

ANNUAL REPORT

ACTIVITIES AND FINANCIAL STATEMENTS 2020



BANCO DE
PORTUGAL
EUROSYSTEM

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EUROSYSTEM

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Message by the Governor

It was with honour, enthusiasm and a commitment to public service that I took up my duties as Governor of the Banco de Portugal in July 2020.

It was a determined return to a 'home' that I have known since 1993, in the belief that the Banco de Portugal should contribute responsibly and decisively to defining coherent national policies, taking advantage of its technical capabilities, its public intervention and its recognised reputational capital.

And this spirit of service to the Republic is all the greater at times of the greatest challenges, of which the year 2020 was an unfortunate milestone.

The pandemic, caused by the COVID-19 virus, put society's and its institutions' resilience to the test. Measures hitherto unused nor seen on such a scale were adopted to contain a sanitary crisis that unleashed an unexpected and accentuated decline in economic activity. The risks to the financial systems were evident from very early on. The tensions in the financial markets had repercussions in the Banco de Portugal's missions of maintaining price stability and safeguarding the financial system's stability.

The Banco de Portugal's mission was carried out and its significance as central bank to the Republic was felt by the whole staff. There was no other way. It is in the most difficult moments that our work, our reflections and our organisational skills take on the greatest importance and dictate the results that the Bank can achieve and thus contribute to Portugal's development.

It was natural, as well as fundamental that the Banco de Portugal should have taken part in preparing the national and international measures aimed at mitigating the economic effects of the pandemic, namely through guaranteeing liquidity and the flow of credit to households and firms, all provided for by a suitable financial system.

Additionally, the Banco de Portugal presented analytical and forecasting information on developments of the Portuguese economy, fulfilling its responsibility in knowledge production and sharing.

Internally, I was able to witness the capacity of the Banco de Portugal and its staff in adapting to the unexpected needs and challenges of the past few months. Everyone's recent dedication has been a huge success. In the secure implementation and use of the instruments for distance working, as well as in planning the return to in-person work, which has been adapted to developments in the pandemic and brought to fruition as soon as possible.

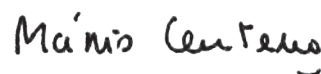
2021 will be decisive at international, national and internal level.

Europe should follow up on the important integration decisions taken in 2020. The role of monetary policy will not be the same again, from coordination with budgetary policies to concern with economic and environmental sustainability.

Portugal must be prepared to resume economic activity with the same vigour it went through immediately prior to the pandemic. Maintaining the same demanding goals of social, economic and financial convergence with the European Union whilst leading Europe in terms of growth and in financial conditions.

The Banco de Portugal will be a part of this process, in the certainty that an innovative organisation that rejuvenates every year must be ready for these challenges. The Banco de Portugal's mission is to transmit to the financial system in general and the banking system in particular the same objectives that Portugal needs to guarantee its place in the future. 2021 will be a turning point for the Banco de Portugal, with the definition and launch of its Strategic Plan 2021-25, where issues of openness to society, active participation in the recovery and resilience roadmap for Portugal and the recognition of internal resources will be central to complying with its mission.

I am certain that the conditions exist to reinforce the role of the Banco de Portugal, as one of the institutional pillars of the Republic. It has unique obligations and must take advantage of its excellent staff and technical and policy capabilities to serve the country, contributing to the development of Portugal and Europe.



Mário José Gomes de Freitas Centeno



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).

Statutory bodies

Board of Directors*

1 Governor

Mário José Gomes de Freitas Centeno

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 2020. Carlos da Silva Costa ceased functions as Governor on 19 July 2020.



4

2

1

3

5



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

Advisory Board**

Governor

Mário José Gomes de Freitas Centeno

Vice-Governor

Luís Augusto Máximo dos Santos

Former Governors

Carlos da Silva Costa

Vítor Manuel Ribeiro Constâncio

António José Fernandes de Sousa

Chair of the Board of the Auditors
of the Banco de Portugal

Nuno Gonçalves Gracias Fernandes

Chair of the Portuguese Banking
Association

Fernando Faria de Oliveira

Chair of the Portuguese Treasury and
Debt Management Agency (IGCP, E.P.E.)

Cristina Maria Nunes da Veiga Casalinho

Representatives from the Autonomous
Regions

Pedro Miguel Amaro de Bettencourt Calado

Ethics Committee***

Chair

Vítor Manuel da Silva Rodrigues Pessoa

* As at 31 December 2020.

** As at 31 December 2020. José Alberto Vasconcelos Tavares Moreira (on 9 June 2020, on his decease), Francisco Anacleto Louçã, Francisco Luís Murteira Nabo, João Luís Ramalho de Carvalho Talone, Luís Filipe Nunes Coimbra Nazaré and Roberto de Sousa Rocha Amaral ceased functions.

*** As at 31 December 2020.

Heads of 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) Álvaro António da Costa Novo
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 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) Pedro Carlos de Carvalho Viana
Legal Services Department (DJU) Gonçalo André Castilho dos Santos
Payment Systems Department (DPG) Maria Tereza da Costa Cavaco Guerreiro Valério
Information Systems and Technology Department (DSI) Carlos Manuel Pedrosa Moura
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 Moraes Pinto Pereira

Regional Delegations

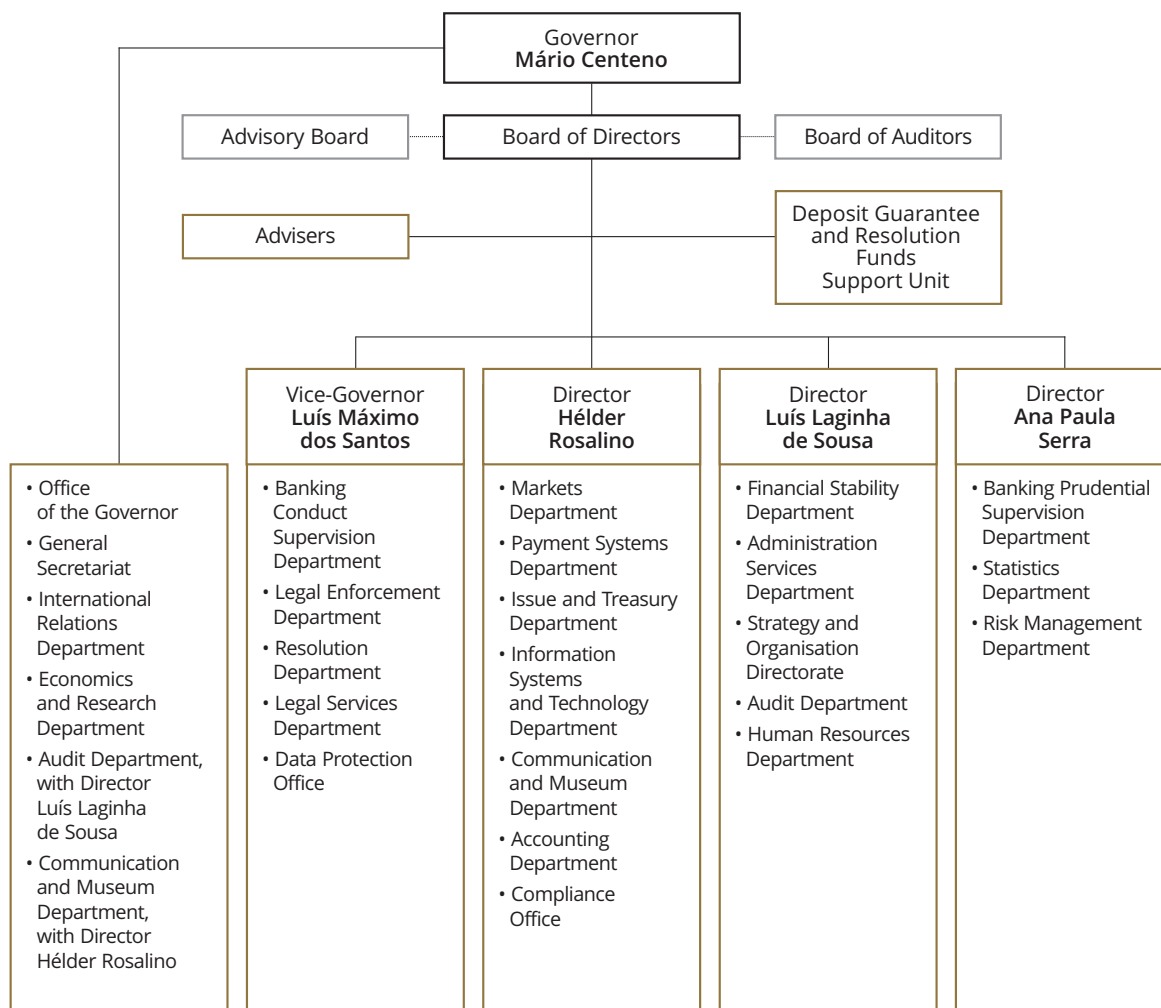
Regional Delegation of the Azores Paulo Ruben Alvernaz Rodrigues
Regional Delegation of Madeira Bárbara José Calçada Sousa Castro

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 2020.

Figure 1 • Organisational chart of the Banco de Portugal as at 31 December 2020



Source: Banco de Portugal.

I Activity

- 1 Response to the COVID-19 pandemic
- 2 Price stability in the euro area
- 3 Safeguarding of financial stability
- 4 Knowledge creation and sharing
- 5 Strengthening internal governance and organisation

Executive summary

In 2020 the COVID-19 pandemic and the measures taken to contain it, in particular the lockdowns, led to an abrupt and sharp drop in economic activity – the sharpest in many decades – as well as different types of tension in financial markets, with repercussions for the Banco de Portugal's mission of maintaining price stability and safeguarding financial stability. The Bank participated in national and international efforts to mitigate the effects of the pandemic crisis on the economy, acting to ensure the resilience of the financial system and protect liquidity and the flow of credit to households and firms.

At domestic level, 2020 was marked by the completion of the Banco de Portugal's Strategic Plan for 2017-20. The Plan set out four strategic guidelines for the four-year period: (i) to contribute to a single monetary policy in the euro area; (ii) to promote the robustness and stability of the Portuguese financial system; (iii) to contribute to informing public opinion about the Portuguese economy and European integration; and (iv) to align its organisational and governance model with the best practices adopted by Eurosystem.

Response to the COVID-19 pandemic

The Banco de Portugal participated in the definition and implementation of the measures taken by the European Central Bank (ECB) to preserve the transmission of monetary policy, guarantee favourable financing conditions for the euro area economy and ensure sufficient monetary accommodation to achieve the price stability objective over the medium term. Among other measures, the ECB increased the amounts and flexibility of its asset purchases and provided large-scale liquidity to the banking system under more attractive conditions. These measures helped maintain an adequate flow of credit to the economy and mitigate the effects of the pandemic on economic activity in euro area countries.

The Banco de Portugal participated in the preparation and revision of the public moratorium regime, which set out exceptional measures to protect loans to households and firms, and monitored private moratoria granted by credit institutions. The Bank regulated and assessed compliance by supervised institutions with the obligations to provide assistance and information to customers on the moratoria and established a periodic reporting obligation on the implementation of those measures, together with the reporting to the European Banking Authority (EBA). It published detailed information for the public on the Bank Customer Website.

The Banco de Portugal took measures to enable banks to use the combined capital buffer and relaxed requirements for compliance with the recommended levels of capital, in order for banks to absorb losses and finance the economy, and temporarily relaxed certain restrictions to the granting of new housing loans and consumer credit. It also recommended to supervised institutions not to distribute dividends for the financial years 2019 and 2020 and to adopt stricter measures when granting variable remuneration. It strengthened the supervision of credit risk management and the assessment of the levels of impairment coverage, while requiring institutions to develop strategies to mitigate increased credit risk. In parallel, the Bank issued recommendations to the financial system on business continuity and the ongoing functioning of essential banking services. In coordination with the main stakeholders in the payment services market, the Bank changed the maximum amount per contactless transaction without the need to enter a PIN. In addition, it published information on the care to be taken when using digital channels to access financial products and services.

To better monitor the evolution of the Portuguese economy, the Bank adapted and innovated in terms of data, methodologies, and analysis and forecasting tools. The effects of the pandemic crisis on the economy and the financial system were assessed in the *Economic Bulletin*, the *Financial Stability Report* and in specialised studies published in *Banco de Portugal Economic Studies* and the Bank's *Papers* series. New statistical information was also made available regarding public debt, budget outturn and indebtedness of the non-financial sector, and a preliminary indicator of the travel component was launched. On *BPstat*, a section was also created on developments in economic activity in the context of the pandemic.

The Bank had to adjust how it operates in order to protect its staff, service providers, the public and other stakeholders, without jeopardising its key functions. Particularly important from among the measures taken were a widespread use of teleworking and the adoption of protocols to prevent contagion at the Bank's premises, which were certified by an external entity. This effort to adapt also included the Bank's community support programmes under its social responsibility policy, which were also strengthened to meet the new needs arising from the pandemic crisis and the lockdowns.

Price stability in the euro area

The Banco de Portugal conducted monetary policy operations with resident credit institutions and purchased assets under the Eurosystem's asset purchase programmes. At the end of the year, the monetary policy securities portfolio, stemming from purchases under the asset purchase programme, totalled €69.1 billion on the Bank's balance sheet, of which €14.2 billion under the programme specifically created to mitigate the effects of the pandemic. Overall, the share of the monetary policy securities portfolios in total assets increased to 36%.

Also in monetary policy operations, liquidity provision increased by 14.8 billion, reaching €32.1 billion at the end of 2020.

The Banco de Portugal's own investment asset portfolio was valued at €37,604 million, reflecting a 4.4% increase from the previous year, mostly as a result of an increase in the price of gold in euro. In addition to managing its own assets, the Banco de Portugal managed two ECB reserve portfolios with the Lietuvos bankas. As at 31 December 2020, these portfolios amounted to USD 1,189 million (€969 million) and CNY 4,172 million (€520 million).

The Bank ensured the efficiency and safety of payment systems, which are crucial to a successful implementation of monetary policy and the smooth functioning of the economy. A key concern in this respect was ensuring that payment service providers were in a position to apply strong customer authentication to online card payments, which became mandatory on 31 December 2020. The Bank also assessed the adoption of secure communication requirements among payment service providers, which are indispensable for the provision of account information and payment initiation services.

In parallel, the Bank continued to engage in dialogue with the market, in order to develop more efficient and secure payment solutions. This resulted in the publication of a national strategy for retail payments. The connection of the national solution for instant transfers to the Eurosystem's equivalent service was also concluded, allowing Portuguese users to carry out pan-European instant transfers.

In line with the concerns of the Eurosystem, the Bank carried out a study to assess whether the population has convenient access to banknotes and coins. This study showed that the ATM networks

and branches of credit institutions continue to offer a wide coverage in Portugal. Two metal currency exchange agreements were also concluded with the Central Bank of Ireland and the Federal Public Service Finance of Belgium for the swap and delivery of excess euro circulation coins.

Safeguarding of financial stability

The Banco de Portugal participated in the development of new legislation and regulations of the European Union (EU) on sustainable finance, consumer and mortgage credit, distance marketing of financial services, prudential supervision of investment firms and on the issue and supervision of covered bonds, and provided technical support to the Ministry of Finance on financial stability matters related to the deepening of the Economic and Monetary Union. It prepared and submitted to public consultation the Banking Activity Code, which is intended to replace the Legal Framework of Credit Institutions and Financial Companies. It transposed into Portuguese law European directives issued within the framework of the Banking Union and issued opinions on a number of legislative drafts. The Bank was also given new powers in the prevention of money laundering and terrorist financing (ML/TF) related to the registration of entities operating with virtual assets.

The Bank assessed, on an ongoing basis, the vulnerabilities and risks of the Portuguese financial system and, in particular, developments in banking system indicators. The ratios of non-performing loans (NPLs) continued to decline, albeit at a slower rate, reflecting difficulties in the sale and recovery of NPLs. The profitability of the banking system decreased, but the liquidity coverage and capital ratios improved.

The Bank also monitored the implementation of the recommendation it issued in 2018 on new credit for house purchase and consumer credit. Significant convergence towards the limits set in the recommendation continued. The percentage of credit for house purchase granted to borrowers with a higher risk profile fell from 35% in July 2018 to 3% in December 2020.

In line with the priorities established by the Single Supervisory Mechanism (SSM) for significant institutions, the Bank strengthened business models, credit risk management, governance and control mechanisms, and the capital and liquidity positions of institutions under its direct supervision. Among the measures adopted, a revision of the internal control and governance requirements for supervised institutions was particularly important and resulted in the publication of Notice of the Banco de Portugal No 3/2020 and Instruction of the Banco de Portugal No 18/2020.

There were 180 authorisation proceedings, 497 registrations of members of corporate bodies and 480 registrations of qualifying holdings. As a result of Brexit, 581 registrations were cancelled relating to institutions having head office in the United Kingdom.

The conduct supervision of institutions in retail banking markets prioritised the offering of consumer credit through digital channels. The Bank assessed compliance with the obligations to provide assistance and information to customers and applicable security requirements and issued good practices for supervised institutions to comply with in this respect. The number of complaints from bank customers grew by 8.6%, almost entirely due to pandemic-related issues. As a result of the supervisory actions carried out and the analysis of complaints, the Bank issued 3,025 specific orders and recommendations demanding correction of the irregularities detected. As regards the activity of credit intermediaries, the Bank assessed 659 applications for authorisation to pursue the activity and 4,567 requests for changes to the elements subject to registration.

As a result of its supervisory action, the Bank initiated 204 and concluded 148 administrative offence proceedings.

In ML/TF preventive supervision, more than 350 corrective measures were issued following the analysis of the annual reports submitted by the institutions.

In terms of prevention and repression of non-authorised financial activity, inquiries were conducted under 345 proceedings. These inquiries led to 47 notifications to the Prosecutor General of the Portuguese Republic for signs of criminal offences, and public warnings against 40 entities not authorised to conduct financial activity. The Bank also examined seven proceedings for the possible withdrawal of the authorisation of credit institutions, financial companies and payment institutions, and analysed 23 proceedings for a possible reassessment of the suitability of the members of the management and supervisory bodies of supervised institutions, as well as five proceedings for suspension of the exercise of voting rights held by qualified participants.

The Bank also completed the resolution planning for the institutions on which it directly exercises functions, i.e. less significant institutions, and participated in the planning for institutions under the responsibility of the Single Resolution Board, also ensuring any other work arising from its participation, as national resolution authority, in the Single Resolution Mechanism (SRM). Work also continued on the resolution measures applied to BES and BANIF and on the sale of Novo Banco in 2017.

Knowledge creation and sharing

The research projects undertaken at the Banco de Portugal resulted in the publication of 39 studies in the *Working Papers* and *Occasional Papers* series and in *Economic Studies* and *Cadernos Jurídicos* (Legal Papers). Thirty-one articles were also published or accepted for publication in international scientific journals.

The Bank started a project to study the impact of climate change in Portugal, in partnership with the Portuguese Environment Agency (APA) and other national and foreign institutions.

The Banco de Portugal's Microdata Research Laboratory (BPLIM), which provides microdata to researchers interested in studying the Portuguese economy, supported 31 new research projects; at the end of the year 117 projects were under way.

On *BPstat*, the Bank released 161 thousand statistical series about the Portuguese and euro area economies. To ease the understanding of the concepts and statistical data, the Bank also published press releases on the main statistical results, videos, explainers and infographics. The information disclosed in the *Statistical Bulletin* is now also published on this website, allowing users to access all the functionalities available on *BPstat*.

The Bank held the 10th Conference on Portuguese Economic Development in the European Area, the Workshop on Data Visualisation and training courses remotely and co-organised statistical and economic literacy competitions. Jointly with the ECB and the Irving Fisher Committee, the Bank promoted the conference "Bridging measurement challenges and analytical needs of external statistics: evolution or revolution?", bringing together experts from central banks and academics of 70 countries.

Strengthening internal governance and organisation

The Bank strengthened the internal control and risk management functions: it adopted new tools to manage audit processes, completed the mapping of non-financial risks and constructed the main risk indicators, which provided a more comprehensive and quantified picture of its operational risks.

An assessment of the internal corporate culture was carried out, showing that staff members are aware of the relevance of ethical standards when performing their duties, and rules on gifts to institutional guests were published. Internal awareness-raising initiatives on issues relating to the protection of personal data also continued, including the publication of a data protection guide. The Bank submitted to the Portuguese National Data Protection Commission, for prior consultation, six regulatory projects related to personal data processing, and the Data Protection Officer replied to 91 requests for exercise of rights addressed by data subjects.

Reflecting a focus on developing staff members, a data science school was established, the training offer on behavioural skills increased and an integrated career management programme was launched.

The Bank also invested in new technology solutions for data analysis, using machine learning techniques. At the Innovation Lab, the use of innovative technologies was studied in activities such as handling information and document requests. National and international cooperation on cyber security was also strengthened.

Communicating with the public remained a priority. The Bank regularly published content on the website and on the Bank Customer Website and strengthened its initiatives on social media. It created a podcast series and a new smartphone app, providing the services most sought-after by citizens and businesses. The Bank also launched a new communication channel between the financial system and courts, judicial authorities and other issuing authorities – the PERTO platform.

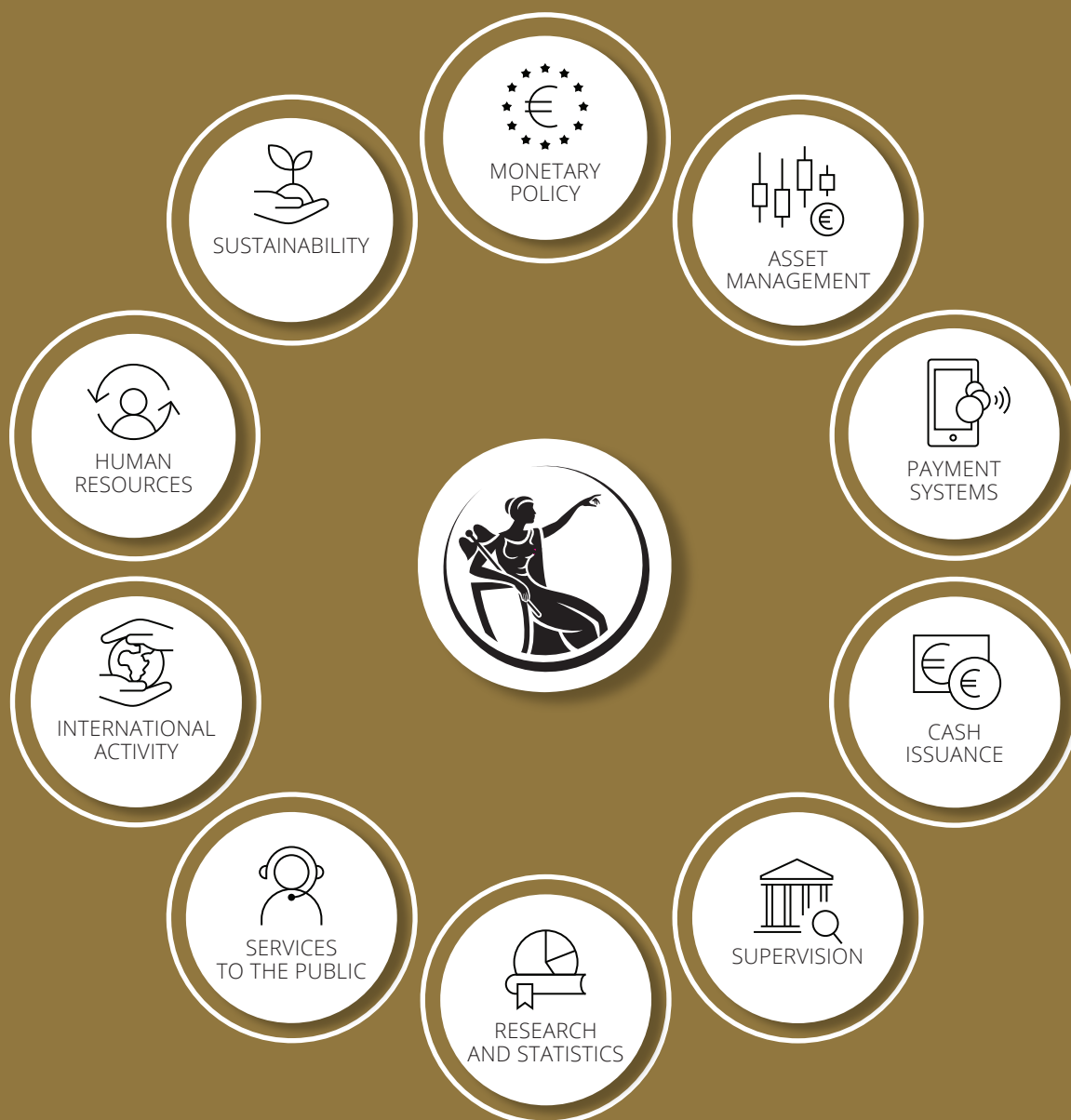
In the Historical Archives, a research project on economic relations in the Portuguese Escudo Monetary Zone was completed, sponsored by the Banco de Portugal. At the Money Museum, a new permanent exhibition space on the functions of the Banco de Portugal opened to the public and two temporary exhibitions were organised, one of which in partnership with the Vatican Apostolic Library.

The Bank carried out 110 cooperation initiatives with other central banks, mostly Portuguese-speaking countries, but also non-EU European countries and countries in Latin America, the Asia-Pacific region and Africa. These initiatives focused on several central bank functions and led to the sharing of experiences in managing the health crisis. From among the initiatives carried out, particularly important was the XXX Lisbon Meeting between the Central Banks of Portuguese-speaking Countries, organised by the Banco de Portugal, which brought together top-level representatives of these entities.

Sustainability concerns also gained in importance, resulting in the publication of *Banco de Portugal's Commitment to Sustainability and Sustainable Finance*, setting out the institution's priorities in this field. The Bank analysed the exposure of Portuguese banks to sectors particularly vulnerable to the energy transition and the economic policies to mitigate the effects of climate change and organised a session on sustainability and sustainable finance for the banking system. It also participated in the work of national and international entities on the impact of environmental sustainability, in particular that of the Network of Central Banks and Supervisors for Greening the Financial System.

Sustainability concerns also had an impact on internal management. The Bank purchased green bonds and joined the Lisbon Green Capital 2020 Commitment, having implemented three of the ten measures it has pledged to achieve by 2030, including energy consumption from 100% renewable sources in almost all of its buildings. In addition, the Bank now requires the suppliers of goods and services to comply with the Bank's economic, social and environmental sustainability standards.

The Bank in figures 2020





MONETARY POLICY



256

Eurosystem
open
market
operations



55

open market
operations in which
the Portuguese
counterparties
participated



25,829 M€

average outstanding
amount of open
market operations
and standing facilities
involving resident
counterparties



60,107 M€

average
outstanding
value of monetary
policy portfolios
in the Banco
de Portugal



60,507 M€

average
outstanding
balance of collateral
pools of resident
counterparties



ASSET MANAGEMENT



1,489 M€

ECB foreign reserves
managed by the
Banco de Portugal
with Lietuvos bankas
as at 31 Dec. 2020

37,604 M€

own investment
asset portfolio
as at 31 Dec. 2020



18,975 M€

value of the gold
portfolio as at
31 Dec. 2020



382.6 t

quantity
of gold held



PAYMENT SYSTEMS



1,727 b€

transactions processed in TARGET2-PT
between participants and with
the Banco de Portugal

Participants: banks, the Portuguese
Treasury and Debt Management Agency
and ancillary systems.

159 b€

securities transacted
of the Portuguese community
settled in TARGET2-Securities

502 b€

retail payments processed
in the Interbank Clearing System



CASH ISSUANCE



533 M

euro banknotes withdrawn
by credit institutions

465 M

banknotes checked
for fitness and authenticity

12,028

counterfeit euro banknotes withdrawn
from circulation in Portugal



SUPERVISION



Prudential supervision

497

authorised members
of the corporate
bodies of supervised
entities

136

measures taken
following supervisory
review and
evaluation (SREP)
processes for less
significant institutions

180

licensing applications
for new institutions,
qualifying holdings,
mergers and statutory
changes



Banking conduct supervision

659

decisions on licensing
applications for credit
intermediaries

19,660

bank customer
complaints against
supervised institutions

3,025

specific orders
and recommendations
issued for correction
of irregularities detected
in supervised institutions



Legal enforcement

345

inquiries into
illicit financial
activity

350

measures taken
following analysis
of reports on prevention
of money laundering
and terrorist financing

204

administrative
offence
proceedings
initiated

148

administrative
offence
proceedings
concluded



RESEARCH AND STATISTICS



31

articles published
or accepted for
publication
in international
scientific journals

39

authored studies
released in the
Bank's publications



161 thousand

statistical series
released in BPstat



SERVICES TO THE PUBLIC



389 thousand

consultations
of account reports

2,7 M

consultations
of credit liabilities
reports

8 thousand

consultations
of the List
of Cheque
Defaulters



112 thousand

customer services
at cash offices



18 thousand

written requests
for information
received



HUMAN RESOURCES



1,777

staff members



896
female



881
male

41 years
average age



INTERNATIONAL ACTIVITY



511

international
representation
groups



110

cooperation
activities

39

partner entities
in cooperation
initiatives



SUSTAINABILITY



142

volunteers
in ongoing social
responsibility
initiatives



100%

energy consumed
from renewable sources
except at the regional
delegations of the Azores
and Madeira

1 Response to the COVID-19 pandemic

In 2020 the COVID-19 pandemic had a cross-cutting impact on the activity of the Banco de Portugal. The priority was to ensure that credit institutions had the capacity to absorb the impact of the crisis and continue to play their role in financing the economy.

To this end, the Banco de Portugal (i) participated in the definition and implementation of euro area monetary policy measures; (ii) contributed to the preparation and revision of legislation adopted to protect loans to firms and households and issued supplementary regulations; (iii) relaxed regulatory, supervisory and macroprudential policy measures; (iv) ensured the continued operation of payment systems and means of payment; and (v) developed new methodologies for monitoring the Portuguese economy and analysing the financial sector and adapted the content of its institutional publications. At the same time, (vi) the Bank adjusted how it operates in order to protect its staff, service providers and other stakeholders, and ensure the continuity of its key functions; and (vii) redesigned its community support measures.

1.1 Preserving monetary policy transmission and favourable financing conditions for the economy

The COVID-19 pandemic generated sharp contractions in the economies of the euro area and the rest of the world. The spread of the disease, the measures needed to contain it and the high level of uncertainty had a strong negative impact on production chains and domestic and global demand.

Intervention by the authorities, including central banks, supervisors and governments, was unprecedented. The ECB adopted several measures during the year with three main objectives: (i) to stabilise financial markets in order to preserve the transmission of monetary policy; (ii) to support lending to the economy; and (iii) to ensure sufficient monetary accommodation to achieve price stability in the euro area over the medium term. The measures focused on asset purchases and liquidity-providing operations.

The Banco de Portugal contributed to the definition of these monetary policy measures through the participation of the Governor in the Governing Council of the ECB and the participation of its staff in the technical committees that assist the Governing Council, namely the Monetary Policy Committee, the Market Operations Committee, the Risk Management Committee and the Legal Committee. In addition, the Bank ensured the implementation of the measures taken in relation to resident credit institutions and asset purchase programmes.

The most significant decisions were taken in March and April, when the initial spread of the disease and lockdown measures generated tensions in financial markets and high liquidity needs in firms. The severe implications of the pandemic for the economic outlook and the extension of the expected period of low inflation in the euro area gave rise to further interventions in June and December.

The ECB increased the amounts and flexibility of its asset purchases. The existing asset purchase programme (APP) was expanded in March with a temporary envelope of €120 billion until the end of the year. A new temporary pandemic emergency purchase programme (PEPP) was also launched in March. Purchases under the PEPP are conducted in a flexible manner over time, across asset classes and among jurisdictions. The initial PEPP envelope of €750 billion, at least until December 2020, was expanded in June and again in December to €1,850 billion, at least until March 2022.

The ECB also provided large-scale liquidity under very attractive conditions for the banking system. In March and April, the prices and amounts of the third series of targeted longer-term refinancing operations (TLTRO III) were made more favourable. In April, additional non-targeted longer-term refinancing operations were offered, including a new series of pandemic emergency longer-term refinancing operations (PELTROs). To ensure that euro area banks could obtain the necessary liquidity, the ECB temporarily relaxed the eligibility criteria and risk control measures applied to assets eligible for refinancing operations. In December, the Governing Council recalibrated the terms of the TLTRO III operations, offered a number of additional TLTRO III operations and PELTROs and extended the measures relaxing the collateral requirements until June 2022.

The technical details and implementation of these measures in Portugal are discussed in Chapter 2.

The ECB reactivated and established liquidity-providing arrangements with non-euro area central banks. In June, it set up a new Eurosystem repo facility for central banks (EUREP) to meet pandemic-related euro liquidity needs outside the euro area. In December, this facility and the temporary arrangements were extended until March 2022.

The monetary policy measures adopted, together with the response of fiscal and macroprudential policies at national and European level, were successful in containing initial tensions in financial markets and protecting the flow of credit to the economy. The ECB's actions also helped preserve accommodative financial conditions in the euro area, together with the substantial monetary stimulus already underway. Monetary policy thus helped mitigate the effects of the pandemic on economic activity in euro area countries.

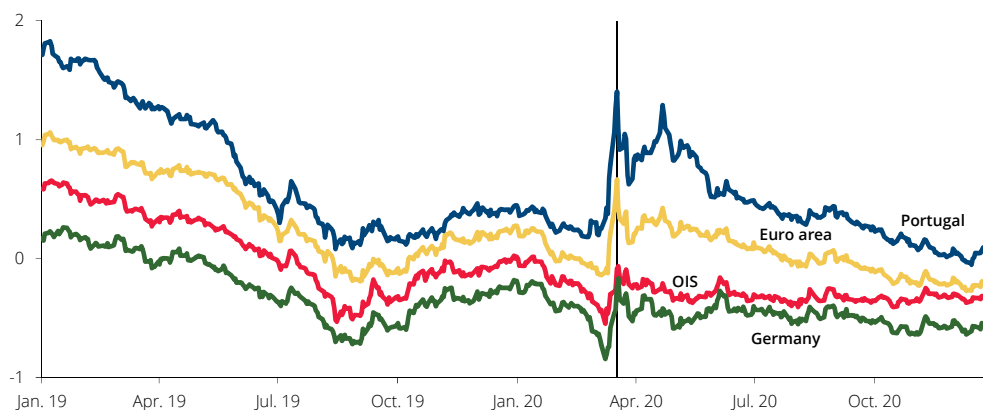
Increased asset purchases by the ECB and, in particular, the announcement of the PEPP were a stabilising force for financial markets. Until mid-March, the danger of adverse loops from asset price corrections was tangible, given investors' perception of increased risk and flight to safe assets. In the Monetary Union, these tensions could generate volatility in the spreads of government bond yields and impair the smooth transmission of monetary policy to the entire euro area.

The announcement of the PEPP, under which purchases are conducted in a flexible manner, countered the ongoing tightening of financial conditions in the euro area (Chart I.1.1). The risk-free long-term interest rate and, above all, the spreads of the sovereign bond yields of euro area countries declined, in particular for those countries deemed more vulnerable. As markets stabilised, the PEPP continued to contribute to monetary accommodation in the euro area, especially after the recalibration in June. According to ECB estimates, the decisions on the PEPP in March and June and on the APP's additional temporary envelope reduced the ten-year euro area sovereign bond yield by 45 basis points.

The provision of liquidity by the ECB and, in particular, the TLTRO III operations contributed to removing risks of a credit crunch, given the crucial role played by banks in financial intermediation in the euro area. In the context of a strong increase in the liquidity needs of firms, but also increased default risks, the liquidity provided by the central bank helped maintain the necessary flow of credit to the economy. Public loan guarantees and the easing of prudential requirements also helped support lending.

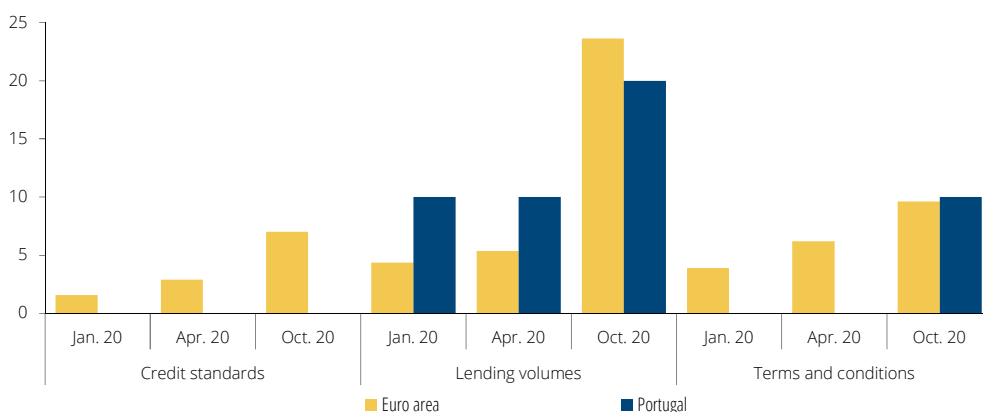
The amounts allotted in the TLTRO III operations totalled €1,648 billion in the euro area (the June operation reached the highest ever value in a single liquidity-providing operation). The responses of euro area banks, including Portuguese banks, to the Bank Lending Survey suggest that the funds raised in the TLTRO III operations were largely used for granting loans, increasing the lending volume and easing the terms offered to customers (Chart I.1.2). Similarly, the acceleration of bank loans to non-financial corporations from March onwards and continued low interest rates on new loans suggest that the measures taken by the various authorities played an important role (Chart I.1.3).

Chart I.1.1 • Ten-year risk-free overnight index swap rate (OIS) and sovereign bond yields for the euro area and euro area countries (2019-2020) | Per cent



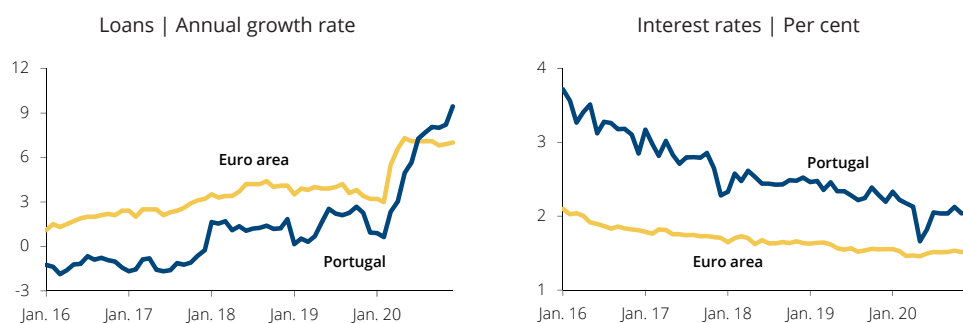
Sources: ECB and Refinitiv. | Notes: (a) Euro area – ten-year GDP-weighted sovereign bond yields of euro area countries. (b) The vertical line signals the announcement of the PEPP.

Chart I.1.2 • Impact of the TLTRO III operations on loans to enterprises over the past six months as reported in the Bank Lending Survey (2020) | Diffusion index



Source: ECB. | Note: The diffusion index compiles the individual responses of banks, according to the direction and intensity of the response. Zero corresponds to “no impact”; figures above zero indicate that the TLTRO III operations helped ease credit standards and terms and conditions and increase lending volumes.

Chart I.1.3 • Loans and interest rates on new loans to non-financial corporations (2016-2020)



Source: ECB. | Notes: (a) Loans – adjusted for sales, securitisation and notional cash pooling. (b) Interest rates – cost of borrowing calculated by aggregating rates on new short- and long-term loans using a 24-month moving average of new business volumes.

By preserving favourable financial conditions, the measures adopted by the ECB contributed to supporting economic activity and, ultimately, price stability in the euro area. According to an analysis by the ECB, the main decisions announced until June (PEPP, expansion of the APP and recalibration of TLTRO III operations) could have a cumulative impact of 1.3 percentage points on GDP growth and 0.8 percentage points on euro area inflation in the period 2020-22.

1.2 Protection of loans to households and firms

At the end of March 2020, exceptional legislative measures to protect loans to households and firms entered into force in Portugal. A public moratorium was approved, initially until 30 September 2020, which determined the extension or temporary suspension of principal and interest payments on loans to certain borrowers (sole proprietors, firms, private social solidarity institutions and non-profit associations) affected by the pandemic, provided they met the eligibility conditions. The public moratorium regime was subject to changes in its scope, period of access and duration. The Banco de Portugal participated in the preparation and revision of the legislation on the public moratorium, sharing economic and financial information with the Ministry of Finance and providing advice within its fields of competence.

Private moratoria were also granted by credit institutions to their customers, covering personal and car loans and mortgage credit agreements not intended to finance the purchase of permanent residence until June 2020. As of that date, all mortgage credit agreements have been covered by the public moratorium.

The Banco de Portugal established duties of information to customers to be complied with by institutions in public and private moratoria (Notice of the Banco de Portugal No 2/2020). The institutions were asked to disclose the moratoria to bank customers and to provide information on the characteristics of the moratoria made available, their eligibility requirements and procedures, as well as their impact on the instalment amount and loan repayment period. The Bank also required



The Banco de Portugal released all the relevant pandemic-related information on a dedicated webpage of its institutional website.

institutions to regularly report on requests for access and agreements covered by the credit moratoria, as well as on measures taken and applications rejected.

On the Bank Customer Website, the Bank published information on the rights and duties of bank customers in credit moratoria and answered 385 requests for information on the subject. In order to assess compliance by institutions with the obligations to provide assistance and information to customers on the eligibility requirements and characteristics of public and private moratoria, the Banco de Portugal carried out an inspection on the websites of 99 institutions, which accounted for almost all of the agreements that could be covered by the credit moratoria. It also received 1,431 complaints from bank customers regarding the application of moratoria and had completed the analysis of 52% of these complaints by the end of the year. As part of its monitoring of the application of the moratoria, the Bank issued 284 specific orders to 100 institutions and launched five administrative offence proceedings against five institutions.

1.3 Monitoring of financial institutions and relaxation of supervisory measures

In coordination with the ECB, the Banco de Portugal took measures to enable banks to use the combined capital buffer and temporarily relaxed requirements for compliance with the recommended levels of capital (Pillar 2 Guidance) and liquidity coverage requirements, in order for banks to absorb losses and finance the economy.

As the macroprudential authority, the Bank postponed by one year the period of gradual implementation of the buffer applicable to institutions designated as other systemically important institutions (O-SIIs). The buffer rate to be met by 1 January 2021 by the six banking groups designated as O-SIIs in Portugal was postponed to 1 January 2022. The analytical framework underlying the application of the countercyclical capital buffer was revised by adding macroeconomic and financial indicators that signal periods of abrupt risk materialisation contemporaneously. However, the countercyclical capital buffer, applicable to domestic exposures throughout 2020 and in the first quarter of 2021, remained at 0% of total exposures.

The Bank temporarily relaxed certain restrictions imposed on institutions when granting new housing loans and consumer credit, adjusting the macroprudential measure. However, it concluded that no new personal loans falling within the temporary exceptions had been granted up to September 2020 and therefore decided not to extend their duration beyond 1 October 2020.

To avoid disruptions in the provision of banking services, the Banco de Portugal issued recommendations for the financial system on business continuity and the ongoing functioning of essential banking services. It carried out supervisory actions with the aim of anticipating risks and encouraging improvements in strategic planning. Supervisory actions focusing on the risk management of non-performing loans under moratoria and the adequacy of impairment coverage were also reinforced. Additionally, supervised institutions were required to set out strategies to mitigate the potential negative effects resulting from the termination of moratoria and external auditors were required to assess the adequacy of these strategies.

In order to strengthen the capacity of banks to absorb potential losses arising from the pandemic, while continuing to support households and firms, the Banco de Portugal recommended to supervised institutions not to distribute dividends for the financial years 2019 and 2020 and to adopt stricter measures when granting and paying variable remuneration.

At the same time, the Banco de Portugal participated in the work of national and international authorities on the response to the pandemic, which resulted in the issuing of guidelines on financial stability. It provided support to the government in the negotiation process regarding legislative proposals by the European Commission to amend the EU's prudential regulatory framework in response to the crisis. At the EBA and the SSM, the Bank participated in the work that resulted in the relaxation of prudential requirements and the definition of the terms and conditions for the extension of credit obligation payment terms, associated with public and private moratoria, to avoid triggering the obligor's default or the definition of forbearance. It also participated in the work carried out by the European Systemic Risk Board, with emphasis on the issuance of recommendations on limiting dividend distribution, share buy-backs and other forms of shareholder remuneration and the monitoring of the implications for financial stability of credit moratoria, public guarantees associated with the granting of credit and other government measures to support the economy.

1.4 Functioning of payment systems and means of payment

The Banco de Portugal ensured the availability of payment infrastructures and promoted a swift response to changes in the payment behaviour of consumers and merchants as a result of the lockdown and the need for social distancing.

By operating and monitoring the various payment infrastructures, the Bank guaranteed the continuity and security of the transactions of economic agents, ensuring that liquidity continued to flow in the economy and that consumers made their payments without disruption or loss of service quality. It also implemented the operational framework of the European programme of loans disbursed to Member States for Support to mitigate Unemployment Risks in an Emergency (SURE), allowing Portugal to receive the first tranche of funds at the beginning of December 2020.

In close coordination with the Portuguese Payment Systems Interbank Commission and the Payment Systems Forum, the Bank changed the maximum amount per contactless transaction without the need to enter a PIN from €20 to €50, a practice that was subsequently followed by other countries and recommended by the EBA. This measure was disclosed on 24 March 2020 and, given its market acceptance, was made permanent on 13 July 2020.

The use of payment cards was promoted by Decree-Law No 10-H/2020 of 26 March 2020, the implementation of which was monitored by the Banco de Portugal. This Decree-Law established exceptional and interim measures to promote the acceptance of card-based payments and determined, inter alia, that during the first months of the pandemic, merchants with point-of-sale terminals could not refuse or limit card-based payments for any goods or services, regardless of the transaction amount. It also prohibited changes to certain aspects of the fees for these transactions, so as not to increase the burden on merchants.

In view of the growing use of digital channels to access banking products and services, the Banco de Portugal disclosed information on related cybersecurity risks on the Bank Customer Website and on social networks. In digital financial education initiatives, the Bank held a webinar for teachers, together with the Directorate-General for Education, on precautions to take when conducting banking transactions and purchases online or through apps. This campaign was highlighted in the report

Advancing the Digital Financial Inclusion of Youth by the Organisation for Economic Co-operation and Development (OECD), published in July 2020. During the European Cybersecurity Month, tips on how to safely access banking products and services on digital channels were disclosed on the Bank Customer Website.

During lockdown, the Bank continued to ensure the supply of cash to the banking system. Cash withdrawal and deposit operations were carried out, as usual, through the Carregado Complex, the Porto Branch, the Faro Agency and the Regional Delegations in the Azores and Madeira. Cash continued to be transported across the country and the Banco de Portugal continued to sort banknotes without delay.

Valora, S.A., the printing works of the Banco de Portugal, was the only printing works to work

uninterruptedly in the Eurosystem as a whole. From 16 March to 22 May 2020, more than 63 million banknotes were printed, in compliance with the banknote delivery plan to the Banco de Portugal. The banknote delivery plan to other central banks was also met, at a time of greater shortages of a number of denominations due to growth in demand for banknotes as a store of value.



The Banco de Portugal published the measures with an impact on retailers and consumers also through social media.

1.5 Monitoring the economic activity and the financial system

The Banco de Portugal launched initiatives to monitor the evolution of the Portuguese economy during the COVID-19 pandemic. The use of past empirical regularities is questionable in view of an unparalleled and profound change in agents' behaviour. This called for new data collection and analysis, the design of innovative analysis and forecasting tools, and expert studies.

The Fast and Exceptional Enterprise Survey (*IREE – Inquérito Rápido e Excepcional às Empresas*), conducted in partnership with Statistics Portugal, provided immediate information on the impact of the pandemic shock on the economy. This information provides details on the activity of a representative panel of firms, including their sales and staff numbers, collected every week in April and every two weeks from May onwards. The survey was suspended in July but resumed in November, as the pandemic situation deteriorated. The Banco de Portugal used IREE data in several issues of the *Economic Bulletin*. The IREE also made it possible to carry out a preliminary assessment of business support policies, in particular the simplified layoff.

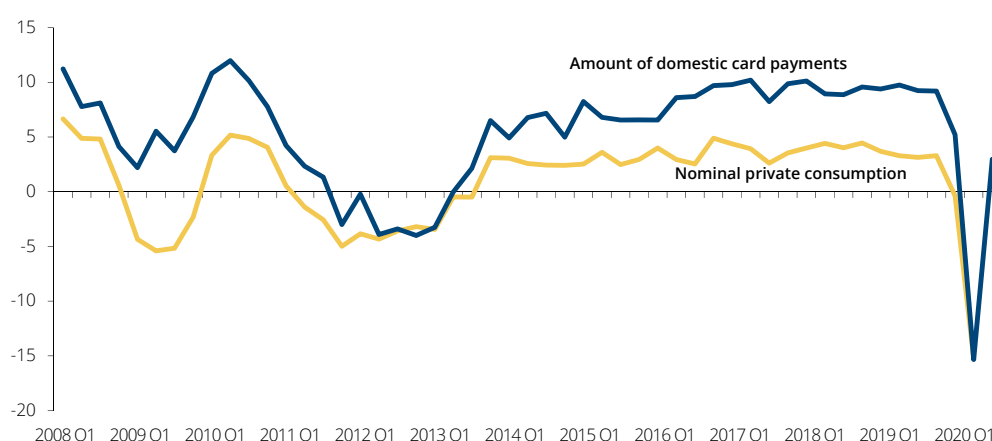
Some types of data assumed greater relevance against traditional indicators when assessing the Portuguese economy. This is the case of measures with a higher (daily, weekly or monthly) frequency than that of national accounts and which are available shortly after the period to which they refer. For example, foreign debit or credit card transactions are now crucial to estimate tourism service exports; mobility data help measure the overall level of economic activity; and card payments by residents make it possible to infer key shares of private consumption (Chart I.1.4).



The Fast and Exceptional Enterprise Survey, held in partnership with Statistics Portugal, made it possible to collect information on the impact of the pandemic shock on the economy.

In terms of data access and availability to the public, the Bank brought forward the publication of statistics on monetary financial institutions' balance sheet, interest rates and securities issues by approximately ten, six and two working days, respectively. It made new information available on BPstat regarding public debt, budget outturn and indebtedness of the non-financial sector and began publishing a new preliminary indicator of the travel component of the Balance of Payments on a monthly basis. It also launched the page “Follow the impact of COVID-19 on the Portuguese economy” on BPstat, which shows the evolution of 30 macroeconomic indicators, including GDP, inflation, public debt and non-financial sector indebtedness.

Chart I.1.4 • Private consumption and domestic card payments (2019 Q1 – 2020 Q4) | Year-on-year percentage change

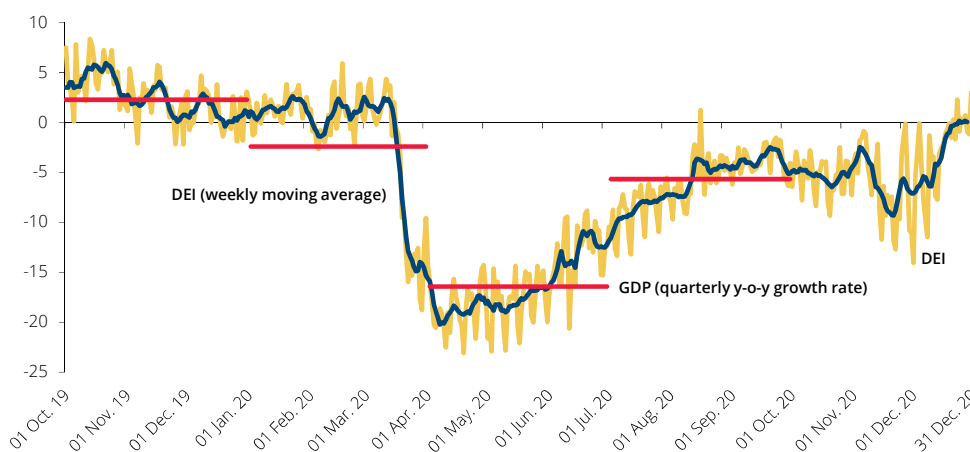


Sources: Statistics Portugal and SIBS (Banco de Portugal calculations). | Note: Seasonally unadjusted series. For further details, see the Special Issue “The impact of the pandemic on private consumption: evidence from card spending data”, in the December *Economic Bulletin*.

The Bank developed innovative analytical methodologies. The daily economic indicator (DEI) is such an example, using up to five high-frequency variables and compressing them into a single daily value

purged from weekly or monthly seasonal effects. The properties of this indicator make it possible to estimate quasi-real time economic activity and are also useful for making macroeconomic projections (Chart I.1.5).

Chart I.1.5 • Evolution of the daily economic indicator (DEI), (2019 Q4 – 2020 Q4) | Year-on-year percentage change



Source: Banco de Portugal. | Note: See Lourenço, N. and Rua, A. (2020) "The DEI: tracking economic activity daily during the lockdown", Banco de Portugal, *Working Paper* No 13.

In other cases, the analysis was innovative by combining methodologies and previously unused data. In the May issue of the *Economic Bulletin*, an assessment was made of the layoff measures implemented thus far in terms of the capacity of Portuguese firms and households to absorb the economic shock.

It was also necessary to change commonly used methodologies, as in the case of macroeconomic projections for the Portuguese economy. Examples of these changes were the use of an additional supply-side approach to assess the depth of the economic crisis and the publication of alternative scenarios in the March issue of the *Economic Bulletin*. Tools for analysing the financial system were also adapted to take account of economic impacts and policy measures on financial stability. A forward-looking exercise on the financial vulnerability of firms, based on alternative macroeconomic scenarios, was published.

Five studies on different aspects of the pandemic were published in Banco de Portugal *Economic Studies* and the *Papers* series, in addition to the analyses published in the *Economic Bulletin* and the *Financial Stability Report* throughout the year.

1.6 Business continuity management

The Banco de Portugal implemented a cross-sectional model for remote working, cut the number of teams working on-site, adopted job-rotation practices and set up a flexible and simplified employee absence scheme. These measures aimed at ensuring the continuity of the Bank's activity and, at the same time, the workers' protection, in accordance with health authorities' guidelines. The same wage amounts continued to be paid to workers who were: (i) looking after their children, spouse, parents or parents-in-law dependent on the worker and not able to attend temporarily closed social care facilities; (ii) performing internal functions incompatible with teleworking; (iii) taking part in rotating teams (iv) absent on medical advice from the Medical and Occupational Health Services Unit.

To ensure widespread access to teleworking, laptops and mobile devices were made available, collaborative and mobility IT solutions were implemented, the infrastructure to support remote access was strengthened, and new cybersecurity tools were developed. These initiatives, together with investments in information systems and technologies in previous years, enabled the Bank, in just over a week, to implement remote working for 90% of its employees and ensure that key functions were performed without interruption.

Both the activity and the facilities were adapted to ensure the safety of its workers, service providers and the public. A set of practices and procedures in terms of legal compliance, hygiene and disinfection protocols, safety and health at work, and facilities and environment safety were developed, implemented and monitored. These measures were certified by the Bureau Veritas, which awarded the Bank the Global Safe Site label.

To ensure business continuity, and in particular of critical activities for the financial system related to payment infrastructures, the disaster recovery centre was activated and part of the teams supporting the national financial system were relocated there. This served to reduce the contagion risk among the teams and ensure the maintenance of adequate and timely support to the national financial system. Between 18 March and 18 May, face-to-face customer service throughout the country was carried out by appointment only and for services provided exclusively by the Bank, such as the exchange of damaged banknotes and Portuguese escudos, or to citizens unable to use or access online services, or experiencing difficulties.

1.7 Social responsibility

Community actions were readjusted to respond to the new pandemic and lockdown context. The support given by Bank volunteers to students in need, from the first cycle of basic education to secondary education, in partnership with Entrepreneurs for Social Inclusion (Empresários pela Inclusão Social – EPIS) was provided remotely. The job shadowing programme, geared towards helping secondary school students explore different professional careers, was also carried out at a distance.

The Bank and its employees donated 287 laptops to students from schools across the country lacking digital devices for home learning.

Given the food emergency, the Bank provided 250 meals a day and 500 on Fridays, in partnership with Re-food, to be distributed to communities close to the buildings of the Bank.

2 Price stability in the euro area

The Banco de Portugal defined as a strategic guideline for the 2017-20 period to actively contribute to the single monetary policy in the euro area.

In recent years, the Banco de Portugal has taken part in setting out and implementing new monetary policy measures, which have made a decisive contribution to maintaining favourable financing conditions for the majority of economic agents and ultimately to the primary objective of price stability. The new liquidity-providing operations and asset purchase programmes are the most relevant of such measures.

Its contribution to establishing the methodology of the €STR, the new benchmark rate, which replaced EONIA as of 2 October 2019 is also noteworthy.

The Banco de Portugal has completed the development of its in-house credit assessment system, which now encompasses the set of non-financial corporations, providing the resident financial system with an additional credit rating tool for access to Eurosystem credit operations. It has also intensified its cooperation with the Eurosystem by making its monetary policy tender system available to the Lietuvos bankas.

Over the four-year period in question, the Banco de Portugal pursued the prudent management of financial risks and the safeguarding of financial soundness, diversifying its investments and introducing sustainability principles into asset management. It strengthened the contractual coverage of operations and renegotiated the gold custody agreement with the Bank of England. In all these areas, innovation was a permanent concern, resulting, inter alia, in the digitalisation of back-office operations and the preparation of a blockchain proof of concept for securities lending.

As regards payment systems and means of payment, the Bank participated in the drafting of the preliminary draft decree-law aimed at transposing the revised Payment Services Directive (PSD2), which materialised in Decree-Law No 91/2018 of 12 November 2018, produced the ancillary regulations and ensured that the new regulatory framework was implemented. It also monitored digital developments in the financial system, establishing a structured dialogue with financial sector innovators and conducting analysis and research on the new market players, the digital euro and crypto-assets. At the same time, it adapted the Portuguese retail payment system to the processing of instant transfers and ensured the connection of this new solution to the Eurosystem's equivalent service, which allowed for credit transfers at a domestic level and to other euro area countries, with funds being made available in the beneficiaries' accounts within a few seconds.

The following sections detail the activities carried out in 2020 in the field of monetary policy, asset management, oversight of payment systems and instruments and cash issuance.

2.1 Monetary policy

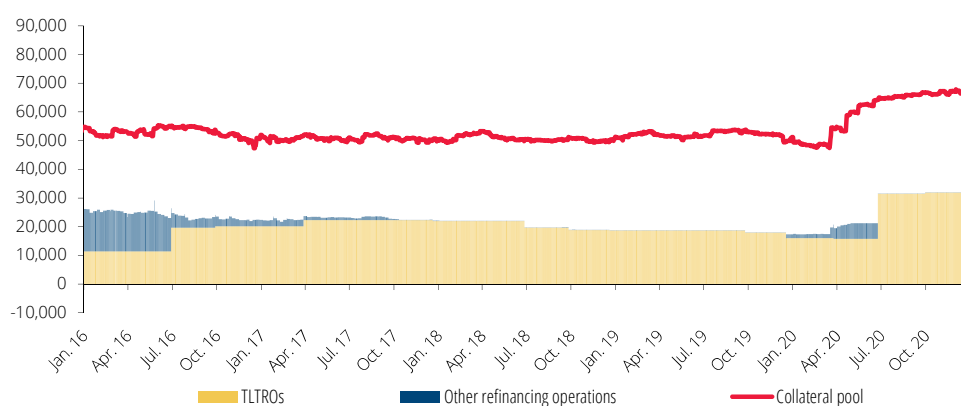
In 2020, the Governing Council of the ECB kept the official interest rates at the levels in place since September 2019: the rate on the main refinancing operations at 0%, the rate on the deposit facility at -0.50%, and the rate on the marginal lending facility at 0.25%. To mitigate the effects of the pandemic, it recalibrated and introduced new monetary policy instruments and adjusted the collateral framework (Chapter 1).

In order to support lending to the real economy, in March, April and December 2020 the Governing Council further eased the conditions on the third series of targeted longer-term refinancing operations (TLTRO-III). To this end, it (i) created a special interest rate period between June 2020

and June 2022, during which banks can benefit from an interest rate 50 basis points (bp) below the deposit facility rate if they maintain the credit level for the defined reference periods, (ii) increased the borrowing allowance from 50% to 55% of the total eligible credit amount and (iii) announced three new operations to be conducted in 2021. In Portugal the take-up of TLTRO-III up to the end of 2020 totalled €32 billion (Chart I.2.1).

In addition, weekly additional LTROs (LTRO-A) were introduced, with an interest rate equal to that on the deposit facility, aiming at providing liquidity under more favourable conditions for the euro area financial system up to the TLTRO-III in June. In April the ECB announced a new series of seven additional longer-term refinancing operations, called pandemic emergency longer-term refinancing operations (PELTROs), with an interest rate 25 basis points below the rate applied in the main refinancing operations. Their objective is to provide liquidity support to the euro area financial system and contribute to preserving the smooth functioning of money markets. In December a new PELTRO series was announced for 2021, with a maturity of one year and an interest rate similar to the rate applied in the first series.

Chart I.2.1 • Evolution of the outstanding amount and types of open market operations and standing facilities and the value of the collateral pool in Portugal (2016-2020) | EUR millions



Source: Banco de Portugal. | Note: TLTROs – targeted longer-term refinancing operations; Other refinancing operations: main refinancing operations, longer-term refinancing operations (including PELTROs and additional LTROs), marginal lending facility and deposit facility.

In order to enhance counterparties' access to Eurosystem credit operations, the ECB approved a package of temporary collateral easing measures. It increased its risk tolerance by lowering collateral valuation haircuts applied to marketable and non-marketable assets. It also decided to continue to accept, on a temporary basis, marketable assets that being eligible on 7 April saw a deterioration in their credit ratings, provided that these remain above a certain level of credit quality. At the same time, national central banks were able to expand their additional credit claims (ACCs) frameworks. In Portugal the ACC framework was expanded with the acceptance of bank loans granted under the public sector guarantee scheme and with unlisted commercial paper not registered in a central securities depository. The statistical component of the internal credit assessment system also began to be used as a source of credit assessment in the ACC framework.

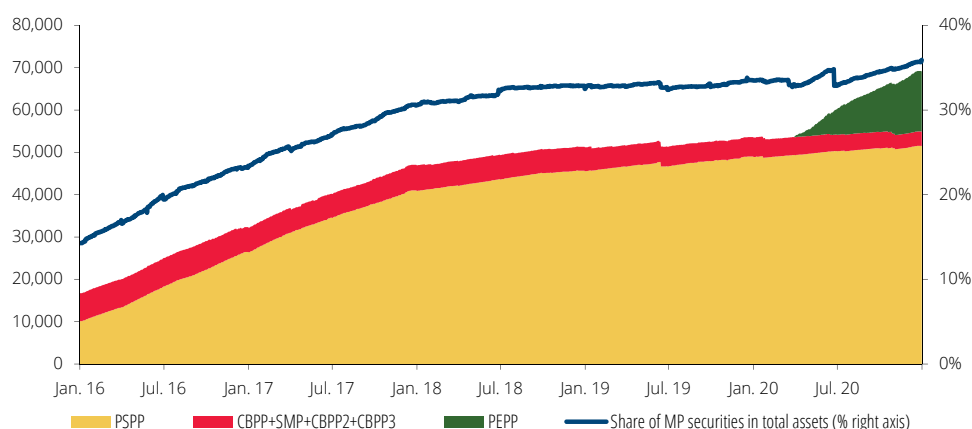
Overall, the measures adopted resulted in a significant increase in collateral available to monetary policy counterparties in Portugal (Table I.2.1). The haircut reduction had the most significant impact, leading to an immediate reinforcement of €5.2 billion (+ 9.7 %). By the end of December, the value of assets provided as collateral by the Portuguese counterparties had increased by 37% from February, to €67 billion, i.e. exceeding the credit value by 48.1%. In the Eurosystem, the total mobilised collateral amounted to around €2,600 billion at the end of 2020 (69% more than in February).

Table I.2.1 • Monetary policy implementation in Portugal, main indicators (2016-2020)

Main indicators	2016	2017	2018	2019	2020	Δ 2020-2019
Number of Eurosystem open market operations	136	126	127	133	256	92%
Number of open market operations in which resident counterparties participated	83	71	58	68	55	-19%
Number of standing facility operations involving resident counterparties	60	52	22	36	5	-86%
Number of eligible (resident) counterparties	37	37	36	35	34	-3%
Number of (resident) counterparties participating in open market operations and standing facilities	25	14	12	11	18	64%
Average outstanding amount of open market operations and standing facilities (EUR millions)	24,023	22,862	20,621	18,461	25,829	40%
Average outstanding amount of collateral pools (resident counterparties, EUR millions)	52,938	50,772	50,728	52,123	60,507	16%
Average outstanding amount of monetary policy portfolios (EUR millions)	24,729	40,174	49,319	52,102	60,107	15%

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

In asset purchase programmes, acquisitions are carried out in a decentralised manner by the various Eurosystem central banks, and for public sector assets are guided by the capital key of each national central bank in the ECB's capital. In the PEPP, contrary to the APP, they are conducted in a flexible manner over time across asset classes and among jurisdictions. The outstanding amount of the PEPP on the Banco de Portugal's balance sheet totalled €14.2 billion by the end of 2020, and was almost entirely made up of public sector securities (Chart I.1.2). The outstanding amount of the APP continued to increase, amounting to €54.8 billion by the end of 2020, the public component (PSPP) being the most representative, with a share of 94% in the total. Overall, the share of the monetary policy securities portfolios (PEPP and APP) in the Bank's total assets increased to 36% by the end of the year.

Chart I.2.2 • Evolution of the outstanding amount of asset purchase programmes in Portugal (2016-2020) | EUR millions

Source: Banco de Portugal.

No significant changes were observed in the year-on-year proportion of Portuguese debt accumulated by the Eurosystem in the total public sector purchase programme, which remained at 2.1% at the end of 2020. In the case of the PEPP, this proportion stood at 2.4% at the end of the year, i.e. above the Bank's capital key (2.3%).

Participation in the Eurosystem's monetary policy requires monitoring the associated financial risks, which are either borne by the Banco de Portugal or shared by the Eurosystem based on capital keys, depending on the purchase programmes or collateral provided by monetary policy counterparties. In outright purchase programmes, risk is associated with direct exposure to acquired assets and their issuers. With regard to Eurosystem credit operations, risk is associated with counterparties and indirectly with the credit quality of the assets received as collateral. Thus, the risk materialises only in the event that counterparties default and the liquidation value of collateral proves to be insufficient to cover the credit granted.

The Banco de Portugal controlled the risks of the monetary policy operations in which it intervened directly, by ensuring that the rules and the eligibility criteria in force within the Eurosystem related to counterparties and collateral were applied. Overall developments in risks associated with monetary policy operations were monitored within the integrated management policy for financial and non-financial risks pursued by the Banco de Portugal (Chapter 5).

Monetary policy strategy review

In January 2020 the Governing Council of the ECB launched a review of its monetary policy strategy. The aim of this review is to ensure that, amid profound changes in the euro area economy, the strategy remains suitable to pursue the ECB's mandate to maintain price stability.

The Banco de Portugal takes part in Eurosystem working groups set up to analyse relevant issues to the review. The review covers all aspects of monetary policy, including: (i) the quantitative formulation of price stability; (ii) how it analyses the economy to assess risks to price stability; (iii) the extent to which other issues such as employment, financial stability and climate change are also relevant; (iv) the effectiveness and potential side effects of the instruments it uses; and (v) communication practices.

The Governing Council of the ECB intends for this review to be based on a thorough analysis and conducted with an open-minded approach, while engaging with all stakeholders. To this end, the ECB and the national central banks are hosting listening events for the general public, civil society organisations and academia. In December 2020 the Banco de Portugal hosted its first public event of this kind, in the form of a webinar, addressed to the academic community. This event was attended by 245 teachers and students from 19 Portuguese schools of Economics and Management.

The review of the monetary policy strategy will continue into 2021 and should be completed in the second half of the year.

2.2 Asset management

The Banco de Portugal's own investment asset portfolio is composed of assets denominated in euro, in foreign currency and gold. Assets held in the trading portfolio, mostly denominated in euro, are actively managed and valued at market prices. Assets in the medium-term investment portfolio, fully denominated in euro, are held to maturity and valued according to the amortised cost criterion, subject to impairment losses. Assets in gold are valued at market prices. In 2020, the Bank increased its investment in green bonds, reinforcing its commitment to environmental sustainability in own investment asset management.

As at 31 December 2020, the Banco de Portugal's own investment asset portfolio was valued at €37,604 million, a 4.4% increase from the previous year. This rise resulted from an increase in the price of gold in euro, with an impact on its valuation (Chart I.2.3), which compensated the decrease in the amount of the medium-term investment portfolio. The value of the above-mentioned own investment asset portfolio does not correspond to that disclosed in Part II of this report, due to different valuation criteria.

The value of the trading portfolio at market prices and year-end exchange rates remained close to that observed at end-2019. Assets denominated in euro accounted for 86% of total assets.

The amount of the medium-term investment portfolio decreased compared with the previous year. The amounts that matured during the year were not reinvested, given the context of negative interest rates in the euro area, including for longer-dated yield curves of sovereign issuers eligible for investment.

As in previous years, the stock of gold held by the Banco de Portugal remained unchanged: 382.6 tonnes. Its value in euro increased by 14.3%.

The financial risk control framework for own investment asset operations is based on eligibility criteria and limits by institution, country, transaction and instrument, taking into account credit, foreign exchange and in terest rate risks of assets and transactions. These criteria and limits, revised on a regular basis, are enshrined in the internal guidelines approved by the Bank's Board of Directors.

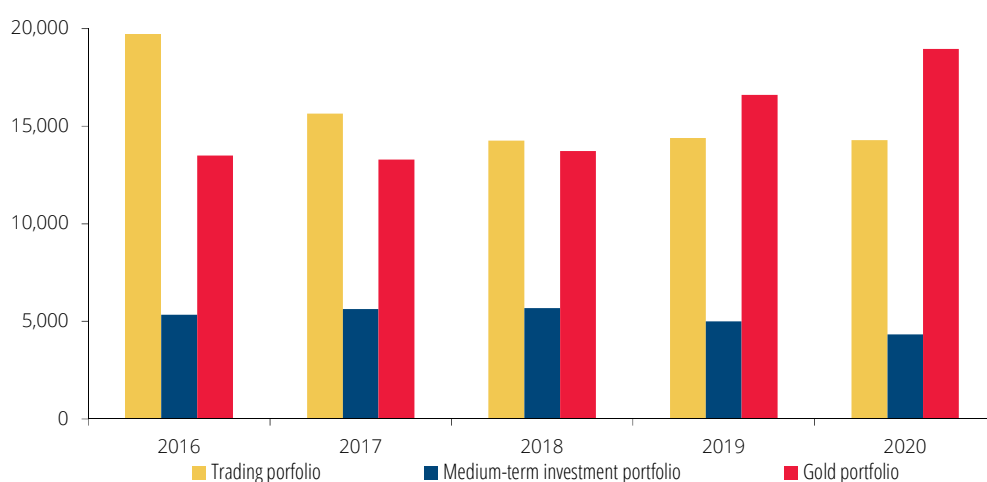
Valuation, return calculation and control of limits and restrictions on asset management operations and positions are performed daily through an internal information system similar to the one used by the ECB and by most Eurosystem NCBs. This system also carries out the financial settlement of operations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

In addition to its own assets portfolio, with the Lietuvos bankas, the Banco de Portugal manages two ECB reserve portfolios denominated in US dollars (USD) and Chinese renminbi (CNY). As at 31 December 2020, the portfolio in US dollars amounted to USD 1,189 million (€969 million) and the portfolio in CNY totalled CNY 4,172 million (€520 million).



In December 2020 the Banco de Portugal hosted its first public listening event on the monetary policy strategy review, in the form of a webinar.

Chart I.2.3 • Own investment asset portfolio (2016-2020) | EUR millions



Source: Banco de Portugal.

2.3 Payment systems and means of payment

New rules for electronic payments entered into force in the EU on 14 September 2019. As of that date, payment service providers are required to apply strong customer authentication whenever customers 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 payment fraud or other abuses.

As the competent authority for overseeing the new rules, in 2020 the Banco de Portugal evaluated the strong customer authentication mechanisms adopted by national payment service providers. Where applicable, it called for changes to ensure that those mechanisms comply with the existing regulatory framework and are accessible to all users.

In order to better adapt e-commerce to the new rules, the Banco de Portugal made use of the flexibility permitted by the EBA regarding the supervision of these requirements for online card payment transactions until 31 December 2020. Hence, the Bank analysed payment service providers' plans to migrate to procedures compatible with strong customer authentication for online card payments, held briefings and launched a communication campaign to alert the public to the importance of strong authentication for the security and efficiency of e-commerce payments. A national migration plan for strong customer authentication for card-based e-commerce, defined in the Payment Systems Forum, was also published.

The new rules also require payment service providers to have interfaces allowing for secure communication with other payment service providers, so that the latter can provide payment initiation services and account information services. In this context, the Banco de Portugal published a list of non-conformities identified in the monitoring of payment service providers and set deadlines for their correction. In addition, the Bank held a briefing session on this matter and published a document describing an efficient customer authentication journey.

The Banco de Portugal continued to deepen its interaction with Fintech operators in the domestic market, and its knowledge of the new technologies used in the provision of payment services. This interaction is crucial for the Bank to carry out its mission to regulate, oversee and promote the smooth operation of payment systems. The Bank organised the second Portugal FinLab edition and the launch of the third, an initiative of the National Council of Financial Supervisors (CNSF) aimed at bringing together innovators in the financial sector and the Portuguese regulators, shedding light on issues related to applicable regulatory requirements. A total of 32 projects applied to the second edition, eight of which were from foreign entities; among the 10 selected for analysis, the most represented sectors of activity were capital market, payments and regulatory technology (RegTech).

The Bank also maintained its dialogue 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, which have been working on promoting electronic payments and increasing payment security. This work resulted in the publication of the National Strategy for Retail Payments, which includes initiatives to be developed by 2022 to promote a better-informed society, leverage the benefits of digital transformation, contribute to a regulatory framework that fosters innovation and efficiency, and encourage the adoption of more secure payment solutions.

Functioning of market infrastructures

The continued availability and efficient operation of market infrastructures are crucial to ensure the movement of financial resources among economic agents and thus the smooth functioning of the economy.

In 2020 TARGET2-PT (the Portuguese component of the real-time gross settlement system for payments in euro) processed around 1.6 million transactions, totalling €1,727 billion (Chart I.2.4). The amount of transactions settled reached the lowest figure since 2011, due to the decrease in transactions between financial institutions, mainly customer transfers. This notwithstanding, the value settled remained broadly unchanged from the previous year. The decrease in the value of transactions between financial institutions was offset by the increase in operations with the Banco de Portugal, especially those related to the implementation of the monetary policy.

The national community settled 253,305 securities transactions in TARGET2-Securities (T2S), amounting to €159 billion, a 10.5% increase in volume and a 7.5% drop in value from 2019 (Chart I.2.5). Dynamics continued to be strongly driven by settlements related to the issue and redemption of Treasury bonds and bills.

In general, TARGET2 and T2S responded efficiently and safely. However, on 23 October TARGET2 recorded its largest operational incident since its inception in 2007, when all settlement services for payments in central bank money became unavailable for ten hours. The Banco de Portugal's action, in conjunction with the national community, led to the subsequent settlement of all pending payments.

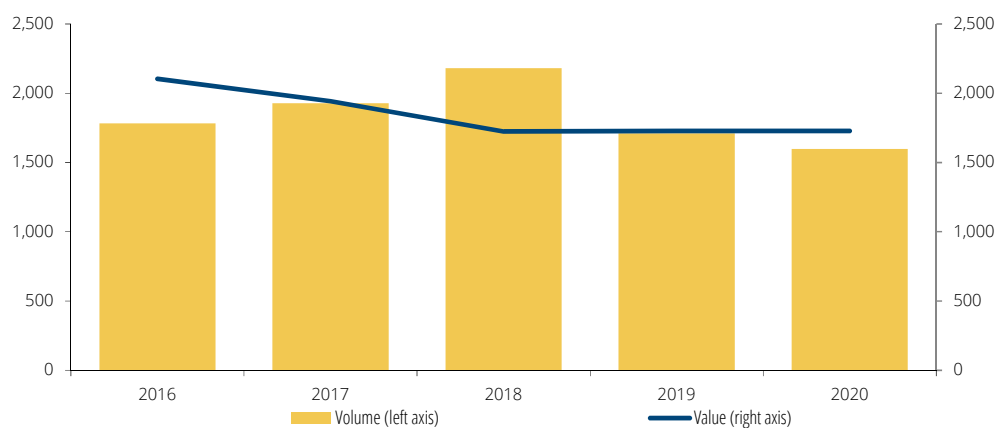
More than two years after the implementation of the solution in Portugal, allowing for immediate national transfers, on 14 October 2020, it became possible to carry out pan-European instant transfers with the same ease. This resulted from the completion of the project to link the national solution to the TARGET Instant Payment Settlement service (TIPS), the Eurosystem's instant transfer service. In the first two and a half months of national TIPS participants' activity, there was an upward trend in the use of instant transfers. During this period, 56,000 operations were sent and received, totalling €85 million.

The TARGET2 and T2S consolidation project, initially scheduled to go live on November 2021, was postponed by the Governing Council to November 2022. In this project, in 2020 the Bank took part in functional specification works, monitored the national community's compliance with the milestones set by the Eurosystem, disseminated information and launched training sessions with the national community. It also began testing to assess the quality of the new platform, a task entrusted to a small group of central banks.

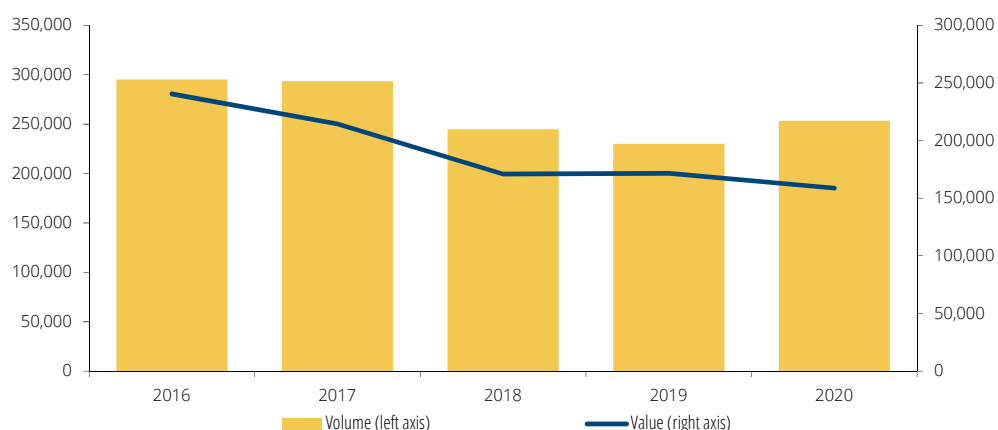
As TARGET2 operator, the Eurosystem promotes efforts among participants to mitigate the risk of payment fraud. In 2020, the Banco de Portugal continued monitoring the national community's compliance with the Eurosystem requirements on endpoint security and the SWIFT Customer Security Programme, which aim to address potential information security risks resulting from the activity of TARGET2 participants. Furthermore, it raised awareness among the institutions of the need for strict compliance with the security controls in force.



The National Strategy for Retail Payments includes initiatives to be undertaken up to 2022, to enhance the benefits of digital transformation in payments.

Chart I.2.4 • Overall transactions settled in TARGET2-PT (2016-2020) | Volume in thousands and value in EUR billions

Source: Banco de Portugal.

Chart I.2.5 • Securities settled by the national community (2016-2020) | Volume in thousands and value in EUR millions

Source: Banco de Portugal.

Also, in the sphere of market infrastructures, the Banco de Portugal provided custody services for the Portuguese State and to the Deposit Guarantee Fund. There was an increase in the latter's activity, mainly resulting from the merger of the Mutual Agricultural Credit Guarantee Fund with the Deposit Guarantee Fund.

Retail payment system

SICOI (the retail payment system that clears payments by cheque, bill of exchange, direct debit, credit transfer, bank card and instant transfer) processed 2.7 billion transactions, to the value of €501.5 billion. The number and amount of cleared transactions dropped, reversing the upward trend observed in recent years. This decrease reflects a downturn in economic activity.

Retail payments decreased more markedly in payments with paper-based instruments (-28% cheques and -25% bills of exchange). Direct debits and bank cards were also less used (-5% and -11%, respectively). In terms of volume, only credit transfers and instant transfers increased by

8% and 81% respectively. Nonetheless, card-based payment transactions continued to be predominant in total cleared transactions (85%). In value, credit transfers are still the most relevant (56%). Despite significant growth rates, instant transfers continued to have a residual weight in the total system, accounting for 0.2% of the volume and 1.2% of the total value of processed operations.

As at 31 December 2020, the list of cheque defaulters, disseminated by the Banco de Portugal through the banking system to prevent misuse of cheques, comprised 12,677 entities, representing a 13% decline compared with the previous year. During the year, 6,921 names or corporate names were added to this list and 8,835 entities were removed, either by decision of the Bank or due to compliance with the legal deadline.

Payment systems oversight

The Banco de Portugal continued to monitor the retail payment system (SICOI) and the large-value payment and securities settlement systems (national TARGET2 and TARGET2-Securities components) on a regular basis, assessing them from an operational and management perspective of cyber, liquidity, concentration and credit risks. On behalf of the Eurosystem, the Bank carried out the annual review and analysis of Interbolsa, the Portuguese central securities depository.

Banknotes and metal coins

In 2020, 533 million banknotes were withdrawn from the Banco de Portugal and 458 million deposited by credit institutions, corresponding to a 13% and 27% fall respectively, compared to 2019. The number of banknotes withdrawn was higher than that of banknotes deposited, thus reversing the downward trend in net issuance in Portugal since the introduction of the euro.

In 2020 the Bank checked the authenticity and fitness of 465 million banknotes received from the general public and credit institutions (170 million less than in 2019), of which 73 million were considered unfit. Although most banknotes are processed through high-speed machines, badly damaged or mutilated banknotes received by the Banco de Portugal are subject to a complex manual analysis and exchange process. In 2020 the Bank assessed 23,419 euro banknotes and 1,700 escudo banknotes under these conditions.

In Portugal, 12,028 counterfeit banknotes were removed from circulation (accounting for 2.8% of the total number of counterfeits seized in the euro area), mostly €20 and €50 banknotes. Moreover, 2,492 coins, mainly €2 and 50 cent coins, were removed from circulation.

The Banco de Portugal has been following the contraction in networks for access to the banking system, an issue that has been studied by other Eurosystem central banks and considered a priority by the ECB. In 2020, the Bank published the results of a study on the coverage of ATM networks and branches of credit institutions in terms of cash distribution to the population. The study concluded that these networks continue to offer a wide coverage in Portugal.

The year was also marked by the implementation of a metal currency exchange agreement with the Central Bank of Ireland, signed at the end of 2019, and the conclusion of another agreement with the Federal Public Service Finance of Belgium. In these two operations, the Bank sent out 19 million €2 coins in surplus in Portugal in exchange for 36 million €1 coins, 64.6 million 1 cent coins and 64.3 million 2 cent coins from those countries.

Until March, the Banco de Portugal had organised 101 face-to-face training courses on euro banknotes and coins, which brought together 2,560 participants. The Bank had also trained 14,493 cash handlers, mainly via e-learning.

3 Safeguarding of financial stability

Safeguarding financial stability is part of the Banco de Portugal's mission. In its Strategic Plan for 2017-20, the Bank established the promotion of the robustness and stability of the Portuguese financial system as the second Broad Strategic Guideline.

To achieve this, over the past four years the Bank has improved the conceptual framework for macroprudential policy and implemented measures to prevent and mitigate systemic risks, some of them pioneering measures. These aimed at increasing the resilience of the financial system and consumers to possible adverse shocks.

The focus of prudential supervision was on ensuring that banks have capital levels appropriate to their risk profiles and consistent with the minimum regulatory requirements, as well as promoting the strengthening of their internal governance and control mechanisms. The banks' business models were questioned to ensure their resilience to ongoing digital transformation and climate change risks. There was also a continued focus on reducing the stock of NPLs, which is one of the main vulnerabilities of the Portuguese banking system.

At the same time, supervisory action on money laundering and terrorist financing (ML/TF) prevention was strengthened, particularly in situations identified as riskier, such as in subsidiaries and branches located in third countries or operations with offshore jurisdictions.

Resilience in the banking sector was also enhanced by the establishment of resolution plans for all banks.

To further increase bank customer protection, the scope of banking conduct supervision was broadened. The Banco de Portugal started to supervise the activity of credit intermediaries, payment initiation service providers and account information service providers. The increasing use of digital channels also led the Bank to develop a digital financial education programme using awareness campaigns to promote safe use of digital channels by bank customers.

The sections below describe the Banco de Portugal's activity in 2020 to promote the robustness and stability of the Portuguese financial system, in addition to the activities described in Chapter 1.

3.1 Regulatory framework

In 2020 the Banco de Portugal participated in the development of new legislation and regulations of the European Union (EU) applicable to institutions subject to its supervision.

The Bank participated in the negotiation of European Commission proposals for the establishment of a scheme to promote sustainable investment ("Taxonomy Regulation") and in the assessment of directives governing the operation of retail banking markets, as well as in the revision of the Consumer Credit Directive, the Distance Marketing of Consumer Financial Services and the Mortgage Credit Directives. The Banco de Portugal continued to monitor matters related to the deepening of the Economic and Monetary Union, by providing technical support to the Ministry of Finance, drafting proposals and setting strategic guidelines on financial stability matters. For instance, the Bank monitored the processes for the establishment of a European deposit insurance scheme, the deepening of the capital markets union and the harmonisation of insolvency rules for credit institutions not compliant with the public interest criterion for the purposes of implementing resolution rules. The Bank was also involved in the work to transpose the European Directive on the security of network and information systems (NIS Directive) and in the drafting of the Regulation on digital operational resilience for the financial sector (DORA Regulation).

The Bank participated in the EBA's work on assessing the impacts of Basel reforms in the EU and in a benchmarking study on national loan enforcement frameworks, which made it possible to complete one of the points set in 2017 by the ECOFIN in the Action Plan to tackle non-performing loans in Europe. In addition, it implemented several of the EBA's guidelines on product oversight and governance arrangements for retail banking products.

With regard to the establishment of domestic standards, the Bank prepared the preliminary draft of a Banking Activity Code, submitted to the Ministry of Finance and subject to public consultation, in cooperation with the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros – CNSF). The Code is intended to replace the Legal Framework of Credit Institutions and Financial Companies, which has been in force since 1993. It incorporates the experience gained in prudential supervision and transposes the Banking Union's legal and institutional framework into Portuguese banking law.

In the CNSF, the Banco de Portugal worked on drafting proposals to transpose the Directive on the prudential supervision of investment firms and the Directive on the issue of covered bonds and covered bond public supervision. The Bank was also involved in the drafting of the legal act approving the rules for financial services between the EU and the United Kingdom after 31 December 2020.

With regard to ML/TF prevention, the Bank incorporated new powers related to the registration of entities operating with virtual assets and issued regulations revising the information to be contained in the Accounts Database and imposing new reporting requirements on entities operating in Portugal under the freedom to provide services.

The Banco de Portugal also issued opinions on a number of preliminary legislative drafts, notably the establishment of the Banco Português de Fomento and the public support system for over-indebtedness conciliation (*Sistema Público de Apoio à Conciliação no Sobre-endividamento*) and the preliminary legislative draft to transpose the European Directive laying down rules facilitating the use of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences.

3.2 Stability of the Portuguese financial system

The profitability of the Portuguese banking system decreased (Table I.3.1). These developments largely reflected increased credit impairment losses and lower income from financial operations. The reduction in the operating result was more subdued.

The Banco de Portugal continued to periodically monitor developments in asset quality indicators, in order to ensure the continuity of the improvement path recorded since June 2016. NPL ratios both gross and net of impairments continued to decline, albeit at a slower rate, reflecting greater difficulties in the sale and recovery of already existing NPLs.

Funding obtained by the Portuguese banking system from the Eurosystem reached 7.8% of assets, accounting for a 3.4 p.p. increase from December 2019. The liquidity coverage ratio increased to 251.6% as a result of the increase in government debt securities and central bank reserves, while capital ratios improved. Retained earnings and lower average risk weight contributed to such a result. The latter reflected the increase in exposure to government debt securities, cash balances at central banks and State-guaranteed loans, as well as the impact of the measures under Regulation (EU) 2020/873 of 24 June 2020, which adjusted the prudential regulatory regime applicable to credit institutions in the EU.

Table I.3.1 • Portuguese banking system indicators (2016-2020)

	Unit	2016	2017	2018	2019	2020
Total assets (gross)/GDP (nominal)	%	207.1	194.6	187.5	182.5	203.5
Profitability						
Return on assets (ROA) ^(a)	%	-0.31	-0.02	0.28	0.45	0.04
Operating result ^(b)	%	0.75	0.85	0.95	0.95	0.89
Net interest income ^(c)	%	1.5	1.6	1.6	1.6	1.5
Return on equity (ROE) ^(d)	%	-3.9	-0.2	3.0	4.9	0.5
Cost-to-Income ^(e)	%	59.4	52.8	60.3	59.2	58.0
Net profit for the year	EUR, millions	-1,244	-88	1,079	1,763	167
Liquidity						
Central bank funding ^(f)	%	6.4	6.3	5.3	4.4	7.8
Loan-to-deposit (Ltd) ratio ^(g)	%	95.5	92.5	89.0	87.1	84.9
Liquidity coverage ratio (LCR) ^(h)	%	150.8	173.5	196.4	218.5	251.6
Asset quality						
Ratio of non-performing loans (NPLs) ⁽ⁱ⁾	%	17.2	13.3	9.4	6.2	4.9
Households, house purchase ⁽ⁱ⁾	%	7.0	5.7	3.8	2.4	1.9
Households, consumption and other purposes ⁽ⁱ⁾	%	16.2	13.1	10.5	8.2	8.4
Non-financial corporations ⁽ⁱ⁾	%	29.5	25.2	18.5	12.3	9.6
NPL ratio (net of impairments) ⁽ⁱ⁾	%	9.4	6.7	4.5	3.0	2.2
Households, house purchase ⁽ⁱ⁾	%	5.5	4.4	2.7	1.8	1.3
Households, consumption and other purposes ⁽ⁱ⁾	%	6.0	4.9	4.2	3.4	2.8
Non-financial corporations ⁽ⁱ⁾	%	15.1	11.6	8.0	5.4	4.2
NPL impairment coverage ratio ^(k)	%	45.3	49.4	52.0	51.5	55.4
Households, house purchase ^(k)	%	21.0	22.8	27.1	26.3	30.7
Households, consumption and other purposes ^(k)	%	63.2	62.6	59.8	58.8	66.8
Non-financial corporations ^(k)	%	48.9	53.9	56.5	56.5	56.9
Total non-performing loans	EUR, millions	46,361	37,001	25,852	17,199	14,358
Total non-performing loans net of impairments	EUR, millions	25,364	18,728	12,420	8,347	6,401
Solvency						
Capital ratio ^(l)	%	12.3	15.1	15.1	16.9	18.1
Common Equity Tier 1 (CET 1) ratio ^(m)	%	11.4	13.9	13.2	14.3	15.4
Leverage ratio ⁽ⁿ⁾	%	6.6	7.8	7.3	7.9	7.7

Source: Banco de Portugal. | Notes: (a) Profit and loss before taxes as a percentage of average assets. (b) Net interest income and net fees and commissions less operational costs; as a percentage of average assets. (c) Difference between interest income and expenses on financial assets and liabilities; as a percentage of average assets. (d) Profit and loss before taxes as a percentage of average equity. (e) Ratio of operational costs to total operating income. (f) Central bank funding as a percentage of total assets. This corresponds almost entirely to Eurosystem funding. (g) Ratio of loans to customer deposits. (h) Ratio of available liquid assets to net cash outflows calculated in a 30-day stress scenario. (i) Ratio of the gross value of non-performing loans to the total gross value of loans. (j) Ratio of the value of non-performing loans net of impairments to the total gross value of loans. (k) Ratio of impairments recorded for non-performing loans to their gross value. (l) Ratio of total own funds to risk-weighted assets. (m) Ratio of Common Equity Tier 1 capital to risk-weighted assets. (n) Ratio of Tier 1 capital to total exposure (including total assets, derivatives and off-balance sheet positions, and possibly excluding exposures to central banks upon authorisation of the supervisory authority).

During the year, there were two missions from European institutions, as well as visits by International Monetary Fund (IMF) experts related to post-programme surveillance of economic and financial assistance to Portugal. The Banco de Portugal has an important role to play in these exercises, particularly in dealing with issues relating to the Portuguese financial sector.

In conjunction with the Ministry of Finance, the Bank also prepared the Portuguese Presidency of the Council of the EU, to be held in the first half of 2021.

Macroprudential policy

The Banco de Portugal monitored the implementation of the macroprudential Recommendation on new credit agreements for consumers, namely credit for house purchase and consumer credit, in order to prevent distortions of competition or behaviours that could diminish its effectiveness.

Significant convergence towards the limits set in the Recommendation continued. The percentage of house purchase credit granted to borrowers with a higher risk profile fell from 35% in July 2018 to 3% in December 2020.

In January 2020, the Banco de Portugal amended the Recommendation, reducing the maximum maturity of new personal credit to seven years. This decision was based on the persistent increase in average maturity and average amount of new personal credit, which might pose a risk to the financial system. This amendment excluded credit for education, healthcare and renewable energy, which continues to have a maximum maturity of ten years.

The exceptions provided for in the Recommendation for granting credit to borrowers with a DSTI ratio between 50% and 60% were reduced by up to 10% of the total amount of new credit granted by each institution. In addition, the 5% exception to the DSTI ratio limits will be maintained with regard to the total amount of credit granted by every institution and covered by the Recommendation.

The list of third countries to which the Portuguese banking system is exposed for the purposes of recognising and setting the countercyclical capital buffer, effective until the second quarter of 2021, has been updated and includes Brazil, Mozambique and Macao. Compared to the previous year, the list of countries now includes Brazil, but no longer includes Angola. However, the Banco de Portugal continues to monitor any developments in other direct and indirect exposures of the Portuguese banking system to Angola.

The following were identified as systemically important institutions (O-SII), in order of systemic importance: Banco Comercial Português (BCP), Caixa Geral de Depósitos (CGD), LSF Nani Investments, Santander Totta, Banco Português de Investimento and Caixa Económica Montepio Geral. The list of institutions was not modified from 2019, but there was a change in order by systemic importance: the BCP is now the banking group with the greatest systemic importance, replacing the CGD, but the change has no impact on the buffer to be held by each institution.

The Banco de Portugal also decided to extend for one year the reciprocity of the macroprudential measure taken by Sweden on exposures secured by residential property located in that country.

Prudential supervision

In 2020, four priorities have guided prudential supervision: (i) the strengthening of business models, (ii) appropriate credit risk management, (iii) the reinforcement of internal governance and control mechanisms, and (iv) the reinforcement of capital and liquidity positions. These priorities are in line with those set by the SSM for significant institutions, which consist of continuing the balance sheet correction and strengthening future resilience.

Aiming at strengthening business models, the Banco de Portugal acted to ensure that institutions maintain adequate credit standards while accompanying ongoing digital innovation. The Bank carried out cross-cutting inspections and analyses, assessing how institutions manage financial risks, cybersecurity risks and credit risks. Strategic plans for the digitalisation of banking institutions were also reviewed and recommendations were issued on this matter.

For credit risk, the concern was to ensure that institutions carefully manage such risk and monitor the concentration of high risks. The Bank issued a Circular Letter recommending that the management bodies approve credit operations that increase the risk to high-risk debtors.

As regards internal governance, the measures were targeted at ensuring a proper functioning of the management and supervisory bodies, internal control functions and external auditors. To assess the adequacy and effectiveness of the internal governance and control systems, five inspections were carried out and 67 opportunities for improvement were identified. The Bank implemented strict scrutiny of the members of the corporate bodies during the authorisation

processes, focusing on the assessment their suitability and preventing conflicts of interest, but also on a collective assessment and distribution of responsibilities within the management bodies. This led to a shift of the management and supervisory bodies of several institutions, with the issuance of 234 recommendations, especially in terms of enhancing qualifications and preventing conflicts of interest.

A substantial revision of the internal governance and control requirements for supervised institutions was also completed, culminating in the publication of Notice of the Banco de Portugal No 3/2020 and Instruction of the Banco de Portugal No 18/2020. These new tools have strengthened the requirements in terms of conduct and organisational culture, prevention of conflicts of interest, reporting of irregularities, outsourcing of internal control tasks and the IT support system, remuneration policies and practices, as well as set out obligations to report these matters to the supervisory authority. Two workshops were held to present these regulations to the supervised institutions and, together with the Order of Statutory Auditors, the Bank hosted a workshop addressed to firms and statutory auditors.

With regard to capital and liquidity management, the focus was to ensure that institutions maintain levels appropriate to their risk profiles and consistent with minimum regulatory requirements. In this context, the self-assessment processes for internal capital adequacy and internal liquidity were questioned and recommendations were issued for the non-distribution of dividends and the establishment of limits to the variable remuneration payment.

In 2020, following the annual Supervisory Review and Evaluation Process (SREP) to 12 less significant institutions, the Banco de Portugal issued 136 supervisory measures relating to capital, internal governance, credit risk and liquidity.

As for the supervision of payment institutions and electronic money issuers, a special audit using external auditors was carried out, aiming at validating the legal business requirements of 14 institutions. The results confirmed satisfactory compliance with the new legal requirements laid down by the Payment Services Directive (PSD2) and compliance with the internal control requirements, anti-money laundering mechanisms, accounting and prudential reporting and protection of users' funds. Opportunities for improvement were also identified and are being implemented.

Within the scope of entity authorisation, there were 180 authorisation proceedings, including the setting-up of new institutions, the acquisition of qualifying holdings, mergers and statutory amendments. In order to speed up these proceedings, the Banco de Portugal strengthened its communication with the applicants by informing them in advance of the main prudential concerns for access to financial activity.

On 31 December 2020, a total of 1,072 credit institutions, financial companies and payment institutions were registered (Table I.3.2). There were 87 fewer national institutions registered than at the end of the previous year. This decrease resulted mainly from the transfer of supervisory powers of investment fund and credit securitisation management companies to the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM), as well as from mergers between institutions. In turn, while 151 new institutions having their head office in European Economic Area States were registered under the freedom to provide services, there were also 430 fewer such institutions in Portugal at the end of the year. This significant reduction was mainly the result of Brexit. After the end of the transition period on 31 December 2020, 581 registrations were cancelled relating to institutions having head office in the United Kingdom and which were previously authorised to operate in Portugal under the EU passporting regime.

In 2020 there were also 497 registrations of members of corporate bodies, 480 registrations of qualifying holdings and 112 statutory amendments (Table I.3.3). The number of acts of registration

for the exercise of functions in corporate bodies decreased compared to the previous year, which is explained by the shrinking of the total number of institutions, but also because 2019 was a year of renewal of mandates in the corporate bodies of mutual agricultural credit banks.

Table I.3.2 • Total of registered institutions, by type (2016-2020)

	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Dec. 20	Δ 2020-2019
National institutions						
Credit institutions	173	170	165	165	164	-1
Financial companies	96	95	90	89	40	-49
Payment institutions	44	45	46	47	30	-17
Electronic money institutions	5	6	8	12	5	-7
Holding companies	32	31	29	24	14	-10
Branches of subsidiaries of EU-based credit institutions		1	2	3	2	-1
Branches of EU-based financial companies		1	1	2	0	-2
Registered representative offices of credit institutions and financial companies based abroad	20	20	20	22	22	0
	370	369	361	364	277	-87
Institutions based in EEA States, providing services						
Credit institutions	513	535	537	553	424	-129
Payment institutions	306	348	360	438	225	-213
Electronic money institutions	93	134	172	234	146	-88
	912	1,017	1,069	1,225	795	-430

Source: Banco de Portugal.

The Banco de Portugal continued to organise global information and dialogue initiatives with the banking sector. Several seminars were held with credit institutions on operational topics of prudential supervision. In November, the annual seminar was held on topics related to prudential reporting obligations to the Banco de Portugal (reporting quality, new reporting and future developments).

Table I.3.3 • Registration acts (2016-2020)

	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Dec. 20	Δ 2020-2019
Members of corporate bodies						
Management bodies	603	336	324	402	251	-151
Supervisory bodies	480	210	228	327	154	-173
Board of the general meeting	317	146	114	186	92	-94
	1,400	692	666	915	497	-418
Registration acts with regard to qualifying holdings	182	212	228	227	480	253
Statutory changes	89	75	56	112	112	0

Source: Banco de Portugal.

Banking conduct supervision

In 2020 the Banco de Portugal issued recommendations to institutions, which aimed to adapt to digital channels the rules on information transparency in the offering of products and services.

The Bank monitored institutions' compliance with the obligations to provide assistance and information, as well as the security requirements of the consumer credit signing-up process. It also monitored the offering of new digital payment services. In addition, it verified the fulfilment of institutions' obligations

relating to (i) the annual information provided in the bank statement on the fees on demand deposit accounts, (ii) the account switching service, (iii) the dissemination of information on basic bank accounts, and (iv) compliance with practices in the offering of basic bank accounts.

In monitoring the rules applied to consumer credit, the Bank carried out inspections of overdraft facilities and credit overrunning, credit cards, credit lines, current accounts and car loans, in order to assess the procedures adopted in the setting of the date of the agreements' conclusion, which is essential for monitoring compliance with the maximum APRC limit. For home loans and mortgage credit, a cross-cutting inspection was carried out to verify compliance of the information provided (i) in the European Standardised Information Sheet, (ii) in agreements on credit cost measures and (iii) periodically, during the lifetime of the credit agreement.

Throughout the year there was a significant increase in advertising campaigns on banking products and services. This led to an increase to 11,487 in the advertisements examined by the Banco de Portugal (Table I.3.4).

Compliance with the pre-contractual information provided in the "Key Information Document" of 54 structured deposits offered was assessed and the remuneration rates set by the institutions for the 110 deposits of this type that matured throughout the year were confirmed.

Complaints from bank customers about institutions' conduct increased by 8.6%, to 19,660. These developments are almost entirely explained by pandemic-related issues. 61.1% of the closed complaints showed no indication of infringement by the institution in question. For the remaining closed complaints, the issue was resolved by the institution, either on its own initiative or through the 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 3,025 specific orders and recommendations demanding correction of the irregularities detected. It also initiated 86 administrative offence proceedings.

The Banco de Portugal received 562 applications for authorisation to pursue the activity of credit intermediary and decided on 659 applications, of which it approved 438. At the end of 2020, a total of 5,079 credit intermediaries were registered. As credit intermediaries have to keep their register up to date with the Banco de Portugal, 4,567 requests for changes to the elements subject to registration were examined, of which 94.8% were approved.

The Bank received 74 bank customer complaints about credit intermediaries' conduct and monitored 74 advertisements released by these entities. In this context, it issued 50 specific orders, demanding correction of the irregularities, and initiated 22 administrative offence proceedings.

Within its powers to certify and monitor training entities of credit intermediaries and of employees of credit institutions involved in the offering of home loan and mortgage credit agreements, the Banco de Portugal examined and decided on two certification applications and monitored the activity of the certified entities.

As part of the #TopTip digital financial education campaign, which was launched in 2018 to raise awareness among young people of the care to be taken when using digital channels, initiatives were undertaken with schools. With the support of the regional network, the Bank promoted 213 training courses on financial literacy across the country, involving more than 7,000 participants. In addition to the usual topics, such as family budget, savings, credit and care in the use of digital channels, the credit moratoria regime was also a topic addressed.

Table I.3.4 • Key indicators for banking conduct supervision activity (2019-2020)

	2019	2020
Supervision of financial institutions		
Advertisements received	9,684	11,487
Key information documents for structured deposits	75	54
Remuneration rates on structured deposits	169	110
Consumer credit agreements concluded	1,599,172	1,217,024
Bank customer complaints	18,104	19,660
of which complaints on COVID-19 matters	N/A	1,662
Inspections Entities covered (a)		
Current accounts and payment instruments ^(b)	119	121
Basic bank accounts ^(b)	107	104
Consumer credit in digital channels ^(b)	15	88
Consumer credit ^(b)	8	96
Home loans and mortgage credit ^(b)	3	106
Credit moratoria	N/A	99
Correction of irregularities and sanctions		
Specific orders and recommendations	921	3,025
Administrative offence proceedings initiated	27	86
Supervision of credit intermediaries		
Authorisation proceedings concluded	5,170	659
Applications for authorisation accepted	3,762	438
Requests decided for changes to elements subject to registration	3,895	4,567
Requests for changes to elements subject to registration accepted	3,815	4,328
Advertisements received	57	74
Bank customer complaints	114	74
Inspections	45	0
Correction of irregularities and sanctions		
Specific orders and recommendations	325	50
Administrative offence proceedings initiated	0	22
Certification of training entities		
Requests received	4	2
Training entities certified	3	1
Financial education		
Training initiatives ^(c)	581	213
Number of participants	20,458	6,997
Requests for information		
Financial institutions	1,645	3,634
of which COVID-19 topics	N/A	477
Credit intermediaries	2,341	930

Source: Banco de Portugal. | Notes: (a) The figure corresponds to the number of institutions covered in each of the matters. (b) The Caixa Central – Caixa Central de Crédito Agrícola Mútuo, C. R. L. (Central Mutual Agricultural Credit Bank) and the mutual agricultural credit banks that are members of the Sistema Integrado do Crédito Agrícola Mútuo (SICAM, Integrated Mutual Agricultural Credit Scheme) were accounted for separately. (c) Banco de Portugal's initiatives.

In the CNSF, the Banco de Portugal continued to be involved in the implementation of the National Plan for Financial Education, in conjunction with the other financial supervisors. Train-the-trainer courses continued at the Portuguese Institute for Employment and Vocational Training, the Portuguese Agency for Competitiveness and Innovation, and Turismo de Portugal (the Portuguese Tourism Agency), aiming at supporting financial education of unemployed people, entrepreneurs



In February the Banco de Portugal hosted a session to promote the digital financial education campaign #TopTip at Escola Secundária de Lagoa in the Azores. This session was attended by Vice-Governor Luís Máximo dos Santos.

and managers of micro, small and medium-sized enterprises. The Financial Literacy Week occurred from 26 to 30 October and was promoted almost fully remotely and using social media.

At the end of 2020, the Banco de Portugal was invited by the Alliance for Financial Inclusion to co-host a remote course on the design and implementation of a national financial education strategy, which was attended by 135 participants from central banks and supervisory authorities from 40 countries.

At the International Financial Consumer Protection Organisation (FinCoNet), which brings together banking conduct supervisory authorities responsible for retail banking products and services, the Bank coordinated works on responsible lending and participated in the preparation of reports on advertising of retail banking products and services and on the use of innovative technological tools by banking conduct supervisors.

Legal enforcement

Some large-scale and complex administrative offence proceedings have been finalised and the number of long-pending proceedings continued to decrease. A final decision was taken for 148 administrative offence proceedings, of which only nine were judicially appealed (Table I.3.5).

Table I.3.5 • Administrative offence proceedings (2016-2020)

Overall indicators	2016	2017	2018	2019	2020	Δ 2020-2019
Proceedings carried forward from previous year	382	441	328 ^(b)	247 ^(b)	247 ^(b)	=
Proceedings initiated	276	156 ^(a)	113	115	204	+ 89
Proceedings concluded	217	271	195	117	148	+ 31
Proceedings pending at the end of the year	441	327 ^(b)	246 ^(b)	245 ^(b)	303	+ 58

Source: Banco de Portugal. | Notes: (a) Correction of the number of proceedings initiated in 2017. (b) The difference between the number of proceedings pending at the end of the year and the number of proceedings carried forward to the following year 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 non-authorised financial activity, the Banco de Portugal conducted off-site and on-site inquiries under 345 proceedings and conducted eight inspections. These led to the initiation of 14 administrative offence proceedings, 47 notifications to the Prosecutor General of the Portuguese Republic for signs of 69 criminal offences, and public warnings against 40 entities not authorised to conduct financial activity. Furthermore, the Bank cooperated in investigations with the judiciary and police authorities.

In terms of ML/TF prevention, reports were completed on two cross-cutting inspections, two other comprehensive inspections were conducted of large supervised institutions and 48 annual reports received by the Bank in this field (corresponding to 40 reporting entities), resulting in the issuance of more than 350 measures under its supervisory activity.

ML/TF prevention controls applied to the relationship with complex corporate structures and the identification of beneficial owners were also supervised. As for the proceedings for the setting-up and acquisition of qualifying holdings in financial institutions, the Banco de Portugal continued to intervene by checking controls and assessing the ML/TF risk associated with the shareholders.

The sectoral money laundering risk assessment of the institutional groups subject to the Bank's supervision was completed, as part of the broader ML/TF national risk assessment, whose summary conclusions were disseminated in June 2020. The assessment was conducted by the Coordination Commission AML/CFT (Comissão de Coordenação das Políticas de Prevenção e Combate ao Branqueamento de Capitais e ao Financiamento do Terrorismo), of which the Banco de Portugal is a member.

In terms of non-sanctioning enforcement, seven proceedings were examined for the possible withdrawal of authorisation granted to supervised institutions. Also, 23 proceedings were conducted for a possible reassessment of the suitability of the members of the management and supervisory bodies of supervised institutions, as well as five proceedings for suspension of the exercise of voting rights held by qualified shareholders of supervised entities.

The Bank also monitored 18 winding-up proceedings under the responsibility of State commissioners, judicial liquidators or liquidation committees appointed for that purpose.

Deposit Guarantee Fund and Resolution Fund

The Banco de Portugal continued to provide technical and administrative services required for the operation of the Deposit Guarantee Fund and the Resolution Fund.

The Banco de Portugal set the parameters for calculating the contributions due by member institutions and carried out the procedures for their calculation and collection.

As the designated authority for the Deposit Guarantee Fund, the Bank continued to ensure its participation in the working group on deposit guarantee schemes created by the EBA.

3.3 Resolution

The Banco de Portugal continued the resolution planning work in the context of the SRM. The resolvability analysis of each institution was improved and the targets for minimum requirements for eligible own funds and liabilities (MREL) were revised, in accordance with the rules introduced by the 'new banking package' (which includes the revisions of the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation – BRRD2 and SRMR2 respectively).

All institutions on which the Banco de Portugal directly exercises resolution functions were provided with resolution plans. The binding MREL requirements were also laid down for these institutions, in accordance with the rules introduced by the "new banking package".

Regarding the Single Resolution Board, the Banco de Portugal was represented in plenary sessions and in extended executive sessions whenever issues related to Portuguese credit institutions or institutions present in Portugal were at stake. In the various committees and technical working groups of the SRM and the EBA, it contributed to the setting of policies and methodologies to be applied in resolution measures.

The Banco de Portugal continued its work on the resolution measures applied to BES and BANIF. As regards BANIF, the independent statutory assessments following the implementation of resolution measures were completed, including an assessment of the losses that BANIF's shareholders and creditors would have borne if the bank had entered into liquidation on 20 December 2015. The Banco de Portugal continued to support the Resolution Fund in the monitoring of the agreements related to the sale of Novo Banco, particularly the contingent capitalisation agreement, and the monitoring of the activities of Oitante.

In accordance with Law No 15/2019 of 12 February 2019 on credit institutions using public funds, the Bank reported relevant information on Novo Banco to the Parliament.

3.4 Upholding the legality of the resolution and enforcement measures

The litigation involving the Banco de Portugal and the funds it operates remained high. There is still a high number of court cases resulting from the application of resolution measures to BES and BANIF in previous years. On the other hand, the sale of Novo Banco created specific litigation affecting the Banco de Portugal and the Resolution Fund, which extends to foreign jurisdictions and the Court of Justice of the European Union.

In these cases, in which the Banco de Portugal, the Deposit Guarantee Fund and the Resolution Fund are prosecuted, there were favourable rulings and several legal proceedings were finalised. The judgment rendered by the Administrative and Tax Court of Sintra on 4 November 2020 is noteworthy, as it dismissed the legal proceedings in which some unconstitutionality and illegality were claimed in relation to the resolution of BES. A case asking for the annulment of the sale of Novo Banco, which was pending before the Court of Justice of the European Union, was also finalised by reason of withdrawal on the plaintiffs' part.

Legal proceedings concerning the liquidation of BES and BANIF are still pending. The Banco de Portugal is responsible for monitoring these proceedings and providing support to the relevant court. Particularly important is its role in assessing the liability of board members for the insolvency of BES (culpable insolvency), which is still pending trial.

The Banco de Portugal also intervened in trial hearings at the Portuguese Competition, Regulation and Supervision Court, where judicially appealed decisions of administrative offence proceedings are judged. The intervention of the Banco de Portugal extends to instances of appeal, including the Constitutional Court. In these instances, judicial decisions were issued confirming the position held by the Banco de Portugal in administrative offence proceedings related to the "BES universe".

4 Knowledge creation and sharing

In its Strategic Plan for 2017-20, the Bank committed itself to contributing to informing public opinion about the Portuguese economy and European integration, working towards strengthening its capacity for analysis and policy advice, in the establishment of partnerships with academia and other national and international partners, and in the dissemination of the research and statistics it produces.

A research agenda was created for the four-year period, which allowed internal research to be centred around three strategic themes for understanding the Portuguese economy and its future developments in the context of the euro area: (i) the new challenges facing monetary policy and financial stability; (ii) the constraints and sustainability of Portuguese economic growth; and (iii) the future of institutions and public policies in Portugal and in the European Union. The Bank has published revised series of the national financial accounts and external statistics and disclosed data series for the Portuguese banking sector with an extended time span. It has also reformulated its statistical dissemination website, *BPstat*, enriching it with features and contents that facilitate the use and comprehension of published statistics.

The following sections describe the Bank's activity in 2020 in terms of knowledge creation and sharing.

4.1 Research

The research projects undertaken at the Banco de Portugal were in line with priorities in the research agenda and resulted in the publication of 23 studies in its *Working Papers* and *Occasional Papers* series and 15 articles in its *Economic Studies*. Thirty-one articles were published or accepted for publication in international scientific journals. The Bank also disclosed five studies prepared using information contained in its database on non-financial corporations in Portugal, included in the *Central Balance Sheet Studies* series. Giving continuity to its investment in disseminating legal knowledge, the Bank launched the second issue of the *Cadernos Jurídicos* (Legal Papers), which contained a legal opinion and judgement related with the resolution of Banco Espírito Santo, S.A., as well as a scientific article on the immunity from legal proceedings of the European Union before the courts of its Member States.

As part of its effort to disseminate knowledge of the Portuguese economy, the Banco de Portugal's Microdata Research Laboratory (BPLIM) provides microdata to researchers. BPLIM supported 31 new research projects; at the end of the year 117 projects involving 149 researchers were under way, of which 115 were external to the



Inequality was the topic discussed in the 10th Conference on Portuguese Economic Development in the European Area.

Bank. The researchers were from 14 Portuguese universities and 38 foreign universities, especially in Europe and the United States, as well as 10 mostly international non-university research institutions.

The Bank entered into two microdata sharing protocols for scientific purposes with the Institute for Employment and Vocational Training and the Institute for Financing Agriculture and Fishing.

The year was also marked by the launch of the National Roadmap for Adaptation 2100, developed in partnership with the Portuguese Environment Agency (APA), the Directorate-General for Territory (DGT), the Faculty of Sciences of the University of Lisbon (FCUL), the Portuguese Institute for Sea and Atmosphere (IPMA) and the Norwegian Directorate for Civil Protection (DSB). This multidisciplinary project aims to study the impact of climate change in Portugal under various scenarios of climate evolution. The Bank will lead the workforce dedicated to studying macroeconomic impacts. The project is expected to be concluded in 2023.

Some in-person activities to disseminate knowledge have been either cancelled or postponed. One example was the cycle of visits throughout the country that the Bank has led with the purpose of understanding the reality of Portuguese firms, especially their management practices and the way they approach innovation and export activities. Having visited enterprises in the North Region in 2019, the Bank, at the beginning of 2020, organised meetings with manufacturing enterprises in the Centre Region, but it postponed the activities planned with counterpart firms in the South.

However, for the first time it carried out a virtual workshop – the Workshop on Data Visualisation – and has organised distance learning courses, given by the Bank's specialists or invited experts, bringing together about 260 participants, including technical staff from the Bank, Portuguese general government and other central banks.

The Bank also organised the 10th Conference on Portuguese Economic Development in the European Area, dedicated this year to issues of inequality. The keynote speaker was Richard Blundell of University College London. The José da Silva Lopes Award was presented to the authors of the best masters' theses in Economics and for the first time, in Management. The Banco de Portugal also presented the Professor Jacinto Nunes Award to the best undergraduate students in Economics from ten Portuguese educational establishments, in appreciation of a field of study instrumental to its tasks.

Alongside the European Central Bank and 11 national central banks of the Eurosystem, it concluded the 9th and launched the 10th Generation Euro Students' Award, which aims to raise upper secondary students' awareness of monetary policy. 156 teams from 69 Portuguese schools participated in the 9th Award.

4.2 Statistics

The Banco de Portugal published 161 thousand statistical series about the Portuguese and euro area economies on the *BPstat* site, in compliance with the most exacting quality standards in terms of statistical dissemination and the goals/deadlines established in the *Statistical Activity Plan*.

BPstat, which was reformulated and relaunched at the end of 2019, was updated with new functionalities to explore statistics (including an application programming interface that allows external entities' databases to be automatically fed with data), 12 new domains and sub-domains and over 20,000 new statistical series.

On *BPstat*, the institutional website and social media, the Bank published 110 statistical press releases, containing the main statistical results divulged. *BPstat* also contains videos, explainers and infographics to ease the understanding of the concepts and statistical data. In November 2020, *BPstat* incorporated the information disclosed in the *Statistical Bulletin*, which can now be explored with all the functionalities available online. Over the year, *BPstat* received 620 thousand visits.

Aiming to share knowledge about the statistical information that it discloses, the Bank held two webinars in partnership with the Directorate-General for Education for upper-secondary teachers of economics, which engaged 354 participants and made 13 presentations in schools and universities to 950 students. At the beginning of the academic year it launched a communication campaign on social media entitled “My back-to-class essentials. #MyBPstat”, to foment the interest of students and teachers in official statistics and promote the educational materials available on *BPstat*.

With Eurostat and Statistics Portugal, the Bank organised the 2020 edition and launched the 2021 edition in Portugal of the European Statistics Competition, an initiative aiming at promoting statistical literacy among students and teachers in lower- and upper-secondary education. 229 teams from 76 Portuguese schools participated in the 2020 edition.

In cooperation with the ECB and the Irving Fisher Committee (forum on central bank statistics, under the auspices of the Bank for International Settlements – BIS), the Bank organised the conference “Bridging measurement challenges and analytical needs of external statistics: evolution or revolution?”, bringing together 160 experts from central banks and academics of 70 countries. Various topics were discussed at the conference, including, the usefulness of external statistics in policy decisions, the impact of globalisation and digitalisation, and the challenges associated with accounting for foreign direct investment and the activity carried out by multinational firms.



In February, the conference “Bridging measurement challenges and analytical needs of external statistics: evolution or revolution?” brought together experts from 70 countries at the Banco de Portugal’s premises.

5 Strengthening internal governance and organisation

In its Strategic Plan for 2017-20, the Banco de Portugal established, as its fourth Broad Strategic Guideline, the alignment of its organisational and governance model with the best practices adopted by Eurosystem NCBs.

Over the past four years, the Bank has improved its governance model, organisation and processes to meet the demands arising from both its new functions and the digital transformation. The regulatory framework and compliance with professional ethics and rules of conduct has been strengthened, notably by systematising procedures for preventing conflicts of interest and monitoring restrictions on private financial transactions. During this period a Data Protection Officer of the Banco de Portugal was appointed, and a data protection office was set up.

As regards human resources management, the focus has remained on training and skills development programmes, integrated in the Banco de Portugal Academy, and on internal mobility and the enhancement of recruitment and career policies. Particularly noteworthy for their leverage effect are the leadership training programmes and the Data Science School, set up to increase staff members' skills in IT, maths, statistics and information management.

In information technologies and systems, two structuring initiatives were implemented: the Digital Bank 2020 project, under which collaborative and mobility solutions were made available to staff members, allowing for increased productivity and better interaction among teams; and the integrated information management programme, developed to standardise and rationalise the information requested from the entities with which the Bank relates. A cybersecurity centre was also set up to increase cyber-attack protection and provide an integrated view of security incidents in the Portuguese financial sector. An innovation lab was created to carry out experimental work in response to various business cases. Also noteworthy was the evolution of the Banco de Portugal's data centre, which has made it possible to boost its resilience in business continuity.

In order to make its communications more effective, the Bank opened accounts on Twitter, YouTube and Instagram, and made changes to its regular publications, tailoring them to target audiences' expectations. A new financial and social support policy and new volunteering projects strengthened the Bank's relationship with the community. The four-year period was also marked by the publication of the *Banco de Portugal's Commitment to Sustainability and Sustainable Finance*, a document that sets out the guidelines for action in this field and, in particular, in the fight against climate change.

The following sections describe the most emblematic measures and the results achieved in 2020 in strengthening internal governance and functioning.

5.1 Internal governance

The Subcommittee for Sustainability and Sustainable Finance was set up within the Specialised Committee for Financial Supervision and Stability to monitor and coordinate sustainability-related issues, giving them cross-cutting coherence. The Specialised Committee for Document Management was also set up with the mission of fostering, coordinating and consolidating internal document management policies, principles and practices.

Some departmental restructuring processes were also implemented, and the functions of the General Secretariat were expanded to include the institutional relation with the Portuguese Parliament and the management of the Banco de Portugal's institutional memory. The reorganisation of the Markets and Reserve Management Department, now renamed the Markets Department, aimed to strengthen the link between the functions of monetary policy implementation and the reserve management, to boost innovation projects with practical application in asset management and monetary policy operations, and to aggregate activities of a cross-cutting nature. In the Legal Enforcement Department, the units and teams in the preventive supervision of money laundering and terrorist financing (ML/TF) area were enlarged, in line with the growing relevance of this function both at domestic and international levels. The organisational structure of the Banking Conduct Supervision Department was adjusted to ensure the capacity to intervene with the new supervised entities and against a background of technological innovation in the financial sector (Chapter 3).

5.2 Internal control and risk management

The Bank proceeded with the implementation of agile and integrated technological solutions to make data collection, information analysis and the management of internal audit processes easier. 26 audits were conducted, 17 of which exclusively domestic in scope and 9 in the context of the internal audit function of the European System of Central Banks, Eurosystem and SSM (Table I.5.1).

Table I.5.1 • Internal audits (2020)

Breakdown by function	Domestic	ESCB, Eurosystem and SSM
Governance, internal functioning and management quality	1	
Monetary policy and other operational duties		
Supervision and legal enforcement	1	2
Payment systems and processes		2
Cash issuance	5	1
Statistics		1
Reserve and financial asset management		
Resolution and deposit guarantee	4	
Cooperation and international relations		
Human resources		
IS/ICT	2	1
Security		
Budget and accounting	2	1
Communication and image management		
Legal matters		
Risk and compliance	1	1
Procurement and logistics (including contract management)	1	
Total	17	9

Source: Banco de Portugal.

The Bank's regular exercises on non-financial risk identification, assessment and mitigation have been revised in view of the impact of the shifting context in 2020. Identification and classification of the major risks of the Bank's activity have focused on the challenges facing its mission, and the main mitigation measures identified were covered by its Strategic Plan for 2017-20. A detailed mapping of

the Bank's non-financial risks has been completed, and its operational risk profile has been updated in view of the impact of the pandemic on its activity. The Bank's non-financial risk management has also benefited from the construction of the so-called main risk indicators, quantitative metrics that complemented the Internal Statement of Risk Acceptance Principles, approved by the Board of Directors in 2018 and which describes the risk appetite of the Bank.

Overall developments in financial risks were monitored, as usual, through the regular calculation of a number of indicators and risk measures based on standard methodologies in line with those used by the Eurosystem (Chapter 2).

In order to enhance the Bank's organisational resilience, an internal assessment of the corporate culture has been carried out, pointing to a favourable evolution of employees' perception of the relevance of ethical behaviours and standards when performing their duties, as well as of the role of the Compliance Office in managing and controlling the conduct risk. In this respect, it is worth noting the significant number of requests for opinions on external activities, private financial transactions and potential conflicts of interest that the Compliance Office has continued to receive, totalling 177 in 2020 (191 in 2019). Also, in 2020, the policy concerning gifts to institutional guests of the Bank was approved and disclosed on its institutional website.

The Data Protection Officer has monitored and issued opinions on the Bank's compliance with personal data protection rules and replied to 91 requests for exercise of rights addressed to the Banco de Portugal by data subjects. The Bank submitted to the Portuguese National Data Protection Commission, for prior consultation, six regulatory projects (notices and instructions) related to personal data processing. To foster awareness and compliance with data protection provisions at the Banco de Portugal, awareness-raising initiatives have continued to include the publication of a guide and the organisation of training initiatives for staff members, as well as two virtual conferences on privacy risk associated with cloud solutions and the second anniversary of the actual implementation of the General Data Protection Regulation, respectively, the latter attended by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros – CNSF) and the Portuguese National Data Protection Commission.

5.3 Human resources

As at 31 December 2020, the number of staff members employed by the Bank was 1,777, of whom 1,700 were in active employment, the same figure as in the previous year and in line with the goal set out in the Strategic Plan for 2017-20. The number of staff members involved in supervisory activities rose again, reaching 495 by the end of the year, 14 more than at-end 2019 (Table I.5.2).

Table I.5.2 • Staff developments (2016-2020)

	2016	2017	2018	2019	2020	Δ 2020-2019
Total staff	1,797	1,761	1,753	1,778	1,777	-0.1%
Active ^(a)	1,717	1,701	1,687	1,700	1,700	0.0%
Supervisory tasks ^(b)	437	446	450	481	495	2.9%
Unpaid leave/secondment	80	60	66	78	77	-1.3%

Source: Banco de Portugal. | Notes: (a) Excluding staff members on unpaid leave and public interest assignment. (b) Staff members allocated to prudential supervision, banking conduct supervision, financial stability, legal enforcement and resolution.

The number of incoming and outgoing employees was evenly balanced: 103 left the Bank – 80 retirements and 23 labour contract terminations – and 102 were recruited. Moreover, 57 interns were recruited. For the first time, the percentage of females was higher (50.4%). The average age of staff members fell again and is now 41 years (43 for males and 40 for females). Almost two-thirds of the staff were in the age brackets between 26-35 (552 active members) and 36-45 (542 active members). The breakdown by function remained broadly unchanged: 21% managers, 69% professional staff, 6% technical-administrative staff and 4% of staff assigned to other departments, public interest assignment and on unpaid leave (Tables I.5.3 and I.5.4).

Table I.5.3 • Staff developments: gender, movements and age groups (2016-2020)

		2016	2017	2018	2019	2020
Gender	Male	913	900	886	892	881
	Female	884	861	867	886	896
Movements	Recruitments	112	78	118	161	102
	Retirements	62	85	87	100	80
	Termination of contracts	30	29	36	36	23
Age group	<=25	72	74	72	94	104
	[26;35]	570	556	560	579	552
	[36;45]	353	381	426	483	542
	[46;55]	288	265	259	272	283
	[56;65]	505	474	418	334	272
	>=66	9	11	18	16	24

Source: Banco de Portugal.

Table I.5.4 • Staff: breakdown by function (2020)

	Male	Female	Total	%
Senior management	43	18	61	3.4%
Middle management	152	160	312	17.6%
Professional staff	547	670	1,217	68.5%
Technical-administrative staff	99	11	110	6.2%
Unpaid leave/secondment	40	37	77	4.3%
Total	881	896	1,777	100.0%

Source: Banco de Portugal.

In order to inform the remuneration policy, a study on gender pay gaps was conducted to characterise, with reference to 2019, the differences in staff composition, promotion and actual monthly pay. The findings of that study highlight, in general, a gender balance in duties performed, except for management positions. An overall balance is also clear as regards staff members covered by wage increases under the annual performance-related variable pay process.

As at 31 December 2020, the assets of the Pension Fund – Defined-benefit Plan, which finances the pension plan for staff members who began working in the banking sector prior to March 2009 (closed-end pension fund) and the health benefits plan covering all staff – amounted to €2,081.2 million. This

amount was invested in euro area bonds and liquidity (83.8%), shares (5.3%) and real estate (10.9%). The fund was also exposed to euro area bond futures and equity futures, which corresponded to 2.0% and 3.4% of the asset portfolio market value, respectively. Its funding level stood at 104.0%, above the minimum 98.4% established by the Banco de Portugal in its Notice No 12/2001. In 2020, returns on the asset portfolio of this fund stood at 5.7%.

As at the end of 2020, the Pension Fund – Defined-contribution Plan – a voluntary supplementary pension plan for staff who began working in the banking sector after March 2009 – had 1,020 participants, meaning that the majority of new staff members opt to join this fund. The asset portfolio of this fund, amounting to €27.3 million, posted a return of 1.4%. The value of the portfolio already includes contributions made from mid-year onwards under the new Supplementary Defined-contribution Plan, which has increased, for staff recruited after 3 March 2009, the retirement protection provided by the General Social Security Scheme and the previously existing Defined-contribution Plan.

The Bank continued to focus on developing staff members' management, technical, technological and behavioural skills (Table I.5.5). Training programmes were delivered online and the training offer increased in areas such as communication, motivation and emotional management, with the goal of keeping staff connected with the institution in a context of widespread teleworking. The Data Science School, one of the main training projects, was established to train staff to continuously improve data collection, processing and analysis processes. The *Bombordo* programme was also launched, providing for an integrated approach to the various career stages, including sub-programmes geared towards recruitment, integration into the Bank and support for developing professional potential.

Table I.5.5 • Training: participants and hours (2016-2020)

	2016	2017	2018	2019	2020	Δ 2020-2019
Participants	1,733	1,707	1,712	1,842	1,697	-7.9%
Hours	59,793	60,673	60,319	67,678	49,182	-27.3%
Participation rate ^(a)	96.4%	96.9%	97.5%	103.6%	95.5%	-7.8%
Staff members	1,797	1,761	1,755	1,778	1,777	-0.1%

Source: Banco de Portugal. | Note: (a) The participation rate corresponds to the share of the Banco de Portugal's employees who participated in at least one training session. It includes retired persons and staff members whose employment contract has been terminated.

5.4 Systems, technology, information management and security

The Bank has pursued its digital transformation process. Processes have been redesigned and technological solutions adopted that are better adapted to the new way of working, including the digital workplace, apps for mobile devices and tools for process management, document management and business intelligence.

New statistical and prudential information has been integrated into the Bank's data warehouse, an infrastructure that will concentrate all relevant business data for shared internal use. The Bank has also invested in new architectures, methodologies and technology platforms for data analysis,

involving algorithms and machine learning techniques, and has provided experimentation areas for data scientists. The Bank's integrated information management model has aroused the interest of other central banks, with which knowledge has been shared, notably with the ECB and the central banks of Austria, Lithuania, Morocco and Turkey.

Under the aegis of the Innovation Lab, experimental work has continued on assessing the applicability of innovative technologies to activities carried out by the Bank, such as handling information requests or extracting value from unstructured data in documents. The Bank also participated in the Eurosystem Innovation and the SuperVision Innovators Fora, set up by the ECB to encourage the sharing of knowledge and experiences to foster an innovation culture within the Eurosystem and the SSM.

In terms of security, a new internal framework for managing IT risk and the risk of adopting cloud services has been established, and the infrastructure to support BPnet, the Banco de Portugal's portal for operational communication with the financial system, has been updated.

The Bank has strengthened its bilateral security cooperation with various entities, including Interpol, national authorities, financial sector key institutions and central banks. It has become a member of the Financial Sector – Information Sharing and Analysis Centre, the world's largest information sharing platform between financial sector entities. The Bank has also participated in the Cyber Resilience Coordination Centre, created by the BIS with the mission to boost resilience in the global financial system.

5.5 Accountability, communication and services to the public

The Bank maintained regular interaction with the Portuguese Parliament. The Governor was heard in three hearings at the Budget and Finance Committee regarding EuroBic, the economic consequences of the pandemic crisis and Novo Banco, respectively. The Vice-Governor and Chairman of the Resolution Fund was heard on bank fees and on Novo Banco. In addition, the Bank replied in writing to over a dozen requests from Parliament regarding opinions on draft legislation, inquiries, petitions, provision of information and documentation (Table I.5.6).

Table I.5.6 • Interactions with Parliament (2020)

Type of interaction	Occurrences
Hearings at the Budget and Finance Committee	5
Requests for opinions	3
Inquiries	5
Petitions	2
Requests for information or documentation	3
Other communications	3
Total	21

Source: Banco de Portugal.

The Bank released 123 issues of its publications (Table I.5.7), 312 press releases, 44 speeches by senior officials and 18 decoders to explain topics and concepts related to its tasks. It replied to 490 information requests of the media and organised three press conferences and four workshops for

journalists (Table I.5.7 and I.5.8). The Bank continued focusing on direct communication with the public and launched a new communication format – BdP Podcasts, with five episodes released – and a new smartphone app, through which it provides the services most sought-after by citizens and businesses. In addition to the bilingual versions of the institutional website and the Bank Customer Website, the effort to also communicate with the public in English was supported by the translation of a large part of the Bank's publications, a total of five thousand pages produced by the translation services.

Throughout the year, the Bank processed 66,268 phone calls and 18,453 messages sent by the public by e-mail or through the forms available on the website and the Bank Customer Website. In these inquiries, the most targeted issues were the Bank's databases (on credit liabilities, bank accounts and restrictions on cheque usage), complaints against financial institutions and the rules applied to the marketing of banking products and services. The Bank received 22 complaints in its *Livro de Reclamações* (complaints book); the subjects most targeted by complainants were customer service and response times for complaints against supervised entities.

Demand for services provided by the Bank continued to be strong (Table I.5.9), particularly as regards consultations to the Central Credit Register, with 7.6 million views by credit-granting institutions and 2.7 million views by customers.

The Bank released the Sector Tables (available to the public), which include a set of 150 economic and financial indicators on Portuguese enterprises by sector of economic activity and by size class, and ratios of other European countries for each sector of activity. It also released the Enterprise and Sector Tables (available to enterprises upon authentication), which allow managers to compare the performance of their enterprise with that of enterprises in the same sector and of the same size class. The sector tables were viewed 172 thousand times and the enterprise and sector tables were viewed 11 thousand times, by a total of 6,800 enterprises.

The Banco de Portugal launched the PERTO platform, a communication channel that has made communications between courts, judicial authorities and other issuing authorities and the financial sector more agile, efficient and secure. This platform allows requests for information to be sent to the Banco de Portugal and official letters to be disseminated to institutions under the supervision of the Banco de Portugal. The PERTO platform also ensures that information on lost and recovered personal identification documents is disseminated across the banking system, at the request of their holders.

For the convenience of citizens and firms using its customer service points, the Bank has launched an online booking service for face-to-face appointments in Lisbon and Porto. Online booking is available for requests for credit liability reports and accounts database, restrictions on cheques use and lost identification documents.

The services provided by the library and the historical archive of the Bank were reduced considerably. The 2020 edition of the “Tardes de Arquivo” (Archive Afternoons) initiative, aimed at disseminating the Historical Archives of the Banco de Portugal to internal and external users, in particular among archivists and researchers from Portuguese-speaking countries, was held by video conference and geared towards documentation for the study of economic relations in the Portuguese Escudo Monetary Zone, a research project sponsored by the Banco de Portugal and completed in 2020. The digitalisation of the photograph collection of the Banco de Portugal was also completed, which facilitated the preservation of and access to this documentation.

Given its commitment to the diversification of channels and communication formats, the Bank launched a series of podcasts.



Table I.5.7 • Regular publications (2020)

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>	Disseminates 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	Five issues per year	PT and EN
<i>Banco de Portugal Economic Studies</i>	Publication of theoretical and applied studies prepared by the Banco de Portugal's economists, frequently co-authored by external researchers, and economic synopses. 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 on 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 the 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 financial literacy initiatives	Annual	PT and EN
<i>Summary Report on Banking Conduct Supervision</i>	Summary information on the 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>	Statistics of the Banco de Portugal	Monthly	PT and EN
<i>Statistical Activity Plan</i>	Description of the Banco de Portugal's statistical objectives and priorities	Annual	PT
<i>Statistical Activity Report</i>	Description of the Banco de Portugal's activities as national statistical authority	Annual	PT
<i>Driven by data</i>	Publishes statistical articles presented at national and international fora. It has replaced the Supplement to the <i>Statistical Bulletin</i>	Annual	EN
<i>Report on Payment Systems</i>	Presents the most relevant facts on the operation of payment systems	Annual	PT Note: English version of the executive summary.
<i>Report on Cash Issuance</i>	Description of the Banco de Portugal's cash issuance activities and main indicators	Annual	PT Note: English version of the executive summary.
<i>Bulletin on Banknotes and Coins</i>	Cash-related topics	Semi-annual	PT
<i>Annual Report on Cooperation</i>	Reports on the 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: PT – Portuguese; EN – English.

Table I.5.8 • Communication: main indicators (2016-2020)

Channels	Indicators	2016	2017	2018	2019	2020
Website	Press releases	221	232	241	264	312
	Public speeches	33	80	62	62	44
	Decoders	2	25	43	45	18
	Users	N/A	2,032,481	2,293,487	2,787,495	3,304,010
	Webpages viewed	N/A	15,117,198	17,718,152	22,948,275	20,727,262
Bank Customer Website	News	60	80	95	109	132
	Users	N/A	N/A	442,805	504,271	614,687
	Webpages viewed	N/A	N/A	1,561,893	1,586,850	1 988,571
Instagram	Posts	N/A	N/A	25	93	105
	Impressions	N/A	N/A	49 466	163 107	2 844 980
LinkedIn	Posts	N/A	235	444	542	710
	Impressions	N/A	2,006,007	2,738,153	2,554,948	2,876,284
Twitter	Tweets	N/A	907	1,092	1,218	1,312
	Impressions	N/A	773,400	774,300	1,201,536	2,887,000
Youtube	Videos published	N/A	31	21	42	42
	Views	N/A	35,760	69,400	99,274	156,706

Source: Banco de Portugal.

Table I.5.9 • Services to the public: main indicators (2016-2020)

Services	Indicators	2016	2017	2018	2019	2020
Analysis of bank customers' complaints	Complaints received against financial institutions	14,141	15,282	15,264	18,104	19,660
	Complaints received against credit intermediaries	N/A	N/A	N/A	114	74
Consultations of account reports	Maps issued	164,802	225,764	249,767	396,465	388,959
Consultations of credit liabilities reports	Reports issued	1,573,327	2,008,309	1,807,718	2,455,320	2,731,119
Consultations of information on the prohibition of the use of cheques	Consultations of the List of Cheque Defaulters	11,701	10,696	10,031	9,844	8,484
Dissemination of information on lost documents	Requests disseminated	304	289	244	220	91
Cash office	Visits to customer services	190,501	141,931	156,111	183,348	112,314
Historical Archive and Library	Consultations of archived documents	1,291	3,517	1,281	675	312
	Library consultations	5,523	5,543	5,502	5,262	2,276
Money Museum	Activities	913	1,227	1,165	1,127	271
	Visitors	58,467	62,859	62,396	74,796	25,446

Source: Banco de Portugal.



The Banco de Portugal released on its website and social media a video with Director Hélder Rosalino to present PERTO, the new communication channel between courts and judicial authorities and the financial sector.

At the Money Museum, a new permanent exhibition space on the nature and functions of the Banco de Portugal has opened to the public. On the occasion of the 75th anniversary of the United Nations (UNO) and the release of its commemorative coin, the Museum promoted, together with the Portuguese Mint and Official Printing Office and the UN Regional Information Centre for Western Europe, the temporary exhibition “Building Our Future Together”. In partnership with the Vatican Apostolic Library, the Bank organised the exhibition “Money, Faith and Politics: coins and medals from the Vatican”, which gathered 141 pieces from the collections of the Vatican, the Banco de Portugal and 12 other national museums and archives. It has also strengthened its presence and offer on digital channels by opening an Instagram account and promoting online activities for families.

5.6 International cooperation

Cooperation has responded to new needs such as the sharing of experiences in managing the health crisis and in implementing emergency measures for financial institutions. These issues and actions bolstered cooperation in the fields of supervision, financial stability and statistics. A total of 110 cooperation initiatives were launched, 83% of which remotely.

Portuguese-speaking countries continued to be the main partners in cooperation activities, with 77 initiatives, followed by non-EU European



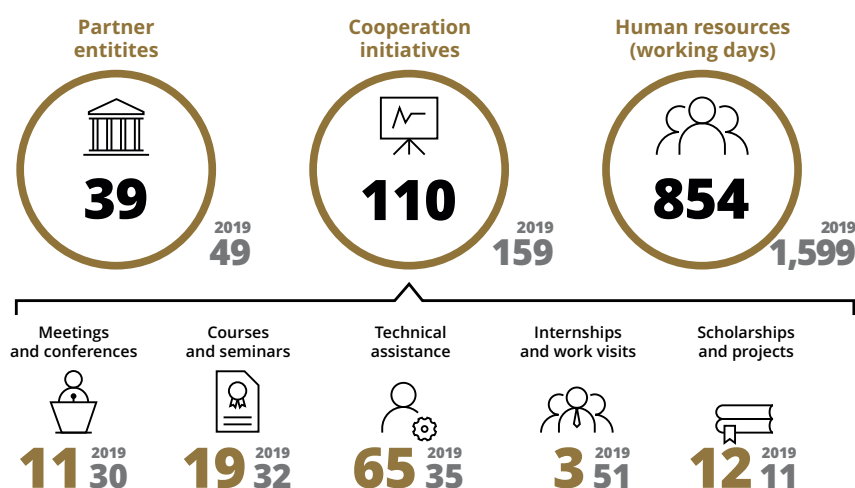
The Money Museum hosted the exhibition “Money, Faith and Politics”, in partnership with the Vatican Apostolic Library.

countries (16), countries in Latin America, Asia-Pacific region and the African continent (with 5 initiatives each), and 2 initiatives with a cross-cutting geographical coverage.

Despite the change in the profile of the initiatives launched (Figure I.5.1), it was possible to maintain the commitments undertaken, especially the XXX Meeting in Lisbon, which brought together, at the highest level, the central banks of the Portuguese-speaking countries, and the CIX Meeting of Governors of the Centre for Latin American Monetary Studies.

The Bank took part in the EU-funded technical assistance project for the Western Balkans and in the preparation of the European System of Central Banks's cooperation programme for African Central Banks, focusing on the added value of an integrated approach to European action on that continent. It also cooperated closely with the World Bank and the Consultative Group to Assist the Poor and presented case studies on the Banco de Portugal's approach to banking conduct supervision.

Figure I.5.1 • Cooperation initiatives (2019-2020)



Source: Banco de Portugal.

5.7 Sustainability

Environmental, social and corporate governance sustainability has gained prominence in the Bank's activity. In 2020, the Bank released *Banco de Portugal's Commitment to Sustainability and Sustainable Finance*, establishing four priorities: (i) to identify and assess the risks associated with the impact of climate change; (ii) to adopt internal sustainability practices; (iii) to intervene in national and international bodies where measures with a potential impact on the financial system are discussed; and (iv) to communicate and collaborate with external entities.

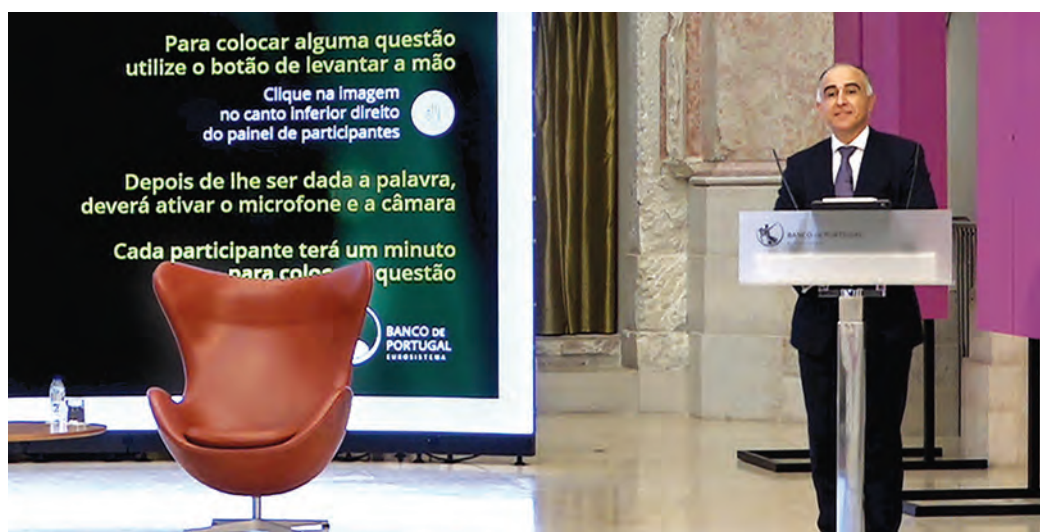
The Bank has incorporated environmental sustainability concerns into its research agenda and analysed the exposure of the Portuguese banking sector to non-financial corporations in sectors particularly exposed to energy transition, as well as the economic policies to mitigate the effects of climate change.

The Bank joined the Lisbon Green Capital 2020 Commitment and has committed to implementing ten initiatives in the areas of electricity, water, circular economy and citizenship by 2030. In 2020,

it implemented some of these measures, with the new contract for the supply of electricity from 100% renewable sources (except for regional delegations) being particularly noteworthy. Following the approval of the General Framework of Principles for the Banco de Portugal's Contractors, the Bank now requires the suppliers of goods and services to comply with the ethical standards that it expects from its staff and to commit to fostering the values of economic, social and environmental sustainability.

At the international level, the Banco de Portugal took part in 20 structures committed to the environmental sustainability of the ECB, the SSM, the European Systemic Risk Board, the EBA, the BIS and the Network of Central Banks and Supervisors for Greening the Financial System, giving rise to reports on climate scenarios, climate risk management by financial institutions, prudential supervision, financial stability, asset management and monetary policy. The Bank continued to participate in the Sustainable Finance Reflection Group, headed by the Ministry of Environment and Climate Action. It also organised a seminar on sustainability and sustainable finance addressed to the banking system.

The Bank maintained a skills volunteering programme and sponsored initiatives related to its functions, with the aim of improving the economic and financial literacy of the Portuguese population and of gaining knowledge in economic and financial sciences. The Bank sponsored the Nova School of Business & Economics, with a view to organising two events on the IMF's activity, and its student association, for the organisation of a series of *Economia Viva 2020* seminars. It also granted financial support to the Research Centre on Regulation and Supervision of the Financial Sector; the Portuguese Economists' Association, for their 16th Annual Conference on the State Budget; the Institute of Banking, Stock Exchange and Insurance Law, the Coimbra University Law School, with a view to organising the XX Course on Banking, Stock Exchange and Insurance Law; the Meeting of the Portuguese Association for Classification and Data Analysis; and the Jacques Delors European Information Centre for the Jacques Delors Prize.



In November the Bank hosted a workshop on sustainability and sustainable financing, sharing with the banking system the latest developments in this field.

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

Developments in the Banco de Portugal's financial statements in 2020 were significantly determined by the Eurosystem's response to the pandemic crisis, which broke out in the first quarter of the year and continued beyond the end of the financial year. The Governing Council of the ECB launched a comprehensive package of monetary policy measures to ensure that credit institutions had the conditions and incentives to finance firms and households on more favourable conditions. The first line of action was to provide large-scale liquidity to the financial system on favourable terms. The second line of action was to purchase large stocks of public and private sector debt in order to ensure the operation of the monetary policy transmission mechanism for the euro area economy. These non-standard monetary policy measures have significantly expanded the balance sheets of euro area central banks and modified their results.

The balance sheet of the Banco de Portugal amounted to €192 billion, at the end of 2020, which represents a significant increase of around €33 billion compared to 2019. This stems, within the above-mentioned policy framework, from the increase in assets related to monetary policy operations, reflecting the extraordinary measures approved by the Governing Council of the ECB. As a consequence of these measures, on the liabilities side there was a significant increase in current accounts of credit institutions of close to €12 billion, together with an increase in banknotes in circulation of around €3 billion.

The gold and foreign reserves and euro assets component also increased by around €1 billion compared to 2019, mainly explained by the appreciation of gold, an effect that was partially offset by the decrease in the held-to-maturity securities portfolio, as a result of maturing securities, amounts not reinvested in an environment of negative interest rates.

In 2020 income before provisions and taxes totalled €777 million, down by €328 million on the previous year, mainly due to the sharp decline in the interest margin and the recognition of unrealised losses on assets held in foreign currencies, mainly in US dollars. 2020 saw no repetition of the non-recurring factors occurred in 2019 and which positively contributed to results obtained in that year, more specifically €81 million gains from the return by the Mutual Agricultural Credit Guarantee Fund (FGCAM) of contributions made by the Banco de Portugal, under the establishment of a single national deposit guarantee scheme.

The increase in interest payable on lending to credit institutions contributed to the reduction in the interest margin, in view of the increase in the balance of these operations and to the application, in the second half of the year, of a -50 basis point bonus on the deposit facility rate, up to a limit of -1%.

Still with a negative impact on the interest margin, worth referring is the reduction in interest receivable from the portfolio of securities held for monetary policy purposes, mostly as a result of the maturing of higher-yield securities, and the decline in the yields on Portuguese government debt securities under the main programmes in force, notwithstanding the significant increase in purchases in 2020. This decrease in the interest margin was partly offset by an increase in the net result of pooling of monetary income due, to a large extent, to the effect of the significant increase in liabilities to credit institutions in the Eurosystem. Administrative expenses totalled

€196 million, i.e. €9 million lower than in 2019, mainly due to lower staff costs and operating costs, partly as a result of the impacts of the COVID-19 pandemic.

The Board of Directors of the Banco de Portugal presents the Management Report and, in compliance with Article 54 of its Statute, the financial statements for the year 2020, which have been prepared according to the Chart of Accounts of the Banco de Portugal (*Plano de Contas do Banco de Portugal* – PCBP).

The annual accounts of the Banco de Portugal are subject to an external audit, pursuant to the provisions laid down in Article 46 of its Statute 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.

The Management Report, which accompanies the 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



€192,439 million

Total balance sheet

Table II.1.1 shows the developments in the year-end positions of the Banco de Portugal's main balance sheet items for the 2016-2020 period, from a management perspective. Chart II.1.1 and Chart II.1.2 show the evolution in the main items disclosed in the balance sheet. Chart II.1.3 illustrates the developments in the main balance sheet items compared to 2019.

Table II.1.1 • Main balance sheet items 2016-2020 (management's perspective) | EUR millions

	2016	2017	2018	2019	2020	Δ 2020/2019
TOTAL BALANCE SHEET	137,717	152,965	157,953	159,785	192,439	32,654
Claims and liabilities related to monetary policy operations						
Claims related to monetary policy operations	54,626	69,100	69,952	70,804	101,214	30,410
Lending to credit institutions	22,372	22,131	18,743	17,325	32,164	14,838
Securities held for monetary policy purposes	32,254	46,969	51,208	53,479	69,050	15,571
Liabilities to credit institutions related to monetary policy operations	(5,649)	(13,865)	(14,096)	(19,213)	(31,613)	(12,400)
Gold and foreign reserves and euro assets (net)						
Gold	13,503	13,305	13,786	16,654	18,989	2,335
Trading portfolio	19,663	15,772	14,254	14,118	13,712	(405)
Medium-term investment portfolio	4,943	5,329	5,440	4,744	4,071	(673)
Other claims	1,612	1,753	1,983	1,765	1,859	94
Banknotes in circulation	25,661	26,675	28,051	27,962	30,892	2,930
Intra-Eurosystem claims and liabilities						
Intra-Eurosystem claims	(38,945)	(42,528)	(46,695)	(49,194)	(51,530)	(2,336)
Intra-Eurosystem liabilities	71,588	81,246	82,814	76,976	80,195	3,219
Liabilities for collateralised applications (net)	-	-	-	5,049	8,300	3,252
Liabilities to other entities denominated in euro	13,011	9,370	9,745	7,418	18,111	10,693
Other liabilities	426	712	657	868	336	(531)
Other liabilities	426	711	653	865	336	(529)
Provisions	-	2	4	2	0	(2)
Own funds						
Revaluation accounts	11,027	10,329	10,882	13,786	16,047	2,261
General risk provision	4,247	3,727	3,677	3,677	3,677	-
Capital and reserves	1,641	1,729	1,860	2,022	2,173	152
Retained earnings	(397)	(523)	(479)	(453)	(505)	(51)
Profit for the year	441	656	806	759	535	(223)

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

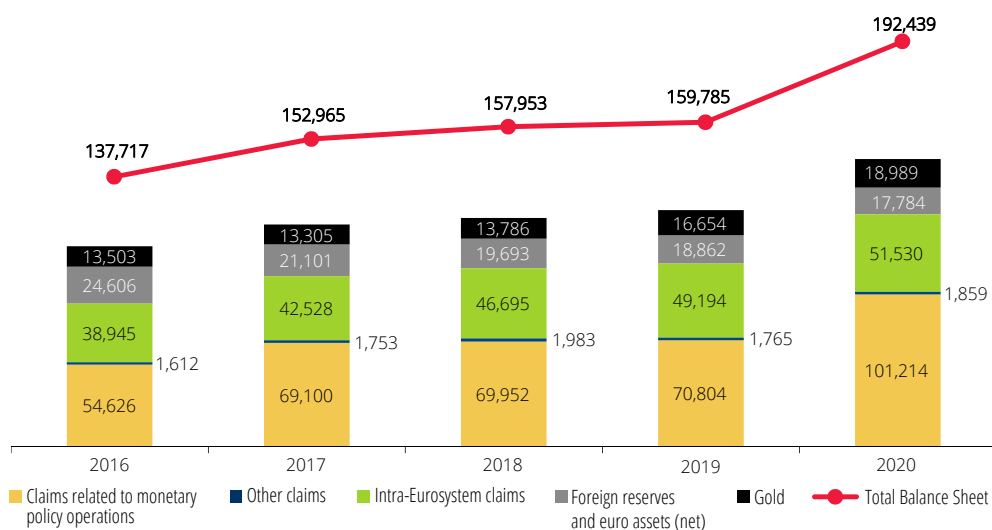


Chart II.1.2 • Developments in the balance sheet – main liabilities and own funds | EUR millions

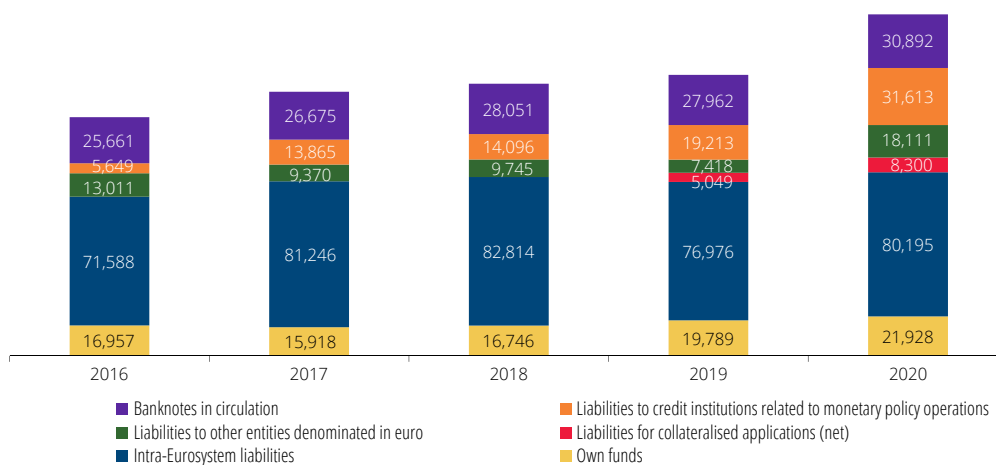
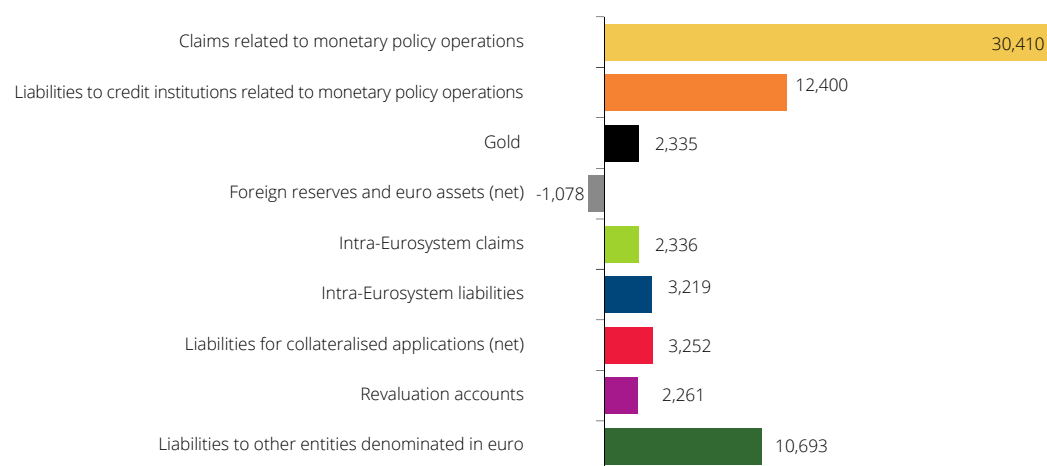


Chart II.1.3 • Main balance sheet item's variation from 2019 | EUR millions

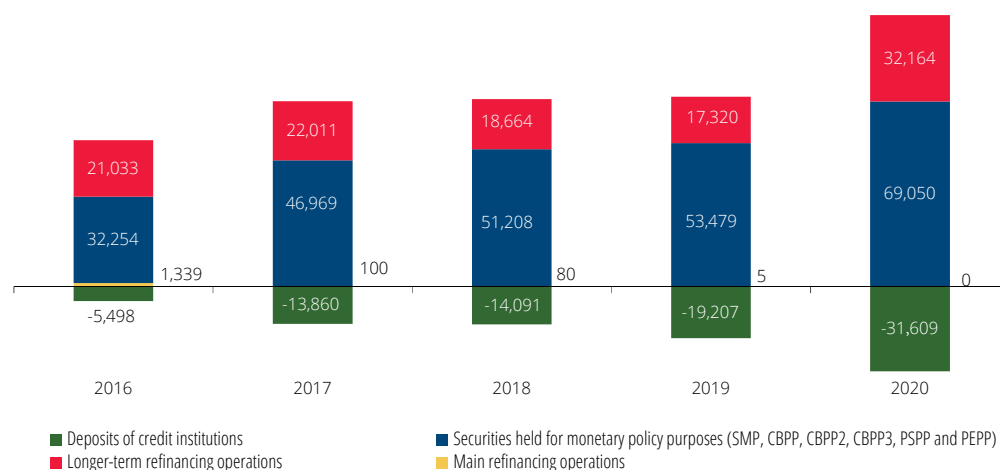


1.1.1 Claims and liabilities related to monetary policy operations

Throughout 2020, the Governing Council of the ECB approved a comprehensive package of monetary policy measures to mitigate the effects of the pandemic on the economy, which resulted, on the Banco de Portugal's balance sheet, in a significant increase in monetary policy assets at the end of the year, with an impact on both monetary policy securities and liquidity-providing operations.

Against this background, monetary policy assets showed a net increase at the end of 2020 of €30,410 million compared to 31 December 2019, reflecting a €15,571 million increase in the portfolio of securities held for monetary policy purposes, largely due to purchases of securities under the new Pandemic Emergency Purchase Programme (PEPP) and, to a lesser extent, of securities from the Asset Purchase Programme (APP), and a net increase of €14,838 million in targeted longer-term refinancing operations (TLTRO). Deposits of credit institutions with the Banco de Portugal showed, in turn, an increase of €12,400 million compared to 2019, as a result of the significant liquidity injection resulting from the monetary policy measures.

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



€15,571 million

Net purchases under non-standard monetary policy programmes

The portfolio of securities held for monetary policy purposes reflects the Banco de Portugal's active participation in various programmes decided by the Governing Council of the ECB, in particular (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), the public sector purchase programme (PSPP), and the pandemic emergency purchase programme (PEPP), still open for purchases. Purchases of these securities are conducted by the national central banks (NCBs) and the ECB, under the principle of decentralised implementation of monetary policy in the Eurosystem.

As at 31 December 2020 securities held for monetary policy purposes totalled €69,050 million, about 36% of the Banco de Portugal's total assets.

In 2020, in terms of monetary policy securities, the decision with the greatest impact on the Banco de Portugal's balance sheet was the introduction of the new pandemic emergency purchase programme (PEPP), approved on 18 March. Initially, this programme would reach €750 billion, for the Eurosystem as a whole, and net purchases would run at least until the end of the year. Subsequently, on 4 June the Governing Council of the ECB decided to increase purchases to €1,350 billion, also extending the period of net purchases until at least the end of the first half of 2021, and also announcing that the reinvestment period would last until at least the end of 2022. On 10 December, this programme was further increased by €500 billion to a total of €1,850 billion, and the horizon for net purchases was also extended by at least 9 months, i.e. until the end of March 2022, and the investment period was extended to at least the end of 2023.

As for the APP, along with a temporary additional envelope of €120 billion decided on 12 March and lasting until the end of the year, the monthly average pace of purchases of €20 billion, already existing in 2019, continued. The Governing Council expects net purchases to run 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 it starts raising the key ECB interest rates, and for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

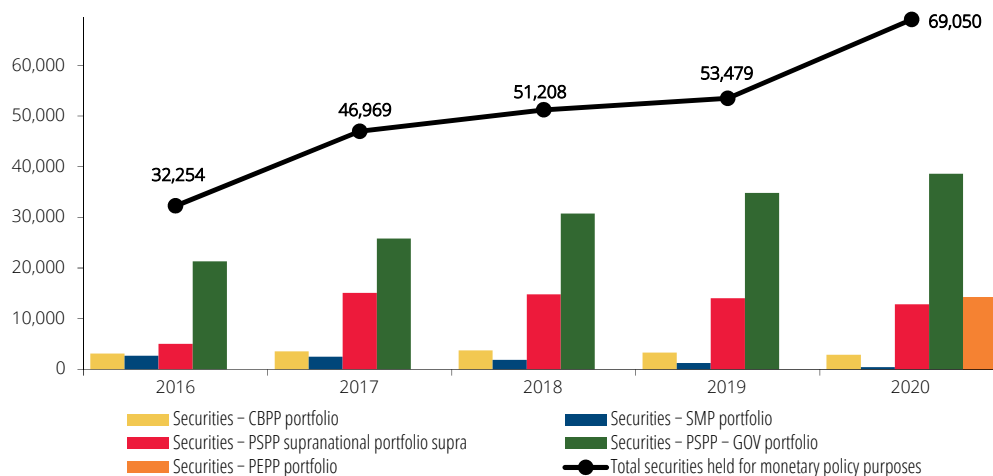
In terms of the Banco de Portugal's participation in the APP, the overall PSPP net amount grew by €2,530 million in 2020, reaching a total of €51,432 million broken down into supranational securities and Portuguese government debt, with the latter included in the non-shared-risk component at Eurosystem level. The increase in 2020 was driven solely by Portuguese government debt (a €3,781 million increase), since the supranational securities component decreased by €1,251 million, compared to 2019. At the end of 2020 supranational and Portuguese government debt securities reached a relative weight of 25% and 75% of the PSPP respectively, compared to 29% and 71% in 2019.

The Banco de Portugal acquired PEPP securities with a balance sheet value of €14,227 million as at 31 December 2020, almost all of which Portuguese government debt securities.

The increase in securities held under these programmes led to a rise in risks *vis-à-vis* 2019, particularly in the component relating to Portuguese government debt securities, although there is also a rather significant amount of unrealised capital gains at the end of the year on these securities and a steady outlook for the evolution of the rating of the Portuguese Republic.

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 or losses that may materialise. Losses are recognised only if securities are sold early.

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



€29,534 million

New TLTRO III and

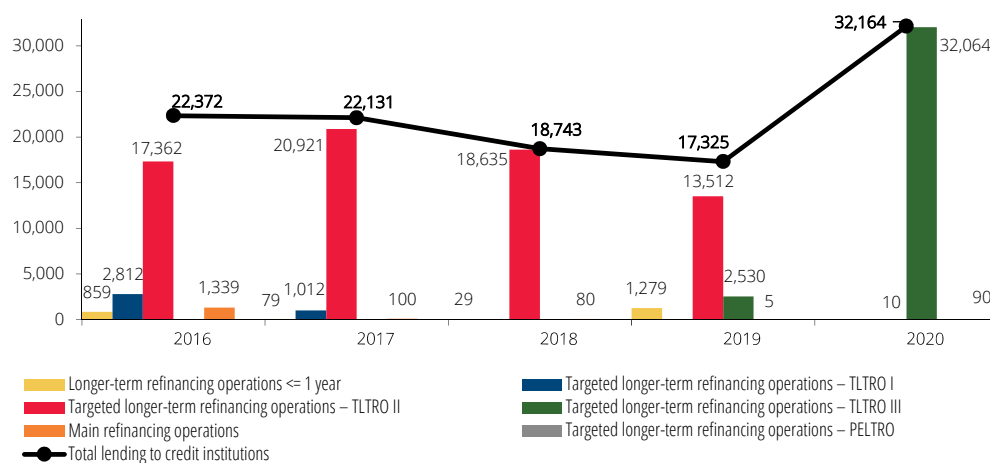
€13,502 million

Maturing TLTRO II

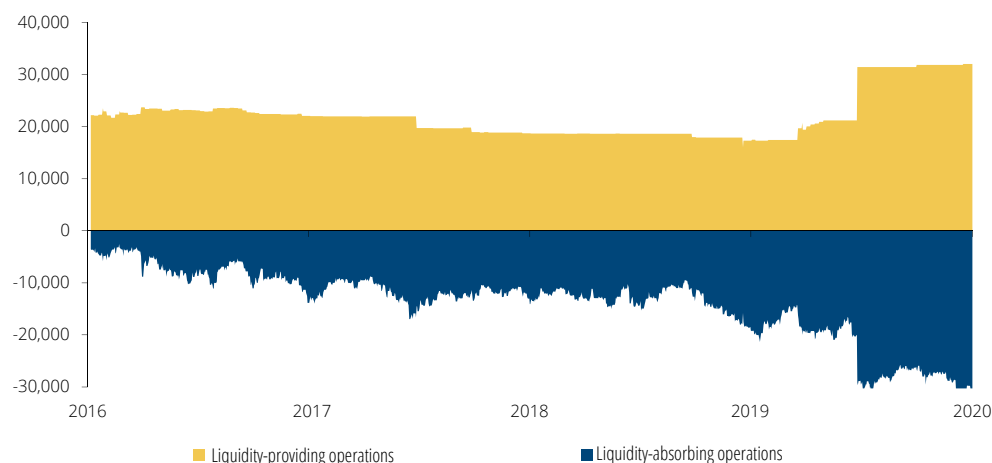
In liquidity-providing operations, targeted longer-term refinancing operations (TLTRO III) grew quite considerably, in the amount of €29,534 million, to a total of €32,064 million. These operations started in 2019 and have a three-year maturity, with a possibility of early repayment after two years.

In line with the Governing Council's initial decision, 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. However, as part of the package of measures to mitigate the effects of the pandemic on the economy, on 30 April it was approved that from 24 June 2020 until 23 June 2021 the applicable interest rate might be 50 basis points lower than the average deposit facility rate in force in this period, but never below -1%. On 10 December, the Governing Council approved the extension of this period until June 2022, and also the completion of three additional operations to be conducted between June and December 2021. Given that the final rate will only be known at the end of each operation and that a reliable estimate is not possible, the deposit facility rate in force minus 50 basis points (up to a maximum of -1%) is used in a prudent and harmonised manner within the Eurosystem for calculating the accrued interest on these operations between June 2020 and June 2022, and so is the deposit facility rate for the remaining period.

Conversely, over the course of 2020 almost all TLTRO II operations existing at the end of 2019, in the amount of €13.502 million, matured, and only one operation of €9.5 million, remunerated at -0.4%, was active by the end of 2020, maturing in March 2021.

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

Also as regards monetary policy, Chart II.1.7 shows the daily evolution of the overall amounts of liquidity injected/absorbed by the Banco de Portugal in the Portuguese financial system. With the approval of the interest rate rebate as of June 2020, the amount of liquidity-providing operations went up significantly in the second half of the year. This, associated with the aforementioned significant increase in monetary policy securities, also led to substantial growth in deposits of credit institutions with the Banco de Portugal. These deposits follow the two-tier system for reserve remuneration approved by the Governing Council on 30 October 2019. This system is based on the introduction of a two-tier system for reserve remuneration, which exempts the part in excess of the minimum reserve requirements from negative remuneration at the rate applicable on the deposit facility. The exempt tier is currently remunerated at an annual rate of 0%. The volume of reserve holdings in excess covered by this scheme is determined as a multiple of 6, depending on each institution's minimum reserve requirements. The non-exempt tier of excess liquidity holdings continues to be remunerated at 0% or the deposit facility rate, whichever is lower.

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

1.1.2 Gold and foreign reserves and euro assets

Gold



€18,989 million

Gold reserve

The Banco de Portugal's gold reserve totalled €18,989 million by the end of 2020, a €2,335 million increase from 2019, arising from the uptrend in gold price in euro. This evolution was caused by the appreciation of the gold price in USD (+ 24.5%), partly offset by the effect of USD depreciation against the euro (9.2%). This reserve remained unchanged at 382.6 tonnes. 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) (Subsection 1.1.6). At the end of 2020 gold revaluation differences totalled €15,956 million.

In 2020 the Banco de Portugal continued to invest in gold, to get return on these reserve assets, which on 31 December consisted of collateralised loans (expressed in the aggregate Liabilities for collateralised applications), and the euros received were used to temporarily reduce liabilities in the TARGET account.

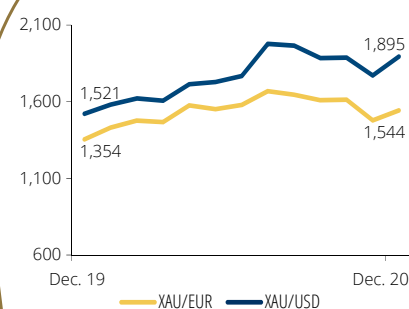
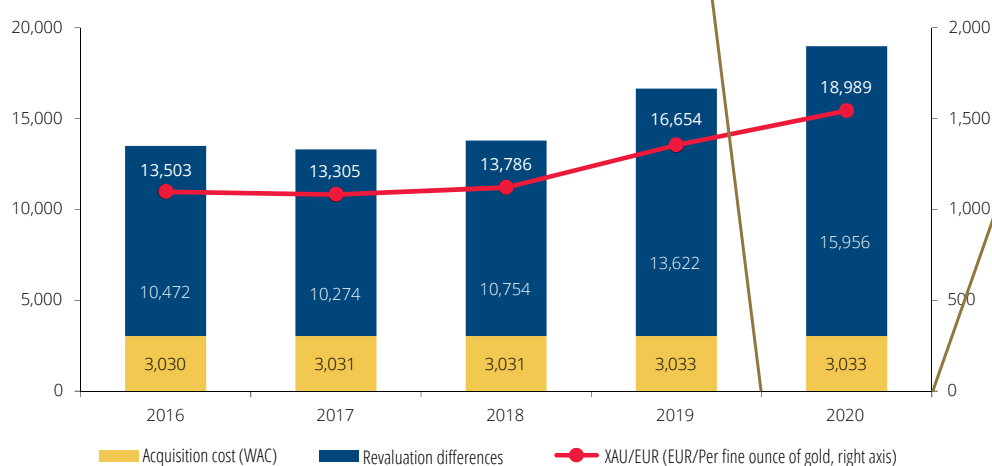


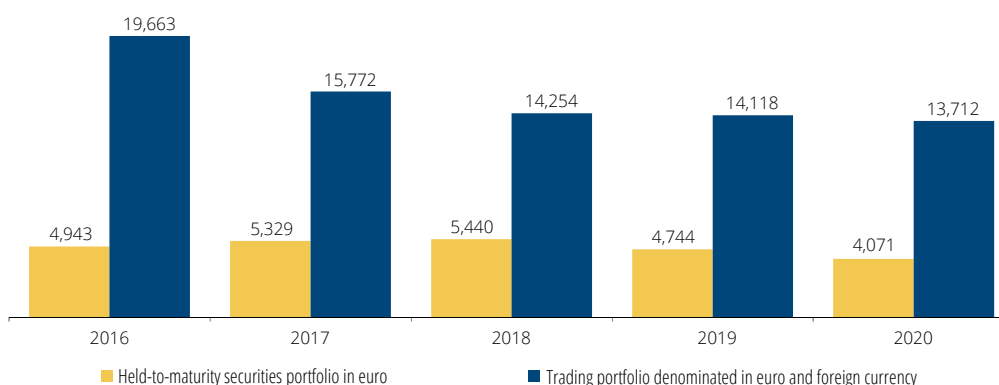
Chart II.1.8 • Gold reserve and quote price | EUR millions



Foreign reserves and euro assets

In Foreign reserves and euro assets there was a decrease in the held-to-maturity securities portfolio and also, although to a lesser extent, in the trading portfolio.

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



- Trading portfolios (denominated in euro and foreign currency)



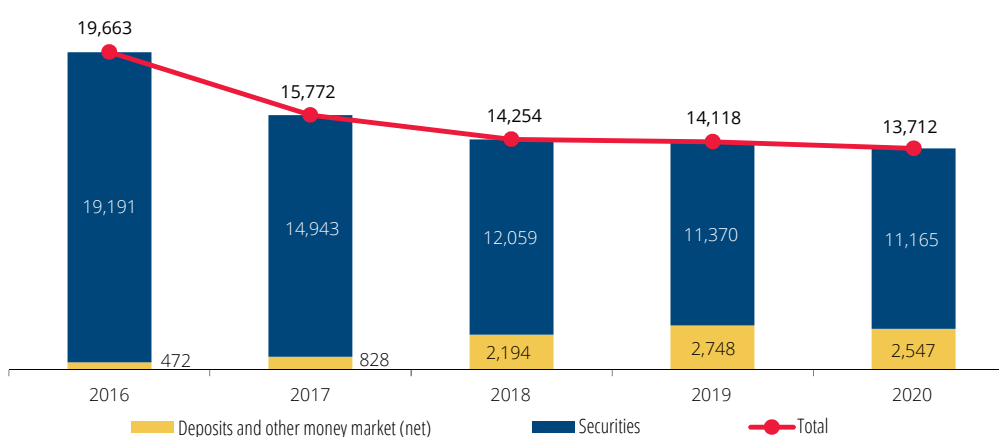
€13,712 million

Total trading portfolios in euro and foreign currency

In 2020 the trading portfolio consisted of €9,824 million associated with investments in euro and €3,889 million of assets denominated in foreign currency (predominantly USD), valued at market prices. The decrease compared to 2019 is accounted for by a decline in the component denominated in euro, resulting from the current generalised context of negative yields. On 31 December 2020 there were outstanding Euro swap transactions for foreign currency (amounting to €1,840 million), with no associated foreign exchange risk, which have a temporary impact on that composition by currency.

In terms of composition by instrument, investment in securities continued, representing 81% of the total of this portfolio as at 31 December 2020, similarly to 2019. This portfolio is almost entirely made up of government debt bonds (80%) and securities issued by paragonovernmental and supranational authorities (19%). In 2020 the Banco de Portugal continued to invest in green bonds and to participate in the green bond fund created by the Bank for International Settlements (BIS) in September 2019. This investment is aimed at fostering environmental goals, and the Banco de Portugal is among the pioneering central banks in this type of operations.

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



- Medium-term investment portfolio

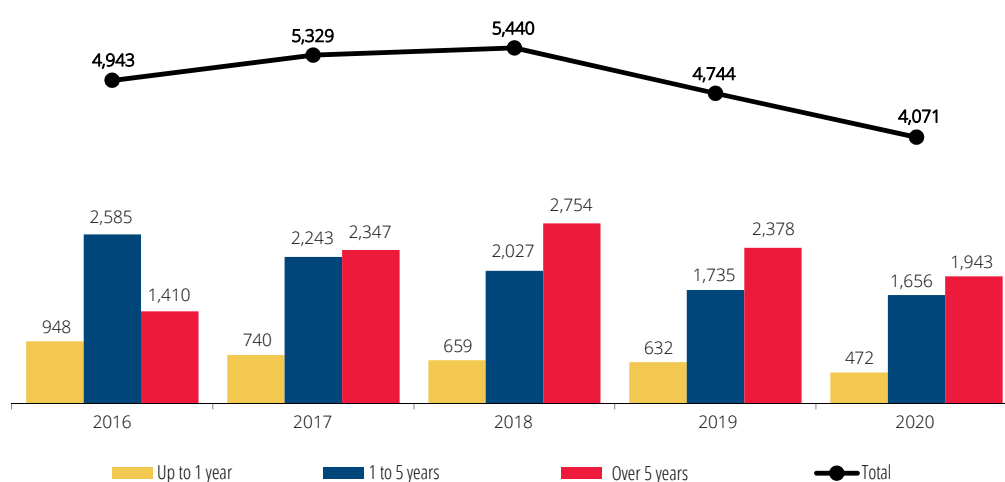


€4,071 million

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

The held-to-maturity securities portfolio totalled €4,071 million, measured at amortised cost less any impairment losses, decreasing by €673 million compared to 2019 (Chart II.1.11). This portfolio was entirely made up of government debt bonds issued by euro area issuers. As in 2019, the reduction in this portfolio was essentially due to the decision not to reinvest interest and principal from maturing securities, given the current return on eligible securities issues.

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



1.1.3 Banknotes in circulation



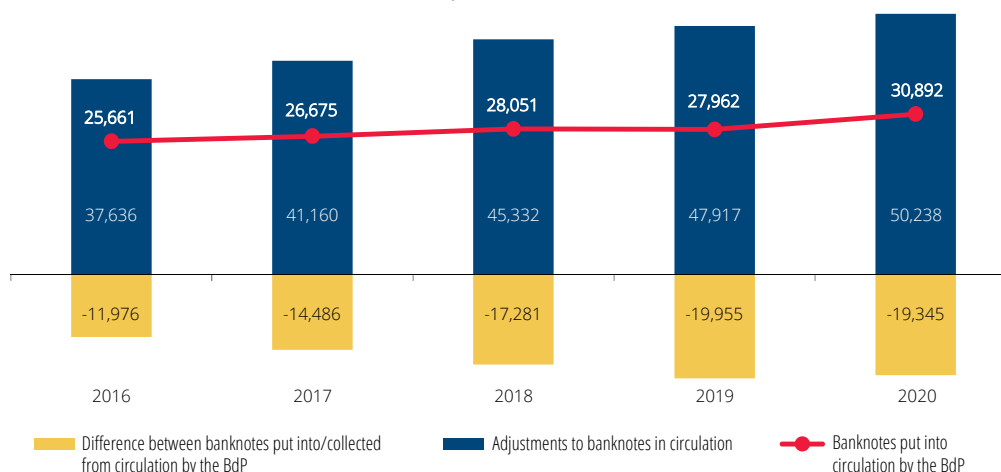
€30,892 million

Total banknotes in circulation

The aggregate Banknotes in circulation, recorded on the liabilities side of the balance sheet, reflects the share of the Banco de Portugal in Eurosystem's banknotes in circulation (Chart II.1.12). This aggregate shows an increase, reflecting a surge in circulation within the Eurosystem (+11.0% against 2019).

Adjustments to banknotes in circulation reflect the differential between Portugal's share and the positive difference between banknotes withdrawn from circulation and banknotes put into circulation by the Banco de Portugal. As at 31 December 2020 these adjustments totalled €50,238 million (+€2,321 million than in December 2019). Growth in these adjustments reflected the combination of increased circulation in the Eurosystem, partly offset by a slight decrease in the aforementioned differential.

Chart II.1.12 • Banknotes in circulation | EUR millions



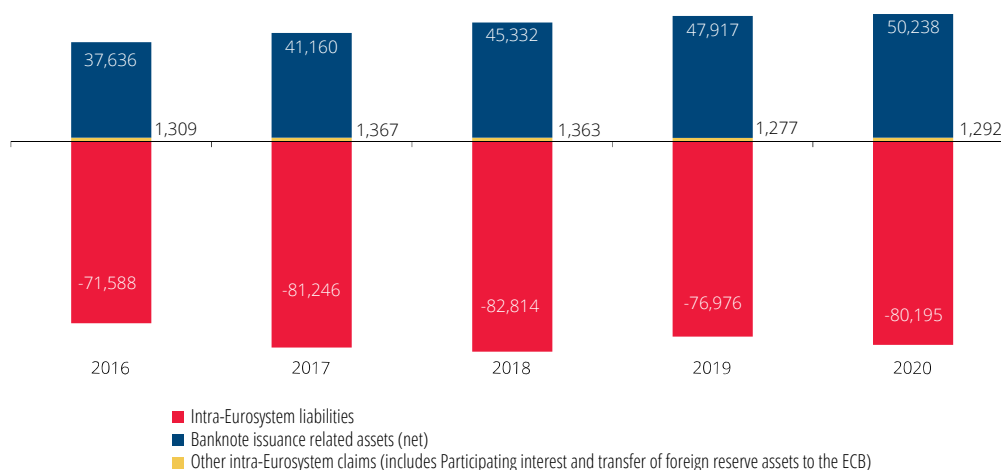
1.1.4 Intra-Eurosystem claims and liabilities



€80,195 million
Intra-Eurosystem liabilities

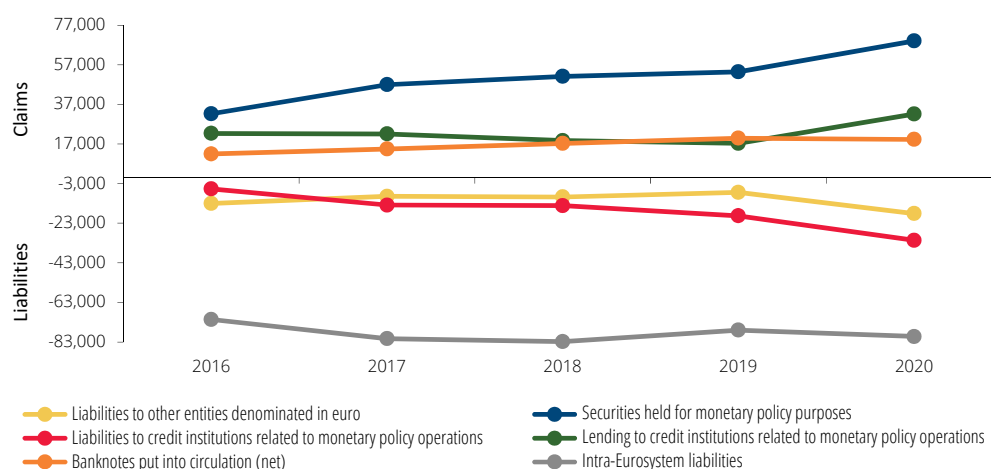
Intra-Eurosystem claims (Chart II.1.13) included the remunerated position relating to adjustments to banknotes in circulation (€50,238 million), mentioned in 1.1.3 on Banknotes in circulation.

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



As at 31 December 2020, Intra-Eurosystem liabilities increased by €3,219 million from 2019 (totalling €80,195 million) (Chart II.1.3) representing altogether the liabilities related with the TARGET account. This mainly reflected the financing of purchases of securities held for monetary policy purposes and the increase in lending to credit institutions, offset by the increase in deposits of credit institutions with the Banco de Portugal (Point 1.1.1), the increase in domestic liabilities to other entities denominated in euro, and the settlement of temporary operations related to the investments in gold, which have been renewed (mentioned in 1.1.2) (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



€18,104 million

Balance of general government current accounts held by the Banco de Portugal

The item Liabilities to other entities denominated in euro was mainly composed of general government current accounts with the Banco de Portugal (€17,162 million) managed by the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP).

1.1.6 Own funds



+€2,261 million

Increase in positive revaluation differences

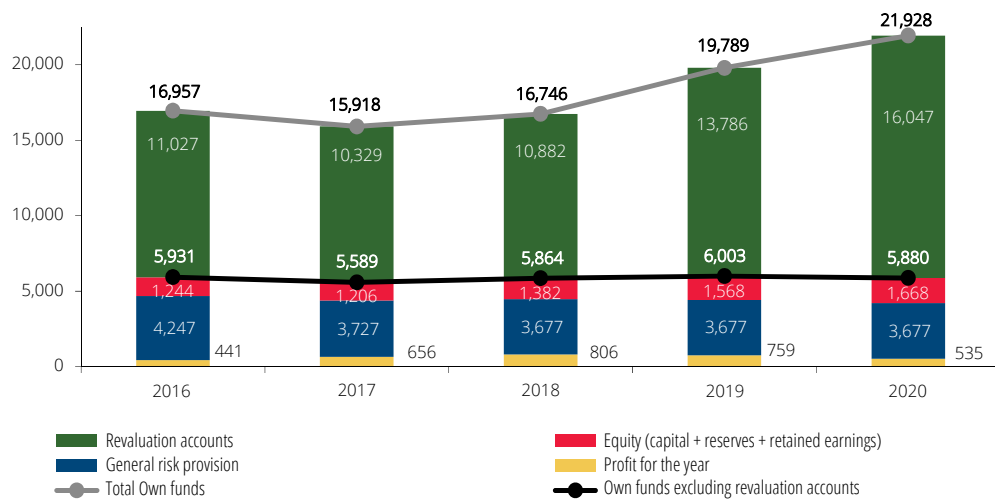
The Banco de Portugal's Own funds (which include Revaluation accounts, General risk provision, Equity and Net profit for the year) went up by €2,138 million in 2020 (to €21,928 million), largely owing to the increase in positive revaluation differences and to the positive Net profit for the year (Chart II.1.15).

The increase in positive revaluation accounts (€2,261 million, to €16,047 million) is mainly due to the rise in potential capital gains from Gold (€2,335 million).

In addition to the increase in Revaluation accounts, also worth mentioning is (i) the recognition of 2020 net income (€535 million); and conversely, (iii) the impact of the distribution of €607 million Dividends to the State from the 2019 Net profit; and (iv) the recognition, in Retained earnings, of net actuarial and financial losses of 2020, relating to the Pension Fund – Defined-Benefit Plan (totalling €53 million).

The General risk provision remained unchanged at €3,677 million. The level of this provision is assessed periodically as part of the Banco de Portugal's internal projection exercises for financial statements over the medium term, which assess results and financial risks, the latter calculated according to the methodology defined at Eurosystem level. The amount is established annually, with a view to setting own funds at a level that allows for appropriate financial autonomy for the 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 2020 as a result of the fact that, despite the increase in risk resulting from balance sheet growth, and that risk is expected to continue to increase in the medium term, albeit at a moderate pace, this increase does not undermine the established risk coverage objectives.

Chart II.1.15 • Own funds | EUR millions



1.2 Profit and loss account



€777 million

Income before provisions and taxes

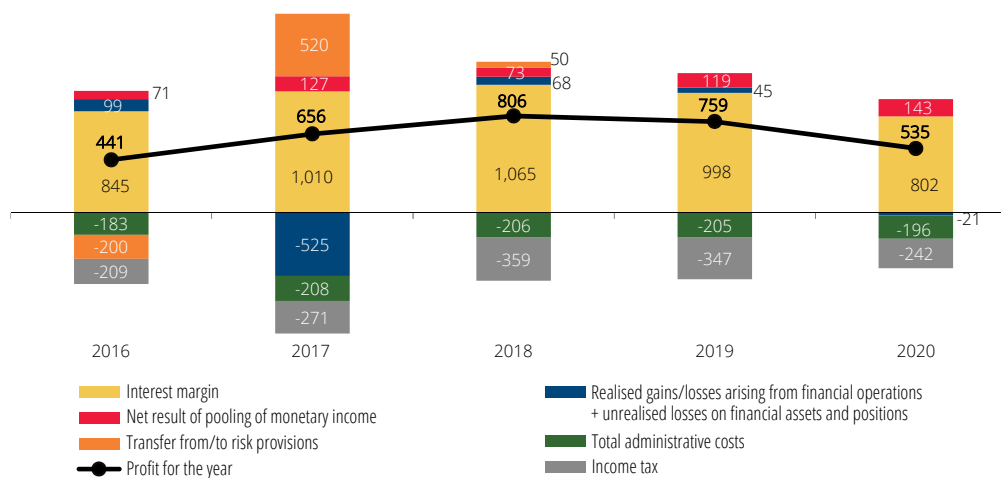
The main components of the Profit and loss account from 2016 to 2020 are shown in Table II.1.2. **Net profit for the year 2020** was €535 million.

Table II.1.2 • Main Profit and loss account items 2016-2020 | EUR millions

	2016	2017	2018	2019	2020	Δ 2020/2019
Interest margin	845	1,010	1,065	998	802	(196)
Realised gains/losses arising from financial operations	177	(264)	80	50	49	(1)
Unrealised losses on financial assets and positions	(77)	(260)	(12)	(5)	(70)	(66)
Income from equity shares and participating interests	33	33	39	72	56	(16)
Net result of pooling of monetary income	71	127	73	119	143	24
Total administrative costs	183	208	206	205	196	(9)
Staff costs	122	136	138	139	132	(6)
Supplies and services from third parties	48	56	52	47	45	(2)
Other administrative costs	1	1	1	1	1	-
Depreciation and amortisation for the year	13	15	15	18	18	-
Banknote production costs	15	23	13	7	10	3
Other net profit/loss	(1)	(7)	89	85	4	(81)
Income before provisions and taxes	850	408	1,115	1,106	777	(328)
Transfer from/to risk provisions	(200)	520	50	-	-	-
Income before taxes	650	928	1,165	1,106	777	(328)
Income tax	(209)	(271)	(359)	(347)	(242)	105
Profit for the year	441	656	806	759	535	(223)

Income before provisions and taxes was €777 million, representing a €328 million decrease from 2019. This decrease results essentially from the absence of non-recurring factors, as seen in the past two years, and from the reduction in the interest margin, particularly with the contribution of accrued interest payable on Lending to credit institutions, due to the increase in the volume and the interest rate rebate for TLTRO III operations in the second half of the year. This reduction in the interest margin was partly offset by the increase in the net result of pooling of monetary income mainly due to the effect of the rise in the remuneration of deposits of credit institutions in the rest of the Eurosystem. Unrealised losses on financial assets and positions show an increase, compared to 2019, due to the USD devaluation. Administrative costs were lower than in previous years (€196 million, €9 million less than in 2019), essentially stemming from a reduction in the amount of staff costs and the impact of the COVID-19 pandemic on the Bank's operating expenses.

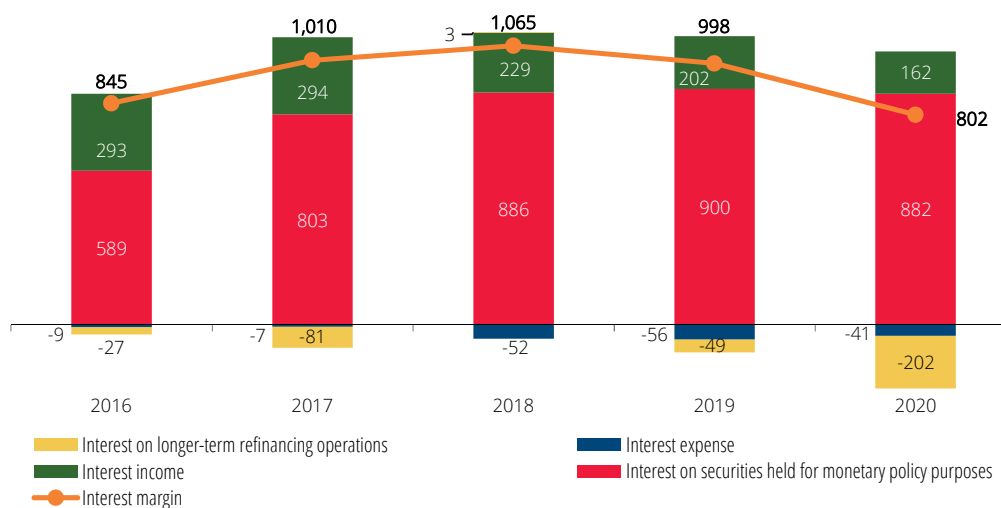
Chart II.1.16 • Developments in the main profit/loss items | EUR millions



1.2.1 Interest margin

In 2020 the Interest margin continued to be the main component of the Banco de Portugal's income statement, with an amount of €802 million. However, it represents a €196 million sharp drop against 2019 figures (-20%), 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





€882 million

Interest income from securities held for monetary policy purposes

Given its contribution to the Interest margin, a first analysis shows interest income from the portfolio of securities held for monetary policy purposes at a total of €882 million in 2020, i.e. declining by €18 million from 2019. This was largely due to the maturing of high-yield securities under the SMP, which absorbed the significant increase in the volume of PEPP and PSPP, in the components of lower-yield government securities.



-€175 million

Impact on the interest margin associated with TLTRO III

The reduction in the interest margin in 2020 is mainly justified by an increase in interest payable associated with longer-term refinancing operations (by €153 million), which essentially refer to TLTRO III operations (totalling €194 million of interest in 2020). Higher interest on these operations (€175 million) was due to the significant increase in their volume, combined with the interest rate rebate in the second half of 2020 decided by the ECB. Also, in the context of longer-term refinancing operations, interest payable on TLTRO II operations was in turn lower than in 2019, given the maturing of these operations (€29 million reduction).



-€39 million

Decrease in held-to-maturity securities portfolio yield

Other negative contributions to this margin include the decrease in the held-to-maturity securities portfolio yield (-€39 million) due to the decrease in their amount and average rate of return, and the reduction in interest associated with the foreign currency trading portfolio (-€11 million compared to 2019). These impacts were partly offset by results obtained in gold investments (€34 million in 2020, +€11 million compared to 2019) and the increase in interest receivable from General government current accounts held by the Banco de Portugal (+€12 million compared to 2019).

1.2.2 Net result of financial operations and unrealised losses

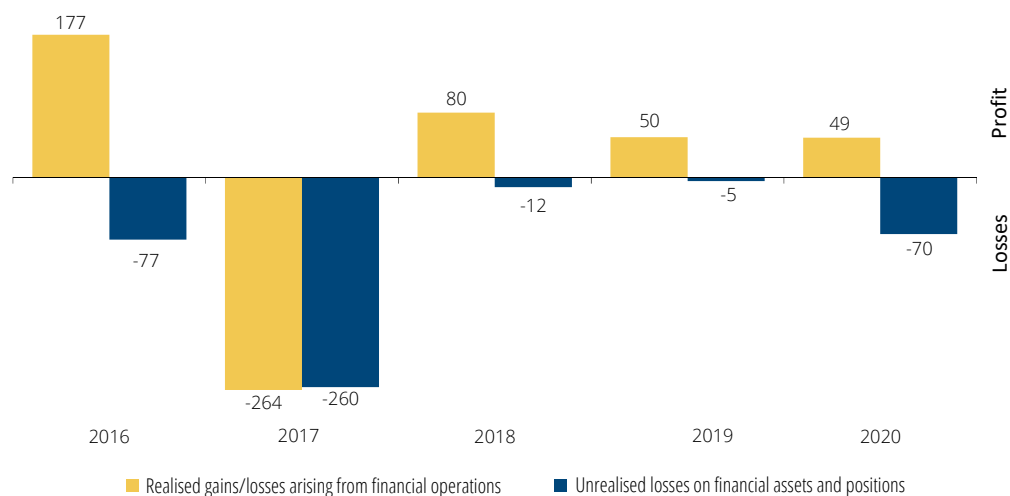


€49 million

Realised gains/losses arising from financial operations

In 2020 Realised gains/losses arising from financial operations showed a positive cumulative value of €49 million, almost identical to that of 2019 (Chart II.1.18). These realised gains/losses are associated with foreign exchange operations and other financial operations with assets in the Bank's trading portfolio. Positive results were also achieved from the sale of securities held for monetary policy purposes (€6 million), which resulted from compliance with the limits set by the rules of the relevant programmes.

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



€70 million

Unrealised losses on financial assets and positions

As regards Unrealised losses on financial assets and positions, the overall amount recognised in 2020 (€70 million) was mainly related to potential exchange rate losses (€69 million), mostly associated with the portfolio of assets denominated in USD, due to the devaluation of the price of this currency. In accordance with the Eurosystem's harmonised accounting rules, unrealised losses are recognised as expenses as at 31 December, while unrealised gains are taken to the balance sheet under Revaluation accounts' items.

1.2.3 Net result of pooling of monetary income



€143 million

Net result of pooling of monetary income method by the Eurosystem, for the year 2020

In 2020, the item Net result of pooling of monetary income included (i) the 2020 net result of pooling of monetary income method by the Eurosystem (€142.7 million), and (ii) the net effect of the reversal of the Eurosystem's specific provision set up in 2018 for securities included in the corporate sector purchase programme (CSPP) (€0.6 million).

Net result of pooling of monetary income grew by €24 million from the previous year, essentially explained by: (i) the reduction in the weight of the Banco de Portugal's contributions to total Eurosystem interest related to current accounts and liquidity-absorbing operations and (ii) the reduction in interest from the Banco de Portugal in the SMP portfolio, and increase in interest from the rest of the Eurosystem in the CSPP portfolio. This effect was partially offset by the reduction in the proportion of deductions by the Banco de Portugal as regards interest in lending operations *vis-à-vis* the rest of the Eurosystem.

The aforesaid net effect of the reversal of the specific Eurosystem provision for losses on monetary policy operations resulted from the recognition of an effective loss of €1.6 million which, however, had an associated provision of €2.2 million set up in 2018, which was reversed in full in 2020. This realised loss refers to securities under the corporate sector purchase programme (CSPP), which, despite not being included in the Banco de Portugal's portfolio, as the Bank is not an active participant in this programme, is risk-shared at Eurosystem level.

1.2.4 Income from equity shares and participating interests

In 2020 this item basically recognises the dividends received by the Banco de Portugal, in particular those distributed by the ECB, i.e. ordinary and interim dividends, the latter referring to the results of securities held for monetary policy purposes in the ECB's balance sheet.

1.2.5 Total administrative costs

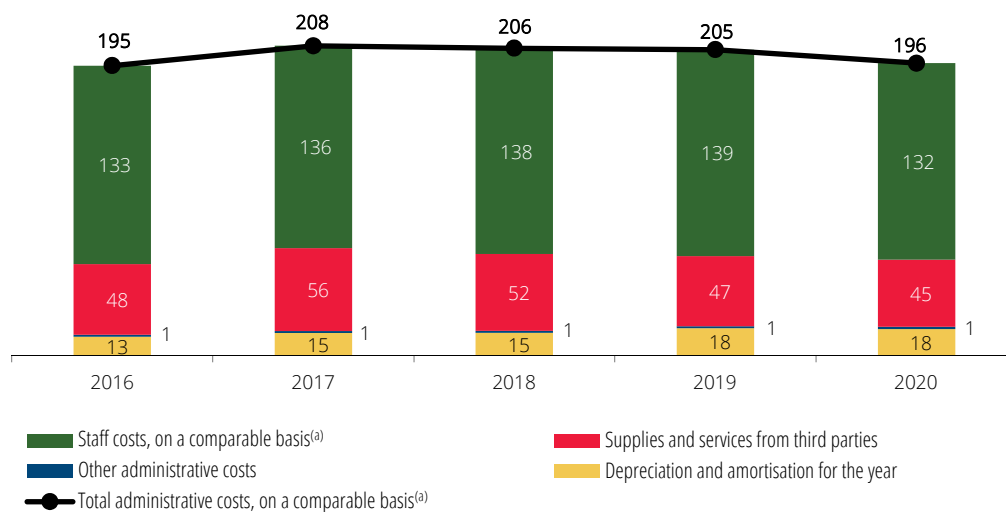


€196 million

Total administrative costs

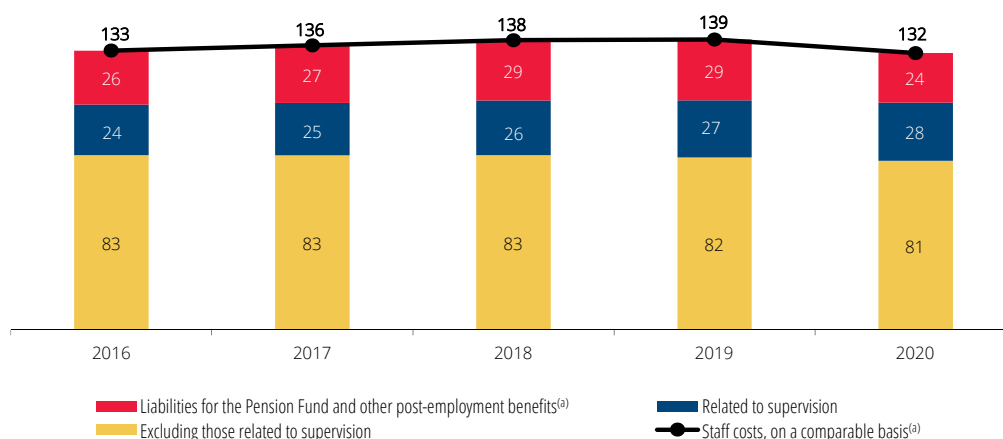
In 2020 Total administrative costs amounted to €196 million (Chart II.1.19).

Chart II.1.19 • Administrative costs | EUR millions



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

Chart II.1.20 • Staff costs | EUR millions



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

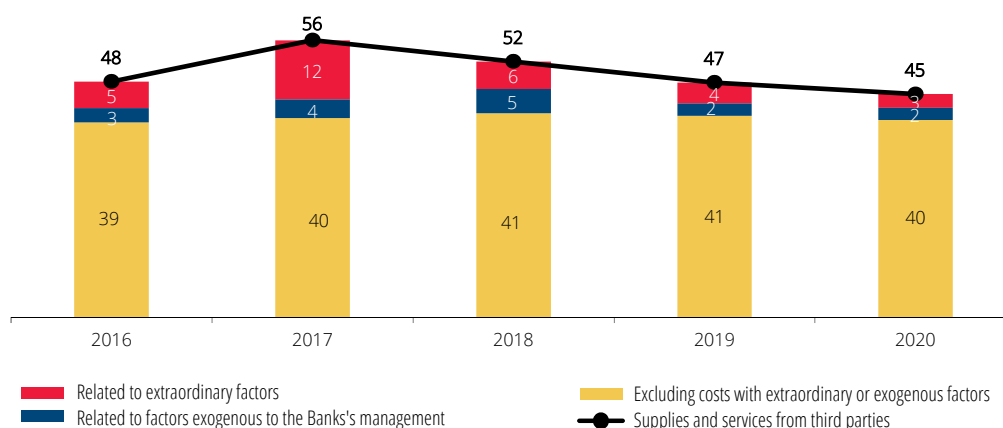


-€6 million
Decrease in Staff costs

In 2020 Staff costs showed a €6 million decrease (-5%) from 2019 (Chart II.1.20), mainly related to the decrease in expenses associated with early retirements (-€6 million), included in the component related to Costs with pension fund liabilities and other post-employment benefits. This reduction is mainly due to a lower number of employees under these circumstances in 2020.

The remuneration component reflects a slight decline compared to 2019, largely related to factors arising from the COVID-19 pandemic, namely the per diems, due to the absence of business travels for international representation purposes, and to cuts in overtime work and in sick pay and occupational accidents allowances. These impacts absorbed the effect of the 0.3% update of wage scales, in line with negotiations between the banks represented by the Portuguese Banking Association (APB) and banking sector trade unions. As at 31 December 2020 the number of staff members employed by the Banco de Portugal remained unchanged compared to 2019 (1,700 employees).

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





-€2 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 expenses) fell by €2 million (Chart II.1.21). This was especially due to (i) the decrease in expenses associated with extraordinary factors, mainly related to legal and financial advice provided as part of the resolution measure applied to the Banco Espírito Santo (-€1 million) and (ii) the impact of the COVID-19 pandemic on those expenses (for which a net saving of around €1.7 million is estimated) and, in the opposite direction, (iii) the increase in expenses with security (+€0.5 million).

The COVID-19 pandemic crisis resulted in a cut in expenses, estimated at €3.2 million, with particular emphasis on costs associated with electricity and water consumption, travel and accommodation, events and training. On the other hand, there were additional expenses in Information Systems and Technologies, under the scope of Business Continuity in the setting up of conditions for remote working, as well as in the purchase of personal protective equipment and material for the sanitisation of people and goods. This additional expenditure is estimated to have totalled around €1.5 million.

Lisbon, 2 March 2021

BOARD OF DIRECTORS

Governor

Mário Centeno

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 2020, to the amount of €535.36 million, was distributed as follows:

10% to the legal reserve	€53,535,846.10
10% to other reserves	€53,535,846.10
and, under subparagraph (c),	
80% to the State, as dividends	€428,286,768.82

pursuant to Decision of the Secretary of State of Finance No 69/2021 of 29 April 2021.

2 Financial Statements and Notes

Financial Statements

Table II.2.1 • Balance sheet of Banco de Portugal | EUR thousands

Assets	Notes	31 Dec. 2020		31 Dec. 2019
		Gross assets	Depreciation, amortisation and impairment	Net Assets
1 Gold and gold receivables	2	18,988,763		16,654,133
2 Claims on non-euro area residents denominated in foreign currency		5,030,600		5,568,062
2.1 Receivables from the IMF	3	1,196,478		1,240,220
2.2 Balances with banks and security investments, external loans and other external assets	4	3,834,122		4,327,842
3 Claims on euro area residents denominated in foreign currency	4	54,383		280,659
4 Claims on non-euro area residents denominated in euro	5	970,177		1,732,262
4.1 Balances with banks, security investments and loans		970,177		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	32,163,660		17,325,460
5.1 Main refinancing operations		-		5,000
5.2 Longer-term refinancing operations		32,163,660		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	15,779		100,867
7 Securities of euro area residents denominated in euro		78,001,478		62,665,838
7.1 Securities held for monetary policy purposes	7	69,050,045		53,478,605
7.2 Other securities	5	8,951,433		9,187,233
9 Intra-Eurosystem claims	8	51,529,898		49,193,570
9.1 Participating interest in the ECB		177,496		177,173
9.2 Claims equivalent to the transfer of foreign reserves to the ECB		944,252		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		50,237,526		47,916,880
9.5 Other intra-Eurosystem claims		170,624		151,033
10 Items in the course of settlement		299		2
11 Other assets		5,985,618	301,529	6,264,263
11.1 Coins of the euro area		58,532		39,580
11.2 Tangible fixed assets and intangible assets	9	456,225	300,443	158,268
11.3 Other financial assets	10	4,129,648		4,800,314
11.4 Off-balance-sheet instruments revaluation differences		-		0
11.5 Accruals and income collected in advance	11	978,543		936,046
11.6 Sundry	12	362,669	1,085	330,055
Total depreciation and amortisation	9		300,443	
Total impairment	19		1,085	
Total assets		192,740,655	301,529	159,785,115

Liabilities, revaluation accounts, general risk provision and equity	Notes	31 Dec. 2020	31 Dec. 2019
1 Banknotes in circulation	13	30,892,216	27,962,009
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	31,612,682	19,213,022
2.1 Current accounts of credit institutions for compliance with minimum reserve requirements		31,608,682	19,207,122
2.2 Deposit facility		4,000	5,900
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	405,632	-
5 Liabilities to other euro area residents denominated in euro	15	18,104,394	7,418,234
5.1 General government		17,161,745	6,694,769
5.2 Other liabilities		942,649	723,466
6 Liabilities to non-euro area residents denominated in euro	16	8,014,769	5,052,331
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
8.1 Deposits, balances and other liabilities		-	1,511,264
8.2 Liabilities arising from the credit facility under ERM II		-	-
9 Counterpart of special drawing rights allocated by the IMF	3	950,514	995,112
10 Intra-Eurosystem liabilities	8	80,195,154	76,976,192
10.1 Liabilities related to the issuance of ECB debt certificates		-	-
10.2 Net liabilities arising from balances of TARGET accounts		80,195,154	76,976,192
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		-	-
10.4 Other net liabilities within the Eurosystem		-	-
11 Other liabilities		336,246	865,467
11.1 Off-balance-sheet instruments revaluation differences		-	137
11.2 Accruals and income collected in advance	17	201,845	163,710
11.3 Sundry	18	134,400	701,619
12 Provisions	19	20	2,289
13 Revaluation accounts	20	16,047,062	13,785,913
14 General risk provision	19	3,676,622	3,676,622
15 Equity	21	1,668,458	1,568,125
15.1 Capital		1,000	1,000
15.2 Reserves and retained earnings		1,667,458	1,567,125
16 Profit for the year		535,358	758,533
Total liabilities, revaluation accounts, general risk provision and equity		192,439,126	159,785,115

Head of the Accounting Department
José Pedro Silva Ferreira

Note: Totals/sub-totals included in the tables and charts may not equal the sum of the figures presented due to rounding, since this section presents figures in € thousands.

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

	Items	Notes	31 Dec. 2020	31 Dec. 2019
1	Interest income		1,044,607	1,102,483
2	Interest expense		242,916	104,843
3	Net interest income	22	801,691	997,640
4	Realised gains/losses arising from financial operations	23	49,135	49,848
5	Unrealised losses on financial assets and positions	24	70,492	4,867
6	Transfer from/to risk provisions	19	-	-
7	Net result of financial operations, unrealised losses and risk provisions		(21,357)	44,981
8	Fees and commissions income		3,927	4,496
9	Fees and commissions expense		8,584	7,363
10	Net income from fees and commissions		(4,657)	(2,866)
11	Income from equity shares and participating interests	25	55,612	71,665
12	Net result of pooling of monetary income	26	143,344	119,167
13	Other income	27	10,647	89,967
14	Total net income		985,280	1,320,553
15	Staff costs	28	132,053	138,538
16	Supplies and services from third parties	29	44,995	47,319
17	Other administrative costs		1,445	1,331
18	Depreciation and amortisation for the year	9	17,832	18,247
19	Total administrative costs		196,324	205,434
20	Banknote production costs		9,588	7,031
21	Other expenses	27	2,040	2,490
22	Losses for impairment of assets (losses/reversals)	19	(158)	(3)
23	Transfer to the reserve relating to capital gains on gold sales		-	-
24	Total costs and losses (net)		207,794	214,953
25	Profit/loss before taxes		777,486	1,105,601
26	Income tax		242,128	347,067
26.1	Income tax – current	30	242,782	349,028
26.2	Income tax – deferred	30	(655)	(1,961)
27	Profit for the year		535,358	758,533

Head of the Accounting Department
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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 € 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 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 2018 (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
Position as at 31 December 2019 (7)		1,000	542,177	1,478,378	(453,429)	758,533	2,326,659
2019 profit distribution							
Dividends distribution to shareholders	21					(606,827)	(606,827)
Other operations	21		75,853	75,853		(151,707)	-
Sub-total of 2019 profit distribution (8)		-	75,853	75,853	-	(758,533)	(606,827)
Changes in 2020							
Actuarial gains/losses from group life insurance	32				59		59
Actuarial gains/losses of the Pension Fund	32				(52,703)		(52,703)
Income tax – current	30				7,138		7,138
Adjustments on account of deferred taxes	30				(5,868)		(5,868)
Sub-total of changes in 2020 (9)		-	-	-	(51,374)	-	(51,374)
Net profit for the year (10)						535,358	535,358
Comprehensive income for the year (11) = (9) + (10)		-	-	-	(51,374)	535,358	483,984
Position as at 31 December 2020 (12) = (7) + (8) + (11)		1,000	618,030	1,554,232	(504,803)	535,358	2,203,816

Head of the Accounting Department
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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 € thousands.

Notes on the financial statements

(Figures in € thousands, save as otherwise stated)

NOTE 1 • BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1 Bases of presentation

The financial statements of the Banco de Portugal have been prepared in accordance with the Chart of Accounts of the Banco de Portugal (*Plano de Contas do Banco de Portugal* – PCBP), approved by the member of Government responsible for Finance, in accordance with the provisions laid down in Article 63(1) of the *Statute 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 Bank¹ (ECB), which, taking into account Article 26.44 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 the 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 (d) and (p) of Note 1.2); 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 (q) of Note 1.2). 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 the Banco de Portugal's activity. These participating interests are measured in compliance with the accounting policy described in Point (e) of Note 1.2. Given the immaterial nature of the results of a possible consolidation process, as well as the lack of economic sense justifying it, the Banco de Portugal does not prepare consolidated financial statements.

With regard to disclosures on positions relating to the participation in the European System of Central Banks (ESCB) operations, the 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

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 <https://eur-lex.europa.eu/>.

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

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 the Banco de Portugal; and (iii) the objective of the Banco de Portugal as a central bank.

1.2 Synopsis of the main accounting policies

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

(a) Accounting assumptions and qualitative characteristics of the financial statements

The financial statements of the 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 the 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

The 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 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, interest payable or receivable for each balance sheet sub-item is shown 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 (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 international accounting standards (IAS) 16 and 38 respectively. This acquisition cost includes expenditure directly attributable to the acquisition of goods.

3. Net Asset Value (NAV) = total assets less total liabilities of entities in which the Banco de Portugal has a participating interest, multiplied by the percentage level of that participating interest.

Depreciation and amortisation are recorded in twelfths, according to the straight-line method, by applying annual depreciation and amortisation rates, according to their 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

According to IAS 36, where 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.

Fixed assets under construction are valued at the total expenses already charged to the 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, the 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 leases with a duration greater than 12 months and (ii) in Liabilities the lease liabilities for those contracts, initially measured at the present value of future lease payments, discounted using the Banco de Portugal's incremental borrowing rate. Such rights-of-use are depreciated/amortised in accordance with the same method applied to assets similar to the underlying assets and for the duration of the contract or period of use, whichever is earlier. Lease payments reduce the corresponding lease liability. Should there be a financial 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 the 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 (o) of this Note).

(f) Securities

The Banco de Portugal holds marketable securities in its portfolio (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 recorded as interest and are amortised over the securities' remaining contractual life, either according to the straight-line method, in the case of securities with coupon, 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 book

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

The costing method adopted by the 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 gains/losses.

The cost of 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 its market value and are recognised as referred to in Point (d) of this Note.

- Medium-term investment portfolio

The portfolio of held-to-maturity securities is measured at amortised cost, calculated totally independently of the other securities classified as trading securities, and is subject to impairment tests according to the model defined by the 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 has not been 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 the Banco de Portugal holds no securities and (vii) the pandemic emergency purchase programme (PEPP).

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 intention to hold those securities (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 gains/losses are treated as described in Point (d) of this Note. In the case of interest rate futures, the result of the daily revaluation is recognised in Realised gains/losses arising from financial operations, in line with the financial flows resulting from changes in the corresponding margin account.

In accordance with the Eurosystem's accounting framework, gold swaps are treated as repurchase agreements and gold flows relating to these operations have no impact on gold reserve levels. A gold swap for foreign currency (or for euro) is treated as deposit taking, 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, the 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. The 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 Liabilities arising from balances of TARGET accounts,⁵ result from cross-border payments within 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 on 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 the 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 (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 been putting euro banknotes into circulation since 1 January 2002; Banka Slovenije adopted the euro on 1 January 2007; the Central Bank of Cyprus and the 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.

4. Equity value means the total of the ECB's reserves, revaluation accounts and general risk provisions, 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), OJ L 35, 9/2/2011, p. 26, as amended.

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 remunerated intra-Eurosystem balances.⁸ These claims or liabilities are disclosed under 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 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 PEPP 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.

7. Banknote allocation key' means the percentage that results 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 from national central banks of Member States whose currency is the euro (recast) ECB/2016/36, OJ L 347, 20/12/2016, p. 26.

9. Decision of the ECB of 15 December 2014 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and securities purchased under the Securities Markets Programme (recast) (ECB/2014/57), OJ J 53, 25/2/2015, p. 24.

(k) Pension Fund of the Banco de Portugal – Defined-Benefit Plan

The Banco de Portugal's liabilities 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 the 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.

(l) Pension Fund of the Banco de Portugal – Defined-Contribution Plan

Employees who started working at the Bank as from 3 March 2009 are now covered by the social security general scheme, under Decree-Law no. 54/2009, of 2 March. These employees may participate in a supplementary pension plan, to which the Banco de Portugal contributes 1.5% of the actual monthly compensation. However, since this is a defined-contribution plan, the Banco de Portugal has no legal or constructive obligation to pay any additional contribution.

(m) Seniority bonuses

The 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.

The 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 the 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 shown 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) the 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, the 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 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 differs from the other provisions in that 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 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 the 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 the 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 NCBs of the Eurosystem) 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

The reserves of the Banco de Portugal are set up and used according to the provisions set forth in its Statute, 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 from 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, the 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 indicating conditions arising after the balance sheet date, if any, and which do not give rise to any adjustment, are disclosed in a specific Note.

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

The annual accounts were prepared taking into consideration the 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 closure of accounts.

Regarding monetary policy operations, which are made by the 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).

There has been an increase in the current degree of uncertainty, broadly based across the various balance sheet and income statement components, associated with the COVID-19 pandemic context, which began in 2020.

1.5 Other subjects

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

The Banco de Portugal, as an integral part of the ESCB, is subject to the provisions laid down in Article 27.11 of the Statute of the ESCB/ECB, according to which the annual accounts of the national central banks (NCBs) of the Eurosystem must be audited by independent external auditors. For the purpose of ensuring the independence of the external auditors, the Banco de Portugal follows the Eurosystem's best practice to this end.

NOTE 2 • GOLD AND GOLD RECEIVABLES

	31 Dec. 2020		31 Dec. 2019	
	Fine ounces ^(a)	EUR thousands	Fine ounces ^(a)	EUR thousands
Gold stored at the Bank	5,549,238	8,567,380	5,549,238	7,514,245
Gold sight accounts	1,374,103	2,121,456	1,501,766	2,033,548
Gold investments	5,376,004	8,299,927	5,248,001	7,106,339
Gold reserve	12,299,345	18,988,763	12,299,006	16,654,133

Note: (a) Ounce of fine gold.

As at 31 December 2020 the gold item showed an increase of €2,334,630 thousand compared to the previous year-end balance. This increase was chiefly due to a rise in gold price denominated in euro. This increase was driven by the appreciation of the gold price in USD (24.5%) partly offset by the depreciation of the USD against the euro (-9.2%). The variation in the gold reserve level arose from minor adjustments in gold operations.

The Banco de Portugal's gold reserve was valued on 31 December 2020 at the market price of €1,543.88 per fine ounce of gold, a 14.0% increase against €1,354.10 on 31 December 2019.

Some investments in gold were also made in 2020, although with no impact on the gold reserve level, as described in Point 1.2(g) of Note 1 on accounting policy.

Unrealised gains resulting from this asset (€15,955,657 thousand on 31 December 2020, and €13,621,564 thousand on 31 December 2019) are recognised in the balance sheet (Note 20) as positive revaluation differences, according to the accounting policy described in Points 1.2(d) (e) and (p) of Note 1.

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

	31 Dec. 2020		31 Dec. 2019	
	Fine ounces ^(a)	EUR thousands	Fine ounces ^(a)	EUR thousands
Bank of England	615,119	949,672	742,782	1,005,804
Bank for International Settlements (BIS)	640,658	989,101	640,658	867,517
Federal Reserve Bank – United States	118,327	182,683	118,327	160,227
Total	1,374,103	2,121,456	1,501,766	2,033,548

Note: (a) Ounce of fine gold.

All of the gold invested is stored at the Bank of England.

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

	31 Dec. 2020		31 Dec. 2019	
	SDR thousands	EUR thousands	SDR thousands	EUR thousands
IMF quota	2,060,100	2,428,034	2,060,100	2,541,957
IMFs holdings	(1,594,045)	(1,878,741)	(1,594,046)	(1,966,893)
Reserve tranche position in the IMF	466,055	549,293	466,054	575,065
SDR holdings	549,114	647,185	539,067	665,155
Claims on the IMF	1,015,169	1,196,478	1,005,122	1,240,220
Counterpart of special drawing rights allocated by the IMF	(806,477)	(950,514)	(806,477)	(995,112)
Liabilities to the IMF	(806,477)	(950,514)	(806,477)	(995,112)

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 2020 of Portugal's share in the IMF, corresponding to the initial participation and subsequent payments, less IMF deposits with the Banco de Portugal. It should be noted that the share of the Banco de Portugal in the IMF remained unchanged in 2020, and the variation in its value denominated in euro resulted solely from changes in the SDR price compared to December 2019.

The changes in the different claim and liability items also include the effect of the SDR depreciation against the euro (-4.5%), from 1.2339 on 31 December 2019 to 1.1786 on 31 December 2020.

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

	31 Dec. 2020	31 Dec. 2019
Claims on non-euro area residents denominated in foreign currency		
Securities	1,770,813	1,491,385
Balances with banks, deposits and other money markets	2,063,309	2,836,458
	3,834,122	4,327,842
Claims on euro area residents denominated in foreign currency		
Securities	25,336	217,670
Balances with banks, deposits and other money markets	29,048	62,989
	54,383	280,659
Liabilities to non-euro area residents denominated in foreign currency		
Deposits, balances and other liabilities	-	(1,511,264)
Total security investments denominated in foreign currency	1,796,149	1,709,054
Total balances with banks, deposits and other money markets in foreign currency (net)	2,092,356	1,388,183
	3,888,505	3,097,238

In 2020 the amount of securities was the same as in 2019, notwithstanding an increase in the amount of deposits and other investments. This increase was largely due to the fact that on 31 December 2020 this item showed a temporary increase, resulting from forward transactions of euro swap for foreign currency in the amount of €1,840,211 thousand (Note 5), operations with no associated exchange rate risk. At the end of 2019 operations of this nature totalled €1,026,115 thousand.

As at 31 December 2020 and 2019 the securities portfolio denominated in foreign currency was broken down as follows:

	31 Dec. 2020	31 Dec. 2019
Securities of non-euro area residents denominated in foreign currency		
Government debt	833,477	855,093
Paragovernmental and supranational	927,512	636,291
Companies/financial institutions	9,824	-
	1,770,813	1,491,384
Securities of euro area residents denominated in foreign currency		
Paragovernmental and supranational	25,336	217,670
	25,336	217,670
	1,796,149	1,709,054

As at 31 December 2020 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. 2020	31 Dec. 2019
Claims on non-euro area residents denominated in euro		
Securities	417,687	473,462
Balances with banks, deposits and other money markets	552,490	1,258,800
of which: Amounts transferred as collateral	113,490	-
	970,177	1,732,262
Claims on euro area residents denominated in euro		
Securities	8,951,433	9,187,233
Balances with banks, deposits and other money markets	15,779	100,867
	8,967,212	9,288,100
Other liabilities to euro area credit institutions denominated in euro		
Deposits, balances and other liabilities	(405,632)	-
Liabilities to non-euro area residents denominated in euro		
Deposits, balances and other liabilities	(8,008,093)	(5,048,558)
of which: Amounts received as collateral	(30,040)	-
Total security investments denominated in euro	9,369,120	9,660,695
Total balances with banks, deposits and other money markets denominated in euro (net)	(7,845,456)	(3,688,891)
	1,523,664	5,971,804

The euro trading portfolio (securities, balances with banks and other net investments) showed a decline compared to 31 December 2019, primarily due to the increase in the amount recognised in internal and external liabilities, associated with collateralised loans relating to gold investments (Notes 2 and 16), and the euros received were used to temporarily reduce TARGET account liabilities. As at 31 December 2020 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 the trading portfolio denominated in euro, this portfolio will return to values slightly below those of previous years, as a result of the current generalised context of negative rates of return.

The amounts delivered/received as collateral were recognised, in 2020, under this item. In 2019 there were only liability positions and they were recorded under Sundry liabilities – other central bank liabilities (Note 18).

In accordance with the 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. 2020	31 Dec. 2019
Securities of non-euro area residents denominated in euro		
Paragovernmental and supranational	397,507	453,609
Companies/financial institutions	20,179	19,853
	417,687	473,462
Securities of euro area residents denominated in euro		
Government debt	8,135,653	8,683,671
Paragovernmental and supranational	815,781	498,537
Companies/financial institutions	-	5,025
	8,951,433	9,187,233
	9,369,120	9,660,695

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

On 31 December 2020 the value of refinancing operations denominated in euro to euro area credit institutions relating to monetary policy operations at Eurosystem level reached €1,793,194,089 thousand (2019: €624,232,652 thousand), of which the Banco de Portugal held €32,163,660 thousand, broken down as follows:

	31 Dec. 2020	31 Dec. 2019
Main refinancing operations	-	5,000
Longer-term refinancing operations	32,163,660	17,320,460
	32,163,660	17,325,460

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 full allotment. On 31 December 2020 the Banco de Portugal had no amount placed from these operations

(2019: €5,000 thousand). However, these operations still play a major role in pursuing interest rate objectives, managing market liquidity and signalling the single monetary policy stance.

Longer-term refinancing operations (LTROs) are liquidity-providing reverse transactions with a maturity of between 3 and 48 months. These operations are conducted as fixed-rate tender procedures with full allotment.

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 early repayment option available after two years. Additionally, in 2019 the Governing Council introduced a new series of seven¹⁰ targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with early repayment option available after two years. As from September 2021 repayment is possible after one year from the settlement of each operation. 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. Moreover, in response to the COVID-19 pandemic, in 2020¹¹ the Governing Council decided that for the period between 24 June 2020 and 23 June 2022 – referred to as the special interest rate period – the applicable interest rate may be as low as 50 basis points below the average interest rate on the deposit facility in force in the same period, but cannot fall below -1%. Against this background, given that real interest rates will only be known when each operation matures, and that it will not be possible to obtain a reliable estimate until then, for the calculation of TLTRO III interest the deposit facility rate minus 50 basis points is used, with a -1% floor over the special interest rate period, and the deposit facility rate is used to calculate TLTRO III interest over the remainder of the life of each operation, as this was considered to be a prudent approach.

Furthermore, on 30 April 2020 the Governing Council decided to conduct a new series of seven additional longer-term refinancing operations maturing in the third quarter of 2021, called non-targeted pandemic emergency longer-term refinancing operations (PELTRO). These operations support liquidity conditions in the euro area financial system and help preserve the smooth operation of money markets by providing effective support after the expiry of the additional longer-term refinancing operations (LTRO-A) that took place between March and June 2020. PELTROs are conducted as fixed rate tender procedures with full allotment. The interest rate is 25 basis points below the average rate applied in the Eurosystem's main refinancing operations over the life of the respective PELTRO.¹²

The Eurosystem also provides a marginal lending facility, corresponding to overnight loans at the specified rate for these operations (0.25% since 16 March 2016). On 31 December 2020 and 2019 the Banco de Portugal did not resort to this operation.

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 materialising monetary policy operations may be shared, in whole or in part, by all the national central banks (NCBs) of the Eurosystem, if so decided by the Governing Council, in proportion to their share in the ECB's capital as at the date they materialise. Losses on these operations only materialise if the counterparty defaults and the recovery of funds received from the resolution of the collateral provided is not sufficient to cover the corresponding losses. The Governing Council has excluded a specific part of the collateral from risk-sharing, including assets that may be accepted by the NCBs at their own discretion.

10. On 10 December 2020 the Governing Council of the ECB added three operations to this series, which will be carried out between June and December 2021.

11. On 30 April 2020 the Governing Council of the ECB decided that the special interest rate period would be between 24 June 2020 and 23 June 2021. On 10 December 2020 the Governing Council of the ECB decided to extend this period by twelve months, until 23 June 2022.

12. On 10 December 2020 the Governing Council decided to offer four additional pandemic emergency non-targeted longer-term refinancing operations in 2021.

NOTE 7 • SECURITIES HELD FOR MONETARY POLICY PURPOSES

On 31 December 2020 the portfolio of Securities held for monetary policy purposes consisted of public sector securities and covered bonds, purchased by the Banco de Portugal under the securities markets programme (SMP),¹³ the covered bond purchase programmes (CBPP, CBPP2 and CBPP3),¹⁴ and the public sector purchase programme (PSPP),¹⁵ in its government and supranational securities components and the pandemic emergency purchase programme (PEPP),¹⁶ mainly in its government securities component (Point 1.2(f) of Note 1).

A summary of the main programmes of this nature is presented below:

	Start date	End date	Decision	Universe of eligible securities ^(a)
Completed/expired programmes				
Covered bond purchase programmes (CBPP)	July 2009	June 2010	ECB/2009/16	Covered bonds from euro area residents
Covered bond purchase programmes 2 (CBPP2)	November 2011	October 2012	ECB/2011/17	Covered bonds from euro area residents
Eurosystem's securities markets programme (SMP)	May 2010	September 2012	ECB/2010/5	Private and government debt securities issued in the euro area
Asset purchase programme (APP)				
Covered bond purchase programmes 3 (CBPP3)	October 2014	assets	ECB/2020/8 (revised)	Covered bonds from euro area residents
Asset-backed securities purchase programme (ABSPP)	November 2014	assets	ECB/2014/45 (amended)	Senior and guaranteed <i>mezzanine</i> tranches of asset-backed securities from euro area residents
Public sector purchase programme (PSPP)	March 2015	assets	ECB/2020/9 (revised)	Securities issued by central, regional and local governments from the euro area or recognised agencies, as well as securities issued by international organisations and multilateral development banks in the euro area
Corporate sector purchase programme (CSPP)	June 2016	assets	ECB/2016/16 (amended)	Bonds issued by non-banking institutions established in the euro area
Pandemic emergency purchase programme (PEPP)				
Pandemic emergency purchase programme (PEPP)	March 2020	assets	ECB/2020/17	All asset categories eligible under the APP ^(b)

Notes: (a) See Decisions of the Governing Council for other eligibility criteria for specific programmes. (b) Securities issued by the Greek Government have been exempted from meeting the eligibility criteria.

13. Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20/5/2010, p. 8.

14. 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.

15. Decision of the ECB of 4 March 2015 implementing a public sector purchase programme (ECB/2015/10), OJ L 121, 14/5/2010, p. 20.

16. Decision of the ECB of 18 March 2020 on a pandemic emergency purchase programme (ECB/2020/17), OJ L 91, 25/3/2020, pp. 1-4.

The breakdown by programme of the monetary policy securities portfolio at the Banco de Portugal is as follows:

	31 Dec. 2020		31 Dec. 2019	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes				
Eurosystem's securities markets programme (SMP)	464,287	494,954	1,248,655	1,325,133
Covered bond purchase programme (CBPP)	-	-	99,997	100,312
Covered bond purchase programme 2 (CBPP2)	58,246	61,358	58,193	63,734
Covered bond purchase programme 3 (CBPP3)	2,867,993	2,979,812	3,169,534	3,263,612
Public sector purchase programme (PSPP) – Government securities	38,601,634	44,140,731	34,820,534	39,526,301
Public sector purchase programme (PSPP) – Supranational securities	12,830,775	14,012,814	14,081,693	14,735,662
Pandemic emergency purchase programme (PEPP) – Governmental securities	14,221,553	14,583,176	-	-
Pandemic emergency purchase programme (PEPP) – Covered bonds	5,558	5,584	-	-
	69,050,045	76,278,429	53,478,605	59,014,754

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 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 2020 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 purpose 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),¹⁷ 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. These securities are being purchased solely by the ECB.

In 2020 the Eurosystem restarted its net purchases of securities under the asset purchase programme (APP) at a monthly pace of €20 billion on average. In March 2020 an additional net purchase envelope of €120 billion was added until the end of the year. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its key 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.

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

Furthermore, in March 2020 the Eurosystem launched a temporary pandemic emergency purchase programme (PEPP) of €750 billion, to ease the overall monetary policy stance and counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the pandemic. Purchases include all asset categories eligible under the APP and were initially envisaged to continue until the end of 2020. In June 2020 the Governing Council increased the envelope for the PEPP by €600 billion and in December 2020 by an additional €500 billion, raising it to a total of €1,850 billion. The horizon for net purchases was also extended to at least the end of March 2022 and, in any case, until the Governing Council of the ECB judges that the COVID-19 crisis phase is over. Moreover, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. The future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

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, total securities held by the NCBs of the Eurosystem amount to €26,334,569 thousand in the SMP (2019: €44,215,779 thousand), €415,163 thousand in the CBPP (2019: €1,680,881 thousand), €2,561,701 thousand in the CBPP2 (2019: €2,692,946), €263,535,872 thousand in the CBPP3 (2019: €241,933,842 thousand), €1,872,244,408 thousand in the PSPP – Government securities (2019: €1,681,449,927 thousand), €249,316,582 thousand in the PSPP – Supranational securities (2019: €225,169,214 thousand), €250,403,250 thousand in the CSPP (2019: €184,504,695 thousand), of €586,912,862 thousand in PEPP – Government securities, €47,796,083 thousand in PEPP – Supranational securities, €2,814,700 thousand in PEPP – covered bonds and €43,153,584 thousand in PEPP – Private sector securities.

In accordance with a decision taken by the Governing Council of the ECB in view of Article 32.4 of its Statute, any loss related to the securities of the Eurosystem's risk and income sharing programmes (i.e. SMP, CBPP3, PSPP – Supranational securities, CSPP PEPP – Covered bonds), if materialised, they may be shared by the various Eurosystem NCBs, in proportion to their keys in the capital of the ECB.

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 portfolios of securities held by the NCBs, the Governing Council decided that no impairment indicator was observed and therefore all estimated future financial flows are expected to be received.

NOTE 8 • INTRA-EUROSYSTEM CLAIMS AND LIABILITIES

- Participating interest in the ECB

Pursuant to Article 28 of the Statute of the ESCB/ECB, the NCBs of the ESCB are the sole subscribers to and holders of 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 ESCB¹⁸ or whenever there is a change in composition of the ESCB national central banks.

As a result of the United Kingdom's exit from the European Union on 31 January 2020 and the 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. Consequently, on 1 February 2020 the Banco de Portugal's share in the subscribed capital of the ECB increased from 1.6367% to 1.9035%, and the amount of the participating interest increased from €177,173 thousand as at 31 January 2020 to €206,054 thousand on 1 February 2020. The weightings are shown in the table below:

NCB	Country	Key for subscription of capital	
		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	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	England	0.0000%	14.3374%
Non-euro area NCBs		18.6714%	30.3824%
		100.0000%	100.0000%

The ECB's subscribed capital remained unchanged at €10,825,007 after the 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, the Banco de Portugal's share in the ECB's subscribed capital increased by 0.2668%.

18. The capital key is also adjusted as a result of the enlargement of the EU to include new Member States.

The ECB's paid-up capital also remained unchanged at €7,659,444 thousand in the year of the United Kingdom's departure from the EU, i.e. 2020, as the remaining NCBs covered the Bank of England's withdrawn paid-up capital of €58,201 thousand. In addition, the euro area NCBs will then pay up in full their increased subscriptions to the ECB's capital following the Bank of England's withdrawal from the ESCB in two additional annual instalments.¹⁹ Accordingly, the Banco de Portugal will transfer to the ECB an amount of €14,279 thousand in 2021 and €14,279 thousand in 2022, its paid-up capital increasing from its current value of €177,496 thousand to a total subscribed value of €206,054 thousand.

- Foreign reserves transferred to the ECB

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

Following (i) the increase in the weighting of euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital resulting from the 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 remain at the current level, the claim equivalent to this transfer was marginally adjusted. This resulted in a slight decrease of €4,233 thousand in these assets, repaid by the ECB on 3 February 2020.

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

This item consists of the 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 as described above the Banco de Portugal's share in the banknote allocation key decreased from 2.163% on 31 December 2019 to 2.1535% as of 1 February 2020.

The increase in this asset position compared with 31 December 2019 (from €47,916,880 thousand to -€50,237,526 thousand) was due to the combination of a rise in overall circulation in the Eurosystem (11% up from 2019) and a reduction in the 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 2020 the balance of the item Other intra-Eurosystem claims, in the amount of €170,624 thousand, referred to: (i) the result of the 2020 monetary income calculation method, totalling €142,654 thousand (Note 26); (ii) negative adjustments to the result of the monetary income calculation method relating to previous years, totalling €1,524 thousand (net), both

19. This will translate into an increase in the ECB's paid-up capital from €7,659 million in 2020 to €8,270 million in 2021 and €8,880 million in 2022.

settled on 31 January 2020 (Note 26); and also (iii) the amount receivable of €29,495 thousand concerning the early distribution of 2020 ECB's income relating to the securities purchased by the ECB under the SMP, CBPP3, ABSPP and PEPP 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 2020 Net liabilities arising from balances of TARGET accounts to the ECB (net) (Point 1.2(h) of Note 1) showed a credit position of €80,195,154 thousand (on 31 December 2019: €76,976,192 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. 2020	31 Dec. 2019
Tangible fixed assets		
Land	50,762	50,762
Buildings and other constructions	109,268	109,172
Premises	88,506	86,832
Equipment	101,850	103,881
Museum and art collections	9,694	9,602
	360,081	360,250
Leased assets		
Buildings and other constructions	11,854	8,970
Equipment	145	-
	11,999	8,970
Intangible assets		
Computer software	78,002	72,558
Other intangible assets	388	388
	78,390	72,945
Tangible fixed assets and intangible assets under construction	5,755	6,202
Total gross tangible fixed assets and intangible assets	456,225	448,367
Accumulated depreciation and amortisation		
Depreciation of tangible fixed assets	(226,583)	(223,950)
Depreciation of leased assets	(5,045)	(2,506)
Amortisation of intangible assets	(68,816)	(63,643)
	(300,443)	(290,099)
Total net tangible fixed assets and intangible assets	155,782	158,268

In 2019 and 2020 movements in this item were as follows:

	31 Dec. 2018			Depreciation and amortisation for the year	31 Dec. 2019
	Net balance	Additions	Disposals		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
	7,066	6,363	7,227	-	6,202
	154,692	29,447	7,623	18,247	158,268

	31 Dec. 2019			Depreciation and amortisation for the year	31 Dec. 2020
	Net balance	Additions	Disposals		Net balance
Tangible fixed assets					
Land	50,762	-	-	-	50,762
Buildings and other constructions	51,168	96	-	1,633	49,630
Premises	13,272	1,677	-	3,106	11,843
Equipment	11,496	5,319	222	5,025	11,568
Museum and art collections	9,602	93	-	-	9,694
	136,299	7,184	222	9,764	133,498
Leased assets					
Buildings and other constructions	6,464	2,884	-	2,519	6,829
Equipment	-	145	-	20	125
	6,464	3,029	-	2,539	6,954
Intangible assets					
Computer software	8,982	5,800	-	5,490	9,292
Other intangible assets	321	-	-	39	282
	9,303	5,800	-	5,529	9,574
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	6,202	6,799	7,245	-	5,755
	6,202	6,799	7,245	-	5,755
	158,268	22,812	7,467	17,832	155,782

The increases in Buildings and Facilities are mainly related to the expansion works at the Bank's Museum, the renovation of electrical and HVAC installations in several buildings and the refurbishment of the Banco de Portugal's building in Funchal.

The increase in item Equipment was mainly driven by the acquisition of IT systems and infrastructures, essentially related to data centre transformation, for cash handling equipment, as well as computer hardware and software, with particular emphasis on the acquisition of laptops.

In 2020 purchases related to Intangible assets were essentially related to software licensing and the go-live of IT systems, namely SIRES (Supervised Entities Relevant Information System) and other systems supporting the areas of supervision and statistics, *Evolução da solução de gestão documental* (Evolution of the document management solution) and *Evolução SIGRA* (SIGRA Evolution).

The amount recognised in tangible fixed assets and intangible assets under construction on 31 December 2020 was chiefly due to projects related to the IT systems and equipment and installations in various Banco de Portugal's buildings.

Under IFRS 16 (Note 1.2(e)), the value of rights-of-use assets on buildings and equipment was increased, following the extension by five years of existing lease contracts, in the overall amount of €2,884 thousand.

NOTE 10 • OTHER FINANCIAL ASSETS

	31 Dec. 2020	31 Dec. 2019
Participating interest in non-euro area resident entities	21,650	21,650
Participating interest in euro area resident entities	36,102	34,248
Held-to-maturity securities portfolio	4,071,353	4,744,009
Other assets	544	407
	4,129,648	4,800,314

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

The Banco de Portugal's participating interests as at 31 December 2020 and 2019 are broken down as follows:

	31 Dec. 2020		31 Dec. 2019	
	% 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.	97.91%	3,165	97.90%	3,374
Valora, S. A.	100.00%	32,586	100.00%	30,524
EUROPAFI	0.25%	349	0.25%	349
Swift	0.01%	1	0.01%	1
		36,102		34,248

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). The 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 2020, which according to those entities showed values fairly close to the final ones.

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

Within the scope of the Banco de Portugal's own fund management, the medium-term investment portfolio, given its characteristics, is included in Other financial assets. This portfolio is exclusively composed of securities denominated in euro and is valued at amortised cost less potential impairment losses.

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. As at 31 December 2020 and 2019 this portfolio was fully made up of government debt securities. The market value of this portfolio is presented in Note 33, for information purposes.

NOTE 11 • ACCRUALS AND PREPAID EXPENSES

	31 Dec. 2020	31 Dec. 2019
Accruals		
Interest and other income receivable from central bank operations	871,310	790,764
Securities held for monetary policy purposes	807,970	708,478
Gold investments	16,927	14,253
Trading portfolio denominated in euro and foreign currency	15,911	20,769
Held-to-maturity securities portfolio	27,391	44,900
Current accounts of credit institutions – excess reserves	286	168
Other	2,826	2,195
Other accruals	1,099	82,281
	872,409	873,045
Prepaid expenses		
Prepaid expenses from central bank operations	76,270	27,254
Other prepaid expenses	8,716	9,375
Deferred tax assets	21,147	26,373
	106,134	63,002
	978,543	936,046

As at 31 December 2020 accruals relating to Interest and other income receivable from central bank operations include outstanding accrued interest receivable from securities held for monetary policy purposes, amounting to €807,970 thousand (2019: €708,478 thousand).

In 2019, Other accruals includes the recognition of the return by the Mutual Agricultural Credit Guarantee Fund (FGCAM) of Banco de Portugal's contributions to that fund, within the scope of the

establishment 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 from central bank operations comprise mainly accrued coupon interest on securities held in the Banco de Portugal's portfolios (i.e. trading portfolio, held-to-maturity securities portfolio, and portfolio of securities held for monetary policy purposes), including outstanding interest paid to the counterparty at acquisition and which will be received by the Banco de Portugal upon maturity of the corresponding coupons or the sale of the securities. Key among the values in this item, as at 31 December 2020, is interest on (i) securities held for monetary policy purposes (€74,057 thousand in 2020 and €23,194 thousand in 2019) and (ii) trading and held-to-maturity securities portfolios (€2,213 thousand in 2020 and €4,060 thousand in 2019).

The Other prepaid expenses item includes the updated value of the difference between financial flows of interest receivable from Lending to employees, at the interest rate applicable according to Collective Labour Agreements and market interest rates, totalling €5,786 thousand (2019: €6,572 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 2020 and 2019.

NOTE 12 • OTHER ASSETS – SUNDRY

	31 Dec. 2020	31 Dec. 2019
Lending to employees	167,083	164,017
Special credit situations – BP/Finangeste Arrangement	680	837
Other special credit situations	400	400
Pension Fund – Defined-Benefit Plan	79,518	128,562
Pension Fund – Defined-Contribution Plan – Reserve account	22,015	22,831
Sundry debtors	9,066	7,871
Corporate Income Tax – Estimate for income taxes	(235,644)	-
Corporate Income Tax – Payments on account and additional payment on account	308,591	-
Billing to third parties	6,749	2,552
Other reduced value accounts	4,210	4,233
	362,669	331,303
Impairment of recoverable amounts	(1,085)	(1,248)
	361,584	330,055

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 represented an asset worth €680 thousand on 31 December 2020 (2019: €837 thousand). The decline in 2020 corresponded to the nominal amount of claims recovered in that year 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 2020, resulting from the fact that this Fund had, on that date, 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 the Banco de Portugal on 31 December 2020, valued at market price, on that date (Note 32).

The estimate for income tax is detailed in Note 30. In 2020 the net value between this estimate and the value of payments on account and additional payments on account results in a net asset position, thus being included in this item. In 2019 this net position was a net liability, therefore included in item Other liabilities – sundry (Note 18).

NOTE 13 • BANKNOTES IN CIRCULATION

Euro banknotes in circulation represent on 31 December 2020 the Banco de Portugal's share in total euro banknotes in circulation in the Eurosystem (Point 1.2(i) of Note 1).

	31 Dec. 2020	31 Dec. 2019
Banknotes in circulation		
Banknotes put into circulation (net)	(19,345,310)	(19,954,870)
Adjustments to circulation in the Eurosystem	50,237,526	47,916,880
	30,892,216	27,962,009

In 2020 the total value of euro banknotes in circulation in the Eurosystem increased by 11% (2019: 5%). In accordance with the banknote allocation key, on 31 December 2020 the Banco de Portugal recorded an aggregate value of banknotes in circulation of €30,892,216 thousand, compared to €27,962,009 thousand on 31 December 2019. The difference between banknotes put into circulation and banknotes withdrawn from circulation by the Bank continued to show debtor balance on 31 December 2020, slightly lower than in 2019. This decrease was due, among other factors, to a slump in tourism in Portugal throughout 2020. These two 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 2020 the balance on Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (€31,612,682 thousand) reflected chiefly the current accounts of credit institutions with Banco de Portugal (€31,608,682 thousand in 2020 and €19,207,122 thousand in 2019). 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 sharp growth in these deposits compared to 2019 reflects the liquidity injection resulting from the extraordinary measures approved by the Governing Council to mitigate the effects of the COVID-19 pandemic on the euro area economy.

The amount of 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).

On 30 October 2019 the Governing Council introduced a two-tier system for reserve remuneration. This system is based on the introduction of a two-tier system for reserve remuneration, which exempts the part in excess of the minimum reserve requirements from negative remuneration at the rate applicable on the deposit facility. The exempt tier is currently remunerated at an annual rate of 0%. The volume of reserve holdings in excess covered by this scheme is determined as a multiple of 6, depending on an institution's minimum reserve requirements. The non-exempt tier of excess liquidity holdings continues to be remunerated at 0% or the deposit facility rate, whichever is lower.

In December 2020, as in 2019, this item also included the balance of deposit facility operations outstanding on that date (€4,000 thousand on 31 December 2020 and €5,900 thousand on 31 December 2019), corresponding to overnight deposits of domestic credit institutions with the Banco de Portugal used as a means to access the Eurosystem's liquidity-absorbing operations at the pre-specified rates for these operations.

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

	31 Dec. 2020	31 Dec. 2019
Liabilities to other euro area residents denominated in euro		
General government		
Current accounts of the Portuguese Treasury and Debt Management Agency (IGCP)		
European Financial Stabilisation Mechanism (EFSM)	16,168,286	5,675,968
European Financial Stability Facility (EFSF)	780,206	812,823
Current accounts of General government for SICOI guarantees	213,253	205,978
	17,161,745	6,694,769
Other liabilities		
Current accounts of the autonomous funds	576,142	415,470
Current accounts of other entities	366,507	307,996
	942,649	723,466
	18,104,394	7,418,234

The remuneration of deposits of the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP) is subject to the provisions of 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 2020 relate to balances of the Deposit Guarantee Fund held at the Banco de Portugal.

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

On 31 December 2020 the balance on the item Liabilities to non-euro area residents denominated in euro included: (i) temporary liabilities for collateralised loans under the gold investments of €7,978,053 thousand (2019: €5,048,558 thousand) (Note 5) and (ii) euro amounts received as collateral totalling €30,040 thousand (Note 5) and (iii) balances of current accounts with various central banks and international organisations (the IMF excluded) in the amount of €6,676 thousand (2019: €3,773 thousand).

NOTE 17 • ACCRUALS AND INCOME COLLECTED IN ADVANCE

	31 Dec. 2020	31 Dec. 2019
Income collected in advance		
Other income collected in advance	2	3
Deferred tax liabilities	304	316
	306	319
Accruals		
Accruals from central bank operations	177,213	139,541
Other accruals	24,326	23,851
	201,539	163,392
	201,845	163,710

Under Accruals from central bank operations reference should be made to the accrued interest payable on lending to credit institutions (€175,799 thousand), notably that related to targeted longer-term refinancing operations (TLTRO III).

Other accruals reflected the above-mentioned accrued staff costs (€18,849 thousand) and accrued supplies and services from third parties payable (€5,477 thousand).

NOTE 18 • OTHER LIABILITIES – SUNDRY

	31 Dec. 2020	31 Dec. 2019
Banknotes withdrawn from circulation	95,305	95,709
Third parties	22,207	20,356
Liabilities relating to the payment to employees of seniority bonuses	15,477	14,740
Estimate for income taxes	-	341,963
Corporate Income Tax – Payments on account and additional payment on account and withholdings at source	-	(315,302)
Other central bank liabilities	-	543,410
Other accounts of reduced individual value	1,412	744
	134,400	701,619

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

The item Third parties includes a lease liability relating to future liabilities with property lease agreements with a duration of more than 12 months, recognised under IFRS 16 (Point 1.2(e) of Note 1), which as at 31 December 2020 amounted to €6,702 thousand (2019: €6,117 thousand).

The item Liabilities relating to the payment to employees of seniority bonuses reflected on 31 December 2020 the current value of liabilities for years of service, determined through an actuarial valuation carried out by the 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 2020 actuarial gains/losses were negative (Note 32) and were recognised under Other expenses.

The amounts paid as payments on account in 2020 (under the provisions of Articles 104 and 104-A of the Corporate Income Tax Code) are now shown under Other assets – sundry, together with the estimate for income taxes for that year, since it amounts, in its overall value, to a net asset position (Note 12).

In 2019 the value recognised in Other central bank liabilities regards amounts received from counterparties as collateral for foreign exchange transactions. In 2020 these positions were reclassified to the items related to management assets, in this case to Liabilities to non-euro area residents denominated in euro (Note 5).

NOTE 19 • IMPAIRMENT, PROVISIONS AND GENERAL RISK PROVISION

Accounting movements in items Impairment and Provisions for the years 2019 and 2020 may be summarised as follows:

	Balance as at 31 Dec. 2018	2019			Balance as at 31 Dec. 2019
		Increase	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

	Balance as at 31 Dec. 2019	2020			Balance as at 31 Dec. 2020
		Increase	Decrease	Net value	
Impairment of assets					
Adjustments for Special credit situations – BP/Finangeste Arrangement	837	-	(157)	(157)	680
Adjustments for other special credit situations	400	-	-	-	400
Adjustments for other recoverable amounts	11	-	(6)	(6)	5
	1,248	-	(163)	(163)	1,085
Provisions					
Provision for Eurosystem monetary policy operations	2,214	-	(2,214)	(2,214)	0
Provisions for litigation	75	20	(75)	(55)	20
	2,289	20	(2,289)	(2,269)	20

In accordance with Article 32.5 of the Statute of the ESCB, the provision against credit risks in monetary policy operations is allocated to the national central banks of the Eurosystem, in proportion to their paid up shares in the capital of the ECB prevailing when the initial impairment occurs.

With regard to the provision initially created in 2018 and adjusted in 2019 by all NCBs of the Eurosystem in respect of the credit risk of monetary policy operations, an amount of €64 million was used to cover the loss incurred after the sale in 2020 of the impaired securities held by one of the NCBs of the Eurosystem in its CSPP portfolio. Of this amount, €1,575 thousand were covered by the provision already set up by the Banco de Portugal.

The remaining amount of the provision established by the NCBs of the Eurosystem, after coverage of realised losses, resulted in an accumulated unused balance of €26 million, which is reflected in the profit and loss account of these NCBs, in proportion to their shares in the ECB's subscribed capital that occurred in 2018 (the year in which the initial impairment occurred). At the Banco de Portugal the amount repaid was €639 thousand.

In 2020 and 2019 the General risk provision was not used.

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

The establishment of provisions such as the Banco de Portugal's General risk provision has been followed at Eurosystem level, in line with developments in risks associated with the need for central bank intervention. 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 (q) of Note 1.2. Taking into consideration, among other factors, the medium-term income projection and risk assessment, every year when closing the accounts the Board of Directors defines a medium-term strategic risk coverage goal, suitable for holding the capital ratio at levels allowing for the coverage, if necessary, of potential losses, including those resulting from decisions taken by the Governing Council with an impact on the Banco de Portugal's accounts.

In 2020 the increase in lending to credit institutions and in monetary policy securities raised the risk, which is expected to continue to grow in the near future, albeit more moderately, with the prospect of these operations evolving. However, this increase in risk does not jeopardise the hedging objectives defined.

NOTE 20 • REVALUATION ACCOUNTS

	31 Dec. 2020	31 Dec. 2019
Gold revaluation differences	15,955,657	13,621,564
Foreign currency revaluation differences	12,610	103,367
Securities revaluation differences	78,795	60,982
Revaluation accounts	16,047,062	13,785,913

Gold increased by €2,334,093 thousand, as a result of the increase in potential capital gains resulting from a rise in the gold price in euro (Note 2).

Potential capital gains resulting from fluctuations in the price of securities as at 31 December 2020 corresponded to securities denominated in foreign currency and euro, amounting to €58,199 and €20,596 thousand respectively (2019: €48,372 thousand and €12,610 thousand respectively).

NOTE 21 • EQUITY

Movements in item Equity in 2020 and 2019 are set out in the Statement of changes in equity.

The capital of the 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 2019 gave rise to the transfer of €75,853 thousand to the Legal reserve and an equal amount to Other reserves, and to the distribution of dividends to the State, totalling €606,827 thousand.

In 2020 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 2020 (Notes 30 and 32).

NOTE 22 • NET INTEREST INCOME

	31 Dec. 2020	31 Dec. 2019
Interest income		
Gold	33,587	22,772
Trading portfolio denominated in foreign currency	24,276	35,702
Securities	22,973	25,578
Balances with banks, deposits and other money markets	1,303	10,124
Trading portfolio denominated in euro	1,136	2,077
Other investments	1,136	2,077
International Monetary Fund	2,452	11,977
Lending to euro area credit institutions	0	1
Securities held for monetary policy purposes	882,124	900,056
Held-to-maturity securities portfolio	38,500	77,244
Off-balance-sheet instruments	4,664	9,535
Other assets	551	599
Current accounts of credit institutions for compliance with minimum reserve requirements	39,189	37,975
Liquidity-absorbing operations	1	1
General government	14,651	2,207
Other liabilities to euro area residents denominated in euro	3,475	2,335
	1,044,607	1,102,483
Interest expense		
Trading portfolio denominated in euro	34,799	43,638
Securities	34,762	33,451
Balances with banks, deposits and other money markets	37	10,188
International Monetary Fund	2,021	9,904
Off-balance-sheet instruments	4,520	2,473
Longer-term refinancing operations	201,576	48,827
	242,916	104,843
Net interest income	801,691	997,640

The decrease in Net interest income in 2020 was largely caused by interest paid for targeted longer-term refinancing operations (TLTRO), mainly arising from TLTRO III operations, in view of the increase in their volume and the reduced interest rate in the second half of 2020, as decided by the ECB.

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 a decline in yields and in the portfolio of securities held for monetary policy purposes, which resulted from high-yield maturing securities held under the SMP, which absorbed the significant increase in PEPP and PSPP volume, in their lower-yield government securities components.

In contrast to these decreases was the increase in Interest income associated with general government liabilities, due to the increase in the balance of these deposits with the Bank, as well as the increase in income from Gold operations.

In a standardised way across the Eurosystem, positive and negative interest on monetary policy operations is presented at net value under either Interest income or Interest expense, depending on whether it is positive or negative in value. For consistency purposes, this decision has been extended to interest in general at the Banco de Portugal.

NOTE 23 • REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

	31 Dec. 2020	31 Dec. 2019
Foreign exchange transactions	10,295	12,580
Other financial operations in foreign currency	21,026	3,042
Financial operations in euro	4,758	4,739
Medium and long-term investments	107	-
Interest rate futures	6,995	(9,927)
Transactions in the portfolio for monetary policy purposes	5,953	39,414
	49,135	49,848

In 2020 Realised gains/losses arising from financial operations were positive and of a similar amount to 2019. Its composition was, however, different from the previous year. In 2020 of particular note were gains from financial operations associated with assets in the trading portfolios in foreign currency and euro (€21,026 and €4,758 thousand respectively). Also noteworthy were the results from foreign exchange transactions (€10,295 thousand).

Although lower than in 2019, sales of monetary policy securities contributed to results in 2020, for compliance with the rules of the programme (€5,953 thousand).

NOTE 24 • UNREALISED LOSSES ON FINANCIAL ASSETS AND POSITIONS

	31 Dec. 2020	31 Dec. 2019
Unrealised exchange rate losses	68,854	14
Unrealised losses on investments in foreign currency	934	1,210
Unrealised losses on euro operations	704	3,644
	70,492	4,867

As regards the item Unrealised losses on financial assets and positions, the amount recognised in 2020 resulted mainly from potential exchange rate losses, mostly associated with the asset portfolio denominated in USD, due to price decreases in this 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, PSPP and PEPP. 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 2020 this item included the amount of €29,495 thousand relating to the aforementioned portion of income from securities from that year (2019: €33,641 thousand). Moreover, in 2020, this item included an amount for ECB's net reserves (€4,136 thousand) as part of the process of the United Kingdom's withdrawal from the European Union and the consequent adjustment of the weightings assigned to the remaining NCBs in the ECB's subscribed capital key with effect from 1 February 2020.

In 2020 this item also included dividends received for the Banco de Portugal's participating interests in 2019, chiefly: (i) in the ECB, to the amount of €21,976 thousand (2019: €9,511 thousand) and (ii) in EUROPAFI, to the amount of €6 thousand.

NOTE 26 • NET RESULT OF POOLING OF MONETARY INCOME

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 any 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, PSPP-SUPRA and PEPP-CBPP 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		

Where the value of each NCB's earmarkable assets exceeds the value of its liability base, as is the case for the Banco de Portugal in 2020, the difference (known as 'the gap'), calculated at the latest available ECB reference rate for the 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 the Banco de Portugal in 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 their subscribed and paid up shares in the capital key.

In 2020 total contributions from the Eurosystem declined considerably from €11,300,936 thousand to €4,323,307 thousand. This decrease was mostly driven by two factors: (i) a significant increase in negative interest from financing operations; and (ii) the maturing of monetary policy securities under higher-yield programmes, in particular the SMP.

The difference between the Banco de Portugal's net contribution of -€41,385 thousand and the allocation to the Banco de Portugal according to that key, in the amount of €101,269 thousand, less adjustments made this year regarding 2018 and 2019 in the amount of -€1,524 thousand was the net result of the allocation of monetary income (€143,344 thousand). This includes the loss arising from the sale in 2020 of securities held by a NCB of the Eurosystem in its CSPP portfolio which, although not included in the Banco de Portugal's portfolio as it is not an active participant in this programme, is of shared risk at the Eurosystem level, plus the reversal of the provision for losses on monetary policy operations of the Eurosystem of €2,214 thousand (Note 19).

		31 Dec. 2020	31 Dec. 2019
A	Total contribution from all Eurosystem NCBs	4,323,307	11,300,936
B	Paid-up capital key	2.3424%	2.3510%
C = A x B	Total reallocation to the Banco de Portugal	101,269	265,683
D	Total effective contribution from the Banco de Portugal	(41,385)	147,896
E = C - D	Result of the method	142,654	117,787
F	Eurosystem adjustments to the result of the method relating to previous years	(1,524)	(396)
G	Eurosystem provisions	2,214	1,775
H = E + F + G	Net result of pooling of monetary income	143,344	119,167

The increase in the Net result of pooling of monetary income method for the year, amounting to €142,654 thousand (2019: €117,787 thousand) compared to 2019, largely stemmed from the following factors: (i) decrease in the weight of the Banco de Portugal's contributions in total Eurosystem interest related to deposits of credit institutions and liquidity-absorbing operations and (ii) decrease in the Banco de Portugal's interest in the SMP portfolio and interest increase in the rest of the Eurosystem, in the CSPP portfolio. This effect was partially offset by the reduction in the proportion of deductions by the Banco de Portugal as regards interest in lending operations *vis-à-vis* the rest of the Eurosystem.

NOTE 27 • OTHER INCOME AND EXPENSES

	31 Dec. 2020	31 Dec. 2019
Other income		
Capital gains on tangible and intangible fixed assets	2	18
Previous fiscal years income	3,410	295
Sales and supply of services to third parties	4,320	4,360
Sundry income	2,916	85,294
	10,647	89,967
Other expenses		
Capital losses on tangible and intangible fixed assets	127	220
Previous fiscal years expenses	522	572
Sundry expenses	1,390	1,699
	2,040	2,490
	8,608	87,476

Previous fiscal years' income include €1,927 thousand corresponding to the amount returned to the Banco de Portugal by the IMF, as part of Portugal support to Somalia for debt relief. This amount refers to contributions made in the past by the Banco de Portugal to cover this type of situation. The Portuguese State will be responsible for the settlement upon dividend distribution by the Bank. This aggregate also includes in 2020 the amount of €762 thousand related to the return of expenses shared with the Eurosystem regarding the TARGET2-Securities system (which took place between 2015 and 2019).

The item Sales and supply of services to third parties was largely related to services provided by the Banco de Portugal through the BpNet portal, totalling €3,370 thousand (2019: €3,371 thousand).

Sundry income in 2020 included the profit resulting from the adjustment of the value of the Banco de Portugal's participating interests in Valora and in SGFPBP, resulting from the implementation of the Net Asset Value method as explained in Point 1.2(e) of Note 1 and Note 10 (€1,853 thousand). In 2019 mention should be made of (i) the amount of €81,156 thousand concerning the refund by FGCAM of the initial contributions made to this Fund, following the application of Decree-Law No 106/2019; and (ii) the excess estimate of the corporate income tax, in the amount of €2,231 million.

NOTE 28 • STAFF COSTS

	31 Dec. 2020	31 Dec. 2019
Remuneration of the members of the Board of Directors and Board of Auditors	1,185	1,343
Employees' salaries	83,287	84,207
Compulsory social charges	30,624	30,366
Voluntary social charges	15,657	21,131
Other staff costs	1,301	1,491
	132,053	138,538

In 2020 staff costs totalled €132,053 thousand, a €6,485 thousand decrease from 2019 (-5%).

The drop in voluntary social charges contributed to this decrease, more specifically the decline in early retirement costs (-€5,644 thousand), given that there were fewer employees in this situation in 2020 (Note 32).

As regards Employees' salaries, the decrease in this item against 2019 is related to the impact of the COVID-19 pandemic crisis on this type of expenses. Thus, the amount of per diems dropped due to the fact that there was almost no travelling for international representation purposes in 2020 and overtime work amounts also dropped. This decrease in expenses was partly offset by a 0.3% salary update following the revision of wage scales, in line with that established by the Portuguese Banking Association for 2020.

There was also a slight increase of €258 thousand in compulsory social charges, which relates to the increase in annual contributions to the Pension Fund – Defined -benefit Plan (+€635 thousand (Note 32)), offset by the decrease in sick pay and occupational accidents allowances, also an impact of the COVID-19 pandemic.

NOTE 29 • SUPPLIES AND SERVICES FROM THIRD PARTIES

	31 Dec. 2020	31 Dec. 2019
Electricity	2,581	2,427
Travel, accommodation and other transport	1,278	3,304
Litigation and notary services	3,000	4,645
Maintenance and repairs	5,402	5,176
Rentals	766	622
Fuel and water	430	560
Specialised work		
Surveillance and security	4,915	4,379
IT	2,886	3,003
Use of databanks	2,752	2,775
Remuneration of SGFP	3,133	2,880
Other specialised work	4,049	3,770
Software licensing and maintenance	7,983	7,125
Training	1,040	1,167
Other supplies and services from third parties	4,778	5,488
	44,995	47,319

In 2020 Supplies and services from third parties reached €44,995 thousand, i.e. a €2,324 thousand decrease from 2019.

Litigation and notary services posted a significant decrease (-€1,645 thousand) related mainly to the provision of legal and financial advice provided as part of the resolution measure on the Banco Espírito Santo, S. A.

In addition, Supplies and services from third parties were also influenced by operating changes at the Bank associated with the COVID-19 pandemic. In this context, the most relevant variations

against 2019 are (i) decreases associated with the closure and suspension of activities, namely travel and accommodation (–€2,193 thousand), events (–€512 thousand), training (–€126 thousand) and consumption of water, fuel and consumables (–€218 thousand) and, in the opposite direction, (ii) increases associated with additional expenses incurred by the Bank concerning Information systems and IT under the scope of Business Continuity in the setting up of conditions for remote working (around +€1,233 thousand for software licensing and maintenance, specialised IT work and maintenance and repair of SITI systems and infrastructure), as well as in hygiene and safety and other specialised work, namely by purchasing personal protective equipment and material for the sanitisation of people and goods (+€203 thousand). Electricity consumption dropped due to reduced building occupancy, however its value increased as a result of rises in tariffs.

Finally, expenses were recorded with surveillance and security (+€536 thousand), under an agreement concluded with the GNR (the National Republican Guard) for the security of the Carregado Complex, and incurred as a result of the revision of the wage scale for the private security sector.

NOTE 30 • INCOME TAX

The 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 the 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 the Banco de Portugal firmly believes that there will be no significant additional payments regarding previous financial periods.

As at 31 December 2019 and 2020 income tax liabilities were broken down as follows:

	2020	2019
Estimated income tax on profit for the year	242,782	349,028
Estimated income tax on retained earnings	(7,138)	(7,065)
Withholdings at source	(26)	(7)
Payments on account and additional payments on account	(308,591)	(315,309)
	(72,973)	26,648

In 2020 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.²⁰

20. Law No 64-B/2011 was published on 30 December 2011 approving the State Budget for 2012. It 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 following nine tax years. Thus, the current and deferred tax relating to the pension fund's transitional regime should be recognised against equity.

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 are detailed as follows:

	2020	2019
Current tax		
For the year	165,912	236,045
Municipal corporate tax and state surtax	77,740	112,813
Tax benefits (CFEI II)	(1,000)	-
Autonomous taxation	129	170
	242,782	349,028
Deferred tax	(655)	(1,961)
Total income tax	242,128	347,067
Income before taxes	777,486	1,105,601
Tax burden	31.14%	31.39%

The extraordinary investment tax credit II (CFEI II) results from extraordinary measures published in Law 27-A/2020 of 24 July 2020. Most of the investment considered for the purposes of this benefit relates to purchases of tangible assets, namely banknote handling machines and cash dispensers, computers, servers, and printers, and also to purchases of intangible assets, more specifically computer software.

The reconciliation between the nominal and effective tax rates presented above is as follows:

	2020			2019		
	Basis	Tax	Rate	Basis	Tax	Rate
Income before taxes Tax calculated at nominal rate	777,486	243,313	31.29%	1,105,601	346,669	31.36%
Adjustments						
Net Asset Value (Note 27)	(1,853)	(584)	(0.08%)	(123)	(39)	(0.00%)
Tax estimate surplus (Note 27)	(20)	(6)	(0.00%)	(2,231)	(703)	(0.06%)
Pension fund (Note 32)	1,940	611	0.08%	1,392	439	0.04%
Severance benefits, retirement benefits and other post-employment or long-term benefits (Note 32)	1,962	(69)	(0.01%)	9,620	1,080	0.10%
Losses from previous periods (Note 27)	521	164	0.02%	562	177	0.02%
Other	52	49	0.01%	647	193	0.02%
Tax benefits		(1,427)	(0.18%)	-	(836)	(0.08%)
Autonomous taxation		129	0.02%	-	170	0.02%
Other – Effect of rate change		(53)	(0.01%)	-	(83)	(0.01%)
	242,128	31.14%		347,067	31.39%	

With regard to the reconciliation of tax rates, in 2020 there is a difference of -15 basis points between the nominal rate of 31.29% and the effective rate of 31.14% (in 2019, a difference of +3 basis points between the nominal rate of 31.36% and the effective rate of 31.39%), and in none of the years are there mutually offsetting adjustments that are materially relevant.

The adjustment in the Pension Fund results from the definitive difference between the expenses that contribute to the ceiling provided for in Article 43(2) of the Corporate Income Tax Code and said ceiling. The adjustment made to employment termination benefits, retirement benefits and other post-employment or long-term employee benefits are related to early retirements, seniority bonuses and bonuses for reaching retirement age, under the terms of collective work agreements in force, and these costs are for tax purposes only attributable to the tax period when the amounts are paid or made available to their beneficiaries, in accordance with the provisions set forth in Article 18(12) of the Corporate Income Tax Code.

The tax benefits set out in the table above relate to the CFEI II (€1,000 thousand), the net job creation benefit (€423 thousand) and the allocation of donations of a social nature (€4 thousand).

In 2019 and 2020 the movements related to deferred tax assets and liabilities were broken down as follows:

	31 Dec. 2018	2019		31 Dec. 2019
		Change in 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
	31 Dec. 2019	2020		31 Dec. 2020
		Change in Equity	Profit/Loss	
Assets				
Temporarily non-deductible provisions and impairments	388	-	(50)	338
Staff benefits				
Pension fund – transitional regime	13,370	(6,701)	-	6,669
Seniority bonus	4,622	-	220	4,842
Early retirements	7,993	832	466	9,292
Litigation			6	6
	26,373	(5,868)	643	21,148
Liabilities				
Depreciation surplus (reinvestment of capital gains)	(316)	-	12	(305)
	(316)	-	12	(305)
	26,057	(5,868)	655	20,843

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 to determine the taxable profit.

These 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 enacted as at the balance sheet date.

The rate used to calculate deferred tax was 31.29% in 2020 and 31.36% in 2019.

Also, with regard to deferred taxes, temporary differences have no expiry dates.

NOTE 31 • OFF-BALANCE-SHEET INSTRUMENTS

	31 Dec. 2020	31 Dec. 2019
Contracted financial operations	(187,863)	448,190
Collateral given	(1,471,623)	(1,471,623)
Collateral received	79,094,330	60,617,501
Items held in custody	29,851,224	25,567,851
Irrevocable credit lines	(3,044,233)	(3,100,361)

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 2020 and 31 December 2019 these positions related only to derivative financial instruments designed essentially to manage risks associated with their assets and liabilities, as follows:

	31 Dec. 2020					31 Dec. 2019	
	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)
Currency swaps	1,955,887	(1,955,887)	19,693	20,693	(1,000)	1,026,115	(1,026,115)
Interest rate futures	4,000	(191,863)	-	-	-	471,390	(23,200)

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 the Banco de Portugal in favour of the IMF, under Article III, Section 4 of the IMF's Articles of Agreement.

Collateral received mainly included collateral related to the monetary policy operations of the Eurosystem in the amount of €79,090,233 thousand on 31 December 2020 (€60,612,743 thousand on 31 December 2019), including collateral used under the Correspondent Central Banking Model (CCBM). This collateral is valued at market rates, less haircuts.

Items held in custody essentially comprised securities owned by the Portuguese State (€19,959,190 thousand) and securities held in custody by the Banco de Portugal as collateral in monetary policy operations with other NCBs, under the CCBM (€9.082,766 thousand).

As at 31 December 2020 the item Irrevocable credit lines recorded the amount of €2,120,800 thousand corresponding to the ceiling of intraday credit lines to the Portuguese financial system and the value of SDR 783,500 thousand (€923,433 thousand) referring to 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 the Banco de Portugal – Defined-Benefit Plan

- Background

Until 31 December 2010 the Banco de Portugal was the sole entity responsible for the payment of the retirement and survivors' pensions of staff (and their dependents) recruited 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 the Banco de Portugal's active employees registered in Caixa de Abono de Família dos Empregados Bancários (CAFEB),²¹ the family allowance fund for bank employees, and covered by the Pension Fund – Defined-Benefit Plan, would be 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. From 1 January 2011 onwards, 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 the 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 the 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 members of staff who 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 members of the Banco de Portugal.

21. Dissolved by this Decree-Law.

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, survivors' 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).

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) Participants

The number of members covered by the Pension Plan is as follows:

Number of scheme members	31 Dec. 2020	31 Dec. 2019
Active members	779	860
Retired members	2,079	2,070
Pensioners	574	586
	3,432	3,516

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. 2020	31 Dec. 2019
Active members	34	34
Retired members	14	15
Pensioners	12	12

(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 the 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. 2020	01 Jan. 2020	31 Dec. 2019	01 Jan. 2019
Discount rate	0.420%	1.013%	1.013%	1.652%
Expected return rate on the Fund's assets	n/a	1.013%	n/a	1.652%
Wage growth				
1 st year	1.750%	1.750%	1.750%	2.506%
Subsequent years	2.262%	2.296%	2.296%	2.543%
Pensions growth rate				
1 st year	0.750%	0.750%	0.750%	1.506%
Subsequent years	1.262%	1.296%	1.296%	1.543%
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 the Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme (1 st year)	66 years and 6 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 credit 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, the SGFPBP uses, as a matter of prudence, a lower discount rate, based on interest rates on bond issues of higher average credit quality.

Thus, the value of the Fund's liabilities considered in the Banco de Portugal's accounts is below that calculated by considering the aforementioned funding needs.

– Healthcare plan

(a) Participants

The number of members covered by the Healthcare Plan is shown in the table below:

Number of scheme members	31 Dec. 2020	31 Dec. 2019
Active members	1,774	1,775
Retired members and pensioners	2,606	2,606
	4,380	4,381

The assumed average life expectancy for scheme members and beneficiaries is as follows:

Average life expectancy (years)	31 Dec. 2020	31 Dec. 2019
Active members	43	43
Retired members	14	15
Pensioners	12	12

(b) Methodology, assumptions and accounting policy

The actuarial and financial assumptions used in the calculation of these liabilities are established according to IAS 19. Reference should be made to the following:

	Actuarial and financial assumptions used			
	31 Dec. 2020	01 Jan. 2020	31 Dec. 2019	01 Jan. 2019
Discount rate	0.420%	1.013%	1.013%	1.652%
Expected return rate on the Fund's assets	n/a	1.013%	n/a	1.652%
Growth rate of the average/annual expenses				
Disability pensions	4.987%	5.060%	5.060%	5.278%
Other	3.784%	4.030%	4.030%	4.248%
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 the Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme (1 st year)	66 years and 6 months		66 years and 5 months	
Percentage of married members	80%		80%	
Age difference between spouses	3 years		3 years	

- Evolution of liabilities and assets of the Pension Fund

	31 Dec. 2020			31 Dec. 2019		
	Retired members and pensioners	Active members	Total	Retired members and pensioners	Active members	Total
Total past-service liabilities of the Fund						
Retirement and survival benefits	1,191,102	612,706	1,803,808	1,140,626	572,903	1,713,529
Pensions' inherent charges to SAMS	67,387	32,575	99,962	63,669	29,080	92,749
Death grants	2,179	1,066	3,245	3,348	1,779	5,127
Healthcare	64,105	30,590	94,695	55,529	26,466	81,995
	1,324,773	676,937	2,001,710	1,263,172	630,229	1,893,401

The table below presents the evolution of past-service liabilities of the Pension Fund in 2020 and 2019:

Past-service liabilities	2020	2019
Value at the beginning of the year	1,893,401	1,814,887
Current service cost	13,397	12,960
Benefits payable (expected value)	(82,093)	(73,157)
Interest cost	19,180	29,982
Actuarial gains/losses	147,605	92,864
Increase in liabilities arising from early retirements	10,220	15,864
Value at the end of the year	2,001,710	1,893,401

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.

In 2020 the decrease in the value relating to the increase in liabilities for early retirement is mainly due to the reduction against 2019 in the number of employees who were under these circumstances.

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%	1.4% ^(a)	1.1%
Impact on the Pension Fund's liabilities	4.7%	1.7%	1.6%
Impact on the Pension Fund's funding ratio	-4.7%	-0.3% ^(a)	-0.5% ^(b)

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 2020 the modified duration of liabilities stood at 16.2 years (2019: 15.6 years), 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 2.0 years (2019: -2.3 years).

Fund's assets	2020	2019
Value at the beginning of the year	2,021,963	1,915,971
Current contributions paid to the Fund	13,182	14,286
On account of the Bank	11,399	12,424
On account of the employees	1,782	1,863
Contributions paid on account of early retirements	12,793	15,270
Benefits and inherent charges paid by the Fund	(77,935)	(78,231)
Net income of the Fund	111,226	154,666
Value at the end of the year	2,081,228	2,021,963

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

Fund's investments	31 Dec. 2020	31 Dec. 2019
Land and buildings	227,744	229,575
Variable income securities	176,342	116,686
Fixed income securities	1,644,549	1,659,402
Cash and bank deposits	9,483	6,437
Other	23,109	9,862
	2,081,228	2,021,963

Land and buildings includes the Castilho Building, used by the Banco de Portugal, which was recorded in 2020 at a value of €33,821 thousand.

Securities portfolio of the Fund	31 Dec. 2020	31 Dec. 2019
Variable income securities		
Participation units – Investment funds	176,342	116,686
Fixed income securities		
Government debt	1,644,549	1,659,402
	1,820,891	1,776,088

At the end of 2020 the funding level of the Banco de Portugal's Pension Fund – Defined-Benefit Plan stood at 104%, above that of the scenario used to calculate the funding needs (most prudent scenario) of 102.2%.

The value of actuarial gains and losses calculated in 2020 and 2019 can be broken down as follows:

	31 Dec. 2020	31 Dec. 2019
Actuarial gains/losses		
Population movements	3,076	(8,988)
Technical gains and losses	2,370	12,945
Wage growth	(3,811)	(2,267)
Increase in pensions	2,883	(1,394)
Change in average healthcare expenses	(3,772)	1,199
Adjustments to the model	859	-
Other gains and losses	1,583	5,450
Indexation of assumptions:		
Future wage growth	11,821	33,220
Future increase in pensions	14,495	38,413
Change in average healthcare expenses	366	2,702
Discount rate	(177,475)	(174,144)
	(147,605)	(92,864)
Financial gains and losses		
Gains and losses in paid pensions	4,155	(5,074)
Gains and losses in expected income of the Fund	90,746	123,015
	94,901	117,941
	(52,703)	25,077

Actuarial gains and losses in 2020 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 €177,475 thousand increase in the Fund's liabilities. The item Other deviations essentially includes the amount related to actuarial gains resulting from the net effect of the revision of the Minimum Monthly Guaranteed Remuneration, the revision of the social support indexing factor, the revision of the funeral subsidy and the revision of the remunerations used to calculate the social security pension.

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

	2020	2019
Staff costs		
Current service cost ^(a)	11,130	10,603
Interest cost	19,180	29,982
Expected return on the Fund's assets	(20,482)	(31,652)
Increase in liabilities arising from early retirements	10,220	15,864
	20,048	24,797

Note: (a) Excluding 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	2020	2019
Value at the beginning of the year	14,740	13,392
Seniority bonuses paid	(1,337)	(1,267)
Current service cost	1,254	1,132
Interest cost	102	182
Actuarial gains/losses	719	1,300
Value at the end of the year	15,477	14,740

On 31 December 2020 the modified duration of liabilities with seniority bonuses stood at 11.1 years (2019: 10.7).

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

	Actuarial and financial assumptions used			
	31 Dec. 2020	01 Jan. 2020	31 Dec. 2019	01 Jan. 2019
Discount rate	0.242%	0.691%	0.691%	1.361%
Wage growth				
1 st year	1.750%	1.750%	1.750%	2.506%
Subsequent years	2.141%	2.188%	2.188%	2.209%
Tables used				
- Mortality – Male population	TV 88/90 adjusted by 1 year TV 88/90 adjusted by 4 years		TV 88/90 adjusted by 1 year TV 88/90 adjusted by 4 years	
– Female population				
- 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 the Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme (1 st year)	66 years and 6 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 the Banco de Portugal – Defined-Benefit Plan.

On 31 December 2020 this insurance scheme covered 11 members.

The value recognised in 2020 for this insurance was €19 thousand under Staff costs.

Pension Fund of the Banco de Portugal – Defined-Contribution Plan

The 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 the 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.

The 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 any other 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 2020 the supplementary pension plan funded through this Pension Fund covered 1015 members (2019: 930).

When this Pension Fund was set up, the 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.

On 31 December 2020 the assets of the Fund amounted to €27,248 thousand, broken down as follows:

Participation units (in value)	31 Dec. 2020	31 Dec. 2019
Reserve account (Note 12)	22,015	22,831
Members' individual accounts	5,233	4,076
	27,248	26,907

Participation units of this reserve account are transferred on a monthly basis to the individual accounts of its members by the amounts corresponding to:

- (i) the contributions from the Banco de Portugal; and
- (ii) the contributions from active members (by withholding every 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 the Banco de Portugal:

Reserve account of the sponsor	2020	2019
Value at the beginning of the year	22,831	22,520
Transfer of rights to members – contributions of the year	(1,087)	(764)
Revaluation of the period	271	1,075
Value at the end of the year	22,015	22,831

NOTE 33 • RISK MANAGEMENT

Risk management at the Banco de Portugal is designed to ensure sustainability and profitability, while safeguarding financial independence. Therefore, the Banco de Portugal pursues a prudent risk management policy that reflects the risk profile and degree of tolerance defined by its Board of Directors and is laid down in a statement of risk acceptance principles.

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 other departments of the Banco de Portugal, and it is monitored by the Board of Auditors and the Board of Directors of the Banco de Portugal.

At the Banco de Portugal the compliance risk 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.

In 2020, against the background of instability and operational risk associated with the COVID-19 pandemic, the Banco de Portugal created specific structures to monitor the impacts of this pandemic, under which contingency plans were developed to ensure the continuity of critical business functions and guarantee the non-disruption of essential services.

- Financial Risk Management
 - Risk management policies

Financial risks primarily arise from the management of own investment assets and the participation in the monetary policy of the Eurosystem, and comprise the losses resulting from default by counterparties and issuers, as well as from fluctuations in financial asset prices, exchange rates and the price of gold (market risk).

These risks are monitored and controlled by quantifying risk measures, namely Value at Risk (VaR) and expected shortfall (ES) indicators, produced and released on a daily basis, and by carrying out regular sensitivity analysis and stress testing exercises.

The Banco de Portugal's own investment assets are managed by the Markets and Reserve Management Department, based on a strategic benchmark portfolio, reflecting the preferences of the Board of Directors of the Banco de Portugal in terms of risk profitability. This strategic benchmark portfolio reflects the discussion of scenarios and forecasts for the main economic and financial variables and the conduct of several optimisation exercises to determine efficient portfolios. The strategic benchmark portfolio – 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 the basis for setting the allowed asset management deviation margin.

Risk control of own investment asset management is based on eligibility criteria and limits set out in the Guidelines on the management of the Banco de Portugal's own investment assets (the Guidelines) approved by its Board of Directors. In the case of credit risk, the said criteria and limits are based on risk ratings assigned by rating agencies and incorporate a qualitative assessment of all information available. Market risk control is based on the application of limits to the VaR, as well as by setting limits to foreign current positions.

The valuation, assessment, performance allocation and control of limits and restrictions in asset management operations are performed through an information system for the management of reserves and assets, identical to the one used by the ECB and 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 and approved by the Governing Council of the ECB are also used to calculate VaR and expected shortfall for credit risk and market risk.

Exposure to credit risk arising from monetary policy operations results from the share of the Eurosystem's global exposure attributable to the Banco de Portugal, according to its capital key (shared risk), and from the operations where risk is directly borne by the Banco de Portugal (non-shared risk).

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.

The Banco de Portugal runs a projection exercise for financial statements and balance sheet risks in 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 level of risk coverage by the 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). A medium to long term projection of the Bank's income is also carried out, which allows for the analysis of the resilience of its profitability.

– 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 2020 and 2019 is as follows:

	31 Dec. 2020		31 Dec. 2019	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes (Note 7)	69,050,045	76,278,429	53,478,605	59,014,754
Held-to-maturity securities portfolio (Note 10)	4,071,353	4,308,913	4,744,009	4,964,671
	73,121,398	80,587,342	58,222,614	63,979,424

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

The 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 strategic risks faced by the 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 the integrated risk management policy, a detailed mapping of the Bank's non-financial risks was completed, and the operational risk profile was updated in view of the impact of the pandemic on its activities. 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 compromise the pursuit of the Banco de Portugal's mission and goals as provided for in the legislation and arising from its participation in the Eurosystem/ESCB/Single Supervisory Mechanism and from other requirements that may have a material negative impact on the Banco de Portugal's activities and assets. The management of the Bank's non-financial risks also benefited from the construction of the so-called Key Risk Indicators (KRI) at departmental level, thus allowing for a more global and quantified overview of the institution's operational risks.

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

The identification, measurement and reporting of these risks is currently supported by a dedicated and scalable system (industry standard), which allows for a more efficient management of the entire assessment process of the Bank's operational risks, also facilitating the objective of an integrated management of the Bank's risks.

NOTE 34 • PENDING LEGAL PROCEEDINGS

As at 31 December 2020, various legal proceedings were pending against the Banco de Portugal.

Developments in these proceedings are monitored regularly by the Board of Directors of the 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, proceedings for the provision of information, administrative offence proceedings (judicial phase), monitoring of judicial winding-up of credit institutions and financial companies and monitoring of proceedings related to labour disputes. Also, some interventions before the European Court of Justice may also be mentioned.

Although the Board of Directors of the 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 the Banco de Portugal, as they result from the exercise of the Board's legal powers.

The Board of Directors' assessment of the 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, the Novo Banco, S. A. (hereinafter "Novo Banco"), led to a significant increase in litigation, with proceedings brought against the 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 the Banco de Portugal's powers as resolution authority of the Portuguese financial sector, by decision of the Board of Directors of the Banco de Portugal of 3 August 2014, pursuant to Article 145-G(5) of RGICSF, the Novo Banco, S. A. (hereinafter "Novo Banco") was established following the 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 the 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 the 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 and those still pending are associated with the proceedings informing the decision-taking of the resolution measure or with access to certain documents prepared by an external entity.

The Banco de Portugal contested such 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). The Banco de Portugal is awaiting further developments in these proceedings.

It should be noted that in these types of proceedings, if the Banco de Portugal is convicted by a judgement that has the force of *res judicata*, the 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 the Banco de Portugal connected to these proceedings.

(ii) Requests for cancellation of the resolution measure applied

Lawsuits challenging the legality of the decisions of the Board of Directors of the 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 the 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 the 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, the Banco de Portugal believes, supported by the opinion of its internal and external legal counsel, that those proceedings do not present financial risks for the 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 the 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 the Banco de Portugal.

Regarding the annulment actions challenging the initial BES resolution measure (decisions of the Board of Directors of the 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 twenty judges of the Administrative Court of the Lisbon District rendered a unanimous judgement 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. As these proceedings concerned matters of European law and the Supreme Administrative Court was the last instance rendering a judgement, it decided to refer the case for a preliminary ruling of the European Court of Justice (ECJ), in compliance with the obligations arising from the Treaties, with a view to obtaining the European Court of Justice judgement on specific EU-law matters. The ECJ's decision is yet to be rendered, with written observations already being submitted by the Parties and the Portuguese Republic.

Thus, the Banco de Portugal awaits the latter developments of the pilot proceedings and their consequences for the remainder of the suspended litigation.

Meanwhile, and in a lawsuit challenging the resolution measure not covered by the suspension mechanism described above, on 4 November 2020 the Administrative and Tax Court of Sintra delivered a judgement dismissing in its entirety the proceedings in which some (formal and substantive) unconstitutionality and illegality were claimed in relation to the resolution measure imposed on BES. This judgement has acquired the force of *res judicata*, since no appeal has been lodged.

In relation to the annulment actions challenging the Retransfer Decision (decision of the Board of Directors of the 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 several 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, or they are considering their suspension. In some of the court proceedings, appeals were lodged against that decision to stay the proceedings.

Despite the important case-law precedent established by the judgement rendered by the Administrative Court of the Lisbon District and the recent judgement rendered by the Administrative and Tax Court of Sintra, as there are few doctrinal and case-law precedents it is impossible at present for the Banco de Portugal 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 the Banco de Portugal whenever payment by the 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 the 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 the Banco de Portugal and/or the Resolution Fund to pay financial compensation for damages arising from alleged deposits in BES (or the purchase of debt instruments with BES acting as financial intermediary) and for moral damages.

Following defence based on inadmissibility grounds presented by the Banco de Portugal and/or the Resolution Fund, a considerable number of decisions have been handed down in favour of them both. 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. The Conflicts Court has deemed the civil courts as having jurisdiction to resolve civil law disputes, where brought against the Resolution Fund, and such disputes are still pending. Importantly, in only one lawsuit brought against the Banco de Portugal the civil courts were deemed as having jurisdiction, finalised in the meantime by lack of action by the parties.

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 the 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 put into question our assessment that there is a higher probability of a decision in favour of the 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 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, and other related funds, which seek the annulment of the decisions of the Board of Directors of the Banco de Portugal of 22 December 2014, 15 September 2015 and 29 December 2015.

The pre-trial hearing phase was waived in one of the lawsuits and it awaits the rendering of the conclusive opening order. The courts are considering the possibility of suspending some of those lawsuits 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 Administrative Courts Procedure Code (CPTA). The parties have been notified to submit their opinion and the decision is yet to be rendered. In other two lawsuits, the pre-trial hearing phase/conclusive opening order is yet to be scheduled.

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 the Banco de Portugal, as payment by the Banco de Portugal of a specified pecuniary amount is not sought.

(v) Other court proceedings 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 the Novo Banco to Lone Star, issued by the Board of Directors of the 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.

As these matters have no doctrinal or case-law precedent, the Banco de Portugal is unable to predict the outcome of the decisions to be delivered by the Courts. Annulment of the decision in question does not trigger any type of financial risk for the Banco de Portugal, as payment by the Banco de Portugal of a specified pecuniary amount is not sought.

During 2020, two interim injunction proceedings were still pending, relating to the sale process of the 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.

However, one of these is already in a position to be closed in 2021 – notwithstanding the continuation of the main proceedings – thus only one interim injunction will persist. For these 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 crucial doctrinal or case-law precedent, the Banco de Portugal is unable to predict the outcome of the decisions to be delivered by the Courts. Nevertheless, the following factors reinforce the absence of a financial risk for the Bank of Portugal: (i) the interim injunctions are ancillary to the main lawsuits, (ii) decisions on merit in the interim injunctions identified have already been ruled in favour of the Banco de Portugal, with only one pending the decision to be rendered, (iii) the provisional decisions on interim injunctions were rejected, and (iv) the sale process of the Novo Banco has been concluded.

Proceedings are still pending for annulment of the decision which excluded the transfer to the Novo Banco of the balances held in BES on behalf of the applicants who are family members of former members of the Board of Directors of BES, proceedings awaiting the pre-trial hearings/conclusive opening order, with requests already submitted for the calling of witnesses.

Finally, there were also four interventions of the Banco de Portugal and the Resolution Fund, in the Spanish jurisdiction, in the context of the sale of the Novo Banco and relating to the Spanish branch. The 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 prior intervention in the Goldman Sachs International proceedings at the UK's Supreme Court).

In April 2019, the 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) the 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 the 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 the Novo Banco (and its branches), as the relevant liability was excluded from the sphere of the Novo Banco under the resolution measure adopted by the Banco de Portugal, (iii) that such responsibility would not prevent the resolution measure adopted by the Banco de Portugal from being recognised.

In another case, following the intervention of the Banco de Portugal and the Resolution Fund being approved, the Spanish Supreme Court decided to refer the case for a preliminary ruling to the European Court of Justice (ECJ). In this context and following the submission of observations of all the parties and the oral public hearing held in September 2020, the Advocate-General Juliane Kokott rendered an Opinion, published in November 2020, which was favourable not only to the interests of the Novo Banco branch in Spain, but also to the Banco de Portugal and the Resolution Fund.

In another case where the Banco de Portugal and the Resolution Fund requested to intervene, this intervention was already accepted and the court of first instance agreed not to refer the case for preliminary ruling of the CEJ as it was previously considered.

Finally, in the most recent case where the Banco de Portugal and the Resolution Fund requested to intervene, which is similar to the case in which the Supreme Court issued a favourable decision, a decision is pending as to whether the intervention sought is granted.

As these matters have no doctrinal or case-law precedent, the Banco de Portugal is unable to predict the tendency of the decisions to be delivered by the Spanish Courts. In any event, payment by the Banco de Portugal of a specified pecuniary amount is not sought. The following must be highlighted: (i) the intervention of both the Banco de Portugal and the Resolution Fund has been accepted, and (ii) the Supreme Court ruled in favour of the interests of the Banco de Portugal and the Resolution Fund.

- 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 the Banco de Portugal and Articles 145-E and 146 of RGICSF, the 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 19 administrative lawsuits challenging the legality of these decisions, of which two were proposed during 2020. All 19 are at the end of the initial procedural phase and await scheduling of the pre-trial hearing phase/conclusive opening order.

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. At the end of the hearing, final written statements were submitted in June 2019. On 31 December 2020, the parties still awaited a judgement to be delivered.

There are also six civil lawsuits pending at the Lisbon District Court, requesting the Banco de Portugal and/or the Resolution Fund to pay financial compensation for losses and moral damages arising from investments made in BANIF, showing a decrease compared to the situation in 2019 (fourteen lawsuits pending). In 2020, in three lawsuits where a lack of jurisdiction of the civil courts was recognised, rulings were issued confirming the decision not to refer the matter to the administrative court.

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 the 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 the 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 the 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 the Banco de Portugal.

- Judicial winding-up proceedings of Banco Privado Português, S. A. (BPP, S. A.)

There are 17 lawsuits pending in court, mostly pleading for the Banco de Portugal or the Deposit Guarantee Fund to pay compensation for balances on accounts opened with BPP, S. A.

In all these lawsuits, the initial phase has come to an end and they are awaiting further procedural developments; a preliminary hearing is scheduled for the first half of 2021.

There is the possibility of financial risk to the Banco de Portugal in these proceedings. The fact that these proceedings have no strong 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 the Banco de Portugal in this phase and the estimation of possible compensation amounts resulting therefrom.

However, given the history of 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 the Banco de Portugal.

- General litigation

Twenty-two cases are pending before the Courts concerning various and disparate matters.

The possible success of these cases does not entail any kind of financial risk where payment by the Banco de Portugal of a pecuniary amount is not sought, which is the case for the vast majority of pending lawsuits. In the other cases, and 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 the Banco de Portugal. The exception was Case No 2870/14.6BELSB, already referred to in the 2019 Note, as to the application for enforcement lodged in 2019, which was concluded by agreement and led to the payment of compensation to the applicant, albeit of a lower amount than that claimed.

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

The complexity and procedural developments of the litigation has continued to warrant the additional allocation in 2020 of specialised internal resources to the Legal Services Department and the engagement of external legal services, to respond to the 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 the 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 the Banco de Portugal, taking as a basis the information available, believes that the ruling on these lawsuits will not have an unfavourable outcome for the Banco de Portugal, and therefore there is no specific provision recognised for the pending lawsuits as at 31 December 2020.

In compliance with its Statute, the Banco de Portugal has established, in turn, a General risk provision (Point (q) of Note 1.2), movements of which are decided upon by the Board of Directors, to cover risks for the Banco de Portugal which are not covered by specific provisions.

NOTE 35 • RELATED PARTIES

On 31 December 2020 the Banco de Portugal's participating interest in its related parties' equity was 97.91% 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 2020 a member of the Board of Directors of the Banco de Portugal was on the Board of Directors of SGFPBP and of Valora.

All transactions between the 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 the Banco de Portugal form part of the Management Committees of the Resolution Fund and the Deposit Guarantee Fund. The Management Committees are the bodies responsible for managing these Funds' activity.

The Portuguese State is the owner of the Banco de Portugal's equity. 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.

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 2020 (showing a total of 192,439,126 t.euros and equity of 2,203,816 t.euros, including a net profit of 535,358 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 2020 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 2020 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 2020 is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report of 2020

It is our opinion that the information included in the management report of 2020 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, 15 March 2021

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

Report and Opinion of the Board of Auditors

2020

Under the terms of Article 43 of the *Statute of Banco de Portugal*, approved by Law No 5/98 of 31 January 1998, the Board of Auditors monitors the business of the 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 2020, the Board of Auditors, in use of its legal and regulatory powers, monitored the activity of the 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 the Banco de Portugal's functions and activities.

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 the 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, including the external auditors, 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 2020 – approved in the meeting of the Board of Directors held on 2 March 2021 – 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 15 March 2021 without any qualification or emphasis of matter.

In 2020 the Banco de Portugal's balance sheet and accounts were significantly affected by the non-standard monetary policy measures decided by the Eurosystem in response to the pandemic crisis. Among these, two stand out for their size and impact on the balance sheet: the large-scale provision of liquidity to the financial system under particularly favourable conditions and the purchase of large amounts of debt mainly from the public sector.

This set of measures resulted in a very significant increase of €32.7 billion in the Bank's balance sheet, which increased from €159.8 billion on 31 December 2019 to €192.4 billion on 31 December 2020. The following contributed, to a large extent, to the positive change in balance sheet assets: (i) the increase in the monetary policy securities portfolio materialised in the pandemic emergency purchase programme (PEPP), which reached €14,2 billion at the end of the year, and in a €2,5 billion reinforcement in the public sector purchase programme (PSPP), and (ii) the €14,8 billion increase in longer-term refinancing operations for credit institutions (mainly TLTRO III). Other significant impacts were (i) the €2,3 billion increase in the value of gold as a result of the positive change in its pricing, and (ii) the reduction in intra-Eurosystem claims arising from the adjustment of the increase in euro in circulation allocated to the Banco de Portugal to the amount of €2.3 billion. On the liabilities side, deposits of credit institutions with the Banco de Portugal increased by €12.4 billion. The Banco de Portugal's Own funds (which include the items Revaluation accounts, General risk provision, Equity and Net profit for the year) increased by €2.1 billion in 2020, largely as a result of the appreciation of gold.

Net profit for the year, amounting to €535 million, declined by €223 million from 2019. This reduction is essentially due to a €196 million decline in the interest margin (from €998 million in 2019 to €802 million in 2020), as a result of lower yields on the portfolio of securities held for monetary policy purposes and the recognition of negative potential exchange rate differences of €69 million, among other less significant positive and negative changes.

In addition, the Board of Auditors analysed the proposal for the distribution of profit for 2020, to the amount of €535,358,461.03. The Board of Directors, in accordance with Article 53(2) of the *Statute of Banco de Portugal*, will submit to the Minister of State and Finance the following proposal for the distribution of profit:

– 10% to the legal reserve.....	€53,535,846.10
– 10% to other reserves.....	€53,535,846.10
– The remainder to the State, as dividends.....	€428,286,768.82

In light of the above, the Board of Auditors raises no objection to the approval of the 2020 Financial Statements, nor to the proposal for the distribution of profit presented by the Board of Directors of the Banco de Portugal.

The Board of Auditors wishes to express its recognition for the institutional cooperation with all members of the Board of Directors and to thank the entire staff of the Banco de Portugal for their contributions.

Lisbon, 19 March 2021

The Board of Auditors

Nuno Gracias Fernandes

Óscar Figueiredo

Margarida Abreu

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese, and therefore not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

