities: Evidence from Portugal”, by Ettore Panetti (Banco de Portugal), Edoardo Acabbi (Harvard University) and Alessandro Sforza (University of Bologna), released in 2019 in the *Working Papers* series, won the “Savings and Financing in the Portuguese economy” award, granted by the Research Office of the Portuguese Ministry of Economy, the Portuguese Association of Insurers and the NOVA Information Management School.

22 research-based articles were also published or accepted for publication by international scientific journals.

On its institutional website, Banco de Portugal launched “Economics in a picture”, a feature through which it weekly publishes a chart and a short analysis of the Portuguese economy or the euro area economy, based on its economists' work. In 2019 it was featured 40 times.

The *Cadernos Jurídicos* (Legal Papers) were launched, with the purpose of disseminating legal thinking produced in its core business, particularly in the field of regulation and supervision. Its first issue featured the essay “The difficult reform of the Economic and Monetary Union and the European Banking Union”, by Jean-Victor Louis, Emeritus Professor at Université Libre de Bruxelles, who was the keynote speaker of the first law seminar of Banco de Portugal on “The reform of the Economic and Monetary Union: how to achieve it in a time of dissent” in 2018.

Banco de Portugal launched a tour around the country with a view to gaining further knowledge of the business environment of Portuguese firms, their strategies and managerial practices and how they approach innovation and exporting activities and, thereby, to foster continuous improvements in how it analyses and advises on the Portuguese economy. The first series of visits was carried out in the north of the country and focused on a number of industrial companies, which produce power tools, footwear, machinery, components for wind turbines and industrial textiles.

As regards its activities as national statistical authority, the Bank completed the redesign of the BPstat portal. The new BPstat, which was officially launched in November, disseminates statistics on the Portuguese economy and the euro area economy, produced by Banco de Portugal and national and international statistical authorities, in compliance with the highest quality standards for statistical dissemination. The portal is easier to browse than its previous version, and includes statistical information, texts and infographics, to better understand the published data. Its features include enabling users to check news and background information, search and cross check statistical data, build charts, export content and share information with other users. To make the public aware of the new BPstat, the Bank prepared a promotional video and several tutorials, and held a workshop for journalists.

The Bank released 160 thousand statistical series on BPstat and reported 883 thousand series to international bodies – European Central Bank, EUROSTAT, International Monetary Fund, Organisation for Economic Co-operation and Development, and Bank for International Settlements – in full compliance with the goals and deadlines set out in the *Statistical Activity Plan* for 2019. To report on the main results published, 127 statistical press releases were published in the course of the year.

With the purpose of assessing users’ satisfaction with the statistics regularly produced and disseminated by the Bank, a survey was conducted among the main international bodies and national institutions. According to the survey, the satisfaction rate stood at 5.2, on a scale of up to 6.

In 2019 Banco de Portugal revised the government debt statistics and incorporated the recording of capitalised interest on savings certificates, as laid out by Eurostat in its 2019 issue of the *Manual on Government Deficit and Debt*.

It also published revised series on national financial accounts and external statistics. The national accounts benchmark revision was prepared by Statistics Portugal (Instituto Nacional de Estatística – INE) and made it possible to enhance the consistency between the non-financial component of the national accounts, incumbent on Statistics Portugal, and its financial component, entrusted to Banco de Portugal, in addition to the consistency with the balance of payments statistics, also incumbent on the Bank. When revising external statistics, the existing data sources and methodologies were updated, new sources were incorporated and improvements were made to the compilation process. This made them more consistent with the rest of the world account, compiled by Statistics Portugal.

The results of the 2019 Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity were released, under the coordination of the Bank for International Settlements (BIS), and with the participation of several central banks, including Banco de Portugal, and other authorities, covering 53 jurisdictions.

Through Banco de Portugal’s Microdata Research Laboratory (BPLIM), located in the Porto Branch, the Bank gave access to its microdata sets on the Portuguese economy to in-house and external

researchers. From its inception in 2016 to the end of 2019, the BPLIM had already supported 109 research projects – 34 were initiated in 2019. These projects were proposed by 162 researchers, of whom 130 were not affiliated to Banco de Portugal.

In 2019, the Bank launched a database with historical information on financial indicators, loans to customers and interest rates, human resources, branch network and payment systems: the Long Series for the Portuguese economy. The database, which is available for consultation to external researchers through BPLIM, was developed with the purpose of supporting research aimed at helping better understand the dynamics of the Portuguese banking system. The Long Series was accompanied by the publication of the main aggregate results and methodological notes, drafted by a set of economists at Banco de Portugal.

The Bank also released six studies based on information from the Central Balance Sheet Database: a microdata set on non-financial corporations in Portugal, which includes information based on individual accounting data. The studies focused on entrepreneurship in Portugal, sector tables and enterprise sector tables, private healthcare entities, firms in the north of the country, consolidated results of non-financial groups in Portugal and the structure, demographics, activity, profitability and financial situation of non-financial corporations in Portugal. A further eight previously published analyses were updated, which focused on the manufacture of beverages sector, the agricultural, automotive and construction sectors, information and communication activities sector, the mechanical engineering sector and the maritime sector.

With the purpose of promoting knowledge relative to the Portuguese economy and statistical literacy, the Bank launched a communication campaign in 2019 for schools and universities. During the campaign, 22 presentations were made on statistics produced by Banco de Portugal, in which approximately 800 students were involved. A partnership was also established with the University of Aveiro to incorporate, on an experimental basis, topics relating to statistics produced by the Bank into curricular units of economics undergraduate and graduate programmes. Banco de Portugal presented the Jacinto Nunes Prize to undergraduate students in Economics from twelve Portuguese educational establishments, in appreciation of a field of study instrumental to its tasks.

3.2 Conferences and seminars

To encourage discussion on investment in Portugal and the challenges faced by firms, in January 2019, Banco de Portugal and the European Investment Bank held the conference “Investment, innovation and digitalisation conference: the Portuguese case”, which brought together officials and specialists from the European Investment Bank, representatives from academia and managers of Portuguese firms.

In March, the Bank co-organised with the International Monetary Fund (IMF) the conference “Portugal: Reform and Growth Within the Euro Area”, which brought together officials from the IMF, the European Central Bank, the European Commission and the OECD, academics and journalists, to reflect on the euro area institutional reform, the recovery of the Portuguese economy, the labour market and the product market situation, and the challenges to the financial sector.

In October, the Bank hosted the XXIX Lisbon Meeting between the Central Banks of Portuguese-speaking countries, which included a public session on the implications of technological innovation for financial activities.

As part of the campaign to celebrate the 20th anniversary of the euro (Chapter 3.3), the Bank organised the international conference “The euro 20 years on: the debut, the present and the aspirations for the future”.



Banco de Portugal assisted the ECB in hosting, in Sintra, the ECB Forum on Central Banking, which in 2019 was devoted to the 20th anniversary of the introduction of the euro.

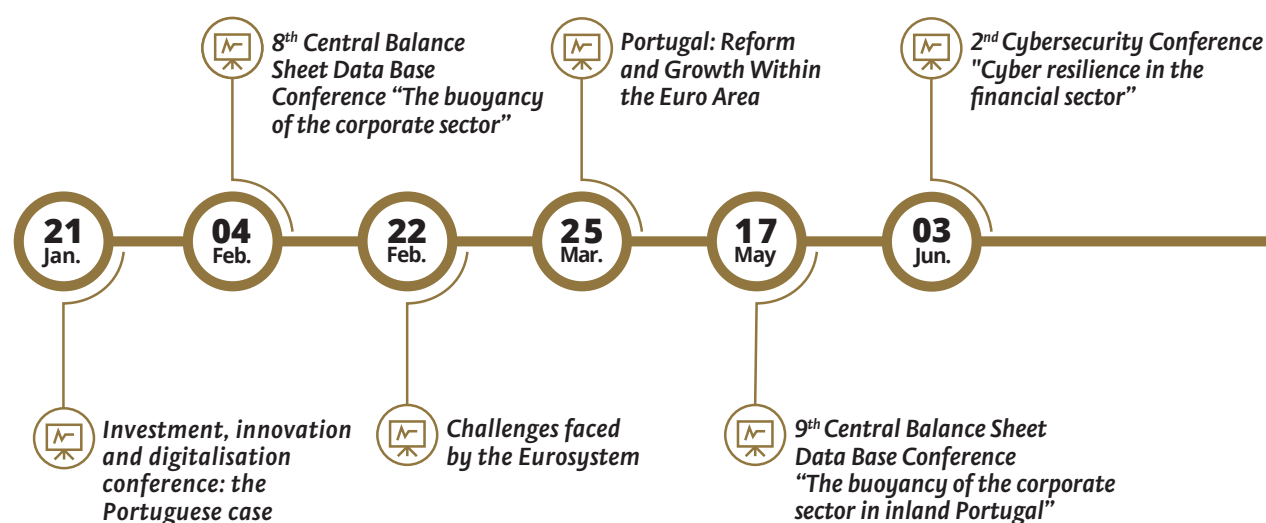
It also organised three conferences for experts from other central banks and academics. In June, it held the 10th Conference on Monetary Economics, to discuss developments in research in monetary economics and, in August, it hosted the European System of Central Banks' Day-Ahead Conference, in which projects were presented on stress tests to the banking system, bank capital and crises, savings and real estate wealth, and bank funding and lending. In October, it organised the 3rd Conference on Financial Stability, which featured discussions on the challenges underlying the assessment of the effects of macroprudential policies, the systemic importance of real estate markets and the mortgage loan market, in addition to the risks related to the sustainability of credit to non-financial corporations.

With the purpose of disclosing the statistical information provided to Portuguese firms, the Bank held two Conferences on the Central Balance Sheet Database (its 8th and 9th), in Lisbon and Covilhã respectively, on the buoyancy of the corporate sector.

It also organised 18 seminars and workshops on economic topics, including two sessions with senior officials of the European System of Central Banks: the Governor of Banque de France, François Villeroy de Galhau, who, in February was the keynote speaker at the seminar "Challenges faced by the Eurosystem", and the Deputy Governor of the Bank of England, Jon Cunliffe, who gave a lecture on "Financial Stability and Macroprudential Policy" in July.

The Bank sponsored the 46th European Finance Association Annual Meeting, which was held in August at the Carcavelos Nova School of Business & Economics. Banco de Portugal also granted financial support to: the Research Center on Regulation and Supervision of the Financial Sector; the Portuguese Economists' Association for their 15th Annual Conference on the State Budget; the XIX Course on Banking, Stock Exchange and Insurance Law, of the Coimbra University Law School; the Meeting of the Portuguese Association for Classification and Data Analysis; the University of Évora for the "Portuguese Economic Journal" and to hold the Annual Meeting of the Portuguese Economic Journal; the International Conference on Economic Modeling and Data Science (EcoMod2020) and the European Financial Management Association 2019 Annual Meetings, organised by the University of the Azores; the 7th UECE Conference on Economic and Financial Adjustments, hosted by ISEG; the 2019 Lisbon Accounting Conference, organised by the Católica Lisbon School of Business and Economics and the Nova School of Business and Economics; and the 24th Congress of the Portuguese Statistical Society.

Figure I.3.1 • Major conferences and seminars hosted by Banco de Portugal | 2019



The Bank also sponsored the Students Association of the Nova School of Business & Economics for the series of seminars "Economia Viva 2019"; ISCTE, for Economics Day; ISEG, to hold the Lisbon Meetings in Game Theory and Applications 2019 and the 20th ISEG Summer School; and Coimbra University School of Economics for the Autumn School 2019 – Hierarchical Linear Modelling.

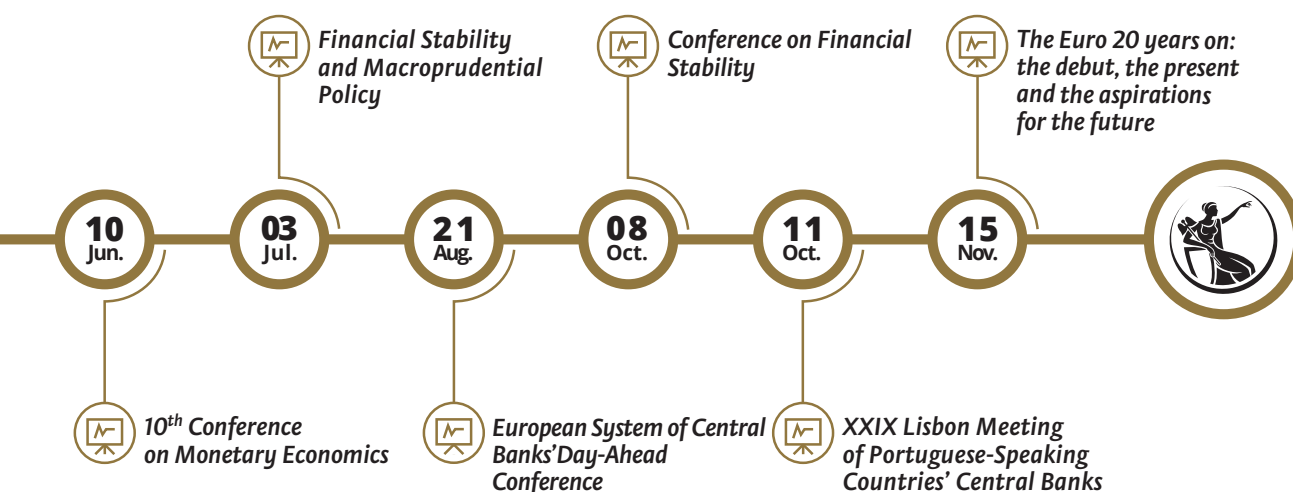
3.3 Communication and stakeholder management

Under European and national law, Banco de Portugal works under an independent status, which is an essential condition for delivering its price stability and financial stability objectives. As a necessary counterpart to that independence, the Bank is accountable for its activities, and engages in communication guided by transparency and timeliness principles.

Banco de Portugal's *Annual Report*, which describes its activities, balance sheet and accounts, and is subject to the approval of the Minister of Finance, is the primary means used to comply with this accountability requirement. Once a year, the Governor presents the report to the relevant committee of the Parliament. This report is supplemented by the release of publications, press releases and speeches, through which the Bank provides information on its activities across the various areas of operation (Tables I.3.2 and I.3.3).

In 2019, Banco de Portugal published 264 press releases, 62 speeches by senior officials and 45 decoders to explain concepts, topics and results related to its tasks. It replied to 480 information requests and organised three workshops for journalists on the new statistical dissemination portal, the changes in the euro area reference interest rates and the new rules on payments.

Following an assessment exercise performed in collaboration with academics, journalists and financial experts, several amendments were made to the Bank's publications. This includes: the *Economic Bulletin* was upscaled to five issues, due to the incorporation of the macroeconomic projections released independently in March; a new editorial policy for the *Banco de Portugal Economic Studies* to diversify the issues addressed and make the communication of studies more efficient; and the launch of a new legal publication (*Cadernos Jurídicos*) (Chapter 3.1). The main publications now include infographics with the most important messages it needs to convey.



To mark the 20th anniversary of the introduction of the euro, Banco de Portugal joined forces with the European Commission and the European Central Bank in promoting the #EUROat20 communication campaign. Through its social network accounts (Instagram, Twitter and LinkedIn), the Bank recalled in the course of nine months, dates, moments, players, testimonies and illustrative figures on the single currency. In November, it hosted the international conference “The euro 20 years on: the debut, the present and the aspirations for the future”, in which the monetary and budgetary integration was discussed, as well as the founding principles of the Monetary Union and the geopolitical dimension of the euro. At the Money Museum, the Bank featured the exhibition “(Euro)policies: contemporary photography since 1999”, with selected works of the Novo Banco Contemporary Photography Collection, alluding to the transformations in Europe over the past two decades. The exhibition was on display, free of charge, from 15 May to 6 October and was supplemented by a film cycle, debates and discussions, workshops for families and thematic visits. Banco de Portugal also assisted the ECB in hosting its main annual event, the ECB Forum on Central Banking, which, in 2019 brought together in Sintra central bank governors, academics, financial market representatives, journalists and other experts to reflect on the 20 years of Economic and Monetary Union and the outlook for the euro area. Together with the European Central Bank and the national central banks of the Eurosystem, it concluded the 8th and launched the 9th Generation Euro Students’ Award, which aims to raise secondary school students’ awareness of the importance of monetary policy. 160 teams from 60 Portuguese schools participated in the 8th Award.

The Bank launched a communication campaign to inform payment service users of the new strong customer authentication procedures, according to which, since 14 September 2019, most operations can only be carried out by inputting two or more security features from, at least, two or three possible categories. To ensure that electronic payment services run smoothly and, in particular, to prevent any difficulties in home banking, the Bank worked jointly with the main national players that supply and demand payment services, through the Payment Systems Forum, to disseminate information on strong authentication. It prepared a promotional video, decoders, a guide on strong authentication, hosted a workshop for the press, and was featured in TV shows via a representative.

Table I.3.2 • Regular publications | 2019

Publication	Objective	Frequency	Language ^(a)
<i>Annual Report</i>	Description of the Bank's activities and financial statements	Annual	PT and EN
<i>Official Bulletin</i>	Collection of all legal acts produced by the Bank in its regulatory capacity	Monthly	PT
<i>Report on Monetary Policy Implementation</i>	Summary on the implementation of the monetary policy of the Eurosystem in Portugal	Annual	PT
<i>Economic Bulletin</i>	Detailed analysis of the Portuguese economy and release of macroeconomic projections	Quarterly	PT and EN
<i>Banco de Portugal Economic Studies</i>	Publication of theoretical and applied studies prepared by Banco de Portugal's economists, frequently co-written by external researchers, and economic synopses. The articles are preceded by a non-technical summary	Quarterly	PT and EN
<i>Coincident Indicators</i>	Publication of coincident indicators for economic activity and private consumption in Portugal	Monthly	PT and EN
<i>Spillovers</i>	Publication of research, economic analysis and economic events promoted by the Bank	Semi-annual	EN
<i>Bank Lending Survey</i>	Release of detailed results for Portugal taken from the Eurosystem's survey	Quarterly	PT and EN
<i>Financial Stability Report</i>	Evaluation of emerging risks in the Portuguese markets and financial system, by identifying possible adverse shocks and assessing their consequences for the stability of the financial system	Semi-annual	PT and EN
<i>Portuguese Banking System</i>	Description of 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>	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 and EN
<i>Summary Report on Banking Conduct Supervision</i>	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>	Developments in markets for simple term deposits, structured deposits, mortgage credit and consumer credit	Annual	PT and EN
<i>Statistical Bulletin</i>	Banco de Portugal's statistics	Monthly	PT and EN
<i>Statistical Activity Plan</i>	Description of Banco de Portugal's statistical objectives and priorities	Annual	PT
<i>Statistical Activity Report</i>	Description of Banco de Portugal's activities as national statistical authority	Annual	PT
<i>Driven by data (NEW)</i>	Contains statistical articles presented at national and international fora. It has replaced the <i>Supplement to the Statistical Bulletin</i>	Annual	EN
<i>Report on Payment Systems</i>	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</i>	Description of Banco de Portugal's cash issuance activities and main indicators	Annual	PT Note: English version of the Executive Summary only.
<i>Bulletin on Banknotes and Coins</i>	Cash-related topics	Semi-annual	PT
<i>Annual Report on Cooperation</i>	Reports on Banco de Portugal's cooperation work with counterparties in emerging and developing countries	Annual	PT and EN
<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, as well as aggregate indicators on the economies of the eight Portuguese-speaking countries	Annual	PT and EN

Source: Banco de Portugal. | Note: (a) PT – Portuguese; EN – English

Table I.3.3 • Communication: main indicators | 2016 – 2019

Channels	Indicators	2016	2017	2018	2019
Website	Press releases	221	232	241	264
	Addresses	33	80	62	62
	Decoders	2	25	43	45
	Users	–	2,032,481	2,293,487	2,787,495
	Viewed webpages	–	15,117,198	17,718,152	22,948,275
Bank Customer Website	News	60	80	95	109
	Users	–	–	442,805	504,271
	Viewed webpages	–	–	1,561,893	1,586,850
Instagram	Posts	–	–	25	93
	Impressions	–	–	49,466	163,107
LinkedIn	Posts	–	235	444	542
	Impressions	–	2,006,007	2,738,153	2,554,948
Twitter	Tweets	–	907	1,092	1,218
	Impressions	–	773,400	774,300	1,201,536
Youtube	New videos	–	31	21	42
	Views	–	35,760	69,400	99,274

Source: Banco de Portugal. | Note: (a) The institutional website was redesigned in November 2016 and the Bank Customer Website in November 2017. The Bank has held Twitter and YouTube accounts since February and March 2017 respectively, and an Instagram account since September 2018. Since 7 November 2019 a Cookies Policy has been in place on the institutional website and the Bank Customer Website, whereby users must consent that any data obtained through cookies be treated, particularly for statistical analysis purposes. Data compiled thereafter refer to users that have accepted the Bank's Cookies Policy.

Financial fraud prevention continued to be amongst the Bank's communication priorities. Confronted with reports of situations where natural or legal persons were offering unsolicited credit in return for post-dated cheques or property rights over immovable or movable assets, Banco de Portugal issued a warning on these practices, together with a decoder and an explainer video. In the course of the year, it issued seven warnings on entities that are not authorised to carry out financial activities. It also released decoders with good practices when using cards.

In 2019, the demand for services provided by Banco de Portugal continued to be relatively high, most notably consultations of the Central Credit Register, which grew by 20% from the previous year (Table I.3.4). The Central Credit Register is a database on actual or potential credits of an initial amount of €50 or more granted by institutions in Portugal to natural and legal persons. This information is mainly intended to support credit-granting institutions in assessing the risk of their customers and of those applying for credit, but any person may check the information concerning themselves in the database.

The Bank provided the Enterprise and Sector Tables to enterprises, to enable managers to compare the performance of their enterprises to that of enterprises of the same sector and size class. In 2019, this information was retrieved by seven thousand enterprises.³⁰

30. In addition to the Enterprise and Sector Tables, available to enterprises upon authentication, every year Banco de Portugal also releases Sector Tables, which may be consulted without authentication. The Sector Tables include a set of 150 economic and financial indicators on Portuguese firms, presented by sector of economic activity and by size class, and ratios of other European countries by sector of activity.

Table I.3.4 • Services to the public: main indicators | 2016 – 2019

Services	Description	Indicators	2016	2017	2018	2019
Analysis of bank customers' complaints	Banco de Portugal reviews the complaints against financial institutions in retail banking products and services	Complaints received	14,141	15,282	15,264	18,104
Analysis of bank customers' complaints	Banco de Portugal reviews complaints against credit intermediaries	Complaints received	n.a.	n.a.	n.a.	114
Consultations of account reports	The Bank provides individuals and companies with detailed reports on their deposit, payment, credit and financial instrument accounts	Reports issued	164,802	225,764	249,767	396,465
Consultations of credit liabilities reports	The Bank provides individuals and companies with detailed reports on the credits for which they are responsible, as debtors and as guarantors	Reports issued	1,573,327	2,008,309	1,807,718	2,455,320
Consultation of information on the prohibition of the use of cheques	The Bank provides individuals and companies with information on any registration in their name on the List of Cheque Defaulters	Consultations of the List of Cheque Defaulters	7,033	7,023	7,026	7,277
Dissemination of information on lost documents	With a view to preventing fraud, the Bank disseminates information on lost documents containing personal information across the banking system, at the request of the holders concerned	Requests disseminated	304	289	244	220
Cash office	The Bank exchanges banknotes, including damaged euro and escudo banknotes, exchanges banknotes and coins for different denominations, and sells commemorative and collector coins.	Visits to customer services	190,501	141,931	156,111	183,348
Historical Archive	The Bank supports research, especially in the fields of law, economics and finance	Consultations	1,291	3,517	1,281	675
		Library consultations	5,523	5,543	5,502	5,262
Money Museum	The Museum presents the history of money based on Banco de Portugal's collection. It has a Financial Education Centre	Activities	913	1,227	1,165	1,127
		Visitors	58,467	62,859	62,396	74,796

Source: Banco de Portugal.



Banco de Portugal joined forces with the European Commission and the European Central Bank in promoting the #EUROat20 communication campaign, to mark the 20th anniversary of the euro.

In 2019, Banco de Portugal's Call Centre was transferred to the Castelo Branco Agency. Based in this Agency, the Bank provides a phone support service to individuals and enterprises and replies to information requests sent by e-mail to info@bportugal.pt and the form available on the institutional website. By establishing this service in Castelo Branco, the Bank consolidated its inland presence, taking advantage of its local facilities and benefiting from this specific set of skills in the region. Throughout the year, the Bank processed 38,949 phone calls and 45,863 messages sent by the public by e-mail or through the forms available on the institutional website and the Bank Customer Website (10,699 requests in 2018), including 30 thousand messages related to the charging of fees by the MB Way service, sent under a campaign promoted by the Portuguese Association for Consumer Protection – DECO. Most requests for clarification focused on the Bank's databases (consultations of the credit liabilities report and the accounts database, and the list of cheque defaulters) and the rules applicable to the marketing of banking products and services.

In October, Banco de Portugal conducted its 3rd satisfaction survey on the services provided to the public at its information desks. Results showed a degree of overall satisfaction of 3.78, on a scale of 1 to 4, i.e. above the 3.75 attained in 2018.

At the Money Museum, the Bank launched the Financial Education Centre (opened at the end of 2018) activities, and completed a new permanent exhibition space, on the nature and functions of Banco de Portugal, which opened to the public in February 2020.

In addition to the exhibition "(Euro)policies: contemporary photography since 1999", as part of the communication campaign on the 20th anniversary of the euro, the Museum held four other temporary exhibitions. From 28 November 2018 to 23 February 2019, it held the exhibition "The value of trust in money", on the history of the fight against counterfeiting. To commemorate the bicentenary of Queen Maria II's birth, who established Banco de Portugal and the Academy of Fine Arts, the Museum hosted the exhibition "Fine Arts of the Academy: Today" from 20 March to 28 April, which displayed 27 works by contemporary academic artists. From 27 November 2019 to 23 February 2020, it held the exhibitions "The Leal of Oporto of King Afonso V", which displayed the one-of-a-kind piece of global numismatics

(acquired by the Bank in 2019) and “Pardal Monteiro (1897-1957) – Architecture, pure and simple”, which, for the first time, displayed this architect’s scale model of the Bank’s head office – a 1936 project that never came to be. To complement these exhibitions, the Museum provided 1,127 educational and cultural activities, from thematic visits to accessible visits, debates and discussions, jazz concerts, theatre plays, cinema, workshops, courses, conferences and, for the first time, a dance event and walking tours in Lisbon.

As of February 2019, the Museum is also open on Sundays. The number of visits grew, from 62,396 in 2018 to 74,796 in 2019. Of these, 19% were on Sundays. Approximately 30% of visitors took part in Museum activities.

The Museum helped prepare the numismatic content for the upcoming Royal Treasury Museum, a joint initiative of the National Palace of Ajuda, the Directorate-General for Cultural Heritage and the Ministry of Culture, and lent pieces to the “One King, Three Emperors” exhibition at Museu de São Roque.

The Library of Banco de Portugal hosted an exhibition on the 50 years of the Nobel Prize in Economics, which was supplemented by a lecture cycle led by in-house economists. With the purpose of encouraging dialogue on best practices in information processing, the Porto Branch hosted the 2nd Workshop on Libraries of Banco de Portugal, co-organised with the network of municipal, academic and school libraries of the north of the country.

To ensure wider dissemination of its Historical Archive, particularly among archivists and researchers, Banco de Portugal hosted the 1st “Archive Afternoons” (*Tardes de Arquivo*), with the participation of experts from other financial institutions and research centres. The Bank also launched a new archive management application, which made catalogue research and browsing easier.

To strengthen its links to the community, the Bank adopted a new financial and social support policy, with a view to ensuring that the partnerships built and the sponsored projects are in line with strategic goals and the internal ethical and conduct standards and, at the same time, that support is granted in an objective, impartial and transparent manner. For that purpose, a set of criteria were set out and published on the institutional website for the award of support to external entities.

The Bank also carried out several actions to support the community, under its social responsibility policy, together with volunteering staff and a number of partner entities. In 2019, volunteering projects, which had hitherto been developed only in the Lisbon district, were extended to Porto, Viseu, Funchal and Ponta Delgada.

Together with Entrepreneurs for Social Inclusion (Empresários pela Inclusão Social – EPIS) and Gertal, volunteers taught Maths, Portuguese and English to 32 students in lower secondary education at Escola Secundária Fernando Namora and Escola EB 2/3 Sophia de Mello Breyner Andresen, in Amadora. In the 2019-20 academic year, it will pursue its partnership with the same schools and, for the first time, Escola Básica Integrada de Arrifes, in the Azores.

With the support of the Interactive Technologies Research Centre (Centro de Investigação para Tecnologias Interativas) of the NOVA University Lisbon and the Reading Volunteer Association (Associação para o Voluntariado de Leitura), the Bank held reading sessions in the 2018-19 academic year for 46 students of primary school age at the Luísa Ducla Soares, Maria Barroso, Padre Abel Varzim and Sampaio Garrido schools, in Lisbon. This initiative, which is part of the Reading Volunteers project, is still ongoing in the 2019-20 academic year at these schools and, for

the first time, in Escola Básica de São José, also in Lisbon, and Escola Básica da Fontinha, in Porto. Together with D. Estefânia Hospital, the Bank also held weekly reading sessions for in and out patient children and teenagers.

In Porto, the Bank's volunteers supported Ajudaris in the cataloguing of books at its library, so that they may be used by the community, and helped a set of institutions supported by Entrajuda to improve the services provided to their beneficiaries.

In Ponta Delgada, the Bank's volunteers helped sort and prepare food hampers under the integrated plan to tackle poverty at the Centro Paroquial de Bem-Estar Social de São José.

They also supported campaigns for Banco Alimentar (the Portuguese Food Bank), by collecting and registering goods donated in Porto, Viseu, Funchal and Ponta Delgada.

To raise its staff's awareness to the importance of volunteering, Banco de Portugal held its 1st Volunteer Day, which included events in Coimbra, Faro, Funchal, Lisbon, Ponta Delgada, Porto and Viseu.

Another *Agenda Solidária do Banco de Portugal* [solidarity agenda] (this time, focusing on human rights) was issued and sold, the proceeds of which were fully donated to the Portuguese Oncology Institute in Porto.

To support the population communities hit by the cyclone which, in March, caused devastation in the central and northern regions of Mozambique, Banco de Portugal approved a financial contribution and launched a fundraising campaign among its staff. The proceeds were sent to Banco de Moçambique to be allocated to the rehabilitation of a school in Beira.

Within the scope of the Zero Desperdício (zero waste) project, 7,820 meals were donated by Banco de Portugal in the course of the year. The cafeteria operators at the Bank's facilities in Lisbon and Carregado donated 2,840 meals, 10,868 litres of soup and 638 kilograms of dressings and side dishes. These meals were given to the Arroios parish, which delivered them to 45 households, totalling 61 individuals, and to the social centre of Carregado, which in turn distributed them to 19 disadvantaged individuals.

At Christmas, 275 kilograms of food were donated to the Arroios parish and 75 kilograms were donated to the social centre of Carregado, towards food hampers. 500 litres of milk were also donated to the social centre of Carregado. In July and August, the Bank provided 4,230 mid-afternoon snacks to the children at the summer holiday camp of the Arroios parish.

3.4 International cooperation

Banco de Portugal's cooperation with counterparties in emerging and developing countries is mainly centred around the promotion and sharing of expertise and best practice. The Bank has effectively responded to current demands by incorporating new players and institutions, and by introducing new topics and methodologies, thus contributing to the overall objective of monetary and financial stability.

The issues stemming from the financial crisis and technological innovation have become increasingly relevant. Cooperation has grown in quantitative and qualitative terms across all these domains, but also in support, management and infrastructure functions within central banks. With one of the most comprehensive mandates in the central banking community (covering monetary policy, financial stability, resolution, prudential and banking conduct supervision), Banco de Portugal is in



Having been held in Dili in 2018, the Lisbon Meeting was once again held in Portugal, with high-level meetings with representatives of the central banks of the Portuguese-speaking countries.

a position to offer an overarching perspective to its cooperation partners.

In 2019, it carried out 159 cooperation initiatives (Figure I.3.2) covering all central banking functions: 106 with Portuguese-speaking countries, 24 with neighbouring EU countries, 16 with Latin American countries, 12 with countries in Asia and the Pacific region, and 1 with an African country.³¹ The Bank entered into another technical cooperation agreement – this one (its 12th) with Banco Central de Chile – and renewed its agreement with Banco Nacional de Angola.

The Bank participated in the bodies monitoring 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. It also took part in the conference to mark the 10th anniversary of the Economic Cooperation Agreement between Portugal and São Tomé and Príncipe, in São Tomé, with wide participation from authorities of both countries and the Santomean civil society.

Banco de Portugal managed a trust fund on behalf of the Democratic Republic of São Tomé and Príncipe until the fund's extinction on 30 July 2019. It was established in 1998 to contribute to the restructuring of São Tomé's internal debt.³²

The Bank regularly publishes indicators and analyses on the economic environment in relation to Portuguese-speaking countries (Chapter 3.3), which were again released in 2019.

In 2019, the central banks of the Portuguese-speaking countries had high-level meetings in May, at the IX Meeting of Governors, in Macau, and in October, at the XXIX Lisbon Meeting, which was once again held in Lisbon, having been held in Dili the previous year (Chapter 3.2).

In Lisbon, Banco de Portugal organised a wide range of courses and seminars with central banks of the Portuguese-speaking countries. The most notable were: the course on public debt and government finance statistics, co-organised with the IMF; and the first set of seminars on capital planning and stress tests, co-organised with the Federal Reserve Bank of New York, and on the prevention of money laundering and terrorist financing. It also took part in five regular sectoral meetings with these counterparties in the fields of financial education and inclusion, reserve management and risk management, human resources, international relations and banking supervision.

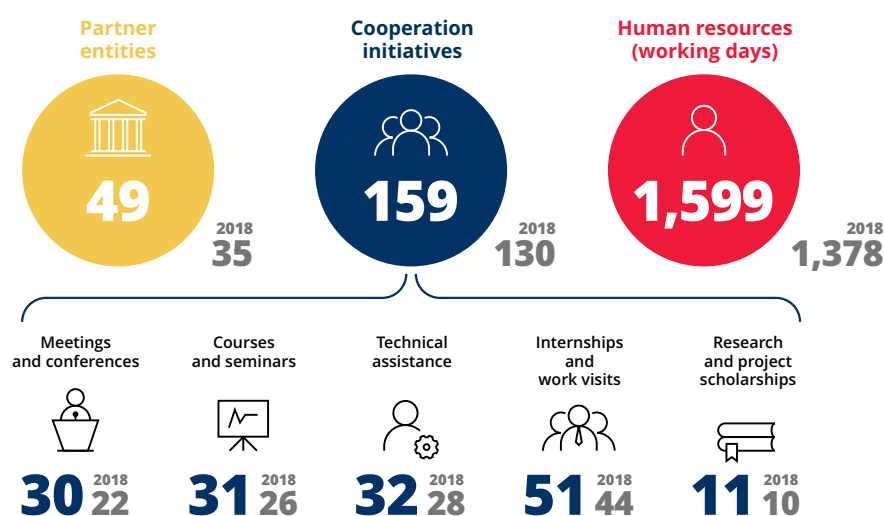
In 2019, the central banks of Portuguese-speaking countries were given access to the training courses at the Banco de Portugal Academy, on management, communication and other soft skills.

31. For more details on these initiatives, see the 2019 *Annual Report on Cooperation*, available on Banco de Portugal's website.

32. The *report on the trust fund management* is available on Banco de Portugal's website (in Portuguese only).

In addition to working in the overarching context of Portuguese-speaking countries, Banco de Portugal participated in the Eighth High-Level Political Dialogue between the Eurosystem and Latin American Central Banks, in the third Conference on Statistics at Banco Central de Chile, and in events held by the Centre for Latin American Monetary Studies, including governor-level meetings. It also took part in the technical assistance project to the Western Balkans, which was launched in 2019 and is funded by the European Union. Banco de Portugal was involved during the first stage of the project, which included local training on topics such as financial inclusion, statistics and resolution, and held the third project coordination meeting.

Figure I.3.2 • Cooperation initiatives | 2019



Source: Banco de Portugal.

4 Internal management

This chapter presents the organisational and internal governance model of Banco de Portugal and the main changes introduced in 2019 with a view to their alignment with the best practice adopted by Eurosystem central banks, substantiated in its fourth Broad Strategic Guideline set for 2017-20.

4.1 Internal governance

The internal bodies of Banco de Portugal consist of the Governor, the Board of Directors, the Board of Auditors and the Advisory Board. The Governor's responsibilities include representing Banco de Portugal, acting on its behalf in foreign and international bodies, and supervising the co-ordination and enhancement of the activity of the Board of Directors. The Governor also acts as member of the Governing Council and the General Council of the European Central Bank. The Board of Directors is responsible for all the acts required to carry out the tasks entrusted to Banco de Portugal which do not fall within the exclusive competence of other bodies. On a proposal by the Governor, the Board of Directors assigns its members responsibilities for one or more departments. In 2019, the Board of Directors held 53 meetings.

The Board of Auditors monitors the functioning of Banco de Portugal, assesses compliance with applicable legislation and regulations, issues its opinion on the budget, balance sheet and annual accounts, and brings to the attention of the Governor or the Board of Directors matters warranting due consideration. The Advisory Board issues non-binding opinions on the Annual Report of Banco de Portugal, the performance of Banco de Portugal arising from its action and any matters submitted thereto by the Governor or the Board of Directors.

The Board of Directors of Banco de Portugal is supported in its decision-making by specialised in-house advisory committees, more specifically the Specialised Committee for Financial Supervision and Stability, the Committee for Risk and Internal Control, the Budget Monitoring Committee and the Specialised Committee for Information Systems and Technologies Management, including their subcommittees. The committees are coordinated by members of the Board of Directors and include Heads of Department and other representatives from the relevant departments according to the matters under discussion.

Implementation of the Strategic Plan for 2017-20 is monitored by means of overall enforcement indicators, by a steering committee, which includes the Board of Directors, the Strategy and Organisation Directorate and the Heads of Departments. At the end of 2019, the first three years of the Plan were revised, and priority follow-up initiatives were set for 2020.

Banco de Portugal's resource management policy is guided by efficiency criteria, with a view to ensuring a rational, sustained trajectory for operating expenses (Box 5), reinforced by a culture of accountability for results. To such end, its departments have been subject to an annual performance appraisal process, based on an objectives and commitments framework approved by the Board of Directors. This appraisal model considers: (a) budgetary performance metrics, to promote active and efficient budgetary management; (b) departmental key performance indicators (KPIs), set out at the beginning of each year and regularly monitored; and (c) headcount goals, in line with the resource constraints established in the Strategic Plan. Departments are also directly assessed by the Board of

Directors and, in the case of support departments, subject to an annual in-house customer survey. The integrated use of these (quantitative and qualitative) performance measurement criteria allows for an overall performance appraisal at departmental level, which is the basis for acknowledging merit and managing the annual reward scheme at Banco de Portugal.

Banco de Portugal uses a costing system to support decision-making, which is based on a methodology developed by the Eurosystem and whose main objectives are to disclose total expenditure on key Eurosystem functions, thereby enabling comparability and transparency among central banks, and to release management information to help gauge the efficiency of functions and decision-making.

In 2019, Banco de Portugal continued to refine its internal governance model. The changes introduced were designed to enhance the efficiency and quality of Banco de Portugal's performance, for agile and flexible organisation and an effective decision-making structure. As such, at the General Secretariat, the support functions assisting the decision-making process and the follow-up on the decisions made by the Board of Directors were separated from the general support functions to the Board in 2019. The organisational structure of the Payment Systems Department was adjusted to accommodate the increased responsibilities arising from the revised Payment Services Directive (PSD2), the emergence of fintech operators and developments in the Eurosystem's market infrastructures. The organisational structure of the Accounting Department was also adjusted to accommodate the responsibilities arising from the assistance to the autonomous funds required by the public and national accounts and the service-level agreements and powers conferred by the respective management committees. The powers of the Information Systems and Technology Department's cybersecurity centre were also reinforced, which took on the responsibilities in cybersecurity, risk and compliance of the Bank's systems, as well as in the response to security incidents of the Portuguese financial system, as part in the Computer Security Incident Response Team (CSIRT).

To fully implement the General Data Protection Regulation,³³ the Bank has a Data Protection Office, which also supports the activity of the Deposit Guarantee Fund, the Resolution Fund, the Mutual Agricultural Credit Guarantee Fund, Valora, the Credit Mediator and Sociedade Gestora dos Fundos de Pensões (Pension Funds Managing Company). In 2019, a data protection action plan was put in place, which included: (i) drawing up the privacy by design and by default procedure and the notification of personal data breaches procedure, (ii) preparing a data protection guide to introduce the main concepts of the Regulation to staff, (iii) organising staff training sessions, and (iv) adapting technological and information systems. In 2019, Banco de Portugal guaranteed the exercise of data subjects' rights – a total of 72 such requests were received. Additionally, the Bank participated in national and international working groups, within the scope of the National Council of Financial Supervisors and the Eurosystem, with the purpose of assessing the impact of the General Data Protection Regulation on financial supervision.

The activities carried out by the Compliance Office in the course of the year continued to be geared towards the improvement and reinforcement of the internal institutional culture on ethics and business conduct, by promoting the institutional values as unifying elements and by incorporating

33. Regulation (EU) 2016/679 of the European Parliament of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR).

them into the decision-making and management processes. In this respect, the Bank held an awareness-raising session sponsored by the European Central Bank, the first of a series of measures aimed at all central banks and national supervisory authorities. The Bank's commitment to foster transparency and credibility was also behind its decision to release the calendars of the members of the Board of Directors, which has been done on a monthly basis since January 2019. The calendars released with a three-month lag, list all the meetings or events planned or organised with a working agenda or topic(s) for discussion, including institutional meetings, lectures, participation in conferences and events and commitments to external entities, except when the disclosure of information may hamper the protection of public interest acknowledged at national and EU level. With regard to the management and prevention of conflicts of interest, a mitigation measure was applied to all staff in management positions, which provides for a cooling-off period between working for the Bank and working for entities subject to the Bank's supervision or in whose supervision the Bank participates under the Single Supervisory Mechanism, or which are part of groups controlled by such entities. The internal policy on conflicts of interest prevention was also revised, as described in the *Relatório Anual de Execução do Plano de Prevenção de Corrupção* (annual report on the implementation of the corruption prevention plan).³⁴



The regulations and codes of conduct of Banco de Portugal are available for consultation on the Bank's website, which also features a "quick guide" on the applicable rules.

4.2 Risk management

In 2019, Banco de Portugal proceeded with its integrated management policy on risks and an in-depth analysis of the risk culture among business lines. The Internal Statement of Risk Acceptance Principles, approved by the Board of Directors in 2018 and which describes the tolerance level for the risks to which Banco de Portugal is exposed, was supplemented by the definition of sub-categories for non-financial risks and the approval of a strategic risk budget, matching the coverage provided by Banco de Portugal's own funds.

As has been standard practice in recent years, a top-down exercise was carried out to identify and classify the main risks associated with the Bank's activities. Mitigation plans were also developed for these risks, and their actions were reflected in the Strategic Plan.

34. The *Plano de Gestão de Riscos de Corrupção – Relatório de Execução 2018* is available on Banco de Portugal's website.

The financial risk underlying own investment asset management operations was monitored taking into account the limits and restrictions laid down in the internal guidelines approved by the Board of Directors. An information system similar to that used in most Eurosystem central banks carried out the valuation, calculation of yield and risk control on asset management operations on a daily basis.

Monetary policy operation risks were monitored in accordance with the rules set out within the Eurosystem (Chapter 1). Banco de Portugal also monitored and analysed the performance of internal rating systems accepted for use by national institutions for the credit rating of assets provided as collateral in Eurosystem credit operations. It also monitored the performance of its in-house credit assessment system, and assessed its compliance with the Eurosystem's rules and criteria.

Overall developments in financial risks were examined through the regular calculation of a number of indicators, on the basis of standard methodologies in line with those used by the Eurosystem. These risks were analysed by comparison with the financial buffers in the balance sheet (provisions, reserves and income) to ensure that they are compatible with Banco de Portugal's risk tolerance.

4.3 Internal audit

In 2019, the internal audit function continued to provide assessment and consultancy services, thereby contributing to the Bank's smooth functioning and to greater effectiveness and efficiency of the governance, risk management and internal control processes. 36 internal audits were carried out, 29 of which were exclusively domestic and seven under the internal audit function of the European System of Central Banks, the Eurosystem and the Single Supervisory Mechanism (Table I.4.1).

Banco de Portugal maintained its implementation of agile and integrated solutions, with a view to collecting and analysing information and managing the audit procedures, to improve the effectiveness and efficiency of the internal audit function.

Table I.4.1 • Audits | 2019

Breakdown by activity domain	Domestic	ESCB, Eurosystem and SSM
Governance, internal functioning and management quality	3	1
Monetary policy and other operational duties		
Supervision and legal enforcement	2	1
Payment systems and means	2	1
Statistics	1	1
Reserve and financial asset management	1	
Resolution and deposit guarantee	5	
Cooperation and international relations	1	
Human resources	1	
IS/ICT	3	1
Security		
Budget and accounting	1	
Communication and image management		
Legal matters	1	
Cash issuance	8	1
Risk and compliance		1
Purchases and logistics (includes contract management)		
Total	29	7

Source: Banco de Portugal.

4.4 Human resources

As at 31 December 2019, the number of staff members employed by Banco de Portugal stood at 1,778, of whom 1,700 were active (78 were on unpaid leave or public interest assignment) (Table I.4.2). This is in line with the goal of 1,700 staff members by 2020, set out in the Strategic Plan for 2017-20. Over the course of the year, 161 members of staff were recruited and 136 left Banco de Portugal (100 retirements and 36 labour contract terminations). Of the 161 members of staff recruited, 77 were interns. The Bank hosted 80 interns in its paid internship programmes.

Table I.4.2 • Staff developments | 2016-19

	2016	2017	2018	2019	Δ 2019-2018
Total staff	1,797	1,761	1,753	1,778	1.4%
Active ^(a)	1,717	1,701	1,687	1,700	0.8%
Supervisory tasks ^(b)	437	446	450	481	6.9%
Unpaid leave/secondment	80	60	66	78	18.2%

Source: Banco de Portugal. | Notes: (a) Excluding staff members on unpaid leave and public interest assignment. (b) Staff members in the fields of prudential supervision, banking conduct supervision, financial stability, legal enforcement, resolution, credit mediator and National Council of Financial Supervisors.

In 2019, the composition of staff by gender remained balanced and the trend for the gradual rejuvenation of staff continued, with the average age of staff members falling to 42 years (44 for males and 40 for females) (Table I.4.3).

Table I.4.3 • Staff developments: gender, movements and age groups | 2016-19

		2016	2017	2018	2019
Gender	Male	913	900	886	892
	Female	884	861	867	886
Movements	Recruitments	112	78	118	161
	Retirements	62	85	87	100
	Termination of contracts	30	29	36	36
Age group	<=25	72	74	72	94
	[26;35]	570	556	560	579
	[36;45]	353	381	426	483
	[46;55]	288	265	259	272
	[56;65]	505	474	418	334
	>=66	9	11	18	16

Source: Banco de Portugal.

The breakdown of staff by function remained broadly unchanged. In 2019, approximately 20% of the Bank's staff members were managerial staff (of whom 47% were females) and 69% were professional staff (Table I.4.4).

Banco de Portugal has invested in the qualification of its staff by continually improving its policies on recruitment, career and selection for leading positions, in addition to incentives to internal mobility

and a strong emphasis on training and the development of skills (formal, technical and behavioural). In 2019, 42 members of staff moved to other departments. 53 external and 30 internal recruitment processes were launched.

Table I.4.4 • Staff: breakdown by function | 2019

	Male	Female	Total	%
Senior management	41	19	60	3%
Middle management	151	148	299	17%
Professional staff	557	666	1,223	69%
Technical-administrative staff	108	10	118	7%
Unpaid leave/secondment	35	43	78	4%
Total	892	886	1,778	100%

Source: Banco de Portugal.

One of the Bank's structural projects to train and further develop its staff is the Banco de Portugal Academy (Academia do Banco de Portugal), which was created in 2016 to manage technical and behavioural skill building in an integrated manner and in line with its mission, values and strategic priorities. The Academy includes a Management and Leadership School, under which two long-term training programmes are available: the Advanced Leadership Programme (*Programa Avançado de Liderança*), launched in 2016 and geared towards middle management, and the Programme for Strategic Leadership and Change towards Excellence (*Programa de Liderança Estratégica e Mudança para a Excelência*), launched in 2017 for top management. By the end of 2019, 171 managers had completed one of these programmes. To complement the latter, in 2019 the Bank hosted a cycle of masterclasses for board members and senior management on topics deemed strategic for Banco de Portugal. The process of establishing the Academy's Data Science School was initiated, with the purpose of building on staff's IT skills – including business intelligence, big data and machine learning –, maths, statistics and information management. Throughout the year, a total of 1,842 staff members participated in the actions undertaken by the Academy (Table I.4.5).

Table I.4.5 • Training: participants and hours | 2016-19

	2016	2017	2018	2019	Δ 2019-2018
Participants	1,733	1,707	1,712	1,842	7.6%
Hours	59,793	60,673	60,319	67,678	12.2%
Attendance rate*	96.4%	96.9%	97.5%	105.0%	7.6%
Staff members	1,797	1,761	1,755	1,778	1.3%

Source: Banco de Portugal. | *The attendance rate corresponds to the share of Banco de Portugal's members of staff that participated in at least one training course. It includes retired persons and staff members whose employment contract has been terminated.

In 2019, the Bank proceeded with its mentoring programme, launched in 2018 to consolidate the identity and culture of the organisation, to foster the professional development of junior staff and to encourage intergenerational communication.

Within the scope of the professional and summer internships, the Bank hosted two Open Days, in Lisbon and Porto, for students from top Economics, Management, Law and IT/IS schools. The purpose



Every year, Banco de Portugal hosts Open Days for students from top Economics, Management, Law and IT/IS schools.

of this initiative is for the Bank to forge closer ties with academia and, at the same time, to reinforce its recruiting capacity.

The Bank also took part in the 3rd Schuman Programme, a mobility programme for the European System of Central Banks and the Single Supervisory Mechanism, which promotes the exchange of information and the sharing of expertise among the staff of central banks and adherent supervisory authorities, through projects running from six to nine months. In this edition, the Bank seconded four staff members to the central banks in Spain, Germany, Belgium and Italy and hosted two staff members from the Central Bank of Ireland.

With regard to Banco de Portugal's pension funds, as at 31 December 2019 the assets of the Pension Fund – Defined-benefit Plan – a closed-end pension fund covering staff who began working in the banking sector prior to March 2009 – and the health benefits plan, covering all staff – amounted to €2,022 million invested in euro area bonds and liquidity (83.8%), shares (4.3%) and real estate (11.9%). The fund was also exposed to euro area bond futures and equity futures, which corresponded to 2.3% and 3.9% respectively of the asset portfolio market value. Its overall funding level was 103.7%, i.e. above the minimum level established in Notice of Banco de Portugal No 12/2001 (98.3%). In 2019, returns on the asset portfolio of this fund stood at 8.2%.

At the end of 2019, the Pension Fund – Defined-contribution Plan – a voluntary supplementary pension plan for staff who began working in the banking sector after March 2009 – had 930 participants, pointing to the majority of new staff members opting for this fund. In 2019, the asset portfolio of this fund, to the amount of €26.7 million, posted returns ascending to 5%.

4.5 Premises

In 2018, Banco de Portugal purchased land in Alto dos Moinhos to build a new office building in Lisbon. In 2019, the Bank, as owner of this land, took part in a committee that monitored the separation of building blocks at the Quinta do Bensaúde/Alto dos Moinhos, mostly related to work involving the launch of urbanisation projects. In October 2019, the Bank concluded the transfer of its alternate data centre, which had been previously located at the disaster recovery centre in Olivais, to Carregado. This process was preceded by several renovations in the Carregado complex, to accommodate the IT infrastructures.

In December, the Municipality of Funchal issued a favourable opinion on the preliminary information request for the renovation of Madeira's Regional Delegation building. Among other changes, the Bank intends to reorganise the customer service areas by improving the building's accessibility.

In line with environmental sustainability concerns (Box 1), the Bank signed a new contract with an electricity supplier to switch to power from 100% renewable sources. As such, in 2020 all of the bank's buildings in Lisbon, Porto and the regional network (excluding, for the time being, the regional delegations in Madeira and the Azores) will switch to renewable sources of energy.

4.6 Information systems, technology and management

In 2019, Banco de Portugal continued to streamline new cooperation, mobility and business support solutions, to increase productivity, in line with its strategic IS/IT programme – the Digital Bank 2020 programme.

One of the programme's main pillars is the creation of the digital workplace. In 2019, the Microsoft Office 365 platform was adopted, following a comprehensive analysis of its risks, and an app for staff was developed to improve internal communication and facilitate access to the Bank's information and services.

As part of the business continuity strategy, a team of system administrators was set up at the Porto Branch, to increase responsiveness and support to the Branch and the Bank's regional network in the north of the country. In line with the strategy for data centre development, the data centre was transferred from the Olivais building to the Carregado complex, thereby also reinforcing the Bank's resilience in terms of business continuity. As respects integrated information management, three solutions were brought forward, the most notable of which is the Bank's data warehouse – an information repository which currently includes data on loans, prudential information and the balance sheet of financial institutions and which, at a later stage, will make it possible for the Bank to concentrate all relevant business data for shared internal use.

Under the aegis of Banco de Portugal's Innovation Lab, experimental work was carried out to assess responsiveness to different business cases, more specifically the validation of draft contracts, the setting up of early warnings in supervision based on social network analytics, the use of bots to automate processes, and the extension to other national central banks of the Securities Lending solution (which was developed using blockchain technology).

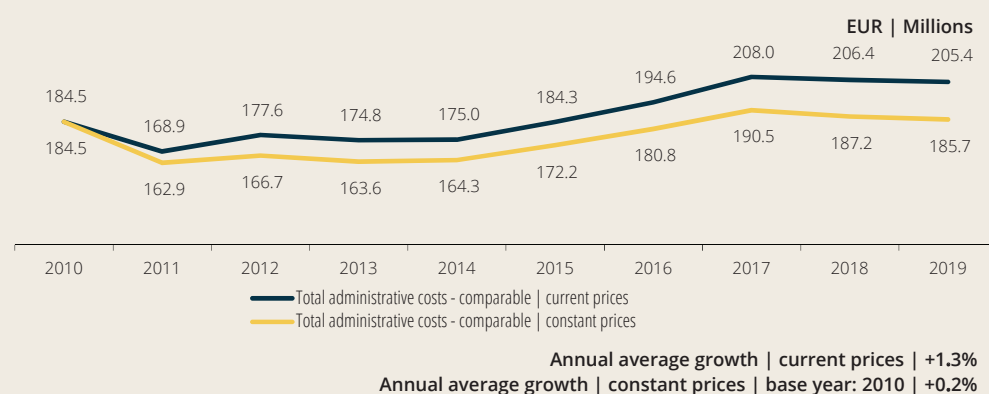
As regards security, and in light of the Bank's responsibilities, via its cybersecurity centre, for addressing security incidents across the national financial system, a website was set up to facilitate exchanges with financial institutions. The website supports the workflows related to the receipt of security incident reports from financial institutions and their redistribution among participating entities, including the European Central Bank and the Portuguese National Cybersecurity Centre.

In order to boost the awareness of Banco de Portugal staff as to cybercrime risks, an outreach programme was implemented, which included workshops, in addition to three social engineering exercises, making it possible to gauge the awareness of staff members in terms of cybersecurity.

Box 5 • Administrative costs of Banco de Portugal

Sound and efficient management of human and financial resources is a priority of Banco de Portugal. This is evidenced by the evolution of the Bank's administrative expenditure over the last decade, which recorded an annual average rate of change of 1.3% in nominal terms and 0.2%, when inflation is taken into account (Chart C5.1). This development has been achieved through measures to manage resources efficiently and contain costs, which have made it possible to offset the costs of the significant growth of the Bank's functions and extraordinary expenses, in particular linked to the implementation of the Economic and Financial Assistance Programme to Portugal (*Programa de Assistência Económica e Financeira a Portugal* – PAEF), the strengthening, segregation and extension of the perimeter of the banking supervision and resolution areas and the need to implement new monetary policy programmes.

Chart C5.1 • Total administrative costs | Developments on a comparable basis



Source: Banco de Portugal.

Indeed, in the last decade, in the context of the redesign of the European supervisory architecture, Banco de Portugal took over new functions as national macro-prudential authority and national resolution authority. Prudential supervision had to respond to the challenges arising from a new, complex and resource-intensive regulatory and institutional framework. The Bank also saw its powers extended to preventive supervision of money laundering and terrorist financing, behavioural supervision and payment systems. Also in monetary policy, the Bank was called upon to carry out new tasks, in particular in terms of non-conventional measures, non-existent until then.

Simultaneously, the Bank has altered its organisational structure significantly to, on the one hand, address the segregation of duties inherent to the participation in the Banking Union and, on the other hand, improve alignment with central banks' management and control benchmarks. The Bank has strengthened its risk management, compliance, communication, strategy and planning and data protection areas. Banco de Portugal opened the Money Museum, a project that contributes to achieve its strategic goal of openness to the community, and boosts its social responsibility initiatives.

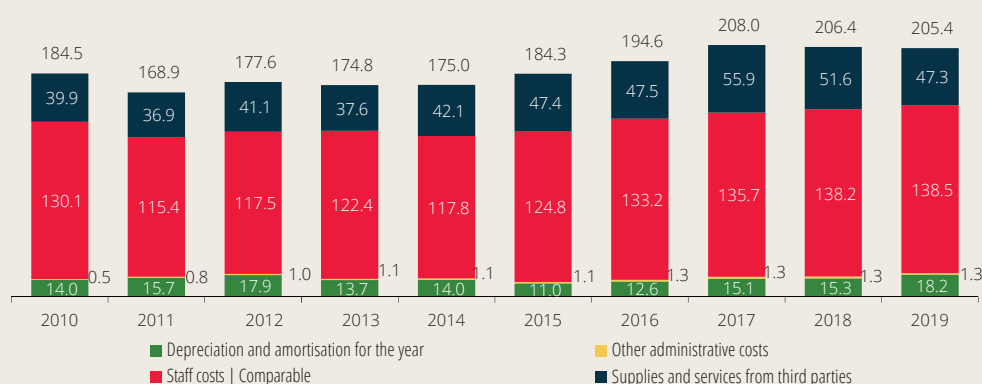
In 2010 and 2011, during the economic and financial crisis, Banco de Portugal adopted a special resource efficiency programme, which included a series of specific measures to contain and cut expenditure, in terms of both wages and services provided to the Bank, in line with the cost-cutting measures adopted for public bodies within the consolidation perimeter of the respective State Budgets.

To permanently monitor running costs and to propose measures to promote an efficient management and contain running costs in a rational and sustainable manner, Banco de Portugal created an internal

specialised committee, the Budget Monitoring Committee (CAO), chaired by the member of the Board of Directors responsible for the Accounting Department and composed of other members of the Board and representatives of the relevant departments. Annual targets and ceilings are set for expenditure, which are reported internally at the start of each strategic planning cycle and each budget. This model has made it possible to strengthen the centralisation of the planning and control of a large part of the expenditure on specialised technical bodies and has increased the responsibility of all managers for monitoring the evolution of the budgets allocated to them. The annual assessment of the departments has taken budgetary performance metrics and headcount goals since 2016 into consideration.

In 2019 staff costs accounted for 67% of total administrative costs, followed by the supplies and services from third parties with a 23% share. Changes to these balance sheet items over the last decade are described below in greater detail (Chart C5.2).

Chart C5.2 • Administrative costs: main components | Developments on a comparable basis



Source: Banco de Portugal.

Staff costs

Between 2010 and 2019 the remuneration component of staff costs – which includes all remuneration expenses and compulsory and voluntary social charges – has evolved in a contained manner (Chart C5.3). Nominal salaries have increased by 1.4% in annual average terms and by 0.3% in real terms. This reflects the Bank's adoption of salary containment measures and a human resources management policy based on redeployment and internal mobility together with the establishment of medium-term targets for total staff.

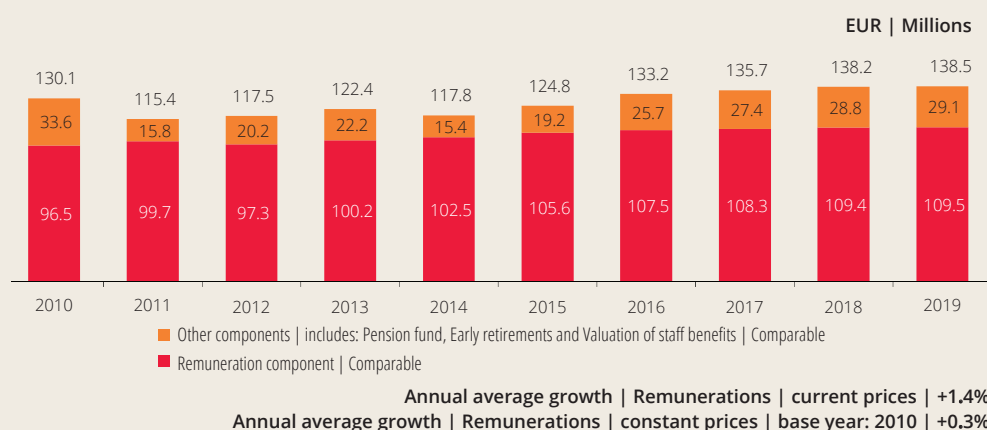
Banco de Portugal did not update salaries between 2010 and 2015. These measures have allowed the Bank to accommodate part of the cost of the staff increase and of the improvement in staff qualifications (Table C.5.1).

Developments in the other staff costs components – which include the recognition of pension fund liabilities and other post-employment benefits – showed some volatility between 2010 and 2019, reflecting regulatory changes and actuarial and financial assumptions. In 2011 the working-age employees of Banco de Portugal who were registered in the family allowance fund for bank employees (Caixa de Abono de Família dos Empregados Bancários (CAFEB)) and covered by the Pension Fund were integrated into the general social security scheme. This has substantially reduced the Bank's annual transfer to the pension fund, but has led to an increase in compulsory social charges included in the remuneration component. From 2015 onwards, charges associated with the pension fund accrued as a result of changes to financial and actuarial assumptions applied in accordance with IAS 19.

Table C5.1 • Staff | Academic qualifications

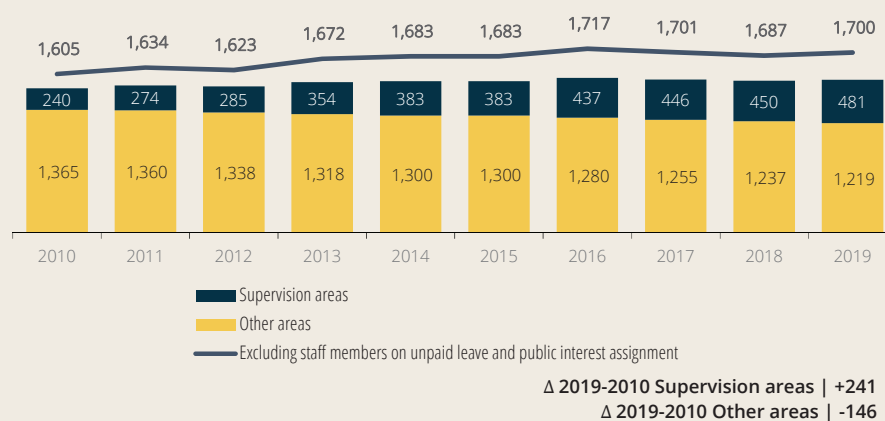
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Academic qualifications										
≤12 th grade	712	678	643	591	553	499	452	387	337	287
Undergraduate	723	748	753	784	810	813	830	829	803	847
Master	177	222	240	307	356	405	449	474	540	573
Doctorate	36	41	46	52	58	60	66	71	73	71

Source: Banco de Portugal.

Chart C5.3 • Staff costs: main components | Developments on a comparable basis

Source: Banco de Portugal.

Between 2010 and 2019 the Bank's net headcount increased by about 100. At the end of 2019 it was in line with the target set out in the Strategic Plan of 1700 employees by 2020 (Chart C5.4). Throughout the period under review, there was a consistent increase of staff in supervisory activities and a reduction in all other areas of the Bank, the decrease being sharper in the support functions, also in line with the goal set out in the Strategic Plan.

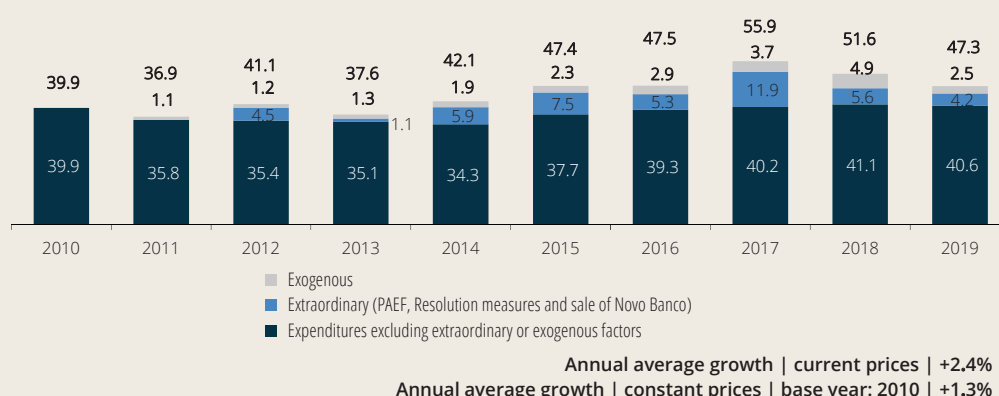
Chart C5.4 • Staff numbers

Source: Banco de Portugal.

Supplies and services from third parties

Supplies and services from third parties (FST) include costs linked to the Bank's expenditures excluding those related to extraordinary or exogenous factors, as well as expenses that depend on exogenous and extraordinary factors (Chart C5.5). Exogenous FST are the Bank's participation in financial envelopes for information systems and technology projects developed within the Eurosystem. The expenses related to extraordinary factors resulted mainly from the Economic and Financial Assistance Programme, resolution measures and the sale of Novo Banco, and virtually all were legal and financial advice expenses. Total expenditure in FST increased by €7.4 million between 2010 and 2019.

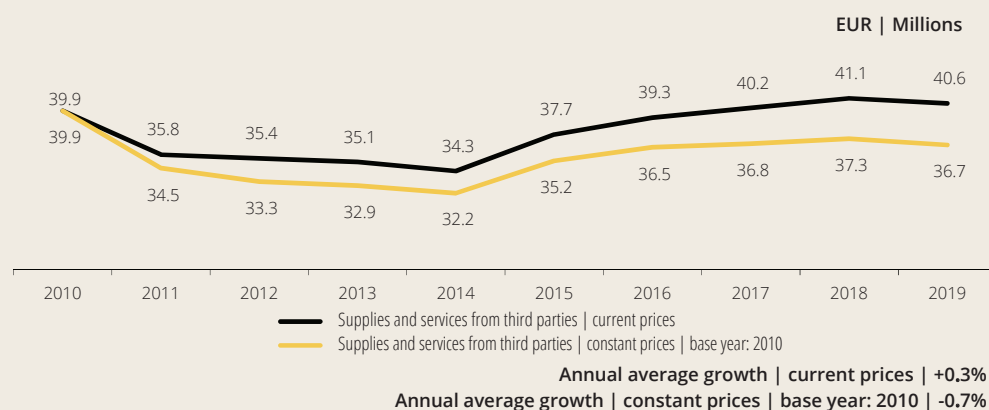
Chart C5.5 • Supplies and services from third parties



Source: Banco de Portugal.

Supplies and services from third parties for expenditures excluding those related to extraordinary or exogenous factors of the Bank showed an average annual growth of 0.3% between 2010 and 2019, and a negative 0.7% change when adjusted for inflation. This means that, even accommodating the increase in the Bank's functions, the increase in staff numbers and the creation of new in-house areas of expertise, expenditures excluding those related to extraordinary or exogenous factors remained virtually unchanged between 2010 and 2019 (Chart C5.6).

Chart C5.6 • Supplies and services from third parties for expenditures excluding those related to extraordinary or exogenous factors

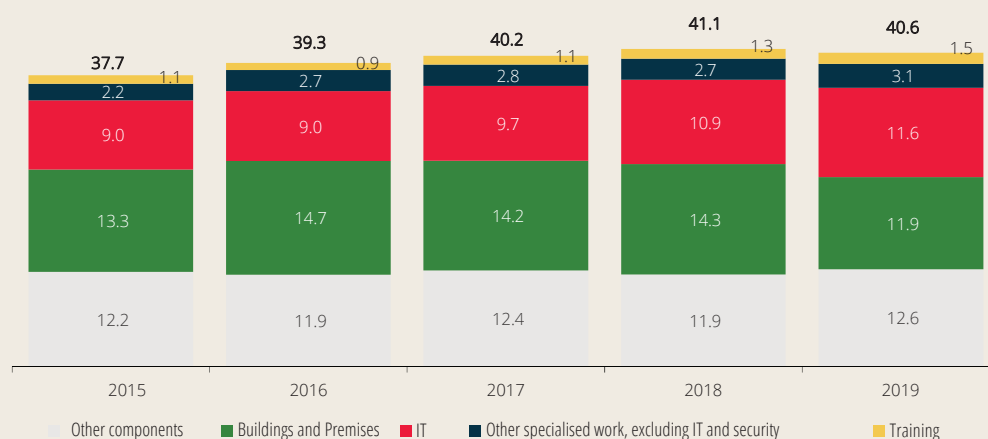


Source: Banco de Portugal.

Developments in Supplies and services from third parties for the Bank's expenditures excluding those related to extraordinary or exogenous factors have been driven mainly by expenditure on buildings and premises, IT, specialised work (surveys and protocols on statistics and economics), outsourced logistical support, consultancy in various fields (such as data protection, strategy and human resources) and training (Chart C5.7). These components amounted to around 70% of total FST related to the expenditures excluding those related to extraordinary or exogenous factors of the Bank in 2019.

Expenditure on buildings and premises (incorporating rentals, utilities, repairs, cleaning and maintenance and security) increased in 2015 and 2016 as a result of the functional reorganisation and the need to expand to an additional office building (Castilho Building) to accommodate the growth of supervisory areas.

Chart C5.7 • Supplies and services from third parties for expenditures excluding those related to extraordinary or exogenous factors: main components



Source: Banco de Portugal.

The IT component includes expenses associated with software licensing, outsourcing, infrastructure maintenance, communication and, in the most recent years, FST associated with licensing and cloud subscription models as a result of changes in the procurement of software and infrastructures, which were previously on-premise and recorded in the Balance Sheet. Further improvements were made in terms of operational risk management, cybersecurity and security of information systems, maintenance costs, performance and developments in software/hardware and tech tools, such as the use of cloud. The resilience of the Bank's communications and business continuity plan has also been strengthened.

The other components aggregate regards other Supplies and services from third parties, which, on an individual basis, post smaller amounts and hardly no changes, such as: (i) travel and accommodation, linked to travel to international representation meetings of the Bank and business trips within Portugal; (ii) the Management Committee of the Sociedade Gestora dos Fundos de Pensões; (iii) costs with traineeships; (iv) use of data banks; (v) legal fees not linked to the abovementioned extraordinary factors and (vi) cash-in-transit services.



II Report and Financial Statements

- 1 Management Report
- 2 Financial Statements and Notes
- 3 External Auditors' Report
- 4 Report and Opinion of the Board of Auditors

1 Management Report

Presentation

The balance sheet of Banco de Portugal totalled €160 billion in 2019, representing an increase of about €2 billion compared to 2018, mainly explained by the increase in the Gold and foreign reserves and euro assets component, which presents an offset effect with the appreciation of the gold price and the decrease of the held-to-maturity securities portfolio.

In terms of composition, the Bank's balance sheet showed some changes, mostly resulting from (i) monetary policy decisions, which include the strengthening of the Asset Purchase Programme (APP), with an impact on an increase in the portfolio of securities held for monetary policy purposes and (ii) short-term investment in gold.

In 2019 income before provisions and taxes totalled €1,106 million and stood at a similar level to 2018, leading to a net result of €759 million. In this result, interest income from the portfolio of securities held for monetary policy purposes played a central role. As in the previous year, non-recurring factors have also positively contributed to results obtained in 2019. More specifically (i) gains from the return, by the Mutual Agricultural Credit Guarantee Fund (FGCAM), of contributions made by Banco de Portugal to that Fund under the establishment of a single national deposit guarantee scheme, in accordance with Article 4 of Decree-Law No 106/2019 of 12 August 2019 (€81 million) and (ii) the amount received in respect of the ECB's liquid reserves under the five-yearly capital key adjustment (€26 million). Administrative costs totalled €205 million, slightly lower than in 2018.

The Board of Directors of Banco de Portugal presents the Management Report and, in compliance with Article 54 of its Statute, the financial statements for the year 2019 (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 Statute (Section 4), and, 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).

The Management Report, which accompanies Banco de Portugal's annual accounts, presents the operations performed throughout the year and their impact on the financial statements.

The first part of the Report sets out the most important developments in the balance sheet, and the second part highlights the main components of the Profit and loss account.

1.1 Balance sheet



€159,785 million

Total balance sheet

Table II.1.1 shows the developments in the year-end positions of Banco de Portugal's main balance sheet items for the 2015-2019 period, from a management perspective. Charts II.1.1 and II.1.2 show the evolution of the main items disclosed in the balance sheet. Chart II.1.3 illustrates the developments in the main balance sheet items compared to 2018.

Table II.1.1 • Main balance sheet items 2015-2019 (management's perspective) | EUR millions

	2015	2016	2017	2018	2019	Δ 2019/2018
TOTAL BALANCE SHEET	116,899	137,717	152,965	157,953	159,785	1,832
Claims and liabilities related to monetary policy operations						
Claims related to monetary policy operations	42,851	54,626	69,100	69,952	70,804	852
Lending to credit institutions	26,161	22,372	22,131	18,743	17,325	(1,418)
Securities held for monetary policy purposes	16,690	32,254	46,969	51,208	53,479	2,270
Liabilities to credit institutions related to monetary policy operations	(7,712)	(5,649)	(13,865)	(14,096)	(19,213)	(5,117)
Gold and foreign reserves and euro assets						
Gold	11,968	13,503	13,305	13,786	16,654	2,868
Trading portfolio	17,868	19,663	15,772	14,254	14,118	(136)
Held-to-maturity securities portfolio	5,441	4,943	5,329	5,440	4,744	(696)
Other claims	1,431	1,612	1,753	1,983	1,765	(217)
Banknotes in circulation	24,686	25,661	26,675	28,051	27,962	(89)
Intra-Eurosystem claims and liabilities						
Intra-Eurosystem claims	(36,315)	(38,945)	(42,528)	(46,695)	(49,194)	(2,499)
Intra-Eurosystem liabilities	61,705	71,588	81,246	82,814	76,976	(5,837)
Liabilities for collateralised applications (net)	-	-	-	-	5,049	5,049
Liabilities to other entities denominated in euro	6,630	13,011	9,370	9,745	7,418	(2,326)
Other liabilities	303	426	712	657	868	211
Own funds						
Revaluation accounts	9,296	11,027	10,329	10,882	13,786	2,904
General risk provision	4,047	4,247	3,727	3,677	3,677	-
Capital and reserves	1,594	1,641	1,729	1,860	2,022	161
Retained earnings	(333)	(397)	(523)	(479)	(453)	25
Profit for the year	233	441	656	806	759	(47)

Chart II.1.1 • Developments in the balance sheet – total and main assets | EUR millions

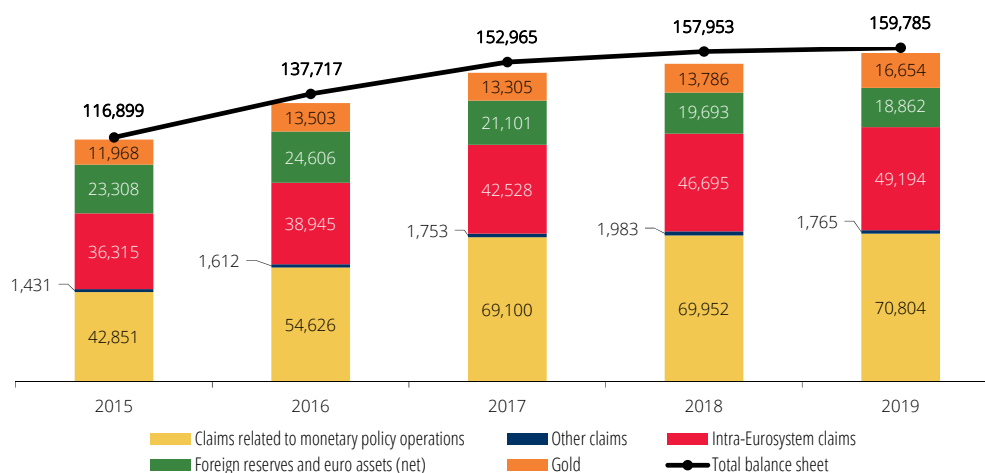


Chart II.1.2 • Developments in the balance sheet – main liabilities and own funds | EUR millions

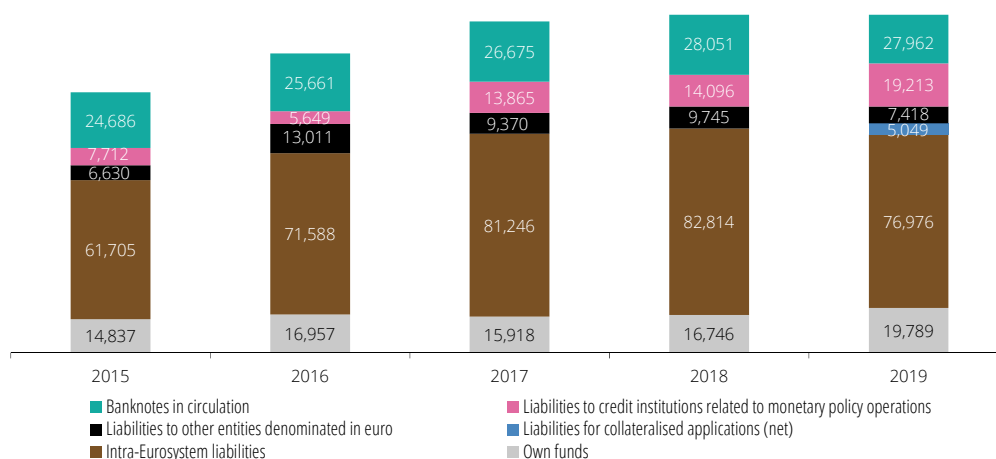
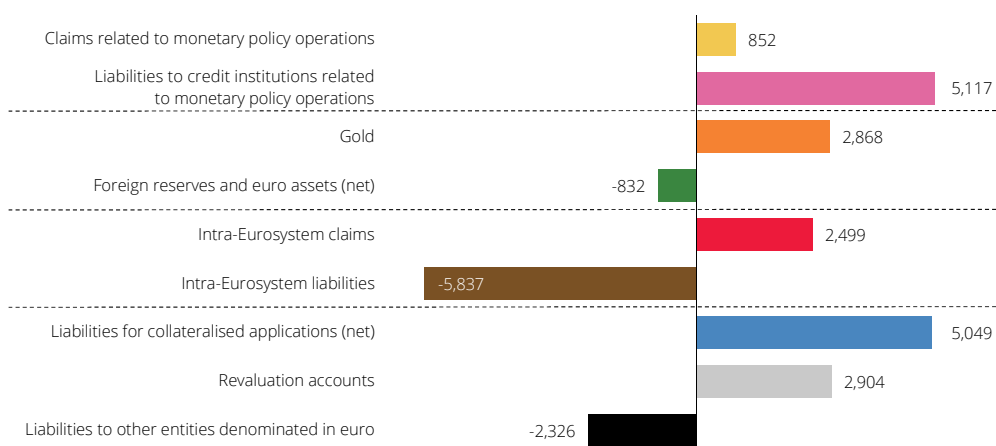


Chart II.1.3 • Main balance sheet items' variation from 2018 | EUR millions



1.1.1 Claims and liabilities related to monetary policy operations

At the end of 2019 monetary policy assets had increased by €852 million, reflecting a €2,270 million increase in the portfolio of securities held for monetary policy purposes (as a result of securities purchases under the Asset Purchase Programme – APP), partly offset by the early repayment of targeted longer-term refinancing operations (TLTRO-II). This effect was mitigated by the new series of TLTRO-III operations (Charts II.1.4 to II.1.5). Deposits of credit institutions with the Bank showed, in turn, an increase of €5,117 million compared to 2018 related to the introduction by the ECB of a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity reserves, as detailed below.

Chart II.1.4 • Aggregates of monetary policy operations | EUR millions

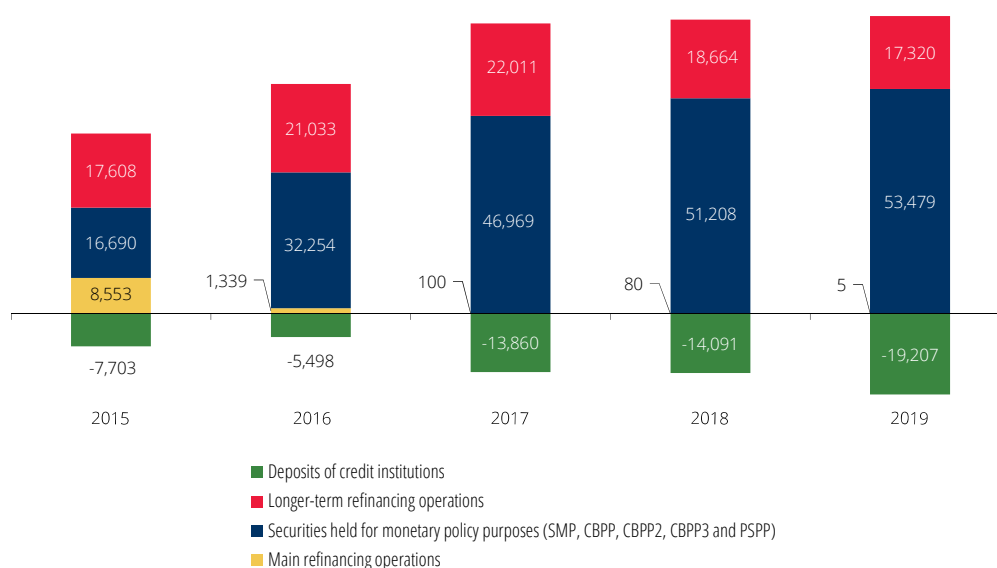
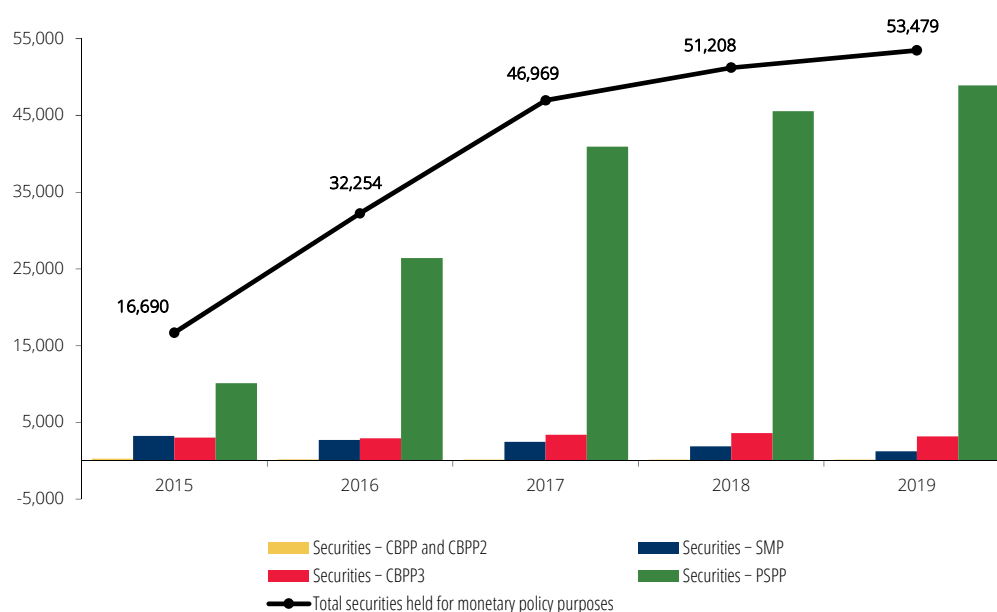


Chart II.1.5 • Securities held for monetary policy purposes | EUR millions





€2,270 million

Net purchases under non-standard monetary policy programmes

The portfolio of **securities held for monetary policy purposes** reflects Banco de Portugal's active participation in various programmes decided by the Governing Council of the ECB, namely (i) the securities market programme (SMP) and the covered bond purchase programmes (CBPP and CBPP2), closed to new purchases, and (ii) the third covered bond purchase programme (CBPP3) and the public sector purchase programme (PSPP), both still open to purchases. Purchases of these securities are made by national central banks (NCBs) and the ECB, under the principle of decentralised implementation of the Eurosystem's monetary policy.

As at 31 December 2019 securities held for monetary policy purposes totalled €53,479 million, 33% of Banco de Portugal's total assets.

On 1 November 2019, the Eurosystem resumed its net purchases of securities under the asset purchase programme (APP) at an average monthly rate of €20 billion. The Governing Council expects net purchases to be made for as long as necessary to reinforce the accommodative impact of key ECB interest rates, and to end shortly before it starts raising those rates. The Governing Council also intends to continue reinvesting for an extended period of time past the date when the key ECB interest rates start going up, and for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

In terms of Banco de Portugal's participation in the APP, the overall PSPP net amount grew by €3,332 million in 2019, reaching a total of €48,902 million divided into supranational securities and Portuguese government debt, with the latter included in the non-shared-risk component at Eurosystem level. The increase in 2019 was driven solely by Portuguese government debt (a €4,073 million increase), since the supranational securities component decreased by €741 million compared to 2018. At the end of 2019, supranational securities and Portuguese government debt reached a relative weight of 29% and 71% of total PSPP respectively, compared to 33% and 67% in 2018 respectively.

Despite this increase in the component related to Portuguese government bonds, the Bank's overall financial risk remained stable between December 2018 and December 2019.

All the programmes implemented within Securities currently held for monetary policy purposes are accounted for at amortised cost less potential impairment losses, not reflecting gains that may materialise. Losses are recognised only if securities are sold early.



€5,124 million

Early repayment of TLTRO-II

€2,530 million

New TLTRO-III

Also, within the scope of **liquidity-providing operations**, part of the targeted longer-term refinancing operations (TLTRO-II) was repaid early, in the amount of €5,124 million. These operations started in 2016 and have a four-year maturity, with a possibility of early repayment after two years. The interest rate applicable to such operations was only known in June 2018. That year, a gain was recognised for the adjustment between the rate used until then for calculating the accrued interest (-0.4%) and the actual rates for these operations for each credit institution (which led to a final average rate of 0.235%). At the end of 2019, TLTRO-II operations accounted for €13,512 million.

In 2019 the Governing Council introduced a new series of seven quarterly targeted longer-term refinancing operations (TLTRO-III). These operations have a three-year maturity, with a possibility of repayment after two years. The final interest rate applicable to each TLTRO-III operation can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Given that the rate for each operation will only be known from 2021, and that a reliable estimate is not possible until that time, the deposit facility rate in force is used for calculating the TLTRO-III for these operations, and interest is accounted for by taking the most prudent approach.

Chart II.1.6 • Liquidity-providing operations | EUR millions

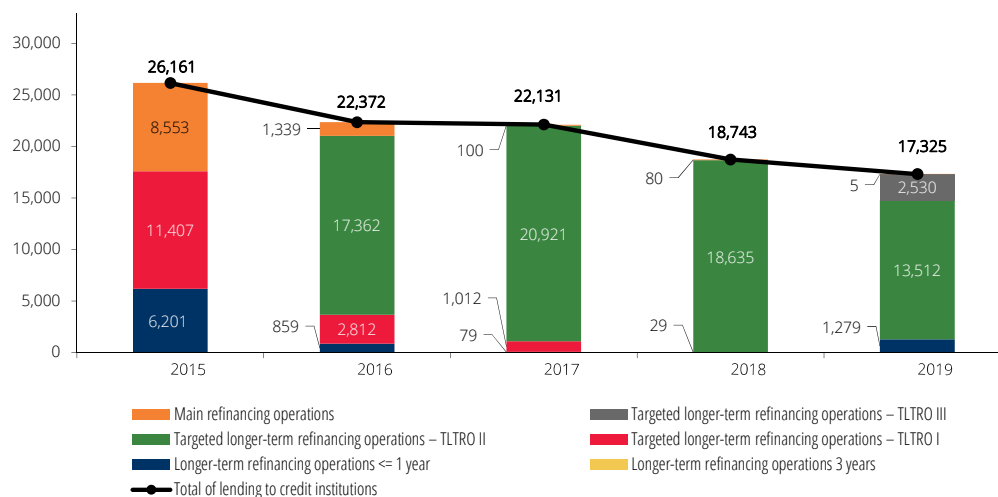
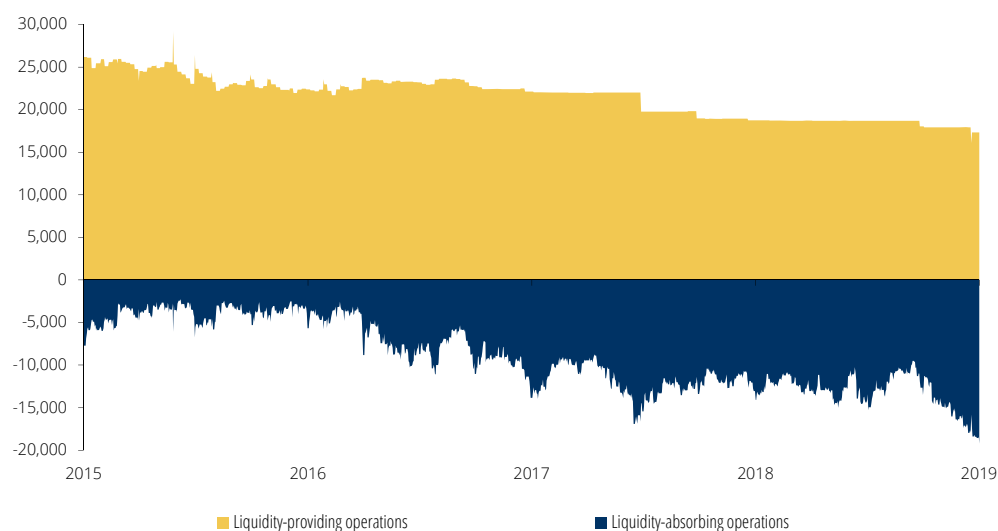


Chart II.1.7 • Daily balances in liquidity-providing and liquidity-absorbing operations | EUR millions



Also as regards the monetary policy, Chart II.1.7 shows the daily balances in liquidity-providing and liquidity-absorbing operations by Banco de Portugal in the Portuguese financial system. When analysing this chart, it is evident that liquidity-absorbing operations reached, at the end of 2019, higher levels than in previous years, due to the growth in deposits of credit institutions

with the Bank, which can be associated with the new two-tier system for reserve remuneration approved on 30 October 2019 by the Governing Council. This system is based on the introduction of two levels for the remuneration of excess liquidity reserves of credit institutions (currently remunerated at negative interest rates, in general) and is currently exempting part of these reserves. The excess liquidity level that is not exempt is still remunerated at the lowest value between 0% and the deposit facility rate.

1.1.2 Gold and foreign reserves and euro assets (net)

Gold



€16,654 million

Gold reserve

Banco de Portugal's gold reserve totalled €16,654 million at the end of 2019, a €2,868 million increase from 2018, arising from a sharp uptrend in gold price in euro. This evolution was caused by the appreciation of the gold price in USD (+18.5%), corroborated by the effect of the USD appreciation against the EUR (1.9%). The volume of this reserve remained unchanged at 382.5 tons. The value increase in euro was offset by a change of an equivalent amount in the balance sheet item Revaluation accounts (Chart II.1.8) (Point 1.1.6). At the end of 2019, the revaluation differences for gold came to €13,622 million.

In 2019 Banco de Portugal continued to invest in gold, to get return on these reserve assets, which, on 31 December, were translated into collateralised loans (expressed in the aggregate Liabilities for collateralised applications), and the euros received were used to temporarily reduce TARGET account liabilities.

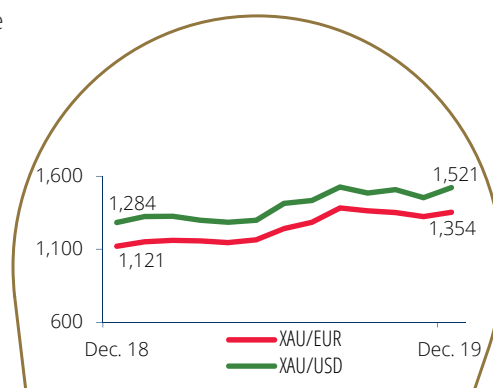
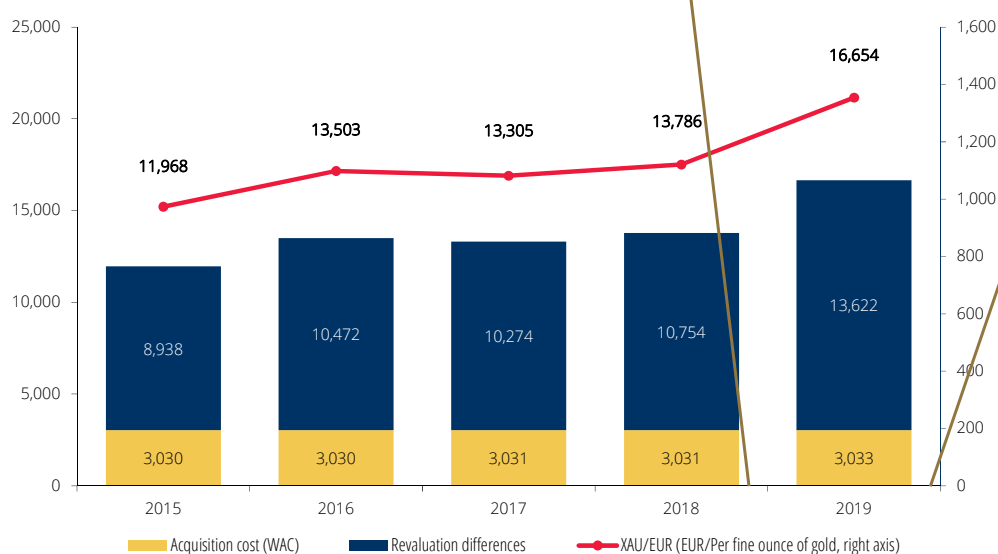


Chart II.1.8 • Gold reserve and quote price | EUR millions



Foreign reserves and euro assets

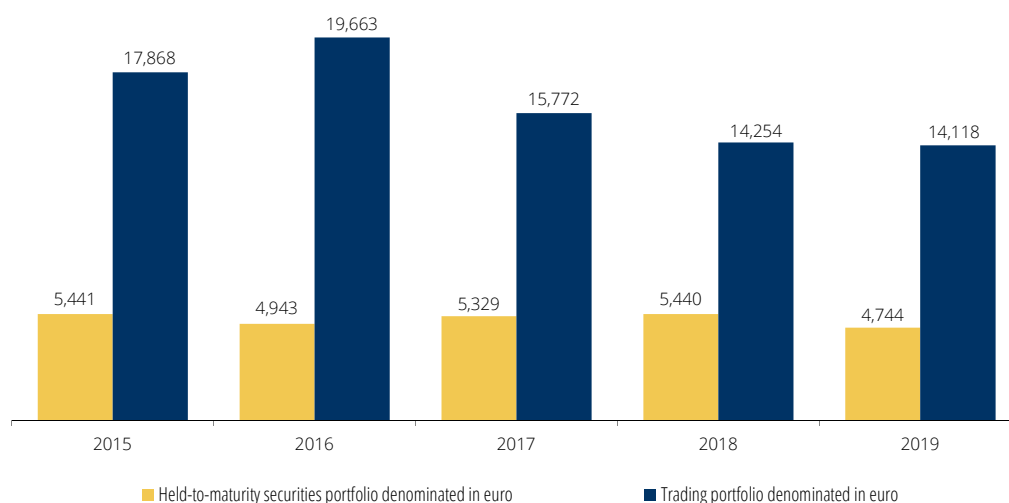


€18,862 million

Total net foreign reserves and euro assets

In 2019 in **Foreign reserves and euro assets**, the decrease in the held-to-maturity securities portfolio and the maintenance of the level of trading portfolios in euro and in foreign currency should be noted.

Chart II.1.9 • Foreign reserves and euro assets (net) | EUR millions



- Trading portfolios (denominated in euro and foreign currency)



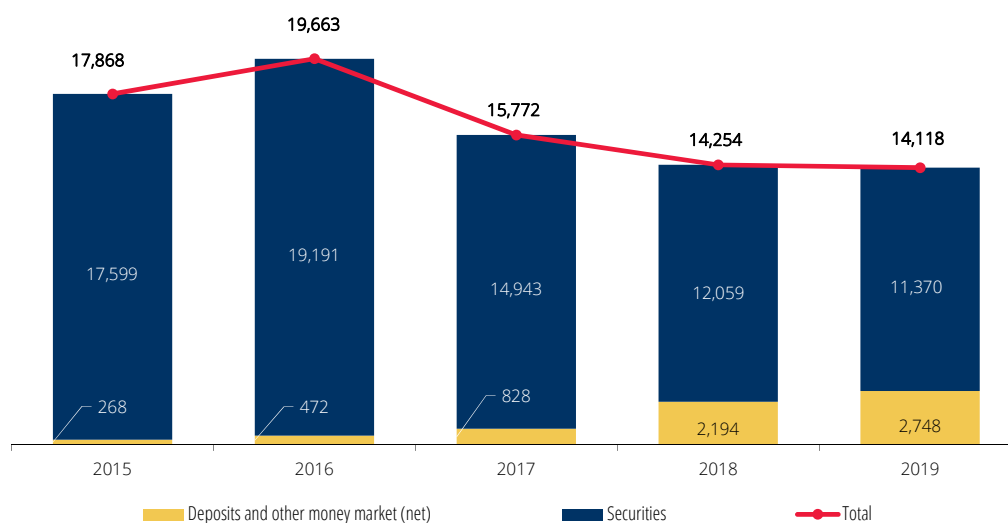
€14,118 million

Total trading portfolio in euro and foreign currency

In terms of composition by currency, in 2019, the trading portfolio consisted of €11,020 million associated with investments in euro and €3,097 million of assets denominated in foreign currency (predominantly USD), with €1,047 million from this portfolio referring to euro swaps for foreign currency, without any associated exchange risk. After maturity of these temporary operations, the volume of portfolios denominated in euro and foreign currency will remain similar to that of the previous year.

In terms of composition by instrument, investing in securities continued to prevail in 2019, as in previous years, representing 81% of the total of this portfolio as at 31 December 2019 (against 85% in 2018). Regarding the type of issuer, this portfolio is almost entirely made up of government debt bonds (84% portfolio in 2019) and securities issued by paragonovernmental and supranational authorities (16% in 2019). In 2019 Banco de Portugal has purchased green bonds and participates in the green bond fund created by the Bank for International Settlements (BIS) in September 2019, with the aim of fostering environmental objectives and taking a position as a pioneering central bank in this type of operations. Securities in the trading portfolios are valued at market price.

Chart II.1.10 • Trading portfolio (euro and foreign currency) | EUR millions



- Held-to-maturity securities portfolio



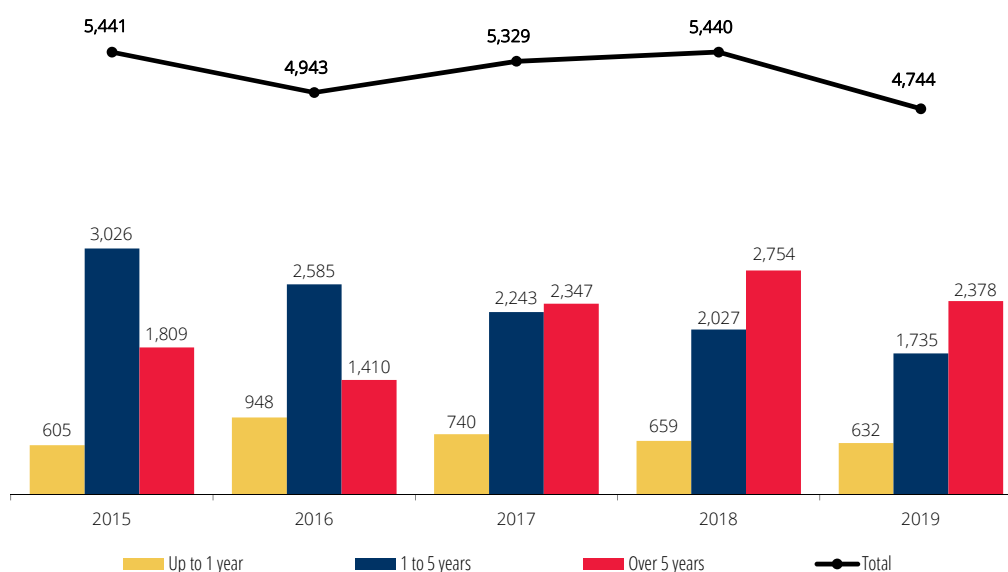
€4,744 million

Held-to-maturity securities portfolio, composed of securities denominated in euro

The held-to-maturity securities portfolio reached €4,744 million as at 31 December 2019, decreasing by €696 million compared to 2018 (Chart II.1.11). This portfolio was entirely made up of government debt bonds issued by euro area issuers. Its reduction was essentially due to the decision not to reinvest interest and capital in securities of this portfolio that reached maturity, given the current return on credit-quality securities issues eligible for its composition.

All securities in this portfolio are accounted for at amortised cost, subject to impairment.

Chart II.1.11 • Held-to-maturity securities portfolio by maturity | EUR millions



1.1.3 Banknotes in circulation



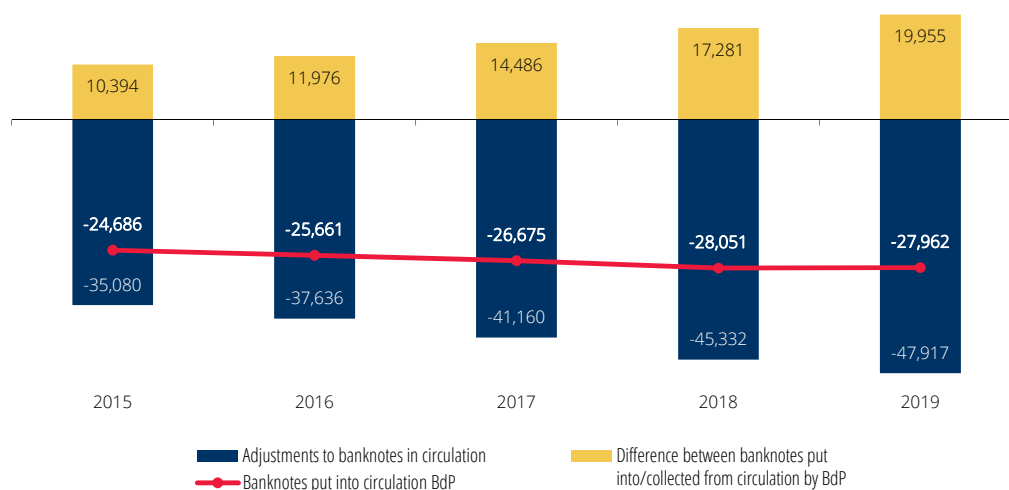
€19,955 million

Difference between banknotes withdrawn from circulation and put into circulation

The aggregate Banknotes in circulation, recorded on the liabilities side of Banco de Portugal's balance sheet, reflects the share of the Eurosystem's banknotes in circulation allocated to Portugal (Chart II.1.12). In 2019 this aggregate decreased compared to the previous year, reversing the trend of ongoing growth in recent years. This decrease reflects the reduction of Banco de Portugal's share in the ECB's capital, under the five-yearly key adjustment provided for in the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the "Statute of the ESCB/ECB") (Point 1.1.4), decreasing, in turn, its banknote allocation key. This effect overcame the impact of increased circulation at Eurosystem level (5% compared to 2018).

The adjustments to the banknotes in circulation reflect the differential between Portugal's share, as mentioned above, and the positive difference between the banknotes withdrawn from circulation and banknotes put into circulation by Banco de Portugal. On 31 December 2019 these adjustments totalled €47,917 million (+€2,585 million than in December 2018). The growth of these adjustments reflected, in 2019, the increase in the aforementioned differential.

Chart II.1.12 • Banknotes in circulation | EUR millions



1.1.4 Intra-Eurosystem claims and liabilities



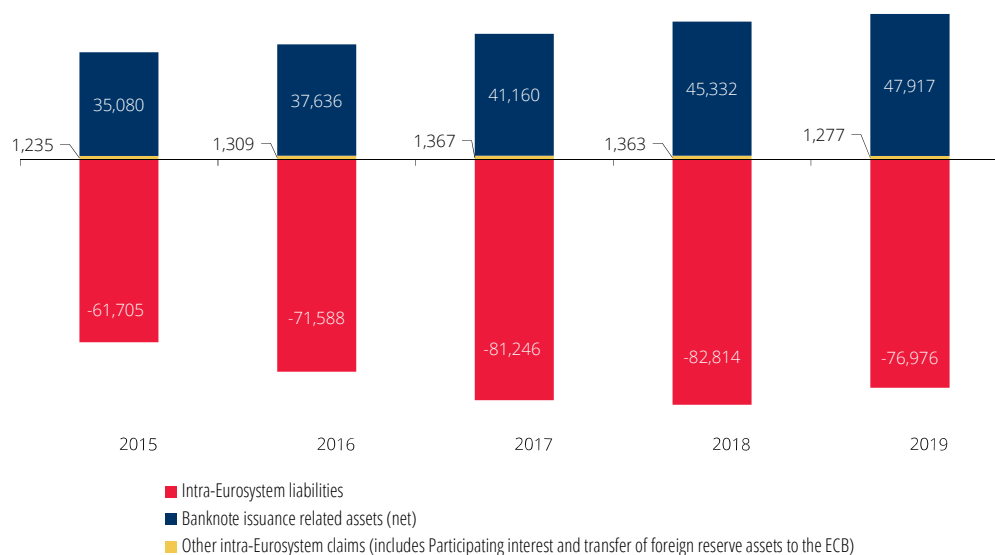
€76,976 million

Intra-Eurosystem liabilities

As regards **Intra-Eurosystem claims** (Chart II.1.13), it included the remunerated position relating to adjustments to banknotes in circulation (€47,917 million), mentioned in 1.1.3 on Banknotes in circulation.

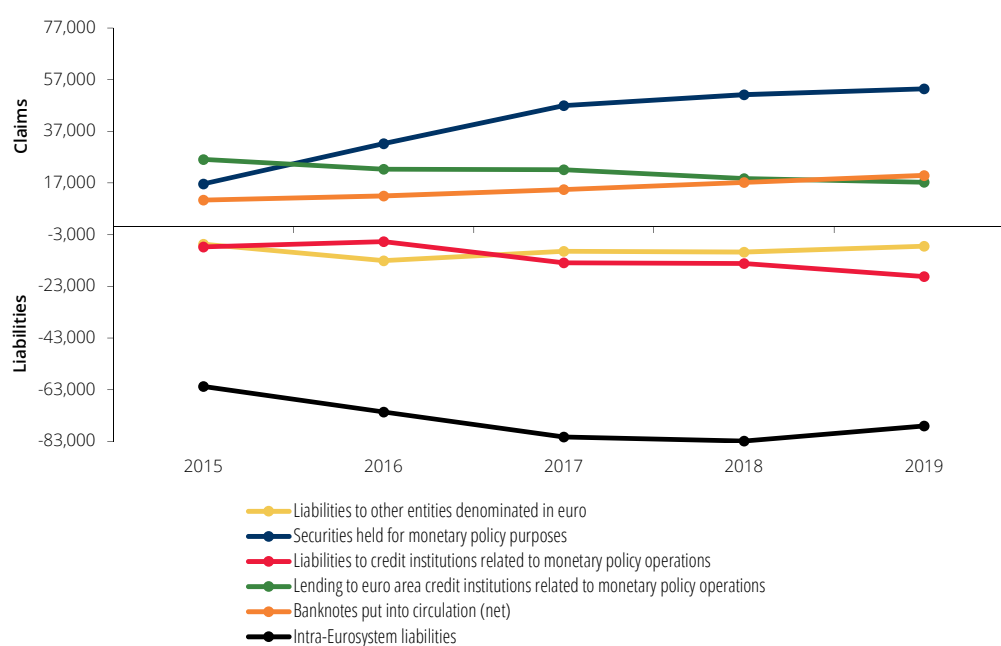
It should be noted that, in 2019, there was a five-yearly adjustment of central banks' shares in the ECB's capital key, with Banco de Portugal reducing its share in the ECB's subscribed capital from 1.7434% to 1.6367%.

Chart II.1.13 • Intra-Eurosystem claims and liabilities | EUR millions



As at 31 December 2019 Intra-Eurosystem liabilities decreased by €5,837 million from 2018 (to €76,976 million) (Chart II.1.13) arising, totally, from TARGET account liabilities. This decrease chiefly reflected the increase in deposits of credit institutions with the Bank (Point 1.1.1), the settlement of transactions related to investment gold (mentioned in 1.1.2), the decline in Lending to credit institutions and the increase in the positive difference between banknotes withdrawn and banknotes put into circulation by Banco de Portugal, partly offset by the financing of purchases of securities held for monetary policy purposes and by the reduction in Liabilities to other entities denominated in euro (Chart II.1.14).

Chart II.1.14 • Intra-Eurosystem liabilities and main offsetting balance sheet items | EUR millions



1.1.5 Liabilities to other entities denominated in euro



€6,695 million

Balance of general government current accounts held by Banco de Portugal

The item **Liabilities to other entities denominated in euro** was mainly composed of general government current accounts and autonomous funds' deposits held by Banco de Portugal (€6,695 million and €415 million respectively, as at 31 December 2019). The general government current accounts, managed by the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP), relate to funds from the European Union (EU) under the Economic and Financial Assistance Programme to Portugal (Programa de Assistência Económica e Financeira a Portugal – PAEF).

1.1.6 Own funds



+€2,904 million

Increase in positive revaluation differences

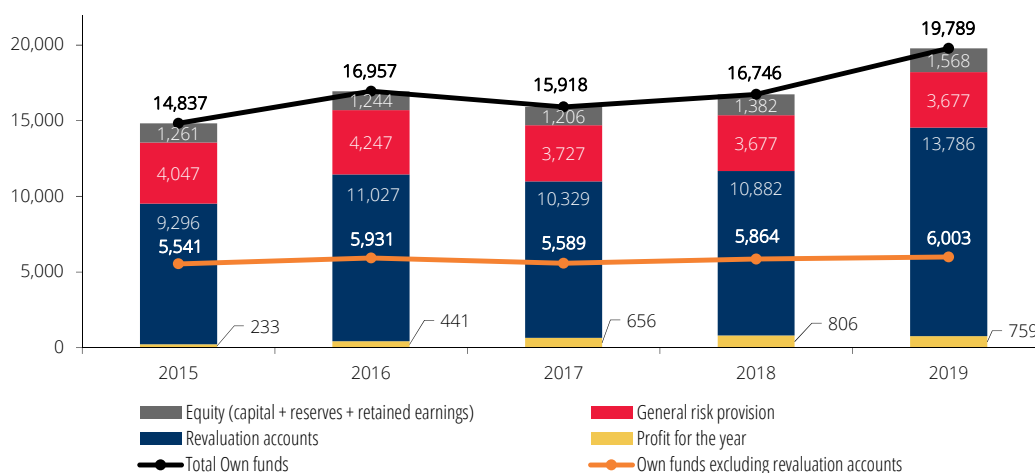
Banco de Portugal's **Own funds** (which include the items Revaluation accounts, General risk provision, Equity and Net profit for the year) increased by €3,043 million in 2019 (to €19,789 million), largely due to the increase in the Revaluation accounts item and to the positive Net profit for the year (Chart II.1.15).

The increase in revaluation accounts (€2,904 million, to €13,786 million) is mainly due to the rise in potential capital gains from Gold (€2,867 million).

Besides the increase in Revaluation accounts, also worth mentioning is (i) the recognition of 2019 net income (€759 million); (ii) the impact of the distribution of €645 million in Dividends to the State from the 2018 Net profit; and (iii) the recognition, in Retained earnings, of net actuarial and financial gains of 2019, relating to the Pension Fund – Defined-benefit plan (totalling €25 million).

The **General risk provision** remained unchanged compared to 2018, reaching a total of €3,677 million as at December. The level of this provision is assessed periodically as part of Banco de Portugal's internal projection exercises for the financial statements over the medium term, which assess results and financial risks, the latter calculated according to the methodology defined at Eurosystem level. The General risk provision amount is established annually, with a view to setting own funds at a level that allows for appropriate financial autonomy for Banco de Portugal's mission and to enable it to cover any losses (namely financial losses), including those resulting from risk-sharing with the Eurosystem. This provision was maintained in 2019 as a result of there being no factors justifying any operation, given that the framework at the end of 2018 did not change significantly, neither in terms of financial risks evolution throughout 2019, nor in terms of medium-term prospects for these risks.

Chart II.1.15 • Own funds | EUR millions



1.2 Profit and loss account



€1,106 million

Income before provisions and taxes

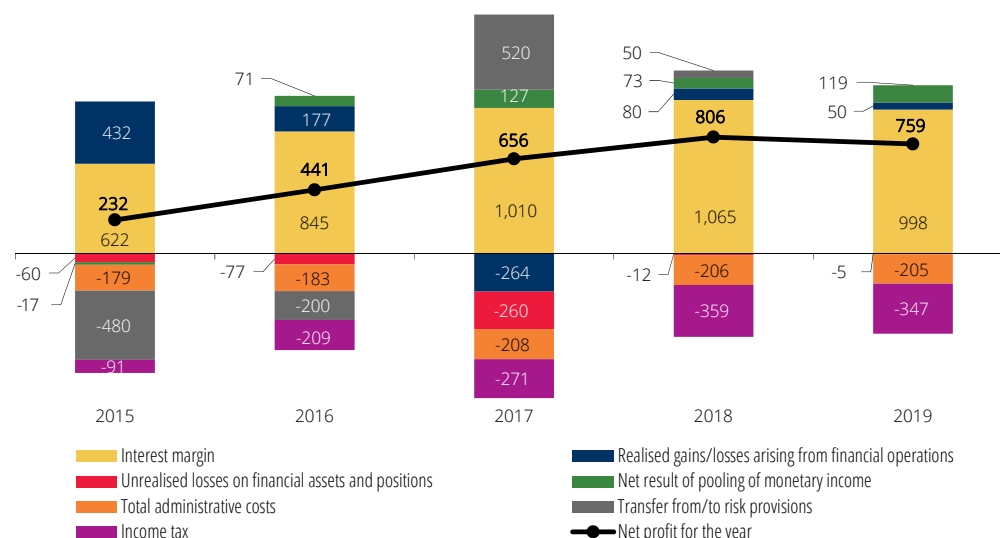
The main components of the Profit and loss account from 2015 to 2019 are shown in Table II.1.2. Net profit for the year 2019 was €759 million.

Table II.1.2 • Main Profit and loss account items 2015-2019 | EUR millions

	2015	2016	2017	2018	2019	Δ 2019/2018
Interest margin	622	845	1,010	1,065	998	(67)
Realised gains/losses arising from financial operations	432	177	(264)	80	50	(30)
Unrealised losses on financial assets and positions	(60)	(77)	(260)	(12)	(5)	7
Income from equity shares and participating interests	26	33	33	39	72	33
Net result of pooling of monetary income	(17)	71	127	73	119	46
Total administrative costs	179	183	208	206	205	(1)
Staff costs	120	122	136	138	139	-
Supplies and services from third parties	47	48	56	52	47	(4)
Other administrative costs	1	1	1	1	1	-
Depreciation and amortisation for the year	11	13	15	15	18	3
Banknote production costs	16	15	23	13	7	(6)
Other net profit/loss	(3)	(1)	(7)	89	85	(5)
Income before provisions and taxes	804	850	408	1,115	1,106	(9)
Transfer from/to risk provisions	(480)	(200)	520	50	-	(50)
Income before taxes	324	650	928	1,165	1,106	(59)
Income tax	(91)	(209)	(271)	(359)	(347)	12
Net profit for the year	232	441	656	806	759	(47)

Income before provisions and taxes was €1,106 million, representing a level identical to that of 2018, with a slight €9 million decrease compared to that year. The main components of this result are the interest margin (down €67 million from 2018), the net result of pooling of monetary income (€119 million, in this case with an increase of €46 million compared to 2018) and administrative costs (€205 million, slightly lower than in 2018).

Chart II.1.16 • Developments in the main profit/loss items | EUR millions

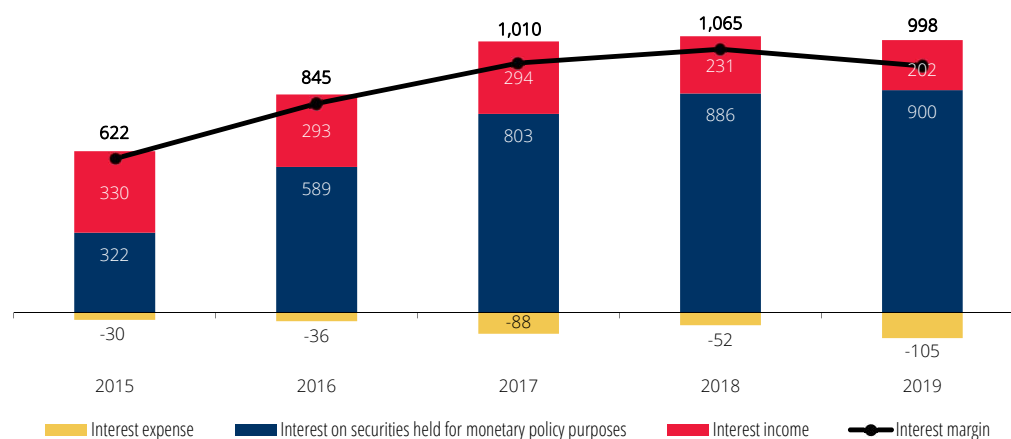


Net profit for the year was lower than in 2018 (-€47 million), due to the fact that in 2019 there was no reduction in the provision for general risks carried out in 2018 (in the amount of €50 million), since the 2019 figures were similar to those in 2018 in terms of income tax.

1.2.1 Interest margin

As in previous years, the main component of Banco de Portugal's Profit and loss account was the Interest margin, which reached €998 million in 2019. This amount represents a €67 million drop against 2018 figures (-6%), most noticeable in the increase in the share of interest and other similar expenses (Chart II.1.17).

Chart II.1.17 • Interest margin | EUR millions





€900 million

Interest income from securities held for monetary policy purposes

Given its contribution to the Interest Margin, the interest income from the portfolio of securities held for monetary policy purposes is particularly noteworthy, totalling €900 million in 2019, which represents a €14 million growth compared to 2018. This was largely due to the increase in the government securities component of the PSPP. It should be noted, however, that this interest increase is, in view of the increase in volume, proportionally lower than in previous years, due to the decline in the yields on securities currently held. However, this reduced profitability was partly offset by positive realised results related to the sale of securities in this portfolio, as referred to in 1.2.2.



-€51 million

Impact on the interest margin associated with TLTRO-II

Justifying the reduction in the interest margin compared to 2018, there was an increase in interest payable associated with longer-term refinancing operations, which essentially refer to TLTRO-II operations (totalling €49 million, calculated based on the effective rates of these operations). In 2018 net interest on these operations presented an amount receivable (€3 million) given the positive adjustment recorded between the rate used until then for calculating the accrued interest and the final rate of these operations, only known in June of that year.

Moreover, the held-to-maturity securities portfolio yield decreased (-€13 million) due to the reduction in its average yield and in interest associated with the trading portfolio denominated in foreign currency (-€16 million compared to 2018), partly offset by income from investments in gold (€23 million in 2019, +€10 million compared to 2018).

1.2.2 Net result of financial operations and unrealised losses



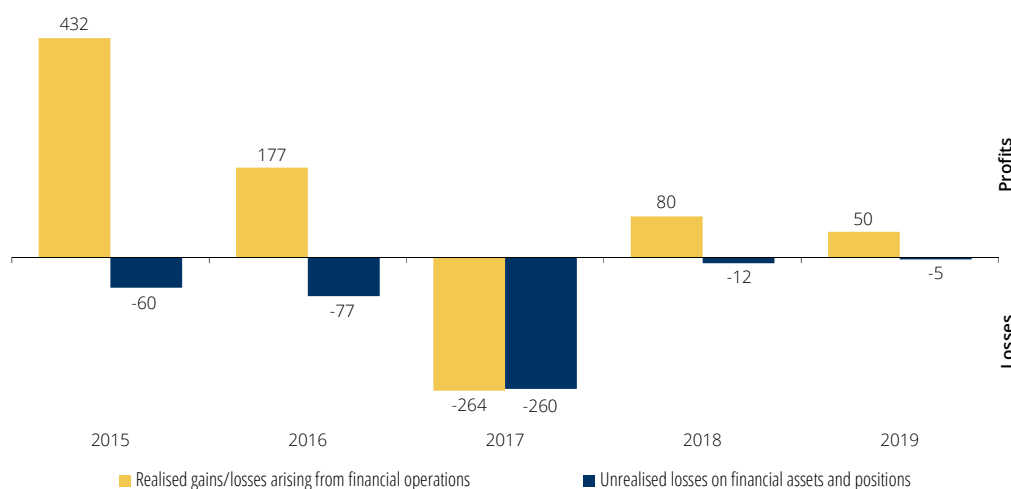
€50 million

Realised gains/losses arising from financial operations

The item **Realised gains/losses arising from financial operations** in 2019 reached a cumulative amount of €50 million, a €30 million decrease as compared to 2018 (Chart II.1.18). This reduction is mainly due to the decrease in realised results associated with foreign exchange and other financial operations, essentially due to the lower volume of asset rotation compared to 2018.

By offsetting this reduction, as previously mentioned, positive results were achieved regarding the sale of securities held for monetary policy purposes (€39 million), which resulted from compliance with the limits set by the rules of the respective programmes.

Chart II.1.18 • Net result of financial operations and unrealised losses | EUR millions



€5 million

Unrealised losses on financial assets and positions

As regards the item **Unrealised losses on financial assets and positions**, the overall amount recognised in 2019 (€5 million) was mainly related to losses from price devaluation of securities in the trading portfolio denominated in euro and foreign currency (€4 million and €1 million respectively). In accordance with Eurosystem's harmonised accounting rules, unrealised losses are recognised as expenses for the period as at 31 December, while unrealised gains are recognised in the balance sheet in the respective revaluation differences items.

1.2.3 Net result of pooling of monetary income



€118 million

Net result of pooling of monetary income method by the Eurosystem, for the year 2019

In 2019 the item Net result of pooling of monetary income was driven by (i) the 2019 result of the method of pooling monetary income (€118 million), (ii) adjustments made in respect of 2017 and 2018 (-€0.4 million) and (iii) the reduction in the specific provision for the Eurosystem (€2 million). It should be added that in 2018 this item included negative adjustments made to update TLTRO-II rates corresponding to 2016 and 2017, in the amount of €44 million.

The **Net result of pooling of monetary income** for the year decreased by €1 million from the previous year (€119 million in 2018), which is mainly explained by the decrease in the capital key adjusted from 2.48% to 2.35%, following the five-yearly adjustment of the capital key on 1 January 2019.

The aforementioned reduction in the provision for losses on monetary policy operations refers to a provision set up in 2018 for expected losses on securities under the corporate sector purchase programme (CSPP), which, despite not being included in Banco de Portugal's portfolio, as the Bank is not an active participant in this programme, constitute a shared risk at Eurosystem level. This reduction reflects the adjustment to Banco de Portugal's share of total impairment calculated in 2019.

1.2.4 Income from equity shares and participating interests

In 2019 in addition to the dividends received by the Bank, in particular those distributed by the ECB (ordinary and interim dividends, the latter referring to the results of securities held for the purposes of monetary policy in the ECB's Balance Sheet), the value received concerning the ECB's liquid reserves under the five-yearly capital key adjustment provided for in the Statute of the ESCB/ECB (€26 million) (Point 1.1.4) was recognised in this item.

1.2.5 Total administrative costs

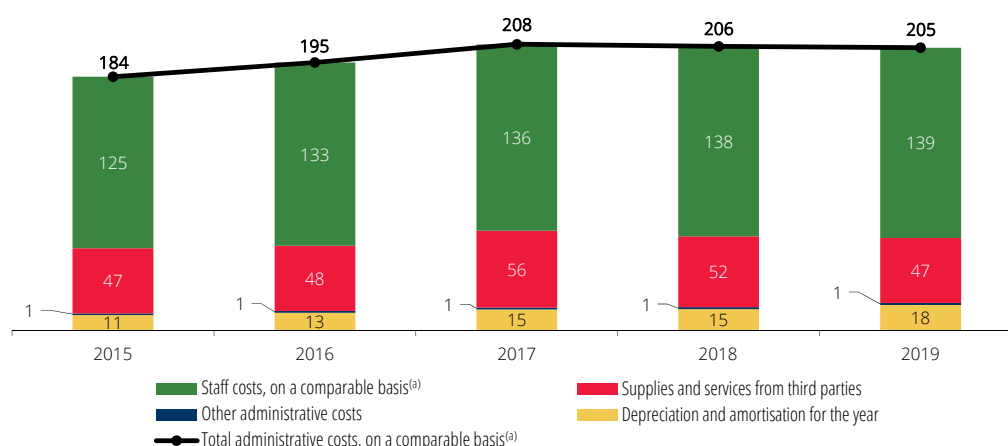


€205 million

Total administrative costs

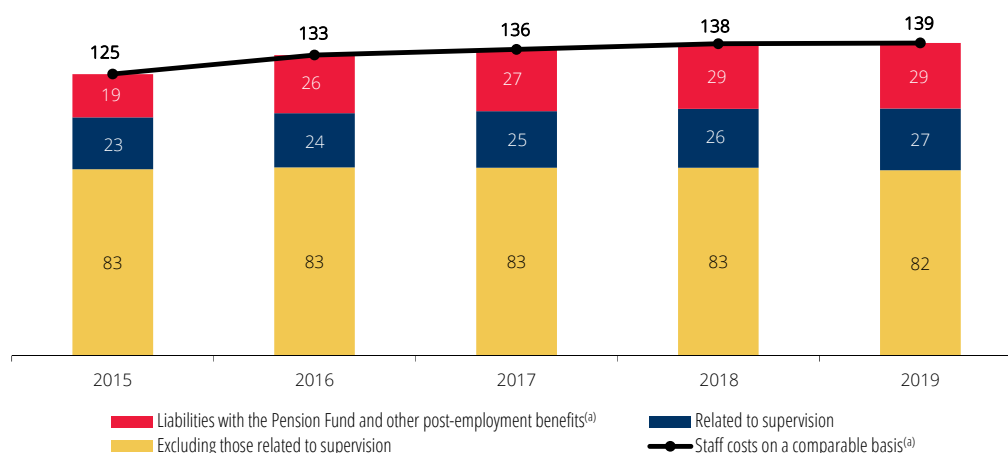
In 2019 Total administrative costs came to €205 million (Chart II.1.19).

Chart II.1.19 • Administrative costs | EUR millions



Note: (a) For 2015 and 2016, the value above includes, for comparability purposes, costs with early retirements, which were until then recognised in own funds.

Chart II.1.20 • Movements on General risk provision | EUR millions



Note: (a) For 2015 and 2016, the value above includes, for comparability purposes, costs with early retirements, which were until then recognised in own funds.

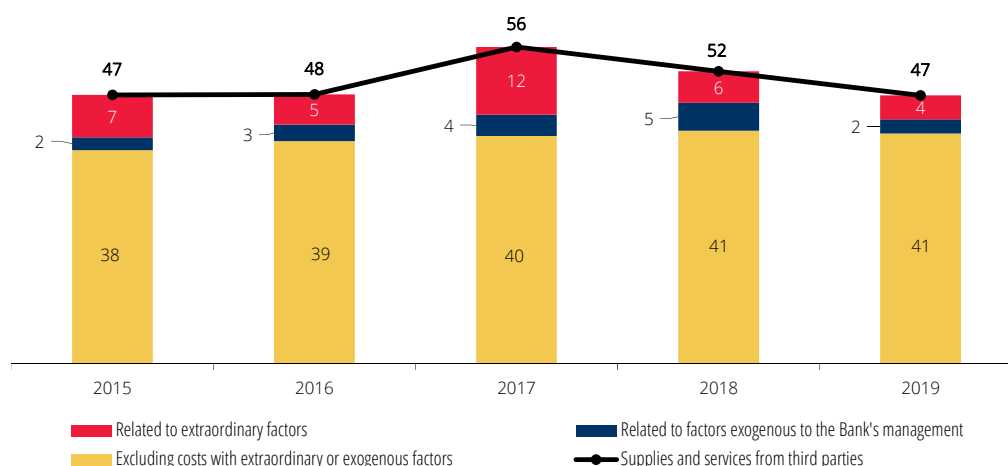


+0.2%

Increase in Staff costs

Staff costs recognised in 2019 show a slight 0.2% increase compared to 2018 (Chart II.1.20), essentially concerning the remuneration component of the supervisory areas, largely reflecting the headcount reinforcement associated with these areas (+31 employees in December 2019, compared to December 2018). In turn, the expenses associated with the other areas of the Bank's business have dropped compared to the previous year, reflecting, in reverse, the effect of a cut in staff numbers, also absorbing the impact of the 0.8% salary update, under the revision of the salary growth rate, in line with that defined by the Portuguese Banking Association for 2019. Finally, it should be noted that the component related to the annual charge with the Defined Benefits Plan pension fund shows a decline compared to 2018, which was offset by the increase in expenses associated with early retirements. This item maintained the same value of the previous year.

Chart II.1.21 • Supplies and services from third parties | EUR millions



-€4 million

Decrease in Supplies and services from third parties, 23% of total administrative costs

The item **Supplies and services from third parties** (accounting for around 23% of total administrative costs) fell €4 million from 2018 (Chart II.1.21). Contributing to this decrease, is (i) the fall in expenses associated with extraordinary factors, related to legal and financial advice expenses under the resolution action on Banco Espírito Santo (-€1.4 million) (ii) the decrease in Supplies and services from third parties related to factors exogenous to Banco de Portugal, mostly related to software development and technology expenses under the Eurosystem (-€2 million).

Excluding these effects of expenditure components that are extraordinary or exogenous to Banco de Portugal's management, the item Supplies and services from third parties was slightly lower in 2019 than in 2018 (-1%). The impact of the application of IFRS16 contributed significantly to this cut in expenses, as this aggregate no longer includes rents from lease agreements that are now recorded under Depreciation (€2.5 million). This reduction was partly offset by slight

increases associated with outsourcing and other expenses related to information systems and technologies, specialised support services, security, the use of databanks and training.

These increases were, in turn, partly mitigated by cuts in legal and litigation expenses and utilities contracts. The Board of Directors of Banco de Portugal has introduced measures across the organisation to manage resources efficiently and contain costs, in a context of additional functions and responsibilities resulting from its mission as a central bank within the Eurosystem.

1.2.6 Other net profit/loss

In 2019 Other net profit/loss received the contribution of the income from the return by the Mutual Agricultural Credit Guarantee Fund (FGCAM) of contributions made by Banco de Portugal to that Fund, under the establishment of a single deposit guarantee scheme at national level, in accordance with [Article 4 of] Decree-Law No 106/2019 of 12 August 2019 (€81 million).

Lisbon, 3 March 2020

BOARD OF DIRECTORS

The Governor

Carlos da Silva Costa

The Vice-Governor

Luís Máximo dos Santos

Directors

Hélder Rosalino | Luís Laginha de Sousa | Ana Paula Serra

Profit distribution

In accordance with the provisions set forth in Article 53(2) of the Statute of Banco de Portugal, the net profit for the year of 2019, to the amount of €758.53 million, was distributed as follows:

10% to the legal reserve	€75,853,346.78
10% to other reserves	€75,853,346.78
and, under subparagraph (c),	
80% to the State, as dividends	€606,826,774.22

pursuant to Decision of the Secretary of State Assistant and of Finance No 91/2020 of 13 April 2020.



2 Financial Statements and Notes

Financial Statements

Table II.2.1 • Balance sheet of Banco de Portugal

Assets	Notes	31 Dec. 2019		31 Dec. 2018
		Gross assets	Depreciation, amortisation and impairment	Net Assets
1 Gold and gold receivables	2	16,654,133		16,654,133
2 Claims on non-euro area residents denominated in foreign currency		5,568,062		5,568,062
2.1 Receivables from the IMF	3	1,240,220		1,240,220
2.2 Balances with banks and security investments, external loans and other external assets	4	4,327,842		4,327,842
3 Claims on euro area residents denominated in foreign currency	4	280,659		280,659
4 Claims on non-euro area residents denominated in euro	5	1,732,262		1,732,262
4.1 Balances with banks, security investments and loans		1,732,262		1,732,262
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	17,325,460		17,325,460
5.1 Main refinancing operations		5,000		5,000
5.2 Longer-term refinancing operations		17,320,460		17,320,460
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	100,867		100,867
7 Securities of euro area residents denominated in euro		62,665,838		62,665,838
7.1 Securities held for monetary policy purposes	7	53,478,605		53,478,605
7.2 Other securities	5	9,187,233		9,187,233
9 Intra-Eurosystem claims	8	49,193,570		49,193,570
9.1 Participating interest in the ECB		177,173		177,173
9.2 Claims equivalent to the transfer of foreign reserves to the ECB		948,485		948,485
9.3 Net claims arising from balances of TARGET accounts		-		-
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		47,916,880		47,916,880
9.5 Other intra-Eurosystem claims		151,033		151,033
10 Items in the course of settlement	2			2
11 Other assets		6,555,610	291,347	6,264,263
11.1 Coins of the euro area		39,580		39,580
11.2 Tangible fixed assets and intangible assets	9	448,367	290,099	158,268
11.3 Other financial assets	10	4,800,314		4,800,314
11.4 Off-balance-sheet instruments revaluation differences		-		-
11.5 Accruals and income collected in advance	11	936,046		936,046
11.6 Sundry	12	331,303	1,248	330,055
Total depreciation and amortisation	9		290,099	
Total impairment	19		1,248	
Total assets		160,076,462	291,347	159,785,115
				157,952,731

		EUR thousands	
Liabilities, revaluation accounts, general risk provision and equity	Notes	31 Dec. 2019	31 Dec. 2018
1 Banknotes in circulation	13	27,962,009	28,051,388
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	19,213,022	14,095,809
2.1 Current accounts of credit institutions for compliance with minimum reserve requirements		19,207,122	14,090,809
2.2 Deposit facility		5,900	5,000
2.3 Fixed-term deposits		-	-
2.4 Fine-tuning reverse operations		-	-
2.5 Deposits related to margin calls		-	-
3 Other liabilities to euro area credit institutions denominated in euro		-	-
5 Liabilities to other euro area residents denominated in euro	15	7,418,234	9,744,612
5.1 General government		6,694,769	9,226,187
5.2 Other liabilities		723,466	518,425
6 Liabilities to non-euro area residents denominated in euro	16	5,052,331	2,888
7 Liabilities to euro area residents denominated in foreign currency		-	-
8 Liabilities to non-euro area residents denominated in foreign currency	4	1,511,264	4,864,219
8.1 Deposits, balances and other liabilities		1,511,264	4,864,219
8.2 Liabilities arising from the credit facility under ERM II		-	-
9 Counterpart of special drawing rights allocated by the IMF	3	995,112	980,192
10 Intra-Eurosystem liabilities	8	76,976,192	82,813,568
10.1 Liabilities related to the issuance of ECB debt certificates		-	-
10.2 Net liabilities arising from balances of TARGET accounts		76,976,192	82,769,710
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		-	-
10.4 Other net liabilities within the Eurosystem		-	43,858
11 Other liabilities		865,467	650,119
11.1 Off-balance-sheet instruments revaluation differences		137	632
11.2 Accruals and income collected in advance	17	163,710	139,172
11.3 Sundry	18	701,619	510,315
12 Provisions	19	2,289	3,989
13 Revaluation accounts	20	13,785,913	10,882,105
14 General risk provision	19	3,676,622	3,676,622
15 Equity	21	1,568,125	1,381,532
15.1 Capital		1,000	1,000
15.2 Reserves and retained earnings		1,567,125	1,380,532
16 Profit for the year		758,533	805,687
Total liabilities, revaluation accounts, general risk provision and equity		159,785,115	157,952,731

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.

Table II.2.2 • Profit and loss account | EUR thousands

	Items	Notes	31 Dec. 2019	31 Dec. 2018
1	Interest income		1,102,483	1,117,573
2	Interest expense		104,843	52,450
3	Net interest income	22	997,640	1,065,123
4	Realised gains/losses arising from financial operations	23	49,848	80,208
5	Unrealised losses on financial assets and positions	24	4,867	12,199
6	Transfer from/to risk provisions	19	-	50,000
7	Net result of financial operations, unrealised losses and risk provisions		44,981	118,010
8	Fees and commissions income		4,496	4,858
9	Fees and commissions expense		7,363	9,130
10	Net income from fees and commissions		(2,866)	(4,272)
11	Income from equity shares and participating interests	25	71,665	39,048
12	Net result of pooling of monetary income	26	119,167	72,991
13	Other income	27	89,967	96,049
14	Total net income		1,320,553	1,386,949
15	Staff costs	28	138,538	138,217
16	Supplies and services from third parties	29	47,319	51,574
17	Other administrative costs		1,331	1,345
18	Depreciation and amortisation for the year	9	18,247	15,254
19	Total administrative costs		205,434	206,390
20	Banknote production costs		7,031	13,430
21	Other expenses	27	2,490	2,572
22	Losses for impairment of assets (losses/reversals)	19	(3)	(112)
23	Transfer to the reserve relating to capital gains on gold sales		-	-
24	Total costs and losses (net)		214,953	222,280
25	Income before taxes		1,105,601	1,164,669
26	Income tax		347,067	358,982
26.1	Income tax – current	30	349,028	358,297
26.2	Income tax – deferred	30	(1,961)	685
27	Profit for the year		758,533	805,687

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.

Table II.2.3 • Statement of changes in equity | EUR thousands

Description	Notes	Paid up capital	Legal reserves	Other reserves	Retained earnings	Profit for the year	Total equity
Position as at 31 December 2017 (1)		1,000	395,959	1,332,161	(522,747)	656,484	1,862,858
2017 profit distribution							
Dividends distribution to shareholders	21					(525,187)	(525,187)
Other operations	21		65,648	65,648		(131,297)	-
Sub-total of 2017 profit distribution (2)		-	65,648	65,648	-	(656,484)	(525,187)
Changes in 2018							
Actuarial gains/losses of the Pension Fund	32				44,529		44,529
Actuarial gains/losses from group life insurance					(721)		(721)
Income tax – current	30				6,714		6,714
Adjustments on account of deferred taxes	30				(6,660)		(6,660)
Sub-total of changes in 2018 (3)		-	-	-	43,862	-	43,862
Net profit for the year (4)						805,687	805,687
Comprehensive income for the year (5) = (3) + (4)		-	-	-	43,862	805,687	849,549
Position as at 31 December 2018 (6) = (1) + (2) + (5)		1,000	461,608	1,397,810	(478,885)	805,687	2,187,219
Position as at 31 December 2018 (7)		1,000	461,608	1,397,810	(478,885)	805,687	2,187,219
2018 profit distribution							
Dividends distribution to shareholders	21					(644,550)	(644,550)
Other operations	21		80,569	80,569		(161,137)	-
Sub-total of 2018 profit distribution (8)		-	80,569	80,569	-	(805,687)	(644,550)
Changes in 2018							
Actuarial gains/losses of the Pension Fund	32				25,077		25,077
Income tax – current	30				7,065		7,065
Adjustments on account of deferred taxes	30				(6,686)		(6,686)
Sub-total of changes in 2019 (9)		-	-	-	25,456	-	25,456
Net profit for the year (10)						758,533	758,533
Comprehensive income for the year (11) = (9) + (10)		-	-	-	25,456	758,533	783,989
Position as at 31 December 2019 (12) = (7) + (8) + (11)		1,000	542,177	1,478,378	(453,429)	758,533	2,326,659

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.

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), which was approved by the member of Government responsible for Finance, in accordance with the provisions laid down in Article 63(1) of the 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),¹ which, taking into account Article 26.4 of the Statute of the ESCB/ECB, 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 IFRS² 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 the Profit and loss account (Points 1.2(d) and (p) of Note 1); and (ii) the General risk provision, which unlike the other provisions, is equivalent to a reserve, although its reinforcements and reversals are made directly against the Profit and loss account (Point 1.2(q) of Note 1). 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 euro area residency 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 Point 1.2(e) of Note 1. 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. Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks, as amended (ECB/2016/34) – available from www.ecb.europa.eu.

2. IFRS: International Financial Reporting Standards, as adopted in the European Union.

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 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 are recognised in the accounting period in which they are generated and not according to the moment in time in which they are 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 or investment of resources embodying economic benefits.

(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 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 (Point (g) of this Note).

(d) Income recognition

Banco de Portugal applies an asymmetric valuation approach to unrealised gains/losses 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 (Point 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, disclosed under Other financial assets, are valued in accordance with the recommendations of the ECB Accounting Guideline, through the Net Asset Value³ valuation method. 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
Premises	4 to 20
Equipment	
Machinery and tools	4 to 8
Computer hardware	3 to 5
Transport equipment	4 to 8
Furniture and fittings	4 to 8
Intangible assets	3 to 6

3. 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.

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, and an impairment loss is 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.

Effective as of 1 January 2019, Banco de Portugal adopted the recognition and measurement rules set out in IFRS 16, recognising (i) in assets the right-of-use tangible fixed assets and intangible assets for which the Bank concluded lease agreements with a duration greater than 12 months and (ii) in liabilities the lease liabilities for those contracts, initially measured by the present value of future lease payments, discounted on the basis of the incremental borrowing rate of Banco de Portugal. Such rights of use shall be depreciated/amortised using the method applied to assets similar to underlying assets and for the duration of the contract or period of use, whichever is shorter. Rent payments reduce the lease liability. If there is an effect, it is recorded as interest. Leases of low-value assets (less than €10,000) continue to be directly recognised in the profit and loss account.

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

(f) Securities

Banco de Portugal holds in its portfolio marketable securities (trading portfolio), securities purchased to be owned until maturity (held-to-maturity securities portfolio) and securities held for monetary policy purposes.

Premiums or discounts arising on securities are calculated and treated as interest 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 for purposes other than monetary policy

Securities for purposes other than monetary policy 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 Point 1.2(d) of this Note.

– Held-to-maturity securities 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.

- Securities held for monetary policy purposes

The item Securities held for monetary policy purposes includes debt 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, which was not activated to date; (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.

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

(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 accounted for and revalued on transaction by transaction. As to interest rate swaps, the revaluation gain/loss is treated as described in Point 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/ECB, the national central banks (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.

Additionally, this balance sheet item includes (i) the NCBs' paid-up share in the ECB's subscribed capital, (ii) any net amount paid by the NCBs due to the increase in their shares in the ECB's

equity value⁴ resulting from all previous ECB's capital key adjustments, and (iii) contributions in accordance with Article 48.2 of the Statute of the ESCB/ECB with respect to central banks of Member States whose derogations have been abrogated.

Intra-Eurosystem balances, recognised under Claims/liabilities arising from balances of TARGET⁵ 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 and give rise to bilateral balances in the TARGET accounts of EU central banks. These bilateral balances are netted on a daily basis, leaving each NCB with a single net bilateral 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 asset under Claims related to the allocation of euro banknotes within the Eurosystem (Point 1.2(i) of this Note).

(i) Banknotes in circulation

The ECB and the NCBs of the euro area, which together comprise the Eurosystem, issue euro banknotes.⁶ The ECB and 12 of these NCBs have issued euro banknotes since 1 January 2002; Banka Slovenije adopted the euro on 1 January 2007; the Central Bank of Cyprus and Central Bank of Malta adopted the euro on 1 January 2008; Národná banka Slovenska adopted the euro on 1 January 2009; Eesti Pank adopted the euro on 1 January 2011; Latvijas Banka adopted the euro on 1 January 2014; and Lietuvos bankas adopted the euro on 1 January 2015.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to the NCBs according to their weightings in the adjusted capital key of the ECB. The share of banknotes allocated to each NCB is disclosed in the balance sheet under item Banknotes in circulation. 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 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 remunerated⁸ intra-Eurosystem balances. These claims or liabilities are disclosed under the sub-items Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem.

When a new Member State adopts the euro, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted over a five-year period so that changes in banknote circulation patterns do not significantly alter the NCBs' relative income positions. These adjustments

4. Equity value means the total of the ECB's reserves, revaluation accounts and provisions equivalent to reserves, minus any loss carried forward from previous periods. In the event of capital key adjustments taking place during the financial year, the equity value also includes the ECB's accumulated net profit or net loss until the date of the adjustment.

5. Trans-European Automated Real-time Gross Settlement Express Transfer.

6. Decision of the ECB of 13 December 2010 on the issue of euro banknotes (ECB/2010/29) (recast), OJ L 35, 9.2.2011, p. 26, as amended.

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 such total.

8. Decision of the ECB of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26.

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 banknote allocation key. Those intra-Eurosystem balance adjustments will cease to apply as of the first day of the sixth year following the cash changeover year of each new Eurosystem participant.

The interest income and expense on these balances is cleared through the accounts of the ECB and disclosed under Net interest income in the profit and loss account.

(j) Distribution of the ECB's income

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the securities held by the ECB under the SMP, CBPP3, ABSPP and PSPP portfolios, will 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 by means of an interim profit distribution.⁹ It will 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 or subject to any decision by the Governing Council to reduce this income by the amount of the costs 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 the provision for financial risks.

The amount distributed is recorded in the Profit and loss account under Income from equity shares and participating interest.

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

Banco de Portugal's liabilities related to the Pension Fund, explained 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 and losses result chiefly from (i) differences between the actuarial and financial assumptions used and actual values and (ii) changes in the actuarial and financial assumptions. These gains and losses are directly recognised under Retained earnings.

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

As regards these Plans, contributions made to 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.

9. Decision of the ECB of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast) (ECB/2014/57), OJ J 53, 25.2.2015, p.24, as amended.

(l) Pension Fund of Banco de Portugal – Defined-contribution plan

The employees who started working at Banco de Portugal after 3 March 2009, pursuant to Decree-Law No 54/2009 of 2 March 2009, are covered by the general social security scheme. These employees may participate in a supplementary pension plan, to which Banco de Portugal contributes 1.5% of the actual monthly compensation. However, since this is a defined-contribution plan, Banco de Portugal 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.

Currently, Banco de Portugal recognises directly in the Profit and loss account the current service cost, interest cost and net actuarial gains/losses, arising from changes in assumptions or in benefits conditions.

(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 the Profit and loss account, except where they are related to items directly recognised in equity, in which case they are also recorded against equity.

(o) Impairment and provisions

Impairment of assets is recognised in the balance sheet with a deduction 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 if: (i) Banco de Portugal has a present obligation, legal or constructive, (ii) payment is likely to be required and (iii) the amount can be estimated reliably. 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 Point 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 for the year.

(q) General risk provision

In accordance with Article 5(2) of the Statute 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 (Point 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 Statute of Banco de Portugal, based on a set of qualitative and quantitative factors, involving technical assessment of developments in the financial statements, balance sheet risks (measured following methodologies common to the Eurosystem NBCs) and financial buffers that allow risks to be covered over a medium-term horizon to a level defined by the Board of Directors.

(r) Reserves and retained earnings

Banco de Portugal's reserves are set up and used according to the provisions of the Statute 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 Statute 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 for the year.

Retained earnings represent profits of previous years pending distribution by the Board of Directors, or profits 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, Banco de Portugal's financial statements are adjusted for favourable or unfavourable events which may 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 Note 36.

1.4 Main estimates and uncertainties in the preparation of Banco de Portugal's financial statements

The annual accounts were prepared taking into consideration Banco de Portugal's estimates in quantifying certain assets, liabilities, income items, expenses, contingencies and, in particular, provision levels recorded. These estimates are based on the best information available upon closing the accounts.

Regarding monetary policy operations, which are made by Banco de Portugal in a decentralised way as they follow a common Eurosystem-wide policy, the estimates made for these operations by the Eurosystem are also taken into consideration in the preparation of the financial statements.

The main estimates and uncertainties assumed for the preparation of the financial statements relate to the following: asset impairment and risk provisions (Note 19), current and deferred taxes (Note 30) and liabilities related to retirement pensions and other benefits (Note 32).

1.5 Other subjects

Given Banco de Portugal's role as a central bank responsible for issuing euro banknotes, the Eurosystem decided that the publication of a cash flow statement did not provide readers of the financial statements with additional relevant information.

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/ECB, according to which the annual accounts of the national central banks (NCBs) of the Eurosystem is 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. 2019		31 Dec. 2018	
	Fine ounces ^(a)	EUR thousands	Fine ounces ^(a)	EUR thousands
Gold stored at the Bank	5,549,238	7,514,245	5,549,238	6,220,479
Gold sight accounts	1,501,766	2,033,548	2,364,715	2,650,753
Gold investments	5,248,001	7,106,339	4,384,171	4,914,485
Gold reserve	12,299,006	16,654,133	12,298,124	13,785,717

Note: (a) Ounce of fine gold.

As at 31 December 2019 the gold item increased by €2,868,416 thousand compared to the previous year-end balance. This increase was chiefly due to the rising price of gold denominated in euro. This rise was caused by the appreciation of the gold price in US dollars (18.5%) on top of the appreciation of the US dollar against the euro (1.9%). The variation in the gold reserve level arose from small changes in the execution of gold transactions.

Banco de Portugal's gold reserve was valued on 31 December 2019 at the market price of €1,354.10 per fine ounce of gold, a 20.80% increase from 31 December 2018, when it amounted to €1,120.96.

Some investments in gold were also made in 2019, although these do not affect the gold reserve level, as described in Point 1.2(g) of Note 1 on accounting policy.

Unrealised gains resulting from this asset (€13,621,564 thousand on 31 December 2019, and €10,754,267 thousand on 31 December 2018) are recognised in the balance sheet (Note 20) as positive revaluation differences according to the accounting policy described in Points 1.2(e) and (p) of Note 1.

The gold reserve invested in deposits was held in the following banks:

	31 Dec. 2019		31 Dec. 2018	
	Fine ounces	EUR thousands	Fine ounces	EUR thousands
Bank of England	742,782	1,005,804	1,605,730	1,799,961
Bank for International Settlements (BIS)	640,658	867,517	640,658	718,152
Federal Reserve Bank – United States	118,327	160,227	118,327	132,640
Total	1,501,766	2,033,548	2,364,715	2,650,753

All of the gold invested is located in the Bank of England.

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

	31 Dec. 2019		31 Dec. 2018	
	SDR thousands	EUR thousands	SDR thousands	EUR thousands
IMF quota	2,060,100	2,541,957	2,060,100	2,503,846
IMF's holdings	(1,594,046)	(1,966,893)	(1,594,232)	(1,937,630)
Reserve tranche position in the IMF	466,054	575,065	465,868	566,215
SDR holdings	539,067	665,155	537,537	653,322
Claims on the IMF	1,005,122	1,240,220	1,003,404	1,219,538
Counterpart of special drawing rights allocated by the IMF	(806,477)	(995,112)	(806,477)	(980,192)
Liabilities to the IMF	(806,477)	(995,112)	(806,477)	(980,192)

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

The Reserve tranche position in the IMF reflects the equivalent in euro, on 31 December 2019, 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 2019 Portugal's quota in the IMF remained unchanged and the change in its value denominated in euro resulted exclusively from changes in the SDR quotation compared with December 2018.

The changes in the different claim and liability items also include the effect of the SDR appreciation against the euro (1.5%), from 1.2154 on 31 December 2018 to 1.2339 on 31 December 2019.

NOTE 4 • BALANCES WITH BANKS AND SECURITY INVESTMENTS, LOANS AND OTHER ASSETS DENOMINATED IN FOREIGN CURRENCY

	31 Dec. 2019	31 Dec. 2018
Claims on non-euro area residents denominated in foreign currency		
Securities	1,491,385	966,822
Balances with banks, deposits and other money markets	2,836,458	5,801,093
	4,327,842	6,767,914
Claims on euro area residents denominated in foreign currency		
Securities	217,670	131,301
Balances with banks, deposits and other money markets	62,989	21,842
	280,659	153,143
Liabilities to non-euro area residents denominated in foreign currency		
Deposits, balances and other liabilities	(1,511,264)	(4,864,219)
Total security investments denominated in foreign currency	1,709,054	1,098,123
Total balances with banks, deposits and other money markets in foreign currency (net)	1,388,183	958,716
	3,097,238	2,056,839

The volume of balances with banks and security investments, loans and other assets denominated in foreign currency (net) remained the same in 2019, although this item recorded a temporary increase of €1,040,399 thousand in this item on 31 December, resulting mainly from forward legs of foreign exchange swaps (Note 5), transactions without associated foreign exchange risk (Note 31). After these temporary operations reach the maturity date, the volume of these assets in foreign currency will not significantly differ from the values as at 31 December 2018.

As at 31 December 2019 and 2018, the securities portfolio denominated in foreign currency was broken down as follows:

	31 Dec. 2019	31 Dec. 2018
Securities of non-euro area residents denominated in foreign currency		
Government debt	855,093	619,334
Paragovernmental and supranational	636,291	347,487
	1,491,384	966,822
Securities of euro area residents denominated in foreign currency		
Paragovernmental and supranational	217,670	131,301
	217,670	131,301
	1,709,054	1,098,123

Gold investments in foreign currency in 2019 (Note 2) are reflected in balances with banks, loans and other assets against an increase of the same amount in Liabilities to non-euro area residents denominated in foreign currency, as described in Point 1.2(g) of Note 1.

As at 31 December 2019 the portfolio denominated in foreign currency continued to be mainly composed of US dollars, as in previous years.

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

	31 Dec. 2019	31 Dec. 2018
Claims on non-euro area residents denominated in euro		
Securities	473,462	911,589
Balances with banks, deposits and other money markets	1,258,800	1,219,304
	1,732,262	2,130,893
Claims on euro area residents denominated in euro		
Securities	9,187,233	10,049,681
Balances with banks, deposits and other money markets	100,867	16,152
	9,288,100	10,065,834
Liabilities to non-euro area residents denominated in euro		
Deposits, balances and other liabilities	(5,048,558)	-
Total security investments denominated in euro	9,660,695	10,961,271
Total balances with banks, deposits and other money markets denominated in euro (net)	(3,688,891)	1,235,456
	5,971,804	12,196,727

The volume of the trading portfolio denominated in euro (securities and balances with banks, deposits and other money markets) did not change significantly as compared to 31 December 2018. On 31 December 2019 the value recognised under liabilities to non-euro area residents, coupled with collateralised loans relating to gold investments (Notes 2 and 16), was noteworthy and the euros received were used to temporarily reduce TARGET account liabilities. As at 31 December 2019 there were outstanding Euro swap transactions for foreign currency as described in Note 4. Following the maturity of these temporary operations, carried out to boost the results of gold and of the trading portfolio denominated in euro, this portfolio will return to values close to those recorded on 31 December 2018.

In accordance with Banco de Portugal's strategic decisions, securities of euro area residents continued to account for the largest share in this portfolio.

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

	31 Dec. 2019	31 Dec. 2018
Securities of non-euro area residents denominated in euro		
Paragovernmental and supranational	453,609	888,375
Companies/financial institutions	19,853	23,214
	473,462	911,589
Securities of euro area residents denominated in euro		
Government debt	8,683,671	9,136,410
Paragovernmental and supranational	498,537	898,032
Companies/financial institutions	5,025	15,240
	9,187,233	10,049,681
	9,660,695	10,961,271

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

On 31 December 2019 the euro value of the refinancing operations to euro area credit institutions relating to monetary policy operations denominated in euro at Eurosystem level reached €624,232,652 thousand (2018: €734,381,501 thousand), of which Banco de Portugal held €17,325,460 thousand, broken down as follows:

	31 Dec. 2019	31 Dec. 2018
Main refinancing operations	5,000	79,500
Longer-term refinancing operations	17,320,460	18,663,920
	17,325,460	18,743,420

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, set at 0% since 16 March 2016, with allotment of the total amount bid. On 31 December 2019 the total amount placed by Banco de Portugal amounted to €5,000 thousand (2018: €79,500 thousand). These operations are still a major instrument for pursuing interest rate objectives, for managing market liquidity and for signalling the single monetary policy stance.

The longer-term refinancing operations (LTROs) are liquidity-providing reverse transactions with a maturity of between 3 and 48 months. These operations were conducted at fixed rate with allotment of the total amount bid.

In 2016 the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (TLTRO-II). These operations have a four-year maturity, with a possibility of repayment after two years. Additionally, in 2019 the Governing Council introduced a new series of seven quarterly targeted longer-term refinancing operations (TLTRO-III). These operations have a three-year maturity, with a possibility of repayment after two years. According to the decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-III operation can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Given that a reliable estimate is not possible at this time, the deposit facility rate is used for calculating the TLTRO-III interest for 2019, as this was deemed a prudent approach.

The Eurosystem also provides the marginal lending facility, corresponding to overnight loans at the specified rate for these operations (0.25% since 16 March 2016). On 31 December 2019 and 2018 recourse to this operation by Banco de Portugal 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/ECB, losses from monetary policy operations, if they materialise, may be shared, if so decided by the Governing Council, in part or in full by all Eurosystem national central banks (NCBs), in proportion to the prevailing ECB capital key shares as at 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 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 2019 the portfolio of Securities held for monetary policy purposes consisted of 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 (Point 1.2(f) of Note 1).

	31 Dec. 2019		31 Dec. 2018	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes				
Eurosystem's securities markets programme (SMP)	1,248,655	1,325,133	1,887,958	2,034,391
Covered bond purchase programme (CBPP)	99,997	100,312	99,953	104,616
Covered bond purchase programme 2 (CBPP2)	58,193	63,734	58,141	65,733
Covered bond purchase programme 3 (CBPP3)	3,169,534	3,263,612	3,591,664	3,627,336
Public sector purchase programme (PSPP) – Government securities	34,820,534	39,526,301	30,747,930	33,141,430
Public sector purchase programme (PSPP) – Supranational securities	14,081,693	14,735,662	14,822,707	14,696,836
	53,478,605	59,014,754	51,208,353	53,670,342

The following table presents the movements in these programmes during the year 2019:

	31 Dec. 2018	Purchases	Sales	Maturing securities	Accrual of premiums and discounts	31 Dec. 2019
Securities held for monetary policy purposes						
SMP	1,887,958	-	-	(652,000)	12,697	1,248,655
CBPP	99,953	-	-	-	44	99,997
CBPP2	58,141	-	-	-	52	58,193
CBPP3	3,591,664	301,062	-	(711,100)	(12,092)	3,169,534
PSPP – Government securities	30,747,930	6,707,211	(1,221,922)	(1,062,130)	(350,556)	34,820,534
PSPP – Supranational securities	14,822,707	-	-	(636,410)	(104,604)	14,081,693
	51,208,353	7,008,273	(1,221,922)	(3,061,640)	(454,460)	53,478,605

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 a secondary markets public sector asset purchase programme (ECB/2015/10), OJ L 121, 14.5.2015, p. 20.

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 close this programme to new purchases. Therefore, no purchases have been made for this portfolio since 2016. The reduction in this item, in 2019, was solely due to securities that matured.

Under the 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 of securities under these programmes were completed on 30 June 2010 (CBPP) and on 31 October 2012 (CBPP2).

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 is exclusively purchasing these securities.

On 1 November 2019 the Eurosystem restarted its net purchases of securities under the asset purchase programme (APP) at a monthly pace of €20 billion on average. This followed a period of ten months since end-2018 during which the Eurosystem only reinvested, in full, the principal payments from maturing securities purchased under the APP. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue the reinvestments for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The securities purchased under these non-standard monetary policy programmes are valued on an amortised cost basis subject to impairment (Point 1.2(f) of Note 1).

Within the monetary policy programmes, the total Eurosystem NCBs' holding of securities amounts to €44,215,779 thousand in the SMP portfolio (2018: €67,654,011 thousand), €1,680,881 thousand in the CBPP portfolio (2018: €3,961,499 thousand), €2,692,946 thousand in the CBPP2 portfolio (2018: €3,683,458 thousand), €241,933,842 thousand in the CBPP3 portfolio (2018: €240,655,912 thousand), €1,681,449,927 thousand in the PSPP – Governmental securities portfolio (2018: €1,681,113,356 thousand), €225,169,214 thousand in the PSPP – Supranational securities portfolio (2018: €224,506,518 thousand), and €184,504,695 thousand in the CSPP portfolio (2018: €178,050,268 thousand).

In accordance with Article 32.4 of the Statute of the ESCB/ECB, losses from monetary policy operations (i.e. SMP, CBPP3, PSPP – Supranational securities and CSPP), if they were to materialise, may be shared, by decision of the Governing Council, in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

13. Decision of the ECB of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45).

The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes. As referred to in Point 1.2(f) of Note 1, impairment tests are conducted on an annual basis, using data as at the year-end and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme.

With regard to the impairment tests conducted on the SMP and PSPP portfolios of securities held by the NCBs, the Governing Council decided that no impairment indicator was observed and all future cash flows on these securities are expected to be received.

As to the impairment test conducted at the end of 2019 on the securities purchased under the CBPP3, the Governing Council identified one impairment indicator, relating to securities issued by a credit institution that faced financial difficulties in the course of 2019. The Governing Council considered that, based on the information available on 31 December 2019, there was no evidence of changes to the estimated future cash flows on the securities held, and therefore no impairment losses were recorded at the year-end in respect of these securities. Banco de Portugal holds no securities from this issuer. Furthermore, no impairment losses were recorded in respect of the other securities held under CBPP, CBPP2 and CBPP3.

In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute of the ESCB/ECB, losses from holdings of the CSPP, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares. As a result of impairment tests to the CSPP portfolio, the Governing Council deemed it appropriate to establish a provision against losses in monetary policy operations (Note 19).

NOTE 8 • INTRA-EUROSISTEM CLAIMS AND LIABILITIES

- Participating interest in the ECB

Pursuant to Article 28 of the Statute of the ESCB/ECB, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with the allocation key established in compliance with Article 29 of the Statute of the ESCB/ECB, which in paragraph 3 sets forth that the weightings assigned to the NCBs are subject to adjustment every five years after the establishment of the ESCB¹⁴ or whenever there is a change in composition of the ESCB national central banks.

Following the revision of the statistical data used as the basis for calculating the 2019 five-yearly adjustment of the ECB's capital key, the following adjustment to the capital key took effect on 1 January 2019:

14. The capital key is also adjusted as a result of the accession of new Member States to the EU.

NCB	Country	Key for subscription of the ECB's capital
		From 1 Jan. 2019
Nationale Bank van België/Banque Nationale de Belgique	Belgium	2.5280%
Deutsche Bundesbank	Germany	18.3670%
Eesti Pank	Estonia	0.1968%
Banc Ceannais na hÉireann/Central Bank of Ireland	Ireland	1.1754%
Bank of Greece	Greece	1.7292%
Banco de España	Spain	8.3391%
Banque de France	France	14.2061%
Banca d'Italia	Italy	11.8023%
Central Bank of Cyprus	Cyprus	0.1503%
Latvijas Banka	Latvia	0.2731%
Lietuvos bankas	Lithuania	0.4059%
Banque centrale du Luxembourg	Luxembourg	0.2270%
Bank Ċentrali ta' Malta/Central Bank of Malta	Malta	0.0732%
De Nederlandsche Bank	The Netherlands	4.0677%
Oesterreichische Nationalbank	Austria	2.0325%
Banco de Portugal	Portugal	1.6367%
Banka Slovenije	Slovenia	0.3361%
Národná banka Slovenska	Slovakia	0.8004%
Suomen Pankki – Finlands Bank	Finland	1.2708%
Euro area NCBs		69.6176%
Българска народна банка/Bulgarian National Bank	Bulgaria	0.8511%
Česká národní banka	Czech Republic	1.6172%
Danmarks Nationalbank	Denmark	1.4986%
Hrvatska narodna banka	Croatia	0.5673%
Magyar Nemzeti Bank	Hungary	1.3348%
Narodowy Bank Polski	Poland	5.2068%
Banca Națională a României	Romania	2.4470%
Sveriges Riksbank	Sweden	2.5222%
Bank of England	United Kingdom	14.3374%
Non-euro area NCBs		30.3824%
		100.0000%

Consequently, on 1 January 2019, Banco de Portugal's share in the subscribed capital of the ECB decreased from 1.7434% to 1.6367%, and the value of that share decreased from €188,723 thousand on 31 December 2018 to €177,173 thousand on 31 December 2019. This decrease in the subscribed capital also led to the annulment of the share corresponding to additional paid-in capital due to accumulated reserves adjustment, valued at €14,976 thousand.

Banco de Portugal's share in the ECB's capital, subscribed and paid up by the NCBs of the Eurosystem, decreased from 2.4767% on 31 December 2018 to 2.3510% on 31 December 2019.

- Foreign reserves transferred 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 converted 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.

The adjustment of the ECB's capital keys on 1 January 2019 also implied an adjustment in claims equivalent to the transfer of foreign reserves from Banco de Portugal to the ECB. To reflect the decrease in the capital key share, this position declined from €1,010,318 thousand on 31 December 2018 to €948,485 thousand on 31 December 2019.

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

This item consists of Banco de Portugal's claims relating to the allocation of euro banknotes within the Eurosystem (Points 1.2(i) and (j) of Note 1). As a result of the adjustment of the ECB's capital key, described above, Banco de Portugal's share in the banknote allocation key declined from 2.2785% on 31 December 2018 to 2.163% on 31 December 2019.

The increase in this asset position, compared with 31 December 2018 (from €45,332,211 thousand to €47,916,880 thousand), was due to the combination of a rise in overall circulation in the Eurosystem (5% up from 2018) and a rise in Banco de Portugal's asset position relating to the difference between banknotes put into circulation and banknotes withdrawn from circulation by this central bank (Note 13). The asset position of the adjustment to circulation is remunerated at the marginal interest rate used by the Eurosystem for MROs.

- Other intra-Eurosystem claims/liabilities

On 31 December 2019 the balance of the item Other intra-Eurosystem claims, to the amount of €151,033 thousand, referred to: (i) the result of the 2019 monetary income calculation method, totalling €117,787 thousand (Note 26); (ii) the negative adjustments to the monetary income calculation method relating to previous years, totalling €396 thousand (net), both settled on 31 January 2020 (Note 26); and also (iii) the amount receivable of €33,641 thousand in respect of the early distribution of 2019 ECB's income relating to the securities purchased by the ECB under the SMP, CBPP3, ABSPP and PSPP portfolios, also settled on 31 January 2020, following a decision of the Governing Council (Note 25).

- Net liabilities arising from balances of TARGET accounts

On 31 December 2019 Net liabilities arising from balances of TARGET accounts to the ECB (net) (Point 1.2(h) of Note 1) showed a credit position of €76,976,192 thousand (on 31 December 2018: €82,769,710 thousand). Interest on this position is calculated at the marginal interest rate used by the Eurosystem for MROs.

NOTE 9 • TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

	31 Dec. 2019	31 Dec. 2018
Tangible fixed assets		
Land	50,762	50,762
Buildings and other constructions	109,172	107,847
Premises	86,832	84,294
Equipment	103,881	101,905
Museum and art collections	9,602	9,495
	360,250	354,303
Leased assets		
Buildings and other constructions	8,970	-
	8,970	-
Intangible assets		
Computer software	72,558	67,787
Other intangible assets	388	388
	72,945	68,175
Tangible fixed assets and intangible assets under construction	6,202	7,066
Total gross tangible fixed assets and intangible assets	448,367	429,544
Accumulated depreciation and amortisation		
Depreciation of tangible fixed assets	(223,950)	(216,856)
Depreciation of leased assets	(2,506)	-
Amortisation of intangible assets	(63,643)	(57,996)
	(290,099)	(274,852)
Total net tangible fixed assets and intangible assets	158,268	154,692

In 2018 and 2019 movements in this item were as follows:

	31 Dec. 2017 Net balance	Additions	Disposals	Depreciation and amortisation for the year	31 Dec. 2018 Net balance
Tangible fixed assets					
Land	8,840	42,018	96	-	50,762
Buildings and other constructions	53,212	86	224	1,628	51,446
Premises	15,775	891	-	2,977	13,690
Equipment	13,281	3,842	124	4,945	12,053
Museum and art collections	9,396	99	-	-	9,495
	100,504	46,937	443	9,550	137,447
Intangible assets					
Computer software	11,570	3,930	-	5,681	9,819
Other intangible assets	127	256	-	24	359
	11,697	4,186	-	5,704	10,179
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	3,921	7,395	4,250	-	7,066
Advances	-	-	-	-	-
	3,921	7,395	4,250	-	7,066
	116,121	58,518	4,694	15,254	154,692

	31 Dec. 2018 Net balance	Additions	Disposals	Depreciation and amortisation for the year	31 Dec. 2019 Net balance
Tangible fixed assets					
Land	50,762	-	-	-	50,762
Buildings and other constructions	51,446	1,325	-	1,604	51,168
Premises	13,690	2,589	19	2,988	13,272
Equipment	12,053	5,323	377	5,502	11,496
Museum and art collections	9,495	106	-	-	9,602
	137,447	9,344	397	10,095	136,299
Leased assets					
Buildings and other constructions	-	8,970	-	2,506	6,464
	-	8,970	-	2,506	6,464
Intangible assets					
Computer software	9,819	4,771	-	5,608	8,982
Other intangible assets	359	-	-	39	321
	10,179	4,771	-	5,647	9,303
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	7,066	6,363	7,227	-	6,202
Advances	-	-	-	-	-
	7,066	6,363	7,227	-	6,202
	154,692	29,447	7,623	18,247	158,268

The increases in items Buildings and Facilities are mostly related to the restructuring of office areas in the Porto Branch and to the installation of a new data centre in the Carregado Complex.

The increase in spending on Equipment was mainly driven by acquisitions of computer hardware and IT systems infrastructure, as well as cash handling equipment.

The acquisitions in 2019 relating to Intangible assets were essentially associated with server software licensing and the go-live of IT systems, namely the statistics website BPstat – Estatísticas online, as well as various systems supporting the areas of statistics and supervision.

The high level of tangible fixed assets and intangible assets under construction on 31 December 2019 is chiefly due to projects related to the IT systems and equipment and facilities in various buildings of Banco de Portugal.

Following the adoption as of 1 January 2019 of IFRS 16 (Point 1.2(e) of Note 1), Banco de Portugal recognised in assets the right-of-use assets for which the Bank concluded lease agreements with a duration of more than 12 months, totalling €8,970 thousand. Since one of those contracts was settled in full at the time it was signed, no lease liability was recognised for it (Note 18).

Part of the increase in the annual depreciation, amounting to €2,506 thousand, is due to the depreciation of assets relating to rights of use of real estate, which were not recognised in 2018.

It should be noted that until the end of 2018, Banco de Portugal recorded the expenses relating to lease agreements under Supplies and services from third parties (Note 29) over their duration. With the adoption of IFRS 16 – Leases, effective as of 1 January 2019, lease agreements that fall under this standard have been recognised according to Point 1.2(e) of Note 1, using the modified retrospective approach, therefore the comparative information was not restated.

NOTE 10 • OTHER FINANCIAL ASSETS

	31 Dec. 2019	31 Dec. 2018
Participating interest in non-euro area resident entities	21,650	21,650
Participating interest in euro area resident entities	34,248	34,124
Held-to-maturity securities portfolio	4,744,009	5,439,739
Other assets	407	293
	4,800,314	5,495,805

The item Other financial assets essentially includes Banco de Portugal's participating interests and the held-to-maturity securities portfolio.

Banco de Portugal's participating interests as at 31 December 2019 and 2018 are broken down as follows:

	31 Dec. 2019		31 Dec. 2018	
	% share	Contract	% share	Contract
Participating interest in non-euro area resident entities				
Bank for International Settlements (BIS)	1.57%	21,650	1.57%	21,650
Participating interest in euro area resident entities				
SGFPBP, S. A.	97.90%	3,374	97.87%	3,356
Valora, S. A.	100.00%	30,524	100.00%	30,418
EUROPAFI	0.25%	349	0.25%	349
Swift	0.01%	1	0.01%	1
		34,248		34,124

Changes in the value of the participating interests in SGFPBP and Valora resulted chiefly from the use of the Net Asset Value valuation method, with the counterpart of the valuation differences being directly recognised in the Profit and loss account (Note 27). Banco de Portugal used interim financial statements of the entities in which it has a participating interest to value these interests with reference to 31 December 2019, which, according to those entities, gave values fairly close to the final ones.

This procedure was not applied to participating interests in BIS, SWIFT and EUROPAFI, as the respective shares are residual (1.57%, 0.01% and 0.25%) and recorded at acquisition cost, in accordance with the accounting policy outlined in Point 1.2(e) of Note 1.

Within the scope of Banco de Portugal's own fund management, the held-to-maturity securities 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.

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. 2019	31 Dec. 2018
Held-to-maturity securities portfolio		
Government debt	4,744,009	5,389,771
Paragovernmental and supranational	-	49,968
	4,744,009	5,439,739

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

NOTE 11 • ACCRUALS AND PREPAID EXPENSES

	31 Dec. 2019	31 Dec. 2018
Accruals		
Interest and other income receivable from central bank operations	790,764	840,630
Securities held for monetary policy purposes	708,478	742,753
Gold investments	14,253	7,063
Trading portfolio denominated in euro and foreign currency	20,769	35,479
Held-to-maturity securities portfolio	44,900	51,864
Current accounts of credit institutions - excess reserves	168	852
Other	2,195	2,620
Other accruals	82,281	1,153
	873,045	841,783
Prepaid expenses		
Prepaid expenses from central bank operations	27,254	20,432
Other prepaid expenses	9,375	11,911
Deferred tax assets	26,373	31,109
	63,002	63,452
	936,046	905,235

As at 31 December 2019 accruals relating to Interest and other income receivable from central bank operations include essentially outstanding accrued interest receivable from securities held for monetary policy purposes, amounting to €708,478 thousand (2018: €742,753 thousand).

In 2019 Other accruals includes the recognition of the Mutual Agricultural Credit Guarantee Fund's (FGCAM) return of Banco de Portugal's contributions to that fund, due to the creation of a single deposit guarantee scheme in Portugal according to Decree-Law No 106/2019 of 12 August 2019 (€81,156 thousand – Note 27). This amount was settled on 9 January 2020.

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, held-to-maturity securities 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 upon maturity of the respective coupons or sale of the securities. Key among the values in this item as at 31 December 2019 is interest on (i) securities held for monetary policy purposes (€23,194 thousand in 2019 and €8,558 thousand in 2018) and (ii) trading and held-to-maturity securities portfolios (€4,060 thousand in 2019 and €11,874 thousand in 2018).

The Other prepaid expenses item includes 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 Collective Labour Agreements (*Convenções Coletivas de Trabalho*) and market interest rates, totalling €6,572 thousand (2018: €7,624 thousand). 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 2019 and 2018.

NOTE 12 • OTHER ASSETS – SUNDRY

	31 Dec. 2019	31 Dec. 2018
Lending to employees	164,017	163,503
Special credit situations – BP/Finangeste Arrangement	837	841
Other special credit situations	400	409
Pension Fund – Defined-benefit plan	128,562	101,084
Pension Fund – Defined-contribution plan – Reserve account	22,831	22,520
Sundry debtors	7,871	7,668
Corporate Income Tax – Payments on account and additional payment on account	-	233,817
Corporate Income Tax recoverable	-	18,436
Billing to third parties	2,552	723
Other central bank claims	-	17,190
Other reduced value accounts	4,233	4,628
	331,303	570,819
Impairment of recoverable amounts	(1,248)	(1,260)
	330,055	569,558

Lending to employees corresponds mostly to mortgage loans to employees.

The value recorded under Special credit situations – BP/Finangeste Arrangement relates to amounts under the BP/Finangeste Arrangement of 9 January 1995, to which an annex was added in 2016, and represents an asset worth €837 thousand on 31 December 2019 (2018: €841 thousand). The reduction recorded in 2019 related to the nominal amount of claims recovered by Finangeste, transferred to the Bank through the calculation of an annual instalment. An impairment for the total value of this asset was recognised (Notes 19 and 30).

The item Pension Fund – Defined-benefit plan relates to this Fund's surplus on 31 December 2019, 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 reflected the value of the participation units of this Fund earmarked for Banco de Portugal on 31 December 2019, valued at market price, on that date (Note 32).

The amounts paid as payments on account in 2019 (under the provisions of Articles 104 and 104-A of the Corporate Income Tax Code) are now shown under Other liabilities – sundry together with the estimate for income taxes for that year since it amounts, overall, to a net liability (Note 18).

In 2018 Banco de Portugal recorded under assets €18,436 thousand on account of Corporate Income Tax recoverable, due to €62.5 million in write-downs recognised in 2016 following the Annex to the BP/Finangeste Arrangement. Such losses, recorded in 2016, were not computed as taxable profit on account of the specific circumstances and uncertainty about how they should be taxed. Banco de Portugal asked the Portuguese Tax and Customs Authority for a binding ruling to clarify this matter. In December 2018 the Portuguese Tax and Customs Authority agreed with Banco de Portugal as to the tax deduction on said write-down, under the terms of Article 23(1) and (2)(I) of the Portuguese Corporate Income Tax Code. Thus, in 2018, Banco de Portugal recorded €18,436 thousand in income from the return of the referred tax, which was settled in 2019 (Note 27).

The value recognised in 2018 in Other central bank claims regards amounts received from counterparties as collateral for foreign exchange forward transactions.

NOTE 13 • BANKNOTES IN CIRCULATION

Euro banknotes in circulation on 31 December 2019 consist of Banco de Portugal's share in total euro banknotes in circulation in the Eurosystem (Point 1.2(i) of Note 1).

	31 Dec. 2019	31 Dec. 2018
Banknotes in circulation		
Banknotes put into circulation (net)	(19,954,870)	(17,280,823)
Adjustments to circulation in the Eurosystem	47,916,880	45,332,211
	27,962,009	28,051,388

In 2019 the total value of euro banknotes in circulation in the Eurosystem increased by 5%. According to the allocation key updated on 1 January 2019, Banco de Portugal's aggregate value of banknotes in circulation decreased from €28,051,388 thousand on 31 December 2018 to €27,962,009 on 31 December 2019, due to the reduction in Banco de Portugal's share in the capital of the ECB. The difference between banknotes put into circulation and banknotes withdrawn from circulation recorded again, on 31 December 2019, a debtor balance, rising from 2018. These effects combined account for the increase in Adjustments 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 2019 the balance on Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (€19,213,022 thousand) reflected chiefly the current accounts of credit institutions with Banco de Portugal (€19,207,122 thousand). These accounts 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).

Starting on 30 October 2019, the Governing Council of the ECB introduced a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the deposit facility rate. This part is remunerated at the annual rate of 0%. The volume of reserve holdings in excess of minimum reserve requirements that was exempt at year-end from the deposit facility rate – the exempt tier – was determined as a multiple of 6 on an institution's minimum reserve requirements.¹⁵ The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of either 0% or the deposit facility rate.

As at December 2019 as in 2018, this item also included the balance on deposit facility operations outstanding on this date (€5,900 thousand on 31 December 2019 and €5,000 thousand on 31 December 2018), corresponding to overnight deposits of domestic credit institutions with Banco de Portugal, used as a means to access the Eurosystem's liquidity-absorbing operations at the pre-specified rates for these operations.

15. The multiplier may be adjusted by the Governing Council over time in line with changing levels of excess liquidity holdings.

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

	31 Dec. 2019	31 Dec. 2018
Liabilities to other euro area residents denominated in euro		
General government		
Current accounts in the Portuguese Treasury and Debt Management Agency (IGCP)		
European Financial Stabilisation Mechanism (EFSM)	5,675,968	8,187,274
European Financial Stability Facility (EFSF)	812,823	812,931
Current accounts of General government for SICOI guarantees	205,978	225,982
	6,694,769	9,226,187
Other liabilities		
Current accounts of the autonomous funds	415,470	376,384
Current accounts of other entities	307,996	142,041
	723,466	518,425
	7,418,234	9,744,612

Deposits from the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP) essentially relate to the management of funds from the European Union (EU) under the Economic and Financial Assistance Programme to Portugal (*Programa de Assistência Económica e Financeira a Portugal* – PAEF). 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 current accounts of autonomous funds in 2019 relate to balances held at Banco de Portugal, from the Mutual Agricultural Credit Guarantee Fund and the Deposit Guarantee Fund.

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

On 31 December 2019 the balance on the item Liabilities to non-euro area residents denominated in euro included: (i) temporary liabilities with collateralised loans related with gold investments to the amount of €5,048,558 thousand (Note 5) and (ii) 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. 2019	31 Dec. 2018
Income collected in advance		
Other income collected in advance	3	3
Deferred tax liabilities	316	327
	319	330
Accruals		
Accruals from central bank operations	139,541	113,952
Other accruals	23,851	24,889
	163,392	138,842
	163,710	139,172

Of the amount recorded in Accruals from central bank operations, accrued interest payable on lending to credit institutions (€137,714 thousand) was noteworthy, especially that related to operations under the new series of targeted longer-term refinancing operations (TLTRO-II and TLTRO-III).

Other accruals reflected the above-mentioned accrued staff costs (€18,667 thousand) and accrued supplies and services from third parties payable (€5,183 thousand).

NOTE 18 • OTHER LIABILITIES – SUNDRY

	31 Dec. 2019	31 Dec. 2018
Banknotes withdrawn from circulation	95,709	96,269
Third parties	20,356	19,429
Liabilities relating to the payment to employees of seniority bonuses	14,740	13,392
Estimate for income taxes	341,963	351,583
Corporate Income Tax – Payments on account, additional payment on account and withholdings at source	(315,302)	-
Other central bank liabilities	543,410	28,960
Other accounts of reduced individual value	744	681
	701,619	510,315

The item Banknotes withdrawn from circulation represented Banco de Portugal's liability to the holders of banknotes denominated in Portuguese escudos (legacy currency), for as long as these can be exchanged.

Following the adoption as of 1 January 2019 of IFRS 16 (Point 1.2(e) of Note 1), Banco de Portugal recognised €6,117 thousand in lease liabilities relating to future liabilities of lease agreements with a duration of more than 12 months under Third parties.

The item Liabilities relating to the payment to employees of seniority bonuses as at 31 December 2019 reflected 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 the Profit and loss account, as described in Point 1.2(m) of Note 1. In 2019 actuarial gains/losses were negative (Note 32) and were recognised under Other expenses.

The estimate for income tax is set out in Note 30. In 2019 this item also included the amount of payments on account and additional payments on account, since they amount, together with the tax estimate, to a net liability (Note 12).

The value recognised in Other central bank liabilities regards amounts received from counterparties as collateral for foreign exchange transactions.

NOTE 19 • IMPAIRMENT, PROVISIONS AND GENERAL RISK PROVISION

Accounting movements in the items Impairment and Provisions in the years 2018 and 2019 may be summarised as follows:

	Balance as at 31 Dec. 2017	2018				Balance as at 31 Dec. 2018
		Increase	Transfer	Decrease	Net value	
Impairment of assets						
Adjustments for Special credit situations – BP/Finangeste Arrangement	948	-	-	(107)	(107)	841
Adjustments for claims related to reorganisation of credit institutions	2,211	-	-	(2,211)	(2,211)	-
Adjustments for other special credit situations	409	-	-	-	-	409
Adjustments for other recoverable amounts	14	-	-	(3)	(3)	11
	3,581	-	-	(2,321)	(2,321)	1,260
Provisions						
Provision for Eurosystem monetary policy operations	1,706	3,989	-	(1,706)	2,284	3,989

	Balance as at 31 Dec. 2018	2019				Balance as at 31 Dec. 2019
		Increase	Transfer	Decrease	Net value	
Impairment of assets						
Adjustments for Special credit situations – BP/Finangeste Arrangement	841	-	-	(3)	(3)	837
Adjustments for other special credit situations	409	-	-	(9)	(9)	400
Adjustments for other recoverable amounts	11	-	-	-	-	11
	1,260	-	-	(12)	(12)	1,248
Provisions						
Provision for Eurosystem monetary policy operations	3,989		-	(1,775)	(1,775)	2,214
Provisions for litigation	-	75	-	-	75	75
	3,989	75	-	(1,775)	(1,700)	2,289

In accordance with Article 32.4 of the Statute of the ESCB/ECB, the provision against credit risks in monetary policy operations is allocated between the national central banks of participating Member States (NCBs) in proportion to their subscribed capital key shares in the ECB prevailing when the initial impairment occurred. As a result of impairment tests on the securities of the CSPP portfolio, the Governing Council of the ECB reviewed the appropriateness of the volume of this provision, created in 2018, and decided to reduce the provision from a total amount of €161,075 thousand as at 31 December 2018 to an amount of €89,388 thousand as at 31 December 2019.

Banco de Portugal's share in this provision decreased from €3,989 thousand on 31 December 2018 to €2,214 thousand on 31 December 2019, i.e. 2.467% of the total provision. The respective adjustments are reflected in the Eurosystem NCBs' profit and loss accounts. In the case of Banco de Portugal the resulting income amounted to €1,775 thousand in 2019 (Note 26).

In 2019 the General risk provision was not used (2018: -€50 million).

The goal of the General risk provision is to cover potential medium-term risks and in each period its use takes into consideration, among other factors, estimated future income and the risk projection for subsequent periods.

The establishment of provisions such as Banco de Portugal's General risk provision has been followed at Eurosystem level, in line with developments in the risks associated with the need for central bank intervention, having gained a greater expression since the latest financial crisis was triggered. The Governing Council formally recommends this provision policy in Article 8 of the ECB Accounting Guideline.

Movements in the General risk provision are decided upon by the Board of Directors, in accordance with Article 5(2) of the Statute of Banco de Portugal. Such movements are made as described in Point 1.2(q) of Note 1. Taking into consideration, among other factors, the medium-term income projection and risk assessment, the Board of Directors defines, every year when closing the accounts, a medium-term strategic risk coverage goal, suitable 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, with an impact on Banco de Portugal's accounts.

In 2019 despite the increase in PSPP volume, the corresponding risk did not increase, in accordance with the risk assessment methodology developed at Eurosystem level and applied by Banco de Portugal. However, the volume of this portfolio is expected to continue growing, therefore this risk is estimated to increase over the medium term. Risks unrelated to this programme showed no significant variation in 2019 and are estimated to remain stable in the next few years.

NOTE 20 • REVALUATION ACCOUNTS

	31 Dec. 2019	31 Dec. 2018
Gold revaluation differences	13,621,564	10,754,267
Foreign currency revaluation differences	103,367	82,319
Securities revaluation differences	60,982	45,520
Revaluation accounts	13,785,913	10,882,105

Gold increased by €2,867,297 thousand, as a result of the increase in potential gains resulting from the rise in the gold price in euro (Note 2).

As at 31 December 2019 Foreign currency revaluation differences largely concerned investments denominated in US dollar and Special Drawing Rights at €75,148 thousand and €24,227 thousand respectively (€60,694 thousand and €21,622 thousand in 2018 respectively).

Potential gains resulting from fluctuations in the price of securities as at 31 December 2019 regarded securities denominated in foreign currency and in euro, amounting to €48,372 and €12,610 thousand respectively (2018: €32,767 and €12,753 thousand respectively).

NOTE 21 • EQUITY

Movements in Equity for 2019 and 2018 are set out in the Statement of changes in equity.

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

In accordance with Article 53(2) of the Statute of Banco de Portugal, Net profit for the year shall be distributed as follows: 10% to the legal reserve, 10% to other reserves to be decided by the Board of Directors and the remainder to the State, as dividends, or to other reserves, as approved by the Minister of State and Finance, on a proposal of the Board of Directors. Net profit for the year 2018 gave rise to the transfer of €80,569 thousand to the legal reserve and an equal amount to other reserves, and to the distribution of dividends to the State, totalling €644,550 thousand.

In 2019 movements 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 2019 (Notes 30 and 32).

NOTE 22 • NET INTEREST INCOME

	31 Dec. 2019	31 Dec. 2018
Interest income		
Gold	22,772	13,003
Trading portfolio denominated in foreign currency	35,702	51,568
Securities	25,578	39,544
Balances with banks, deposits and other money markets	10,124	12,024
Trading portfolio denominated in euro	2,077	4,066
Other investments	2,077	4,066
International Monetary Fund	11,977	10,877
Lending to euro area credit institutions	1	2,661
Securities held for monetary policy purposes	900,056	886,398
Held-to-maturity securities portfolio	77,244	90,154
Off-balance-sheet instruments	9,535	8,248
Other assets	599	654
Current accounts of credit institutions for compliance with minimum reserve requirements	37,975	40,122
Liquidity-absorbing operations	1	9
General government	2,207	7,836
Other liabilities to euro area residents denominated in euro	2,335	1,977
	1,102,483	1,117,573
Interest expense		
Trading portfolio denominated in euro	43,638	42,976
Securities	33,451	39,134
Balances with banks, deposits and other money markets	10,188	3,842
International Monetary Fund	9,904	9,010
Off-balance-sheet instruments	2,473	464
Longer-term refinancing operations	48,827	-
	104,843	52,450
Net interest income	997,640	1,065,123

The decrease in Net interest income in 2019 was largely caused by interest paid for longer-term refinancing operations (LTRO), which posted net profits in 2018 (recorded as interest on lending to credit institutions), because TLTRO-II interest rates were only set in 2018 (-0.235%), leading to positive adjustments to interest for 2016 and 2017 (as these operations had accrued interest at -0.4%). There was also a decrease in some of the main interest assets, in particular in the trading and held-to-maturity securities portfolios, due to the decline in yields.

This decrease in Net interest income was partly offset by the rise in interest from Securities held for monetary policy purposes, as a result of the rise in volume of the APP, mostly PSPP, which, due to the nature of these assets, presents much higher yields than most of the interest-bearing assets in the portfolio.

In a standardised way across the Eurosystem, positive and negative interest on monetary policy operations is presented at its 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 in general at Banco de Portugal.

NOTE 23 • REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

	31 Dec. 2019	31 Dec. 2018
Foreign exchange transactions	12,580	55,861
Other financial operations in foreign currency	3,042	(11,550)
Financial operations in euro	4,739	10,517
Medium and long-term investments	-	4,253
Interest rate futures	(9,927)	14,349
Transactions in the portfolio for monetary policy purposes	39,414	6,778
	49,848	80,208

Realised gains/losses arising from financial operations were positive in 2019, though lower than in 2018. In 2019 Realised gains/losses were mostly driven by the sale of PSPP securities to comply with programme rules, recorded under Transactions in the portfolio for monetary policy purposes, rising significantly compared with 2018. Furthermore, Banco de Portugal realised gains from financial operations denominated in euro and foreign currency (which together recorded losses in 2018).

Compared to 2018, there was a substantial decline in gains from foreign exchange transactions and no medium and long-term investments were sold. Interest rate futures recorded losses in 2019, after posting gains in 2018. These results are analysed together with those of related assets for management purposes, as these operations are undertaken for the purpose of hedging interest rate risk associated with the trading portfolios.

NOTE 24 • UNREALISED LOSSES ON FINANCIAL ASSETS AND POSITIONS

	31 Dec. 2019	31 Dec. 2018
Unrealised exchange rate losses	14	7,525
Unrealised losses on investments in foreign currency	1,210	1,077
Unrealised losses on euro operations	3,644	3,596
	4,867	12,199

Regarding the item Unrealised losses on financial assets and positions, the amount recognised in 2019 was mainly related to losses from price decreases in securities in the trading portfolio denominated in euro and foreign currency.

NOTE 25 • INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

The Governing Council of the ECB decides each year on 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 distributes this income in full to the NCBs, unless otherwise decided by the Governing Council in the financial year to which they relate. In 2019 this item included the amount of €33,641 thousand relating to the aforementioned portion of income from securities from that year (2018: €29,507 thousand). Furthermore, in 2019 this item included an amount for ECB's net reserves under the five-yearly adjustment of the ECB's capital key provided for in the Statute of the ESCB/ECB (€25,940 thousand), corresponding to the surplus between the amount previously recognised as an asset resulting from all previous ECB's capital key adjustments (Note 8) and the amount received by Banco de Portugal.

In 2019 this item also included dividends received for Banco de Portugal's participating interests in 2018, chiefly: (i) in the ECB, to the amount of €9,511 thousand (2018: €7,109 thousand); and (ii) in the Bank for International Settlements (BIS), to the amount of €2,573 thousand (2018: €2,433 thousand).

NOTE 26 • NET RESULT OF POOLING OF MONETARY INCOME

This item recorded the net result of the pooling of monetary income method for the year, amounting to €117,787 thousand (2018: €119,133 thousand). The decrease from 2018 reflects the five-yearly adjustment to the capital key from 2.48% to 2.35%, following the capital key adjustment on 1 Jan. 2019, which more than offset the positive effect on the result of the method from the proportional decrease in Banco de Portugal's net contributions in the Eurosystem's net contributions. The share of Banco de Portugal's net contributions in the Eurosystem's total contributions remained below its adjusted capital key, therefore, an amount receivable from other Eurosystem national central banks continued to be observed.

This item also recorded adjustments made in 2019, corresponding to 2017 and 2018, totalling -€396 thousand. In 2018 this item also recorded negative adjustments to update the TLTRO-II rates corresponding to 2016 and 2017, totalling €43,858 thousand.

The amount of each Eurosystem NCB's monetary income is determined by measuring the effective 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 rates presented are applied to the items comprising these earmarkable assets and the liability base (see the following table).

Earmarkable assets	Applicable rates	Liability base	Applicable rates
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	Real remuneration rate
Lending to euro area credit institutions related to monetary policy operations denominated in euro	Real remuneration rate	Net liabilities arising from balances of TARGET accounts	Main refinancing operations rate
CBPP, CBPP2 and PSPP-GOV portfolio	Main refinancing operations rate		
SMP, CBPP3 and PSPP-SUPRA portfolio	Real remuneration rate		
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		

When 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, is deducted from the monetary income to be pooled. When 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 2018 and 2019, 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.

Total net contributions from all Eurosystem NCBs are allocated to all NCBs in the Eurosystem in accordance with the subscribed and paid-up shares in the capital key.

In 2019 this item also included Banco de Portugal's share of the adjustment to the provision for losses in monetary policy operations (€1,775 thousand), related to securities held by a Eurosystem NCB, under the CSPP (Note 19), which is a shared risk at Eurosystem level, despite not being included in Banco de Portugal's portfolio, on account of Banco de Portugal not being an active participant in that programme. As the estimated impairment loss dropped in 2019, partly due to one of the securities reaching maturity that year, the provisions made in 2018 (-€3,989 thousand) were readjusted accordingly.

The difference between Banco de Portugal's net contribution, amounting to €147,896 thousand, and the income allocation under the aforementioned capital key, amounting to €265,683 thousand, less (i) adjustments made this year regarding 2017 and 2018 to the amount of -€396 thousand, and (ii) the impact of the provision for losses in monetary policy operations of the Eurosystem, with a net effect of €1,775 thousand (Note 19), gave the Net result of pooling of monetary income (€119,167 thousand).

		31 Dec. 2019	31 Dec. 2018
A	Total contribution from all Eurosystem NCBs	11,300,936	12,206,559
B	Paid-up capital key	2.3510%	2.4767%
C = A x B	Total reallocation to Banco de Portugal	265,683	302,322
D	Total effective contribution from Banco de Portugal	147,896	183,189
E = C - D	Result of the method	117,787	119,133
F	Eurosystem adjustments to the result of the method relating to previous years	(396)	(43,858)
G	Eurosystem provisions	1,775	(2,284)
H = E + F + G	Net result of pooling of monetary income	119,167	72,991

NOTE 27 • OTHER INCOME AND EXPENSES

	31 Dec. 2019	31 Dec. 2018
Other income		
Capital gains on tangible and intangible fixed assets	18	35
Previous fiscal years income	295	271
Sales and supply of services to third parties	4,360	3,635
Sundry income	85,294	92,108
	89,967	96,049
Other expenses		
Capital losses on tangible and intangible fixed assets	220	73
Previous fiscal years expenses	572	502
Sundry expenses	1,699	1,996
	2,490	2,572
	87,476	93,477

The item Sales and supply of services to third parties was largely related to services provided by Banco de Portugal through the BPNet portal, totalling €3,371 thousand (2018: €2,805 thousand).

Sundry income included €81,156 thousand concerning the return by the Mutual Agricultural Credit Guarantee Fund (FGCAM) of Banco de Portugal's initial contributions, according to Decree-Law No 106/2019 of 12 August 2019. This item also includes, among others, (i) €2,231 thousand relating to an overestimation of Corporate Income Tax, due to the difference between the estimated tax for the 2018 financial year and the tax actually paid in 2019; and (ii) the 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 method, as explained in Point 1.2(e) of Note 1 and Note 10 (€105 thousand and €17 thousand, respectively).

NOTE 28 • STAFF COSTS

	31 Dec. 2019	31 Dec. 2018
Remuneration of the members of the Board of Directors and Board of Auditors	1,343	1,366
Employees' salaries	84,207	83,982
Compulsory social charges	30,366	34,216
Voluntary social charges	21,131	17,127
Other staff costs	1,491	1,526
	138,538	138,217

In 2019 Staff costs came to €138,538 thousand, a €320 thousand increase from 2018 (+0.2%).

This rise was caused by a 0.8% salary update following the revision of the salary growth rate, in line with that defined by the Portuguese Banking Association for 2019.

Compulsory social charges decreased on account of a decline in the annual transfer to the Pension Fund – Defined-benefit plan (-€3,850 thousand). Voluntary social charges increased by €4,003 thousand, as expenditure with early retirements grew (Note 32).

NOTE 29 • SUPPLIES AND SERVICES FROM THIRD PARTIES

	31 Dec. 2019	31 Dec. 2018
Electricity, fuel and water	2,986	3,166
Travel, accommodation and other transport	3,304	3,044
Litigation and notary services	4,645	6,171
Maintenance and repairs	5,176	5,027
Rentals	622	3,059
Specialised work		
Surveillance and security	4,379	4,124
IT	3,003	2,781
Use of databanks	2,775	2,683
Remuneration of SGFP	2,880	2,919
Other specialised work	3,770	3,691
Software licensing and maintenance	7,125	9,168
Training	1,167	1,053
Other supplies and services from third parties	5,488	4,688
	47,319	51,574

In 2019 Supplies and services from third parties came to €47,319 thousand, a €4,255 thousand decrease from 2018. This decline was mostly driven by a decrease in Software licensing and maintenance (€2,043 thousand) since the Target2-Securities (T2S) system now generates more profits than costs, contrary to 2018 when it went live (this decrease amounted to €2,554 thousand). Litigation and notary services posted a significant decrease (€1,526 thousand) related mainly to the provision of legal and financial advice to the resolution measure on Banco Espírito Santo, S. A. In addition, Supplies and services from third parties recorded a €2,506 thousand decrease resulting from the adoption of IFRS 16 (Point 1.2(e) of Note 1), which meant that amounts previously recognised under Rentals are now recorded as depreciation for the year (Note 9).

This decline was partly offset by higher costs of outsourcing and other expenses related to information systems and technologies (€309 thousand), travel and accommodation (€339 thousand), costs with interns (€322 thousand), specialised support services (€277 thousand), security (€255 thousand) and training (€113 thousand).

NOTE 30 • INCOME TAX

Banco de Portugal is subject to corporate income tax and to the corresponding municipal corporate and autonomous taxes.

Tax authorities are allowed a four-year period during which they can revise 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 significant additional payments regarding previous financial periods.

As at 31 December 2019 and 2018, income tax liabilities were broken down as follows:

	2019	2018
Estimated income tax on profit for the year	349,028	358,297
Estimated income tax on retained earnings	(7,065)	(6,714)
Withholdings at source	(7)	(7)
Payments on account and additional payments on account	(315,309)	(233,817)
Income tax recoverable	-	(18,436)
	26,648	99,323

In 2019 income tax on retained earnings was the result of the 2011 change to the accounting treatment of actuarial gains and losses from the Pension Fund – Defined-benefit plan.¹⁶

Presented below are the expense/income items comprising income tax on profit for the year, as well as the tax burden, measured through the ratio of total income tax to income before taxes:

	2019	2018
Current tax		
For the year	236,045	242,131
Municipal corporate tax and state surtax	112,813	116,022
Autonomous taxation	170	143
	349,028	358,297
Deferred tax	(1,961)	685
Total income tax	347,067	358,982
Income before taxes	1,105,601	1,164,669
Tax burden	31.39%	30.82%

The reconciliation between the nominal and effective tax rates, presented above, is as follows:

	2019		2018	
	Rate	Tax	Rate	Tax
Income before taxes		1,105,601		1,164,669
Tax calculated at nominal rate	31.36%	346,669	31.36%	365,276
Definitive differences to be deducted				
Net Asset Value	0.00%	(39)	(0.04%)	(515)
Payment or placement at disposal of beneficiaries of severance benefits, retirement benefits and other post-employment or long-term benefits	(0.26%)	(2,925)	(0.29%)	(3,349)
Restoration of non-deductible tax and tax estimate surplus	(0.06%)	(703)	(0.50%)	(5,807)
Tax gains/losses	0.00%	(28)	0.00%	(31)
Other	0.00%	(16)	0.00%	(12)
Definitive differences to be added				
Adjustments from previous periods	0.02%	177	0.01%	117
Expenses from severance benefits, retirement benefits and other post-employment or long-term benefits	0.36%	4,005	0.28%	3,312
Depreciation and amortisation not deductible as costs	0.00%	50	0.00%	-
Pension Fund	0.04%	439	0.03%	366
Accounting capital gains/losses	0.01%	57	0.00%	12
Charges not fully documented	0.00%	27	0.00%	22
Other	0.01%	103	0.03%	381
Tax benefits				
Net job creation	(0.08%)	(834)	(0.07%)	(834)
Other	0.00%	(2)	0.00%	(2)
Autonomous taxation	0.02%	170	0.01%	143
Other – Effect of rate change	(0.01%)	(83)	(0.01%)	(98)
	31.39%	347,067	30.82%	358,982

16. Law No 64-B/2011 was published on 30 December 2011 approving the State Budget for 2012, and lays down in Article 183 that the negative balance sheet variations recorded in the 2011 tax year arising from the change in accounting treatment of actuarial gains and losses resulting from the recognition of liabilities from pensions and other defined-benefit post-employment benefits, in relation to contributions made in that year or in prior tax years, are not included in the deductibility limits established in Article 43 of the Corporate Income Tax Code, rather, they are included in equal parts in the formation of taxable profit for the 2012 tax year and the next nine tax years. Thus, the current and deferred tax relating to the pension fund's transitional regime should be recognised against equity.

In 2018 and 2019, the movements related to deferred tax assets and liabilities are broken down as follows:

	2018			
	31 Dec. 2017	Change in		31 Dec. 2018
		Equity	Profit/loss	
Assets				
Temporarily non-deductible provisions and impairments	1,115	-	(726)	389
Staff benefits				
Pension fund - transitional regime	26,715	(6,660)	-	20,055
Seniority bonus	4,255	-	(56)	4,199
Early retirements	6,380	-	85	6,465
	38,465	(6,660)	(696)	31,109
Liabilities				
Depreciation surplus (reinvestment of capital gains)	(338)	-	11	(327)
	(338)	-	11	(327)
	38,127	(6,660)	(685)	30,782
	2019			
	31 Dec. 2018	Change in		31 Dec. 2019
		Equity	Profit/loss	
Assets				
Temporarily non-deductible provisions and impairments	389	-	(1)	388
Staff benefits				
Pension fund - transitional regime	20,055	(6,686)	-	13,370
Seniority bonus	4,199	-	423	4,622
Early retirements	6,465	-	1,528	7,993
	31,109	(6,686)	1,949	26,373
Liabilities				
Depreciation surplus (reinvestment of capital gains)	(327)	-	11	(316)
	(327)	-	11	(316)
	30,782	(6,686)	1,961	26,057

Deferred tax corresponds to the impact on tax receivable/payable in future periods, resulting from temporary deductible/taxable differences between the balance sheet value of assets and liabilities and their taxable basis, used in the taxable profit calculation.

They are calculated based on tax rates expected to be in force on the date the temporary differences are to be reversed, i.e. rates approved or substantially decreed rates as at the balance sheet date.

The rate used to calculate deferred tax in 2019 and 2018 was 31.36%.

Also with regard to deferred taxes, it should be noted that temporary differences have no expiry dates.

NOTE 31 • OFF-BALANCE-SHEET INSTRUMENTS

	31 Dec. 2019	31 Dec. 2018
Contracted financial operations	448,190	(1,328,200)
Collateral given	(1,471,623)	(1,457,574)
Collateral received	60,617,501	59,103,322
Items held in custody	25,567,851	25,806,183
Irrevocable credit lines	(3,100,361)	(3,152,366)

Contracted financial operations

This item recorded open positions in financial operations that are under contract but still outstanding at the year-end. As at 31 December 2019 and 31 December 2018, these positions related only to derivative financial instruments designed essentially to manage risks associated with their assets and liabilities, as follows:

	31 Dec. 2019					31 Dec. 2018	
	Contract value ^(a)		Market value ^(b)	Profit/loss interest ^(c)	Accrued interest ^(d)	Contract value ^(a)	
	Purchases	Sales	Net	Net	Net	Purchases	Sales
Currency forwards	5,420	(5,420)	(144)	(140)	(4)	13,416	(13,416)
Currency swaps	1,026,115	(1,026,115)	6,306	6,556	(251)	21,934	(21,934)
Interest rate futures	471,390	(23,200)	-	-	-	-	(1,328,200)

Notes: (a) Theoretical or notional value of the contract. | (b) 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. | (c) 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. | (d) 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 included 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 included collateral related to the monetary policy operations of the Eurosystem (€60,612,743 thousand on 31 December 2019), including collateral used via the Correspondent Central Banking Model (CCBM). This collateral is valued at market rates, less respective haircuts.

Items held in custody essentially comprised securities owned by the Portuguese State (€19,171,500 thousand) and securities held in custody by Banco de Portugal as collateral in monetary policy operations with other NCBs, under the CCBM (€5,611,886 thousand).

As at 31 December 2019 the item Irrevocable credit lines recorded the amount of €2,133,600 thousand for the limit on the intraday credit lines of the Portuguese financial system and the amount of SDR 783,500 thousand (€966,761 thousand) for a credit line granted to the IMF under the New Arrangements to Borrow (NAB).

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 survivor pensions of staff (and their dependents) hired by the Bank before 3 March 2009, who were covered by a substitutive social security scheme for bank employees, 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, Banco de Portugal's active employees registered in Caixa de Abono de Família dos Empregados Bancários (CAFEB)¹⁷, the family allowance fund for 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. 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, which are based on the applicable labour agreements for the banking sector and on Banco de Portugal's internal regulations. The payment of disability and death grants remained totally under the Fund's responsibility as well.

In 2014, new liabilities were transferred to the Pension Fund – Defined-benefit plan, among which were 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 Pension Fund schemes include old-age pensions of members/statutory retirement (as a supplement to those paid by social security), disability pensions, early retirement pensions, survivor pensions, including the payment of supplementary benefits and death grants, as well as the settlement by the sponsor of charges related to pensions, namely charges due to SAMS (social and health assistance service for banking sector employees).

17. Dissolved by this Decree-Law.

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

Risk sub-category	Risk 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.

The risks from population movements and regulatory changes are mitigated by defining prudent actuarial assumptions. The risks from adverse movements in inflation and interest rates are mitigated by using asset/liability management.

- Pension Fund Plans
 - Pension plan
 - (a) Scheme members

The number of members covered by the pension plan is as follows:

Number of scheme members	31 Dec. 2019	31 Dec. 2018
Active members	860	960
Retired members	2,070	2,012
Pensioners	586	590
	3,516	3,562

The assumed average life expectancy for scheme members and beneficiaries of the Fund's pension plan is as follows:

Average life expectancy (years)	31 Dec. 2019	31 Dec. 2018
Active members	34	34
Retired members	15	15
Pensioners	12	13

(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 as follows:

	Actuarial and financial assumptions used			
	31 Dec. 2019	1 Jan. 2019	31 Dec. 2018	1 Jan. 2018
Discount rate	1.013%	1.652%	1.652%	1.803%
Expected return on the Fund's assets	n/a	1.652%	n/a	1.803%
Wage growth				
1 st year	1.750%	2.506%	2.506%	1.750%
Subsequent years	2.296%	2.543%	2.543%	2.786%
Pensions growth rate				
1 st year	0.750%	1.506%	1.506%	0.750%
Subsequent years	1.296%	1.543%	1.543%	1.786%
Tables used				
- Mortality – Male population	TV 88/90 adjusted by 1 year		TV 88/90 adjusted by 1 year	
Female population	TV 88/90 adjusted by 4 years		TV 88/90 adjusted by 4 years	
- Disability	1978 – S.O.A. Trans. Male (US)		1978 – S.O.A. Trans. Male (US)	
- Turnover	T-1 Crocker Sarason (US)		T-1 Crocker Sarason (US)	
Statutory retirement age under the Pension Fund of Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme (1 st year)	66 years and 5 months		66 years and 5 months	
Percentage of married members	80%		80%	
Age difference between spouses	3 years		3 years	

The discount rate shown in the above table was calculated using interest rates on high-quality private bond issues, whose denomination and maturity are adequate for the term structure of the Pension Fund's liabilities.

For the purpose of establishing the funding needs of the Pension Fund – Defined-benefit plan, SGFPBP uses, as a matter of prudence, a lower discount rate, based on interest rates on bond issues of higher average quality.

Thus, the value of the Fund's liabilities considered in Banco de Portugal's accounts is below that calculated by considering the aforementioned funding needs.

– Healthcare plan

(a) Scheme members

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

Number of scheme members	31 Dec. 2019	31 Dec. 2018
Active members	1,775	1,751
Retired members and pensioners	2,606	2,550
	4,381	4,301

The assumed average life expectancy for scheme members and beneficiaries is as follows:

Average life expectancy (years)	31 Dec. 2019	31 Dec. 2018
Active members	43	41
Retired members	15	15
Pensioners	12	13

(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 following stand out:

Actuarial and financial assumptions used				
	31 Dec. 2019	1 Jan. 2019	31 Dec. 2018	1 Jan. 2018
Discount rate	1.013%	1.652%	1.652%	1.803%
Expected return on the Fund's assets	n/a	1.652%	n/a	1.803%
Growth rate of the average/annual expenses				
Disability pensions	5.060%	5.278%	5.278%	5.635%
Other	4.030%	4.248%	4.248%	4.198%
Tables used				
- Mortality – Male population	TV 88/90 adjusted by 1 year		TV 88/90 adjusted by 1 year	
Female population	TV 88/90 adjusted by 4 years		TV 88/90 adjusted by 4 years	
- Disability	1978 – S.O.A. Trans. Male (US)		1978 – S.O.A. Trans. Male (US)	
- Turnover	T-1 Crocker Sarason (US)		T-1 Crocker Sarason (US)	
Statutory retirement age under the Pension Fund of Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme (1 st year)	66 years and 5 months		66 years and 5 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. 2019			31 Dec. 2018		
	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	1,140,626	572,903	1,713,529	1,044,619	601,348	1,645,967
Pensions' inherent charges to SAMS	63,669	29,080	92,749	60,004	28,097	88,101
Death grants	3,348	1,779	5,127	2,590	1,281	3,871
Healthcare	55,529	26,466	81,995	52,088	24,859	76,947
	1,263,172	630,229	1,893,401	1,159,301	655,586	1,814,887

The table below presents the evolution of past-service liabilities of the Pension Fund in 2019 and 2018:

Past-service liabilities	2019	2018
Value at the beginning of the year	1,814,887	1,898,147
Current service cost	12,960	15,732
Benefits payable (expected value)	(73,157)	(70,157)
Interest cost	29,982	34,224
Actuarial gains/losses	92,864	(59,362)
Increase in liabilities arising from early retirements	15,864	11,777
Past-service cost	-	(15,473)
Value at the end of the year	1,893,401	1,814,887

The Fund's financial management is geared towards hedging the risks implicit in assumed liabilities, which may be mitigated by financial instruments, with the aim of maintaining the funding level.

Among the various assumptions adopted in the valuation of the Fund's liabilities, the most relevant due to their impact on the value of liabilities are those relating to longevity, the discount rate and the rate of increase of salaries and pensions.

The table below shows the sensitivity of the Fund's assets and liabilities to changes in the assumptions adopted:

Sensitivity as at 31 Dec. 2019	One-year increase in life expectancy	10 b.p. reduction in discount rate	10 b.p. increase in wages and pensions growth rates ^(b)
Impact on the Pension Fund's assets	0.0%	1.3% ^(a)	1.1%
Impact on the Pension Fund's liabilities	4.4%	1.6%	1.4%
Impact on the Pension Fund's funding ratio	-4.4%	-0.3% ^(a)	-0.3%

Notes: (a) Assuming a stable spread between interest rates on private and sovereign debt. Should this spread between the rates vary, the impact on the Fund's assets and the financing of a 10 b.p. reduction in discount rate will be different from that presented. | (b) The wages and pensions growth rate only affects the value of the Pension Plan's liabilities (and not that of the Healthcare Plan). The impact on the Fund's assets is based on the assumption that the wages and pensions growth rate results from an increase in inflation, with a resulting increase in the price of inflation-linked bonds comprised in the Fund's assets.

On 31 December 2019 the modified duration of liabilities stood at 15.6 years (2018: 15.5) and the difference between the modified duration of the bond portfolio on the assets side and the modified duration of liabilities, adjusted to incorporate the differences in size between these two aggregates, stood at -2.3 years (2018: -4.6).

Fund's assets	2019	2018
Value at the beginning of the year	1,915,971	1,939,124
Current contributions paid to the Fund	14,286	15,098
On account of the Bank	12,424	13,192
On account of the employees	1,863	1,906
Contributions paid on account of early retirements	15,270	11,777
Benefits and inherent charges paid by the Fund	(78,231)	(74,022)
Net income of the Fund	154,666	23,995
Value at the end of the year	2,021,963	1,915,971

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

Fund's investments	31 Dec. 2019	31 Dec. 2018
Land and buildings	229,575	197,322
Variable income securities	116,686	97,166
Fixed income securities	1,659,402	1,596,233
Cash and bank deposits	6,437	8,749
Other	9,862	16,501
	2,021,963	1,915,971

Land and buildings includes the Castilho Building, used by Banco de Portugal, which was recorded in 2019 at a value of €33,821 thousand.

Securities portfolio of the Fund	31 Dec. 2019	31 Dec. 2018
Variable income securities		
Participation units – Investment funds	116,686	97,166
Fixed income securities		
Government debt	1,659,402	1,596,233
	1,776,088	1,693,399

At the end of 2019, the funding level of Banco de Portugal's Pension Fund – Defined-benefit plan stood at 106.8%, above that of the scenario used to calculate the funding needs (most prudent scenario) of 103.7%.

The value of actuarial gains and losses calculated in 2019 and 2018 can be broken down as follows:

	31 Dec. 2019	31 Dec. 2018
Actuarial gains/losses		
Population movements	(8,988)	(6,478)
Technical gains and losses	12,945	8,083
Wage growth	(2,267)	18,239
Increase in pensions	(1,394)	23,889
Change in average healthcare expenses	1,199	(450)
Adjustments to the model	-	5,316
Other gains and losses	5,450	(67)
Indexation of assumptions:		
Future wage growth	33,220	30,239
Future increase in pensions	38,413	21,597
Change in average healthcare expenses	2,702	-
Discount rate	(174,144)	(41,006)
	(92,864)	59,362
Financial gains and losses		
Gains and losses in paid pensions	(5,074)	(3,866)
Gains and losses in expected income of the Fund	123,015	(10,968)
	117,941	(14,833)
	25,077	44,529

Actuarial gains and losses in 2019 recorded a loss associated with the discount rate, arising from the difference between the initial value for this rate and that calculated at the end of the year (see the table of assumptions), resulted in a €174,144 thousand increase in the Fund's liabilities.

The item Other gains and losses basically recognises the value of actuarial gains resulting from the net effect of the increase in the Minimum Guaranteed Monthly Remuneration, the increase of the social support index, and the revision of the assumption adopted for the rise in average life expectancy taken into consideration every year to establish the retirement age under the General Social Security Scheme, considering developments in recent years, disclosed by Statistics Portugal.

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

	2019	2018
Staff costs		
Current service cost ^(a)	10,603	13,366
Interest cost	29,982	34,224
Expected return on the Fund's assets	(31,652)	(34,962)
Increase in liabilities arising from early retirements	15,864	11,777
	24,797	24,404

Note: (a) 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.

The risks from the undervaluation of salary increases are mitigated by defining prudent actuarial assumptions.

Changes in past-service liabilities were as follows:

Past-service liabilities	2019	2018
Value at the beginning of the year	13,392	13,583
Seniority bonuses paid	(1,267)	(1,096)
Current service cost	1,132	1,163
Interest cost	182	184
Actuarial gains/losses	1,300	(441)
Value at the end of the year	14,740	13,392

On 31 December 2019 the modified duration of liabilities with seniority bonuses stood at 10.7 years (2018: 10.1).

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

	Actuarial and financial assumptions used			
	31 Dec. 2019	1 Jan. 2019	31 Dec. 2018	1 Jan. 2018
Discount rate	0.691%	1.361%	1.361%	1.354%
Wage growth				
1 st year	1.750%	2.506%	2.506%	1.750%
Subsequent years	2.188%	2.209%	2.209%	2.575%
Tables used				
- Mortality – Male population	TV 88/90 adjusted by 1 year		TV 88/90 adjusted by 1 year	
Female population	TV 88/90 adjusted by 4 years		TV 88/90 adjusted by 4 years	
- Disability	1978 – S.O.A. Trans. Male (US)		1978 – S.O.A. Trans. Male (US)	
- Turnover	T-1 Crocker Sarason (US)		T-1 Crocker Sarason (US)	
Statutory retirement age under the Pension Fund of Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme (1 st year)	66 years and 5 months		66 years and 5 months	

Group Life Insurance – Defined-benefit plan

For a group of workers, pension contributions associated with their complementary salary are collected, on a voluntary basis, under a group life insurance scheme, and not by the Pension Fund of Banco de Portugal – Defined-benefit plan.

On 31 December 2019 this insurance scheme covered a population of 14 members.

The value recognised in 2019 for this insurance, under Staff costs, was of €24 thousand.

Pension Fund of Banco de Portugal – Defined-contribution plan

Banco de Portugal's company-level agreements provide for a supplementary defined-contribution pension plan, funded through 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 (Point 1.2(l) 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 when the participant chooses 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 able to choose an investment profile for their contributions. The funding vehicle can be changed annually on the employees' initiative.

At the end of 2019, the supplementary pension plan funded through this Pension Fund covered 930 members (2018: 815).

When this 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. In 2016 this 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 2019 the assets of the Fund amounted to €26,907 thousand, broken down as follows:

Participation units (in value)	31 Dec. 2019	31 Dec. 2018
Reserve account (Note 12)	22,831	22,520
Members' individual accounts	4,076	3,172
	26,907	25,692

Participation units of this reserve account are transferred monthly to the individual accounts of its members by the amounts corresponding to:

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

The table below shows movements in the Reserve Account of the Sponsor; the results of the annual revaluation are recognised in the Profit and loss account of Banco de Portugal:

Reserve account of the sponsor	2019	2018
Value at the beginning of the year	22,520	23,806
Transfer of rights to members – contributions of the year	(764)	(652)
Revaluation of the period (Note 27)	1,075	(634)
Value at the end of the year	22,831	22,520

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 that reflects the risk profile and degree of tolerance defined by the Board of Directors of Banco de Portugal and is laid down in the risk appetite statement.

The integrated management of strategic financial and non-financial risk, 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.

Compliance risk at Banco de Portugal is managed by the Compliance Officer, who is responsible for advising and monitoring ethics and conduct, and managing the coordination, identification, monitoring, control and mitigation of compliance risk.

- Financial Risk Management
 - Risk management policies

Financial risks primarily arise in the management of own assets and from the participation in the monetary policy of the Eurosystem and comprise the losses resulting from default by counterparties and issuers, as well as the fluctuations of financial asset prices, exchange rates and the price of gold.

These risks are followed-up and monitored by using Value at Risk (VaR) and expected shortfall indicators, among others, which are produced and disclosed on a daily basis, as well as through regular sensitivity analysis and stress testing.

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 strategic 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 – in force for the period of one year and which may be object of a mid-term review – plays a major role in guiding asset management and serves as a basis for 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 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 in 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 ensures the cash settlement of the operations and the monitoring of the positions and main risk measures. State-of-the-art commercial software and an integrated financial risk model developed by the Eurosystem are also used to calculate VaR and expected shortfall for credit risk and market risk.

The exposure to credit risk arising from monetary policy operations results from the share of the Eurosystem's global exposure attributable 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 under non-standard monetary policy measures.

Banco de Portugal runs an exercise of projection of the financial statements and balance sheet risks for the medium term, which allows for not only the monitoring of these risks against expected developments in assets and liabilities, but also the assessment of the risk coverage levels by Banco de Portugal's financial buffers. This exercise is also taken into account to determine how the General risk provision is to be used (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 2019 and 2018 is as follows:

	31 Dec. 2019		31 Dec. 2018	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes (Note 7)	53,478,605	59,014,754	51,208,353	53,670,342
Held-to-maturity securities portfolio (Note 10)	4,744,009	4,964,671	5,439,739	5,634,906
	58,222,614	63,979,424	56,648,092	59,305,248

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

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

- Strategic Risk and Non-financial Risk Management

Banco de Portugal is equipped with tools that provide a comprehensive and consistent outlook on financial and non-financial risks, in particular the identification and assessment of the top risks of a strategic nature faced by Banco de Portugal. The results of this assessment suggest that the main risks identified are in areas compatible with the tolerance level in force, reflecting the effectiveness of the controls implemented.

Within the scope of non-financial risk management, operational risk is related to losses arising from failures, inadequate internal 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/Single Supervisory Mechanism 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 commonly followed by the community of central banks.

NOTE 34 • PENDING LEGAL PROCEEDINGS

As at 31 December 2019 various legal proceedings were pending against Banco de Portugal.

Developments in these proceedings are monitored regularly by the Board of Directors of Banco de Portugal, with technical and legal work undertaken by its Legal Services Department and, in certain cases, external lawyers, duly coordinated by this Department.

The litigation currently pending falls under the following categories: common lawsuits, administrative lawsuits, interim injunctions, administrative offence proceedings (judicial phase), monitoring of judicial 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 judicial winding-up proceedings of credit institutions and financial companies, these do not have a direct impact on the financial statements of Banco de Portugal, as they result from the exercise of the Board's legal powers.

The Board of Directors' assessment of Banco de Portugal's current position in the most relevant judicial proceedings, considering both the significant amount of lawsuits pending and the nature of the 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"), taking the form of the transfer of most of BES's activity and assets, liabilities and off-balance-sheet items to a

bridge bank, Novo Banco, S. A. (hereinafter “Novo Banco”), led to a significant increase in litigation, with proceedings brought against Banco de Portugal in (civil and administrative) national courts specifically by virtue of its decisions as national resolution authority as adopted pursuant to its Statute and the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* – RGICSF), approved by Decree-Law No 298/92 of 31 December 1992.

Within Banco de Portugal's powers as resolution authority of the Portuguese financial sector, by decision of the Board of Directors of Banco de Portugal of 3 August 2014, pursuant to Article 145-G(5) of RGICSF, Novo Banco, S.A. (hereinafter “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 decision of the Board of Directors of Banco de Portugal of 3 August 2014 (8pm), as amended by the decision 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 decision.

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

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

Several court order proceedings for the provision of information and issuance of certificates have been brought before the Administrative Court of the Lisbon District.

Most of these proceedings were finalised in 2019 and those still pending are associated with the resolution measure applied to BES. In these proceedings, Banco de Portugal is being summoned to make available, in an integral manner, documentation related to that very administrative process.

Banco de Portugal contested all these lawsuits, both through invocation of supervisory secrecy under Article 80 of RGICSF and on the grounds that disclosure of certain material and information was impossible, as it is reserved under Article 6(6) of the Law for Access to Administrative Documents (*Lei de Acesso aos Documentos Administrativos* – LADA). Banco de Portugal is awaiting further developments in these proceedings.

Lastly, it should be noted that in these types of proceedings, if Banco de Portugal is convicted by a judgement that has the force of *res judicata*, Banco de Portugal will only have to provide information and issue certificates, which will not involve at any time the payment of pecuniary sums (aside from legal costs), hence there is no financial risk for Banco de Portugal connected to these proceedings.

(ii) Requests for cancellation of the resolution measure applied

Proceedings challenging the legality of the decisions of the Board of Directors of Banco de Portugal regarding the BES resolution measure, chiefly the decisions of 3 and 11 August 2014 and 29 December 2015, are pending at the administrative courts. These lawsuits were mostly brought within the three-month limit following publication of the decisions 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 annulment of administrative acts).

The aforementioned lawsuits do not carry any financial risk for Banco de Portugal, as it would not be ordered to pay any amount as compensation for damages, aside possibly from legal

costs, should the claims be judged to be well-founded. In these annulment claims, Banco de Portugal believes, supported by the opinion of its internal and external legal counsel, that those proceedings do not present financial risks for Banco de Portugal at present, since the legal framework in force at the time of BES's resolution awards responsibility for any compensation claims to the Resolution Fund.

Indeed, in order to assess the financial risk at stake, due consideration must be given to the purpose of the Resolution Fund, which is to provide financial assistance to the application of the resolution measures adopted by the resolution authority as per Article 153-C of the RGICSF. 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. For the sake of consistency, if a resolution measure were to be annulled by a judgement that has the force of *res judicata* and the resolution authority deems that, for public interest and financial stability reasons, the effects of the resolution measure should remain in force, then it shall be the Resolution Fund that settles any compensation payable for the continuation of the resolution measure. However, this compensation is distinct from that that may arise from any tort claims filed against Banco de Portugal, in relation to which, given the legal and procedural information available at present, there is a higher probability of a decision in favour of Banco de Portugal.

Regarding the annulment actions challenging the initial BES resolution measure (decisions of the Board of Directors of Banco de Portugal of 3 and 11 August 2014), an order was handed down in October 2018 by the President of the Administrative Court of the Lisbon District requiring the application of the procedural mechanism provided for in Article 48 of the CPTA (*Código de Processo nos Tribunais Administrativos* – Administrative Courts Procedural Code), which provided for the selection of two actions (pilot proceedings) with suspension of the remaining related proceedings. The order in question specified the selection of the proceedings numbered 2586/14.3BELSB and 2808/14.0BELSB as pilot proceedings, and suspended another 24 proceedings, which will await procedural developments in regard to the former.

In regard to pilot proceedings, on 19 March 2019 the Administrative Court of the Lisbon District rendered a unanimous judgement, by twenty of its judges, confirming the constitutionality of the legal framework on bank resolution and full legality of the resolution measure. Thus, multiple allegations of unconstitutionality or illegality attributed to the referred decision of 3 August, as well as to the prior deliberation on prudential provisioning, were rejected in bulk.

The applicants of the two pilot proceedings appealed against that judgement directly to the Supreme Administrative Court. Meanwhile, on 11 November 2019 the Public Prosecutor's Office delivered an opinion arguing that these two direct appeals to the Supreme Administrative Court should be rejected and considering as unobjectionable the comprehensive judgement under appeal, which was unanimously rendered by all judges in office at the Administrative Court of the Lisbon District, under Article 48(8) of the CPTA.

Banco de Portugal awaits the following developments of the pilot proceedings and their consequences for the remainder of the suspended litigation.

In relation to the annulment actions challenging the Retransfer Decision (decision of the Board of Directors of Banco de Portugal of 29 December 2015), the pre-trial or trial hearing phases are yet to be scheduled and conducted. The courts have decided to suspend some of those actions by reason of an existing preliminary matter in regard to the proceedings contesting the BES resolution measure, which were selected for the application of the procedural mechanism provided for in Article 48 of the CPTA. In some of these proceedings the suspension decision was appealed against.

Lastly, some other pending lawsuits were subject to withdrawal requests in 2019, as a result of the acceptance of the exception on legal empowerment of FRC – INQ – Papel Comercial ESI e Rio Forte, and therefore those actions are expected to be definitively concluded in 2020.

Despite the important case-law precedent established by the judgement rendered by the Administrative Court of the Lisbon District, it is impossible at present for Banco de Portugal, as there are few doctrinal and case-law precedents, to predict the tendency of the decisions to be delivered by the Courts.

Annulment of the decisions in question does not raise any type of financial risk for Banco de Portugal, whenever payment by Banco de Portugal of a pecuniary amount is not sought. In the other cases, given the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of Banco de Portugal.

(iii) Requests for reimbursement of sums transferred and/or compensation

Pending both at the civil courts and administrative courts are proceedings pleading for Banco de Portugal and/or the Resolution Fund to pay financial compensation for damages arising from alleged deposits in BES and for moral damages.

Following defence based on inadmissibility grounds presented by Banco de Portugal and/or the Resolution Fund, a considerable number of decisions have been handed down in favour of Banco de Portugal and the Resolution Fund. In addition, financial claims on damages in various pending lawsuits were withdrawn following the agreement between former BES customers and PATRIS – SGFTC, S. A., in its capacity as management company of FRC – INQ – Papel Comercial and Rio Forte.

In the other pending proceedings, where the civil courts deemed themselves without jurisdiction by reason of the subject matter, lawsuits were remitted to the administrative courts or new suits were lodged, which are at the end of the initial procedural phase or awaiting the pre-trial hearing phase.

There have been cases where the administrative courts received remitted proceedings and deemed themselves without jurisdiction also, by reason of the subject matter, which led to those proceedings – brought against the Resolution Fund – being transferred to the Conflicts Court anew.

The Conflicts Court has deemed the civil courts as having jurisdiction to resolve civil law disputes, where brought against the Resolution Fund. Importantly, in only one lawsuit brought against Banco de Portugal the civil courts were deemed as having jurisdiction. In all other cases pending before civil courts, the latter declared themselves as lacking jurisdiction – decisions which were appealed in higher courts. Thus, legal discussions continue as to which is the jurisdiction (civil or administrative) competent to settle this sort of litigation.

With regard to this category of lawsuits, in 2019 a total of 44 proceedings were, as planned, finalised (in addition to the 229 proceedings finalised in 2018), and some other dozens are expected to be finalised in 2020 taking into account the developments referred above.

As the contentious matters subject to these proceedings have no doctrinal or case-law precedent and involve considerable legal complexity, it is impossible at present for Banco de Portugal to predict the tendency of the decisions to be delivered by the Courts. However, given the favourable developments to date in these legal proceedings, and the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of Banco de Portugal. Furthermore, given the abovementioned inherent uncertainty, it is impossible to estimate accurately the likely value of any financial obligation, for reporting purposes, as at the closing date of the accounts.

(iv) Oak FOak 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 lawsuits brought by Goldman Sachs, Oak Finance and the Guardians of the New Zealand Superannuation Fund, which seek the annulment of the decisions of the Board of Directors of Banco de Portugal of 22 December 2014, 15 September and 29 December 2015.

The next stage of these lawsuits is the scheduling of trial hearings.

In one of the pending lawsuits, the Court is considering the possibility of suspending proceedings, which would thereafter await the procedural developments of the aforementioned pilot proceedings (arising from the application of the mechanism laid down in Article 48 of the CPTA), by reason of an existing preliminary matter.

The fact that these proceedings have no legal precedent and involve considerable legal complexity precludes any prediction, even directional, of the decisions to be handed down by the Courts. Therefore an adequate assessment is not possible until further procedural developments occur. This said, annulment of the decisions in question does not trigger any type of financial risk for Banco de Portugal, as payment by Banco de Portugal of a specified pecuniary amount is not sought.

(v) Other requests related to the resolution measure applied to BES

In the administrative courts, several lawsuits are pending, which seek a declaration of invalidity of the decision to award the sale process of Novo Banco to Lone Star, issued by the Board of Directors of Banco de Portugal on 31 March 2017. Most of these lawsuits are still awaiting the pre-trial or trial hearing phases. Only a lawsuit is suspended, which is still awaiting decision of an appeal within an interim injunction.

During 2019, three interim injunction proceedings were pending, relating to the sale process of Novo Banco to Lone Star. The main request of these interim injunctions was the suspension of the award decision to that entity and the consequent prohibition from concluding the definitive contract. On 13 March 2019, the Supreme Administrative Court ruled totally in favour of Banco de Portugal and of the Resolution Fund in one of the proceedings, basing its decision mainly on two aspects: (i) the non-application of the Portuguese Procurement Code to the sale process of Novo Banco, and (ii) acceptance of the exception on the investment funds' procedural illegitimacy to seek action. Thus, this action is expected to be concluded in 2020. The same is true with regard to the proceedings with a judgement rendered by the South Administrative Central Court, which has also rejected the interim injunction submitted on this matter. Finally, regarding the last of these three pending proceedings, the decision by the South Administrative Central Court on the appeal lodged on the judgement rejecting the interim injunction is yet to be rendered.

As these matters have no doctrinal or case-law precedent, Banco de Portugal is unable to predict the outcome of the decisions to be delivered by the Courts. However, the following factors indicate that there is no financial risk for Banco de Portugal in this regard: (i) six decisions on merit in the interim injunctions identified have already been ruled in favour of Banco de Portugal, (ii) the provisional decisions on interim injunctions were rejected, (iii) the sale process of Novo Banco has now been concluded and (iv) the interim injunctions are ancillary to the main lawsuits.

There are also the lawsuits of the members of the Board of Directors of BES contesting the precautionary retention of the claims held by them in BES.

Finally, there were also three interventions of Banco de Portugal and the Resolution Fund in the context of the sale of Novo Banco and relating to the Spanish branch. Banco de Portugal intended to defend the legality and effectiveness of the decisions on the BES resolution measure

before the Spanish Courts (similarly to the previous intervention on the Goldman Sachs International proceedings at the UK's Supreme Court).

In April 2019 Banco de Portugal and the Resolution Fund were both accepted as parties in the first lawsuit in which they requested to intervene. The Supreme Court has ruled that: (i) Banco de Portugal, as national resolution authority, had interest in the interpretation of its decisions; and that (ii) in accordance with the Neutralisation Decision of 29 December and with the Novo Banco sale contracts, the Resolution Fund may bear financial liabilities as a result of the decisions issued by Banco de Portugal being ruled as invalid and ineffective. On 7 June 2019, the Supreme Court delivered a favourable decision, acknowledging thereby: (i) the banking resolution as a solution whose adoption was possible and provided for in the Portuguese legislation and Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001; (ii) that, regardless of the alleged behaviour, this would not justify the transfer of the responsibility to Novo Banco (and its branches), as the relevant liability was excluded from the sphere of Novo Banco under the resolution measure adopted by Banco de Portugal, and also that (iii) such responsibility would not prevent no the resolution measure adopted by Banco de Portugal from being recognised.

In another lawsuit, after the intervention of Banco de Portugal and of the Resolution Fund has been accepted, the Spanish Supreme Court decided to refer the case for a preliminary ruling to the European Court of Justice (ECJ).

Finally, in the most recent case where Banco de Portugal and the Resolution Fund requested to intervene, this intervention was already accepted and the court of first instance decided not to refer the case for preliminary ruling to the ECJ as it was previously considered.

As these matters have no doctrinal or case-law precedent, Banco de Portugal is unable to predict the tendency of the decisions to be delivered by the Spanish Courts. However, as a result the following must be highlighted: (i) the intervention of both Banco de Portugal and the Resolution Fund has been accepted; (ii) the Supreme Court ruled in favour of the interests of Banco de Portugal and the Resolution Fund; (iii) the procedural intervention of Banco de Portugal was voluntary and intended to defend the legality and effectiveness of the decisions on BES resolution measure and the need of being recognised as such before the Spanish Courts; (iv) those cases present no financial risks to Banco de Portugal, taking into account the fact that they involve disputes where Banco de Portugal is not a party.

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

Within the exercise of its powers as national resolution authority, and pursuant to Article 17-A of the Statute of Banco de Portugal and Articles 145-E and 146 of RGICSF, Banco de Portugal applied a resolution measure to Banif – Banco Internacional do Funchal, S. A. (hereinafter “Banif, S. A.”) on 19 and 20 December 2015, 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 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, S. A. was sold to Banco Santander Totta, S. A., in accordance with the decision of 20 December 2015.

Currently there are 17 administrative lawsuits contesting these decisions, which are all at the end of the initial procedural phase and await scheduling of the pre-trial hearing phase. Two of these lawsuits were withdrawn; therefore, they are expected to be finalised in 2020.

Following the decision to join the proceedings numbered 99/16.8BEFUN, 100/16.5BEFUN, 101/16.3BEFUN, 102/16.1BEFUN and 197/16.8BEFUN to the proceeding numbered 98/16.0BEFUN

(main proceeding), the trial hearing was held from October to December 2018. In June 2019, following the end of the hearing, final written statements were submitted. Since then, the parties await a judgement to be delivered.

There are also 14 civil lawsuits pending at the Lisbon District Court, requesting Banco de Portugal and/or the Resolution Fund to pay financial compensation for losses and moral damages arising from investments made in Banif, S. A. Decisions have already been handed down in these suits by the Civil Courts, which deemed themselves deprived of jurisdiction to settle them. The plaintiffs have lodged appeals relating to some of those decisions. In other proceedings, the plaintiffs have presented requests to withdraw. The Court decided to file two proceedings by lack of action by the parties. Given these favourable procedural developments, the majority of these civil proceedings are expected to come to an end in 2020.

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 recognition of actual risks for Banco de Portugal in this phase and the estimation of possible compensation amounts resulting therefrom. However, considering the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of 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 implementation of 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. For the sake of consistency, if a resolution measure were to be annulled by a judgement that has the force of *res judicata* and the resolution authority deems that, for public interest and financial stability reasons, the effects of the resolution measure should remain in force, then it shall be the Resolution Fund that settles any compensation payable for the continuation of the resolution measure. However, this compensation is distinct from other sorts of compensation that may arise from any tort claims filed against Banco de Portugal, in relation to which, given the legal and procedural information available at present, there is a higher probability of a decision in favour of Banco de Portugal.

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

There are 18 lawsuits pending in court, mostly pleading for Banco de Portugal or the Deposit Guarantee Fund to pay compensation for balances on accounts opened with BPP, S. A.

In most of these lawsuits, the initial phase has come to an end. By way of example, in four lawsuits judgements were delivered where the parties' withdrawal requests were considered valid and, therefore, the defendants were acquitted, and in another lawsuit the North Administrative Central Court considered the appeals lodged by Banco de Portugal and the Deposit Guarantee Fund well founded, therefore repealing the appealed decision in so far as it was contested.

There is the possibility of financial risk to Banco de Portugal in these proceedings. The fact that these proceedings have no legal precedent and involve considerable legal complexity precludes any prediction of the courts' decisions, or even only the decisions' tendency. These factors, combined with the general procedural dynamic and the vicissitudes of legal proceedings, impede the recognition of actual risks for Banco de Portugal in this phase and the estimation of possible compensation amounts resulting therefrom.

However, given the favourable developments to date in these legal proceedings, and the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of Banco de Portugal.

- Executive administrative litigation

As to general litigation, and for the purposes of this Note, it should be referred that a request for executive order was lodged in 2019 within the Case No 2870/14.6BELSB, which may lead to compensation being paid to the plaintiff for the amount requested (€75 thousand) or another amount that may be agreed between the parties. This case is based on the annulment – as decided in the appeal against the favourable decision rendered by the first instance – of the administrative act awarding a certain contract.

In this context, and taking into account the executive nature of this case, a decision for the setting-up of a provision has been taken, equal to the total amount requested and which corresponds to the most unfavourable scenario in the event Banco de Portugal is the unsuccessful party (Note 19).

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

The complexity and procedural developments of the litigation has continued to warrant the additional allocation in 2019 of specialised internal resources to the Legal Services Department and the engagement of external legal services, to respond to Banco de Portugal's considerable needs in terms of legal workload and representation in court. The majority of lawsuits described above are in progress at different procedural phases, and are thus expected to be pending over several years. Given their nature and complexity, they may result in additional or complementary legal proceedings.

Lastly, as the lawsuits relating to the resolution measures have not yet come to a meaningful number of judgements – although, those few judgements that have been delivered indicate a generally favourable tendency for Banco de Portugal and the Resolution Fund – it has been deemed impossible to use the criterion of case-law precedent to make a prudent assessment of any associated legal or 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, 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 pending lawsuits as at 31 December 2019.

In compliance with its Statute, Banco de Portugal has established, in turn, a General risk provision (Point 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 2019 Banco de Portugal's participating interest in its related parties's equity was 97.90% in Sociedade Gestora dos Fundos de Pensões do Banco de Portugal, S. A. (SGFPBP) and 100% in Valora, S. A. (Note 10). On 31 December 2019 a member of the Board of Directors of Banco de Portugal was on the Board of Directors of SGFPBP and of Valora.

All transactions between Banco de Portugal and 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.

Some of the 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 Banco de Portugal, 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.

NOTE 36 • POST-BALANCE-SHEET EVENTS

As a result of the departure of the United Kingdom from the European Union and consequent withdrawal of the Bank of England from the ESCB, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted with effect from 1 February 2020. The table below shows the new capital key:

NCB	Country	Capital key	
		from 1 Feb. 2020	until 31 Jan. 2020
Nationale Bank van België/Banque Nationale de Belgique	Belgium	2.9630%	2.5280%
Deutsche Bundesbank	Germany	21.4394%	18.3670%
Eesti Pank	Estonia	0.2291%	0.1968%
Banc Ceannais na hÉireann/Central Bank of Ireland	Ireland	1.3772%	1.1754%
Bank of Greece	Greece	2.0117%	1.7292%
Banco de España	Spain	9.6981%	8.3391%
Banque de France	France	16.6108%	14.2061%
Banca d'Italia	Italy	13.8165%	11.8023%
Central Bank of Cyprus	Cyprus	0.1750%	0.1503%
Latvijas Banka	Latvia	0.3169%	0.2731%
Lietuvos bankas	Lithuania	0.4707%	0.4059%
Banque centrale du Luxembourg	Luxembourg	0.2679%	0.2270%
Bank Ċentrali ta' Malta/Central Bank of Malta	Malta	0.0853%	0.0732%
De Nederlandsche Bank	The Netherlands	4.7662%	4.0677%
Oesterreichische Nationalbank	Austria	2.3804%	2.0325%
Banco de Portugal	Portugal	1.9035%	1.6367%
Banka Slovenije	Slovenia	0.3916%	0.3361%
Národná banka Slovenska	Slovakia	0.9314%	0.8004%
Suomen Pankki – Finlands Bank	Finland	1.4939%	1.2708%
Euro area NCBs		81.3286%	69.6176%
Българска народна банка/Bulgarian National Bank	Bulgaria	0.9832%	0.8511%
Česká národní banka	Czech Republic	1.8794%	1.6172%
Danmarks Nationalbank	Denmark	1.7591%	1.4986%
Hrvatska narodna banka	Croatia	0.6595%	0.5673%
Magyar Nemzeti Bank	Hungary	1.5488%	1.3348%
Narodowy Bank Polski	Poland	6.0335%	5.2068%
Banca Națională a României	Romania	2.8289%	2.4470%
Sveriges riksbank	Sweden	2.9790%	2.5222%
Bank of England	United Kingdom	0.0000%	14.3374%
Non-euro area NCBs		18.6714%	30.3824%
		100.0000%	100.0000%

The ECB kept its subscribed capital unchanged at €10,825 million after Bank of England's withdrawal from the ESCB. The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among both the euro area NCBs and the remaining non-euro area NCBs. As a result, Banco de Portugal's share in the subscribed capital of the ECB increased by 0.2668%.

The ECB's paid-up capital will also remain unchanged at €7,659 million in the year of the United Kingdom's departure from the EU, i.e. in 2020, as the remaining NCBs will cover the withdrawn Bank of England's paid-up capital of €58,211 thousand. Euro area NCBs will then pay up in full their increased subscriptions to the ECB capital following Bank of England's withdrawal from the ESCB in two annual instalments. For that purpose, Banco de Portugal will transfer to the ECB €323 thousand in 2020, €14,279 thousand in 2021 and €14,279 thousand in 2022.

Pursuant to Article 30.2 of the Statute of the ESCB/ECB, the contributions of the NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital. Following (i) the increase in the weighting of the euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital resulting from Bank of England's withdrawal from the ESCB and (ii) a decision of the Governing Council to reduce the proportion of the euro area NCBs' contributions, so that the total amount of foreign reserve assets already transferred by the euro area NCBs will remain at the current level, the claim equivalent to this transfer was marginally adjusted. This resulted in a minor decrease of these assets by €4,233 thousand, which was repaid by the ECB on 3 February 2020.

3 External Auditors' Report

AUDIT REPORT

(Amounts expressed in thousands of Euro – t.euros)

(Free translation of a report originally issued in Portuguese language: In case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Banco de Portugal, which comprise the balance sheet as at 31 December 2019 (showing a total of 159,785,115 t.euros and equity of 2,326,659 t.euros, including a net profit of 758,533 t.euros), the profit and loss account and the statement of changes in equity for the year then ended, and the accompanying notes to the financial statements, including a summary of the 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 2019 and of its financial performance for the year then ended in accordance with the accounting principles included in the Chart of Accounts of Banco de Portugal, which are described in Note 1 of the accompanying notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent from Banco de Portugal in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

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

Responsibilities of management for the financial statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of Banco de Portugal's financial position and financial performance in accordance with the principles included in the Chart of Accounts of Banco de Portugal;
- the preparation of the annual report of 2019 in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing Banco de Portugal's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about its ability to continue as a going concern.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatements, 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 ISA 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 judgment, maintain professional skepticism throughout the audit and we also:

- 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;
- 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- 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 our report. However, future events or conditions may cause Banco de Portugal to cease to continue as a going concern;
- 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;
- 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.

Our responsibility also includes the verification that the information contained in the management report of 2019 is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report of 2019

It is our opinion that the information included in the management report of 2019 is consistent with the audited financial statements and, having regard to our knowledge of Banco de Portugal, we have not identified any material misstatements.

Lisbon, 10 March 2020

Deloitte & Associados, SROC S.A.
Represented by João Carlos Henriques Gomes Ferreira, ROC

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report is not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

4 Report and Opinion of the Board of Auditors



BANCO DE PORTUGAL
EUROSYSTEM

Board of Auditors

Report and Opinion of the Board of Auditors

2019

Under the terms of Article 43 of the Statute of Banco de Portugal, approved by Decree-Law No 5/98 of 31 January 1998, 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 Annual Report presented by the Board of Directors.

During the course of 2019, 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 meetings of the Board of Directors and 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 of Banco de Portugal, responsible for or involved in the performance of their respective activities, (ii) regular meetings with those in charge of the relevant services and (iii) 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 analysed in particular the financial information contained in the Management Report and Accounts for the fiscal year ended on 31 December 2019 – approved in the meeting of the Board of Directors held on 03 March 2020 – and discussed the conclusions of the external audit work carried out by Deloitte & Associados – Sociedade de Revisores Oficiais de Contas S. A., which issued its opinion on 10 March 2020 without any qualification or emphasis of matter.



BANCO DE PORTUGAL
EUROSYSTEM

In this regard, the Board of Auditors paid special attention to assets, which grew by €1,832 million in aggregate terms from 2018, driven by (i) the €2,868 million increase in the value of gold due to positive developments in its price, (ii) the €1,418 million decrease in Lending to credit institutions, (iii) the €2,270 million rise in volume of Securities held for monetary policy purposes, (iv) the €2,499 million increase in Intra-Eurosystem claims arising from the adjustment to euro banknotes in circulation assigned to Banco de Portugal, and (v) the €5,117 million increase in liabilities to euro area credit institutions due to monetary policy operations. Banco de Portugal's Own funds (which includes the items Revaluation accounts, General risk provision, Equity and Net profit for the year) increased by €3,043 million in 2019, largely due to the rise in gold prices.

Net profit for the year 2019 totalled €759 million, a €47 million decrease from 2018. This decrease was mostly driven by (i) a €67 million decrease in the interest margin (from €1,065 million in 2018 to €998 million in 2019), due to a lower yield of Securities held for monetary policy purposes, (ii) non-recurrent profits amounting to €81 million, from the Mutual Agricultural Credit Guarantee Fund's (FGCAM) return of Banco de Portugal's contributions to that fund, and (iii) the Board of Directors' decision to maintain the level of General risk provision for 2019, as this provision recorded a positive effect to the amount of €50 million in 2018.

In addition, the Board of Auditors analysed the proposal for the distribution of profit for 2019, to the amount of €758,533,467.78. The Board of Directors, in accordance with Article 53(2) of the Statute of Banco de Portugal, will submit to the Minister of Finance the following proposal for the distribution of profit:

– 10% to the legal reserve	€75,853,346.78
– 10% to other reserves	€75,853,346.78
– Dividends to the State	€606,826,774.22

In light of the above, the Board of Auditors raises no objection to the approval of the 2019 Financial Statements of Banco de Portugal, nor to the proposal for the distribution of profit mentioned above.

The Board of Auditors wishes to highlight the following supervening event. The beginning of the 2020 financial year was marked by the COVID-19 outbreak. It is still too early to assess the negative impact it will have on the global and European economies in general and on the Portuguese economy in particular. In the past few weeks, and especially in the past few days, the COVID-19 pandemic and the political and economic decisions to mitigate it have significantly increased the level of risk and uncertainty in the banking sector. Within the Portuguese and European legal and regulatory framework in which it operates, Banco de Portugal's activity is exposed to policy decisions by the European Central Bank, to extraordinary policy decisions by the Government and to developments in the economy in general and in the financial and

banking sector in particular. This exposure may thus have a significant impact on Banco de Portugal's activity and financial situation, and its size and duration are uncertain at this time.

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, 26 March 2020

The Board of Auditors

[illegible signature]

Nuno Gracias Fernandes

[illegible signature]

Óscar Figueiredo

[illegible signature]

Margarida Abreu

