

# ANNUAL REPORT

## ACTIVITIES AND FINANCIAL STATEMENTS 2021



BANCO DE  
PORTUGAL  
EUROSYSTEM



# ANNUAL REPORT

## ACTIVITIES AND FINANCIAL STATEMENTS 2021



**BANCO DE PORTUGAL**  
EUROSYSTEM

Lisboa, 2022 • [www.bportugal.pt](http://www.bportugal.pt)



# Contents

Message by the Governor	4
Mission and values of the Banco de Portugal	7
Strategic Plan for 2021-25	9
Approach to Sustainability	11
Statutory bodies	13

## I Activity | 17

Executive summary	19
1 Price stability in the euro area	25
1.1 Monetary policy	25
1.2 Asset management	29
1.3 Payment systems and means of payment	30
1.4 Monetary issuance	35
2 Safeguarding of financial stability	37
2.1 Regulatory activities	37
2.2 Stability of the Portuguese financial system	38
2.3 Resolution	47
2.4 Enforcement function and upholding the legality of the Bank's decisions	48
3 Knowledge creation and sharing	51
3.1 Research	51
3.2 Statistics	53
3.3 International cooperation	54
4 Internal management and corporate social responsibility	57
4.1 Governance, control and risk management	57
4.2 Human resources	58
4.3 Innovation and digital transformation	61
4.4 Accountability, communication and services to the public	64
4.5 Social and environmental responsibility	67

## II Report and Financial Statements | 71

1 Management Report	73
1.1 Balance sheet	75
1.2 Profit and loss account	87
2 Financial Statements and Notes	94
3 External Auditors' Report	162
4 Report and Opinion of the Board of Auditors	165



# Message by the Governor

In 2021 the Banco de Portugal celebrated its 175<sup>th</sup> anniversary. This was an opportunity to prepare for the future by recalling our history. It is a history of public service, which we reflected in a Strategic Plan for 2021-25, focusing on promoting proximity and strengthening trust among the Portuguese.

Contributing to the recovery of the Portuguese economy after the pandemic continued to be among our main concerns.



In economic terms, 2021 was marked by the recovery process. A faster-than-anticipated recovery, also when compared to previous crises. In our analyses and studies throughout the year, the main goal was to contribute to the resilience, sustainability and convergence of the Portuguese economy.

The monetary policy response in the defence of price stability and the support of the economy proved to be crucial. We took on a dual role in this plan. In addition to participating in the definition and implementation of an accommodative monetary policy, we contributed to the review of the monetary policy strategy of the European Central Bank (ECB).

Through the National Strategy for Retail Payments, we contributed to promoting a more informed society, encouraging it to adopt more secure payment solutions. We favour an innovative and efficient regulatory environment and have harnessed the benefits of digital transformation.

We worked with the Eurosystem in preparing the digital euro, to keep pace with technological developments, respond to consumer needs and strengthen the strategic positioning of the euro.

The growth of the economy requires a stable and sound financial system for which the Banco de Portugal's regulatory and supervisory work is instrumental.

Therefore, we adapted the monitoring process of the banking sector, households and firms to the context of recovery from the pandemic and to the financial challenges, focusing on moratoria. Given the vulnerabilities identified, we set supervisory priorities to strengthen the resilience, viability and sustainability of the banking system. We assessed institutions' business models and profitability, taking into account the reassessment of credit risk and the intensification of cybersecurity and climate risks.

We guaranteed the protection of depositors and consumers of financial services, ensured

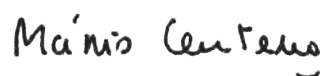
the smooth functioning of payment systems, promoted financial inclusion initiatives and strengthened preventive effectiveness in money laundering and terrorist financing.

Due to its regulatory importance, I must recall the participation and support of the Banco de Portugal in the work of the Portuguese Presidency of the Council of the European Union, in particular in the Banking Union, digitalisation and sustainability dossiers.

Internally, we aspire to lead by example. We therefore implemented best practices in governance, risk management and accountability, fostering a culture of accountability for results. We acted with a sense of social and environmental responsibility.

Dialogue, proximity, effective and timely action: these are the building blocks for the coming years. Our strategic guidelines are rooted in these objectives. The Banco de Portugal must contribute to strengthening the country's social capital, so that we can successfully overcome the challenges ahead. We will build a closer relationship with citizens; we will deepen the exchange of information and coordination among the different authorities; and we will promote public debate on the economy and on Europe.

Throughout our history, we have been a pillar of resilience for Portuguese society, contributing to Portugal's economic and financial stability. We will continue to work hard to be so, building on our technical expertise, our recognised reputational and institutional capital and our capacity to intervene in the public sphere.



Mário José Gomes de Freitas Centeno



#### WHAT IS MONEY?

Money is an abstract value or an object which serves as a means of exchange, measure and a store of value for a group, community or society. It reflects a system of equivalence between goods and services. If money is to be able to fulfil its functions, it must be easy to carry, reliable, divisible, and



# Mission and values of the Banco de Portugal

## Mission

The 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.

The Banco de Portugal's mission is to:

- maintain price stability;
- safeguard the stability of the financial system.

## Values

The Banco de Portugal's values are:

**Integrity** — The Banco de Portugal's staff place society and the public interest at the centre of their action and uphold high ethical standards;

**Competence, effectiveness, efficiency** — The 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** — The 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 and the protection of the status of members of decision-making bodies;

**Transparency and accountability** — In compliance with its tasks in the context of the Eurosystem, the Banco de Portugal is accountable to the Portuguese Parliament, the government and society;

**Team spirit** — The Banco de Portugal's staff act in accordance with the principles of mutual assistance and knowledge sharing;

**Social and environmental responsibility** — The Banco de Portugal acts in a socially and environmentally responsible manner, operating as a social actor and advocate of corporate ethics, diversity and inclusion, and sustainability.

The conduct of the 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 of the General Duties of Conduct of the Employees of Banco de Portugal).



# Strategic Plan for 2021-25

In 2021 the Banco de Portugal started a new strategic planning cycle. The Strategic Plan 21-25, published on the institutional website, sets out the priorities of the Banco de Portugal until 2025, with a view to timely and effective action in its core business.

The strategic guidelines have been defined considering the key responsibilities of the Banco Portugal stemming from its statutory mission and an in-depth analysis of the external environment, marked by phenomena such as the COVID-19 pandemic, innovation and digital transformation, the evolution of the Banking Union and environmental, social and governance sustainability concerns.

The Bank's priorities are structured around five strategic guidelines (SGs):

- SG 1. Financial system robustness;
- SG 2. Protection of the banking market;
- SG 3. Recovery and resilience of the economy;
- SG 4. Confidence and influence on society;
- SG 5. Governance and internal management.

As a public service organisation, the Banco de Portugal is committed to participating until 2025 in the collective recovery effort of the Portuguese economy and, within the scope of its functions, to focus the debate on the European project. This requires the Bank to make an effective contribution to strengthening the country's social capital, based on a close relationship with other supervisors and authorities and with citizens. This approach is reflected in the motto of the Strategic Plan 21-25: "Promoting proximity and strengthening trust among the Portuguese".





# Approach to Sustainability

The Banco de Portugal has integrated environmental, social and governance (ESG) sustainability concerns into its policies, in line with the policies set out for the Eurosystem.

The environmental dimension has received greater attention as it has the greatest impact on the Bank's mission. Phenomena such as climate change or biodiversity loss are a source of risk for the economy and for the financial sector in particular, and may affect the conduct of monetary policy. In the *Banco de Portugal Pledge on Climate Action* published in November 2021 on the occasion of the United Nations Climate Change Conference (COP26), the Bank thus committed to contributing to climate neutrality within its mandate.

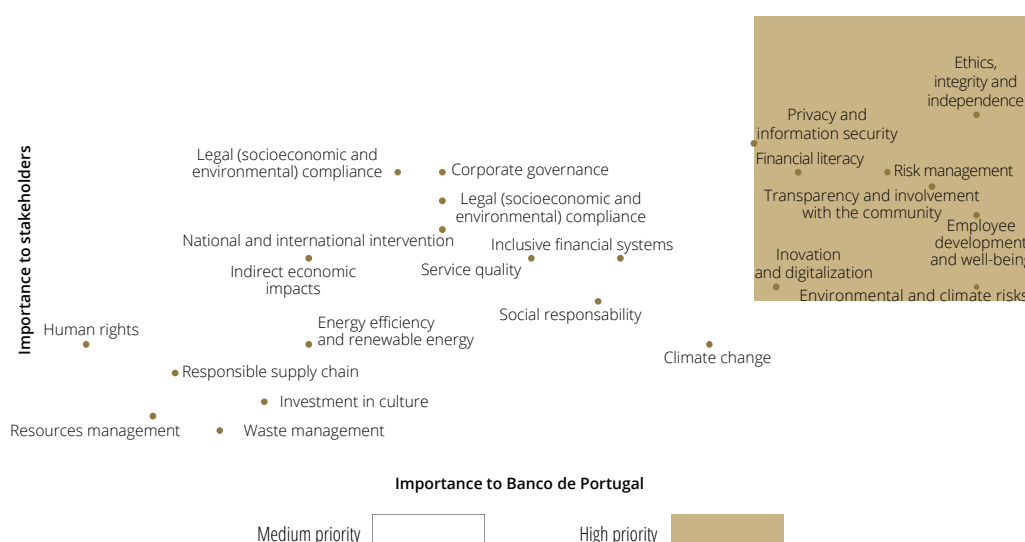
As an enterprise and a public service institution, the Banco de Portugal also pursues a corporate social responsibility policy that favours the development of its employees and the reduction of its own ecological footprint, promotes economic and financial literacy, and supports socially responsible causes and projects in partnership with the community.

The Banco de Portugal's approach to ESG sustainability is described in the *Acting for Sustainability* document, which provides an integrated view of the Bank's position and sets out the guidelines and priorities that will guide its action in the next four-year period, in line with the Strategic Plan for 2021-25. Until 2025 the Banco de Portugal will pursue three focus areas to enhance ESG sustainability within its mandate:

- Area 1 — Integrating climate risks into the missions of the Banco de Portugal;
- Area 2 — Reinforcing ESG sustainability in internal management;
- Area 3 — Promoting ESG awareness among employees and external stakeholders.

The Banco de Portugal's ESG sustainability work in 2021 is described in this report considering the topics identified as priorities by the Bank and its main stakeholders and the corresponding United Nations Sustainable Development Goals (SDGs) (Figure 1). The location of these subjects in the report's sections is as shown in Table 1.

**Figure 1 • The Banco de Portugal's contribution to ESG sustainability: topics considered most relevant by the Bank and its stakeholders ('materiality matrix')**



Source: Banco de Portugal. | Note: This matrix is the result of cross-checking the (ESG) sustainability topics considered most relevant by the Banco de Portugal and its main stakeholders in the development of their activity. The relevant topics to the stakeholders were the result of a survey held in 2020 (for further details see the Banco de Portugal's *Sustainability Report 2019-2020*). The matrix was revised by the Banco de Portugal in 2021.



**Table 1 • Correspondence between the topics considered most relevant by the Bank and its stakeholders and the Sustainable Development Goals (SDGs) and sections of this report where they are addressed**

Pillar	Material topic	Sections of the report	SDG
Economic	Ethics, integrity and independence	4.1	
		1.2	
		4.1	
		4.1	
		4.3	
		4.1	
	Transparency and involvement with the community	4.4	
		4.5	
		1.3	
		2.2	
Social	Employee development and well-being	3.1	
		4.3	
		4.2	
		4.5	
			
	Financial literacy	2.2	
		3.1	
		3.2	
		4.4	
			
Environmental	Environmental and climate risks	1.2	
		2.1	
		2.2	
		4.5	
			
			

Source: 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 2021. Over the course of the year, Director Hélder Rosalino was reappointed by Resolution of the Council of Ministers No 141/2021 of 30 September 2021, published in Official Gazette No 201, Series 1, of 15 October 2021.



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

Vitor Augusto Brinquete Bento

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

Cristina Maria Nunes da Veiga Casalinho

Representatives from the Autonomous  
Regions

Joaquim José Santos de Bastos e Silva  
(Autonomous Region of the Azores)

Rogério de Andrade Gouveia (Autonomous  
Region of Madeira)

## Ethics Committee\*\*\*

Chair

Vítor Manuel da Silva Rodrigues Pessoa

\* As at 31 December 2021.

\*\* As at 31 December 2021. Over the course of the year, Fernando Faria de Oliveira, former Chair of the Portuguese Banking Association, and Pedro Miguel Amaro de Bettencourt Calado, former representative of the Autonomous Region of Madeira, ceased functions.

\*\*\* As at 31 December 2021.

# 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) Paulo Jorge Pena Cardoso José  
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 Morais Pinto Pereira

## Regional Delegations

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

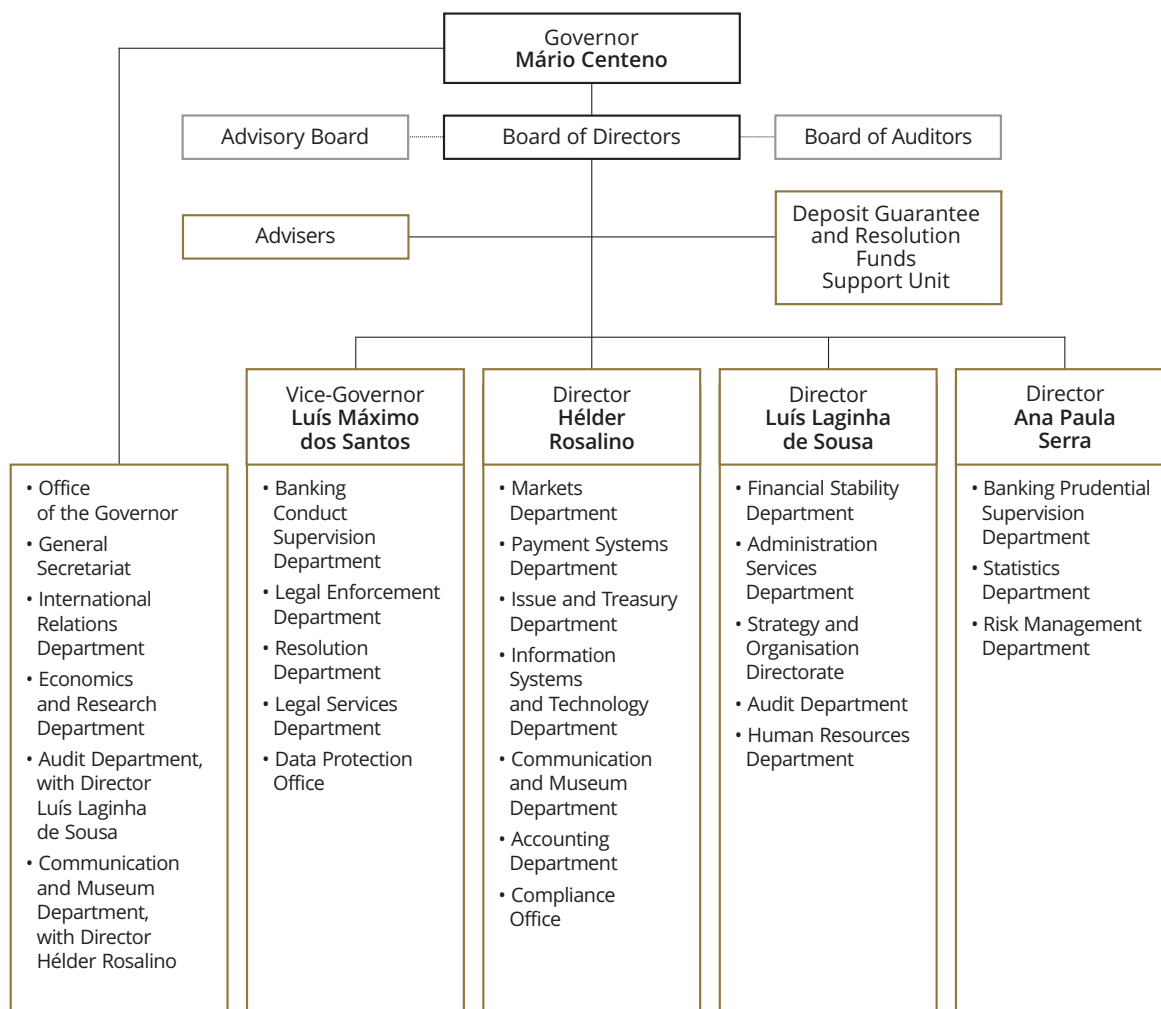
## District Agencies

Braga Ana Alexandra de Sousa Azevedo Mourão  
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 2021.



**Figure 2 • Organisational chart of the Banco de Portugal as at 31 December 2021**



Source: Banco de Portugal.



---

## I Activity

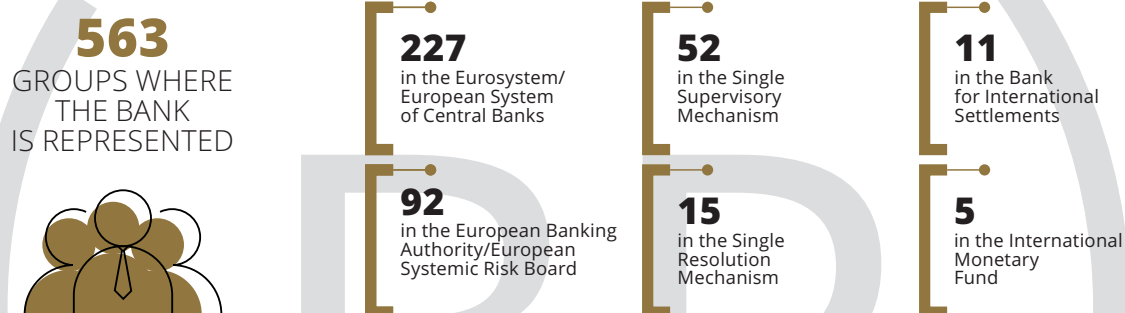
- 1 Price stability in the euro area
- 2 Safeguarding of financial stability
- 3 Knowledge creation and sharing
- 4 Internal management and corporate social responsibility

# The Banco de Portugal in figures 2021

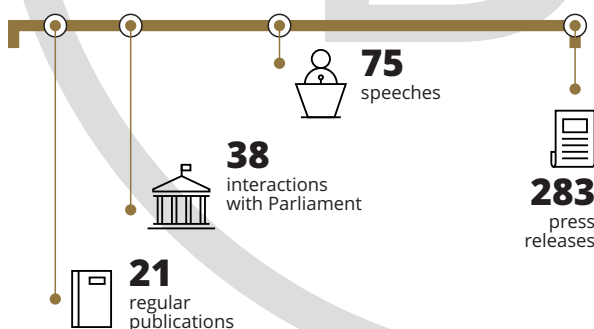
## Human resources



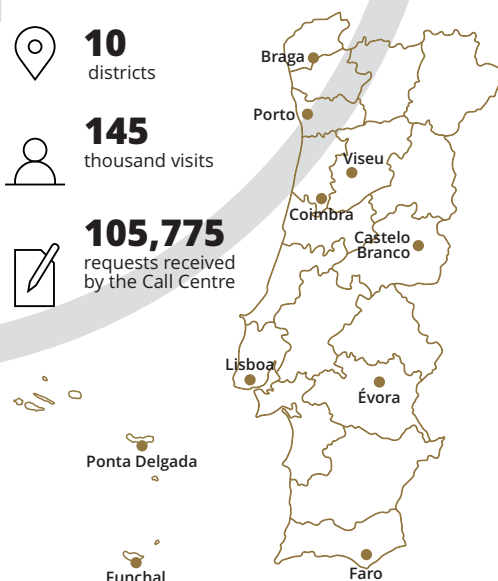
## International activity



## Accountability and transparency



## Services to the public



## Net profit



# Executive summary

In 2021 the Banco de Portugal continued to contribute to domestic and international efforts to address the challenges of the pandemic crisis and promote a strong, sustainable and inclusive recovery. In order to address these strategic challenges, and other challenges arising from phenomena such as digital transformation, growing sustainability concerns and the deepening of the Economic and Monetary Union and the Banking Union, the Bank approved a new strategic plan to be implemented by 2025, based on principles of efficiency and sustainability. It also committed itself to dialogue and coordination with the other authorities and the community.

## Price stability in the euro area

In 2021 euro area monetary policy remained accommodative to promote the convergence of inflation towards the 2% target in the medium term, support lending to the economy and safeguard the transmission of monetary policy to economic agents. The Governing Council of the European Central Bank (ECB) kept the official interest rates unchanged. The monetary policy instruments adopted in response to the pandemic remained in place and the additional decisions taken in December 2020 were implemented to preserve favourable financing conditions.

The Banco de Portugal participated in monetary policy decisions, conducted operations with resident credit institutions and purchased assets under the Eurosystem asset purchase programmes. The outstanding amount of the monetary policy securities portfolios on the Bank's balance sheet, stemming from purchases under the asset purchase programmes, increased by €17.1 billion in 2021 to €86.2 billion at the end of the year, accounting for 39.3% of the Bank's assets. Liquidity provision increased by €9.7 billion and totalled €41.8 billion at the end of 2021, almost entirely due to the targeted longer-term refinancing operations (TLTRO III).

In July, the ECB concluded its monetary policy strategy review, in order to adapt it to the structural changes undergone by the euro area economy and the global economy since the previous review in 2003. The Banco de Portugal carried out analytical work that informed the debate and listened to Portuguese citizens in three events.

The Banco de Portugal managed its own investment asset portfolio, valued at €31,992 million as at 31 December, a 14.9% decline from the previous year. This decline was mostly the result of a decision to reduce the amount in euro in the trading portfolio, given the environment of negative euro area interest rates.

The financial market infrastructure and the retail payment system operated in an efficient and safe manner. The Bank continued to implement the National Strategy for Retail Payments | 2022 Horizon, in order to increase access by firms, citizens and the general government to the different payment solutions available.

The Banco de Portugal also participated in the work of the Eurosystem on the digital euro. If created, the digital euro will be a risk-free means of payment, capable of addressing the new needs of consumers and thus complement cash.

In order to facilitate innovation in the financial sector, the Bank continued to meet fintech entities. Under the scope of the National Council of Financial Supervisors, the Bank cooperated in the organisation of the third edition of Portugal FinLab, an initiative aimed at clarifying the boundaries and possibilities of Portuguese legislation and regulations.

Work continued on the Eurosystem's new real-time gross settlement system, which is expected to go live in November 2022. Necessary adjustments were made to ensure the pan-European reachability of instant payments via the Eurosystem's dedicated system, TIPS.

With a view to safeguarding the integrity and security of the euro, the ECB created a working group to develop a new series of euro banknotes. The delivery of banknotes to the Banco de Portugal remained historically low and counterfeiting continued to be residual compared to the total number of banknotes in circulation.

### Financial stability

In the field of regulation, the Banco de Portugal cooperated actively with the Ministry of Finance under the Portuguese Presidency of the Council of the European Union, providing support in issues such as the Banking Union, the digitalisation of the financial sector and sustainable finance. In terms of the Banking Union, the Bank was directly involved in the debate on the establishment of the European Deposit Insurance Scheme, the negotiation of the Directive on credit servicers and credit purchasers and the discussion on the new action plan to tackle non-performing loans in Europe.

The Bank also participated in the development of new European regulatory initiatives, with particular reference to the Banking Package 2021, the amendment of the Directive on consumer credit agreements and the new European anti-money laundering and terrorist financing package.

At national level, the Bank worked together with the Ministry of Finance to review the preliminary draft of the *Código da Atividade Bancária* (legal framework governing banking activity and supervision) and issued opinions on Parliament and Government legislative initiatives relevant to the banking sector, many of which in the context of the pandemic.

The Bank monitored the risks and vulnerabilities of the financial system. In 2021 the economic recovery consolidated, resulting in an overall improvement in the short-term financial stability outlook. However, risks persisted in the medium term. The Bank enhanced the monitoring of the banking sector and its main counterparties, namely households and firms. Prudential priorities focusing on identified vulnerabilities were established to enhance the resilience, viability and sustainability of the Portuguese banking system. Overall, the Portuguese banking system improved its profitability, remained well capitalised and maintained its capacity to finance households and firms. The share of non-performing loans continued to decline, to stand at 1.7%, net of impairments, at the end of 2021.

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, which it adopted in 2018 to prevent credit institutions and financial companies from taking excessive risks when granting credit and to help borrowers access sustainable finance. An amendment to this recommendation was prepared over the course of the year, focusing on the maximum maturity of new loans for house purchase as of 1 April 2022.

Within the Single Supervisory Mechanism (SSM), the Banco de Portugal participated in the regular supervision of the three Portuguese banking groups classified as "significant", as well as significant institutions established in Portugal whose parent company is located abroad. Among other measures and in line with the priorities established by the SSM for significant institutions,

the Banco de Portugal assessed how the institutions under its direct supervision adapted to the new requirements regarding conduct, organisational culture and internal governance and control systems, carried out specific inspections and analyses and issued guidelines on credit risk management, and monitored plans to reduce non-performing assets, requiring additional measures in case of deviations. It also established the Banking Industry Forum on Cybersecurity and Operational Resilience (Fórum com a Indústria para a Cibersegurança e Resiliência Operacional) and issued supervisory expectations as regards the identification and management of climate and environmental risks.

In exercising its powers of banking conduct supervision, the Banco de Portugal monitored the extraordinary measures put in place to support households and firms in the context of the pandemic. Following the amendment of the general arrears regime, the Bank regulated the obligations institutions must observe when assessing risks of default on credit agreements and reporting data on credit agreements covered by out-of-court arrears prevention and settlement procedures. In order to promote basic bank accounts, the Bank undertook a campaign with the Ministry of Labour, Solidarity and Social Security and assessed compliance by supervised institutions with the applicable information obligations. Within its supervision of retail banking markets, the Bank issued 7,501 specific orders and recommendations to supervised entities, demanding correction of the irregularities detected.

The Bank also enhanced its work on the prevention of money laundering and terrorist financing to continuously improve the institutions' control environment. It was also assigned new powers of registration and supervision of entities operating with virtual assets, and regulated the conditions of said registrations.

As a result of its supervisory action, the Banco de Portugal initiated 313 administrative sanctioning proceedings and delivered 116 final decisions. At the end of the year, proceedings initiated before 2020 accounted for only 7% of all cases pending.

Acting as national resolution authority, the Banco de Portugal adopted for the first time mandatory minimum requirements for own funds and eligible liabilities (MREL) for the main institutions under its direct responsibility and initiated a multi-annual programme to analyse and promote the resolvability of these institutions.

### **Knowledge creation and sharing**

Together with the monetary policy strategy review, the research carried out at the Banco de Portugal focused on understanding the implications of the pandemic on the Portuguese economy and financial system and long-term trends, such as climate change, structural constraints to economic growth, digitalisation, resource distribution between economic agents, and population ageing. In terms of financial stability, the Bank developed contemporary risk materialisation indicators.

In order to promote knowledge and discussion of issues related to the safeguard of price stability and financial stability, the Bank organised conferences, seminars and workshops. Particularly important due to their reach were the Conference Investment, digitalization and green financing: the Portuguese case, in partnership with the European Investment Bank, the fourth Financial Stability Conference and the conference *Os desafios da economia portuguesa no pós-pandemia* (The challenges facing the Portuguese economy after the pandemic) in partnership with the



*Expresso* newspaper. As part of the commemoration of its 175<sup>th</sup> anniversary, the Bank received the president of the ECB, Christine Lagarde, in Lisbon.

On the *BPstat* website, its statistics website, the Bank published 218 thousand statistical series about the Portuguese and euro area economies, including new information about general government revenue and expenditure, an international comparison of firms' data, international trade in goods and quarterly and annual economic and financial indicators of firms. The Bank also released new long series for the Portuguese economy, in cooperation with Statistics Portugal (INE), and updated the long series on the Portuguese banking sector. With the aim of sharing knowledge about the statistical information it discloses, the Bank made presentations in universities and, in partnership with the Directorate-General for Education, held webinars for upper-secondary teachers.

### Internal management

The Banco de Portugal carried out a diagnosis of internal control mechanisms regarding the prevention of money laundering and terrorist financing and conducted 31 internal audits, seven of which in the context of the European System of Central Banks, Eurosystem and Single Supervisory Mechanism.

The mapping of non-financial risks was completed and the Bank's main risk indicators were identified, which provided a more comprehensive and quantified picture of its operational risks. Financial risk management relied on risk measures and indicators calculated using methodologies that are in line with those used by the Eurosystem. The risk management framework included eligibility criteria and limits by type of counterparty, assets and transactions. The Bank's risk management scored 90.7 out of 100 in the independent assessment carried out by the International Operational Risk Working Group, making the Bank one of the top seven central banks of the 67 that were assessed.

Internal awareness-raising initiatives continued, aimed at promoting a sound corporate culture from an ethical standpoint and demanding in terms of personal data protection. The Data Protection Officer issued 72 opinions on the Bank's compliance with personal data protection rules and replied to 121 requests for exercise of rights addressed to the Bank by data subjects.

The Banco de Portugal continued its major internal training programmes, practically all of which remotely, and increased the training offer on data science, which has enabled the Bank to improve work processes and develop projects on digitalisation, automation and data processing. More than 93% of employees attended at least one training session of any type.

Following experimental work completed in the Banco de Portugal's Innovation Lab, four projects were developed in order to automate supervisory processes and facilitate the analysis of documents. Information was added to the data warehouse and data analysis solutions were developed.

For its efforts to better communicate with the public, the Bank received an award at the Central Banking's 8<sup>th</sup> Annual Industry Awards.

In terms of social responsibility, many staff members enrolled in the Bank's volunteer work over the course of the year. More than 10% of employees have participated in ongoing initiatives, enabling the Bank to support 337 students from 33 schools and 22 social solidarity institutions.

The Banco de Portugal continued to deepen its environmental sustainability policy. Nevertheless, developments in indicators on this issue remain strongly constrained by the containment measures adopted in response to the pandemic. Of the electricity used by the Bank's operation, 99% was from renewable sources and 98% of the waste generated was sent for recycling and recovery.

# Highlights

## Price stability



**Conditions remain favourable to the financing of the economy**

**€41,837 million for Portuguese banks**

**€20,366 million in purchased debt securities**

The Banco de Portugal provided €41,837 million to Portuguese banks, mainly through targeted longer-term refinancing operations and purchased public and private debt securities worth €20,366 million in net terms under the asset purchase programme and the Eurosystem pandemic emergency purchase programme.



**3 events to listen to the Portuguese**

Focused on the monetary policy strategy review and involving academia, civil society organisations and the media.



**18 initiatives for a secure, efficient and innovative payments market**

The initiatives implement the National Strategy for Retail Payments/2022 Horizon.



**New face of the euro**

The Banco de Portugal is participating in the research phase of a digital euro and decided to create a market contact group for the purpose.



**3.<sup>rd</sup> generation of banknotes**

Preparatory work started on the introduction of a new series of euro banknotes with innovative security features. This work will also involve listening events with citizens.



**448 million banknotes processed**

All of the banknotes handed over to the Banco de Portugal by credit institutions and the public are subject to an authenticity and fitness check. The aim is to safeguard trust in the euro.



**€1,691 billion processed in TARGET2-PT**

TARGET2-PT is the Portuguese component of the Eurosystem's large-value payment system

# 1 Price stability in the euro area

The Banco de Portugal participates in the definition and implementation of the Eurosystem's monetary policy with the primary objective of maintaining price stability in the euro area.

## 1.1 Monetary policy

Between January and December 2021, euro area inflation rose from 0.9% to 5.0%, mostly reflecting temporary factors (Chart I.1.1). In addition to the hike in energy prices, the increase in inflation was due to an imbalance arising from a strong recovery in demand, accompanied by global supply bottlenecks.

Despite the growth path observed in 2021, the Eurosystem projected that euro area inflation would remain below the 2% target for price stability, in 2023 and 2024 (Chart I.1.2). In turn, the evolution of the pandemic and the path of economic recovery have not completely eliminated the risk of a disruption in the financing of the economy or the transmission of monetary policy effects to economic agents. Euro area monetary policy thus remained accommodative to promote the convergence of inflation towards the 2% target in the medium term, support lending to the economy and safeguard the transmission of monetary policy to economic agents.

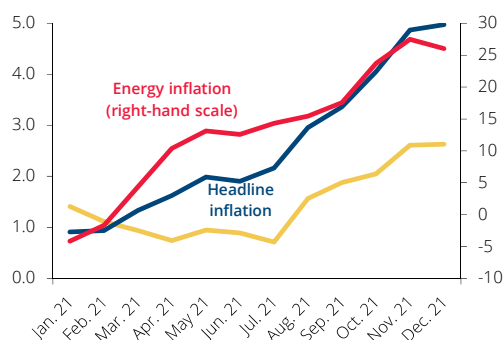
In 2021 the Governing Council of the ECB kept the official interest rates in place since September 2019 unchanged: the interest rate on the main refinancing operations (MROs) at 0%, the interest rate on the deposit facility at -0.50% and the interest rate on the marginal lending facility at 0.25%.

The monetary policy instruments adopted in response to the pandemic also remained in place and the decisions taken by the Governing Council in December 2020 were implemented, among which the offer of a new series of pandemic emergency longer-term refinancing operations (PELTROs) and changes to the conditions of the third series of targeted longer-term refinancing operations (TLTRO III).

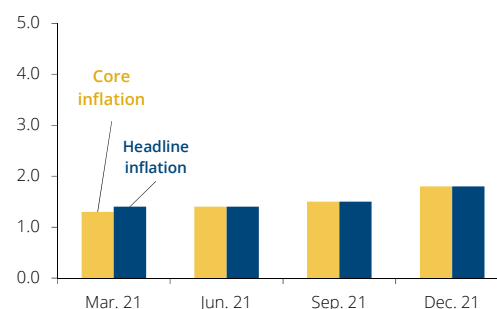
Among the changes to the TLTRO III were: (i) an extension of the special interest rate period to June 2022, during which banks may benefit from an interest rate 50 basis points lower than the deposit facility rate, provided they maintain or increase the level of credit, (ii) an increase in the borrowing limit from 50% to 55% of the stock of eligible loans and (iii) three new operations to be conducted throughout 2021.

Net purchases under the asset purchase programmes (APPs) already in existence before the pandemic emergency kept a targeted monthly pace of €20 billion. The pace of net purchases under the temporary pandemic emergency purchase programme (PEPP) increased during the first seven months of 2021, then gradually reversed in the remaining five months of the year. The pace of net purchases under the PEPP was managed to prevent financing conditions from becoming relatively more restrictive and hindering the other monetary policy measures, in particular their accommodative stance.

In July 2021, the Governing Council adapted its forward guidance on the future path of policy rates, strengthening the maintenance of a persistently accommodative monetary policy stance. The Governing Council indicated it would only consider a rate rise when (i) it saw inflation reaching 2% well ahead of the end of the projection horizon (ii) and durably for the rest of the projection horizon, and (iii) developments in underlying inflation were consistent with headline inflation stabilising at 2% over the medium term.

**Chart I.1.1 • Actual annual inflation rate (HICP) in the euro area (2021) | Per cent**

Source: Eurostat. | Note: Core inflation – HICP excluding energy and food.

**Chart I.1.2 • Annual inflation rate (HICP) projected for the euro area (end of the projection horizon) | Per cent**

Source: ECB/Eurosistem. | Notes: (a) Core inflation – HICP excluding energy and food. (b) End of the projection horizon – 2023 for the March, June and September exercises and 2024 for the December exercise.

In December 2021, the Governing Council judged that progress on economic recovery and towards the medium-term inflation target permitted a step-by-step reduction in the pace of asset purchases. It therefore decided to (i) reduce the pace of net purchases under the PEPP in the first quarter of 2022, restating the date for the end of the net purchases under this programme in March 2022, (ii) extend the reinvestment horizon for the PEPP until at least the end of 2024, (iii) use the flexibility of the PEPP for its reinvestments, (iv) establish a monthly net purchase pace under the APP of €40 billion in the second quarter of 2022, €30 billion in the third quarter of 2022 and €20 billion from the fourth quarter of 2022 onwards, and (v) confirm the expectation that the special conditions applicable under the TLTRO III would end in June 2022.

The Banco de Portugal ensured that the measures approved by the Governing Council of the ECB in relation to resident credit institutions were implemented and participated in the implementation of the Eurosystem's asset purchase programmes (Table I.1.1).

**Table I.1.1 • Monetary policy implementation in Portugal, main indicators (2018–2021)**

	2018	2019	2020	2021	Δ 2021-2020
Number of Eurosystem open market operations	127	133	256	160	-38%
Number of open market operations in which resident counterparties participated	58	68	55	13	-76%
Number of standing facility operations involving resident counterparties	22	36	5	5	0%
Number of eligible (resident) counterparties	36	35	34	32	-6%
Number of (resident) counterparties participating in open market operations and standing facilities	12	11	18	14	-22%
Outstanding amount of open market operations and standing facilities (EUR millions/year-end)	18,760	17,347	32,160	41,855	30%
Outstanding amount of collateral pools (resident counterparties, EUR millions/year-end)	51,318	51,275	66,986	73,665	10%
Outstanding amount of monetary policy portfolios (EUR millions/year-end)	51,208	53,479	69,050	86,171	25%

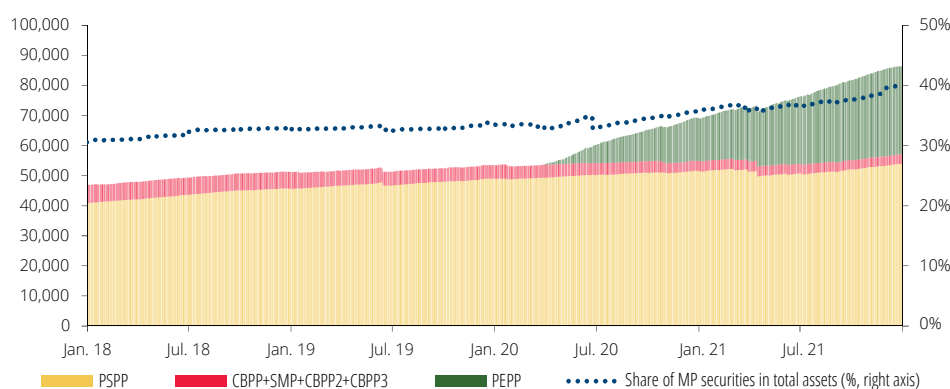
Source: Banco de Portugal. | Note: The outstanding amount of open market operations and standing facilities corresponds to the outstanding amount of liquidity-providing operations (including foreign exchange transactions) less the outstanding amount of liquidity-absorbing operations.



Asset purchases under the APP and the PEPP are conducted in a decentralised manner by the Eurosystem national central banks and, for public sector assets, are guided by the capital key of each national central bank in the ECB's capital. The outstanding amount of securities purchased under the PEPP on the Banco de Portugal's balance sheet totalled €29.2 billion at the end of 2021 and was almost entirely made up of public sector securities. The outstanding amount of purchases under the APP reached €56.9 billion at the end of 2021 and the public component (PSPP) had a share of 94.5% in the total. The share of the monetary policy securities portfolios (PEPP and APP) in the Bank's assets increased, totalling 39.3% at the end of the year (Chart I.1.3).

The share of Portuguese debt purchased by the Eurosystem of the total purchased under the PSPP rose marginally to 2.2% at the end of 2021. In the case of the PEPP, this share remained at 2.4%, i.e. above the Bank's capital key (2.3%).

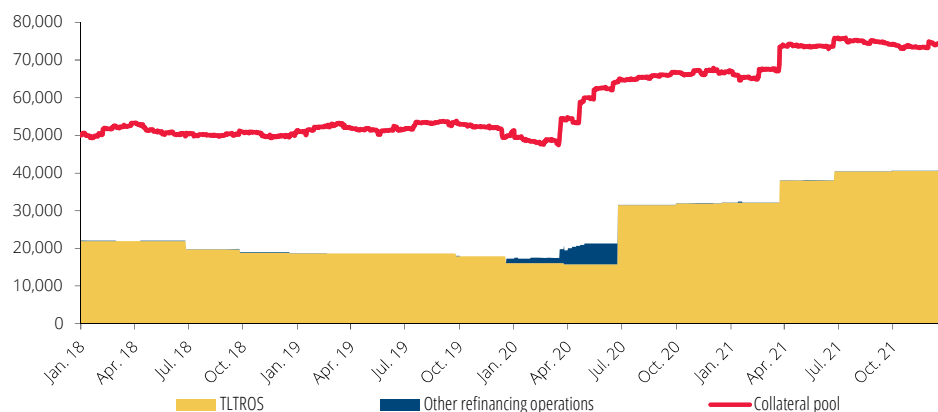
**Chart I.1.3 • Evolution of the outstanding amount of asset purchase programmes in Portugal (2018–2021) | EUR millions**



Source: Banco de Portugal. | Note: PEPP – pandemic emergency purchase programme; PSPP – public sector purchase programme; CBPP – covered bond purchase programme; CBPP2 – second covered bond purchase programme; CBPP3 – third covered bond purchase programme; SMP – securities market programme.

In Portugal, the take-up of TLTRO III totalled €41.6 billion at the end of 2021, increasing by €9.5 billion from the end of 2020 (Chart I.1.4). The TLTRO III amounts totalled €2,198 billion in the Eurosystem as a whole, €550 billion more than at the end of 2020.

**Chart I.1.4 • Evolution of the outstanding amount and types of open market operations and standing facilities and the value of the collateral pool in Portugal (2018–2021) | EUR millions**



Source: Banco de Portugal. | Note: TLTROs – targeted longer-term refinancing operations.

Portuguese banks benefited from access to liquidity on attractive terms to strengthen lending to the economy, which boosted the increase in lending volumes and eased the terms offered to customers.

The measures introduced in April 2020 under the collateral framework remained in place in 2021. More significant for Portuguese counterparties were the reduction in haircuts and the possibility of using the in-house credit assessment system of the Banco de Portugal to assess the eligibility of securities and bank loans. Maintaining these measures led to an additional €6 billion in the collateral pool available as at 31 December 2021.

All monetary policy instruments, including outright asset purchases, involve financial risks, which are managed and controlled by the Eurosystem and the Banco de Portugal. Depending on the purchase programme or the collateral put forward by the counterparties, the monetary policy operations' financial risks may be borne by the Banco de Portugal or shared by the Eurosystem based on the capital key distribution across NCBs. For example, the risk of purchasing Portuguese public debt securities is borne by the Banco de Portugal, while the risk of purchasing private debt securities, such as corporate bonds and asset-backed securities, is shared by the Eurosystem.

In outright asset purchase programmes, risk arises from direct exposure to acquired assets and their issuers. In Eurosystem credit operations, risk is associated with counterparties and, indirectly, with the credit quality of the assets pledged as collateral. To control the risks of monetary policy operations, counterparties and assets must comply with the established eligibility criteria, and haircuts and limits are also imposed to pledged collateral. The assets are also valued in accordance with criteria based on a common methodology. Financial risks only materialise if counterparties default and the value of collateral sold in financial markets proves to be insufficient to cover the credit amount granted.

The Banco de Portugal managed the risks of the monetary policy operations directly by ensuring that the Eurosystem rules and eligibility criteria for counterparties and collateral were duly applied. Overall developments in risks associated with monetary policy operations were monitored within the integrated management framework for financial and non-financial risks pursued by the Banco de Portugal (Section 4.1).

### Monetary policy strategy review

In July 2021, the ECB concluded its monetary policy strategy review, which had started in January 2020. The goal of the review was to ensure that the monetary policy strategy remains appropriate given the structural changes undergone by the euro area economy and the global economy since the previous review in 2003. Declining potential growth, which can be linked to slower productivity growth and demographic factors, and the legacy of the most recent crises have driven down equilibrium real interest rates. In turn, globalisation, digitalisation and climate change have an impact on how the economy works and, consequently, on monetary policy.

The Banco de Portugal participated in this review through various specialised Eurosystem committees and working groups created to assess the most important issues. The reflections and analytical work carried out by the Bank informed the positions of the Governor at the Governing Council of the ECB and were published in an e-book entitled *Perspectives on the ECB's monetary policy strategy review*. The analyses conducted by the working groups in which the Bank participated were published in the ECB *Occasional Paper* series.

In order to involve Portuguese citizens in the strategy review, the Banco de Portugal hosted three listening events with academia, civil society organisations and journalists between December 2020 and January 2021. A dedicated section was created on the institutional website to disseminate information on the strategy review. Two special issues on the new strategy were also published in the *Economic Bulletin*.

The main changes introduced by the new monetary policy strategy are:

- a symmetric 2% inflation target over the medium term;
- in addition to the key ECB interest rates — which will continue to be the primary monetary policy instrument — forward guidance, asset purchases and longer-term refinancing operations will remain an integral part of the ECB's toolkit;
- the future inclusion of owner-occupied housing costs in the measure of inflation;
- the recognition of financial stability as a precondition for price stability;
- a commitment to helping mitigate the impact of climate change;
- strengthening communication with European citizens.

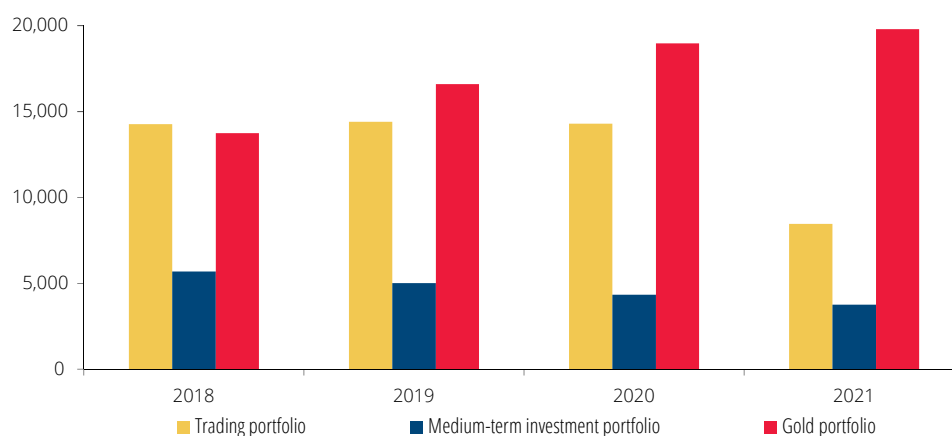
## 1.2 Asset management

The Banco de Portugal manages its own investment asset portfolio, composed of assets denominated in euro and foreign currency and gold. Assets in the trading portfolio, mostly denominated in euro, are actively managed and valued at market prices. Assets in the medium-term investment portfolio, only denominated in euro, are held to maturity and valued at amortised cost subject to impairment. Assets in gold are valued at market prices.

As at 31 December 2021, the Banco de Portugal's own investment asset portfolio was valued at €31,992 million, a 14.9% decline from the previous year (Chart I.1.5). This was the result of a reduction in the amount of the euro component in the trading portfolio.

The value of the trading portfolio at market prices and year-end exchange rates declined by 40.8% from the previous year. At the end of 2021, 72% of the assets in this portfolio were denominated in euro.

**Chart I.1.5 • Own investment asset portfolio (2018–2021) | EUR millions**



Source: Banco de Portugal. | Note: The value of the own investment asset portfolio does not correspond to that disclosed in Part II of this report, due to different valuation criteria.

In 2021 the Bank increased its investment in green bonds through the first euro-denominated green bond fund launched by the Bank for International Settlements. This purchase, to the amount of €100 million, is part of the Bank's commitment towards environmental sustainability when managing its own investment assets.

The amount in the medium-term investment portfolio declined by 13.8% from 2020. The amounts that matured during the year were not reinvested, given the environment of negative euro area interest rates.

The stock of gold held by the Banco de Portugal remained unchanged (382.6 tonnes), but the value in euro increased by 4.3%. The gold held at the Federal Reserve Bank of New York, amounting to 3.7 tonnes, was transferred to the Banque de France, in order to improve income from gold deposited abroad and place it within the Eurosystem.

In addition to its own asset portfolio, the Banco de Portugal manages two ECB reserve portfolios with the Lietuvos bankas, denominated in US dollars (USD) and Chinese renminbi (CNY). As at 31 December 2021, the portfolio in USD amounted to USD 1,145 million (€1,011 million) and the portfolio in CNY totalled CNY 4,319 million (€600 million).

The management of financial risks to own investment asset operations is based on eligibility criteria and limits depending on the institutions, countries, operations and instruments, taking into account credit, foreign exchange and interest rate risks of assets and operations. These criteria and limits are revised on a regular basis, in order to incorporate the latest information on market terms and risk assessment. The framework for risk management reflects the goals of optimising yield while preserving capital and keeping risk at a level that matches the coverage provided by the Banco de Portugal's equity. The implementation of a strategic asset allocation (SAA) benefited from methodological developments, with a view to improving the profitability and risk profile of the institution.

## 1.3 Payment systems and means of payment

Increased access by firms, citizens and the general government to the different payment solutions available is a priority for the Banco de Portugal, thus contributing to a more secure, efficient and innovative retail payments market. To achieve this goal, the Bank continued its dialogue with the various market players through the Portuguese Payment Systems Interbank Commission and the Payment Systems Forum.

The Payment Systems Forum, which brings together key players in the supply and demand of payment services, was responsible for preparing the National Strategy for Retail Payments | 2022 Horizon, which aims to: (i) promote a better-informed society; (ii) leverage the benefits of digital transformation; (iii) contribute to a regulatory framework that fosters innovation and efficiency; and (iv) encourage the adoption of more secure payment solutions. At the end of 2021, 18 of the 42 initiatives set out in the Strategy had been implemented. The initiatives concluded throughout the year included disseminating information to support firms and consumers when using direct debits and payment cards, namely contactless cards, and making it possible for users to make instant transfers in batches. The Bank also joined forces with the market to adopt more secure payment solutions and remedy situations of exclusion from access to payment services. Information on the implementation of the Strategy is published on a quarterly basis on the website of the Banco de Portugal.

The Bank continued to monitor compliance by payment service providers with the requirements introduced by the revised Payment Services Directive in order to strengthen the security of electronic payments and foster innovative payment services. In this respect, the Bank promoted the adoption of strong customer authentication requirements for e-commerce card-based payment transactions — which, following the period of supervisory flexibility, became compulsory as of 2021 —, as well as the common and secure standards of communication allowing for the provision by third party providers of the new payment services regulated by the Directive: payment initiation and account information services. Following new guidelines by the European Banking Authority, the regulation on the reporting of major operational or security incidents related to the provision of payment services was also revised.

The Bank monitored compliance with the rules applicable to “limited network cards” and “meal cards” and checked whether the IBAN non-discrimination rule was being complied with, namely

by direct debit creditors and credit transfer payers that allegedly only allowed their customers/ counterparties to provide payment accounts with a Portuguese IBAN for these transactions.

The Bank published a report characterising the payment institutions, electronic money institutions and fintech entities operating in Portugal. This initiative concluded that payment institutions and electronic money institutions have a satisfactory degree of preparedness for technological innovation and a strategic vision focused on the development and supply of new services. Fintech entities mostly provide services to other entities, namely supervised financial institutions.

Under the scope of the National Council of Financial Supervisors, the Banco de Portugal participated in the organisation of the third Portugal FinLab edition, a project created to bring together market players and supervisors and facilitate innovation in the financial sector. This edition received 29 applications, five of which from foreign entities. Nine projects were selected to be assessed by the supervisors; six were analysed by more than one authority.

The Banco de Portugal also continued its FinTech Meetings with innovative players, and organised an edition dedicated to establishing business relationships through digital means.

In light of the growing interest in the market for crypto-assets and their use in payments, the Banco de Portugal published a video and a decoder about the differences between crypto-assets, stablecoins and central bank digital currencies and organised a debate with university students on their relationship with digital money within the World Investor Week.

### **A digital euro**

The digital euro project, launched in 2020, arises from the need to ensure that, in an environment characterised by rapid technological developments and increasing digitalisation in payment systems, the Eurosystem is equipped with the necessary tools to carry out its role in this respect.

If created, the digital euro will be a central bank digital currency issued by the Eurosystem and a risk-free means of payment, capable of addressing the needs of more digital consumers; it will complement cash, but not replace it. It will also strengthen the Eurosystem's strategic positioning in the event that other monetary authorities issue digital currencies or that universally accepted private means of payment are provided (i.e. global stablecoins).



As part of World Investor Week, the Bank organised a debate with university students on their relationship with digital money, with the participation of Director Helder Rosalino (right).

In October 2020 the Eurosystem published a report on the requirements a digital euro must satisfy, what scenarios might justify its issuance, its potential impacts and implementation alternatives, and conducted a public consultation and experimental work. In July 2021 the Governing Council of the ECB decided to move on to the project's investigation phase. During this phase, which started in October 2021 and will last 24 months, the Eurosystem will study issuance and distribution models for a digital euro that maximise the advantages for users while minimising potential negative effects on price stability, financial stability, financial institutions, the economy and the population. The findings of the investigation phase will be the basis for a future decision on whether to issue a digital euro.

Considering the importance of this project for its mission, the Banco de Portugal was involved in the work undertaken so far on the digital euro: the Bank was part of the working groups in the pre-project phase and contributed to the analyses carried out by the Eurosystem committees in which it participates. The Bank is also involved in the investigation phase and has already announced the establishment of a market contact group to promote a joint reflection on the potential impact of the digital euro on the Portuguese market.

### Market infrastructure and retail payments

The transfer of financial resources among economic agents and the smooth functioning of the economy depend on the continued availability and efficient operation of market infrastructures. In 2021 the main market infrastructures provided by the Eurosystem — TARGET2, TARGET2-Securities (T2S) and TARGET Instant Payment Settlement (TIPS) — continued to respond efficiently and safely, amid volatility in market functioning.

The Banco de Portugal operates the Portuguese component of TARGET2, T2S and TIPS and manages the Portuguese retail payment system (SICOI). It also monitors the operation of these infrastructures, assessing them from an operational perspective and regarding the management of cyber, liquidity, concentration and credit risks. The Bank conducted the third survey on the cyber resilience of financial market infrastructures in 2021 to SICOI, Interbolsa (central securities depository) and OMIClear (entity providing clearing and settlement services for energy derivatives contracts). It also prepared the first exercise to assess the cyber resilience of SICOI and participated in the definition of the new Eurosystem oversight framework for electronic payments — PISA Framework —, published in November.

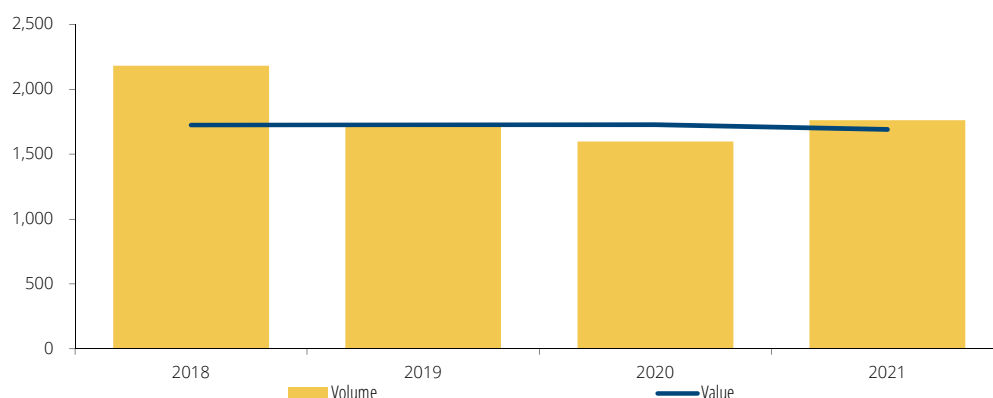
TARGET2-PT (the Portuguese component of the Eurosystem's large-value payment system) processed 1.8 million transactions, totalling €1,691 billion (Chart I.1.6). After reaching the lowest figure of the past ten years in 2020, the volume of transactions settled increased by 10.3%, exceeding the total recorded in 2019. Growth in settled transactions reflected an increase in transactions between financial institutions, mostly customer transfers and ancillary system transactions.

The value settled in TARGET2-PT declined by 2.1%, due to a drop in the value of transactions processed between institutions, only partly offset by an increase in the value of transactions from ancillary systems. This was the case of SICOI, which processes retail payments, mirroring the recovery in economic activity, and of OMIClear, reflecting the energy price hike.

In T2S, the Eurosystem's securities settlement system, 207 thousand transactions were settled by the Portuguese community, totalling €139 billion, a decline of 18.2% in volume and 12.2% in value from 2020 (Chart I.1.7). This sharp drop in activity resulted from a decline in settlements related to the issue and redemption of Treasury bonds and bills, which accounted for 75% of settled amounts.

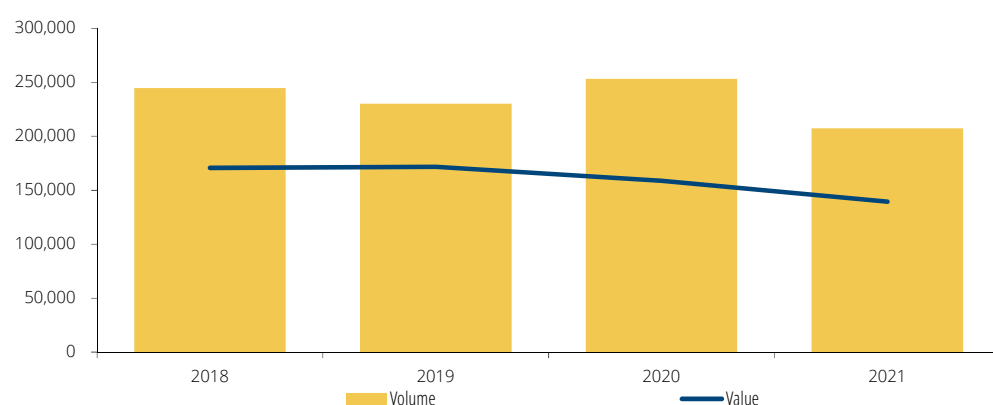
In TIPS, the service provided by the Eurosystem for pan-European instant payment settlement, payment service providers in the Portuguese community sent and received 780 thousand transactions, totalling €1.1 billion. The number of instant transfers by the Portuguese community has increased since it joined TIPS in October 2020.

**Chart I.1.6 • Overall transactions settled in TARGET2-PT (2018–2021) | Volume in thousands and value in EUR billions**



Source: Banco de Portugal.

**Chart I.1.7 • Securities settled by the national community (2018–2021) | Volume in units and value in EUR millions**



Source: Banco de Portugal.

In a particularly demanding year for the project to consolidate TARGET2 and T2S and develop the TARGET Services — which is expected to go live in November 2022, all the commitments undertaken by the Banco de Portugal were met. This project foresees the implementation of a new real-time gross settlement system, which will increase the efficiency and integration of financial markets in Europe. The Banco de Portugal completed the acceptance testing phase of the new platform, continued to develop the new internal system that will connect it to TARGET Services, organised workshops for the Portuguese financial system and participated with the national community in the different testing phases.

It also monitored compliance by the Portuguese community with the Eurosystem requirements that aim to address information security risks resulting from the activity of TARGET2 participants (endpoint security). Steps have also been taken to ensure the pan-European reachability of instant payments via TIPS.

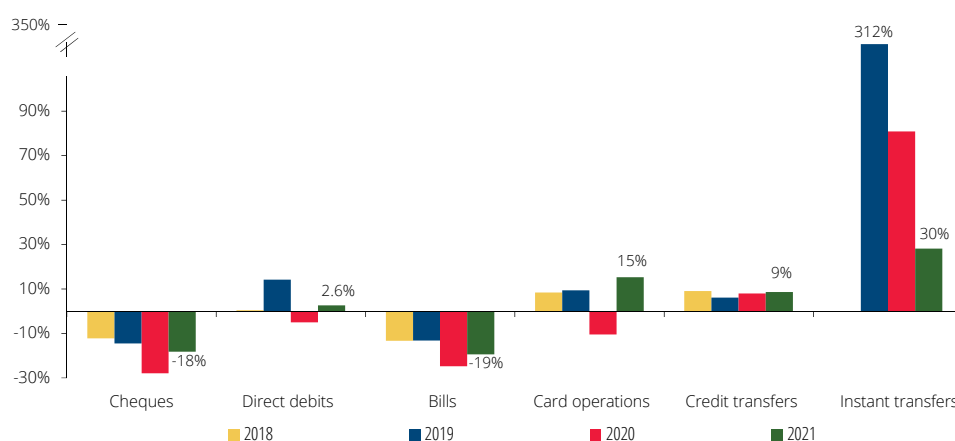
The Bank participated in the operationalisation of fund transfers to Portugal under two European programmes created to respond to the pandemic crisis: the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) and the Next Generation EU (NGEU) programme (an instrument created to support the recovery of the European economy).



In addition, the Banco de Portugal is one of ten Eurosystem central banks providing reserve management services in euro to supranational entities and central banks located in jurisdictions outside the euro area (ERMS services). These transactions are scrutinised in accordance with best practices regarding the prevention and combating of money laundering and terrorist financing. In 2021, changes were introduced to the way these services are provided in order to harmonise their terms and conditions.

In terms of retail payments, SICOI — a system that clears cheque, bill of exchange, direct debit, credit transfer, bank card and instant transfer transactions — processed 3.1 billion transactions in 2021, to the amount of €563.9 billion. The volume and value of transactions processed in this system increased by 13.7% and 12.5%, respectively, from the previous year, in line with the economic recovery. Growth was broadly-based across all electronic payment instruments, but the use of paper-based instruments continued to decline (Chart I.1.8). Instant transfers saw the highest growth, 28.1% in volume and 49.6% in value, although these remain residual in total transactions (Chart I.1.9).

**Chart I.1.8 • Evolution of the volume of transactions processed in SICOI by payment instrument: (2018–2021) | Year-on-year growth rate**



Source: Banco de Portugal.

**Chart I.1.9 • Share by payment instrument in the number of transactions processed in SICOI (2021) | Per cent**



Source: Banco de Portugal.

During the year, the Banco de Portugal removed 7,908 entities from the list of cheque defaulters either by its own decision or due to compliance with the legal deadline and included 3,802, representing a decline of 45% from 2020. As at 31 December 2021, the list included 8,570 entities, 32% less than at the end of the previous year.

## 1.4 Monetary issuance

The ECB and the euro area central banks have a duty to safeguard the integrity of euro banknotes and the public's trust in them. To this end, in 2021 the Eurosystem started work on a new series of euro banknotes with innovative security features. The ECB plans to redesign the euro banknotes by 2024 with input from European citizens. As such, it created a working group with experts from several sectors, one from each euro area country. This group will submit a list of possible themes and motifs to be included in the third series of banknotes, which the public will also be consulted on.

The credit institutions and the public received 501 million euro banknotes and delivered 448 million to the Banco de Portugal. This volume was again lower than in the past, but given there was a higher volume of banknote outflows than inflows at the Bank, net issuance in Portugal grew for the second year in a row, after steady declines observed since the euro was introduced. This is explained mainly by a decline in banknote inflows in Portugal from tourism and the fact that banknotes are being held as a store of value, both of which resulted in a drop in the number of banknotes returned to the central bank.

The Bank checked the authenticity and fitness of the banknotes it received; 69 million banknotes were considered unfit. Although most are processed through high-speed machines, badly damaged or mutilated banknotes received by the Bank are checked and valued by hand. In 2021 the Bank assessed 39,557 euro banknotes and 1,339 escudo banknotes in these conditions.

In Portugal, 10,836 counterfeit banknotes were removed from circulation, mostly €10 and €20 banknotes, as well as 1,513 coins, mainly €2 coins. Counterfeit banknotes withdrawn from circulation accounted for 3.3% of the total number of counterfeit banknotes seized in the euro area.

The Banco de Portugal trained 13,043 cash handlers. The Bank also organised 86 training courses on euro banknotes and coins, which brought together 1,305 participants.

In November, a campaign was launched to withdraw the last series of escudo banknotes — the Descobrimentos series; these banknotes could be exchanged at the Banco de Portugal's cash offices until 28 February 2022. As at 31 December 2021, the public still held 11.4 million banknotes of this series, worth €94.8 million.

To maximise the use of installed productive capacity and minimise the price paid for purchasing euro banknotes, the agreement entered into by the Banco de Portugal in 2018 with the central banks of Belgium and Austria was extended until 2026; this agreement merged the production quotas of the three national central banks and divided them equally between Valora, the Portuguese printing company, and the Austrian banknote printing works.

# Highlights

## Financial stability



### **Resilient banking system**

The Portuguese banking system improved its profitability, remained well capitalised and able to finance households and firms. The weight of non-performing loans decreased further, to 1.7%.



### **Extraordinary measures to support households and firms**

The Bank co-developed regulatory initiatives and monitored the implementation of measures taken in the context of the pandemic to protect loans to households and firms. Arrears prevention and basic bank accounts were also among the supervisory priorities.



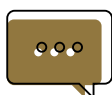
### **4 supervisory priorities for a safe, solid banking system**

The Banco de Portugal assessed the business model, risk management and internal governance frameworks and capital and liquidity positions of supervised banks.



### **351 financial training initiatives across the country, with over 9,000 participants**

On the safe use of digital channels when accessing banking products and services, savings, family budget planning and fraud prevention.



### **Ongoing dialogue with financial institutions**

The Bank held a workshop on digital innovation, established the Banking Industry Forum on Cybersecurity and Operational Resilience and met with supervised institutions to present the latest legislative developments on resolution planning.



### **1,148 institutions registered**

As at 31 December 2021, a further 76 institutions were registered with the Banco de Portugal than at the end of the previous year.



### **New ML/TF prevention powers**

The Bank became responsible for the registration and supervision of entities operating with virtual assets.



### **313 new administrative sanctioning proceedings**

Including 64 resulting from prudential breaches and 185 from banking conduct breaches.

## 2 Safeguarding of financial stability

The Banco de Portugal protects financial stability in Portugal. Financial stability is a prerequisite for sustainable economic growth, employment and the well-being of society.

To fulfil this mission, the Bank has several regulatory and supervisory powers in place to preserve a sound and smoothly functioning financial system. These powers are exercised jointly or in close cooperation with other European and national financial regulators and supervisors.

### 2.1 Regulatory activities

During the Portuguese Presidency of the Council of the European Union (EU), the Banco de Portugal contributed to the development of regulatory initiatives. It chaired the working group on the strengthening of the Banking Union, focused on the European deposit guarantee scheme and the revision of the legal framework on the crisis management of the banking sector, and was responsible for leading the negotiation, together with the Portuguese Permanent Representation to the European Union and the Ministry of Finance, of the Directive on credit servicers and credit purchasers.

Also in that context, the Banco de Portugal assisted the Ministry of Finance in: (i) drawing up proposals on the Markets in Crypto-assets Regulation (MiCA), the Digital Operational Resilience Act (DORA) and the Regulation on the law applicable to the third-party effects of assignments of claims; (ii) discussing the implementation of the action plan to tackle non-performing loans in Europe, against the background of the pandemic crisis; (iii) the area of sustainable finance; and (iv) the preparation of the EU Council conclusions on the European retail payments strategy.

It also co-prepared the informal ECOFIN Council meeting in Lisbon and seminars leading up to the June 2021 Recovery Summit.

Throughout the year, the Bank participated in the development of new European regulatory initiatives, with particular reference to the Banking Package 2021, the amendment of the Directive on consumer credit agreements and the new European anti-money laundering and terrorist financing package (AML/TF), which should result in the establishment of a European AML/FT supervisor.

The Bank took part in the European Banking Authority's (EBA) work to review the guidelines on the assessment of the suitability of members of the management body in matters of internal governance and remuneration, to establish a common assessment methodology for granting authorisation as a credit institution, to establish a large exposures regime and the framework of market risk own funds requirements, as well as in the risk-based approach to anti-money laundering and countering the financing of terrorism supervision.

Still in the scope of the EBA's work, the Bank took part in the preparation of reports on the prudential treatment of third-country branches, the revision of the European passport regulatory framework, environmental risk management and supervision, the impact study on the implementation of Basel III and the supervisory independence of national authorities. Turning to retail banking markets, it co-prepared a report on best practices in the remuneration of staff members that engage in the sale of products and services and a report on the use of technological solutions for compliance purposes in the financial sector. It was also involved in the drafting of regulatory technical standards on material breaches in the area of ML/TF prevention.

At national level, the Bank worked together with the Ministry of Finance to review the preliminary draft of the *Código da Atividade Bancária* (legal framework governing banking activity and supervision), on the basis of public consultation inputs. The *Código da Atividade Bancária* is intended to replace the Legal Framework of Credit Institutions and Financial Companies, which has been in force since 1993. It is a comprehensive and necessary reform of banking regulation, incorporating the experience gained in supervision and transposing the Banking Union's legal and institutional framework into Portuguese banking law.

The Bank issued approximately 40 opinions on Parliament and Government legislative initiatives. In the context of the pandemic, these initiatives included the amendment to the Mutual Counter-Guarantee Fund and Mutual Guarantee Companies regime, the amendments to the Decree-Law on the moratorium on credit agreements, the Decree-Law which extended the grace periods in State-guaranteed loans, and the amendments to the Decree-Law which set forth protection measures for bank customers covered by the exceptional and temporary credit protection measures. Additionally, it revised the rules applicable to the PARI (pre-arrears action plan) and the PERSI (an out-of-court arrears settlement procedure). The Bank also issued opinions on the new regime on non-authorised financial activity, the revision of the Securities Code, the preliminary draft of the Asset Management Regime, the Climate Framework Law, the setting-up of the Capitalisation and Resilience Fund (in the context of the *Retomar* programme), the new regime on participation loans and the Decree-Law establishing the National Anti-Corruption Mechanism. It also published the *Impact Assessment Report on the Legal Framework for Credit Intermediaries*, submitting to the legislator a number of proposals to amend that legal framework.

In the context of the National Council of Financial Supervisors (CNSF) and in liaison with the other financial supervisors, the Bank presented drafting proposals to transpose European legislation, most notably the Directive on the prudential supervision of investment firms, the Directive on the issuance of covered bonds and Directive (EU) 2021/338, amending the Directive on markets in financial instruments (MiFID II).

## 2.2 Stability of the Portuguese financial system

The Banco de Portugal regularly identifies and assesses risks to financial system stability and publishes this assessment twice a year in the *Financial Stability Report*. Overall, the Portuguese banking system improved its profitability, remained well capitalised and maintained its capacity to finance households and firms, against the background of increased challenges stemming from the health crisis.

The Bank enhanced the monitoring of the banking sector and its main counterparties, namely households and firms. Analytical tools were further adapted to the pandemic situation, with the Bank relying heavily on microdata in its analyses. Using this data allowed for a better informed monitoring of contemporary risk materialisation indicators. Prudential priorities focusing on identified vulnerabilities were established to enhance the resilience, viability and sustainability of the Portuguese banking system.

In line with economic recovery, the Portuguese banking system's return on assets increased (Table I.2.1). These developments reflected lower credit impairments and the increase in income from financial operations. The operating result remained unchanged.

Having increased in 2020, capital ratios stabilised. Bank loans to firms grew by 2.2%, while bank loans to households for house purchase accelerated, reaching an annual rate of change of 4.1% at the end of the year.

**Table I.2.1 • Portuguese banking system indicators (2018-2021)**

	Unit	2018	2019	2020	2021
Total assets (gross)/GDP (nominal)	%	187.4	182.1	205.8	210.4
<b>Profitability</b>					
Return on assets (ROA) <sup>(a)</sup>	%	0.28	0.45	0.05	0.46
Operating result <sup>(b)</sup>	%	0.95	0.94	0.89	0.88
Net interest income <sup>(c)</sup>	%	1.6	1.6	1.5	1.4
Return on equity (ROE) <sup>(d)</sup>	%	3.0	4.8	0.5	5.4
Cost-to-income <sup>(e)</sup>	%	60.3	59.2	57.8	53.4
Credit risk cost <sup>(f)</sup>		0.42	0.52	1.01	0.33
Net profit for the year	EUR, millions	1074	1752	195	1 992
<b>Liquidity</b>					
Central bank funding <sup>(g)</sup>	%	5.3	4.4	7.8	9.4
Loan-to-deposit (LtD) ratio <sup>(h)</sup>	%	89.0	87.1	84.7	81.2
Liquidity coverage ratio (LCR) <sup>(i)</sup>	%	196.4	218.5	245.9	259.9
<b>Asset quality</b>					
Ratio of non-performing loans (NPLs) <sup>(j)</sup>	%	9.4	6.2	4.9	3.6
Households, house purchase <sup>(k)</sup>	%	3.8	2.4	2.0	1.6
Households, consumption and other purposes <sup>(k)</sup>	%	10.5	8.2	8.5	7.4
Non-financial corporations <sup>(k)</sup>	%	18.5	12.3	9.7	8.1
NPL ratio (net of impairments) <sup>(l)</sup>	%	4.5	3.0	2.2	1.7
Households, house purchase <sup>(k)</sup>	%	2.7	1.8	1.4	1.1
Households, consumption and other purposes <sup>(k)</sup>	%	4.2	3.4	2.9	2.6
Non-financial corporations <sup>(k)</sup>	%	8.0	5.4	4.2	3.8
NPL impairment coverage ratio <sup>(m)</sup>	%	52.0	51.5	55.0	52.2
Households, house purchase <sup>(k)</sup>	%	27.1	26.3	30.6	32.6
Households, consumption and other purposes <sup>(k)</sup>	%	59.8	58.8	66.2	64.8
Non-financial corporations <sup>(k)</sup>	%	56.5	56.5	56.4	52.9
Total non-performing loans	EUR, milhões	25,852	17,199	14,416	12,032
Total non-performing loans net of impairments	EUR, milhões	12,420	8,347	6,494	5,747
<b>Solvency</b>					
Capital ratio <sup>(n)</sup>	%	15.1	16.9	18.0	18.0
Common Equity Tier 1 (CET 1) ratio <sup>(n)</sup>	%	13.2	14.3	15.3	15.5
Leverage ratio <sup>(o)</sup>	%	7.3	7.9	7.7	7.0

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) Flow of credit impairments, as a percentage of total average gross credit to customers. (g) Central bank funding as a percentage of total assets. This corresponds almost entirely to Eurosystem funding. (h) Ratio of loans to customer deposits. (i) Ratio of available liquid assets to net cash outflows calculated in a 30-day stress scenario. (j) Ratio of the gross value of non-performing loans to the total gross value of loans. (k) Ratio of the value of non-performing loans net of impairments to the total gross value of loans. (l) Ratio of impairments recorded for non-performing loans to their gross value. (m) Ratio of total own funds to risk-weighted assets. (n) Ratio of Common Equity Tier 1 capital to risk-weighted assets. (o) 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).

NPL ratios narrowed further. This was broadly based across loans to firms and households. The decrease in the overall coverage ratio coexisted with an increase in coverage in the sectors most affected by the pandemic. The NPL ratio net of impairments also decreased, to stand at 1.7% at the end of 2021.

On issues relating to the Portuguese financial sector, the Banco de Portugal cooperated with the regular missions of the European institutions related to post-Economic and Financial Assistance Programme surveillance, as well as with International Monetary Fund (IMF) experts who visited as part of the regular monitoring process.

### 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. Overall, the guidelines set forth in the Recommendation continued to be observed. Almost all new credits were within the limits set for the ratio of the loan amount to the value of the immovable property pledged as collateral (loan-to-value, or LTV) and the indicator of the borrowers' degree of financial effort (debt service-to-income, or DSTI). Limits to the maturity of loans were also observed. However, the average maturity of new loans for house purchase remained at 33 years and, therefore, the process of revising the limits included in the macroprudential recommendation was initiated. The new limits were adopted in 2022, with effect as of 1 April.

According to several studies published in the *Working Paper* series and the *Banco de Portugal Economic Studies*, the macroprudential measure has helped to reduce: (i) the growth of new loans to households for house purchase and consumption purposes, (ii) household indebtedness, and (iii) the probability of default and loss given default, with a positive impact on the capital ratio of the banking system.

In 2021, the Banco de Portugal kept the countercyclical capital buffer rate for credit exposures to the domestic private non-financial sector at 0% of total exposures. This decision was made to preserve the banking system's capacity to finance the private non-financial sector during the early stages of the economic recovery, given the uncertainty environment.

The list of third countries to which the Portuguese banking system is exposed for the purposes of recognising and setting the countercyclical capital buffer was updated. The current list consists of Mozambique and Macao and, compared to 2020, no longer includes Brazil.

The Bank did not amend the list of other systemically important institutions (O-SIIs) or their capital requirements and phase-in periods. The list includes, in order of systemic importance: Banco Comercial Português, Caixa Geral de Depósitos, LSF Nani Investments, Santander Totta, Banco Português de Investimento and Caixa Económica Montepio Geral.

The Banco de Portugal also decided to extend for one year the reciprocity of the macroprudential measure taken by Norway on exposures secured by residential and commercial property located in that country, as well as a systemic risk buffer applicable to institutions operating there. It also reciprocated the Luxembourg measure to limit the LTV ratio for new mortgage loans on residential property located in that country.

### Prudential supervision

The Banco de Portugal contributed to the work of the ECB's Supervisory Board, which plans and carries out the supervisory tasks of the Single Supervisory Mechanism (SSM). In this context, the Bank was part of the joint teams responsible for the regular supervision of the three Portuguese banking groups classified as "significant" (Banco Comercial Português, Caixa Geral de Depósitos and Novo Banco), as well as significant institutions established in Portugal whose parent company is located abroad (including, but not limited to, Banco Santander Totta and Banco BPI). As part of cross-border missions, it joined the ECB's credit risk inspection project management team and took part in an inspection of an institution with its head office in another SSM country.



As for the institutions directly supervised by the Banco de Portugal, prudential supervision focused its activity on four priority areas with a view to strengthening the resilience, viability and sustainability of the Portuguese banking system: (i) business model, (ii) risk management, (iii) internal governance and (iv) capital and liquidity positions. These priorities were established following an analysis of the main challenges faced by supervised institutions in the current economic and regulatory framework and are in line with those set by the Single Supervisory Mechanism for significant institutions.

The Banco de Portugal assessed the business models and profitability of the supervised institutions, taking into account the potential increase in credit risk stemming from the pandemic crisis and the intensification of cybersecurity, climate and environmental risks. It carried out supervisory actions to identify weaknesses in the future generation of income and possible breaches of capital and liquidity requirements. It also adopted incentive measures to encourage improvement of the strategic planning process.

In terms of risk management, the Banco de Portugal's actions aimed at ensuring that supervised institutions have mechanisms in place to address credit, operational resilience, digital innovation, climate and environmental risks.

Guidelines were issued on the identification, measurement and monitoring of credit risk and on the adoption of sustainable solutions to support viable customers facing temporary difficulties. Regular monitoring of plans to reduce non-performing assets continued, with the aim of safeguarding their downward path. These measures have resulted in a better and more timely identification of risk situations and in the implementation of measures to mitigate them.

Supervision of risk management practices associated with the growing reliance on information and communication technology (ICT) was stepped up with the purpose of enhancing operational and cyber resilience. The Bank assessed the institutions' digitisation plans, ICT risk and cybersecurity systems and issued recommendations and measures to address identified shortcomings. It carried out horizontal analyses on the outsourcing of IT services, on cybersecurity and on the provision of payment services to identify trends and exceptional situations warranting concrete supervisory action. With the purpose of developing skills and obtaining up-to-date information on market developments, the Bank held a workshop on digital innovation with experts and sector representatives. It also established the Banking Industry Forum on Cybersecurity and Operational Resilience (Fórum com a Indústria para a Cibersegurança e Resiliência Operacional – FICRO), which brings together representatives of the banking sector, the critical payment service provider and the Portuguese cybersecurity authority, to contribute to strengthening the operational resilience of the Portuguese financial system by coordinating efforts and sharing best practices (Section 4.3). Under the aegis of the Forum, the implementation of the European framework for Threat Intelligence-based Ethical Red Teaming testing in Portugal (TIBER-EU) was initiated.

As regards the identification and management of climate and environmental risks, the Bank issued supervisory expectations for less significant institutions and requested that they conduct self-assessments on compliance with those expectations. The Bank also participated in the drawing-up of the climate and environmental risk stress tests methodology for significant institutions in 2022, developed under the Single Supervisory Mechanism and the Network for Greening the Financial System.

As regards internal governance, deficiencies in the functioning and composition of the management and supervisory bodies of supervised institutions were addressed. The Bank strengthened its practice of giving advance notice of its expectations regarding the renewal of mandates, which

led to changes in the management and supervisory bodies of several institutions. This exercise involved the issuance of 330 recommendations, mainly with respect to enhancing qualifications (49%), preventing conflicts of interests (28%) and gender diversity (3%). To ensure that institutions had adapted to the new, more stringent requirements regarding conduct, organisational culture and internal governance and control systems, the Bank held several meetings and disseminated the answers to the questions raised by the institutions on its institutional website. The Bank also cooperated with the European Central Bank on the in-depth review of the fit and proper assessment framework, released in December. In 2021, 383 members of corporate bodies were registered (Table I.2.2).

**Table I.2.2 • Registration acts (2018–2021)**

	Dec. 18	Dec. 19	Dec. 20	Dec. 21
<b>Registered members of corporate bodies</b>				
Management bodies	324	402	251	180
Supervisory bodies	228	327	154	134
Board of the general meeting	114	186	92	69
	<b>666</b>	<b>915</b>	<b>497</b>	<b>383</b>
<b>Registration acts with regard to qualifying holdings</b>	228	227	480	225
<b>Statutory changes</b>	56	112	112	113
	<b>284</b>	<b>339</b>	<b>592</b>	<b>338</b>
<b>Total</b>	<b>950</b>	<b>1,254</b>	<b>1,089</b>	<b>721</b>

Source: Banco de Portugal.

As regards capital and liquidity positions, and in a complex macroeconomic environment, the Bank's actions sought to ensure the adequacy of institutions' capital positions and to identify the specific vulnerabilities of each institution at an early stage. An enhanced mechanism for warning indicators of the financial and prudential situation of institutions was implemented, and capital recovery plans or corrective measures were imposed where justified. The Bank also reinforced its monitoring of the liquidity situation of institutions and increased regular interactions with management bodies.

As part of the annual Supervisory Review and Evaluation Process (SREP), the Bank carried out a comprehensive assessment of the risk profile of ten banks, taking into account their business model and the quality of internal governance arrangements. As a result, it identified 170 situations requiring measures to strengthen institutions' resilience and to adjust capital requirements to the level of risk taken.

With regard to the supervision of payment institutions and electronic money institutions, the Bank monitored the implementation of the action plans set following the special external audit carried out in 2020 to validate the legal business requirements of 14 institutions.

Within the scope of the authorisation of entities, 150 authorisation proceedings were conducted, including the setting-up of new institutions, the acquisition of qualifying holdings, mergers and statutory amendments. In order to streamline these proceedings, the Banco de Portugal further invested in communication with the applicants by providing them with the main prudential concerns and expectations for access to financial activity. In liaison with other supervisory authorities, it identified material risks incompatible with an authorisation to acquire qualifying holdings in national institutions, which is a key preventing tool to preserve sound and prudent management of the financial system.

As at 31 December 2021, 1,148 credit institutions, financial companies, payment institutions and electronic money institutions were registered, an additional 76 institutions to the previous year (Table I.2.3). This growth was mainly justified by a higher number of institutions operating under the freedom to provide services.

**Table I.2.3 • Total registered institutions, by type (2018-2021)**

	Dec. 18	Dec. 19	Dec. 20	Dec. 21
<b>Institutions registered</b>				
Credit institutions	165	165	164	162
Financial companies	90	89	40	38
Payment institutions	46	47	30	33
Electronic money institutions	8	12	5	5
Holding companies	29	24	14	14
Branches of subsidiaries of EU-based credit institutions	2	3	2	2
Branches of EU-based financial companies	1	2	0	0
Registered representative offices of credit institutions and financial companies based abroad	20	22	22	21
	<b>361</b>	<b>364</b>	<b>277</b>	<b>275</b>
Credit institutions having their head office in an EEA country, providing services	537	553	424	434
Payment institutions based in EEA States, providing services	360	438	225	262
Electronic money institutions based in EEA States, providing services	172	234	146	174
EU-based account information service providers, providing services				3
	<b>1,069</b>	<b>1,225</b>	<b>795</b>	<b>873</b>
<b>Total</b>	<b>1,430</b>	<b>1,589</b>	<b>1,072</b>	<b>1,148</b>

Source: Banco de Portugal. | Note: EEA – European Economic Area.



During his visit to Portugal, Andrea Enria, Chair of the Supervisory Board of the ECB, took part in a joint interview with Ana Paula Serra, Director of the Banco de Portugal, which was featured in the Bank's podcast series.

The Banco de Portugal continued to organise information and dialogue initiatives with the banking sector, including a seminar on prudential reporting obligations. In November, the Bank welcomed Andrea Enria, Chair of the Supervisory Board of the ECB, who held working sessions with the Bank's staff involved in prudential supervision and met with representatives from the Portuguese Banking Association and the CEOs of significant institutions headquartered in Portugal.

Dialogue initiatives were also held with external auditors to discuss the main credit risk and impairment recording concerns in the context of the pandemic and issues related to internal governance and control.

### **Banking conduct supervision**

The Banco de Portugal continued to monitor the implementation of extraordinary measures put in place to support households and firms in the context of the COVID-19 pandemic, namely credit moratoria. This monitoring was based on the analysis of the information reported by financial institutions on contracts covered by the public moratorium and private moratoria, on the assessment of compliance with established rules and on the appraisal of complaints (500, 70% less than in 2020).

The Bank carried out a cross-sectional inspection on the management of arrears on personal credit agreements, assessing the practices adopted under the out-of-court arrears settlement procedures (OASP).

The Bank also checked the supervised institutions' compliance with the obligation to disclose information on the possibility of redemption, without any penalty, of retirement, education and retirement/education savings plans.

Following the amendment of the general arrears regime, the Banco de Portugal regulated the obligations financial institutions must observe to prevent and settle arrears on credit agreements, and to assess, at least once a month, whether there are any signs of risk of default. It also imposed the obligation of reporting data on risk of default under the Pre-Arrears Action Plan (PRAP) on a regular basis, in addition to the reporting on credit agreements covered by the OASP already in place. Information on the new protection measures for bank customers with credit agreements covered by moratoria and on the changes to the PRAP and the OASP has been released on the Bank Customer Website.

Advertising the basic bank account (BBA) continued to be a priority for the Banco de Portugal. In this context, the Bank conducted inspections on the disclosure of this type of account on the institutions' websites and current account statements. An institution was also monitored for its fee-charging practices, banking services covered, marketing and termination of the BBA agreement. Under the protocol with the Ministry of Labour, Solidarity and Social Security, the Bank undertook a campaign at its customer service desks (leaflets and posters) and organised training sessions for approximately 700 Ministry staff members, with a view to enabling them to provide information on BBAs to citizens.

Over the course of the year, there was a significant increase in advertising campaigns by institutions, particularly in digital format. The Banco de Portugal analysed 19,857 advertisements, 73% more than in the previous year, and detected irregularities in 518 advertisements from 36 institutions.

Compliance with the pre-contractual information provided in the "Key Information Document" of 52 structured deposits was assessed and the remuneration rates set by the institutions for the 76 deposits of this type that matured throughout the year were confirmed.

As part of its inspection activity, the Bank carried out inspections on all institutions, assessing their compliance with the duty to provide information related to the issuance of the statement of fees, the availability of the fee information document and the use of harmonised terminology.

It also monitored the offering of new digital payment services, assessing the contracting procedures and the information provided to customers. A cross-sectional inspection was carried out to assess the information provided by the institutions through their websites, namely on personal credit, credit cards and car loans.

With regard to home loans and mortgage credit, the Bank carried out inspections to check the application of the arrears regime to customers, covering most institutions. It also monitored compliance with the prohibition on making the granting or renegotiation of home loan agreements conditional on the opening or maintenance of a current deposit account.

The Banco de Portugal received 19,322 complaints from bank customers concerning the behaviour of institutions. Consumer credit and, in particular, credit cards, were the matters subject to most complaints. No signs of infringement were detected in 62% of the complaints closed in 2021. For the remaining closed complaints, the issue was solved by the institution, either on its own initiative or through the Banco de Portugal's intervention.

After inquiring into the conduct of institutions in retail banking markets, the Banco de Portugal issued 5,926 specific orders and recommendations to 143 institutions and initiated 121 administrative proceedings against 31 institutions.

The Bank received 644 applications for authorisation to pursue the activity of credit intermediary and decided on 635 applications. At the end of 2021, a total of 5,476 credit intermediaries were registered. The Bank further monitored this activity, having carried out inspections of 86 intermediaries to assess the disclosure of information on the credit intermediary activity on their websites and the availability of appropriate means for the consumer care service, as well as compliance with information obligations in establishments open to the public and the availability of a complaints book. It also assessed compliance with the admission requirement related to the need to hold professional indemnity insurance, which brought to light irregularities in 1,274 entities. Also, it analysed 73 advertisements and assessed 83 bank customer complaints about the conduct of entities authorised to provide credit intermediation services. As a result, it issued 1,575 specific orders and initiated 62 administrative sanctioning proceedings.

The Banco de Portugal has started preparing a Digital Financial Literacy Strategy for Portugal, with the aim of drawing up recommendations to empower citizens to make informed financial decisions and protect themselves against risks in accessing financial products and services through digital channels. This project is funded by the European Union and is being developed with the Organisation for Economic Co-operation and Development (OECD) and the European Commission.

With the support of its regional network, the Bank promoted 351 training courses on financial literacy across the country, involving more than 9,000 participants and focusing on topics such as the safe use of digital channels when accessing banking products and services, savings, family budget planning and fraud prevention.

As part of the National Plan for Financial Education, which has completed a decade, the Bank, together with the other financial supervisors, presented a reflection on the strategic guidelines for 2021-25, and published the results of the 3<sup>rd</sup> survey on the financial literacy of the Portuguese population. It is also worth mentioning the launch of the *Financial Education Notebook 4*, aimed at secondary education students, in partnership with the Ministry of Education, and the start of workplace financial education activities for Ministry of Labour, Solidarity and Social Security staff.

The Bank cooperated with the European Commission on the development of core competencies for financial literacy among the EU adult population, published in January 2022. At the International Financial Consumer Protection Organisation (FinCoNet), which is chaired by the Bank, it coordinated the drafting of a report on banking conduct supervision in assessing bank customers' creditworthiness and took part in the work that led to the report on banking product governance and culture.

### **Prevention of money laundering and terrorist financing**

The Bank concluded the reports on two comprehensive inspections of large supervised institutions, carried out two overall cross-cutting inspections and ten inspections focusing on assessing (i) the procedures to identify beneficial owners and understand the ownership and control structures of customers who are legal persons or entities treated as legal persons and (ii) the measures taken following disclosures from civil society organisations, such as the International Consortium of Investigative Journalists. As a result, it issued 150 supervisory measures to improve the approach and control mechanisms of supervised entities. It also analysed 30 annual reports from supervised entities, resulting in 250 supervisory measures.

Following the assignment of new powers to the Banco de Portugal — with the sole purpose of ML/TF prevention — related to the registration and supervision of entities operating with virtual assets, the Bank regulated the terms of registration for such operators. Six applications for registration were assessed and three entities were authorised. 150 requests for information were also handled, mainly to clarify issues related to the documentation required to carry out those activities in Portugal.

### **Prevention and repression of non-authorised financial activity**

The Banco de Portugal conducted 261 new inquiries, 38% more than in the previous year and more than double the figure recorded in 2019, and concluded 265. It conducted off-site and on-site inquiries under 427 proceedings and concluded eight inspections.



2021 marked the 10<sup>th</sup> anniversary of the National Plan for Financial Education. At a formal session during the Financial Literacy Week in Montijo, Vice-Governor Luís Máximo dos Santos reaffirmed the Banco de Portugal's commitment to the Plan, co-developed with the other financial supervisors and the Ministry of Education.



The inquiries led to the initiation of 21 administrative sanctioning proceedings against entities not authorised to conduct financial activity and to notifications to the Prosecutor General of the Portuguese Republic for evidence of 107 criminal offences. 71 public warnings were issued and steps were taken to remove 17 websites. Furthermore, the Bank cooperated in several investigations with the judiciary and police authorities.

### **Non-sanctioning enforcement**

The Banco de Portugal examined 14 procedures for the possible withdrawal of authorisation granted to supervised entities. It also analysed 40 proceedings for a reassessment of the suitability of the members of the management and supervisory bodies of supervised institutions, as well as five proceedings for disqualification from the exercise of voting rights by qualified participants of supervised entities.

The Bank also monitored 17 winding-up proceedings under the responsibility of State commissioners, judicial liquidators or liquidation committees appointed for that purpose.

### **Fundo de Garantia de Depósitos and Fundo de Resolução**

The Banco de Portugal continued to provide technical and administrative services required for the operation of the Fundo de Garantia de Depósitos and the Fundo de Resolução. It established 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 Fundo de Garantia de Depósitos, it participated in the working group on deposit guarantee schemes created by the EBA.

## **2.3 Resolution**

The Banco de Portugal continued its work to deepen and update credit institutions' resolution plans under the Single Resolution Mechanism (SRM).

The minimum requirements for own funds and eligible liabilities (MREL) were set for the first time for all institutions and groups under the direct responsibility of the Banco de Portugal (acting as national resolution authority) and subject to the SRM Regulation, in accordance with the rules introduced by the Banking Package 2021. The Bank initiated a multi-annual programme to analyse and improve the resolvability of these institutions, to ensure adequate conditions for their effective resolution, where needed. This work covers areas such as internal governance, loss-absorbing capacity and financial and operational continuity.

With regard to institutions under the direct responsibility of the Single Resolution Board, the Banco de Portugal continued to participate in the resolution planning work through the joint resolution teams, and contributed to progress in their resolvability and updates to their MREL requirements, including the setting of intermediate targets to be met on 1 January 2022. A procedure for monitoring loss-absorption capacity to meet the intermediate and final MREL targets was also initiated. To meet the intermediate target, Portuguese institutions issued debt securities to an amount of over €3,500 million, thereby increasing their resolvability.

The Banco de Portugal was represented in the Single Resolution Board's plenary sessions and extended executive sessions whenever issues related to Portuguese credit institutions or institutions operating in Portugal were discussed.



To increase awareness of resolution matters and clarify the inherent requirements, the Bank held a workshop for institutions operating in Portugal classified as less significant.

The Banco de Portugal continued its work on the resolution measures applied to BES and BANIF and kept supporting the Resolution Fund in monitoring the agreements relating 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 on credit institutions using public funds, the Bank reported relevant information on Novo Banco to Parliament. It also cooperated with the Court of Auditors on auditing Novo Banco's public funding.

## 2.4 Enforcement function and upholding the legality of the Bank's decisions

The Banco de Portugal initiated 313 administrative sanctioning proceedings and delivered 116 final decisions, of which only nine were judicially appealed. Some large-scale and complex administrative offences proceedings have been finalised. The number of long-pending proceedings has been further reduced: proceedings initiated before 2020 accounted for only 7% of all cases pending at the end of the year (Tables I.2.4 and I.2.5.).

The Banco de Portugal also intervened in trial hearings at the Portuguese Competition, Regulation and Supervision Court, where judicially appealed decisions of administrative sanctioning proceedings are judged. The intervention of the Banco de Portugal extends to courts of appeal, including the Constitutional Court. These courts issued judicial decisions largely confirming the position held by the Banco de Portugal in administrative sanctioning proceedings, namely those related to the "BES and Montepio universe".

With regard to the legality of the Banco de Portugal's decisions, litigation against the Bank and the Funds it operates remained high. In addition to litigation emerging from supervisory decisions, there is still a high number of court cases resulting from the application of resolution measures to BES and BANIF in previous years. Moreover, 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 the defendants, there were favourable rulings. Several legal proceedings were also finalised. Particularly relevant, by virtue of their importance are: (i) as regards the resolution measures applied to BANIF, the judgment delivered by the Administrative and Tax Court of Funchal, subsequently confirmed by the South Administrative Central Court, which ruled that the resolution measure was lawful and that the applicable legal framework was constitutional; and, (ii) as regards the resolution of BES, the first judgment on liability for a lawful act and the first decision on merit in the context of the decision of 29 December 2015 ('Retransfer'), both substantively favourable.

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. In 2021 its role in assessing the liability of board members for the insolvency of BES, which is still pending trial, was particularly noteworthy.

**Table I.2.4 • Administrative sanctioning proceedings (2018–2021)**

Proceedings	2018	2019	2020	2021	Δ 2021-2020
Carried forward from the previous year	328	247 <sup>(a)</sup>	247 <sup>(a)</sup>	303	+ 56
Initiated	113	115	204	313	+ 109
Concluded	195	117	148	116	- 32
Pending at the end of the year	246 <sup>(a)</sup>	245 <sup>(a)</sup>	303	500	+ 197

Source: Banco de Portugal. | Note: 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.

**Table I.2.5 • Administrative sanctioning proceedings initiated and concluded, by topic (2021)**

Nature of the offence	Proceedings initiated	Proceedings concluded
Prudential	64	49
Banking conduct	185	33
ML/TF prevention obligations	23	8
Obligations to combat organised crime	–	1
Cash recycling	20	13
Non-authorized financial activity	21	12
<b>Total</b>	<b>313</b>	<b>116</b>

Source: Banco de Portugal.

# Highlights

## Knowledge sharing



### Technical analysis of the economy and the financial system

The Banco de Portugal published four projection exercises for the Portuguese economy and two financial stability risk assessments.



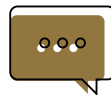
### 63 research articles published

The research carried out in the Banco de Portugal focused on understanding the implications of the pandemic on the Portuguese economy and financial system and studying long-term trends, such as climate change and digitalisation.



### 124 ongoing projects in the Microdata Laboratory

By 31 December, BPLIM was supporting 176 researchers, of whom 136 were external to the Bank.



### Dialogue with academia and civil society

### 8 conferences 68 seminars

The Bank organised 8 conferences, 68 virtual seminars and 4 advanced courses.



### Investment in economic and statistical literacy

### 1,200 students from 18 universities 3 webinars for teachers

Presentations on statistics were given to 1,200 students from 18 universities and 3 webinars were organised for 435 secondary school teachers. Clicks on BPstat, the Bank's statistics website, grew by 60%. A partnership was established with a media outlet to divulge economic literacy videos.



### 174 cooperation initiatives with counterpart institutions

It is the highest number on record. Portuguese-speaking countries continued to be the main partners in these initiatives.

## 3 Knowledge creation and sharing

The Banco de Portugal produces studies and statistics that it shares to promote knowledge of the Portuguese economy, thereby supporting the design of public policies and economic agents' behaviour. The Bank also shares knowledge and experiences with the central banks of emerging and developing countries, contributing to global monetary and financial stability.

### 3.1 Research

In 2021, the Banco de Portugal strove to understand the implications of the pandemic on the Portuguese economy and financial system and long-term trends, such as climate change, structural constraints to economic growth, digitalisation, resource distribution between economic agents, and population ageing. The revision of the monetary policy strategy of the European Central Bank (ECB) was also a priority (Section 1.1).

Research work on the pandemic focused on the recovery and reallocation of productive resources, the application of new analysis and forecasting tools, developments in the financial situation of households and firms and the impact of the support mechanisms implemented.

In terms of financial stability, the Banco de Portugal developed contemporary risk materialisation indicators, analysed the impact of the transition to a low-carbon economy and assessed the impacts of the macroprudential recommendation applicable to new mortgage loans and consumer credit issued by the Banco de Portugal in 2018 (Section 2.2).

The analysis and projections for the Portuguese economy published in the *Economic Bulletin* were complemented by analyses on the evolution of the average firm size in Portugal, the impact of the pandemic on liquidity and on the capitalisation of firms, digital currency, the new monetary policy strategy of the ECB, the relationship between climate change and the economy and productivity dynamics per worker in Portuguese firms. In the *Financial Stability Report*, the Banco de Portugal identified vulnerabilities and risks to financial stability and shared analyses on the development of the flow of financing to the economy and developments in firms' financial situations. In the *Central Balance Sheet Studies* series, three sectoral analyses were published on non-financial corporations.

The Banco de Portugal published 15 articles in its *Economic Studies* and 22 articles in its *Working Papers* and *Occasional Papers* series, of a more academic nature. 26 research-based articles authored by staff members of the Bank were also published or accepted for publication by international scientific journals.

The Banco de Portugal published the third and fourth issues of *Cadernos Jurídicos* (Legal Papers) that contained two external opinions, one judgement and five articles or commentaries on relevant themes in the fields of banking resolution, money laundering prevention and crypto-asset supervision.

Beyond carrying out theoretical and applied research, the Bank also supports external researchers. In 2021, the Banco de Portugal's Microdata Research Laboratory (BPLIM) accepted 31 new research projects, which it will collaborate with by providing information about the Portuguese economy from its databases. By the end of the year, 124 projects involving 176 researchers were ongoing in this laboratory. 136 of these researchers were external to the Bank, with affiliation in 15 Portuguese universities, 25 foreign universities and 13 mostly international non-university research institutions.

Throughout the year, the Banco de Portugal also promoted conferences and seminars to contribute to public debate about the Portuguese economy and the euro area economy. To the scientific community, the Bank organised 68 webinars, four advanced courses and an online workshop on the reproducibility of scientific results.

In March, the Bank, in partnership with the European Investment Bank (EIB), organised a conference on investment, digitalisation and green finance dedicated to the Portuguese case that was attended by more than 400 business leaders, economists and public sector partners. The EIB presented the results of its annual investment reports at this conference, providing insights on investment dynamics and investment needs in Portugal.

On the occasion of World Investor Week in October, university students discussed the future of money (Section 1.3) in a debate moderated by radio hosts Paulo Ferreira and Tiago Dóres.

In October, the Bank gathered 440 academics and members of the central bank community and of other international institutions for the Financial Stability Conference to discuss the challenges and risks associated with the pandemic crisis, digitalisation and climate change.

Still in October, the Bank organised a webinar with Frank Elderson, member of the Executive Board of the ECB and president of the Network for Greening the Financial System, about climate change and sustainable finance, as part of the XXXI Lisbon Meeting between the Central Banks of Portuguese-speaking Countries (Section 3.3).

In November, the Bank received the president of the ECB, Christine Lagarde in Lisbon, as part of the commemoration of the 175th anniversary of the Banco de Portugal, in a ceremony that also included speeches by the Governor of the Banco de Portugal, Mário Centeno, and the Prime Minister, António Costa.

In the same month, and in collaboration with the *Expresso* newspaper, the Bank promoted the conference *Os desafios da economia portuguesa no pós-pandemia* (The challenges facing the Portuguese



As part of the commemoration of its 175th anniversary, the Banco de Portugal received the President of the ECB, Christine Lagarde. The ceremony also included speeches by the Governor of the Banco de Portugal, Mário Centeno, and the Portuguese Prime Minister, António Costa.

economy after the pandemic), which was broadcast live on social media and had entrepreneurs, academia, policy-makers and representatives of business associations, civil society and the financial sector as its target audience.

In December, and also in the context of the commemoration of the 175<sup>th</sup> anniversary of the Banco de Portugal, a presentation session was organised to introduce the book *O Banco de Lisboa e a Revolução Liberal de 1820* (The Bank of Lisbon and the Liberal Revolution of 1820) by José Luís Cardoso, senior researcher at the Institute of Social Sciences of the University of Lisbon, continuing the publishing tradition of the Banco de Portugal in the history of economic thought.

Aiming to develop economic literacy, in partnership with *SIC Notícias*, the Bank produced a series of videos about themes that have an effect on the daily lives of Portuguese people, related to the Bank's mission. In collaboration with the ECB and other Eurosystem central banks, the Bank organised the 10<sup>th</sup> Generation Euro Students' Award, an initiative that aims to raise secondary school students' awareness of the importance of monetary policy and that brought together 102 teams from 49 Portuguese schools.

In appreciation of merit in a field of study instrumental to its mission, the Banco de Portugal awarded the Professor Jacinto Nunes Prize to the best-performing undergraduate students in Economics from Portuguese universities in the 2020-21 academic year.

## 3.2 Statistics

In 2021, the Banco de Portugal published 218 thousand statistical series about the Portuguese and euro area economies on the *BPstat* website, including new information about general government revenue and expenditure, an international comparison of firms' data, international trade in goods and quarterly and annual economic and financial indicators of firms. The Bank also published monthly information on loans covered by moratoria, regarding which a workshop for journalists was organised.

The main statistical results were made available on *BPstat* in the form of 123 statistical press releases written in a reviewed and simplified language. To promote statistical literacy, 14 articles explaining statistical concepts were published on *BPstat*. This website — that became the Bank's main channel for communicating statistical information after the *Statistical Bulletin* was discontinued — received a million hits, 60% more than in 2020.

With Statistics Portugal (INE), the Bank released new long series for the Portuguese economy covering the period from the end of the 1940s/ beginning of the 1950s until the present day. The Banco de Portugal also updated the long series on the Portuguese banking sector that includes historical information on financial indicators, loans to customers, interest rates, human resources, the branch network and payment systems, since 1990.

The Bank provided the Enterprise and Sector Tables to enterprises, to enable managers, upon authentication on the Bank's website, to compare the performance of their enterprises to that of enterprises of the same sector and size class. These tables were viewed 13 thousand times by 7.9 thousand enterprises. In addition, the Sector Tables, available to the general public, were also released. They include a set of 150 economic and financial indicators on Portuguese enterprises by sector of economic activity and by size class, as well as ratios of other European countries for each sector of activity. These tables were viewed 151 thousand times.

With the aim of sharing knowledge about the statistical information it discloses, the Banco de Portugal made presentations to 1,200 students in 18 universities. In partnership with the Directorate-General for Education, the Bank held three webinars for upper-secondary teachers of economics that engaged, on average, 145 participants per session. With Statistics Portugal and Eurostat, the Banco de Portugal organised the European Statistics Competition 2021, in which 165 teams from 58 Portuguese schools of lower- and upper-secondary education participated.

Alongside the disclosure of statistics to the public, the Bank reported statistical information to international bodies — ECB, Eurostat, International Monetary Fund, Organisation for Economic Co-operation and Development and Bank for International Settlements — involved in the production of statistics and the definition of public policies. In the scope of its participation in the Eurosystem, the Bank published new rules for financial institutions relating to the collection of monetary and financial statistics. These rules, subject to public consultation, accommodated additional reporting requirements defined by the ECB and, conversely, exempted financial institutions from communicating a wide range of information, lessening their reporting effort.

### 3.3 International cooperation

Cooperation increased in 2021 as a result of the investment in online and multilateral initiatives, namely in training. 174 initiatives were carried out, the highest number on record, 93% of which remotely. The number of the Bank's staff members and external participants involved grew (Figure I.3.1). The fields of supervision, financial stability and statistics continued to be the most covered, although themes kept growing more diverse.

Portuguese-speaking countries remained the main partners in this cooperation, with 116 initiatives, followed by neighbouring European Union countries (32), Latin America and the Caribbean (19) and the African continent (5). Two initiatives with a cross-cutting geographical coverage were also carried out.

With regard to multilateral actions, high-level online meetings were held between the central banks of Portuguese-speaking countries: the Banco de Portugal promoted the XXXI Lisbon Meeting (Section 3.1) and participated in the X Meeting of Governors, the latter dedicated to the impact of the pandemic crisis. The Banco de Portugal was also represented in the two Meetings of Governors of the Centre for Latin American Monetary Studies (*Centro de Estudos Monetários Latino-Americanos* – CEMLA) and in the 1<sup>st</sup> Ibero-American Central Bank Conference, where the role of monetary policy in tackling the pandemic crisis was debated.

In the context of the European System of Central Banks, the Banco de Portugal continued to take part in the cooperation programme with the Western Balkans that involved a regional course of bilateral technical assistance to the central banks of Albania, North Macedonia and Kosovo. Still in this scope, the Bank continued to prepare an initiative aimed at African Central Banks.

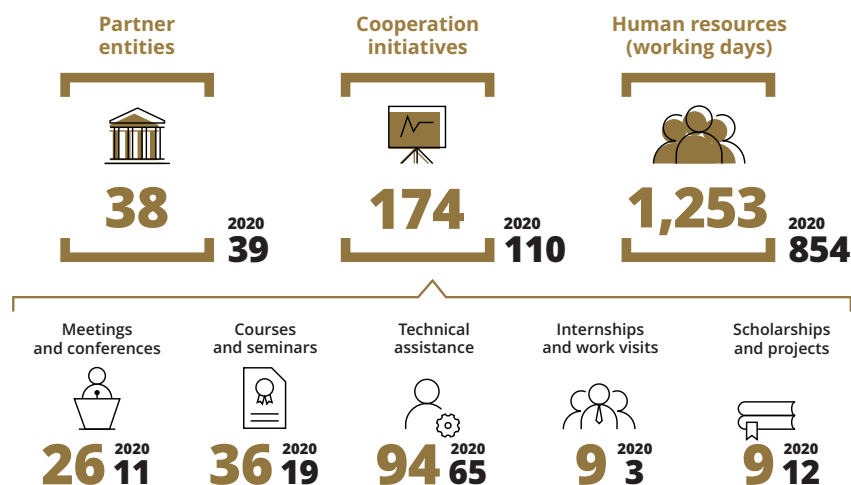
The Bank also collaborated in the institutional capacity development works of the International Monetary Fund (IMF), providing advice to the Banco Nacional de Angola, the Bank of Jamaica and the National Bank of Moldova, in fields such as supervision and monetary policy, risk management and resolution.

In 2021, a general Special Drawing Rights (SDRs) allocation of around SDR 456 billion, equivalent to USD 650 billion, took place. Entering into force in August, it was the largest so far (Portugal's allocation



amounted to SDR 1974.5 million). The purpose of this allocation was to supplement international reserves and provide liquidity support to many developing economies and low-income countries. The Banco de Portugal continued to participate in the market for voluntary transactions of SDRs.

**Figure I.3.1 • Cooperation activities in 2021 and compared with the previous year**



Source: Banco de Portugal.

# Highlights

# Internal management



## 31 internal audit actions

Such actions aimed to increase the effectiveness of governance, risk management and internal control processes.



## Investing in training

93% of staff members attended at least one training course.



## Over 250,000 contacts from citizens

The Bank received over 145,000 visitors at its cash offices and answered over 105,000 requests for information by phone or e-mail.



## 10% of staff took part in volunteer projects

## 337 students from 33 schools

The Bank's volunteers supported 337 students, from 33 schools, through tutoring in mathematics, Portuguese and English and reading sessions.



## 90.7/100 in the IORWG risk management assessment

The Banco de Portugal was among the seven best central banks of the 67 assessed by the International Operational Risk Working Group (IORWG) on the maturity of the risk management function.



## Award winning communication

The Banco de Portugal received a Central Banking Award in the category "Communications Initiative", for strengthening digital channels and producing innovative content.



## 4 innovation projects

These projects were developed to automate supervisory processes and facilitate the analysis of documents.



## 98% of waste sent for recycling

The Bank reused almost all waste generated by its operation.

## 4 Internal management and corporate social responsibility

The Banco de Portugal constantly assesses its structure and operating model to ensure that it performs its functions efficiently and that the public resources entrusted to it are carefully used. As a public service institution, it seeks to lead by example, drawing upon best practices in governance, management and transparency, and fostering a culture of accountability for results.

The following sections present the main developments in 2021 on governance, control and risk management; human resources management; innovation and digital transformation; accountability, communication and services to the public; and social and environmental responsibility.

### 4.1 Governance, control and risk management

In 2021 the Bank carried out a comprehensive assessment, based on the IMF's new Central Bank Transparency Code, to evaluate its position in the prevention of money laundering and terrorist financing, with a view to strengthening internal control mechanisms.

The Banking Prudential Supervision Department was reorganised to align it further with the new structure for supervisory risk analysis of the ECB's Single Supervisory Mechanism (SSM) and to accelerate innovation and process optimisation.

The area responsible for internal audit implemented agile and integrated technological solutions to make data collection, information analysis and managing audit processes easier. 31 audits were conducted, 24 of which exclusively domestic in scope and seven in the context of the internal audit function of the European System of Central Banks, Eurosystem and SSM (Table I.4.1).

**Table I.4.1 • Audits (2021)**

Breakdown by function	Domestic	ESCB, Eurosystem and SSM
Monetary policy and other operational duties	1	1
Supervision and legal enforcement	2	1
Payment systems and processes	1	2
Cash issuance	5	
Statistics	1	1
Resolution and deposit guarantee	4	
Human resources	1	
Information systems/Information and communication technologies	6	2
Communication and image management	1	
Procurement and logistics (including contract management)	2	
<b>Total</b>	<b>24</b>	<b>7</b>

Source: Banco de Portugal.

There were no significant risks to the Bank's activity, despite the context of increased risk resulting from the uncertainty associated with the pandemic crisis.

The Bank continued to develop an integrated policy on risk management, taking advantage of the risk management culture that has been internalised on business lines. In the context of the independent annual assessment of the maturity of the risk management function, carried out by the International Operational Risk Working Group (IORWG), the Bank scored 90.7 out of 100 — the highest score since this entity first assessed it in 2016 — as one of the top seven central banks of the 67 that were assessed.

The exercise to identify the main risks of the Banco de Portugal's activity targeted key risks and their mitigation measures and followed the new Strategic Plan. The risk tolerance levels set by the Board of Directors in the Risk Acceptance Principles were monitored by means of the key risk indicators (KRI) and preventive action was taken on the most relevant of these risks. Regular exercises helped identify, assess and mitigate the Bank's non-financial risks. The progress of the mitigation measures proposed in previous exercises was also monitored.

Financial risk management continued to rely on risk measures and indicators calculated using standard methodologies that have been tested over the years and are in line with those used by the Eurosystem. The risk management framework also includes eligibility criteria and limits by type of counterparty, assets or transactions (Section 1.1). The risk figures obtained were analysed by comparison with the financial buffers in the balance sheet (provisions, reserves and income), making it possible to monitor the degree to which risks are covered and to compare them with the strategic risk budget approved by the Board of Directors. This exercise was complemented by a medium to long-term projection of the Bank's income, enabling an inter-temporal analysis of the institution's profitability and the identification of the main factors that may compromise its financial independence.

An internal communication campaign was in place to inform and raise staff's awareness of the rules applicable to conflicts of interest, activities outside the Bank, private financial transactions, contact with the media, awards and invitations, job changes and reimbursement of expenses. The Compliance Office received 213 enquiries (36 more than in the previous year) related to these topics. The Bank assessed the impact on its organisational and functional structure of the new general regime to protect whistle-blowers and of the measures implementing the National Anti-corruption Strategy, within the framework of the opinions requested by Parliament.

The Data Protection Officer issued 72 opinions on the Bank's compliance with personal data protection rules, replied to 121 requests for exercise of rights addressed to the Banco de Portugal by data subjects, and assessed the need to submit to the Portuguese Data Protection Authority, for prior consultation, 12 regulatory projects involving the processing of personal data. Awareness-raising actions were also pursued and monitoring actions were initiated to strengthen the institutional culture on personal data protection.

## 4.2 Human resources

On 31 December 2021 the number of staff members employed by the Banco de Portugal was 1,741, 2% less than in 2020, of whom 1,672 were active (Table I.4.2). These developments reflect a higher number of employees leaving the Bank (92, of whom 48 due to retirement and 44 due to employment contract terminations) than the number of new hires (56). Moreover, 61 interns were recruited. At the end of the year, 487 staff members were assigned to supervisory tasks (495 in 2020).

**Table I.4.2 • Staff developments (2018–2021)**

	2018	2019	2020	2021	Δ 2021-2020
Total staff	1,753	1,778	1,777	1,741	-2.0%
Active <sup>(a)</sup>	1,687	1,700	1,700	1,672	-1.6%
Supervisory tasks <sup>(b)</sup>	450	481	495	487	-1.6%
Unpaid leave/secondment	66	78	77	69	-10.4%

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

The Bank continued to foster internal mobility in order to optimise the allocation of available profiles to the functions performed and to take advantage of the skills of its staff. 15 staff members changed departments and 29 internal recruitment processes were launched.

In aggregate terms, the composition of staff by gender remained balanced, even though the proportion of women increased further, reaching 50.9% (Table I.4.3). The average age of employees also increased slightly to 42 years old (43 for men and 40 for women), contrary to the previous trend, and 36-45 and 26-35 remained the most representative age groups. The breakdown by function remained broadly unchanged (Table I.4.4).

**Table I.4.3 • Staff developments: gender, movements and age groups (2018–2021)**

		2018	2019	2020	2021
Total staff	Men	886	892	881	854
	Women	867	886	896	887
Movements	Recruitments	118	161	102	56
	Retirements	87	100	80	48
	Termination of contracts	36	36	23	44
Age group	<=25	72	94	104	79
	[26;35]	560	579	552	521
	[36;45]	426	483	542	583
	[46;55]	259	272	283	286
	[56;65]	418	334	272	246
	>=66	18	16	24	26

Source: Banco de Portugal.

**Table I.4.4 • Staff: breakdown by function (2021)**

	Men	Women	Total	%
Senior management	50	18	68	4%
Middle management	145	161	306	18%
Professional staff	533	665	1,198	69%
Technical-administrative staff	91	9	100	6%
Unpaid leave/secondment	35	34	69	4%
<b>Total</b>	<b>854</b>	<b>887</b>	<b>1,741</b>	<b>100%</b>

Source: Banco de Portugal.

As at 31 December 2021, the assets of the Pension Fund — Defined Benefit Plan, which finances the pension plan for staff members who joined the Bank prior to March 2009 (closed-end pension fund) and the health benefits plan covering all staff — amounted to €2,176.3 million. This amount was invested in euro area bonds and liquidity (83.3%), shares (5.6%) and real estate (11.2%). The fund was also exposed to euro area bond futures and equity futures, which corresponded to 5.2% and 4.7% of the asset portfolio market value, respectively. Its overall funding level was 105.1%, i.e. above the minimum level established in Notice of Banco de Portugal No 12/2001 (98.3%). In 2021, returns on the asset portfolio of this fund stood at 7.7%.

As at the end of 2020, the Pension Fund — Defined-contribution Plan, a voluntary supplementary pension plan for staff members who joined the Bank after March 2009, had 1,046 participants, meaning that the majority of new staff members opt to join this fund. This fund's asset portfolio totalled €55.3 million and posted a return of 7.8% in 2021.

The Bank continued to focus on the development of its staff, taking into account the objectives set out in the Strategic Plan and the crosscutting needs of the institution. The Bank's academy (BdP Academia) continued its major training programmes aimed at promoting the development of technical, behavioural, digital and managerial skills. Training activity remained high, albeit almost exclusively online (Table I.4.5).

**Table I.4.5 • Training: participants and hours (2018–2021)**

	2018	2019	2020	2021	Δ 2021-2020
Total participants	1,712	1,842	1,697	1,624	-4.3%
Hours	60,319	67,678	49,182	67,472	37.2%
Participation rate	97.5%	103.6%	95.5%	93.3%	-2.3%
Staff members	1,755	1,778	1,777	1,741	-2.0%

Source: Banco de Portugal. | Note: 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 contracts have been terminated.

The Data Science School, which is part of the academy, provided 352 training sessions on the collection, processing, production, analysis and communication of information to 243 staff members, with a total of 5,013 hours of training. These training activities have enabled the Bank to improve work processes and develop projects on digitalisation, automation and data analysis.

The Banco de Portugal also provided financial support to staff members to attend higher education and specialised courses to the amount of €91,143.

As part of the integrated staff development programme, a new skill assessment and development initiative was launched, mainly for staff members that have been with the Bank for the past three to eight years. The first edition of the programme had 60 participants from 14 departments.

The Banco de Portugal's Open Day took place online and the Bank took the chance to introduce itself to over 500 students from 17 schools across the country. This initiative included presentations and visits to virtual stands and themed chat rooms.

The exceptional remote working regime adopted due to the pandemic remained in effect and was adapted according to the health situation and to the measures adopted by the national authorities, with the aim of safeguarding staff members' health and business continuity. This regime allowed the Bank to perform its tasks without disruption. Also within the scope of business continuity, the Bank conducted two simulation exercises with IT systems failure scenarios.

To prevent occupational risks and to promote a safe and healthy working environment, 30 jobs were assessed, the operating conditions of 269 work equipment items were checked, and eight emergency exercises were conducted. Technical studies were also carried out on indoor air quality, heating, ventilation and air conditioning systems, legionella, water quality and workplace noise.

Ten work-related injuries were recorded, the same as in 2020, of which one serious, corresponding to a ratio of 0.8 injury and 0.08 serious injury for each 200,000 hours worked.

## 4.3 Innovation and digital transformation

Rapid technological developments and an increasingly digital economy pose challenges to central banks in the fulfilment of their mandate. The Banco de Portugal has been monitoring these developments, aiming to take advantage of the ongoing digital transformation (Infographic “Innovation and digital transformation”).

In 2021, following experimental work completed in the Banco de Portugal's Innovation Lab (inov#), four projects were developed in order to automate supervisory processes and facilitate the analysis of documents by adopting solutions based on machine learning, natural language processing and robotic process automation. These projects aimed at automatically processing draft decisions of the ECB's Supervisory Board, loan agreement models and requests for information from bank customers, and the automatic extraction of unstructured data. Further tests were also conducted in the areas of payments and markets. The Bank also organised internal sessions to share innovation experiments through presentations on projects from other reference entities in this area.

The Banco de Portugal continued to develop its integrated information management programme: adding to its data warehouse information on supervision, market and risks, balance sheets, loans (macroprudential measure), securities (portfolios of financial groups) and external transactions, and developing data analysis solutions (data science labs) to ensure greater autonomy and flexibility.

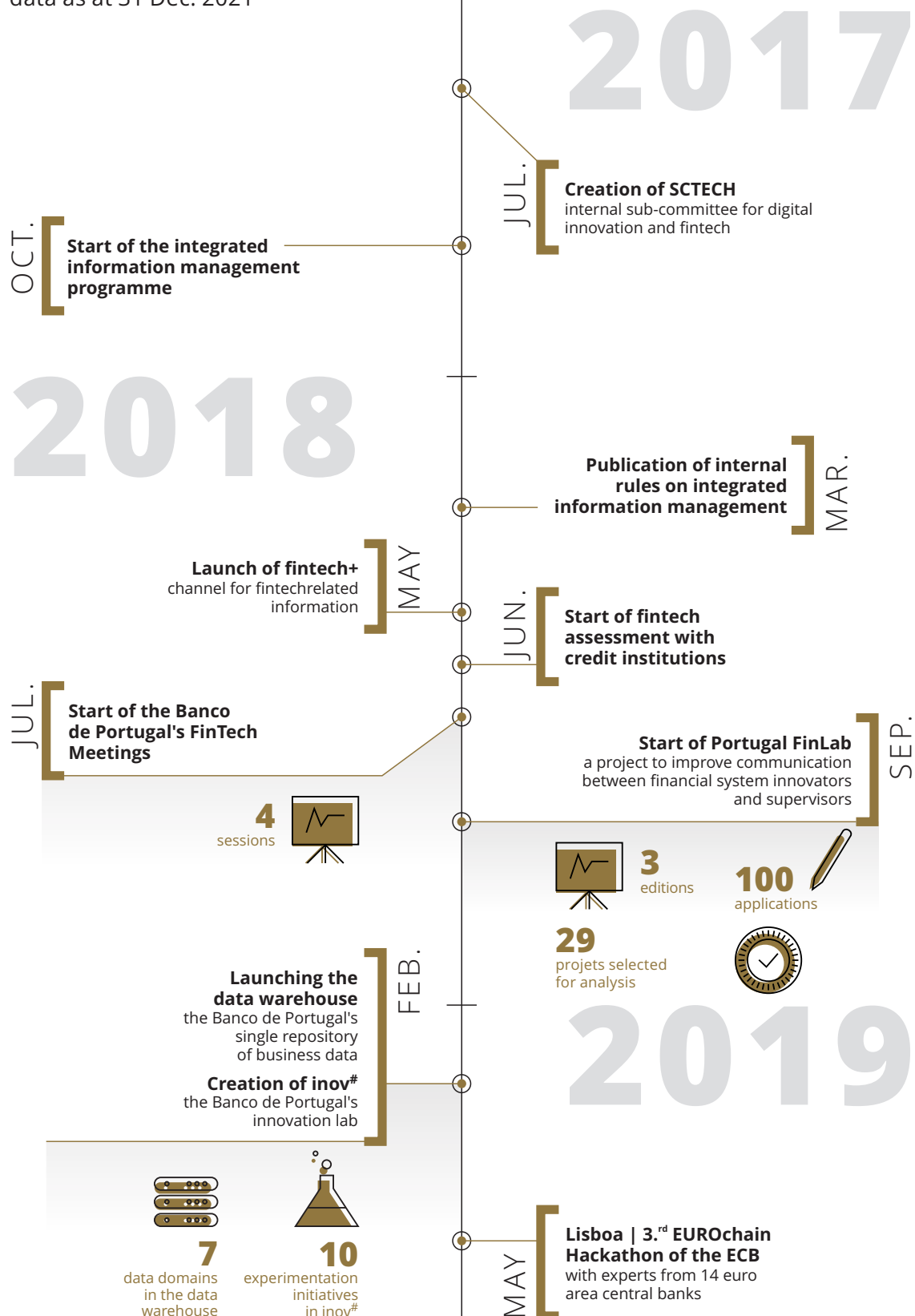
Cyber security remained at the top of the Banco de Portugal's concerns. The vulnerability management process was consolidated, the scope of the penetration tests targeted at the Bank's technological environment was broadened and the external vulnerability reporting services were enhanced. The Bank also strengthened collaboration and information-sharing activities relevant to cyber security risks and threats with partner institutions and in industry fora.



# Innovation and digital transformation

## 2017-2021

data as at 31 Dec. 2021



# 2020

JUN.

**Creation of the Data Science School**  
to build on internal skills

**717**  
Training courses completed



**10,042**  
hours of training



**351**  
staff members

**Completion of the study on SecLending Chain**  
blockchain solution proposed by the Banco de Portugal to improve securities lending within the scope of monetary policy

**Start of inov# calls**  
internal sessions for exchanging ideas about innovation



**1**  
paper



**2**  
sessions



**27**  
ideas

JUL.

**Launch of the Data Science School community of practice**  
for staff members and external experts to share information

**22**  
events



**510**  
internal participants



SEP.

**Start of Inov# talks**  
with firms from different sectors



**2**  
sessions

**6**  
external entities



**586**  
participants

NOV.

**Completion of the study on cryptoassets**

**Launch of the internal collaborative platform for exploring data in SQL**  
(SQL Data Labs)



**1**  
paper

DEC.

# 2021

**Conclusion of the characterisation of fintechs in Portugal**



**1**  
report

JAN.

**Launch of the Banco de Portugal's Data Science lab**  
(Pythagoras)

FEB.

**Conclusion of the project that implemented RPA**  
(robotic process automation)  
in the Bank's processing of draft decisions of the ECB's Supervisory Board

MAY

**Conclusion of the innovation project that implemented NLP**  
(natural language processing)  
in the validation of loan agreement models

SEP.

## 4.4 Accountability, communication and services to the public

The Banco de Portugal publicly discloses relevant information on its activities and reports on the results achieved. Transparency is a counterpart to the Banco de Portugal's independent status and the pillar of public confidence in its work.

In 2021, the Bank released 100 issues of its publications (Table I.4.6), 283 press releases, 75 speeches by senior officials and 6 decoders to explain topics and concepts related to its tasks (Table I.4.7). It replied to 378 media information requests and organised five workshops for journalists on topical affairs. Ten press conferences were held to present the Bank's most important publications and a weekly newsletter for journalists was created.

Focusing on direct communication with the public, 35 videos and 38 podcasts were made. The campaigns focused on promoting economic, financial and statistical literacy.

The Banco de Portugal received a Central Banking Award in the category "Communications Initiative", for strengthening digital channels and producing innovative content, in particular through the strategy of digitalisation of public services.

The effort to also communicate with the public in English resulted in the translation of all new contents on the institutional website and on the Bank Customer Website, as well as of a large part of the Bank's publications. The statutory publications of the European Central Bank were also translated into Portuguese.

The Bank maintained regular interaction with the Portuguese Parliament. The Governor was heard at two hearings before the Budget and Finance Committee, one on moratoria and one on the monitoring of the financial sector. The Governor, the Vice-Governor (as Chair of the Resolution Fund), the Heads of the Resolution Department and of the Banking Prudential Supervision Department, and an adviser to the Board of Directors (as former Vice-Governor) were heard by the Parliamentary Committee of Inquiry on the losses recorded by Novo Banco and attributed to the Resolution Fund.

The Bank also answered in writing to more than twenty requests from Parliament, among which requests for opinions on draft legislation (Section 2.1), inquiries, petitions, provision of information and documentation (Table 1.4.8).

Demand for services provided by the Bank continued to be strong (Table I.4.9), particularly as regards the Central Credit Register, with 3.2 million views, 19% more than in 2020.

The Banco de Portugal's information desks throughout the country operated almost without interruption and received over 145,000 visits. People are now able to book an appointment online to request information on credit liabilities, accounts, prohibition of the use of cheques and for reporting the loss of identification documents. The survey on the services provided showed a degree of overall satisfaction of 3.81 on a scale of 1 to 4.

The Bank's contact centre processed 90,752 phone calls and 15,023 messages sent by e-mail or through the forms available on the institutional website and on the Bank Customer Website. These contacts mainly aimed to clarify issues related to the Bank's databases, moratoria, complaints against financial institutions and rules applied to the marketing of banking products and services.

**Table I.4.6 • Regular publications (2021)**

Publication	Objective	Frequency	Language <sup>(a)</sup>
<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 Eurosystem's monetary policy 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 on 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 <i>Banking Conduct Supervision Report</i>	Annual	PT and EN
<i>Retail Banking Markets Monitoring Report Retail</i>	Developments in markets for simple term deposits, structured deposits, mortgage credit and consumer credit	Annual	PT and EN
<i>Statistical Bulletin <sup>(b)</sup></i>	Statistics of the Banco de Portugal	Monthly	PT and EN
<i>Statistical Activity Plan</i>	Description of Banco de Portugal's statistical objectives and priorities	Annual	PT
<i>Statistical Activity Report</i>	Description of the Banco de Portugal's activities as national statistical authority	Annual	PT
<i>Report on Payment Systems</i>	Presents the most relevant facts on the operation of payment systems	Annual	PT   Note: English version of the executive summary only.
<i>Report on Cash Issuance</i>	Description of the Banco de Portugal's cash issuance activities and main indicators	Annual	PT   Note: English version of the executive summary and infographic only.
<i>Bulletin on Banknotes and Coins</i>	Cash-related topics	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. | Notes: (a) PT – Portuguese; EN – English. (b) As of April 2021, the information in the *Statistical Bulletin* was published exclusively on BPstat, the Banco de Portugal's statistics website.

**Table I.4.7 • Communication: main indicators (2018–2021)**

Channels	Indicators	2018	2019	2020	2021
Website	Press releases	241	264	312	283
	Public speeches	62	62	44	75
	Decoders	43	45	18	6
	Users	2,293,487	2,787,495	3,304,010	3,513,203
	Viewed webpages	17,718,152	22,948,275	20,727,262	21,669,166
Bank Customer Website	News	95	109	132	111
	Users	442,805	504,271	614,687	833,389
	Viewed webpages	1,561,893	1,586,850	1,988,571	2,182,158
Instagram	Posts	25	93	105	139
	Impressions	49,466	163,107	2,844,980	1,900,273
LinkedIn	Posts	444	542	710	784
	Impressions	2,738,153	2,554,948	2,876,284	2,728,992
Twitter	Tweets	1,092	1,218	1312	1,338
	Impressions	774,300	1,201,536	2,887,000	1,650,000
Youtube	Videos published	21	42	42	35
	Views	69,400	99,274	156,706	150,600

Source: Banco de Portugal.

**Table I.4.8 • Interactions with Parliament (2021)**

Type of interaction	Occurrences
Parliamentary Committee of Inquiry on the losses recorded by Novo Banco and attributed to the Resolution Fund	18
of which:	
Requests for information and documentation	13
Hearings	5
Hearings at the Budget and Finance Committee	5
Requests for opinions	10
Inquiries	3
Petitions	1
Reporting (Law No 15/2019, of 12 February 2019)	1
<b>Total</b>	<b>38</b>

Source: Banco de Portugal.

The Banco de Portugal received 34 complaints in its *Livro de Reclamações* (complaints book). The subjects most targeted by complainants were customer service and procedures associated with services provided.

The Bank's historical archive and library were closed to the public as a preventive measure against COVID-19. Nevertheless, online bibliographic search and digital consultation of the archives have been made possible. The 2021 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, was held by video conference and was dedicated to the institutional value of document management. A new webpage on the institutional website has been set up to show the Banco de Portugal's old book collection.

The Money Museum welcomed 25,000 visitors, including students from 81 schools. Until September, visitors could see the exhibition *Money, Faith and Politics: coins and medals from the Vatican* organised

by the Bank in partnership with the Vatican Apostolic Library. The museum also hosted two temporary exhibitions: *A living collection*, showing off the Money Museum's new purchases, and *Lx 14 mayo 1575*, with archaeological material from the excavations of the Banco de Portugal's head office building. At the same time, the Museum continued to focus on organising online visits, courses and workshops, and publishing content on temporary exhibitions on its website and social media.

**Table I.4.9 • Services to the public: main indicators (2018–2021)**

Services	Indicators	2018	2019	2020	2021
Analysis of bank customers' complaints	Complaints received against financial institutions	15,264	18,104	19,660	19,322
	Complaints received against credit intermediaries	N/A	114	74	83
Consultations of account reports	Reports issued	249,767	396,465	388,959	439,072
Consultations of credit liabilities reports	Reports issued	1,807,718	2,455,320	2,731,119	3,173,030
Consultations of information on the prohibition of the use of cheques	Consultations of the List of Cheque Defaulters	10,031	9,844	8,484	7,084
Dissemination of information on lost documents <sup>(a)</sup>	Requests disseminated	244	220	269	559
Visitors at information desks	Visits	210,114	244,704	163,257	145,065
Historical Archive/Library	Consultations of archived documents	1,281	675	312	296 <sup>(b)</sup>
	Library consultations (on-site and online)	5,502	5,262	2,276	4,126
Money Museum	Activities	1,165	1,127	271	300
	Visitors	62,396	74,796	25,446	25,000

Source: Banco de Portugal. | Notes: (a) In 2020, the automatic dissemination of requests made via the Bank Customer Website was introduced, these are included in this indicator. (b) The Historical Archive has been closed to the public since 11 March 2020. The consultation requests were met, wherever possible, by scanning the requested work in full and providing it through the archive management system.

## 4.5 Social and environmental responsibility

The Banco de Portugal, as a corporation and public service institution, adopts a social responsibility and volunteering policy and takes measures to reduce its ecological footprint.

### Social responsibility

The Bank's social responsibility and volunteering policy covers three work streams: (i) inclusion through education by putting the employees' know-how and skills at the service of the school community; (ii) meeting the needs of communities closest to the Bank's buildings, namely through actions to donate food and combat isolation; (iii) provide financial support to actions identified by the social sector partner entities of the Banco de Portugal.

In 2021, many staff members enrolled in the Bank's volunteer work and social responsibility projects (Table I.4.10).

In 2021, the Banco de Portugal sponsored 11 initiatives in the field of education and information exchange, totalling €22,500 (Table I.4.11). The Banco de Portugal also funded two scholarship programmes, totalling €48,995. This was under its cooperation programme with Portuguese speaking countries (Section 3.3): one to help finance the higher education of staff members of the central banks of Portuguese-speaking African countries and Timor-Leste, and another to fund higher education for students from Portuguese-speaking African countries, awarded through Fundação Cidade de Lisboa.

**Table I.4.10 • Social responsibility and volunteer work: main indicators (2021)**

Permanent volunteers	182
Number of students	337
Schools	33
Number of meals donated	19,450
Computers and IT equipment donations	72
Support to the internal management of private social solidarity institutions	22

Source: Banco de Portugal.

**Table I.4.11 • Initiatives supported by the Banco de Portugal (2021)**

21 <sup>st</sup> Post-graduate degree in Banking, Stock Exchange and Insurance Law
Economia Viva 2021 conference cycle
International Conference on Data Science and Advanced Analytics — DSAA'2021
The sustainability cycle of the Alumni Clube ISCTE
14 <sup>th</sup> conference of the Portuguese Economic Journal
17 <sup>th</sup> Comparative Analysis of Enterprise Data Conference
Research Center on Regulation and Supervision of the Financial Sector
JOCLAD2021 – 28 <sup>th</sup> Data Classification and Analysis Days
22 <sup>nd</sup> Post-graduate degree in Banking, Stock Exchange and Insurance Law
Conselho Nacional de Estudantes de Direito (Portuguese law students' association) – <i>An economic analysis of Law</i> short course
Lisbon Economics and Statistics of Education

Source: Banco de Portugal.

## Environmental responsibility

Regarding the environment, the Banco de Portugal regularly assesses a set of indicators on the sustainability of its operations, namely the consumption of materials (plastic and paper), water, energy, greenhouse gas (GHG) emissions and waste generated by its activities (Table 1.4.12). Developments in these indicators in 2021 continued to be influenced by the special remote working model, which was adapted to the evolution of the pandemic.

In 2021, with more staff onsite at the Banco de Portugal's buildings, total electricity consumption increased by 5% from 2020; almost 100% of that energy is from renewable sources. Water consumption also grew by 9%.

Direct GHG emissions resulting from the consumption of diesel and natural gas in buildings and of petrol and diesel by the vehicle fleet (Scope 1 GHG) and indirect GHG emissions from electricity purchased by the Bank for its operation (Scope 2 GHG) decreased by 7% and 26% respectively. These reductions are mainly justified by changes in the market benchmarks used for the calculation of CO2 emissions.

In 2021, the Bank carried out an exercise to calculate its ecological footprint with reference to the year 2020, including, for the first time, data for the institution's 19 buildings. This exercise made it possible to determine emissions related to the staff's commuting using personal vehicles, taxi, air travel and public transport (Scope 3 GHG), which resulted in 1,728 tonnes of CO2.



**Table I.4.12 • Consumption of materials, energy, water, GHG emissions and waste generated (2019-2021)**

	2019	2020	2021
Material consumption (tonnes)	44.80	20.36	15.23
Energy consumption within the organisation (gigajoule)	83,957	78,453	81,189
Fuel	10,565	9,060	8,366
Electricity	73,392	69,393	72,823
Electricity consumption from 100% renewable sources	-	98%	99%
Water consumption (m³)	53,530	39,910	43,426
Greenhouse gas (GHG) emissions (CO2 tonnes)			
Direct   Scope 1 <sup>(a)</sup>	706	604	561
Indirect   Scope 2 <sup>(b)</sup>	4,342	156	116
Indirect   Scope 3	N/A	1,728	N/A
Waste generated (tonnes) <sup>(c)</sup>	382.36	296.23	223.46
Hazardous waste	4.20	2.74	3.66
Recovery – not intended for final disposal	1.99	2.44	1.54
Disposal – intended for final disposal	2.22	0.30	2.12
Non-hazardous waste	378.15	293.49	219.80
Recovery – not intended for final disposal	377.80	290.77	218.37
Disposal – intended for final disposal	0.35	2.72	1.43

Source: Banco de Portugal. | Notes: (a) Fluorinated greenhouse gases have not been considered. (b) In 2020, a new contract with an electricity supplier was concluded for all of the Bank's buildings, excluding the regional delegations, for the provision of 100% renewable electricity. This justified the reduction of Scope 2 emissions. (c) Total value according to the integrated waste registration charts. Does not include waste managed by service providers and those delivered to municipal management.

The Banco de Portugal sent 98% of waste generated by its operation for recycling and recovery, thereby contributing to the circular economy and reusing materials.

The Bank continued to pursue the initiatives foreseen in the [Lisbon European Green Capital 2020 Commitment](#), conducted a technical and economic feasibility study for a photovoltaic power plant in the Carregado Complex and took part in a study by the European Central Bank on the environmental impact of the issuance of euro banknotes and coins.



On the occasion of the United Nations Climate Change Conference (COP 26), the Banco de Portugal published a pledge on climate action, reaffirming its commitment to taking part in the response to climate change within its mandate. Director Luís Laginha de Sousa (pictured) explained the importance of this pledge in a video published on the Bank's website.

---

---

## 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 for the year ending 2021 were still significantly determined by the Eurosystem's response to the protracted pandemic crisis triggered by COVID-19. Decisions taken by the Governing Council of the ECB on 10 December 2020 have heavily affected these developments, in particular those related to (i) the increase in the volume of the monetary policy securities portfolio; and (ii) the extension until June 2022 of the interest rate rebate for liquidity-providing operations for credit institutions (targeted longer-term refinancing operations – TLTRO III). In this context, the purchase of financial assets, in particular Portuguese government debt, remained sizeable under the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP), and the financial sector increased its use of TLTRO III, in view of the still favourable conditions in terms of interest rates.

The global economic recovery proceeded in 2021, benefiting from the support of monetary and fiscal policies and the gradual reopening resulting from the immunisation of the population. Gross Domestic Product has already returned to pre-pandemic levels in several advanced economies, despite some headwinds to growth brought about by disruptions in production and supply chains. This fact, combined with the rise in the price of some commodities, led to a strong upswing in inflation to much higher figures than their long-term goal in major economies. Against this background, the accommodative monetary policy stance showed signs of phasing out, with a decrease in asset purchase programmes and prospects for a rise in official interest rates in several countries. Financial markets continued to prove highly resilient, with stock market valuation, rising yields and dollar appreciation.

At the end of 2021 the Banco de Portugal's balance sheet totalled €219 billion, a significant increase of around €27 billion from the preceding year, as a result of the aforementioned monetary policy measures. Also affecting the balance sheet was the drop in foreign reserves and euro assets, largely due to the Banco de Portugal's decision to temporarily reduce investments in the trading portfolio denominated in euro, in a context of ongoing and widespread negative profitability. On the liabilities side, there was also an increase in Banknotes in circulation and a substantial reduction in General government current accounts with the Banco de Portugal.

In 2021 income before provisions and taxes totalled €742 million, higher than forecast in the Bank's budget and at the previous year's level. The 2021 results continued to be strongly influenced by the increase in interest payable associated with targeted longer-term refinancing operations (TLTRO III), partly mitigated by the increase in interest receivable on credit institutions' deposits with the Eurosystem, whose volume grew substantially following the injection of liquidity into the market. The increase in monetary policy securities portfolios was not accompanied, in the same proportion, by an increase in income, against a background of very low or even negative interest rates on the Portuguese public debt yield curve throughout 2021. In turn, the appreciation of the main foreign currencies in the portfolio against the euro had a positive impact on the 2021 results, increasing the Banco de Portugal's foreign exchange reserves, and the better-than-expected results on capital gains from financial operations on foreign reserves and euro assets, which reflect the use of market opportunities, focused on maximising the profitability of these assets, which mitigated the effect of the decrease in income from monetary policy operations. Finally,

administrative expenses totalled €195 million, the same value as in the previous year, due both to the maintenance of an expenditure structure associated with the pandemic outbreak, and to strict management control aimed at the efficient use of resources and cost containment.

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 2021, 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 its opinion thereon.

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



**€219,196 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 2017-2021 period, from a management perspective. Charts II.1.1 and II.1.2 illustrate the developments in the main balance sheet items and Chart II.1.3 shows the changes in the main balance sheet items compared to 2020.

**Table II.1.1 • Main balance sheet items 2017-2021 (management's perspective) | EUR millions**

	2017	2018	2019	2020	2021	Δ 2021/2020
<b>TOTAL BALANCE SHEET</b>	<b>152,965</b>	<b>157,953</b>	<b>159,785</b>	<b>192,439</b>	<b>219,196</b>	<b>26,757</b>
<b>Claims and liabilities related to monetary policy operations</b>						
Claims related to monetary policy operations	69,100	69,952	70,804	101,214	128,008	26,794
Lending to credit institutions	22,131	18,743	17,325	32,164	41,837	9,673
Securities held for monetary policy purposes	46,969	51,208	53,479	69,050	86,171	17,121
Liabilities to credit institutions related to monetary policy operations	(13,865)	(14,096)	(19,213)	(31,613)	(58,525)	(26,912)
<b>Gold and foreign reserves and euro assets (net)</b>						
Gold	13,305	13,786	16,654	18,989	19,796	808
Trading portfolio	15,772	14,254	14,118	13,712	8,404	(5,309)
Medium-term investment portfolio	5,329	5,440	4,744	4,071	3,572	(500)
<b>Other claims</b>	<b>1,753</b>	<b>1,983</b>	<b>1,765</b>	<b>1,859</b>	<b>2,221</b>	<b>362</b>
<b>Banknotes in circulation</b>	<b>26,675</b>	<b>28,051</b>	<b>27,962</b>	<b>30,892</b>	<b>33,258</b>	<b>2,366</b>
<b>Intra-Eurosystem claims and liabilities</b>						
Intra-Eurosystem claims	(42,528)	(46,695)	(49,194)	(51,530)	(53,751)	(2,221)
Intra-Eurosystem liabilities	81,246	82,814	76,976	80,195	79,280	(915)
<b>Liabilities for collateralised applications (net)</b>	<b>-</b>	<b>-</b>	<b>5,049</b>	<b>8,300</b>	<b>9,440</b>	<b>1,140</b>
<b>Liabilities to other entities denominated in euro</b>	<b>9,370</b>	<b>9,745</b>	<b>7,418</b>	<b>18,111</b>	<b>11,433</b>	<b>(6,678)</b>
<b>Other liabilities</b>	<b>712</b>	<b>657</b>	<b>868</b>	<b>336</b>	<b>740</b>	<b>404</b>
Other liabilities	711	653	865	336	740	404
Provisions	2	4	2	-	-	-
<b>Own funds</b>						
Revaluation accounts	10,329	10,882	13,786	16,047	17,004	957
General risk provision	3,727	3,677	3,677	3,677	3,677	-
Capital and reserves	1,729	1,860	2,022	2,173	2,280	107
Retained earnings	(523)	(479)	(453)	(505)	(395)	110
<b>Profit for the year</b>	<b>656</b>	<b>806</b>	<b>759</b>	<b>535</b>	<b>508</b>	<b>(27)</b>



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

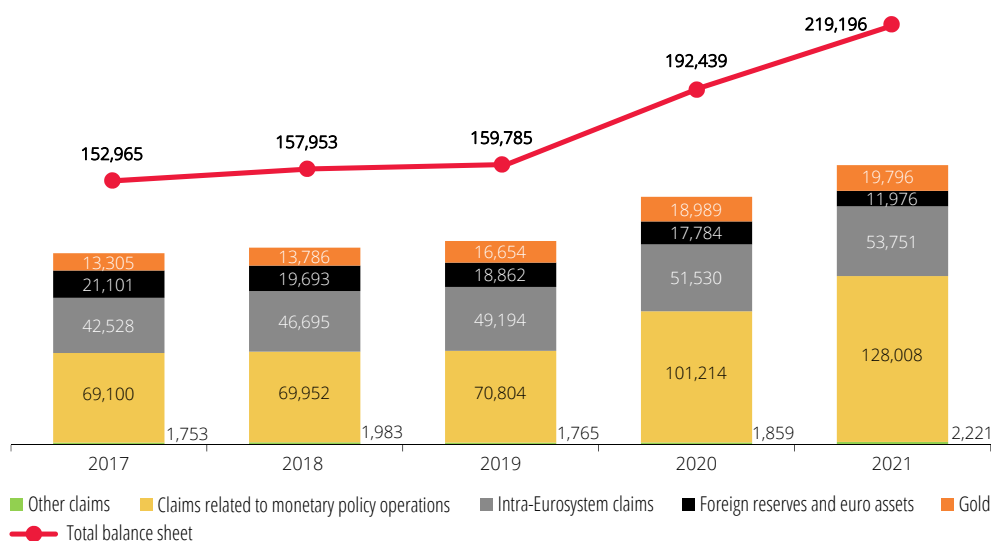


Chart II.1.2 • Developments in the balance sheet – main liabilities and own funds | EUR millions

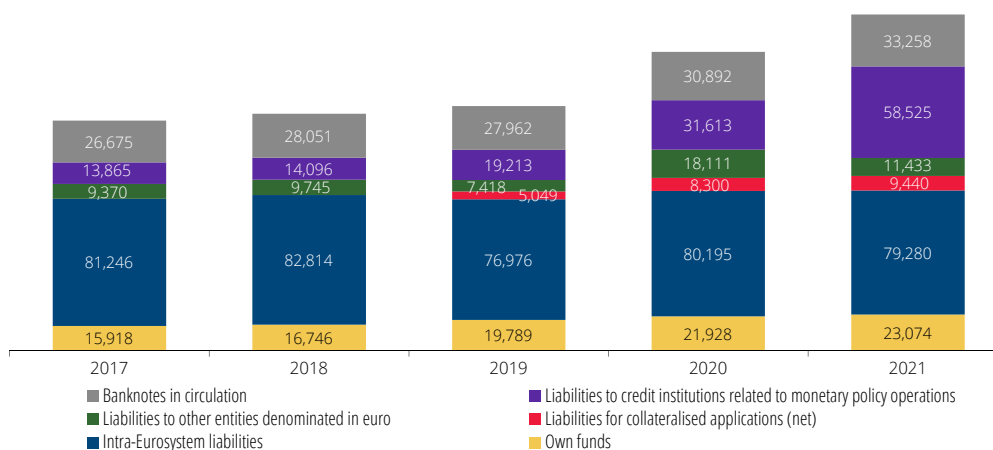
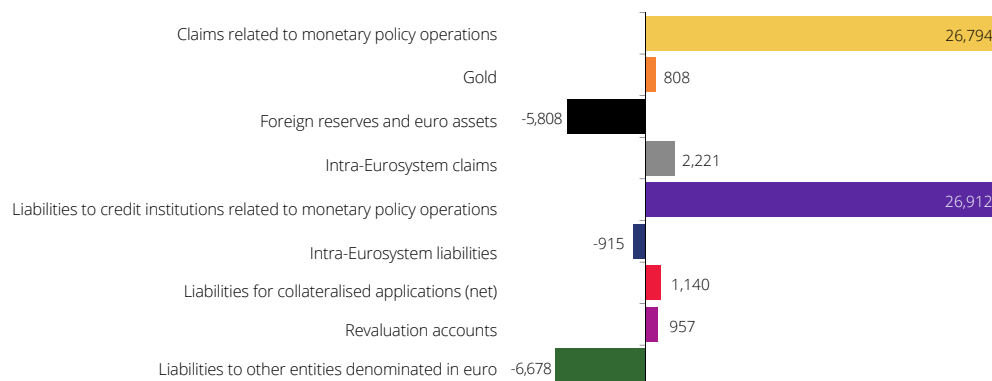


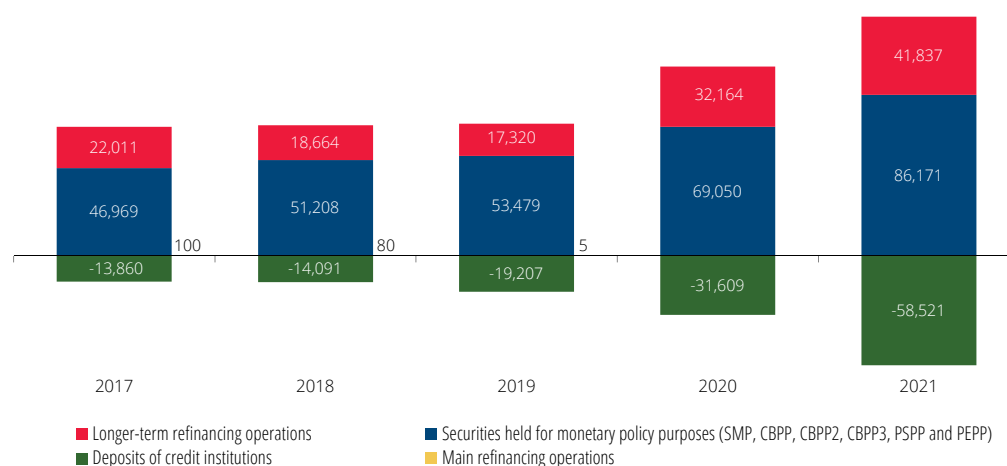
Chart II.1.3 • Main balance sheet item's variation from 2020 | EUR millions



### 1.1.1 Claims and liabilities related to monetary policy operations

On 10 December 2020, due to a further worsening of the pandemic, the Governing Council approved new measures to tackle the economic impact of this crisis, in particular: (i) the increase of the financial envelope of the Pandemic Emergency Purchase Programme (PEPP) by €500 billion to a total of €1,850 billion and (ii) the extension of the TLTRO III interest rate rebate for one more year until June 2022. In 2021 these monetary policy measures were reflected on the evolution of the Banco de Portugal's balance sheet, with a significant increase in the volume of monetary policy assets at the end of the year, with an impact on both monetary policy securities and liquidity-providing operations.

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



Against this background, at the end of 2021 monetary policy assets showed a net increase of €26,794 million compared to 31 December 2020, reflecting a €17,121 million increase in the portfolio of securities held for monetary policy purposes, largely due to purchases of securities under the new PEPP and, to a lesser extent, securities from the Public Sector Purchase Programme (PSPP), and a net increase of €9,673 million in targeted longer-term refinancing operations (TLTRO). In turn, at the end of 2021 deposits of credit institutions with the Banco de Portugal increased by €26,912 million over the same period a year earlier, as a result of the significant liquidity injection resulting from the previously mentioned monetary policy measures.



**€17,121 million**

Net purchases under non-standard monetary policy programmes

The portfolio of securities held for monetary policy purposes reflects the Banco de Portugal's participation in the implementation of the monetary policy approved by the Governing Council of the ECB, namely through: (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 agreement (CBPP3), the PSPP and the PEPP, still open for purchases. The national central banks (NCBs) and the ECB conduct purchases of these securities, under the principle of decentralised implementation of the Eurosystem's monetary policy.

At the end of 2021 securities held for monetary policy purposes totalled €86,171 million, about 39% of the Banco de Portugal's total assets. Compared to the same period a year before, further growth is recorded under this item, with an increase of €17,121 million in 2021 (in 2020: €15,571 million).

In 2021, in terms of monetary policy securities, the decision with the greatest impact on the Banco de Portugal's balance sheet was taken on 10 December 2020 by the Governing Council of the ECB, as a result of the implementation of additional measures to provide greater economic stimulus to tackle the COVID-19 pandemic crisis. Thus, an expansion of the financial envelope of the PEPP by an additional €500 billion to a total of €1,850 billion was decided on, and the horizon for net purchases was also extended by at least nine months, i.e. until the end of March 2022 and, furthermore, as announced by the Governing Council on 16 December 2021, the investment period was extended to at least the end of 2024.

As at 31 December 2021 the Banco de Portugal had purchased securities under the PEPP to the amount of €29,261 million (almost all of which Portuguese government debt securities), which accounted for an increase of €15,034 million over the previous year.

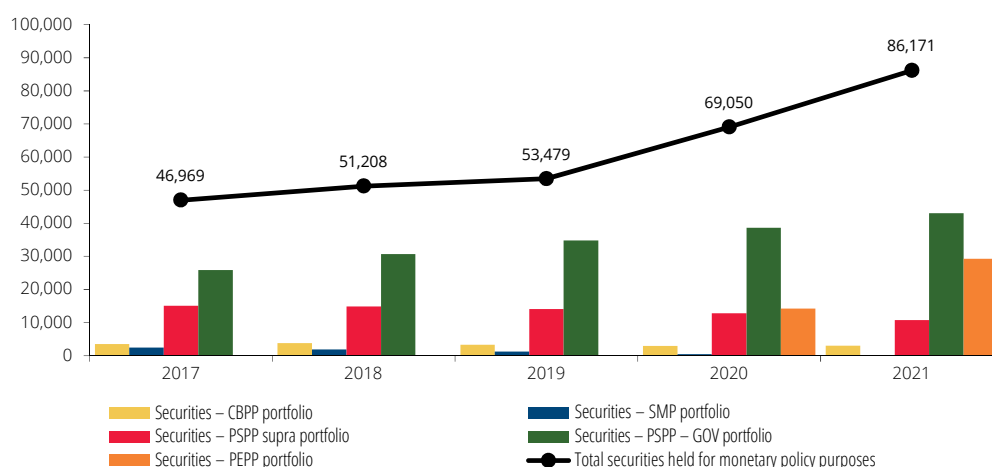
As regards the APP, the average monthly purchase pace of €20 billion since 2019 was maintained throughout 2021. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue reinvesting for an extended period of time past the date when it 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.

As regards the Banco de Portugal's participation in the APP, the overall PSPP net amount grew by €2,328 million in 2021, reaching a total of €53,761 million broken down into supranational securities and Portuguese government debt securities, the latter being a risk component not shared with the Eurosystem. The trend seen in 2020 was confirmed in 2021, as the increase resulted only from purchases of Portuguese government debt securities (with an increase of €4,399 million in this component), since the supranational securities component fell by €2,071 million compared to 2020. By the end of 2021 supranational and Portuguese government debt securities reached 20% and 80% respectively, of the total value recorded under the PSPP programme, against 25% and 75% respectively, over the same period of the previous year.

The growth in volume of these programmes led to increased risks vis-à-vis 2020, particularly in the component relating to Portuguese government debt securities, notwithstanding a significant amount of latent capital gains on these securities at the end of the year and a stable outlook for the evolution of the Portuguese Republic's rating.

All purchase programmes involving securities 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



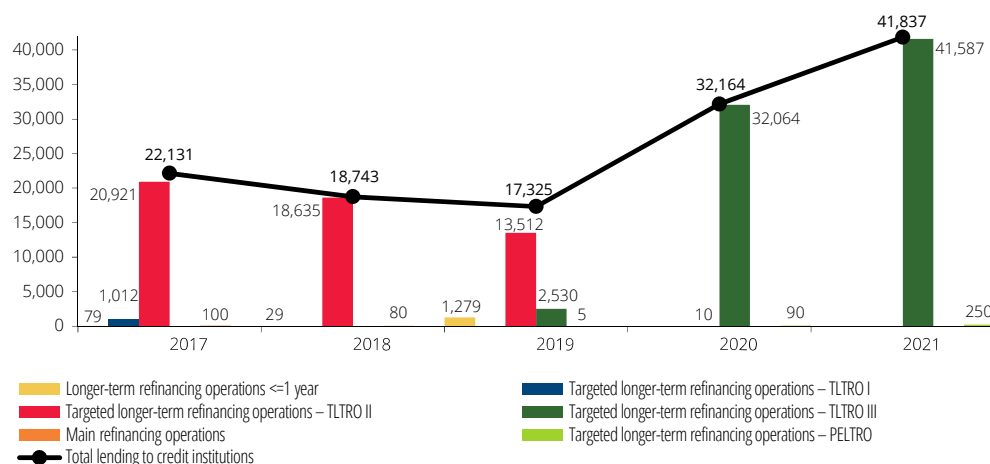
**€41,587 million**  
TLTRO III

On 10 December 2020 the Governing Council approved the extension of the interest rate rebate for TLTRO III operations until June 2022, and also the completion of three additional operations that were conducted between June and December 2021. These recalibrations, carried out by the Governing Council of the ECB under the TLTRO III framework, contributed to providing ample liquidity to the financial system, thus ensuring its robustness, and helping to support bank loans to firms and households.

On the balance sheet of the Banco de Portugal, TLTRO III operations grew significantly against 2020 to €41,587 million as at 31 December 2021 (an increase of €9,523 million, +30%), confirming the previous year's upward trend. These operations started in 2019 and have a maturity of three years, with an early repayment option after two years.

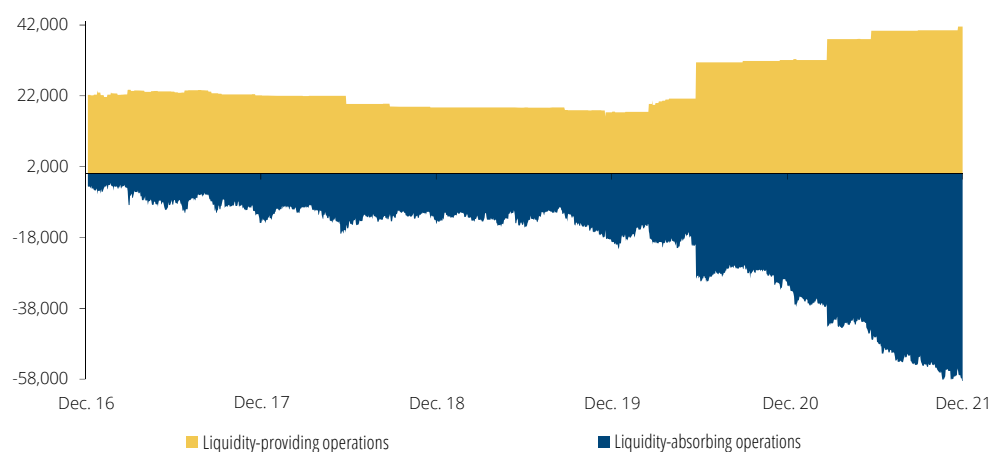
Pandemic emergency longer-term refinancing operations (PELTRO) held by the Banco de Portugal increased slightly (+€160 million change compared to 2020, to a total of €250 million) and the maturing of the last tranche of TLTRO II in March 2021.

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



As regards the daily evolution of the overall values of liquidity injected/absorbed by the Banco de Portugal in the Portuguese financial system, as illustrated in Chart II.1.7, following approval of the interest rate rebate as of June 2020, the value of liquidity-providing operations grew significantly since then, an upward trend that continued throughout 2021. 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, responsible for the increased level of liquidity-absorbing operations, also triggered in 2020. 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 and amounted to €17,922 million on 31 December 2021. The non-exempt amount of excess reserves is remunerated at zero percent 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



**€19,796 million**

Gold reserve

The Banco de Portugal's gold reserve totalled €19,796 million by the end of 2021, a €808 million increase from 2020, owing to an increase in the gold price per ounce in euro. This price increase was due to the appreciation of the US dollar against the euro (+7.7%) as there was a fall in the gold price denominated in US dollars (-3.8%).

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) (Point 1.1.6).

At the end of 2021 gold revaluation differences totalled €16,763 million.

In 2021 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 item Liabilities for collateralised applications), and the euros received were used to temporarily reduce liabilities in the TARGET account. Also in 2021 the gold deposited at the Federal Reserve (FED) in New York was relocated to the Banque de France, with the aim of obtaining future returns and moving its location to the Eurosystem.

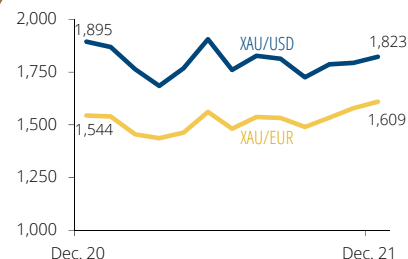
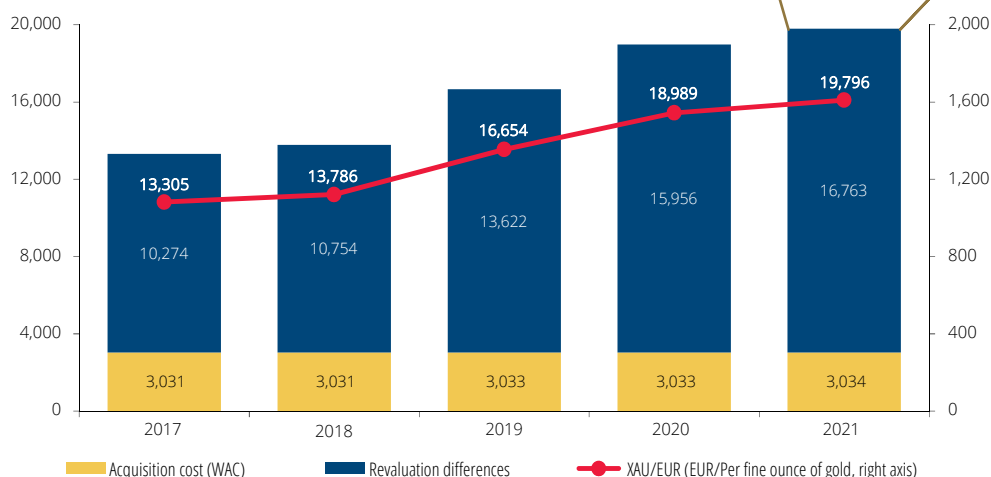


Chart II.1.8 • Gold reserve and quote price | EUR millions



## Foreign reserves and euro assets

In Foreign reserves and euro assets there was a significant decrease in the trading portfolio and a decrease, to a lesser extent, in the held-to-maturity securities portfolio. Thus, Foreign reserves and euro assets recorded a total of €11,976 million by the end of 2021, reflected in a €5,807 million decline (-33%) over the same period.

- Trading portfolios (denominated in euro and foreign currency)



**€8,404 million**

Total trading portfolios in euro and foreign currency

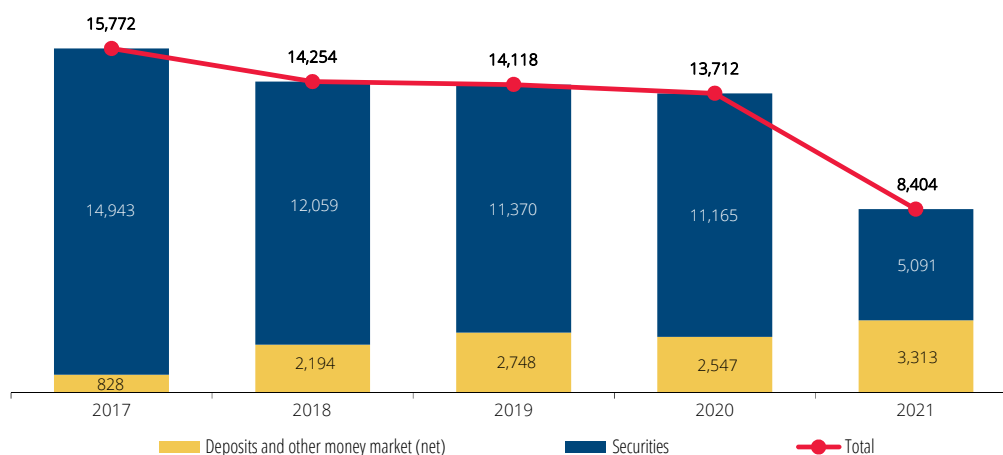
In 2021 the trading portfolio consisted of investments in euro (€3,196 million) and assets denominated in foreign currency (€5,208 million) related to investments predominantly denominated in US dollars, valued at market prices. The 39% reduction in the trading portfolio compared to 2020 was due to a significant decrease in the euro-denominated component (-€6,628 million), resulting from the Bank's decision to temporarily reduce investments in this currency in a continuous and generalised context of negative yields.

In turn, the foreign currency trading component increased (+€1,320 million), partly related to euro-for-foreign currency swap transactions worth €2,855 million (versus €1,840 million as at 31 December 2020), with no associated exchange rate risk, which temporarily impact the aforementioned currency composition.

In terms of composition by instrument, investing in securities proceeded as in previous years, representing 61% of the total of this portfolio as at the end of 2021.

In 2021 the Banco de Portugal increased its investment in bonds meeting Environmental, Social and Governance (ESG) criteria by participating in the launch of the new euro-denominated green fund of the Bank for International Settlements (BIS) in January 2021. On 31 December total securities in the Bank's portfolio meeting these criteria were €333 million (2020: €209 million).

**Chart II.1.9 • Trading portfolio (euro and foreign currency) | EUR millions**





- Medium-term investment portfolio

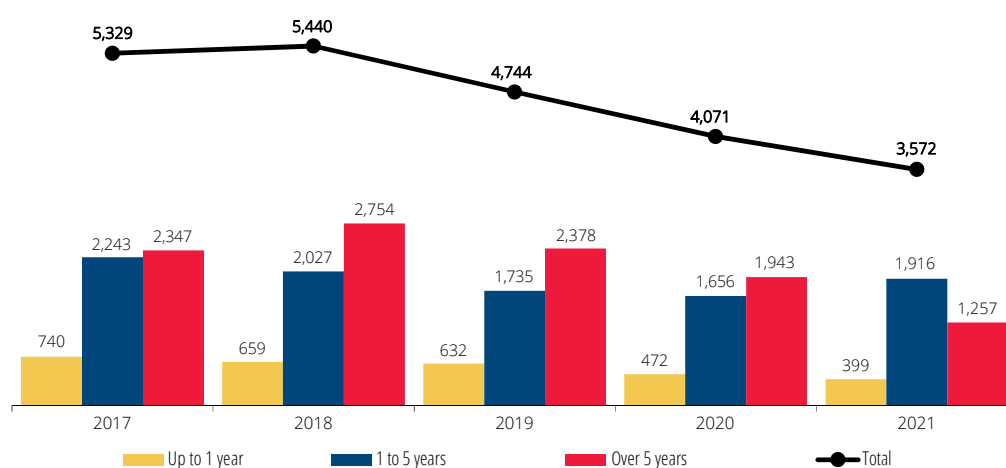


**€3,572 million**

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

Held-to-maturity securities portfolio totalled €3,572 million, measured at amortised cost less any impairment losses, representing a 12% decrease from 2020. This confirms the trend already seen in previous years, as a result of the decision not to reinvest interest and principal from maturing securities, given the current return on eligible securities issues. This decision is shown in the portfolio of held-to-maturity securities (Chart II.1.10), where for the first time securities with maturities of between one and five years predominated, to the detriment of longer maturities.

**Chart II.1.10 • Held-to-maturity securities portfolio by maturity | EUR millions**



### 1.1.3 Banknotes in circulation



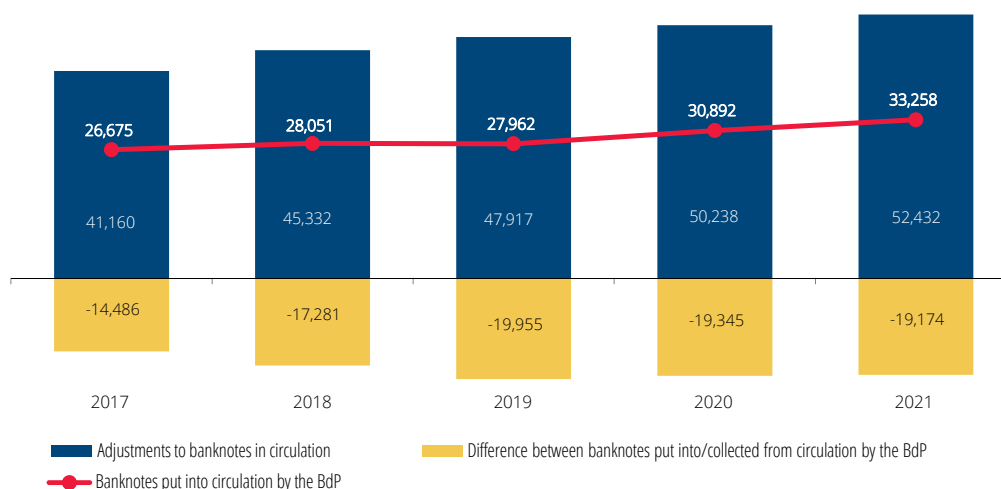
**€33,258 million**

Total banknotes in circulation

The Banknotes in circulation item, on the liabilities side of the balance sheet, shows the Banco de Portugal's share in Eurosystem's banknotes in circulation (Chart II.1.11). This item shows a €2,366 million increase (+8%) compared to 2020, reflecting the increase in circulation within the Eurosystem.

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 2021 these adjustments totalled €52,432 million, which represents a €2,195 million increase (+4%) compared to the same period of the previous year. Growth in these adjustments reflected increased circulation within the Eurosystem, the difference between banknotes put into circulation and withdrawn from circulation remaining stable compared to 2020.

Chart II.1.11 • Banknotes in circulation | EUR millions



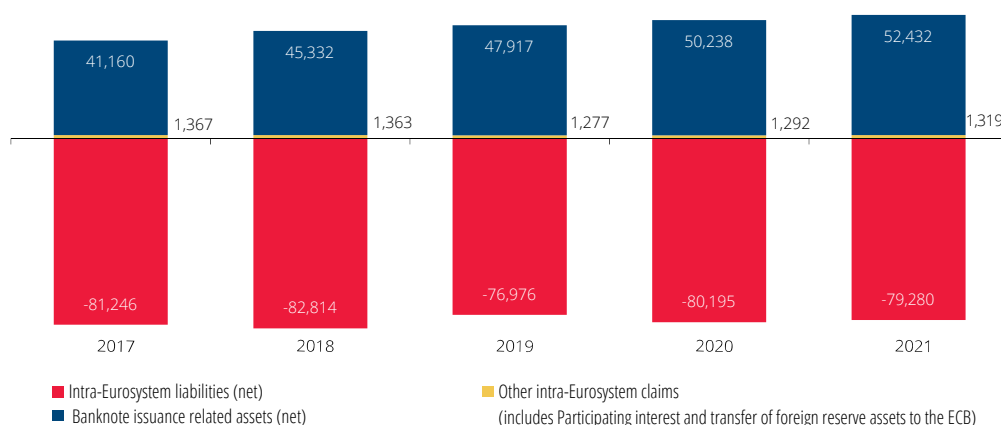
#### 1.1.4 Intra-Eurosystem claims and liabilities



**€79,280 million**  
Intra-Eurosystem liabilities

Intra-Eurosystem claims (Chart II.1.12), included the remunerated position relating to adjustments to banknotes in circulation (€52,432 million), mentioned in Point 1.1.3 on Banknotes in circulation.

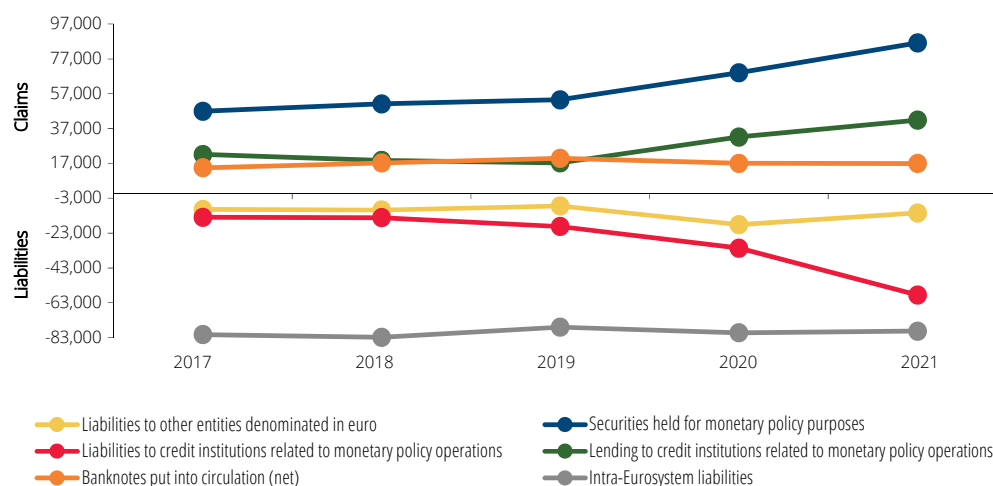
Chart II.1.12 • Intra-Eurosystem claims and liabilities | EUR millions



As at 31 December 2021 Intra-Eurosystem liabilities totalled €79,280 million, representing a decrease of €915 million from 2020 (Charts II.1.12 and II.1.13) and fully encompassed liabilities arising from the TARGET account. This mainly reflected the increase in deposits of credit institutions with the Banco de Portugal (Point 1.1.1) and the reduction in the euro portfolio (Point 1.1.2), largely offset by the impact of the increase in lending to credit institutions (TLTRO III) and purchases of securities held for monetary policy purposes (Point 1.1.1) and the decrease in domestic liabilities

to other entities denominated in euro, more specifically the decrease in General government current accounts (Point 1.1.5).

**Chart II.1.13 • Intra-Eurosystem liabilities and main offsetting balance sheet items | EUR millions**



### 1.1.5 Liabilities to other entities denominated in euro



**€9,306 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 (€9,306 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



**€+957 million**

Increase in positive revaluation accounts

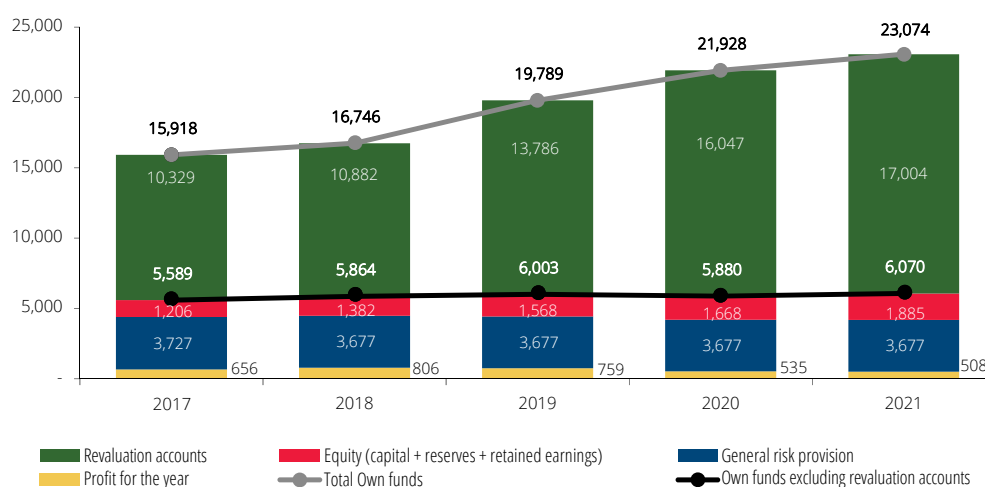
The Banco de Portugal's Own funds (which include Revaluation accounts, General risk provision, Capital and reserves, Retained earnings and Net profit for the year) increased by €1,147 million in 2021 (to €23,074 million), largely owing to the increase in positive revaluation accounts and to the positive Net profit for the year (Chart II.1.14).

The increase in positive revaluation accounts (+€957 million, to €17,004 million) is mainly due to a rise in potential capital gains on Gold (+€807 million).

In addition to revaluation accounts, also worth mentioning is (i) the recognition of 2021 net income (€508 million), and conversely (ii) the impact of the distribution of €428 million in Dividends to the State from the 2020 Net profit and (iii) the recognition in Retained earnings of net actuarial and financial gains of 2021, relating to the Pension Fund – Defined-Benefit Plan (PBD) (totalling €115 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 2021 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 hedging objectives.

Chart II.1.14 • Own funds | EUR millions



## 1.2 Profit and loss account



**€742 million**

Income before provisions and taxes

The main components of the Profit and loss account from 2017 to 2021 are shown in Table II.1.2.

**Net profit for the year 2021** was €508 million.

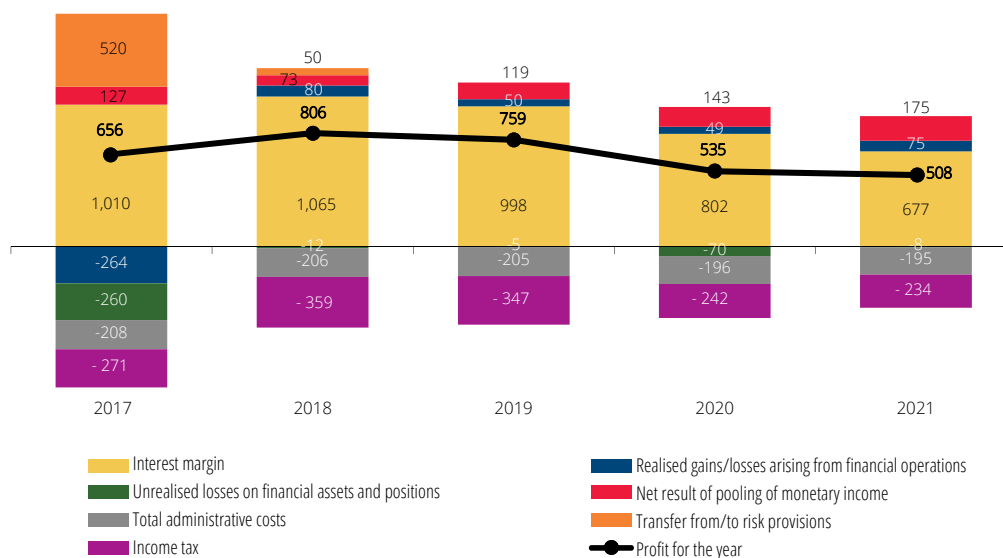
**Table II.1.2 • Main Profit and loss account items 2017-2021 | EUR millions**

	2017	2018	2019	2020	2021	Δ 2021/2020
Interest margin	1,010	1,065	998	802	677	(124)
Realised gains/losses arising from financial operations	(264)	80	50	49	75	26
Unrealised losses on financial assets and positions	(260)	(12)	(5)	(70)	(8)	63
Income from equity shares and participating interests	33	39	72	56	18	(38)
Net result of pooling of monetary income	127	73	119	143	175	31
Total administrative costs	208	206	205	196	195	(2)
Staff costs	136	138	139	132	130	(2)
Supplies and services from third parties	56	52	47	45	46	1
Other administrative costs	1	1	1	1	2	-
Depreciation and amortisation for the year	15	15	18	18	18	-
Banknote production costs	23	13	7	10	12	2
Other net profit/loss	(7)	89	85	4	11	7
<b>Income before provisions and taxes</b>	<b>408</b>	<b>1,115</b>	<b>1,106</b>	<b>777</b>	<b>742</b>	<b>(36)</b>
Transfer from/to risk provisions	520	50	-	-	-	-
<b>Income before taxes</b>	<b>928</b>	<b>1,165</b>	<b>1,106</b>	<b>777</b>	<b>742</b>	<b>(36)</b>
Income tax	(271)	(359)	(347)	(242)	(234)	9
<b>Profit for the year</b>	<b>656</b>	<b>806</b>	<b>759</b>	<b>535</b>	<b>508</b>	<b>(27)</b>

**Income before provisions and taxes** was €742 million, down by €35 million from the previous year, but higher than expected.

This decrease resulted essentially from a reduction in the interest margin, particularly with the contribution of accrued interest payable on Lending to credit institutions, due to the increase in volume and the interest rate rebate for TLTRO III operations throughout 2021, compared to the entry into force of this rebate only in the second half of the previous year. This reduction in the interest margin was partly offset by the rise in the remuneration of deposits of credit institutions due to their significant increase in volume compared to 2020. Offsetting this reduction in the interest margin, write-downs on financial assets and positions showed a decrease (mainly due to the US dollar appreciation) and an increase in realised gains/losses from financial operations, boosted by favourable market conditions. Administrative expenses were similar to the previous year, maintaining an identical structure and level, as a result of the protracted impact of the COVID-19 pandemic on the Bank's operating expenses.

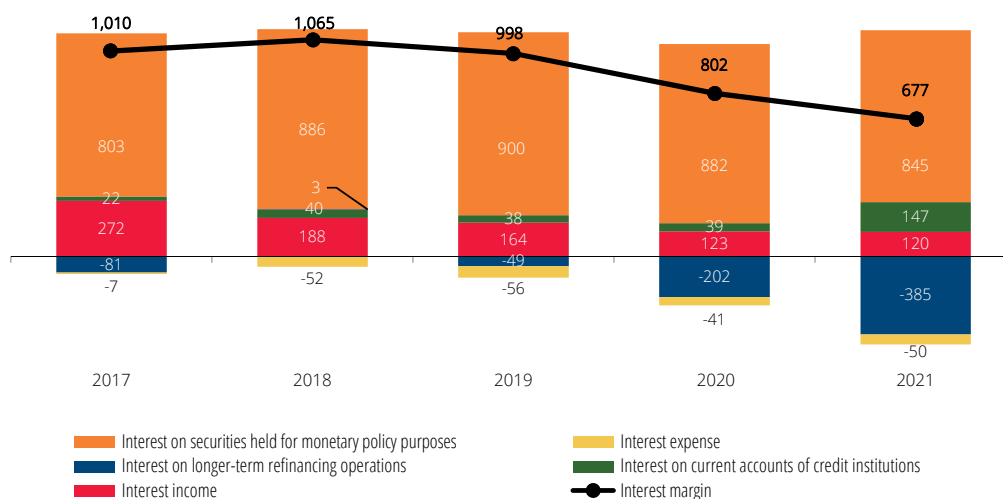
Chart II.1.15 • Developments in the main profit/loss items | EUR millions



### 1.2.1 Interest margin

In 2021 the Interest margin continued to be the main component of the Banco de Portugal's income statement, with an amount of €677 million. However, it represented a €124 million decline (-16%) against 2020, maintaining the downward trend seen since 2019.

Chart II.1.16 • Interest margin | EUR millions





### **€-184 million**

Impact on the interest margin associated with TLTRO III

The reduction in the interest margin in 2021 is mainly accounted for by an increase in interest payable associated with longer-term refinancing operations (+€184 million), largely driven by the increase in interest associated with TLTRO III operations (+€210 million). Interest on these operations totalled €385 million in 2021, due to a significant increase in their volume and to the maintenance throughout 2021 of the interest rate rebate (at -50 basis points) (started in the second half of 2020), as a result of the extension of this rebate until June 2022 decided by the Governing Council of the ECB (already mentioned in Point 1.1.1 above).



### **€+108 million**

Change in interest on current accounts of credit institutions

With a positive contribution to this margin, there was an increase in interest receivable on current accounts of credit institutions, i.e. +€108 million, related to the injection of liquidity into the market. This was reflected in an increase in the volume of current accounts of credit institutions with the Banco de Portugal.



### **€-37 million**

Change in interest income from securities held for monetary policy purposes

Interest income from the portfolio of securities held for monetary policy purposes continued to make a relevant contribution to the interest margin, with a total of €845 million in 2021. However, the value of the interest on this component declined from 2020 (-€37 million) since, despite the significant increase in the volume of this portfolio, the context of very low, or negative, interest rates on the Portuguese government debt yield curve caused the associated interest to fall compared to the previous year.

## **1.2.2 Net result of financial operations and unrealised losses**



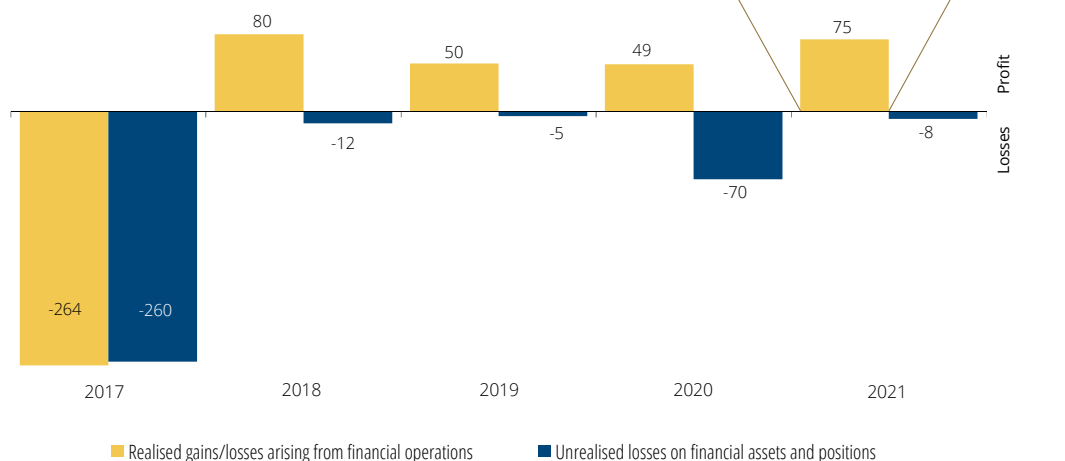
### **€75 million**

Realised gains/losses arising from financial assets and positions

Realised gains/losses arising from financial assets and positions showed a positive value of €75 million at the end of 2021 (Chart II.1.17), i.e. a €26 million increase over the same period in 2020. These realised gains/losses are essentially associated with financial operations with assets in the Bank's trading portfolio.



Chart II.1.17 • Net result of financial operations and unrealised losses | EUR millions



## €8 million

Unrealised losses on financial assets and positions

As regards Unrealised losses on financial assets and positions, the overall amount recognised in 2021 was €8 million, a sharp reduction of -€63 million compared to the previous year. This decrease was mainly related to a reduction in potential foreign exchange losses (-€69 million), mostly associated with the portfolio of assets denominated in US dollars, due to the appreciation of the price of this currency. In accordance with 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 the items of Revaluation accounts.

### 1.2.3 Net result of pooling of monetary income



## €175 million

Net result of pooling of monetary income within the Eurosystem, for the year 2021

In 2021 the item Net result of pooling of monetary income included (i) the result of the Eurosystem's monetary income pooling method for the year (€171.2 million) and (ii) corrections to results calculated in previous years arising from retroactive changes to the calculation method (+€3.6 million).

Net result of pooling of monetary income grew by €31 million from the previous year, essentially explained by: (i) increase in the liquidity of the rest of the Eurosystem related to demand deposits

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 decrease in the proportion of deductions by the Banco de Portugal as regards interest in lending operations vis-à-vis the rest of the Eurosystem.

#### 1.2.4 Income from equity shares and participating interests

This item recognises the dividends received by the Banco de Portugal, in particular those distributed in 2021 by the ECB, i.e. ordinary and interim dividends, the latter referring to interest income on securities held for monetary policy purposes in the ECB's balance sheet.

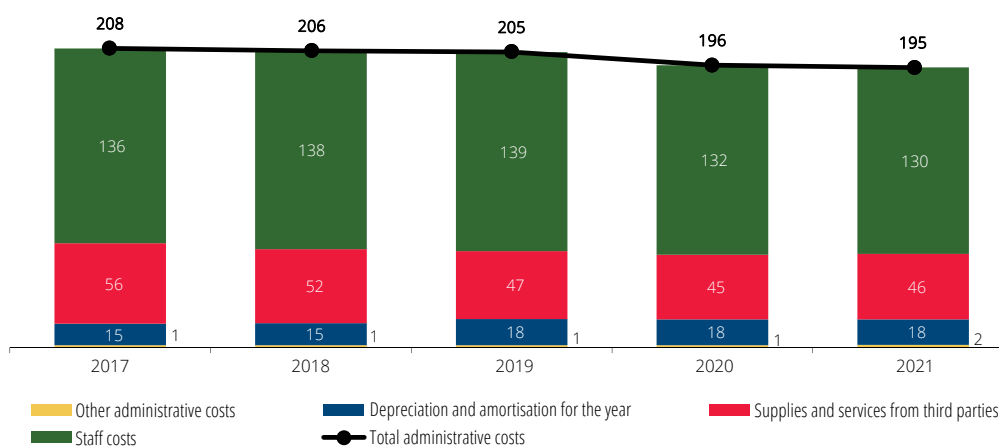
#### 1.2.5 Total administrative expenses



**€195 million**  
Administrative expenses

In 2021 Total administrative expenses amounted to €196 million (Chart II.1.18).

**Chart II.1.18 • Administrative costs | EUR millions**





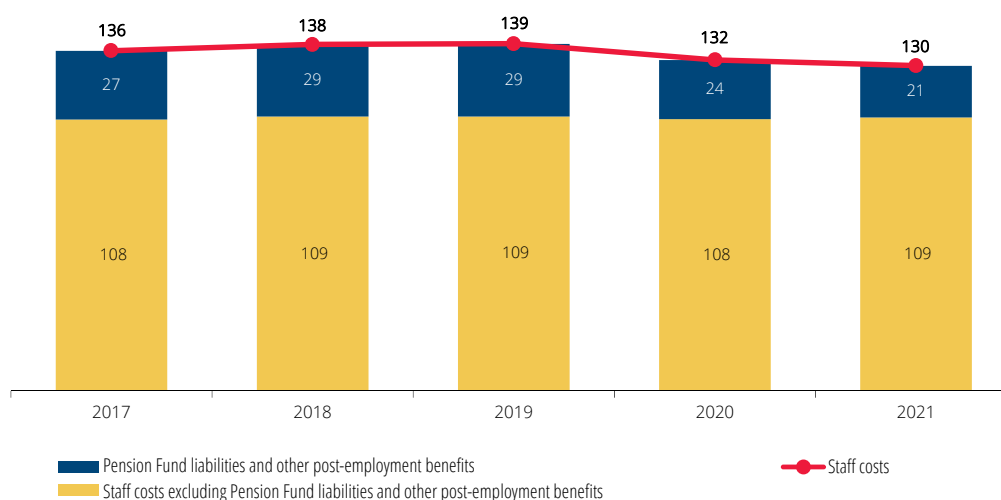
## €-2 million

Decrease in staff costs

In 2021 staff costs decreased by €2 million from 2020, mainly explained by a decrease in expenses associated with early retirement (-€6 million), due to a drop in the number of employees under these circumstances in 2021, partially offset by an increase in the component related to annual costs with the Pension Fund – Defined-Benefit Plan (+€3 million).

The number of staff members employed by the Banco de Portugal as at 31 December 2021 (1,672 employees) declined by 28 from 2020 (1,700 employees).

Chart II.1.19 • Staff costs | EUR millions



## €46 million

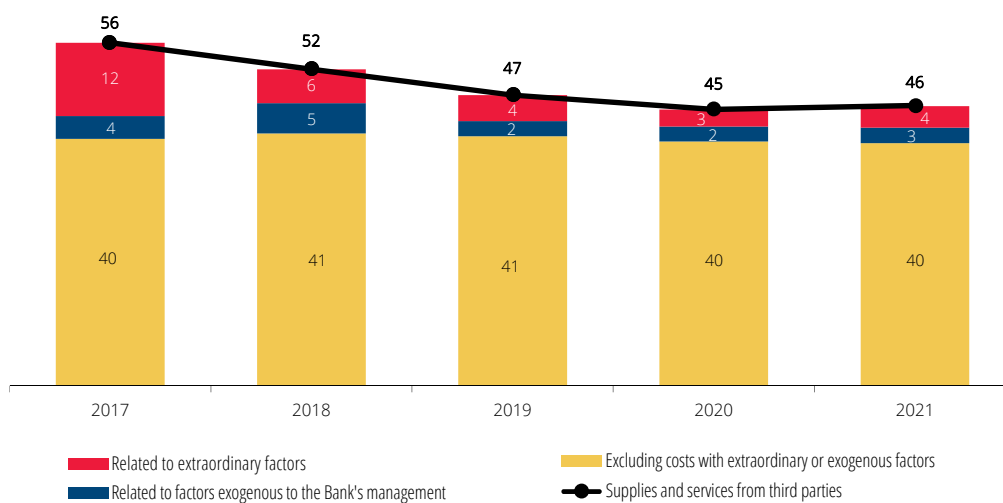
Supplies and services from third parties

Supplies and services from third parties amounted to €46 million by the end of 2021 (23% of total administrative expenses), confirming a stable scenario compared to previous years (Chart II.1.20).

Supplies and services from third parties associated with extraordinary factors, mainly related to the provision of legal and financial advice provided under the Banco Espírito Santo, S. A. resolution measure, increased by €0.8 million from 2020.

Supplies and services from third parties related to the Banco de Portugal's management totalled the same amount as in the previous year (€40 million). This reflected the maintenance of the structure and value of the Bank's operating expenses in the context of the COVID-19 pandemic, as well as efficient management of resources and cost containment, as a result of effective management control with the implementation of cross-cutting measures within the organisation.

Chart II.1.20 • Supplies and services from third parties | EUR millions



Lisbon, 2 March 2022

## 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 2021, to the amount of €508.08 million, was distributed as follows:

10% to the legal reserve ..... €50,808,084.18

10% to other reserves ..... €50,808,084.18

and, under subparagraph (c),

80% to the State, as dividends ..... €406,464,673.44

pursuant to Decision of the Secretary of State for the Treasury No 46/2022-SET of 4 May 2022.

## 2 Financial Statements and Notes

### Financial Statements

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

Assets	Notes	31 Dec. 2021		31 Dec. 2020
		Gross assets	Depreciation, amortisation and impairment	Net Assets
1 Gold and gold receivables	2	19,796,309		18,988,763
2 Claims on non-euro area residents denominated in foreign currency		8,961,267		5,030,600
2.1 Receivables from the IMF	3	3,902,084		1,196,478
2.2 Balances with banks and security investments, external loans and other external assets	4	5,059,183		3,834,122
3 Claims on euro area residents denominated in foreign currency	4	148,992		54,383
4 Claims on non-euro area residents denominated in euro	5	887,432		970,177
4.1 Balances with banks, security investments and loans		887,432		970,177
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	41,837,110		32,163,660
5.1 Main refinancing operations		-		-
5.2 Longer-term refinancing operations		41,837,110		32,163,660
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	9,199		15,779
7 Securities of euro area residents denominated in euro		88,477,928		78,001,478
7.1 Securities held for monetary policy purposes	7	86,170,635		69,050,045
7.2 Other securities	5	2,307,294		8,951,433
9 Intra-Eurosystem claims	8	53,750,759		51,529,898
9.1 Participating interest in the ECB		191,775		177,496
9.2 Claims equivalent to the transfer of foreign reserves to the ECB		944,252		944,252
9.3 Net claims arising from balances of TARGET accounts		-		-
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		52,432,194		50,237,526
9.5 Other intra-Eurosystem claims		182,538		170,624
10 Items in the course of settlement		-		299
11 Other assets		5,645,084	317,837	5,684,089
11.1 Coins of the euro area		69,941		58,532
11.2 Tangible fixed assets and intangible assets	9	466,915	317,028	155,782
11.3 Other financial assets	10	3,631,279		4,129,648
11.4 Off-balance-sheet instruments revaluation differences		-		-
11.5 Accruals and income collected in advance	11	1,046,567		978,543
11.6 Sundry	12	430,383	809	361,584
Total depreciation and amortisation	9		317,028	
Total impairment	19		809	
Total assets		219,514,081	317,837	192,439,126

Liabilities, revaluation accounts, general risk provision and equity	Notes	31 Dec. 2021	31 Dec. 2020
1 Banknotes in circulation	13	33,258,353	30,892,216
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	58,524,812	31,612,682
2.1 Current accounts of credit institutions for compliance with minimum reserve requirements		58,520,512	31,608,682
2.2 Deposit facility		4,300	4,000
2.3 Fixed-term deposits		-	-
2.4 Fine-tuning reverse operations		-	-
2.5 Deposits related to margin calls		-	-
3 Other liabilities to euro area credit institutions denominated in euro	5	2,281,122	405,632
5 Liabilities to other euro area residents denominated in euro	15	11,259,646	18,104,394
5.1 General government		9,306,386	17,161,745
5.2 Other liabilities		1,953,261	942,649
6 Liabilities to non-euro area residents denominated in euro	16	7,340,774	8,014,769
7 Liabilities to euro area residents denominated in foreign currency		-	-
8 Liabilities to non-euro area residents denominated in foreign currency	4	-	-
8.1 Deposits, balances and other liabilities		-	-
8.2 Liabilities arising from the credit facility under ERM II		-	-
9 Counterpart of special drawing rights allocated by the IMF	3	3,437,026	950,514
10 Intra-Eurosystem liabilities	8	79,280,432	80,195,154
10.1 Liabilities related to the issuance of ECB debt certificates		-	-
10.2 Net liabilities arising from balances of TARGET accounts		79,280,432	80,195,154
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		739,942	336,246
11.1 Off-balance-sheet instruments revaluation differences		-	-
11.2 Accruals and income collected in advance	17	589,597	201,845
11.3 Sundry	18	150,345	134,400
12 Provisions	19	-	20
13 Revaluation accounts	20	17,003,957	16,047,062
14 General risk provision	19	3,676,622	3,676,622
15 Equity	21	1,885,478	1,668,458
15.1 Capital		1,000	1,000
15.2 Reserves and retained earnings		1,884,478	1,667,458
16 Profit for the year		508,081	535,358
<b>Total liabilities, revaluation accounts, general risk provision and equity</b>		<b>219,196,244</b>	<b>192,439,126</b>

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. 2021	31 Dec. 2020
1	Interest income		1,112,155	1,044,607
2	Interest expense		434,950	242,916
3	<b>Net interest income</b>	22	<b>677,205</b>	<b>801,691</b>
4	Realised gains/losses arising from financial operations	23	75,027	49,135
5	Unrealised losses on financial assets and positions	24	7,723	70,492
6	Transfer from/to risk provisions	19	-	-
7	<b>Net result of financial operations, unrealised losses and risk provisions</b>		<b>67,304</b>	<b>(21,357)</b>
8	Fees and commissions income		4,880	3,927
9	Fees and commissions expense		10,179	8,584
10	<b>Net income from fees and commissions</b>		<b>(5,299)</b>	<b>(4,657)</b>
11	Income from equity shares and participating interests	25	17,848	55,612
12	Net result of pooling of monetary income	26	174,837	143,344
13	Other income	27	19,792	10,647
14	<b>Total net income</b>		<b>951,687</b>	<b>985,280</b>
15	Staff costs	28	129,777	132,053
16	Supplies and services from third parties	29	45,659	44,995
17	Other administrative costs		1,591	1,445
18	Depreciation and amortisation for the year	9	17,641	17,832
19	<b>Total administrative costs</b>		<b>194,668</b>	<b>196,324</b>
20	Banknote production costs		11,749	9,588
21	Other expenses	27	3,596	2,040
22	Losses for impairment of assets (losses/reversals)	19	(202)	(158)
23	Transfer to the reserve relating to capital gains on gold sales		-	-
24	<b>Total costs and losses (net)</b>		<b>209,811</b>	<b>207,794</b>
25	<b>Profit/loss before taxes</b>		<b>741,876</b>	<b>777,486</b>
26	Income tax		233,795	242,128
26.1	Income tax – current	30	232,213	242,782
26.2	Income tax – deferred	30	1,582	(655)
27	<b>Profit for the year</b>		<b>508,081</b>	<b>535,358</b>

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.2.3 • Statement of changes in equity | EUR thousands**

Description	Notes	Paid-up capital	Legal reserves	Other reserves	Retained earnings	Profit for the year	Total equity
<b>Position as at 31 December 2019 (7)</b>		<b>1,000</b>	<b>542,177</b>	<b>1,478,378</b>	<b>(453,429)</b>	<b>758,533</b>	<b>2,326,659</b>
<b>2019 profit distribution</b>							
Dividends distribution to shareholders	21					(606,827)	(606,827)
Other operations	21		75,853	75,853		(151,707)	-
<b>Sub-total of 2019 profit distribution (8)</b>		<b>-</b>	<b>75,853</b>	<b>75,853</b>	<b>-</b>	<b>(758,533)</b>	<b>(606,827)</b>
<b>Changes in 2020</b>							
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)		(5868)
<b>Sub-total of changes in 2020 (9)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(51,374)</b>	<b>-</b>	<b>(51,374)</b>
<b>Net profit for the year (10)</b>						<b>535,358</b>	<b>535,358</b>
<b>Comprehensive income for the year (11) = (9) + (10)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(51,374)</b>	<b>535,358</b>	<b>483,984</b>
<b>Position as at 31 December 2020 (12) = (7) + (8) + (11)</b>		<b>1,000</b>	<b>618,030</b>	<b>1,554,232</b>	<b>(504,803)</b>	<b>535,358</b>	<b>2,203,816</b>
<b>Position as at 31 December 2020 (7)</b>		<b>1,000</b>	<b>618,030</b>	<b>1,554,232</b>	<b>(504,803)</b>	<b>535,358</b>	<b>2,203,816</b>
<b>2020 profit distribution</b>							
Dividends distribution to shareholders	21					(428,287)	(428,287)
Other operations	21		53,536	53,536		(107,072)	-
<b>Sub-total of 2020 profit distribution (8)</b>		<b>-</b>	<b>53,536</b>	<b>53,536</b>	<b>-</b>	<b>(535,358)</b>	<b>(428,287)</b>
<b>Changes in 2021</b>							
Actuarial gains/losses of the Pension Fund	32				115,307		115,307
Income tax – current	30				6,714		6,714
Adjustments on account of deferred taxes	30				(12,072)		(12,072)
<b>Sub-total of changes in 2021 (9)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>109,949</b>	<b>-</b>	<b>109,949</b>
<b>Net profit for the year (10)</b>						<b>508,081</b>	<b>508,081</b>
<b>Comprehensive income for the year (11) = (9) + (10)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>109,949</b>	<b>508,081</b>	<b>618,029</b>
<b>Position as at 31 December 2021 (12) = (7) + (8) + (11)</b>		<b>1,000</b>	<b>671,566</b>	<b>1,607,768</b>	<b>(394,855)</b>	<b>508,081</b>	<b>2,393,559</b>

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.



# 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 central bank activity.

The bases for preparation of the financial statements, envisaged in the PCBP in force, rely on two major regulations: (i) the Accounting Guideline of the European Central Bank<sup>1</sup> (ECB), which, taking into account Article 26(4) of the Statute of the ESCB/ECB, establishes the adoption of the mandatory rules defined by the Governing Council of the ECB on the treatment of core central banking activity, with 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 IFRS<sup>2</sup> for the other activities, which will be applied provided the cumulative conditions laid down in the PCBP are met.

The PCBP defines 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 transfers 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 is 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.

1. Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting within the European System of Central Banks, as amended (ECB/2016/34) – available from [www.ecb.europa.eu](http://www.ecb.europa.eu).

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

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 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)** Recognition of gains and losses

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 where 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, realised 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. 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 recommendations of the ECB Accounting Guideline, through the Net Asset Value<sup>3</sup> valuation method. The remaining participating interests are recognised according to the acquisition cost criterion, subject to potential impairment losses.

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

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
<b>Tangible fixed assets</b>	
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
<b>Intangible assets</b>	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.

The recognition and measurement rules set out in IFRS 16 apply, that is, (i) the recognition in Assets of rights-of-use of tangible or intangible assets, for which the Banco de Portugal concluded leases with a duration greater than 12 months and (ii) the recognition in Liabilities of the lease liabilities relating to those agreements, initially measured at the present value of future lease payments, discounted using the incremental borrowing rate of the Banco de Portugal. 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 agreement 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 treated 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 portfolio

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

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 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 was not activated to date; (iv) the asset-backed securities purchase programme – ABSPP, currently centralised on the balance sheet of the ECB; (v) the public sector purchase programme PSPP; and (vi) the corporate sector purchase programme – CSPP, in which the Banco de Portugal holds no securities and (v) 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 cash flows resulting from the change in the respective margin account.

In accordance with the Eurosystem's accounting framework, gold swaps are treated as repurchase agreements and gold flows relating to these operations 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 value<sup>4</sup> 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,<sup>5</sup> result from cross-border payments within the EU that are settled in euro. These transactions are for the most part initiated by private entities, 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 by each NCB, representing the position of each NCB vis-à-vis the ECB.

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.<sup>6</sup> 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 an 8% share 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 ECB's adjusted capital key. 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'.<sup>7</sup>

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.<sup>8</sup> 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 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.<sup>9</sup> 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 banknotes. The Governing Council may also decide to transfer all or part of the ECB's seigniorage income to the provision for financial risks.

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

#### (k) Pension Fund of 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 the Sociedade Gestora dos Fundos

7. Banknote allocation key means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in that total.

8. Decision of the 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.

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 – PBD, encompasses two benefit plans, the Pension Plan and the Healthcare Plan, detailed 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 of 3 March 2009 are now covered by the social security general scheme, under Decree-Law No 54/2009, of 2 March 2009. 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 amount 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 accounts are calculated as described in Point 1.2 (d) of this Note. When they are positive, they are retained in the balance sheet in order not to distribute unrealised gains. Positive revaluation accounts 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 accounts are negative they are transferred to the Profit and loss account, item Unrealised losses, thus 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 hedged over a medium-term horizon to a level defined by the Board of Directors. The General risk provision is, therefore, equivalent in nature to a reserve and does not fall within the scope of the International Financial Reporting Standards as adopted by the European Union.

#### **(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 upper 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 that arose 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 is still a degree of uncertainty, broadly based across the various balance-sheet and income statement components, associated with the COVID-19 pandemic that started in 2020.

### **1.5 Other subjects**

Given the Banco de Portugal's role as a central bank responsible for issuing euro banknotes, the Eurosystem decided that the publication of a cash flow statement 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(1) of the Statute of the ESCB/ECB, according to which the annual accounts of the

national central banks (NCBs) of the Eurosystem shall be audited by independent external auditors. For the purpose of ensuring the independence of the external auditors, the Banco de Portugal follows the Eurosystem's best practice to this end.

## NOTE 2 • GOLD AND GOLD RECEIVABLES

	31 Dec. 2021		31 Dec. 2020	
	Fine ounces <sup>(a)</sup>	EUR thousands	Fine ounces <sup>(a)</sup>	EUR thousands
Gold stored at the Bank	5,549,238	8,931,404	5,549,238	8,567,380
Gold sight accounts	808,223	1,300,822	1,374,103	2,121,456
Gold investments	5,942,332	9,564,083	5,376,004	8,299,927
<b>Gold reserve</b>	<b>12,299,794</b>	<b>19,796,309</b>	<b>12,299,345</b>	<b>18,988,763</b>

Note: (a) Ounce of fine gold.

As at 31 December 2021 the gold item showed an increase of €807,546 thousand compared to the previous year-end balance. This increase was chiefly due to a rise in the gold price denominated in euro (+4.2%). This increase was due to the US dollar appreciation against the euro (+7.7%) since there was a devaluation of the gold price in US dollar (-3.8%). The mild variation in the gold reserve level arose from minor adjustments in the execution of gold operations.

The Banco de Portugal's gold reserve was valued on 31 December 2021 at the market price of €1,609.48 per fine ounce of gold, a 4.2% increase against €1,543.88 on 31 December 2020.

Capital gains resulting from this asset (€16,762,523 thousand as at 31 December 2021, and €15,955,657 thousand as at 31 December 2020) 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.

There were investments in gold in 2021, although with no impact on the gold reserve level, as described in the accounting policy in Point 1.2 (g) of Note 1.

Gold was held in the following institutions, with gold stored in the Federal Reserve Bank of New York being relocated to the Banque de France in 2021:

	31 Dec. 2021		31 Dec. 2020	
	Fine ounces <sup>(a)</sup>	EUR thousands	Fine ounces <sup>(a)</sup>	EUR thousands
<b>In the country – Banco de Portugal</b>	5,549,238	8,931,404	5,549,238	8,567,380
<b>Abroad</b>				
Bank of England	5,991,571	9,643,332	5,991,123	9,249,599
Bank for International Settlements (BIS)	640,658	1,031,128	640,658	989,101
Federal Reserve Bank – United States	-	-	118,327	182,683
Bank of France	118,327	190,445	-	-
	<b>6,750,556</b>	<b>10,864,904</b>	<b>6,750,107</b>	<b>10,421,383</b>
	<b>12,299,794</b>	<b>19,796,309</b>	<b>12,299,345</b>	<b>18,988,763</b>

Note: (a) Ounce of fine gold.

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

	31 Dec. 2021		31 Dec. 2020	
	SDR thousands	EUR thousands	SDR thousands	EUR thousands
IMF quota	2,060,100	2,546,078	2,060,100	2,428,034
IMFs holdings	(1,594,045)	(1,970,080)	(1,594,045)	(1,878,741)
Reserve tranche position in the IMF	466,055	575,998	466,055	549,293
SDR holdings	2,691,226	3,326,086	549,114	647,185
Claims on the IMF	3,157,282	3,902,084	1,015,169	1,196,478
Counterpart of special drawing rights allocated by the IMF	(2,780,990)	(3,437,026)	(806,477)	(950,514)
Liabilities to the IMF	(2,780,990)	(3,437,026)	(806,477)	(950,514)

Positions with 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 with the IMF reflects the equivalent in euro on 31 December 2021 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 2021, and the variation in its value denominated in euro resulted solely from changes in the SDR price compared to December 2020.

In 2021 the Board of Governors of the IMF decided to make a general SDR allocation, with the Banco Portugal receiving an amount equivalent to the proportion of Portugal's quota in the IMF (corresponding to SDR 1,974.5 million), disclosed under the liability item IMF's allocation of SDRs. This allocation was reflected in an overall increase in the amount of Special Drawing Rights, which boosted operations to meet the long-term need for reserves, in the context of building confidence and promoting resilience and stability of the world economy, to help the most vulnerable countries tackle the impact of the COVID-19 crisis.

The changes in the different claim and liability items also include the effect of the SDR appreciation against the euro (+4.9%), from 1.1786 on 31 December 2020 to 1.2359 on 31 December 2021.

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

	31 Dec. 2021	31 Dec. 2020
Claims on non-euro area residents denominated in foreign currency		
Securities	1,969,437	1,770,813
Balances with banks, deposits and other money markets	3,089,746	2,063,309
	5,059,183	3,834,122
Claims on euro area residents denominated in foreign currency		
Securities	38,383	25,336
Balances with banks, deposits and other money markets	110,609	29,048
	148,992	54,383

As at 31 December 2021 the amount of the foreign currency trading portfolio was higher than in the previous year, with an increase in securities and deposits and other investments, the second component being the most significant. This increase was largely due to the fact that on 31 December 2021 this item showed a temporary increase, resulting from forward transactions of euro swap for foreign currency in the amount of €2,855,164 thousand, operations with no associated exchange rate (2020: €1,840,211 thousand).

As at 31 December 2021 and 2020 the securities portfolio denominated in foreign currency was broken down as follows:

	31 Dec. 2021	31 Dec. 2020
<b>Securities of non-euro area residents denominated in foreign currency</b>		
Government debt	822,109	833,477
Paragovernmental and supranational	1,142,887	927,512
Companies/financial institutions	4,441	9,824
	<b>1,969,437</b>	<b>1,770,813</b>
<b>Securities of euro area residents denominated in foreign currency</b>		
Paragovernmental and supranational	38,383	25,336
	<b>38,383</b>	<b>25,336</b>
	<b>2,007,820</b>	<b>1,796,149</b>

As at 31 December 2021 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. 2021	31 Dec. 2020
<b>Claims on non-euro area residents denominated in euro</b>		
Securities	775,732	417,687
Balances with banks, deposits and other money markets	111,700	552,490
of which: Amounts transferred as collateral	-	113,490
	<b>887,432</b>	<b>970,177</b>
<b>Claims on euro area residents denominated in euro</b>		
Securities	2,307,294	8,951,433
Balances with banks, deposits and other money markets	9,199	15,779
of which: Amounts transferred as collateral	8,270	-
	<b>2,316,493</b>	<b>8,967,212</b>
<b>Other liabilities to euro area credit institutions denominated in euro</b>		
Liabilities to gold swap – euro area residents denominated in euro	(2,027,924)	(405,632)
Amounts received as collateral	(83,350)	-
	<b>(2,111,274)</b>	<b>(405,632)</b>
<b>Liabilities to non-euro area residents denominated in euro</b>		
Liabilities to gold swap – non-euro area residents denominated in euro	(6,994,510)	(7,978,053)
Amounts received as collateral	(342,650)	(30,040)
	<b>(7,337,160)</b>	<b>(8,008,093)</b>

The euro trading portfolio (securities, balances with banks and other net investments) showed a decline compared to 31 December 2020, primarily due to the Banco de Portugal's decision to temporarily cut investments in the trading portfolio denominated in euro, against a background of continuous and widespread negative yields.

As at 31 December 2021 Euro swap transactions for foreign currency were also outstanding, as described in Note 4, as well as gold swaps for euro, with a view to optimising the results of the gold and the trading portfolio denominated in euro.

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.

By decision of the Eurosystem, in 2021 the balance sheet item Other liabilities to euro area credit institutions, amounting to €2,281,122 thousand, started incorporating funds of credit institutions that are not freely disposable. In the specific case of the Banco de Portugal, deposits to guarantee the Interbank Clearing System (Sistema de Compensação Interbancária – SICOI) (€169,848 thousand) were included hereunder.

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

	31 Dec. 2021	31 Dec. 2020
<b>Securities of non-euro area residents denominated in euro</b>		
Paragovernmental and supranational	756,850	397,507
Companies/financial institutions	18,882	20,179
	<b>775,732</b>	<b>417,687</b>
<b>Securities of euro area residents denominated in euro</b>		
Government debt	2,011,810	8,135,653
Paragovernmental and supranational	295,483	815,781
	<b>2,307,294</b>	<b>8,951,433</b>
	<b>3,083,026</b>	<b>9,369,120</b>

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

At end-2021 the value of refinancing operations denominated in euro to euro area credit institutions relating to monetary policy operations at Eurosystem level reached €2,201,882,062 thousand (2020: €1,793,194,089 thousand), of which €41,837,110 thousand corresponded to the Banco de Portugal and all of them longer-term refinancing operations (2020: €32,163.660 thousand).

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 2021 the Banco de Portugal had no amount placed from these operations. 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 at fixed-rate tender procedures with full allotment.

In 2016 the Governing Council of the ECB introduced a series of four targeted longer-term refinancing operations (TLTRO II) with a four-year maturity. The last of these operations matured in 2021.

In 2019 the Governing Council introduced a new series of seven targeted longer-term refinancing operations (TLTRO III), and on 10 December 2020 the Governing Council added three operations to this series, which were conducted between June and December 2021. These operations have a three-year maturity. For the first seven TLTRO III, as of September 2021, beginning 12 months after the settlement of each TLTRO III, each quarter participants have the option to repay all or part of the amount of the TLTRO III in question before maturity. For the eighth TLTRO III or subsequent operations, participants have this option every quarter starting June 2022.

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 lifetime of the operation. Furthermore, in response to the COVID-19 pandemic, in 2020<sup>10</sup> the Governing Council decided that for the period from 24 June 2020 to 23 June 2021 and for the period from 24 June 2021 to 23 June 2022 – referred to as the special interest rate period and the additional special interest rate period respectively – the applicable interest rate could be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the same period, but in any case not higher than -1%. Against this background, the real interest rates can only be known at maturity or early redemption of each operation and until then a reliable estimate will only be possible to the extent that interest rate data related to the special interest rate period and the additional special interest rate period have already been reported to the counterparties. Consequently, the approach considered prudent was to use the deposit facility rate minus 50 basis points, with a limit of -1% for accruing TLTRO III interest over the two special interest periods, and use the deposit facility rate to accrue TLTRO III interest over the remainder of each operation's life until more reliable information is known. This means that for 2021 the following rates have been used for the accrual of interest on TLTRO III: actual interest rates over the special interest rate periods up to 23 June 2021, for which interest rate data were reported to counterparties on 10 September 2021, and the deposit facility rate minus 50 basis points, with a limit of -1%, over the additional special interest rate period from 24 June 2021 to 31 December 2021.

10. On 30 April 2020 the Governing Council decided that the special interest period would be between 24 June 2020 and 23 June 2021. On 10 December 2020 the Governing Council decided to extend this period by 12 months, until 23 June 2022.

On 30 April 2020 the Governing Council decided to conduct a 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 provide liquidity support to the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective backstop after the expiry of the bridge longer-term refinancing operations (LTRO-A). Moreover, on 10 December 2020 the Governing Council also decided to offer four additional PELTROs in 2021, allotted on a quarterly basis, each with a tenor of one year. These operations provide liquidity backstop to the euro area banking system and help to preserve the smooth functioning of the money market during the extended pandemic period. 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.

The Eurosystem also offers a marginal lending facility, corresponding to overnight loans at the specified rate for these operations (0.25% since 16 March 2016). On 31 December 2021 and 2020 the Banco de Portugal had not resorted 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 will only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided is not sufficient to cover the respective losses. The Governing Council has excluded a specific part of the collateral from risk sharing, including assets that may be accepted by NCBs at their own discretion.

## NOTE 7 • SECURITIES HELD FOR MONETARY POLICY PURPOSES

As at 31 December 2021 the portfolio of Securities held for monetary policy purposes consisted of government sector securities and covered bonds, purchased by the Banco de Portugal under the debt securities market programme (SMP),<sup>11</sup> the covered bond purchase programmes (CBPP2 and CBPP3),<sup>12</sup> and the public sector purchase programme (PSPP),<sup>13</sup> in its government and supranational securities components and the pandemic emergency purchase programme (PEPP),<sup>14</sup> mainly in its government securities component (Point 1.2 (f) of Note 1).

11. Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

12. 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.

13. 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.

14. 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.



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

	Start date	End date	Decision	Universe of eligible securities <sup>(a)</sup>
<b>Completed/expired programmes</b>				
CBPP	July 2009	June 2010	ECB/2009/16	Covered bonds from euro area residents
CBPP2	November 2011	October 2012	ECB/2011/17	Covered bonds from euro area residents
SMP	May 2010	September 2012	ECB/2010/5	Private and government debt securities issued in the euro area
<b>Asset purchase programme (APP)</b>				
CBPP3	October 2014	assets	ECB/2020/8 (amended)	Covered bonds from euro area residents
ABSPP	November 2014	assets	ECB/2014/45 (amended)	Senior and guaranteed <i>mezzanine</i> tranches of asset-backed securities from euro area residents
PSPP	March 2015	assets	ECB/2020/9 (amended)	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
CSPP	June 2016	assets	ECB/2016/16 (amended)	Bonds and commercial paper issued by non-banking institutions established in the euro area
<b>Pandemic emergency purchase programme (PEPP)</b>				
PEPP	March 2020	assets	ECB/2020/17 (amended)	All asset categories eligible under the APP <sup>(b)</sup>

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.

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

	31 Dec. 2021		31 Dec. 2020	
	Amortised cost	Market value	Amortised cost	Market value
<b>Securities held for monetary policy purposes</b>				
SMP	133,170	146,406	464,287	494,954
CBPP2	58,298	58,704	58,246	61,358
CBPP3	2,956,945	3,016,853	2,867,993	2,979,812
PSPP – Government securities	43,001,119	46,967,950	38,601,634	44,140,731
PSPP – Supranational securities	10,759,659	11,401,513	12,830,775	14,012,814
PEPP – Governmental securities	29,255,928	29,318,299	14,221,553	14,583,176
PEPP – Covered bonds	5,517	5,527	5,558	5,584
	<b>86,170,635</b>	<b>90,915,252</b>	<b>69,050,045</b>	<b>76,278,429</b>

Under the SMP, the ECB and the NCBs purchased securities to correct the malfunctioning of certain segments of the euro area debt securities market and restore the proper functioning of the monetary policy transmission mechanism. The decrease in this item in 2021 was solely due to securities that matured.

Under the CBPP, CBPP2 and CBPP3, 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 firms as well as encouraging credit institutions to maintain or expand lending to their customers.

Under the asset-backed securities purchase programme (ABSPP),<sup>15</sup> the ECB and the NCBs may purchase senior and guaranteed *mezzanine* tranches of asset-backed securities in both primary and secondary markets, to improve credit provision to the euro area economy. The ECB is solely purchasing these securities.

In 2021 the Eurosystem restarted its net purchases of securities under the asset purchase programme (APP)<sup>16</sup> at a monthly pace of €20 billion on average. In December 2021 the Governing Council of the ECB decided<sup>17</sup> on a monthly net purchase pace of €40 billion in the second quarter and €30 billion in the third quarter of 2022. From October 2022 onwards the Governing Council will maintain net asset purchases under the APP at a monthly pace of €20 billion for as long as necessary to reinforce the accommodative impact of its policy rates and end them shortly before it starts raising the key ECB interest 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, in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

In addition, in March 2021 the Eurosystem carried on its net asset purchases under the PEPP,<sup>18</sup> with a total envelope of €1,850 billion.<sup>19</sup> Purchases were conducted in a flexible manner based on the assessment of financing conditions and the inflation outlook. In December 2021 the Governing Council also decided to discontinue net asset purchases under the PEPP at the end of March 2022, but they could be resumed, if necessary, to counter negative shocks related to the COVID-19 pandemic. Furthermore, the Governing Council extended the reinvestment horizon for the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. 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 programmes are valued on an amortised cost basis subject to impairment tests (Point 1.2 (f) of Note 1).

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

16. Further details on the APP can be found on the ECB's website.

17. See press release of 16 December 2021 on the Governing Council Decisions.

18. Further details on the PEPP can be found on the ECB's website.

19. If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full.

Under monetary policy programmes, total securities held by the Eurosystem NCBs amounted to the following: €5,486,277 thousand in the SMP (2020: €26,334,569 thousand), €415,019 thousand in the CBPP (2020: €415,163 thousand), €2,210,995 thousand in the CBPP2 (2020: €2,561,701 thousand), €273,233,157 thousand in the CBPP3 (2020: €263,535,872 thousand), €1,988,515,781 thousand in the PSPP – Government securities (2020: €1,872,244,408 thousand), €264,536,991 thousand in the PSPP – Supranational securities (2020: €249,316,582 thousand), €309,675,550 thousand in the CSPP – (2020: €250,403,250 thousand), €1,244,196,273 thousand in the PEPP – Government securities (2020: €586,912,862 thousand), €130,590,451 thousand in the PEPP – Supranational securities (2020: €47,796,083 thousand), €5,377,112 thousand in the PEPP – Covered bonds (2020: €2,814,700 thousand) and €43,781,623 thousand in the PEPP – Private sector bonds (2020: €43,153,584 thousand).

In accordance with a decision of the Governing Council of the ECB taken under 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, may be shared by the Eurosystem NCBs, in proportion to their capital key shares in 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 cash flows are expected to be received.

## NOTE 8 • INTRA-EUROSISTEM 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 ESCB<sup>20</sup> 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 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

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

1 February 2020. Consequently, the Banco de Portugal's share in the subscribed capital of the ECB was 1.9035%, and the participating interest €206,054 thousand. The weightings are shown in the table below:

NCB	Country	Key for subscription of capital
		from 1 February 2020
Nationale Bank van België/Banque Nationale de Belgique	Belgium	2.9630%
Deutsche Bundesbank	Germany	21.4394%
Eesti Pank	Estonia	0.2291%
Banc Ceannais na hÉireann/Central Bank of Ireland	Ireland	1.3772%
Bank of Greece	Greece	2.0117%
Banco de España	Spain	9.6981%
Banque de France	France	16.6108%
Banca d'Italia	Italy	13.8165%
Central Bank of Cyprus	Cyprus	0.1750%
Latvijas Banka	Latvia	0.3169%
Lietuvos bankas	Lithuania	0.4707%
Banque centrale du Luxembourg	Luxembourg	0.2679%
Bank Ċentrali ta' Malta/Central Bank of Malta	Malta	0.0853%
De Nederlandsche Bank	Netherlands	4.7662%
Oesterreichische Nationalbank	Austria	2.3804%
Banco de Portugal	Portugal	1.9035%
Banka Slovenije	Slovenia	0.3916%
Národná banka Slovenska	Slovakia	0.9314%
Suomen Pankki – Finlands Bank	Finland	1.4939%
<b>Euro area NCBs</b>		<b>81.3286%</b>
Българска народна банка /Bulgarian National Bank	Bulgaria	0.9832%
Česká národní banka	Czech Republic	1.8794%
Danmarks Nationalbank	Denmark	1.7591%
Hrvatska narodna banka	Croatia	0.6595%
Magyar Nemzeti Bank	Hungary	1.5488%
Narodowy Bank Polski	Poland	6.0335%
Banca Națională a României	Romania	2.8289%
Sveriges riksbank	Sweden	2.9790%
Bank of England	England	0.0000%
<b>Non-euro area NCBs</b>		<b>18.6714%</b>
		<b>100.0000%</b>

In 2020, following Brexit, the ECB's paid-up capital remained unchanged as the euro area NCBs covered the Bank of England's withdrawn paid-up capital, and it was agreed that the euro area NCBs would pay up in full their increased subscriptions to the ECB's capital in two annual instalments, in 2021 and 2022<sup>21</sup>.

In this context, in 2021 the Banco de Portugal transferred to the ECB an amount of €14,279 thousand and will transfer a second tranche of the same amount in 2022. Thus, the Banco de Portugal's paid-up capital to the ECB was €191,775 thousand as at the end of 2021.

- 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 used by the Eurosystem for MROs, adjusted to reflect a zero return on the gold component.

Following (i) the increase in the weighting of the euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital as a result of 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 claims, 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 1.2 (j) of Note 1).

The increase in this asset position, compared with 31 December 2020 (from €50,237,526 thousand to -€50,432,194 thousand), was due to the combination of a rise in overall circulation in the Eurosystem (8% up from 2020) 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.

21. The ECB's paid-up capital was €7,659 million in 2020 and €8,270 million in 2021. Furthermore, in 2022, it will increase to €8,880 million.

- Other intra-Eurosystem claims/liabilities

As at 31 December 2021 the balance of the item Other claims within the Eurosystem, in the amount of €182,538 thousand, mainly referred to (i) the net result of the monetary income calculation method in the total amount of €174,837 thousand, which included adjustments to the result of the monetary income calculation method related to prior years, in the net amount of €3,606 thousand, settled on 31 January 2022 (Note 26), and (ii) the amount receivable of €3,511 thousand in respect of the anticipated distribution of ECB 2021 income regarding ECB securities purchased under the SMP, CBPP3, ABSPP, PSPP and PEPP portfolios, also settled on 31 January 2022, following a decision of the Governing Council of the ECB (Note 25).

- Net liabilities arising from balances of TARGET accounts

As at 31 December 2021 Net liabilities arising from balances of TARGET accounts to the ECB (net) (Point 1.2 (h) of Note 1) showed a credit position of €79,280,432 thousand (on 31 December 2020: €80,195,154 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. 2021	31 Dec. 2020
<b>Tangible fixed assets</b>		
Land	50,756	50,762
Buildings and other constructions	109,483	109,268
Premises	88,781	88,506
Equipment	104,144	101,850
Museum and art collections	9,780	9,694
	<b>362,945</b>	<b>360,081</b>
<b>Leased assets</b>		
Buildings and other constructions	11,796	11,854
Equipment	145	145
	<b>11,942</b>	<b>11,999</b>
<b>Intangible assets</b>		
Computer software	81,252	78,002
Other intangible assets	389	388
	<b>81,641</b>	<b>78,390</b>
<b>Tangible fixed assets and intangible assets under construction</b>	<b>10,388</b>	<b>5,755</b>
<b>Total gross tangible fixed assets and intangible assets</b>	<b>466,915</b>	<b>456,225</b>
<b>Accumulated depreciation and amortisation</b>		
Depreciation of tangible fixed assets	(235,231)	(226,583)
Depreciation of leased assets	(7,603)	(5,045)
Amortisation of intangible assets	(74,195)	(68,816)
	<b>(317,028)</b>	<b>(300,443)</b>
<b>Total net tangible fixed assets and intangible assets</b>	<b>149,887</b>	<b>155,782</b>

In 2020 and 2021 movements in this item were as follows:

	31 Dec. 2019			Depreciation and amortisation for the year	31 Dec. 2020
	Net balance	Additions	Disposals		Net balance
<b>Tangible fixed assets</b>					
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
	<b>136,299</b>	<b>7,184</b>	<b>222</b>	<b>9,764</b>	<b>133,498</b>
<b>Leased assets</b>					
Buildings and other constructions	6,464	2,884	-	2,519	6,829
Equipment	-	145	-	20	125
	<b>6,464</b>	<b>3,029</b>	<b>-</b>	<b>2,539</b>	<b>6,954</b>
<b>Intangible assets</b>					
Computer software	8,982	5,800	-	5,490	9,292
Other intangible assets	321	-	-	39	282
	<b>9,303</b>	<b>5,800</b>	<b>-</b>	<b>5,529</b>	<b>9,574</b>
<b>Tangible fixed assets and intangible assets under construction</b>					
Fixed assets under construction – Projects	6,202	6,799	7,245	-	5,755
Advances	-	-	-	-	-
	<b>6,202</b>	<b>6,799</b>	<b>7,245</b>	<b>-</b>	<b>5,755</b>
	<b>158,268</b>	<b>22,812</b>	<b>7,467</b>	<b>17,832</b>	<b>155,782</b>

	31 Dec. 2020			Depreciation and amortisation for the year	31 Dec. 2021
	Net balance	Additions	Disposals		Net balance
<b>Tangible fixed assets</b>					
Land	50,762	-	7	-	50,756
Buildings and other constructions	49,630	266	27	1,617	48,252
Premises	11,843	291	-	3,052	9,082
Equipment	11,568	3,453	234	4,944	9,843
Museum and art collections	9,694	86	-	-	9,780
	<b>133,498</b>	<b>4,096</b>	<b>267</b>	<b>9,613</b>	<b>127,714</b>
<b>Leased assets</b>					
Buildings and other constructions	6,829	-	58	2,509	4,262
Equipment	125	-	-	48	77
	<b>6,954</b>	<b>-</b>	<b>58</b>	<b>2,558</b>	<b>4,339</b>
<b>Intangible assets</b>					
Computer software	9,292	3,341	-	5,432	7,202
Other intangible assets	282	1	-	39	244
	<b>9,574</b>	<b>3,342</b>	<b>-</b>	<b>5,470</b>	<b>7,446</b>
<b>Tangible fixed assets and intangible assets under construction</b>					
Fixed assets under construction – Projects	5,755	7,394	2,762	-	10,388
Advances	-	-	-	-	-
	<b>5,755</b>	<b>7,394</b>	<b>2,762</b>	<b>-</b>	<b>10,388</b>
	<b>155,782</b>	<b>14,833</b>	<b>3,087</b>	<b>17,641</b>	<b>149,887</b>

The increase in the Equipment item was mainly due to the purchase of equipment and IT systems and infrastructure and equipment for cash handling.

In 2021 purchases related to Intangible assets were essentially associated with computer software licensing and upgrading and to the go-live of IT systems and technologies to support the areas of statistics and supervision.

The amount under tangible and intangible fixed assets in progress as at 31 December 2021 largely related to IT systems and technology projects, in particular the development of new phases of the SIRES (Supervised Entities Reporting System), the BdP Statistics Portal and programmes developed within the Eurosystem, as well as premises and equipment in several buildings of the Banco de Portugal.

Under IFRS 16 (Note 1.2. (e)), the amount recorded under lease assets relates to the rights of use over buildings and equipment, in respect of leases in force that fall under this Reporting Standard.

## NOTE 10 • OTHER FINANCIAL ASSETS

	31 Dec. 2021	31 Dec. 2020
Participating interest in non-euro area resident entities	21,650	21,650
Participating interest in euro area resident entities	37,244	36,102
Held-to-maturity securities portfolio	3,571,696	4,071,353
Other assets	689	544
	<b>3,631,279</b>	<b>4,129,648</b>

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

The Banco de Portugal's participating interests as at 31 December 2021 and 2020 are broken down as follows:

	31 Dec. 2021		31 Dec. 2020	
	% share	Value	% share	Value
<b>Participating interest in non-euro area resident entities</b>				
Bank for International Settlements (BIS)	1.57%	21,650	1.57%	21,650
<b>Participating interest in euro area resident entities</b>				
SGFPBP, S. A.	97.91%	3,255	97.91%	3,165
Valora, S. A.	100.00%	33,639	100.00%	32,586
EUROPAFI	0.25%	349	0.25%	349
Swift	0.01%	1	0.01%	1
		<b>37,244</b>		<b>36,102</b>



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, as at 31 December 2021, 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 funds 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 any impairment losses. The decrease from 2020 stems from the decision not to reinvest interest and principal on matured securities, given the current yield on eligible securities issues. As at 31 December 2021 and 2020, this portfolio was fully made up of government debt securities.

These assets are subject to impairment tests and no evidence was found of changes to the estimated future cash flows, and no impairment loss was therefore recorded. The market value of this portfolio is presented in Note 33, for information purposes.

## NOTE 11 • ACCRUALS AND PREPAID EXPENSES

	31 Dec. 2021	31 Dec. 2020
<b>Accruals</b>		
Interest and other income receivable from central bank operations	970,409	871,310
Securities held for monetary policy purposes	913,196	807,970
Gold investments	24,957	16,927
Trading portfolio denominated in euro and foreign currency	8,870	15,911
Held-to-maturity securities portfolio	21,041	27,391
Current accounts of credit institutions – excess reserves	130	286
Other	2,215	2,826
Other accruals	2,015	1,099
	<b>972,424</b>	<b>872,409</b>
<b>Prepaid expenses</b>		
Prepaid expenses from central bank operations	57,757	76,270
Other prepaid expenses	8,904	8,716
Deferred tax assets	7,482	21,147
	<b>74,143</b>	<b>106,134</b>
	<b>1,046,567</b>	<b>978,543</b>

As at 31 December 2021 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 €913,196 thousand (2020: €807,970 thousand).

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 2021 is interest on (i) securities held for monetary policy purposes (€56,459 thousand in 2021 and €74,057 thousand in 2020) and (ii) trading and medium-term investment portfolios (€1,928 thousand in 2021 and €2,213 thousand in 2020).

The Other prepaid expenses item includes the updated value of the difference between cash flows of interest receivable from Lending to employees, at the interest rate applicable according to Collective Labour Agreements and market interest rates, totalling €4,963 thousand (2020: €5,786 thousand). The equivalent to this value is recorded against a deduction in assets referring to Lending to employees (Note 12).

Note 30 presents a more detailed description of the amount of deferred tax assets in 2021 and 2020.

## NOTE 12 • OTHER ASSETS – SUNDRY

	31 Dec. 2021	31 Dec. 2020
Lending to employees	169,014	167,083
Special credit situations – BP/Finangeste Arrangement	409	680
Other special credit situations	400	400
Pension Fund – Defined-Benefit Plan	192,455	79,518
Pension Fund – Defined-contribution plan – Reserve account	48,400	22,015
Sundry debtors	8,662	9,066
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	7,785	6,749
Other reduced value accounts	3,648	4,210
	<b>430,773</b>	<b>362,669</b>
Impairment of recoverable amounts	(809)	(1,085)
	<b>429,964</b>	<b>361,584</b>

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 €409 thousand as at 31 December 2021 (2020: €680 thousand). The decrease in 2021 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 2021, resulting from the fact that this Fund had a funding ratio above 100% on that date (Note 32).

The position concerning the Pension Fund – Defined-contribution plan – Reserve account reflected the value of the participating units of this Fund earmarked for the Banco de Portugal on 31 December 2021, valued at market price, on that date (Note 32).

The estimate for income tax is detailed in note 30. In 2021 the net value between this estimate and the value of payments on account and additional payments on account results in a net liability position, thus being included in this item (Note 18).

## NOTE 13 • BANKNOTES IN CIRCULATION

Euro banknotes in circulation as at 31 December 2021 represent the Banco de Portugal's share in total euro banknotes in circulation in the Eurosystem (Point 1.2 (i) of Note 1).

	31 Dec. 2021	31 Dec. 2020
<b>Banknotes in circulation</b>		
Banknotes put into circulation (net)	(19,173,842)	(19,345,310)
Adjustments to circulation in the Eurosystem	52,432,194	50,237,526
	<b>33,258,353</b>	<b>30,892,216</b>

In 2021 the total value of euro banknotes in circulation in the Eurosystem increased by 8% (2020: 11%). In accordance with the banknote allocation key, on 31 December 2021 the Banco de Portugal recorded an aggregate value of banknotes in circulation of €33,258,353 thousand, compared to €30,892,216 thousand on 31 December 2020. The difference between banknotes put into circulation and banknotes withdrawn from circulation by the Banco de Portugal as at 31 December 2021 continued to show a debit balance, slightly lower than in 2020. This decrease was due, among other factors, to a slump in tourism in Portugal throughout 2021. These two effects combined accounted for an increase in Adjustments to circulation in the Eurosystem, recognised against an asset recorded under Other intra-Eurosystem claims (Note 8).

## NOTE 14 • LIABILITIES TO EURO AREA CREDIT INSTITUTIONS – MONETARY POLICY OPERATIONS DENOMINATED IN EURO

As at 31 December 2021 the balance on Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (€58,524,812 thousand) chiefly reflected the current accounts of credit institutions with the Banco de Portugal (€58,520,512 thousand in 2021 and €31,612,682 thousand in 2020).

This item shows the credit balance on the accounts of credit institutions which are required to meet the minimum reserve requirements, excluding funds of credit institutions that are not freely disposable, which are shown under liability item Other liabilities to euro area credit institutions

denominated in euro together with the accounts of credit institutions exempt from minimum reserve requirements.

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 2021, as in 2020, this item also included the balance of deposit facility operations outstanding on that date (€4,300 thousand at 31 December 2021 and €4,000 thousand at 31 December 2020), 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. 2021	31 Dec. 2020
<b>Liabilities to other euro area residents denominated in euro</b>		
General government		
Current accounts of the Portuguese Treasury and Debt Management Agency (IGCP)		
European Financial Stabilisation Mechanism (EFSM)	8,373,489	16,168,286
European Financial Stability Facility (EFSF)	711,122	780,206
Current accounts of General government for SICOI guarantees	221,775	213,253
	<b>9,306,386</b>	<b>17,161,745</b>
Other liabilities		
Current accounts of the autonomous funds	577,063	576,142
Current accounts of other entities	1,376,198	366,507
	<b>1,953,261</b>	<b>942,649</b>
	<b>11,259,646</b>	<b>18,104,394</b>

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 2021 concerned balances of the Deposit Guarantee Fund held at the Banco de Portugal.

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

As at 31 December 2021 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 €6,994,510 thousand (2020: €7,978,053 thousand) (Note 5), (ii) euro amounts received as collateral worth €342,650 thousand (2020: €30,040 thousand) (Note 5), and (iii) balances of current accounts with several central banks and international organisations (excluding the IMF), not subject to reserve requirements in the amount of €3,614 thousand (2020: €6,676 thousand).

## NOTE 17 • ACCRUALS AND INCOME COLLECTED IN ADVANCE

	31 Dec. 2021	31 Dec. 2020
<b>Income collected in advance</b>		
Other income collected in advance	2	2
Deferred tax liabilities	293	304
	<b>296</b>	<b>306</b>
<b>Accruals</b>		
Accruals from central bank operations	564,852	177,213
Other accruals	24,449	24,326
	<b>589,301</b>	<b>201,539</b>
	<b>589,597</b>	<b>201,845</b>

Under Accruals from central bank operations reference should be made to the accrued interest payable on lending to credit institutions (€560,534 thousand) (2020: €175,799 thousand), notably that related to targeted longer-term refinancing operations (TLTRO III).

Other accruals reflected accrued staff costs (€19,306 thousand) and accrued supplies and services from third parties payable (€5,143 thousand).

## NOTE 18 • OTHER LIABILITIES – SUNDRY

	31 Dec. 2021	31 Dec. 2020
Banknotes withdrawn from circulation	94,763	95,305
Third parties	22,677	22,207
Liabilities relating to the payment to employees of seniority bonuses	16,482	15,477
Estimate for income taxes	225,499	-
Corporate Income Tax – Payments on account and additional payment on account and withholdings at source	(213,595)	-
Other central bank liabilities	4,191	-
Other accounts of reduced individual value	329	1,412
	<b>150,345</b>	<b>134,400</b>

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 included a lease liability related 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 2021 amounted to €4,181 thousand (2020: €6,702 thousand).

The item Liabilities relating to the payment to employees of seniority bonuses reflected as at 31 December 2021 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 2021 actuarial gains/losses were negative (Note 32), and were recognised under Other expenses.

The estimate for income tax is detailed in Note 30. In 2021 the estimated tax value together with the amounts paid as payments on account (under the provisions of Articles 104 and 104-A of the Corporate Income Tax Code) resulted in a net liability position, shown under Liabilities – sundry, herein presented. In 2020 this net position was active, and was therefore included in Other assets – sundry (Note 12).

## NOTE 19 • IMPAIRMENT, PROVISIONS AND GENERAL RISK PROVISION

Accounting movements in items Impairment and provisions for the years 2020 and 2021 may be summarised as follows:

	Balance as at 31 Dec. 2019	2020			Balance as at 31 Dec. 2020
		Increase	Decrease	Net value	
<b>Impairment of assets</b>					
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
	<b>1,248</b>	<b>-</b>	<b>(163)</b>	<b>(163)</b>	<b>1,085</b>
<b>Provisions</b>					
Provision for Eurosystem monetary policy operations	2,214		(2,214)	(2,214)	0
Provisions for litigation	75	20	(75)	(55)	20
	<b>2,289</b>	<b>20</b>	<b>(2,289)</b>	<b>(2,269)</b>	<b>20</b>

	Balance as at 31 Dec. 2020	2021			Balance as at 31 Dec. 2021
		Increase	Decrease	Net value	
<b>Impairment of assets</b>					
Adjustments for Special credit situations – BP/Finangeste Arrangement	680	-	(271)	(271)	409
Adjustments for other special credit situations	400	-	-	-	400
Adjustments for other recoverable amounts	5	-	(5)	(5)	-
	<b>1,085</b>	<b>-</b>	<b>(276)</b>	<b>(276)</b>	<b>809</b>
<b>Provisions</b>					
Provisions for litigation	20	-	(20)	(20)	-
	<b>20</b>	<b>-</b>	<b>(20)</b>	<b>(20)</b>	<b>-</b>

Under Adjustments for Special credit situations – BP/Finangeste Agreement, the decrease in 2021 included €69 thousand, which were not recognised directly in profit or loss and only entailed the derecognition of the asset and its impairment. The same procedure was applied to Adjustments for other recoverable amounts.

In 2021 the General risk provision amounted to €3,676,622 thousand and 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.

At the Banco de Portugal, under the provisions of Article 5(2) of its Statute, the Board of Directors is responsible for deciding whether the General risk provision should be used, and to which amount. Such movements are made as described in Point (q) of Note 1.2. Based on the information considered, which includes profit projections and risk assessments from a medium-term perspective, every year when closing the accounts the Board of Directors decides on movements in the provision, taking into account the hedging level deemed appropriate in each year, over a medium-term horizon, to maintain levels of financial autonomy that in its opinion will allow, if necessary, the possibility of covering potential losses, including those resulting from decisions made by the Governing Council of the ECB with an impact on the Banco de Portugal's accounts.

In 2021 financial risks went up from 2020, largely due to the increase in monetary policy securities and lending to credit institutions. However, these risks are expected to decline in the medium-term, with the prospect of developments in these operations. Conversely, the risk associated to management assets decreased, essentially due to a drop in the volume of the trading portfolio denominated in euro. These changes in risk, however, do not undermine the established hedging objectives.

## NOTE 20 • REVALUATION ACCOUNTS

	31 Dec. 2021	31 Dec. 2020
Gold revaluation differences	16,762,523	15,955,657
Foreign currency revaluation differences	215,950	12,610
Securities revaluation differences	25,484	78,795
<b>Revaluation accounts</b>	<b>17,003,957</b>	<b>16,047,062</b>

Gold increased by €807 thousand compared to 2020, 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 2021 corresponded to securities denominated in foreign currency and in euro, amounting to €21,538 and €3,946 thousand respectively (2020: €58,199 thousand and €20,596 thousand respectively).

## NOTE 21 • EQUITY

Movements in item Equity in 2021 and 2020 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 will 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 2020 gave rise to the transfer of €53,536 thousand to the Legal reserve and an equal amount to Other reserves, and to the distribution of dividends to the State, totalling €428,287 thousand.

In 2021 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 2021 (Notes 30 and 32).

## NOTE 22 • NET INTEREST INCOME

	31 Dec. 2021	31 Dec. 2020
<b>Interest income</b>		
Gold	39,753	33,587
Trading portfolio denominated in foreign currency	18,666	24,276
Securities	18,018	22,973
Balances with banks, deposits and other money markets	648	1,303
Trading portfolio denominated in euro	4,593	1,136
Other investments	4,593	1,136
International Monetary Fund	1,125	2,452
Lending to euro area credit institutions	0	0
Securities held for monetary policy purposes	845,144	882,124
Held-to-maturity securities portfolio	28,294	38,500
Off-balance-sheet instruments	1,202	4,664
Other assets	502	551
Current accounts of credit institutions for compliance with minimum reserve requirements	147,053	39,189
Liquidity-absorbing operations	0	1
General government	19,115	14,651
Other liabilities to euro area residents denominated in euro	6,707	3,475
	<b>1,112,155</b>	<b>1,044,607</b>
<b>Interest expense</b>		
Trading portfolio denominated in euro	36,564	34,799
Securities	35,047	34,762
Balances with banks, deposits and other money markets	1,517	37
International Monetary Fund	979	2,021
Off-balance-sheet instruments	12,235	4,520
Longer-term refinancing operations	385,173	201,576
	<b>434,951</b>	<b>242,916</b>
<b>Net interest income</b>	<b>677,204</b>	<b>801,691</b>



The decrease in Net interest income in 2021 was largely caused by an increase in interest payable for targeted longer-term refinancing operations (TLTROs), mainly arising from TLTRO III operations, in view of the increase in their volume and the maintenance throughout 2021 of the interest rate rebate of -50 basis points that started at end-June 2020 (due to the extension of the rebate period until June 2022 by decision of the Governing Council of the ECB) (Note 6).

Partly offsetting this negative impact was the increase in interest receivable on current accounts of credit institutions, associated with the increase in the volume of these accounts resulting from the injection of liquidity into the market.

In 2021 interest from the monetary policy securities portfolio was slightly down from the previous year as a result of the maturing of higher yield securities and the purchase of securities with very low or even negative interest rates, which more than offset the increase in volume.

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. 2021	31 Dec. 2020
Foreign exchange transactions	8,154	10,295
Other financial operations in foreign currency	43,497	21,026
Financial operations in euro	7,757	4,758
Medium and long-term investments	-	107
Interest rate futures	1,625	6,995
Transactions in the portfolio for monetary policy purposes	13,993	5,953
	<b>75,027</b>	<b>49,135</b>

In 2021 realised gains/losses arising from financial operations grew by €25,893 thousand compared to 2020.

In 2021 of particular note were gains from financial operations associated with assets in the trading portfolios denominated in foreign currency and in euro (€43,497 and €7,757 thousand respectively).

Income from monetary policy operations included gains associated with sales of PSPP securities for compliance with the rules of this programme.

## NOTE 24 • UNREALISED LOSSES ON FINANCIAL ASSETS AND POSITIONS

	31 Dec. 2021	31 Dec. 2020
Unrealised exchange rate losses	2	68,854
Unrealised losses on investments in foreign currency	606	934
Unrealised losses on euro operations	7,114	704
	<b>7,723</b>	<b>70,492</b>

As regards the item Unrealised losses on financial assets and positions, the amount recognised in 2021 resulted mainly from losses caused by a fall in the price of securities in the trading portfolio denominated in euro.

## 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 this context, the Governing Council decided in 2021 to withhold a significant part of this income, and the Banco de Portugal recorded €3,511 thousand in this item against €29,495 thousand in 2020.

In 2021 this item also included dividends received, referring to 2020 results, from the Banco de Portugal's participating interests, chiefly: (i) in the ECB, to the amount of €8,966 thousand (2020: €21,976 thousand), (ii) in BIS, to the amount of €5,358 thousand and (iii) in EUROPAFI to the amount of €14 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 items that compose these earmarkable assets and the liability base, to which the remuneration rates presented apply, are described in the table below.

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 2021, 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, this difference is added to the monetary income to be pooled. The sum of the monetary income and the gap is termed the net contribution.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed ECB capital key.

In 2021 total contributions from the Eurosystem dropped considerably, from €4,323,307 thousand to €1,170,158 thousand. This decrease was mostly driven by two factors: (i) the increase in the volume of lending to credit institutions, combined with the extension of the rebate period of the remuneration rate of TLTRO III (Notes 6 and 22); and (ii) the maturing of monetary policy securities under higher-yield programmes, in particular the SMP. These factors were partially offset by the increase in income associated with the increase in the volume of deposits of credit institutions with NCBs.

The net result of the distribution of monetary income (€174,837 thousand) corresponded to the difference between the net contribution of the Banco de Portugal, in the amount of -€143,844 thousand, and the allocation to the Banco de Portugal according to the aforementioned capital key, in the amount of €27,388 thousand, plus adjustments related to previous years in the amount of €3,606 thousand, resulting from backward-looking changes to the calculation method.

		31 Dec. 2021	31 Dec. 2020
A	Total contribution from all Eurosystem NCBs	1,170,158	4,323,307
B	Paid-up capital key	2.3405%	2.3424%
C = A x B	Total reallocation to the Banco de Portugal	27,388	101,269
D	Total effective contribution from the Banco de Portugal	(143,844)	(41,385)
E = C – D	Result of the method	171,231	142,654
F	Eurosystem adjustments to the result of the method relating to previous years	3,606	(1,524)
G	Eurosystem provisions	-	2,214
<b>H = E + F + G</b>	<b>Net result of pooling of monetary income</b>	<b>174,837</b>	<b>143,344</b>

The net result of pooling of monetary income method for the year, amounting to €171,231 thousand (2020: €142,654 thousand) increased by €28,577 thousand, compared to 2020, which largely resulted from the following factors: (i) increase in liquidity from the rest of the Eurosystem related to current accounts and liquidity absorbing operations; and (ii) 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 decrease 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. 2021	31 Dec. 2020
<b>Other income</b>		
Capital gains on tangible and intangible fixed assets	87	2
Previous fiscal years income	10,943	3,410
Sales and supply of services to third parties	4,082	4,320
Sundry income	4,680	2,916
	<b>19,792</b>	<b>10,647</b>
<b>Other expenses</b>		
Capital losses on tangible and intangible fixed assets	69	127
Previous fiscal years expenses	1,116	522
Sundry expenses	2,411	1,390
	<b>3,596</b>	<b>2,040</b>
	<b>16,196</b>	<b>8,608</b>

Previous fiscal years income include €9,417 thousand corresponding to the amount returned to the Banco de Portugal by the IMF, as part of Portugal's aid in debt relief for Sudan. 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 Banco de Portugal.

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 €3,285 thousand (2020: €3,370 thousand).

Under the item Sundry income, in 2021 the highlight went to the impact of the valuation of the Reserve Account of the Sponsor related to the Pension Fund – Defined contribution plan, which resulted in €2,617 thousand earnings (Note 32), and the income resulting from the adjustment to participating interests in Valora and SGFPBP resulting from the implementation of the Net Asset Value method, as explained in Point 1.2 (e) of Note 1 and Note 10 (€1,053 thousand and €90 thousand respectively).

The item Sundry Expenses and Losses included €380 thousand relating to a shortfall in the estimate for taxes for the year 2020.

## NOTE 28 • STAFF COSTS

	31 Dec. 2021	31 Dec. 2020
Remuneration of the members of the Board of Directors and Board of Auditors	1,193	1,185
Employees' salaries	83,590	83,287
Compulsory social charges	33,315	30,624
Voluntary social charges	10,499	15,657
Other staff costs	1,180	1,301
	<b>129,777</b>	<b>132,053</b>

In 2021 staff costs totalled €129,777 thousand, representing a €2,276 thousand decrease from 2020 (-2%).

The drop in voluntary social charges contributed to this decrease, more specifically the decline in early retirement costs (-€5,882 thousand), given that there were fewer employees in this situation in 2021 (Note 32).

The increase in compulsory social charges compared to 2020 was largely related to an increase in the annual charge with the Pension Fund – Defined-Benefits Plan (+€3,026 thousand) (Note 32).

## NOTE 29 • SUPPLIES AND SERVICES FROM THIRD PARTIES

	31 Dec. 2021	31 Dec. 2020
Electricity	2,734	2,581
Travel, accommodation and other transport	795	1,278
Litigation and notary services	3,766	3,000
Maintenance and repairs	5,013	5,402
Rentals	767	766
Fuel and water	459	430
Specialised work		
Surveillance and security	4,773	4,915
IT	3,242	2,886
Use of databanks	2,885	2,752
Remuneration of SGFP	3,040	3,133
Other specialised work	3,653	4,049
Software licensing and maintenance	8,668	7,983
Training	1,034	1,040
Other supplies and services from third parties	4,832	4,778
	<b>45,659</b>	<b>44,995</b>

At the end of 2021 Supplies and services from third parties amounted to €45,659 thousand, reflecting an increase of 1.5% compared to the same period in 2020.

Litigation and notary services posted a significant increase (+€766 thousand) related mainly to the provision of legal and financial advice provided under the Banco Espírito Santo, S. A. resolution measure.

The amount and structure of expenditure on supplies and services from third parties continued in 2021 to be affected by the Bank's operating adjustments arising from the COVID-19 pandemic and the remote working context. In this context, the most relevant variations against 2020 were: (i) decreases associated with the closure and suspension of activities, namely travel and accommodation (-€483 thousand), other specialised work (-€396 thousand) and maintenance and repair of the Bank's buildings (-€389 thousand); and conversely, (ii) increases associated with additional expenses incurred by the Bank concerning Information Systems and Technologies under the scope of Business Continuity in the setting up of conditions for remote working (around €1,173 thousand in respect of software licensing and maintenance, specialised IT work and database use).

## 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 2020 and 2021 income tax liabilities were broken down as follows:

	2021	2020
Estimated income tax on profit for the year	232,213	242,782
Estimated income tax on equity	(6,714)	(7,138)
Withholdings at source	(24)	(26)
Payments on account and additional payments on account	(213,572)	(308,591)
	<b>11,904</b>	<b>(72,973)</b>

In 2021 income tax on retained earnings was the result of the 2011 change to the accounting policy for recording actuarial gains and losses from the Pension Fund – Defined-Benefit Plan.<sup>22</sup>

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:

	2021	2020
<b>Current tax</b>		
For the year	158,253	165,912
Municipal corporate tax and state surtax	74,109	77,740
Tax benefits (CFEI II)	(281)	(1,000)
Autonomous taxation	131	129
	<b>232,213</b>	<b>242,782</b>
<b>Deferred tax</b>	1,582	(655)
<b>Total income tax</b>	<b>233,795</b>	<b>242,128</b>
<b>Profit/loss before taxes</b>	741,876	777,486
<b>Tax burden</b>	<b>31.51%</b>	<b>31.14%</b>

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.

22. Law No 64-B/2011 was published on 30 December 2011 approving the State Budget for 2012, and lays down in Article 183 that the negative balance sheet variations recorded in the 2011 tax year arising from the change in accounting treatment of actuarial gains and losses resulting from the recognition of liabilities from pensions and other defined-benefit post-employment benefits, in relation to contributions made in that year or in prior tax years, are not included in the deductibility limits established in Article 43 of the Corporate Income Tax Code, rather, they are included in equal parts in the formation of taxable profit for the 2012 tax year and the following nine tax years. Thus, the current and deferred tax relating to the pension fund's transitional regime should be recognised against equity.

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

	2021			2020		
	Basis	Tax	Rate	Basis	Tax	Rate
Income before taxes   Tax calculated at nominal rate	741,876	232,096	31.29%	777,486	243,313	31.29%
<b>Adjustments</b>						
Net Asset Value (Note 27)	(1,143)	(358)	(0.05%)	(1,853)	(584)	(0.08%)
Tax estimate shortage or surplus (Note 27)	380	119	0.02%	(20)	(6)	(0.00%)
Severance benefits, retirement benefits and other post-employment or long-term benefits	(4,062)	231	0.03%	1,962	(69)	(0.01%)
Pension Fund	5,231	1,637	0.22%	1,940	611	0.08%
Corrections from previous periods (Note 27)	1,112	348	0.03%	521	164	0.02%
Other	300	174	0.02%	52	49	0.01%
<b>Tax benefits</b>		(518)	(0.07%)	-	(1,427)	(0.18%)
<b>Autonomous taxation</b>		131	0.02%	-	129	0.02%
<b>Other – Effect of rate change</b>		(65)	(0.01%)	-	(53)	(0.01%)
	<b>233,795</b>	<b>31.51%</b>		<b>242,128</b>	<b>31.14%</b>	

With regard to the reconciliation of tax rates, in 2021 there is a difference of +22 basis points between the nominal rate of 31.29% and the effective rate of 31.51% (in 2020 a difference of -15 basis points between the nominal rate of 31.29% and the effective rate of 31.14%), and in none of the years are there materially relevant adjustments offsetting each other.

The adjustment made to employment termination benefits, retirement benefits and other post-employment or long-term employee benefits, in the amount of €4,062 thousand, is related to the allocation of 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 adjustment in the Pension Fund (€5,231 thousand) 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 tax benefits set out in the table above relate to the CFEI II (€281,000 thousand), the net job creation benefit (€235 thousand) and the allocation of donations of a social nature (€4 thousand).



In 2020 and 2021 the movements related to deferred tax assets and liabilities were broken down as follows:

		2020		
	31 Dec. 2019	Change in		31 Dec. 2020
		Equity	Profit/Loss	
<b>Assets</b>				
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
	<b>26,373</b>	<b>(5,868)</b>	<b>643</b>	<b>21,147</b>
<b>Liabilities</b>				
Depreciation surplus (reinvestment of capital gains)	(316)	-	12	(304)
	<b>(316)</b>	<b>-</b>	<b>12</b>	<b>(304)</b>
	<b>26,057</b>	<b>(5,868)</b>	<b>655</b>	<b>20,843</b>

		2021		
	31 Dec. 2020	Change in		31 Dec. 2021
		Equity	Profit/Loss	
<b>Assets</b>				
Temporarily non-deductible provisions and impairments	338	-	(85)	253
<b>Staff benefits</b>				
Pension fund - transitional regime	6,669	(6,669)	-	0
Seniority bonus	4,842	-	315	5,157
Early retirements	9,292	(5,404)	(1,817)	2,071
Litigation	6	-	(6)	-
	21,147	(12,072)	(1,593)	7,482
<b>Liabilities</b>				
Depreciation surplus (reinvestment of capital gains)	(304)	-	11	(293)
	(304)	-	11	(293)
	20,843	(12,072)	(1,582)	7,189

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.

They are calculated based on tax rates expected to be in force on the date the temporary differences are to be reversed, i.e. rates approved or substantially enacted as at the balance sheet date.

The rate used to calculate deferred taxes in 2021 was 31.29%, similar to that of 2020.

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

## NOTE 31 • OFF-BALANCE-SHEET INSTRUMENTS

	31 Dec. 2021	31 Dec. 2020
Contracted financial operations	(91,599)	(187,863)
Collateral given	(1,471,623)	(1,471,623)
Collateral received	88,659,112	79,094,330
Items held in custody	29,747,253	29,851,224
Irrevocable credit lines	(4,041,455)	(3,044,233)

### 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 2021 and 31 December 2020 these positions related only to derivative financial instruments essentially designed to manage risks associated with their assets and liabilities, as follows:

	31 Dec. 2021				31 Dec. 2020	
	Contract value <sup>(a)</sup>		Market value <sup>(b)</sup>	Effect on profit/loss <sup>(c)</sup>	Accrued interest <sup>(d)</sup>	Contract value <sup>(a)</sup>
	Purchases	Sales	Net	Net	Net	Purchases Sales
Currency swaps	3,057,678	(3,057,678)	(7,477)	(3,768)	(3,709)	1,955,887 (1,955,887)
Interest rate futures	97,063	(188,662)	-	-	-	4,000 (191,863)

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 €88,654,130 thousand as at 31 December 2021 (€79,090,233 thousand as at 31 December 2020), including collateral used under the Correspondent Central Banking Model (CCBM). This collateral is valued at market rates, less respective haircuts.

Items held in custody essentially comprised securities owned by the Portuguese State (€21,023,371 thousand) and securities held in custody by the Banco de Portugal as collateral in monetary policy operations with other NCBs, under the CCBM (€7,911,830 thousand).

As at 31 December 2021 the item irrevocable credit lines recorded the amount of €2,104,800 thousand for the limit on intraday credit lines to the Portuguese financial system and the amount of SDR 1,567,000 thousand (€1,936,655 thousand) for a credit line granted to the IMF under the New Arrangements to Borrow (NAB).

## NOTE 32 • LIABILITIES RELATED TO RETIREMENT PENSIONS AND OTHER BENEFITS

### Pension Fund of 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 prior to 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),<sup>23</sup> 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, including 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 two existing 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 to all staff of the Banco de Portugal.

The benefits associated with the Pension Fund schemes include old-age pensions of members/ statutory retirement (as a supplement to those paid by social security), disability or early retirement pensions, survivor's pensions, including the payment of any supplementary benefits and death grants, as well as the settlement by the sponsor of charges, namely charges due to SAMS (social and health assistance service for banking sector employees) related to pensions in payment.

23. Dissolved by this Decree-Law.

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

Risk sub-category	Risk definition
Longevity risk	Potential risk attached to increasing life expectancy of the population, compared with that assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Disability risk	Risk attached to potential deviation in the disability rate, compared with that assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Health risk	Risk of take-up of subsidised clinical services being higher than assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Risk of regulatory changes to the general social security scheme	Risk attached to the occurrence of regulatory changes to the general social security scheme, impacting on the Pension Fund – Defined benefit plan.
Medical services inflation risk	Risk of an increase in medical services costs and higher inflation than assumed in actuarial valuations and of a resulting increase in 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 arbitrage 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) Members

The number of members covered by the pension plan is as follows:

Number of scheme members	31 Dec. 2021	31 Dec. 2020
Active members	727	779
Retired members	2,065	2,079
Pensioners	592	574
	<b>3,384</b>	<b>3,432</b>

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. 2021	31 Dec. 2020
Active members	33	34
Retired members	14	14
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 Sociedade Gestora dos Fundos de Pensões do Banco de Portugal (SGFPBP), using the Projected Unit Credit Method, in accordance with the principles laid down in IAS 19.

The main actuarial and financial assumptions adopted are as follows:

	Actuarial and financial assumptions used			
	31 Dec. 2021	1 Jan. 2021	31 Dec. 2020	1 Jan. 2020
Discount rate	1.048%	0.420%	0.420%	1.013%
Expected return rate on the Fund's assets	n.a.	0.420%	n.a.	1.013%
Wage growth				
1 <sup>st</sup> year	2.672%	1.750%	1.750%	1.750%
Subsequent years	3.456%	2.262%	2.262%	2.296%
Pensions growth rate				
1 <sup>st</sup> year	1.254%	0.750%	0.750%	0.750%
Subsequent years	2.028%	1.262%	1.262%	1.296%
Tables used				
- Mortality – Male population	TV 88/90 adjusted by 1 year		TV 88/90 agravada 1 ano	
– Female population			TV 88/90 agravada 4 anos	
- 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 <sup>st</sup> year	66 years and 7 months		66 years and 6 months	
2 <sup>nd</sup> year	66 years and 4 months		66 years and 7 months	
Projection for the following years:				
- Average life expectancy at 65 years, in years	19,35		19,69	
- Developments in average life expectancy at 65 years, in years	+0.10 every year		+0.10 every year	
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, SGFPBP uses a lower discount rate based on interest rates on bond issues of above-average quality, for the sake of prudence.

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

– Healthcare Plan

**(a)** Members

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

Number of scheme members	31 Dec. 2021	31 Dec. 2020
Active members	1,741	1,774
Retired members and pensioners	2,603	2,606
	<b>4,344</b>	<b>4,380</b>

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

Average life expectancy (years)	31 Dec. 2021	31 Dec. 2020
Active members	42	43
Retired members	14	14
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. The most important are the following:

	Actuarial and financial assumptions used			
	31 Dec. 2021	1 Jan. 2021	31 Dec. 2020	1 Jan. 2020
Discount rate	1.048%	0.420%	0.420%	1.013%
Expected return rate on the Fund's assets	n.a.	0.420%	n.a.	1.013%
Growth rate of the average/annual expenses				
Disability pensions	4.380%	4.987%	4.987%	5.060%
Other	6.377%	3.784%	3.784%	4.030%
Tables used				
- Mortality – Male population	TV 88/90 adjusted by 1 year		TV 88/90 adjusted by 1 year	
– 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 <sup>st</sup> year	66 years and 7 months		66 years and 6 months	
2 <sup>nd</sup> year	66 years and 4 months		66 years and 7 months	
Projection for the following years:				
- Average life expectancy at 65 years, in years	19,35		19,69	
- Developments in average life expectancy at 65 years, in years	+0.10 every year		+0.10 every year	
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. 2021			31 Dec. 2020		
	Retired members and pensioners	Active members	Total	Retired members and pensioners	Active members	Total
<b>Total past-service liabilities of the Fund</b>						
Retirement and survival benefits	1,178,204	614,982	1,793,186	1,191,102	612,706	1,803,808
Pensions' inherent charges to SAMS	66,751	33,440	100,190	67,387	32,575	99,962
Death grants	2,222	1,166	3,388	2,179	1,066	3,245
Healthcare	58,590	28,479	87,068	64,105	30,590	94,695
	1,305,766	678,066	1,983,832	1,324,773	676,937	2,001,710

The table below presents the evolution of past-service liabilities of the Pension Fund in 2021 and 2020:

Past-service liabilities	2021	2020
Value at the beginning of the year	2,001,710	1,893,401
Current service cost	15,391	13,397
Benefits payable (expected value)	(78,124)	(77,541)
Interest cost	8,407	19,180
Actuarial gains/losses	34,374	147,605
Increase in liabilities arising from early retirements (based on information at the beginning of the year)	2,075	5,667
Past-service cost	-	-
<b>Value at the end of the year</b>	<b>1,983,832</b>	<b>2,001,710</b>

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 2021 the decrease in the value relating to the increase in liabilities for early retirement is mainly due to the reduction against 2020 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. 2021	One-year increase in life expectancy	10 b.p. reduction in discount rate	10 b.p. increase in wages and pensions growth rates <sup>(b)</sup>
Impact on the Pension Fund's assets	0.0%	1.3%	1.0%
Impact on the Pension Fund's liabilities	4.8%	1.6%	1.5%
Impact on the Pension Fund's funding ratio	-4.8%	-0.3% <sup>(a)</sup>	-0.5% <sup>(b)</sup>

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.

As at 31 December 2021 the modified duration of liabilities stood at 16.1 (2020: 16.2) 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 size differences between these two aggregates, stood at -3.0 (2020: -2.0).

Fund's assets	2021	2020
Value at the beginning of the year	2,081,228	2,021,963
Current contributions paid to the Fund	12,595	13,182
On account of the Bank	10,853	11,399
On account of the employees	1,742	1,782
Contributions paid on account of early retirements	4,429	12,793
Benefits and inherent charges paid by the Fund	(77,034)	(77,935)
Net income of the Fund	155,070	111,226
<b>Value at the end of the year</b>	<b>2,176,288</b>	<b>2,081,228</b>

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

Fund's investments	31 Dec. 2021	31 Dec. 2020
Land and buildings	243,441	227,744
Variable income securities	163,475	176,342
Fixed income securities	1,746,566	1,644,549
Cash and bank deposits	8,122	9,483
Other	14,684	23,109
	<b>2,176,288</b>	<b>2,081,228</b>

Land and buildings includes the Castilho Building, used by the Banco de Portugal, which was recorded in 2021 at a value of €41,097 thousand.

Securities portfolio of the Fund	31 Dec. 2021	31 Dec. 2020
<b>Variable income securities</b>		
Participation units – Investment funds	163,475	176,342
<b>Fixed income securities</b>		
Government debt	1,746,566	1,644,549
	<b>1,910,041</b>	<b>1,820,891</b>

At the end of 2021 the funding level of the Banco de Portugal's Pension Fund – Defined-Benefit Plan stood at 109.7% (2020: 104.0% above that of the scenario used to calculate the funding needs (most prudent scenario) of 105.1% (2020: 102.2%).



The value of actuarial gains and losses calculated in 2021 and 2020 can be broken down as follows:

	31 Dec. 2021	31 Dec. 2020
<b>Actuarial gains/losses</b>		
Population movements	(7,669)	3,076
Technical gains and losses	(333)	2,370
Wage growth	(1,380)	(3,811)
Increase in pensions	1,994	2,883
Change in average healthcare expenses	9,333	(3,772)
Adjustments to the model	(1,737)	859
Change in career promotion of any type	(18,374)	-
Other gains and losses	1,065	1,583
Indexation of assumptions:		
Wage and salary growth in labour force	(120,528)	11,821
Salary growth in beneficiaries	(100,815)	14,495
Change in average healthcare expenses	(13,318)	366
Discount rate	217,388	(177,475)
	<b>(34,374)</b>	<b>(147,605)</b>
<b>Financial gains and losses</b>		
Benefits paid vs expected benefits, excluding early retirement (A)	3,093	3,597
Compensation of final contributions due to early retirement (B)	259	561
Return on the Fund vs expected return	146,328	90,746
	<b>149,681</b>	<b>94,904</b>
<b>Total gains and losses recognised under Retained Earnings</b>	<b>115,307</b>	<b>(52,703)</b>
Increase in benefits paid and final contributions due to early retirement allocated during the year (C)	(2,263)	(4,553)
<b>Total gains and losses between benefits paid and expected benefits (A)+(B)+(C)</b>	<b>1,090</b>	<b>(394)</b>

Actuarial gains and losses in 2021 included the loss associated with the change in the assumption of growth in the wage bill and in the tables referring to the labour force and the population of beneficiaries and the consequent increase in the value of the Fund's liabilities of €221,343 thousand and the gain related to the change in the discount rate, due to the increase in the value of this rate (see table of actuarial and financial assumptions), resulting in a €217,388 thousand reduction in the Fund's liabilities.

The average annual cost of healthcare costs and the growth rate were updated as a result of the fine-tuning of the methodology used for their calculation and the incorporation of more recent data on healthcare costs. This revision of assumptions resulted in a reduction of €9,333 thousand in liabilities.

In 2021 the assumption regarding career progression (i.e. the real growth rate of the pensionable wage bill) was revised based on the analysis of the historical average of career progression, resulting in a deviation of €18,374 thousand in total liabilities.

The item Other deviations mainly included the updated value of the Social Support Index, the National Minimum Wage and the funeral grant, as well as the change in the normal retirement age.

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

	2021	2020
<b>Staff costs</b>		
Current service cost <sup>(a)</sup>	13,188	11,130
Interest cost	8,407	19,180
Expected return on the Fund's assets	(8,741)	(20,482)
Early retirement costs	4,338	10,220
Increase in liabilities arising from early retirements (based on information at the beginning of the year)	2,075	5,667
Increase in benefits paid and final contributions due to early retirement allocated during 2021	2,263	4,553
	<b>17,192</b>	<b>20,048</b>

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 and of a resulting increase in the liabilities arising from these benefits.
Risk of undervaluation of wage growth rate	Risk of career progress and salary growth rate being higher than assumed in actuarial valuations, thus 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	2021	2020
Value at the beginning of the year	15,477	14,740
Seniority bonuses paid	(1,276)	(1,337)
Current service cost	1,309	1,254
Interest cost	37	102
Actuarial gains/losses	936	719
<b>Value at the end of the year</b>	<b>16,482</b>	<b>15,477</b>

As at 31 December 2021 the modified duration of liabilities with seniority bonuses stood at 11.6 (2020: 11.1).

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

	Actuarial and financial assumptions used			
	31 Dec. 2021	1 Jan. 2021	31 Dec. 2020	1 Jan. 2020
Discount rate	0.853%	0.242%	0.242%	0.691%
Wage growth				
1 <sup>st</sup> year	2.671%	2.502%	2.502%	1.750%
Subsequent years	3.358%	2.141%	2.141%	2.188%
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 <sup>st</sup> year	66 years and 7 months		66 years and 6 months	
2 <sup>nd</sup> year	66 years and 4 months		66 years and 7 months	
Projection for the following years:				
- Average life expectancy at 65 years, in years	19,35		19,69	
- Developments in average life expectancy at 65 years, in years	+0.10 every year		+0.10 every year	

The population considered for the calculation of these liabilities in December 2021 was 1,741 members (2020: 1,774).

### 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 2021 this insurance scheme covered 10 members (2020: 11).

### 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 (I) of Note 1). This plan was created in 2010, backdated to 23 June 2009.

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

The Banco de Portugal has set up a closed pension fund to provide an alternative funding vehicle for its employees. 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 at the employee's initiative.

At the end of 2021 the supplementary pension plan funded through this Pension Fund covered 1,046 members (2020: 1,015).

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 first increased by €20 million and in 2021 it was topped up again by €25 million with a view to overcoming the Fund's operational and financial constraints in connection with the reduced amount under management.

As at 31 December 2021 the assets of the Fund amounted to €55,286 thousand, broken down as follows:

Participation units (in value)	31 Dec. 2021	31 Dec. 2020
Reserve account (Note 12)	48,399	22,015
Members' individual accounts	6,887	5,233
	<b>55,286</b>	<b>27,248</b>

Units in this Reserve account are transferred on a monthly basis to the individual accounts of its members for the amounts corresponding to:

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

The table below shows movements in the Reserve Account of the Sponsor; the results of the annual revaluation are recognised in the Profit and loss account of the Banco de Portugal:

Reserve account of the sponsor	2021	2020
Value at the beginning of the year	22,015	22,831
Transfer of rights to members – contributions of the year	(1,233)	(1,087)
Increase in the reserve account	25,000	-
Revaluation of the period (Note 27)	2,617	271
Value at the end of the year	<b>48,399</b>	<b>22,015</b>

## NOTE 33 • RISK MANAGEMENT

Risk management at the Banco de Portugal aims to ensure the institution's resilience/robustness and sustainability, ultimately contributing to the pursuit of its strategic goals. 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, in the different risk management policies and the existence of a strategic risk budget.

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 on a regular basis.

In turn, 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 at the Banco de Portugal.

In 2021, in the light of the ongoing COVID-19 pandemic, the Banco de Portugal maintained its specific structures to monitor the impacts of this pandemic, where contingency plans were developed to ensure the continuity of critical business functions and guarantee that essential services would not be disrupted.

- Financial Risk Management
  - Risk management policies

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

These risks are monitored through the regular quantification of standard risk measures, namely value at risk (VaR) and expected shortfall (ES) for certain confidence intervals and a specific time horizon, on a daily basis or whenever necessary, as well as through regular sensitivity analyses.

The Banco de Portugal's own investment assets are managed by the Markets 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. The 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 is valid for a one-year period but may be subject to a mid-term review. It 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, performance allocation and control of compliance with limits and restrictions in asset management operations are carried out through an information system for the management of reserves and assets, similar 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 operations where the risk is directly taken on 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 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 monitoring the evolution of these risks

against expected developments in assets and liabilities but also the continuous assessment of the hedging level by the Banco de Portugal's financial buffers (capital, reserves and provisions). 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 as at 31 December 2020 and 2021 is as follows:

	31 Dec. 2021		31 Dec. 2020	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes (Note 7)	86,170,635	90,915,252	53,478,605	59,014,754
Held-to-maturity securities portfolio (Note 10)	3,571,696	3,716,785	4,744,009	4,964,671
	<b>89,742,330</b>	<b>94,632,037</b>	<b>58,222,614</b>	<b>63,979,424</b>

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 knowledge and tools that provide a comprehensive and consistent outlook on financial and non-financial risks, in particular as regards the identification and assessment of the key strategic risks of its activity. The results of this assessment suggest that the main risks identified are in areas compatible with the risk tolerance level accepted by the Board of Directors.

Operational risk is related to losses arising from failures, inadequate internal processes, staff, systems, or even 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 benefited from the monitoring of Key Risk Indicators (KRI) at departmental level and from the introduction of alert zones, thus allowing for a more global and quantified overview of the institution's operational risks and for a timely reaction to risks.

The Banco de Portugal's operational risk management policy and methodology broadly follow the operational risk management framework endorsed at Eurosystem/ESCB/Single Supervisory Mechanism 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, assessment, measurement, management and reporting of these risks are 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 non-financial risks, thereby contributing to an integrated management of the Bank's risks.

## NOTE 34 • PENDING LEGAL PROCEEDINGS

As at 31 December 2021, 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 and levies-related 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, as well as the monitoring of cases in foreign jurisdictions.

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*). 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, albeit not exclusively, 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.

In this regard, it should be noted that in a lawsuit seeking an order that the Banco de Portugal be found culpable of a lawful act, a judgment was handed down in 2021: the Administrative and Tax Court of Leiria dismissed the applicant's claim in its entirety and consequently acquitted the Banco de Portugal of liability for lawful act. As far as the legal discussion of the case is concerned, the judgment has proven to be highly in line with the positions that have always been sustained by 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 illegalities 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.

However, Advocate General Giovanni Pitruzzella delivered an opinion on 14 October 2021, arguing that national legislation on the resolution of credit institutions, adopted before the entry into force of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 and amended prior to the deadline for transposing that Directive, is not liable to seriously compromise the attainment of the result prescribed by that Directive – if such national legislation, while transposing some of the provisions of the Directive, did not transpose the provisions of the Directive relating to the following: (i) carrying out a fair, prudent and realistic valuation of the assets and liabilities of the institution subject to resolution prior to its adoption; (ii) the payment of any compensation, depending on that assessment, to the institution subject to resolution or, as the case may be, to the shareholders or holders of other ownership instruments; (iii) the express provision that shareholders of the institution subject to resolution measures are entitled to receive an amount no less than they would have been expected to receive if the institution had been fully wound up under normal insolvency proceedings, providing for such a backstop only for creditors whose claims have not been transferred; (iv) carrying out an independent valuation to assess whether shareholders and creditors would have received a more favourable treatment

if the entity subject to resolution had initiated normal insolvency proceedings. Furthermore, according to the Advocate General's opinion, Article 17(1) of the Charter of Fundamental Rights of the European Union must be construed as not precluding such national legislation.

The delivery of the judgment of the European Court of Justice is yet to be scheduled in 2022.

Accordingly, 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 illegalities 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, notably, 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.

Nevertheless, the first hearing within the scope of this litigation was held in 2021 – before the Administrative and Tax Court of Mirandela –, evidence was taken, but a ruling upon it is yet to be given.

Noteworthy in 2021 is the first decision on the merits of the so-called “Retransfer Litigation”, which was rendered by the Administrative and Tax Court of Porto, dismissing in its entirety the lawsuit brought by a natural person who invested in retransferred obligations, claiming a breach of the principle of legitimate expectations and legal certainty.

Despite the important case-law precedent established by the judgement rendered by the Administrative Court of the Lisbon District and the recent judgements rendered by the Administrative and Tax Courts of Sintra and Porto, 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, in any event without decisions on the merits having been rendered in the proceedings brought against the Banco de Portugal.

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 refute the 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, 11 February 2015, 15 September 2015 and 29 December 2015.

Those proceedings are still pending a first instance decision, with the initial procedural phase concluded. In some of those proceedings, the court has decided to suspend some of those actions by reason of an existing preliminary matter in regard to the proceedings contesting the BES resolution measure, which were selected for the application of the procedural mechanism provided for in Article 48 of the CPTA. To date, appeals brought against those decisions are pending a decision and other proceedings are awaiting the pre-trial hearing phase to end and/or a decision to be rendered.

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 2021, one interim injunction proceeding was still pending, relating to the sale process of the Novo Banco to Lone Star. The main request of these interim injunctions – almost all concluded – was the suspension of the award decision to that entity and the consequent prohibition from concluding the definitive contract.

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 six 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 of Spain 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 of Spain delivered a favourable decision, acknowledging thereby: (i) the banking resolution as a solution whose adoption was possible and provided for in the Portuguese legislation and Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001; (ii) that, regardless of the alleged behaviour, this would not justify the transfer of the responsibility to Novo Banco (and its branches), as the relevant liability was excluded from the sphere of Novo Banco under the resolution measure adopted by 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. 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 NBSE, but also to the Banco de Portugal and the Resolution Fund.

However, on 29 April 2021, the European Court of Justice rendered a judgement in the opposite direction to that advocated by Advocate General Juliane Kokott. On that basis, the Supreme Court of Spain decided, on 23 July 2021, to dismiss both the appeal (*recurso de casación*) brought by NBSE and the extraordinary appeal due to procedural infringement (*recurso extraordinario por infracción procesal*) brought by NBSE, with the intervention of the Banco de Portugal and the Resolution Fund, on the grounds that, in the court's view and taking into account the specific circumstances of the case, a contrary decision would violate the principle of legal certainty and the right to effective judicial protection.

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 three cases where the Banco de Portugal and the Resolution Fund requested to intervene, one of which is similar to the case in which the Supreme Court of Spain issued a favourable decision, a decision is pending as to whether the intervention sought is granted.

Moreover, at the end of 2021, the Banco de Portugal and the Resolution Fund were preparing their applications for leave to intervene in six cases.

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.

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 beginning of 2021, the Administrative and Tax Court of Funchal dismissed the lawsuit in its entirety and consequently ordered that those decisions be upheld in the legal order, thereby confirming the lawfulness of the resolution measure. That judgment was subsequently upheld by the Southern Central Administrative Court in November 2021 and it is currently awaiting the ruling of the Supreme Administrative Court after the relevant appeal has been lodged.

These are the first judicial decisions which directly reviewed the legal and constitutional compliance of the resolution measures applied to Banif by the Banco de Portugal and thus constitute an important case-law precedent for this type of litigation.

The remaining lawsuits are at the end of the initial procedural phase and await scheduling of the pre-trial hearing phase/conclusive opening order or a judgement to be rendered. In one case, a preliminary hearing was held with the final hearing being scheduled for 2022.

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 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 and ending such lawsuits.

Despite the important case-law precedent established by the judgment rendered by the Administrative and Tax Court of Funchal and its confirmation by the Southern Central Administrative Court, as there are few doctrinal and case-law precedents, it is impossible to predict even the tendency of the decisions to be delivered by the Courts. 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 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 14 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 2021, with regard to the lawsuits brought against the Banco de Portugal, a judgment ruling that there was no need to adjudicate on this case, due to lack of action by the parties, brought the lawsuit to an end.

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

A number of cases are still pending, mainly before the administrative courts, which concern various and disparate issues, including administrative lawsuits involving claims related to the assessment and reassessment of suitability, as well as suspension of voting rights, supervisory matters or pre-contractual litigation.

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.

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

The complexity and procedural developments of the litigation have continued to warrant the additional allocation in 2021 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 2021.

In compliance with its Statute, the Banco de Portugal has established, in turn, a General risk provision (Note 19), 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 2021 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.

A member of the Board of Directors of the Banco de Portugal forms 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 2021 (showing a total of 219,196,244 t.euros and equity of 2,393,559 t.euros, including a net profit of 508,081 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 2021 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 and supervisory body 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 management report of 2021 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.

The Board of Auditors of Banco de Portugal is responsible for the oversight of the financial reporting process of Banco de Portugal.

## **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 2021 is consistent with the financial statements.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **On the management report of 2021**

It is our opinion that the information included in the management report of 2021 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, 18 March 2022

Deloitte & Associados, SROC S. A.

Represented by João Carlos Henriques Gomes Ferreira, ROC

Registration OROC n.º 1129

Registration CMVM n.º 20160741

### **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**  
EUROSISTEMA

### **Report and Opinion of the Board of Auditors 2021**

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 2021, 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) reviewing the minutes of the meetings of the Board of Directors and the Executive Committee for Administrative and staff-related Issues and (iii) regularly monitoring 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) reviewing and discussing a number of reports and information produced by the Accounting Department, the Risk Management Department, the Markets 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) regularly meeting those in charge of the relevant services, including the external auditors, and (iii) requesting information on subjects being monitored, in particular, situations deemed to have significant risk, whenever necessary or convenient.

Within the scope of the financial reporting process, the Board of Auditors monitored compliance with the accounting policies and practices adopted, focusing especially on the preparation and disclosure process of financial information and on appraising the effectiveness of internal control systems.

The Board of Auditors analysed in particular the financial information contained in the Management Report and Accounts for the fiscal year to 31 December 2021 – approved in the meeting of the Board of Directors held on 2 March 2022 – 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 18 March 2022 without any qualification or emphasis of matter.

As in 2020, the Banco de Portugal's balance sheet and accounts continued to be significantly affected in 2021 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 continued purchase of large amounts of debt mainly from the public sector. Monetary policy measures and the consequent increase in the Bank's balance sheet translated into a considerable increase in the Bank's financial risks, calculated according to the methodology set out by the Eurosystem.

This set of measures resulted in a very significant increase of €26.8 billion in the Bank's balance sheet, which went up from €192.4 billion on 31 December 2020 to €219.2 billion on 31 December 2021. The following contributed, to a large extent, to the positive change in balance sheet assets: (i) an increase of €17.1 billion in the monetary policy securities portfolio, which included a €15.0 billion reinforcement in the pandemic emergency purchase programme (PEPP) and a €2.3 billion net reinforcement in the public sector purchase programme (PSPP), and (ii) a €9.7 billion increase in longer-term refinancing operations for credit institutions (mainly TLTRO III). Other significant impacts were (i) a €5.3 billion decrease in the trading portfolio due, on the one hand, to a €6.6 billion decrease in the component denominated in euro and, on the other, to a €1.3 billion increase in the trading component denominated in foreign currency, and (ii) a rise in banknotes in circulation relating to Portugal's share, to the amount of €2.4 billion. On the liabilities side, (i) deposits of credit institutions with the Banco de Portugal increased by €26.9 billion and (ii) liabilities to other entities declined by €6.8 billion, chiefly deposits of the Portuguese Treasury and Debt Management Agency (IGCP).

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 €1.1 billion in 2021, largely as a result of the appreciation of gold. The maintenance of the general risk provision despite the considerable increase in risk was warranted insofar as this risk increase was considered to be cyclical and temporary, not undermining the established risk coverage objectives.

Net profit for the year, amounting to €508 million, declined by €27 million from 2020. This was essentially due to a €124 million decline in the interest margin (from €802 million in 2020 to €677 million in 2021), chiefly accounted for by an increase in interest payable associated with longer-term refinancing operations over the course of 2021, partly offset by no exchange rate losses, which in 2020 had totalled around €69 million.

In addition, the Board of Auditors analysed the proposal for the distribution of profit for 2021, to the amount of €508,080,841.8. The Board of Directors, in accordance with Article 53(2) of the Statute of Banco de Portugal, will submit the following proposal for the distribution of profit to the Minister of State and Finance:

- 10% to the legal reserve ..... €50,808,084.18
- 10% to other reserves ..... €50,808,084.18
- The remainder to the State, as dividends ..... €406,464,673.44

In light of the above, the Board of Auditors raises no objection to the approval of the 2021 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 recognise the institutional cooperation with all members of the Board of Directors and thank the entire staff of the Banco de Portugal for their contributions.

Lisbon, 24 March 2022

**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.)

