

ANNUAL REPORT

2022



BANCO DE
PORTUGAL
EUROSYSTEM

ANNUAL REPORT

2022



BANCO DE PORTUGAL
EUROSYSTEM

Lisboa, 2023 • www.bportugal.pt

Contents

Note | 4

Message by the Governor | 6

Mission and values of the Banco de Portugal | 9

Statutory bodies | 10

I The Portuguese economy in 2022 | 15

1 Economic and financial developments | 17

2 Highlights of the year | 25

2.1 The transmission of the ECB's monetary policy to financing conditions | 25

2.2 Rising inflation | 30

2.3 The performance of services exports | 35

II Banco de Portugal activity in 2022 | 41

1 Strategic plan | 42

2 Monetary policy and asset management | 44

3 Payment systems and means of payment | 49

4 Regulation | 55

5 Macroprudential policy and supervision | 57

6 Resolution | 65

7 Enforcement function and upholding the legality of the Bank's decisions | 66

8 Knowledge creation and sharing | 68

9 Governance and social and environmental responsibility | 74

III Report and Financial Statements | 85

1 Management Report | 87

1.1 Balance sheet | 88

1.2 Profit and loss account | 100

2 Financial Statements and Notes | 108

3 External Auditors' Report | 178

4 Report and Opinion of the Board of Auditors | 181

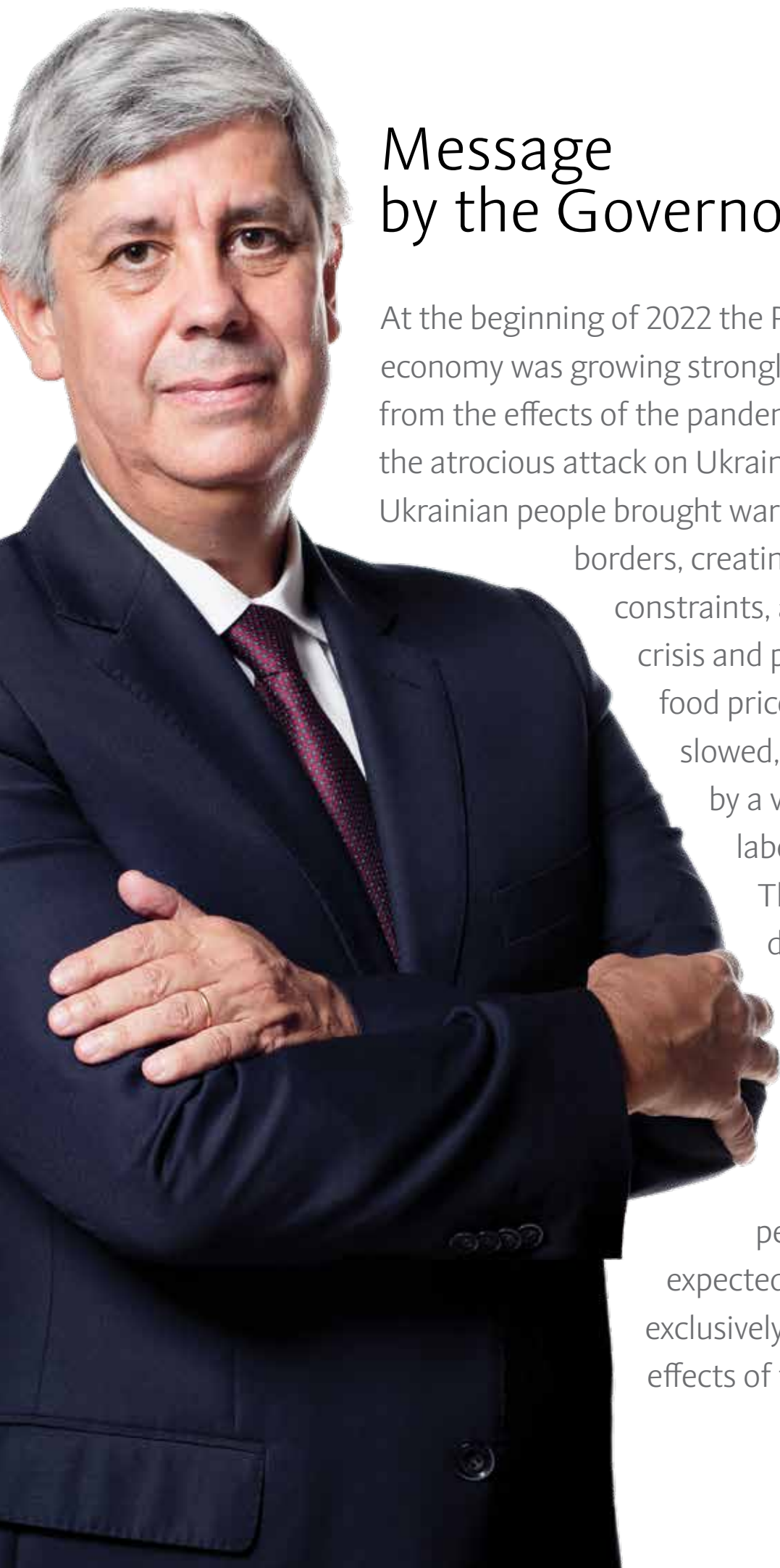
Note

The Banco de Portugal's 2022 Annual Report follows a new communication format.

Returning to a practice interrupted in 2012, the first part consists of an analysis of the Portuguese economy in 2022, providing the background for the Bank's activities being presented in the other parts. The second focuses on the Banco de Portugal's activities and the third on the financial statements.







Message by the Governor

At the beginning of 2022 the Portuguese economy was growing strongly and recovering from the effects of the pandemic. However, the atrocious attack on Ukraine and the Ukrainian people brought war to Europe's

borders, creating more supply constraints, a sudden energy crisis and pressure on food prices. Growth slowed, albeit sustained by a very resilient labour market.

The economic downturn in Europe and Portugal was coupled with inflation, which has been more persistent than expected, also but not exclusively due to the effects of the war.

Against this background, monetary policy has changed deeply, with the Banco de Portugal participating in its definition and implementation. The first half of the year was characterised by a gradual slowdown in the pace of net asset purchases, and the process of interest rate normalisation started in July amid strong and broader inflationary pressure.

The analysis and publication of studies thus focused on providing effective and informed support to the design of public policies and acting as a guide for economic agents. We have done so with 'open doors' to society, so that our intervention would be of better quality and timeliness. Regular interaction with the community provides us with a deeper understanding of the various dimensions of our activity and allows us to produce tailor-made analyses, generating greater public understanding of our work. This understanding canvasses credibility and trust, which are key to monetary policy and to safeguarding financial stability.

With our regulatory and supervisory activity we contribute to the stability and robustness of the Portuguese financial system. We monitored the banking sector, households and firms against the challenging context of rising interest rates. Even before such rise, we amended the macroprudential recommendation with the aim of promoting the resilience of the financial system and preventing household default. We provided the necessary support to define and implement the legal framework establishing the measures to mitigate the effects of rising interest rates on credit agreements.

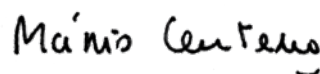
We guaranteed the protection of depositors and bank customers, ensured the smooth functioning of payment systems and strengthened preventive effectiveness in money laundering and terrorist financing. As we recognise our privileged role

in promoting citizens' financial, economic and statistical literacy, we strengthened and expanded our work in these areas.

Given the reassessment of credit and market risk, we set supervisory priorities, assessed institutions' business models, internal governance and resilience. We carried out supervisory actions to promote the operational resilience and cybersecurity of the supervised institutions. We checked whether financial risk identification and management practices were in line with supervisory expectations on climate and environmental risks.

At internal level, we took measures to promote environmental sustainability in the management of the portfolio of own investment assets, cash issuance and building management. We continued with the digital transformation plan, anchored to the adoption of innovative technological solutions. We introduced changes to the structure and operating model to better respond to new information challenges and risk management.

Near the end of the year we had the privilege of witnessing a reinforcement of our Board of Directors. It is now a complete, qualified, young Board, ready to face the challenges that the Bank faces on a permanent basis. Ready for 2023.



Mário José Gomes de Freitas Centeno



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).

Statutory bodies

Board of Directors *

Governor

Mário José Gomes de Freitas Centeno

Vice-Governor

Luís Augusto Máximo dos Santos**

Vice-Governor

Clara Patrícia Costa Raposo**

Director

Hélder Manuel Sebastião Rosalino

Director

Helena Maria de Almeida Martins Adegas**

Director

Rui Miguel Correia Pinto**

Director

Francisca Rodrigues Sarmento Guedes de Oliveira**



* Luís Manuel Sanches Laginha de Sousa and Ana Paula de Sousa Freitas Madureira Serra served as Directors up to 30 November 2022.

** By Resolution of the Council of Ministers No 117-C/2022 of 24 November 2022, published in Official Gazette No 228, Series 1, of 25 November 2022, the term of office of Vice-Governor Luís Augusto Máximo dos Santos was renewed, with effect from 20 June 2021, and Vice-Governor Clara Patrícia Costa Raposo, and Directors Helena Maria de Almeida Martins Adegas and Rui Miguel Correia Pinto were appointed, with effect from 1 December 2022. Director Francisca Rodrigues Sarmento Guedes de Oliveira was also appointed, with effect from 1 January 2023.

Rui
Pinto

Hélder
Rosalino



Luís Máximo
dos Santos

Mário
Centeno

Clara
Raposo

Helena
Adegas

Francisca
Guedes de Oliveira



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-Governors

Luís Augusto Máximo dos Santos

Clara Patrícia Costa Raposo

Former Governors

Carlos da Silva Costa

Vítor Manuel Ribeiro Constâncio

António José Fernandes de Sousa

Chair of the Board of Auditors

of the Banco de Portugal

Nuno Gonçalves Gracias Fernandes

Chair of the Portuguese Banking
Association

Vítor Augusto Brinquete Bento

Chair of the Portuguese Treasury
and Debt Management – IGCP, E.P.E.

Juan Miguel Martín Iglesias

Representatives from the Autonomous
Regions

Duarte Nuno D'Ávila Martins de Freitas
(Autonomous Region of the Azores)

Rogério de Andrade Gouveia
(Autonomous Region of Madeira)

Ethics Committee

Chair

Vítor Manuel da Silva Rodrigues Pessoa

* In 2022 Cristina Maria Nunes da Veiga Casalinho, former Chair of the Portuguese Treasury and Debt Management – IGCP, E.P.E., and Joaquim José Santos de Bastos e Silva, former representative of the Autonomous Region of the Azores, left office. By Resolution of the Council of Ministers No 117-C/2022 of 24 November 2022, published in Official Gazette No 228, Series 1, of 25 November 2022, the term of office of Vice-Governor Luís Augusto Máximo dos Santos was renewed, with effect from 20 June 2021, and Vice-Governador Clara Patrícia Costa Raposo was appointed, with effect from 1 December 2022.

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 Maçãs
Strategy and Organisation Directorate (SECEO) 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) *To be appointed; the former Head of Department left office on 9 December 2022*
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) *To be appointed; the former Head of Department left office on 30 December 2022*
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) *To be appointed; the former Head of Department left office on 30 November 2022*
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

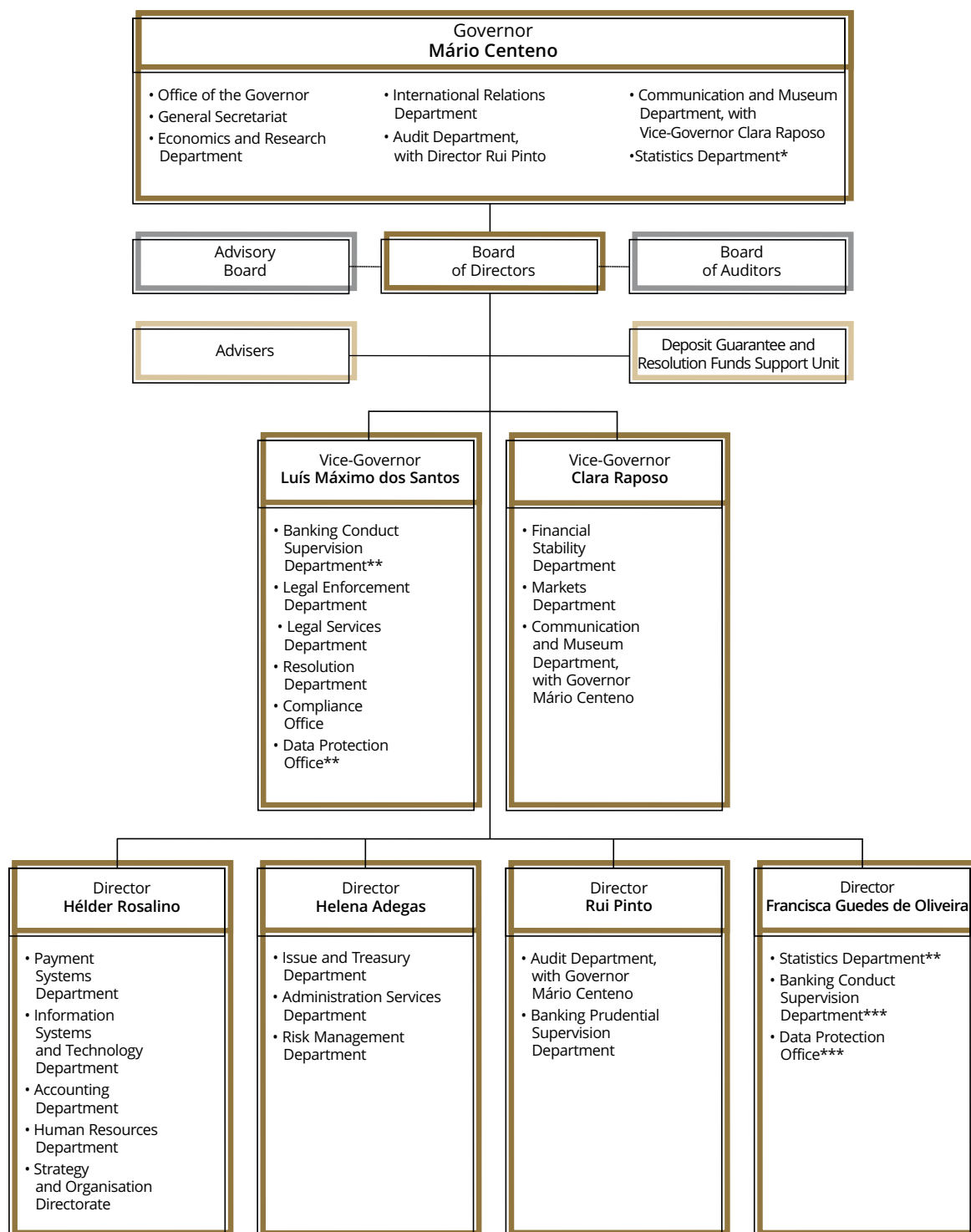
Regional Delegations

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 Rui António da Silva Santa Rajado
Évora Catarina Sofia Amaral Silva Guerra
Faro Eurico Balbino Duarte
Viseu Gentil Pedrinho Amado

Figure 1 • Organisational chart of the Banco de Portugal as at 1 December 2022



* On a temporary basis, from 2 to 31 December 2022.

** Responsibility transferred from Governor Mário Centeno to Director Francisca Guedes de Oliveira as of 3 January 2023.

*** Responsibilities transferred from Vice-Governor Luís Máximo dos Santos to Director Francisca Guedes de Oliveira as of 3 January 2023.

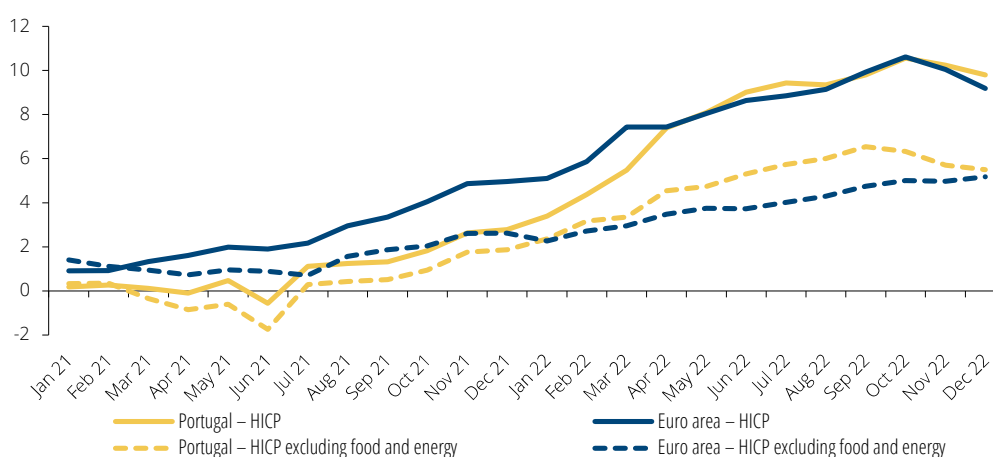
I The Portuguese economy in 2022

1 Economic and financial developments

The year 2022 was marked by the combined effects of the recovery from the pandemic crisis, the beginning of the war in Ukraine and the change in monetary policy by most central banks. The economic activities most affected by the lockdowns in the previous two years showed greater buoyancy, with emphasis on the tourism sector and other related services. The Russian invasion of Ukraine in February 2022 triggered a very sharp increase in energy prices, in particular natural gas, which had started to rise a year earlier, as well as in the price of food, most notably wheat. The rise in energy and food prices on international markets passed through to other goods and services in the economy, making inflation, initially considered temporary, a more persistent phenomenon. The ECB soon reversed its accommodative monetary policy stance in the first quarter of 2022 and started a cycle of key interest rate hikes in July. These decisions were reflected in the financing conditions of economic agents in the euro area and Portugal (Section I.2.1 | The transmission of the ECB's monetary policy to financing conditions).

The inflation rate in Portugal reached 8.1% on annual average terms in 2022, compared to 8.4% in the euro area. The harmonised index of consumer prices (HICP) in Portugal rose in the first three quarters of the year, reaching a peak in October (Chart I.1.1). Food and, to a lesser extent, energy prices contributed to these developments (Section I.2.2 | Rising inflation). Inflation excluding these two categories of goods stood at 5.5% at the end of the year in Portugal, close to the value observed in the euro area.

Chart I.1.1 • Inflation in Portugal and in the euro area | Annual percentage change



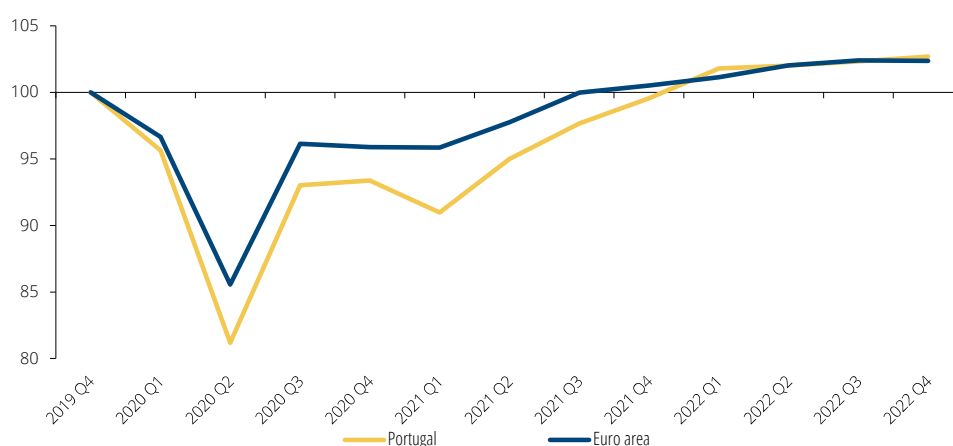
Sources: Statistics Portugal and Eurostat.

In 2022, gross domestic product (GDP) increased by 6.7% in Portugal and 3.5% in the euro area (Chart I.1.2). Compared to pre-pandemic levels, economic activity in Portugal grew slightly more than in the euro area.

In 2022, private consumption grew by 5.8% and surpassed its pre-pandemic level. Households resumed consumption decisions put on hold during the pandemic, with an increase of 11.6% in spending on durable goods and 5.3% on current consumption. The saving rate decreased to

6.1% in 2022 after reaching 11.9% and 9.9% in 2020 and 2021 respectively. These developments reflect the nature of savings over time and should be interpreted in the light of the evolution of wealth and disposable income in the pandemic years. The reduction in savings stemmed not only from increased consumption but also from lower real disposable income growth, which stood at 1.5% in 2022, after 2.4% in the previous year. Throughout the year, there was a more moderate consumption dynamic associated with the deterioration of the external environment, the persistence of the adverse effects of inflation on real income – albeit mitigated by public policies – and the effects of interest rate hikes on households' financial burden (Chart I.1.3).

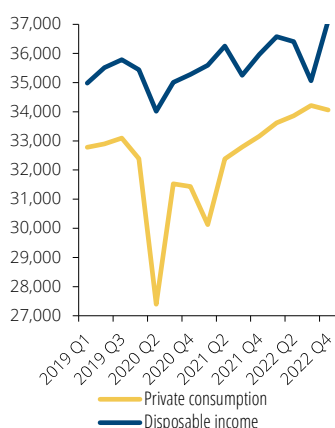
Chart I.1.2 • GDP in Portugal and in the euro area | Index 2019 Q4 = 100



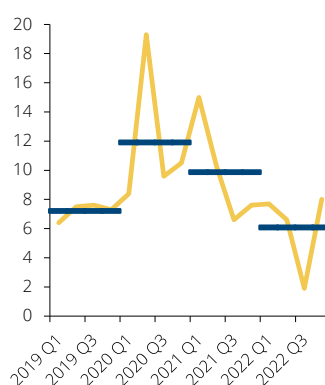
Source: Eurostat. | Note: GDP at 2015 constant prices.

Chart I.1.3 • Income, wealth, consumption and saving of households

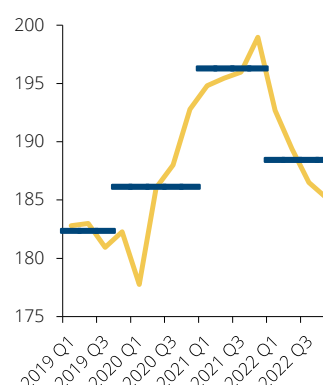
Panel A – Disposable income and private consumption | Values at 2016 constant prices, million of euros



Panel B – Household saving rate | As a percentage of disposable income (sa)



Panel C – Household net financial wealth | As a percentage of disposable income

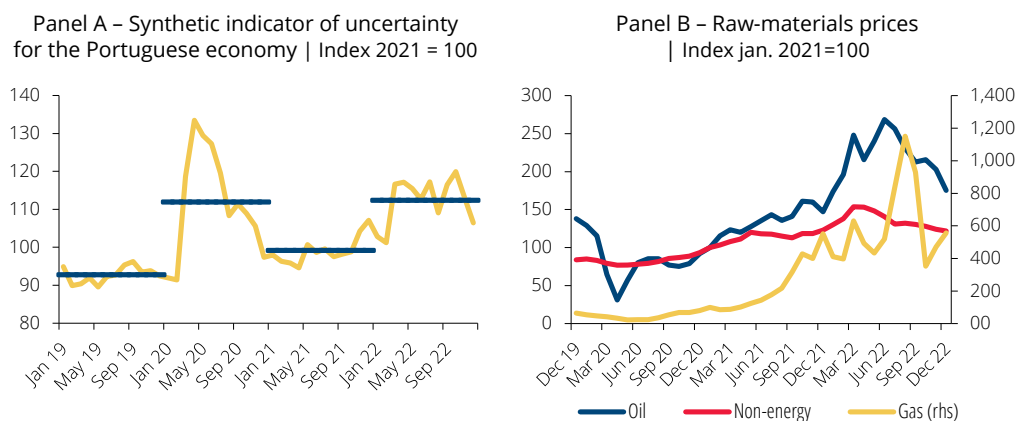


Sources: Statistics Portugal and Banco de Portugal. | Note: Horizontal lines at Charts B and C correspond to the annual average.

Gross fixed capital formation (GFCF) grew by 3.0% in 2022, down 5.7 percentage points (p.p.) from the previous year, conditioned by developments in domestic and external demand, as well as changing financing conditions. There was an acceleration of the transport equipment

component and a deceleration of the remaining components, especially the GFCF in construction. By institutional sector, the slowdown was widespread. In addition to high uncertainty, higher energy and other key input costs and disruptions in the supply of some intermediate goods also contributed to the postponement of investment decisions (Chart I.1.4).

Chart I.1.4 • Constraints to investment



Sources: Banco de Portugal, Refinitiv and HWWI (Banco de Portugal calculations) and Statistics Portugal. | Notes: A. For a detail description of SIU, see Manteu and Serra (2017). Horizontal lines correspond to the annual average. B. Prices for Brent (EUR/barrel) and natural gas for the European market (TTF Dutch; EUR/MWh), monthly averages.

Labour shortages and increased financing costs were identified by entrepreneurs as limiting factors to activity in 2022, especially in the construction sector. This occurred in a context of historically low underutilisation in the labour market and a sharp rise in interest rates (Section I.2.1 | The transmission of the ECB's monetary policy to financing conditions).

The recovery in economic activity in Portuguese trading partners continued in 2022. Despite the negative effects of the war in Ukraine and rising inflation and interest rates, external demand for Portuguese goods and services grew by 7.8% in 2022, contributing to the strong performance of exports of goods and services.

Exports of goods and services grew by 16.7% in 2022, with an increase of 5.1% in goods and 43.1% in services (Section I.2.3 | The performance of services exports). The growth in exports of goods was lower than in the previous year, reflecting developments in external demand. The very sharp recovery in services exports is mainly related to the tourism segment, whose exports grew by 81% in 2022 and exceeded pre-pandemic figures by the end of the year (Chart I.1.5). This represented an earlier than anticipated recovery for the sector. However, the 22% growth in exports of other services was also remarkable, including IT and telecommunication services and transport services.

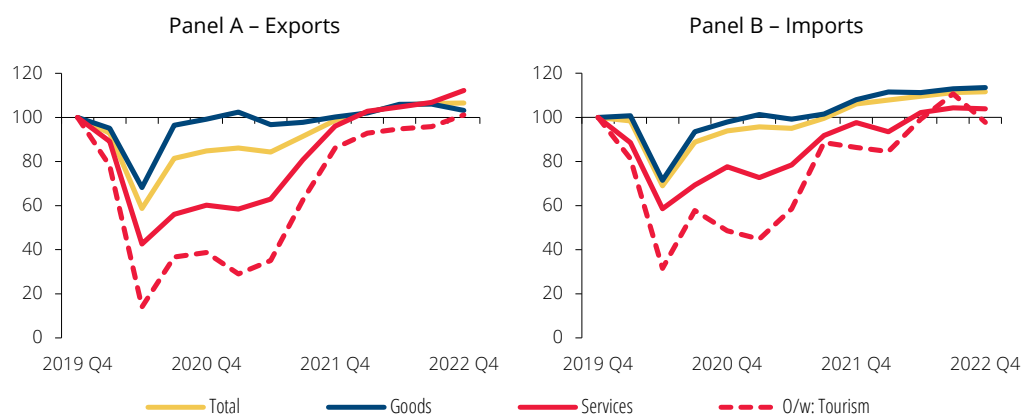
Goods and services imports grew by 11.1% in 2022, i.e., 2.1 p.p. less than in the previous year (Chart I.1.5). This slowdown was the result of lower growth in imports of goods, reflecting the slowdown in investment, which typically has a high import content.

The growth of the import deflator was higher than in exports due to a strong growth in the price of energy goods, resulting in a deterioration in terms of trade.

In 2022, gross value added (GVA) grew by 6.3% in the total economy, 1.5 p.p. above what was observed in the previous year. Activity in manufacturing grew by 2.8%, with a deceleration

profile throughout the year. The strong recovery in tourism resulted in a 17.4% growth in GVA in the trade, transport and accommodation and food services sectors. The 5.6% growth of GVA in communication and information activities is also compatible with the momentum observed in exports of non-tourism services.

Chart I.1.5 • Exports and imports of goods and services | Index 2019 Q4 = 100



Source: Statistics Portugal (Banco de Portugal calculations).

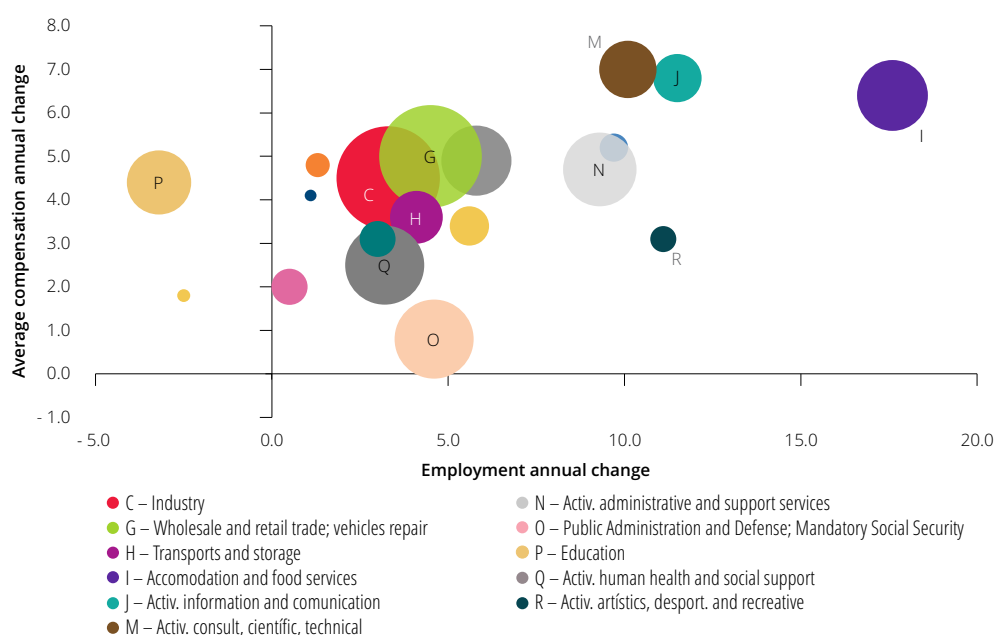
Employment grew by 2% in 2022, having returned to pre-pandemic levels in the first half of 2021. The recovery has been more noticeable for employees. In addition to activity developments, employment dynamics are influenced by structural aspects such as demographic developments and the upward trend in participation rates, in particular for women and higher age brackets. The increase in the participation rate in 2022 led to a 1.1% increase in the labour force, thus countering the 0.5% reduction in the working population aged 16 to 64. The dynamics of immigration flows are expected to have been very relevant in 2022, with a 28.5% increase in residence permits issued to foreigners.

In 2022, the unemployment rate stood at 6%, a figure lower than that observed before the pandemic and below the natural unemployment rate, which is estimated at around 7%. The increase in labour demand in a context of expanding economic activity, particularly in more labour-intensive activities such as tourism and its related sectors, contributed to the prevalence of relatively low unemployment rates.

Wages per employee grew by 6.1% in the economy as a whole and 7.6% in the private sector. The sharp rise in inflation rates over 2022, in a low unemployment scenario, will have justified an acceleration in wage updates over the course of the year. The growth of wages per worker was higher in the sectors where there was greater job creation, with emphasis on tourism activities (Chart I.1.6). The high prevalence of the national minimum wage, which grew by 6% in 2022, contributed to the wage dynamics of this sector. The joint growth of wages and jobs indicates that the momentum in demand dominated the labour market.

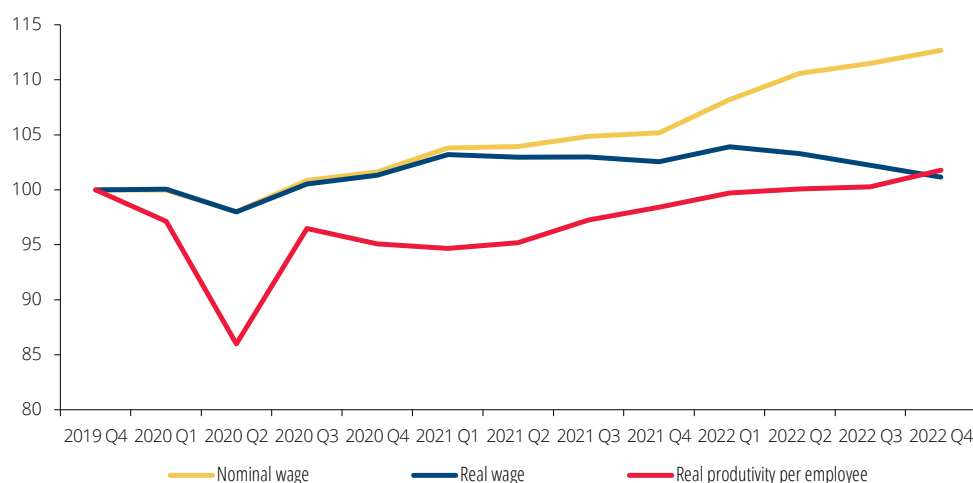
In real terms, wages per employee stagnated in the total economy, with a growth of 1.2% in the private sector and a 4.1% reduction in the public sector. At the end of the year and compared with the pre-pandemic period, developments in real wages converged with those of productivity per worker (Chart I.1.7).

Chart I.1.6 • Employment and average compensation per employee in 2022, by branch of activity



Source: Statistics Portugal (based on the Monthly Reports of the Contributory base to Social Security and to Caixa Geral de Aposentações). | Note: Data subject to revision.

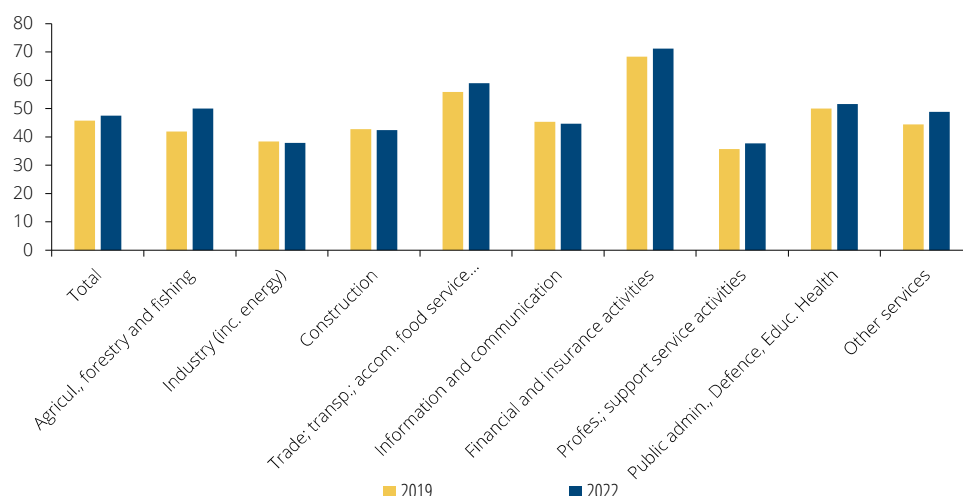
Chart I.1.7 • Compensation and productivity per employee | Index 2019 Q4 = 100



Source: Statistics Portugal (National Accounts). | Notes: Real compensation was computed by using the private consumption deflator. Real productivity per worker was computed from the GVA at 2016 constant prices and total employment.

Recent productivity gains have allowed the Portuguese economy to converge with the euro area. Productivity in Portugal increased when compared with the pre-pandemic period. Compared with 2019, productivity per worker grew by 0.6% and productivity per hour worked increased by 6.0%. Between 2019 and 2022 productivity per hour worked in the Portuguese economy increased by 1.7 p.p. against the euro area average. However, a very high productivity differential remains (Chart I.1.8).

Chart I.1.8 • Productivity in Portugal vis-à-vis the euro area | In percentage



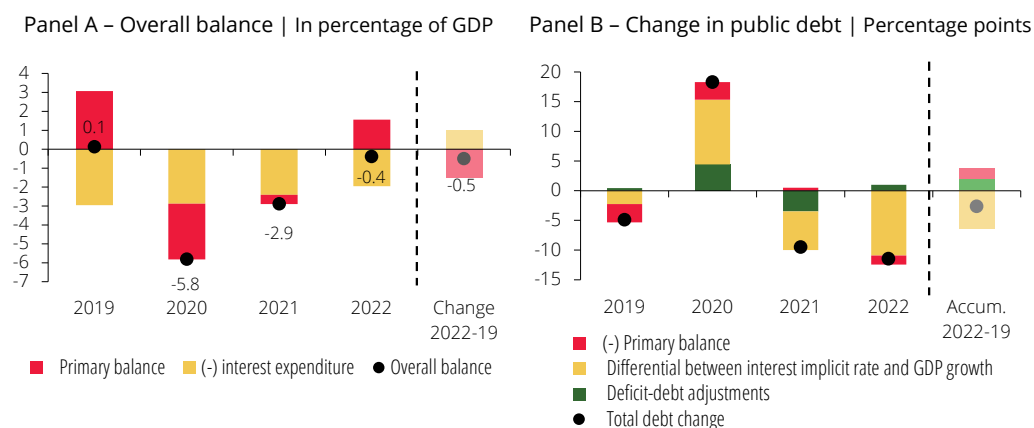
Source: Eurostat. | Note: Productivity per hour worked at 2015 prices.

The general government deficit stood at 0.4% of GDP and the debt ratio at 113.9% of GDP (Chart I.1.9). In both cases, there was an improvement from the previous year, in a scenario of GDP growth above its potential. In this context, an expansionary fiscal policy stance was observed. In 2022, public spending increased by 4.4%, with a growth rate of 5.2% in primary expenditure and a 9.4% reduction in interest expenditure. A structural analysis of primary expenditure shows it grew by 6.9%, representing a 0.3 p.p. increase of potential GDP. It comprised the implementation of significant measures to mitigate the effects of rising prices of essential goods and to support household income. The magnitude of these measures more than offset the reduction in support linked to the pandemic. Total wages in general government grew by 3.5%, intermediate consumption grew by 8.9% and investment by 7.1%. In turn, nominal general government revenue grew by 10.2%, in line with nominal GDP. The favourable performance of revenue from taxes and social contributions (up 13.9%) occurred in a scenario where real growth in private consumption and rising prices increased the indirect taxes collecting. In turn, improving nominal household income and the performance of firms improved revenue from taxes on income and wealth and social contributions. In structural terms, revenue from taxes and social contributions and total revenue increased by 0.6 p.p. and 0.1 p.p. of potential GDP respectively. The primary surplus of 1.6% of GDP and mainly the nominal GDP growth above the interest rate implicit in public debt allowed a further decline in the public debt ratio. The fiscal position, together with the external accounts, is fundamental in signalling the soundness of the economy on international markets. It should be noted that between September 2021 and October 2022, the Portuguese Sovereign rating was revised upwards by the four main agencies.

The current and capital account balance stood at -0.4% of GDP and the international investment position (IIP) amounted to -83.9% of GDP. Compared with the previous year, the former balance deteriorated 1.4 p.p. and the IIP improved by 11.1 p.p. The deterioration of the current and capital account reflected the increase in dividends paid, following the suspension during the pandemic, the decrease in net transfers from the EU and a base effect associated with the repayment in 2021 of amounts paid by Portugal under the Economic and Financial Assistance

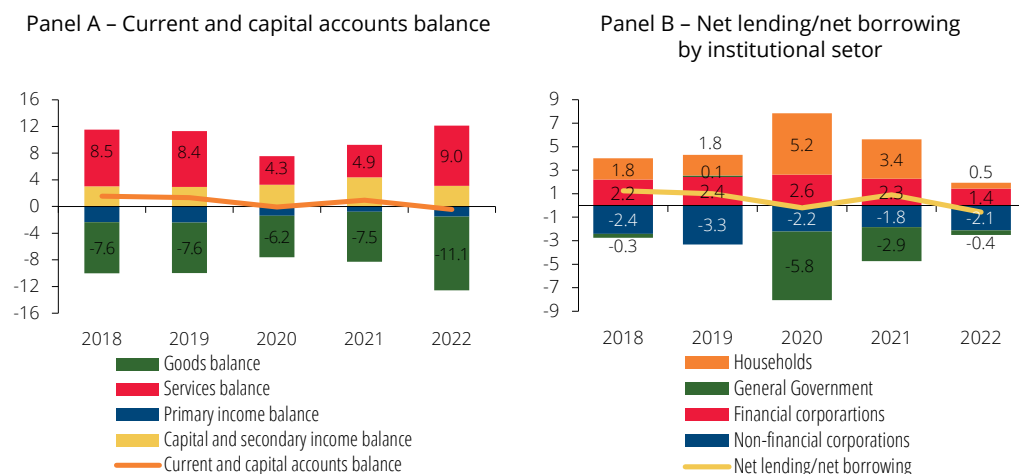
Programme. In 2022, inflows of European funds totalled 2.4% of GDP, after 3.1% in 2021. The larger goods account deficit was more than offset by the increase in the services account surplus, to which the tourism services account contributed decisively (Chart I.1.10). The relatively favourable performance of the goods and services account was very relevant, given that 2022 was characterised by a deterioration in terms of trade.

Chart I.1.9 • General government balance and change in the public debt ratio



Sources: Statistics Portugal and Banco de Portugal.

Chart I.1.10 • External accounts | In percentage of GDP

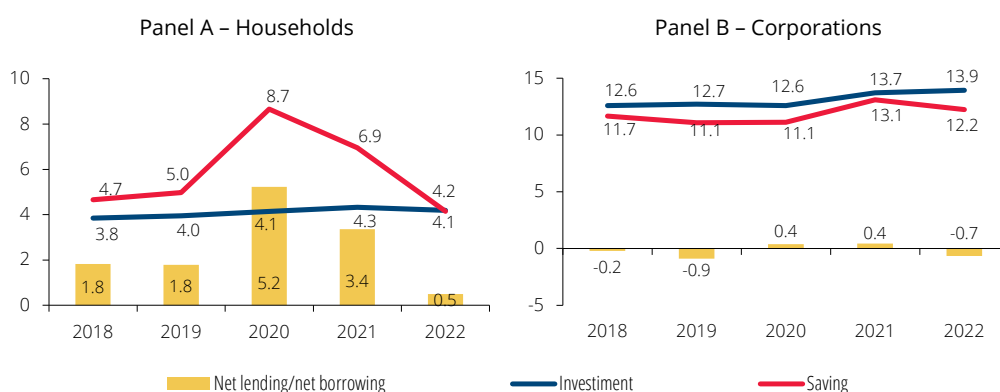


Sources: Statistics Portugal and Banco de Portugal.

The deterioration in terms of trade reached 3.2%, leading to a cumulative loss of 4.4% over the past two years. This loss was the largest in the last two and a half decades and led to a reduction in welfare for the Portuguese economy, as the purchasing capacity of exports was lower. Portugal's energy dependence induces this effect whenever energy prices rise sharply on international markets. In 2022, the energy import deflator grew by 87.2%. However, contrary to what has been observed in the past, this loss in terms of trade did not result in a severe worsening of economy's net borrowing, given the favourable volume effects.

The economy's net borrowing stood at 0.6% of GDP, after recording a net lending position of 0.9% in the previous year (Chart I.1.10). By institutional sector, there was a reduction in general government's net borrowing, in line with the reduction of the fiscal imbalance. The private sector has shifted from a net lending to a net borrowing balance, largely driven by the decrease in household savings (Chart I.1.11).

Chart I.1.11 • Saving and investment in the private sector | In percentage of GDP



Fonte: INE.

The challenges for the Portuguese economy include safeguarding macroeconomic balances, consistently reducing public and private debt and strengthening growth conditions. These conditions involve coordination between the different economic policies, maintaining their countercyclical stance and preserving certainty as their essential profile. Only in this way is it possible to create the confidence that leads to equilibrium between the increase in supply of skills spawning from the ongoing educational transition, job demand and investment.

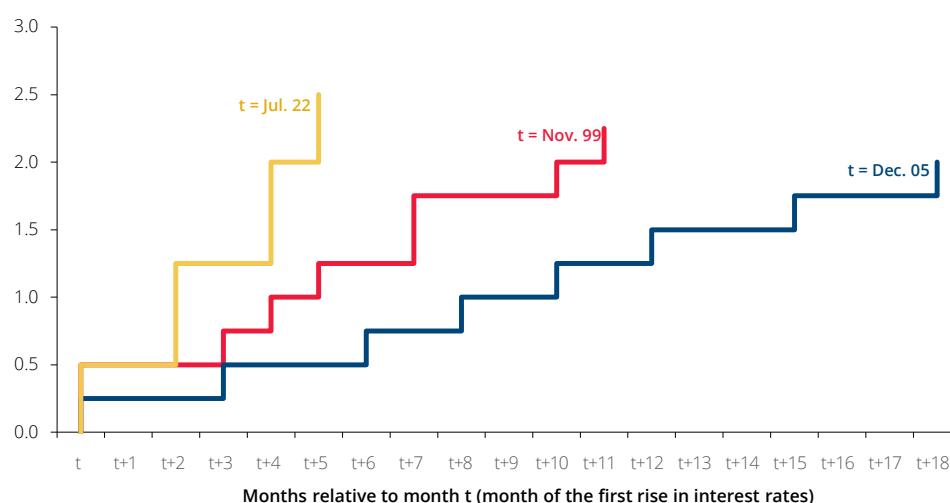
In 2022, despite rising inflation, the Portuguese economy presented a solid macroeconomic outlook. The external accounts and public accounts were close to balance, while the ratios of public debt, private indebtedness and external indebtedness decreased. In addition, low unemployment rates and productivity growth in line with real wage developments were observed. The demographic issue is a structural constraint to growth, which must be mitigated by immigration, but above all by continuously enhancing the skills of workers and aligning them with labour market needs. The increase in the investment rate, preferably financed by domestic savings or foreign direct investment, is also a key element for growth as it leads to the adoption of new technologies and the consequent increase in productivity per worker. Inevitably, the sectoral structure of the Portuguese economy will continue to evolve, adapting to global demand and to trade conditions in international markets, desirably amid greater stability and multilateralism.

2 Highlights of the year

2.1 The transmission of the ECB's monetary policy to financing conditions

In 2022, the Governing Council began a cycle of interest rate rises. The very accommodative monetary policy stance that had prevailed for over a decade was reversed as inflation in the euro area rose persistently above the ECB's 2% target. In the first half of 2022, the Governing Council gradually reduced the pace of net asset purchases and these ended at the beginning of July. From that month onwards, monetary policy was again conducted mainly by changes in the key interest rates, the ECB's main monetary policy instrument. Between July and December key interest rates rose by 2.5 p.p., the highest pace of increase in the euro area's history (Chart I.2.1). In December, given the expectation that inflation would remain high over the medium term, the Governing Council announced that it expected to further increase key interest rates and that the asset purchase programme portfolio would start to be reduced in March 2023.

Chart I.2.1 • Cumulative change in the ECB policy rate in rate hiking cycles | Percentage points



Source: ECB. | Notes: Changes calculated against the level of the policy rate in the month prior to the start of the hiking cycle. In the cycles starting in November 1999 and December 2005, the policy rate is the interest rate on the main refinancing operations. In the cycle starting in July 2022, the interest rate on the deposit facility is considered as the policy rate, in a context of high excess liquidity. End-of-month values. The last observation is for December 2022.

Medium-term inflation expectations remained consistent with the ECB's target. Inflation expectations are crucial in wage bargaining processes and in firms' pricing decisions. The ability to anchor expectations is one of the mechanisms by which central banks condition inflation. In the euro area and Portugal, measures of expectations extracted from financial instruments or surveys increased in 2022, mainly in shorter horizons and following the invasion of Ukraine. Nevertheless, measures of longer-term expectations remained close to 2%. At the end of the year, responses from the ECB's Survey of Monetary Analysts indicated a gradual decline in euro area inflation in 2023-24, followed by stabilisation at the ECB's target (2.0%).

The increase in the ECB's key interest rates spilled over to market rates. By affecting developments in the economy's various interest rates, monetary policy sought to influence the consumption and investment decisions of households and firms, contributing to reduce inflation. EURIBOR rates, as well as market rates for longer maturities used as a benchmark in several financial products, began to rise before the first policy rate hike in July, reflecting agents' expectations for future rate increases (Table I.2.1). In the public debt market, transmission was relatively uniform across euro area countries, benefiting from the ECB's announcement of a new monetary policy instrument in July, the so-called Transmission Protection Instrument. This new instrument allows the Eurosystem to make secondary market purchases of securities issued in jurisdictions experiencing a deterioration in financing conditions not warranted by country-specific fundamentals. Over the year, the increase in the interest rate on 10-year Portuguese public debt was close to the increase in the key interest rates.

Table I.2.1 • Market interest rates and bank interest rates for households and non-financial corporations in Portugal | Monthly average values in percentage

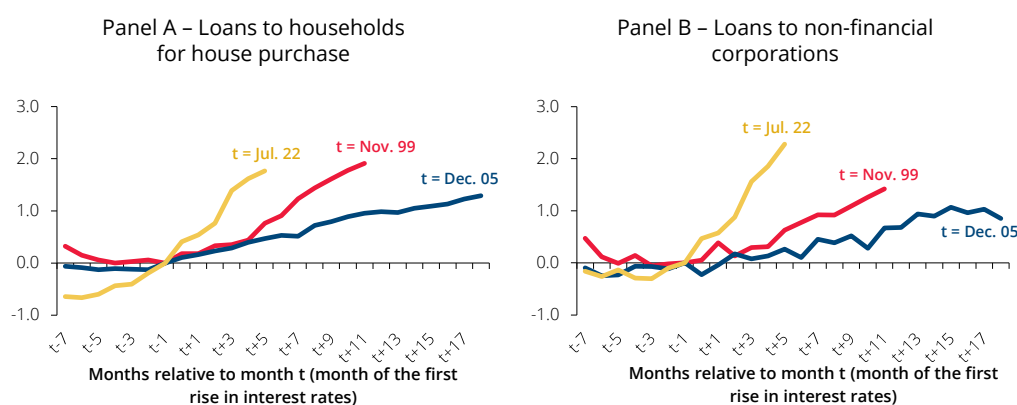
				<i>Memo: euro area</i>		
	Dec 21	Jun 22	Dec 22	Dec 21	Jun 22	Dec 22
Policy and market interest rates^(a)						
Interest rate on the deposit facility ^(b)	-0.5	-0.5	2.0	-0.5	-0.5	2.0
6-month Euribor	-0.5	0.2	2.6	-0.5	0.2	2.6
12-month Euribor	-0.5	0.9	3.0	-0.5	0.9	3.0
2-year interest rate swap rate	-0.3	1.6	3.1	-0.3	1.6	3.1
5-year interest rate swap rate	-0.1	2.0	2.9	-0.1	2.0	2.9
10-year interest rate swap rate	0.2	2.3	2.8	0.2	2.3	2.8
10-year public debt interest rate	0.4	2.7	3.1	0.1	2.2	2.8
Interest rate on new loans						
Households – House purchase	0.8	1.5	3.2	1.3	1.9	2.9
Households – Consumption	7.2	7.8	8.0	5.1	5.6	6.5
Households – Other purposes	2.2	2.7	4.5	1.9	2.4	3.8
Non-financial corporations	2.0	2.2	4.4	1.2	1.8	3.4
Interest rate on stock of loans						
Households – House purchase	0.8	1.1	2.3	1.6	1.6	1.9
Households – Consumption and other purposes	6.0	6.6	7.1	4.1	4.1	4.5
Non-financial corporations	2.1	2.1	3.2	1.6	1.7	2.6
Interest rate on new deposits with agreed maturity						
Households	0.04	0.07	0.35	0.23	0.29	1.45
Non-financial corporations	0.06	0.06	0.97	-0.31	-0.09	1.83
Interest rate on stock of deposits with agreed maturity						
Households	0.08	0.07	0.11	1.14	1.15	1.26
Non-financial corporations	0.07	0.07	0.58	0.16	0.25	1.38

Sources: Banco de Portugal, ECB and Refinitiv. | Notes: a) Policy and market interest rates are the same in all euro area countries. b) End-of-month values.

The rise in the interest rates on new loans to firms and households for house purchase was more pronounced than in previous interest rate hiking cycles, in line with the high pace of increase in policy rates in 2022 (Chart I.2.2). In December, the average interest rates for new loans to firms and to households for house purchase in Portugal stood at 4.4% and 3.2%, respectively, 2.4 p.p. higher than in December 2021 and a peak since January 2015 and June 2014, respectively (Table I.2.1). The average rate on new consumer credit increased more moderately (by 0.8 p.p.), standing at 8% at the end of the year, the same figure as in late 2015.

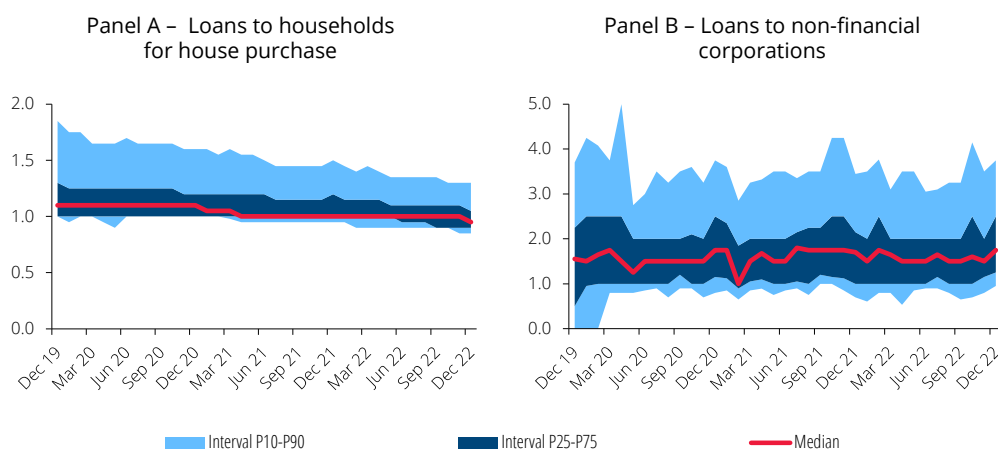
Developments in spreads charged by banks do not suggest any significant changes in the risk assessment of new debtors. The increase in interest rates on new loans to firms and households was broadly based across different levels of risk and mainly reflected developments in market rates, as the value and dispersion of spreads remained stable (Chart I.2.3). Spread stability may reflect some recomposition of new debtors as well as favourable developments in economic activity. In this economic context, the non-performing ratios of households and firms remained low, to which the increase in credit renegotiations might also have had a contribution. In the case of credit for the purchase of own and permanent residence, the share of renegotiations not related to non-compliance and in which customers had active participation increased from 0.1% of total loans in January to 0.3% in December.

Chart I.2.2 • Cumulative change in the interest rate on new loans in Portugal during periods of hikes in ECB key interest rates | Percentage points



Source: Banco de Portugal. | Notes: Changes calculated relative to the month prior to the first rise in interest rates (t-1). The last observation is for December 2022. In 2022, interest rates on new loans to house purchase loans increased before the first rise in ECB key interest rates, reflecting the rise in the 12-month Euribor rate, which was the main reference rate for those in the first semester of 2022. The anticipated rise in the 12-month Euribor (Table I.2.1) reflected agents' expectations regarding increases in key rates in the future.

Chart I.2.3 • Distribution of spreads on new bank contracts | Percentage points



Source: Banco de Portugal. | Notes: Data from the Central Credit Register (CCR). Distribution weighted by loan amount. Interval P10-P90 (P25-P75) corresponds to the interval between the 10th (25th) and 90th (75th) percentile of the distribution in each month. New contracts correspond to new loans excluding renegotiations not associated with default and in which customers had an active participation.

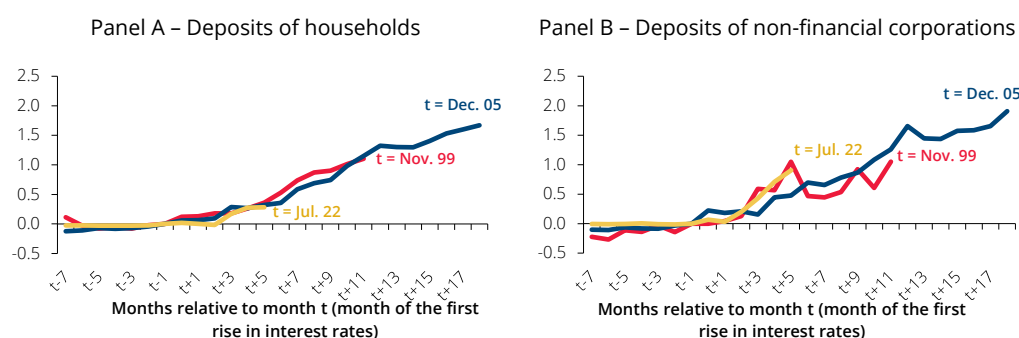
In 2022, debt service increased for most households and firms. The prevalence of variable rate loans (i.e. with a rate fixation period equal to or less than one year) in the outstanding amount of loans implies a rapid pass-through of the increase in money market interest rates to the debt service of most households and firms. In December, average interest rates on loans for house purchase, consumption and other purposes, and to firms stood 1.5 p.p., 1.1 p.p. and 1.2 p.p. higher than year-on-year figures (Table I.2.1). In 2022, the total amount of interest paid by households increased by 24.6% (43.4% for loans for house purchase). The increase in interest paid occurred mainly in the second half of the year. At the end of the year, most loan agreements had not yet been updated to fully reflect the strong rise in key interest rates in 2022. The instalment amount for half of households with loans for house purchase increased by at least 17% in 2022. The increase in instalments was more pronounced for younger debtors, reflecting that, in the most recent loan agreements, interest payments have a greater weight on the instalment amount. In the age groups 18-34, 35-54 and 55-80 years, the instalments of half of the debtors increased by at least 19%, 16% and 6%, respectively. Across all firms with bank loans, interest paid increased by 9.4% in 2022. For these firms, the median value of interest as a percentage of 2021 EBITDA increased from 1.4% to 1.7%.

The share of households and, to a lesser extent, firms with variable rate debt is higher than in the euro area, contributing to higher interest rates on the outstanding amount of loans in Portugal. However, this effect is smaller than in the past. Until 2014, new loans with an interest rate fixation period of less than one year accounted for almost all new loans to households for house purchase and firms, while in 2022 they accounted for 69% and 82% of total new loans (17% and 81% in the euro area, respectively). This reflects the increase in the share of loans indexed to the 12-month Euribor rate and loans with longer fixation periods. The recomposition of the fixation periods was very pronounced for consumer credit, where new loans with an interest rate fixation period of over five years currently predominate (77% in 2022, compared with 54% in the euro area). Differences in the maturity structure seem to have contributed to the interest rate on new loans increasing more in Portugal for loans for house purchase and less for consumer credit (Table I.2.1).

The interest rates on new deposits with agreed maturity incompletely reflected the rapid increase in the ECB's key interest rates (Chart I.2.4). In the euro area, interest rates on new deposits increased by 1.2 p.p. for households and 2.1 p.p. for firms, compared with December 2021. In Portugal, the increase was 0.3 p.p. and 0.9 p.p. respectively, with the interest rates standing at 0.4% and 1.0% at the end of the year (Table I.2.1). Abundant liquidity is likely to have contributed to this weak monetary policy transmission through banks' liabilities. In any event, the high differential between the remuneration on excess liquidity by the ECB and the average interest rate on deposits with agreed maturity in Portugal creates arbitrage opportunities that should lead, at least in part, to a decrease in that differential.

The increase in financing costs contributed to the slowdown in bank lending to households and a stabilisation of bank lending to firms. This reflected the behaviour of new loans as well as the increase in repayments (Table I.2.2), in a context where some households and firms had accumulated large amounts in bank deposits, and where the differential between interest rates on loans and deposits increased significantly. For households, the slowdown in lending was highly influenced by the housing segment. According to the Bank Lending Survey, rising interest rates, declining consumer confidence and deteriorating housing market outlook contributed to lower demand for loans for house purchase. For firms, new loans stabilised mainly reflecting lower demand for long-term loans. According to banks, lower demand was justified by lower investment needs and rising interest rates and was partly offset by an increase in inventories and working capital financing needs.

Chart I.2.4 • Cumulative change in the interest rate on new deposits in Portugal during periods of hikes in ECB key interest rates | Percentage points



Source: Banco de Portugal. | Notes: Changes calculated relative to the month prior to the first rise in interest rates (t-1). The last observation is for December 2022.

Table I.2.2 • Evolution of flows and stocks of bank loans to households and non-financial corporations | Percentage and millions of euros

	Weights 2019	Dec 19	Jun 20	Dec 20	Jun 21	Dec 21	Jun 22	Dec 22
Annual rate of change (%)								
Households	100	1.7	1.5	1.8	3.2	3.9	4.6	3.6
House purchase	79	1	1.5	2.3	3.6	4.4	4.8	3.6
Consumption and other purposes	21	4.8	1.6	-0.1	1.7	2.1	3.8	3.3
Non-financial corporations	100	0.4	5.6	9.7	6.2	4.2	2.9	0.6
Net flow, new loans and repayments (M€ accumulated 6 months)								
Households – House purchase								
New loans		5,327	4,854	5,720	6,720	7,447	7,817	6,705
Repayments		4,605	4,176	4,283	4,780	5,208	5,466	5,534
Net flows		722	677	1,437	1,940	2,239	2,352	1,170
Non-financial corporations								
New loans		14,570	15,989	10,779	8,876	8,920	10,081	9,718
Repayments		15,406	11,380	8,964	6,273	8,435	8,356	10,968
Net flows		-836	4,609	1,815	2,603	485	1,725	-1,250

Sources: Banco de Portugal, ECB and Banco de Portugal calculations. | Notes: New loans do not include renegotiations. Repayments were calculated as the symmetric of the difference between net flows and new loans.

Household indebtedness and firms' leverage ratios declined. Household aggregate debt stood at 93.4% of disposable income in December 2022 (94.1% in the euro area). In the case of firms, the slight reduction in the debt-to-assets ratio contrasts with the increase observed in the euro area. Still, Portuguese firms continued to be more leveraged than those in the euro area (respectively, 50.1% and 44.5% of assets in December 2022). In 2022, despite the stabilisation of bank loans, total corporate debt increased due to a rise in trade credits with non-residents, resulting from the increase in the value of imports.

Households' and firms' deposits slowed down, despite maintaining robust growth. The annual rates of change in deposits by households and firms stood at 5.4% and 9.1%, respectively, in December 2022, compared with 6.6% and 17.1% in December 2021. Low profitability on deposits led to a reallocation of household wealth towards other risk-free assets such as savings certificates,

a particularly strong movement in the last quarter. In the case of firms, the lower accumulation of deposits occurred in a context where firms' investments increased more than their savings, and where liquidity concerns related to the pandemic crisis dissipated.

The transmission of monetary policy to the Portuguese economy will continue in 2023. Part of the impact of the increase in ECB's key interest rates in 2022 in financing conditions, economic activity and inflation will only materialise in 2023. The impact of the rise in key interest rates in 2023 will add to these lagged effects. Portuguese households and firms are currently better equipped to face a more restrictive environment but with a differentiated exposure.

2.2 Rising inflation

Inflation increased in Portugal and globally, reflecting the effects of the war in Ukraine on energy and food prices, global supply constraints in some sectors and, to a lesser extent, the recovery in demand. The increase in domestic pressures stemming from profit margins and wages contributed moderately to the rise in prices. The inflation rate in Portugal, measured by the HICP, stood at 8.1% in 2022, 7.2 p.p. above the 2021 figure. The increase in prices was broadly based across the main aggregates, with contributions to the HICP annual rate of change of 2.9 p.p. from food, 2.0 p.p. from services, 1.9 p.p. from energy goods and 1.2 p.p. from other industrial goods (Table I.2.3).

Table I.2.3 • Harmonized Index of Consumer Prices and main aggregates | Rate of change, in percentage

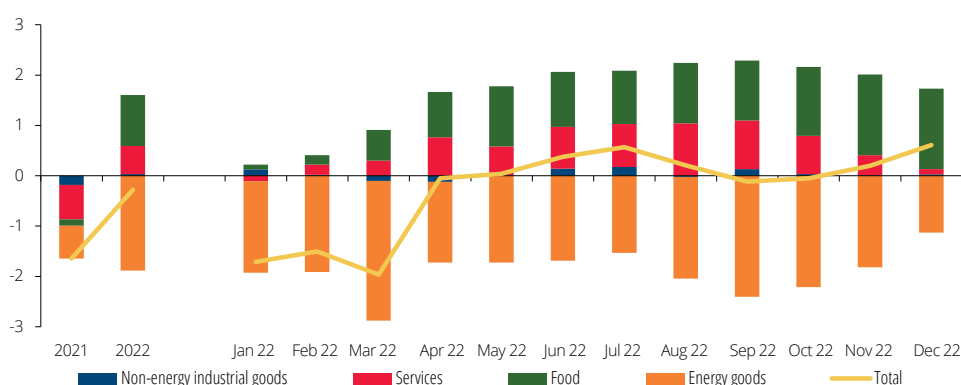
	Weights in 2022	Annual rate of change			Year-on-year rate of change							
		2020	2021	2022	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Total	100.0	-0.1	0.9	8.1	0.2	-0.1	1.2	2.4	4.4	8.2	9.5	10.2
Goods	59.5	-0.6	1.7	10.2	0.4	1.8	2.0	2.7	5.4	10.1	11.7	13.4
Food	25.5	1.8	0.8	11.4	0.8	0.0	0.7	1.5	4.7	10.4	13.4	17.1
Unprocessed	7.3	5.0	1.1	13.5	2.4	0.7	0.5	0.9	4.6	12.5	16.5	20.0
Processed	18.2	0.6	0.6	10.6	0.2	-0.2	0.8	1.7	4.7	9.6	12.2	16.0
Industrial	34.0	-2.2	2.4	9.3	0.0	3.0	2.9	3.6	6.0	9.9	10.4	10.7
Non-energy	26.0	-1.3	0.8	4.8	0.4	1.3	0.7	0.8	3.0	4.2	5.6	6.4
Energy	8.0	-5.2	7.5	23.8	-1.8	9.4	9.8	13.2	15.9	28.9	25.9	24.3
Services	40.5	0.4	0.0	5.0	0.0	-2.4	0.4	2.0	2.9	5.3	6.4	5.5
<i>Memo items:</i>												
Total excluding energy	92.0	0.3	0.4	6.7	0.3	-0.8	0.5	1.5	3.4	6.4	8.1	9.0
Total excluding food and energy	66.5	-0.2	0.2	5.0	0.1	-1.1	0.4	1.5	3.0	4.9	6.1	5.9
Total excluding food, energy and volatile tourism-related items	63.5	0.2	1.1	3.8	0.7	1.4	1.1	1.3	2.7	3.4	4.1	4.8
<i>Euro area:</i>												
Total	100.0	0.3	2.6	8.4	1.1	1.8	2.8	4.6	6.1	8.0	9.3	10.0
Total excluding food and energy	68.2	0.7	1.5	3.9	1.2	0.9	1.4	2.4	2.7	3.7	4.4	5.1

Sources: Eurostat e Statistics Portugal. | Note: Volatile tourism-related items correspond to Package Holiday Services and Accommodation and Domestic and international flights.

In the euro area, inflation was 8.4%, 5.8 p.p. more than in the previous year. The inflation differential between Portugal and the euro area narrowed, from -1.6 p.p. in 2021 to -0.3 p.p. in 2022. Energy prices increased less in Portugal, but this negative differential was largely offset by more buoyant food and services prices (Chart I.2.5).

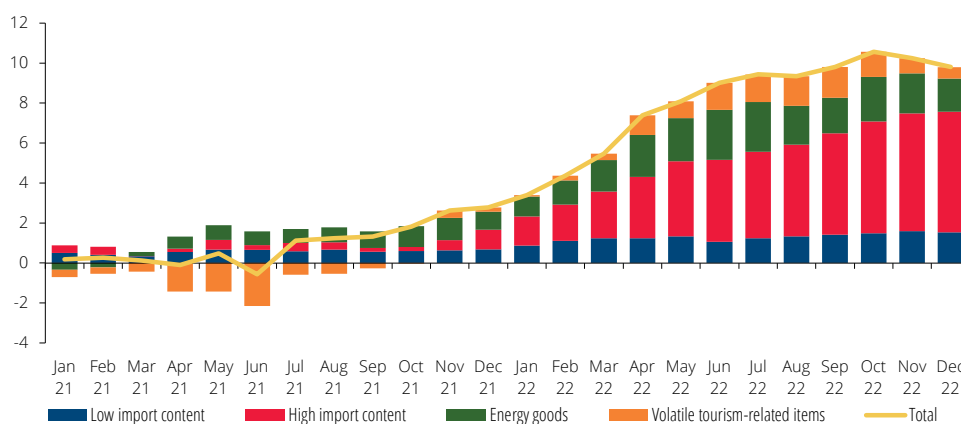
External price pressures reflected the marked increase in international commodity prices, in particular energy, and the rise in inflation in Portugal's main trading partners. These factors resulted in a 20.4% increase in the goods import deflator, following a rate of 8.6% the previous year. Developments in food and fuel deflators stand out, with annual changes of 18.6% and 87.2% respectively. External pressures in the inflation spike are visible in developments in the contribution of HICP components with a high import content, including energy goods (Chart I.2.6). These goods are a very relevant input in several activities, resulting in high energy-intensive components of the HICP contributing the most to the increase in inflation in 2022 (Chart I.2.7).

Chart I.2.5 • Inflation differential between Portugal and the euro area | Percentage points



Sources: Eurostat and Statistics Portugal.

Chart I.2.6 • Inflation by import content | Year-on-year rate of change, as a percentage, and contributions, in percentage points

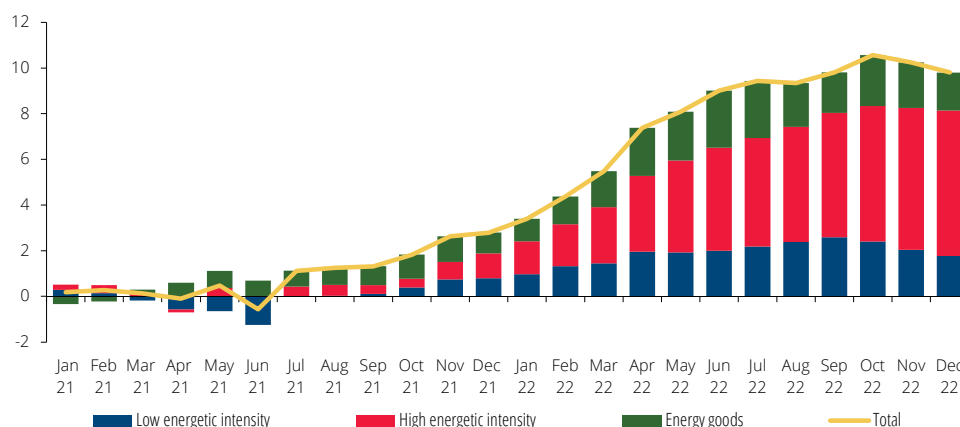


Sources: Statistics Portugal (Banco de Portugal calculations). | Notes: The import content includes direct and indirect content of private consumption in 2017 and was estimated on the basis of the correspondence between the products of the HICP basket (considering 4-digit COICOP) and the nomenclature of products of the national accounts at the most detailed level available of the import contents (82 products). The HICP components of high import content correspond to the components characterized by an estimated import content above 20% in consumption expenditure. These components weigh 46.6% of total HICP, while the low import context weigh 42.5%.

The recovery in demand for services most affected by the pandemic also contributed to the increase in inflation. This higher demand resulted from the release of pent-up demand, partly by using savings accumulated during the pandemic. The prices of the HICP volatile tourism-related items, such as tourist accommodation and international air travel, rose by 30.2%, following a -5.6%

change in 2021. Restaurants prices, which are typically more stable, increased by 7.0%, following 1.9% growth in 2021. This likely reflected higher food-related costs in addition to growth in demand.

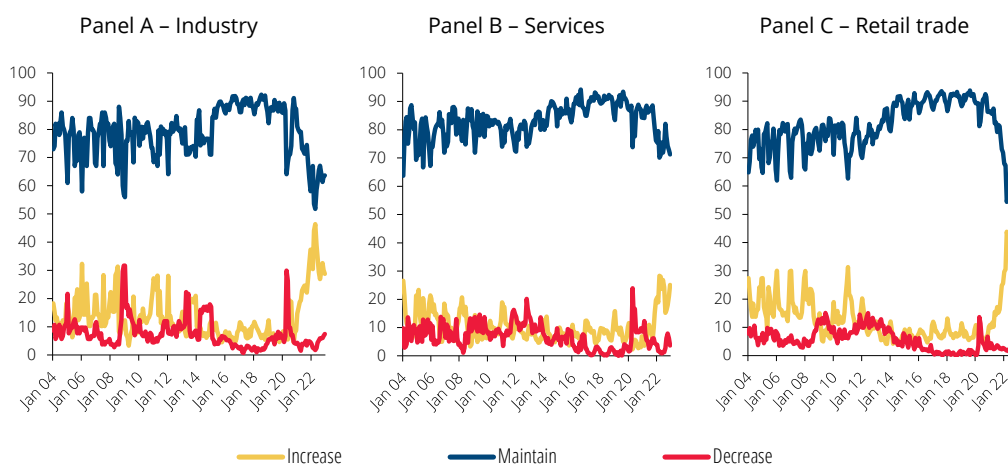
Chart I.2.7 • Inflation by energy intensity | Year-on-year rate of change, as a percentage, and contributions, in percentage points



Sources: Statistics Portugal (Banco de Portugal calculations). | Note: The calculation of energy intensity (direct and indirect energy use per production unit) was based on the 2017 input-output matrices, disaggregated by branch of activity (CAE). The aggregate of sectors (CAE) was considered as energy sectors: B – Extractive industries; C19 – Coke and refined petroleum products and D – Electricity, gas and steam. The energy intensity per HICP item was obtained from a conversion key from CAE to COICOP. Items with high (low) energy intensity are those with a value above (below) the global average, which weigh 50.5% (41.5%) of the total HICP. Energy goods are all of high energy intensity.

The persistence and scope of inflationary pressures are likely to have contributed to more frequent changes in prices. In all sectors, the share of entrepreneurs reporting their intention to increase sales prices was higher than in the past: 34% in industry, 22% in services and more than 35% in retail trade in 2022, compared with average shares of 12%, 10% and 12% respectively in 2004-19 (Chart I.2.8). This suggests that firms might have passed through the higher costs to their customers by changing the sales prices more frequently. Benefiting from this environment, some firms are also likely to have increased their profit margins.

Chart I.2.8 • Expectations of the prices over the next 3 months | Percentage of companies reporting an intention to increase, maintain or decrease prices

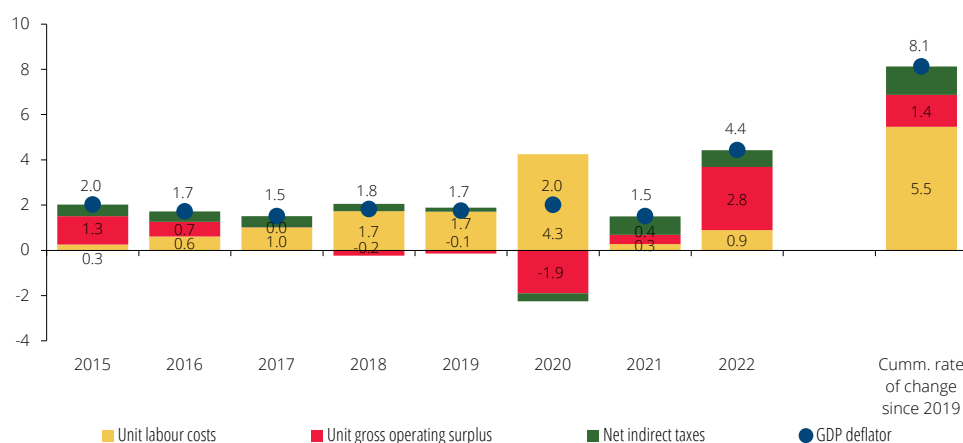


Source: European Commission.

The GDP deflator increased by 4.4%, with a focus on the contribution of corporate profit margins, which recovered after the compression observed during the pandemic period, contributing to the increase in domestic price pressures (Chart I.2.9). The share of capital in GDP still fell short of 2019 figures. Compensation per employee accelerated, in an environment of high inflation, low unemployment rates and an increase in the share of firms reporting difficulties in hiring. Developments in average wage were also influenced by the rise in the minimum wage. The impact of rising wage costs on the GDP deflator was mitigated by the recovery in productivity.

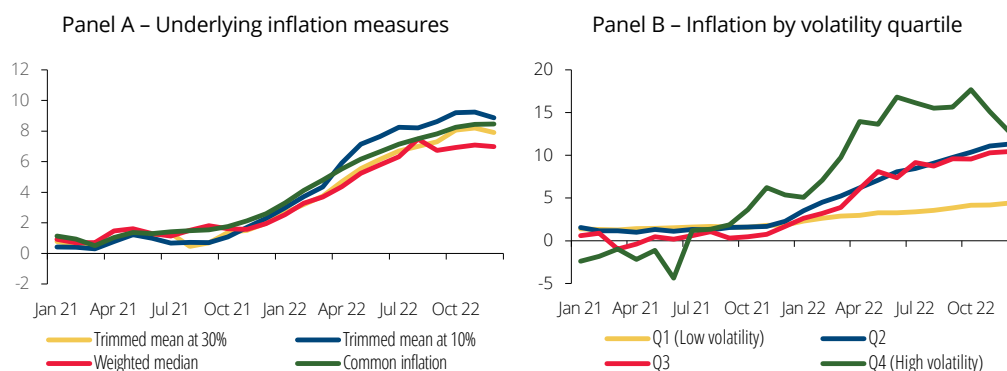
Measures of underlying inflation increased throughout 2022 and stabilised at the end of the year. An analysis of price changes in HICP basket items, which are classified by degree of historical volatility, shows that the acceleration in prices was most noticeable in items with higher volatility, but extended to all quartiles (Chart I.2.10).

Chart I.2.9 • Change in the GDP deflator and contributions | Percentage and percentage points



Source: Statistics Portugal (Banco de Portugal calculations). | Note: The GDP deflator can be broken down – on the income side – into the contribution of wages of workers (unit labour costs), profits (or gross unit operating surplus) and net taxes on products per unit produced. Wages include employee wages and self-employed earnings, with an assumption for their wage. Gross operating surplus is calculated from the difference between nominal GVA and total wages.

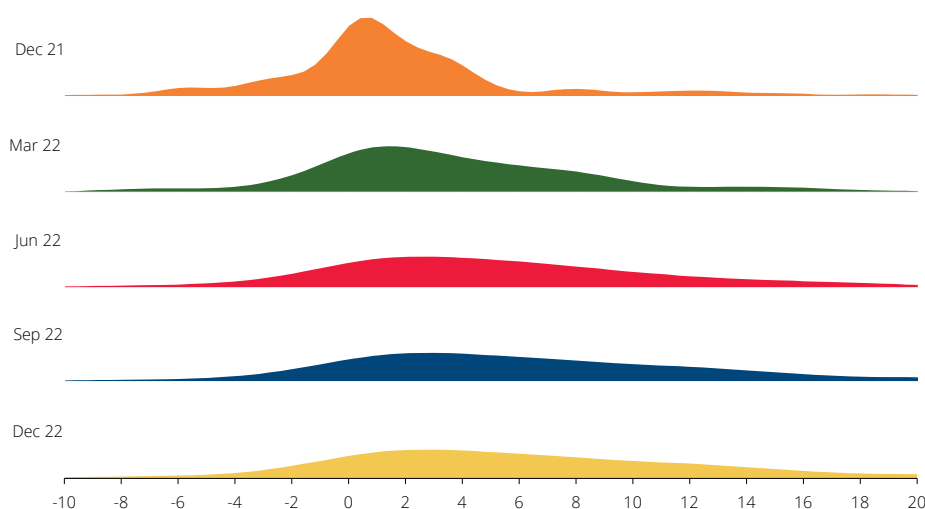
Chart I.2.10 • Underlying inflation measures and inflation by volatility quartiles | Year-on-year rate of change, as a percentage



Traduzir para: Sources: Statistics Portugal (Banco de Portugal calculations). | Note: For more details about the methodology used to estimate the common inflation measure, see Quelhas, João and Sara Serra (2023), "The inflation process in Portugal: the role of price spillovers", *Banco de Portugal Economic Studies* Volume IX – No 2, Banco de Portugal, for the remaining measures, see Box 6 "Measures of underlying inflation" of the May 2022 issue of the *Economic Bulletin*.

Price pressures widened their scope throughout the year. The distribution of year-on-year rates of change in the items composing the HICP shifted gradually to the right throughout 2022, showing also greater dispersion (Chart I.2.11).

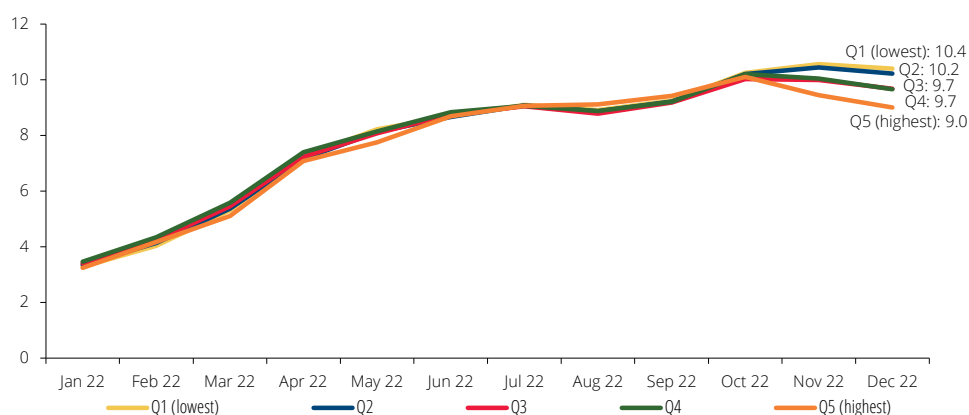
Chart I.2.11 • Distribution of the year-on-year rate of change of HICP items | Percentage



Source: Statistics Portugal (Banco de Portugal calculations).

The impact of rising inflation was uneven across households, reflecting differences in consumer baskets and in price developments across the several goods and services. Taking into account the representative basket per income quintile, estimates for the price change relevant for the various groups were similar in the first three quarters of 2022. However, at the end of the year, these estimates diverged and in December, stood at 10.4% for lower-income households, compared with 9% for those in the highest income quintile (Chart I.2.12). The higher figure for lower-income households results from accelerating food prices, which account for a higher share of consumption of these aggregates.

Chart I.2.12 • Inflation by income quintiles | Year-on-year rate of change, as a percentage

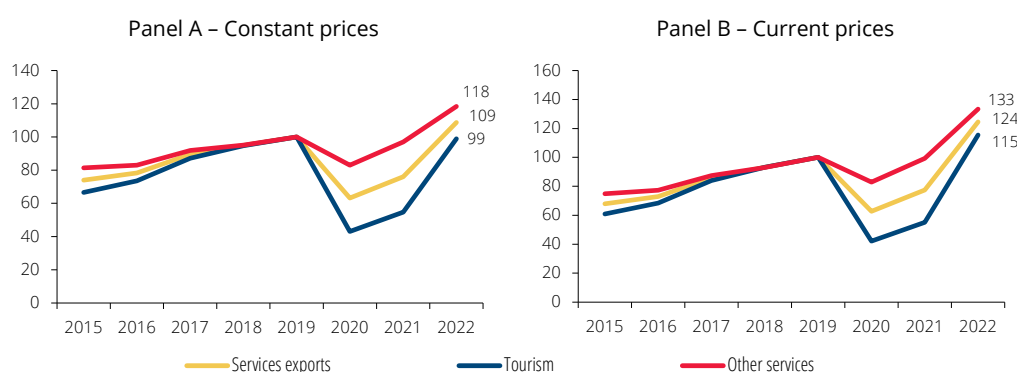


Source: Statistics Portugal (Banco de Portugal calculations). | Note: For more details on the breakdown of the consumption basket by income level, see Box 6 “Inflation estimates by income level and age group” of the October 2022 issue of the *Economic Bulletin*.

2.3 The performance of services exports

In 2022, exports of services surpassed the pre-pandemic level after the sharp fall recorded in 2020. The pandemic particularly affected tourism and international transport, the two components with the greatest weight in services exports (51% for tourism and 21% for transport, in 2019). In 2022, exports of services grew by 43.1%, providing a 4.1 p.p. contribution net of import content to real GDP growth. Total exports of services stood 8.7% above pre-pandemic levels, with tourism approximately at its 2019 level and other services 18.3% above (Chart I.2.13 – Panel A). In nominal terms, the recovery in services exports was sharper, with an annual growth of 60.8%, greatly driven by tourism (Chart I.2.13 – Panel B).

Chart I.2.13 • Exports of services in the National Accounts | Index 2019=100



Source: Statistics Portugal.

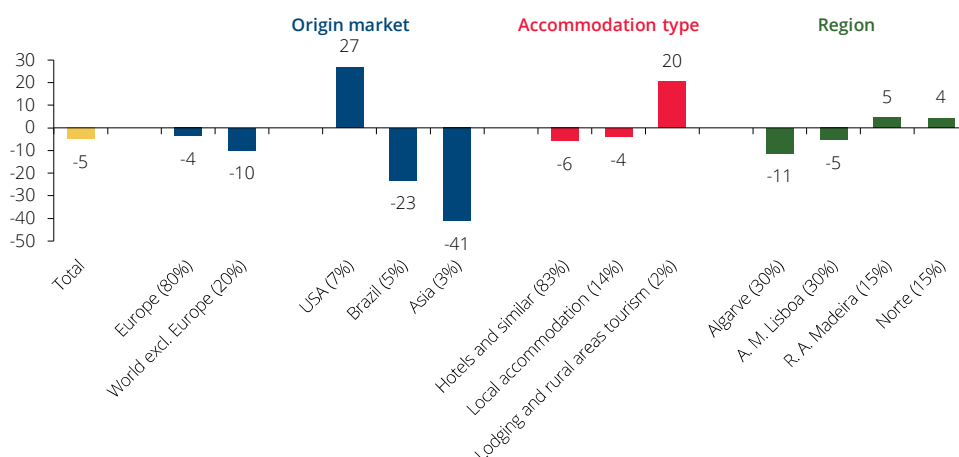
The recovery in overnight stays by non-residents was differentiated across segments. The total number of non-resident overnight stays in tourism establishments was 5% lower than in 2019, in a context where some segments, such as business tourism, have not yet returned to pre-pandemic levels. The recovery in overnight stays from Europe was similar to total overnight stays and similar across European countries (Chart I.2.14). Overnight stays for tourists from non-European countries were 10% lower than those recorded in 2019, among which there was a great contrast between the very strong growth in overnight stays from the United States (US) and the 41% reduction from the Asian market.

By type of establishment, there was significant growth in tourism in rural areas and lodging tourism, which has traditionally represented a small share of total overnight stays for non-residents. In 2022, the Algarve and Área Metropolitana de Lisboa, usually the regions with the most tourists, failed to reach the levels recorded in 2019. In contrast, overnight stays by non-residents exceeded pre-pandemic levels in Região Autónoma da Madeira and Norte regions.

The recovery in overnight stays was observed in tandem with an 18% increase in the HICP for accommodation services compared with 2019, above the cumulative total inflation. This development is consistent with that of the average daily rate in the accommodation establishments underlying the total sample of overnight stays (by residents and non-residents), which grew by 16.3% compared with 2019. In the same period, there was also an increase in the share of higher rated hotels: the number of overnight stays increased by 7.3% in five-star hotels, resumed 2019 figures in mid-range hotels and decreased by 6.1% in hotels with two or fewer stars. The comparison between the growth observed from 2019 to 2022 in the revenue generated by overnight stays and the growth that would have occurred if they had maintained the same structure as in 2019 suggests a slightly

positive composition effect due to hotels and tourism in rural areas and lodging tourism. It was also in the five-star segment that the average daily rate increased the most (20%).

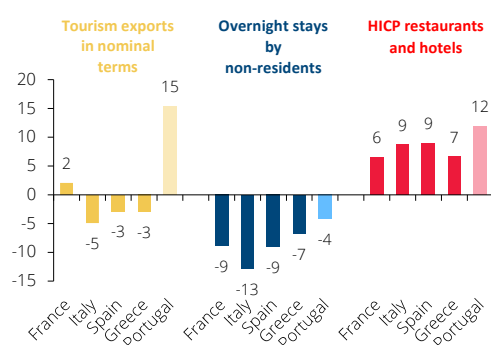
Chart I.2.14 • Composition of overnight stays by non-residents in 2022 | Rate of change vis-à-vis 2019, in percentage



Source: Statistics Portugal. | Notes: The percentages between parentheses correspond to the weight of the segments indicated in the total number of overnight stays by non-residents in 2022. These data do not include overnight stays in local accommodation establishments with less than 10 beds.

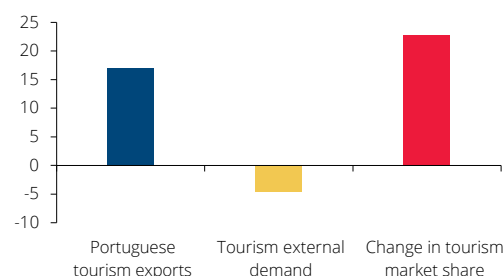
Tourism exports grew more markedly than in competing countries. Compared to the pre-pandemic period, Portugal stands out due to a higher rate of change in nominal export revenues, in overnight stays of non-residents and in prices in the sector (Chart I.2.15). There was also a gain in market share, in a context where external demand for tourism has not yet returned to pre-pandemic levels (Chart I.2.16). All major source markets contributed to this gain, except for the United Kingdom, where there was a slight loss of market share. The contributions from Spanish and US markets stand out.

Chart I.2.15 • Tourism in 2022: international comparison | Rate of change vis-à-vis 2019, in percentage



Source: Eurostat. | Note: The rate of change in overnight stays for Portugal presented here differs from that in Chart I.2.14 because the indicator available in Eurostat refers to a wider perimeter (it includes overnight stays in camping sites and youth hostels and overnight stays in rural tourism in establishments with less than 10 beds).

Chart I.2.16 • Tourism exports, external demand and market share in 2022, in nominal terms | Rate of change vis-à-vis 2019, in percentage



Sources: Banco de Portugal, Eurostat, IMF (Banco de Portugal calculations). | Notes: Exports refer to the set of countries included in the external demand indicator, which represent around 87% of nominal tourism exports in 2019. The external demand indicator is a weighted average of tourism imports from the main source countries. Each country is weighted according to their share in total Portuguese tourism exports in 2019.

The sector's performance is expected to have continued to benefit from non-price competitiveness factors such as perceived safety. In the World Economic Forum's competitiveness indicator for tourism, in 2021, Portugal ranked 11th out of 117 countries in the safety criterion, comparing favourably with competing Mediterranean countries (Chart I.2.17). It should also be noted that price levels for accommodation and food services in Portugal are lower than those of direct competitors (Chart I.2.18).

Chart I.2.17 • Tourism competitiveness indicators | Country Ranking in 2021

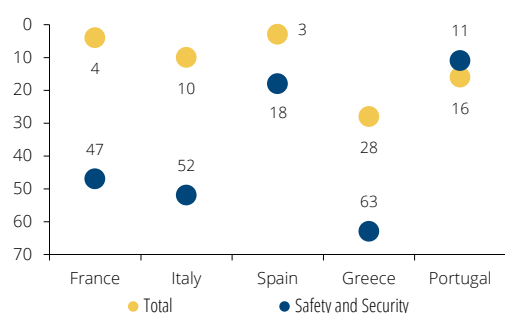
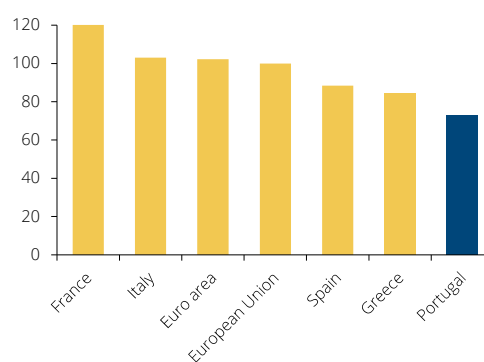


Chart I.2.18 • Price level indices in restaurants and hotels in 2021 | EU27=100



Source: World Economic Forum (Travel & Tourism Development Index).
| Note: The ranking refers to a total of 117 countries.

Source: Eurostat. | Note: Prices expressed in purchasing power parities.

Nominal exports of services excluding tourism increased by 32.1%, with a significant contribution from the transport component. This component grew by 57.3% (Table I.2.4), among which the air transport segment growth stands out at 110%.

Exports of telecommunication, computer and information services have shown great buoyancy in recent years, increasing their share of total services excluding tourism. The average growth in sales of these services abroad in the period 2015-19 was 13.1% in nominal terms, compared with 6.5% for exports of services excluding tourism. These exports were not negatively affected by the pandemic, with an average growth of 21.1% over the period 2020-22. Their weight in total exports of services excluding tourism increased from 9.1% in 2015 to 16.2% in 2022 (Table I.2.4).

Table I.2.4 • Indicators of exports of services excluding tourism | In percentage

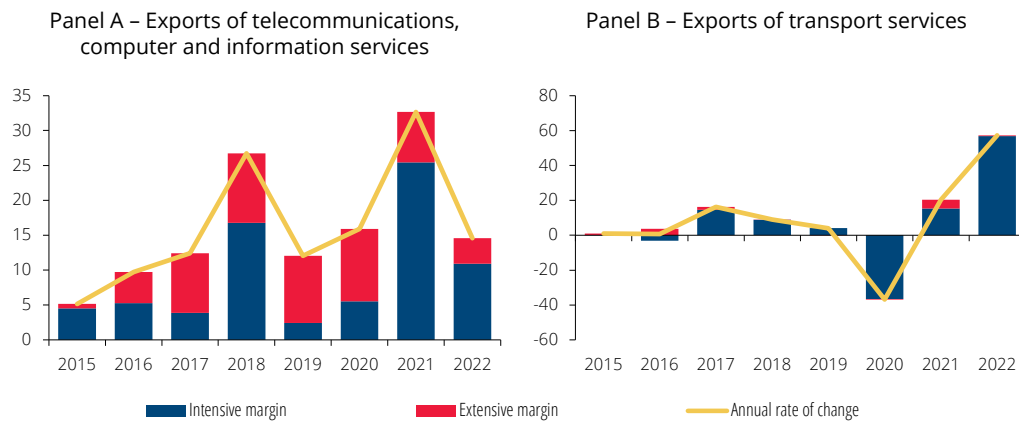
	Weights		Annual rate of change			Rate of change compared to 2019 2022
	2019	2022	2020	2021	2022	
Exports of services excluding tourism	100.0	100.0	-16.3	19.7	32.1	32.4
of which:						
Transport services	43.3	39.1	-36.8	20.3	57.3	19.5
Telecommunications, computer and information services	12.2	16.2	15.9	32.7	14.6	76.2

Source: Banco de Portugal (Balance of payments statistics).

The momentum of exports of telecommunication, computer and information services reflects a significant contribution from firms entering the exports market (extensive margin). Firms that

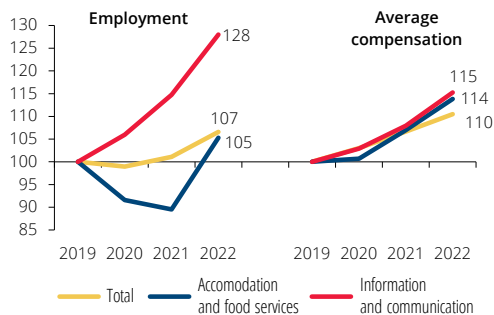
joined the market in the last three years accounted for 11.8% of the total number of firms exporting these services, but for 15.1% of exports. In contrast, in the case of exports of transport services, the contribution from firms that were already in the exports market in the previous year (intensive margin) explains most of the annual change in exports (Chart I.2.19).

Chart I.2.19 • Decomposition of the exports growth between intensive and extensive margins | Annual growth rate in percentage and contributions in percentage points



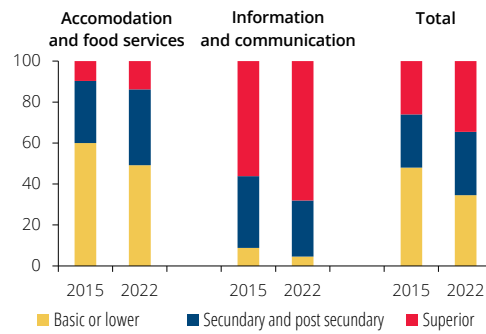
Source: Banco de Portugal (Balance of payments statistics). | Note: Intensive margin corresponds to the growth of exports from enterprises that remain in the exporting market for at least two years in a row. The extensive margin corresponds to the change in exports resulting from the entry and exit of enterprises.

Chart I.2.20 • Employment and gross monthly earnings | Index 2019 = 100



Source: Statistics Portugal. | Note: Employment is measured in jobs and the monthly earnings corresponds to the average per job.

Chart I.2.21 • Employment by education level | As a percentage of the total



Source: Statistics Portugal – Labour Force Survey (Banco de Portugal calculations). | Note: Data refer to the age bracket 16 to 89 years old.

The momentum of services exports was also reflected in the labour market. According to the European Commission's confidence surveys, in 2022, 18% of firms in the accommodation sector indicated shortage of labour force as a limiting factor to business, the highest among services subsectors. Although the accommodation and food services sector was one of the most affected by the pandemic, employment stood 5% above the pre-pandemic level in 2022, a rate of change close to that of the total economy. Employment in the information and communication sector maintained the dynamic growth it had already recorded before the pandemic. In both sectors, wage growth per job was higher than in the total economy (Chart I.2.20). Qualifications have improved broadly in

recent years, but the average number of years of schooling in tourism related services remains low compared to the average of the economy. The information and communication sector stands out for its skills level, which are expected to contribute to its high level of productivity (Chart I.2.21).

The growth of services exports has contributed considerably to the recovery of the Portuguese economy. This growth has also had a positive impact on the current and capital account balance. The buoyancy of exports of tourism and telecommunication and IT services signal new competitiveness factors in international trade for the Portuguese economy.

II Banco de Portugal activity in 2022

- 1 Strategic plan
- 2 Monetary policy and asset management
- 3 Payment systems and means of payment
- 4 Regulation
- 5 Macroprudential policy and supervision
- 6 Resolution
- 7 Enforcement function and upholding the legality of the Bank's decisions
- 8 Knowledge creation and sharing
- 9 Governance and social and environmental responsibility

1 Strategic plan

In its strategic plan for 2021-25, the Banco de Portugal made it a priority to be an organisation that is closer to the Portuguese people. Regular interaction with economic agents allows the Bank to understand different realities and views and deepen its analyses, making them more useful for defining and assessing strategies and policies aimed at safeguarding price stability and financial stability and to develop Portugal and the European Union.

The figure below summarises the main initiatives developed in 2022 – a year still marked by the effects of the pandemic – to achieve this priority, which is described throughout the report:

01 A Bank that is closer to... ...the Portuguese people

On economics and finance

40

podcasts



Economic Bulletin

publication of accessible summaries



Virtual assets

information campaign

Financial training

32,000

participants

in financial training and training on banknotes and coins throughout the country



20 years of the euro and the end of the deadline for exchanging escudo banknote

escudos → EURO

communication campaign

Digital financial education campaign

#toptip

for an adult audience

Basic banking services

training sessions for migrant support centre staff

70,000 leaflets



distributed with the support of the High Commission for Migration

4

languages

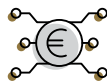


leaflets in PT | EN | FR Ukrainian

02 ...to firms and other civil society institutions

Digital euro

setting-up the Market Contact Group



Economic Forums

3

sessions

on workers' skills and productivity, energy prices and climate change



BdP Closer to you

1

listening session

on inflation, with the Social and Economic Council



Meeting with the Community

first town hall in Braga, with local representatives of firms, trade unions public and higher education institutions

03 ...to education and research

StatFlix

an e-learning programme on statistics, shared with 12 universities



economic and statistical literacy competitions

259

teams of students

of secondary school

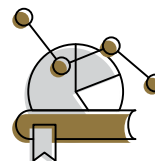


BPLIM

189

external researchers

supported by the Microdata Research Laboratory



Courses and seminars

4

advanced courses

58

scientific seminars



04 A Bank that fosters dialogue... ...with supervised entities

Website

for monitoring prudential reporting obligations

Workshops

on prudential reporting obligations, data quality, digital innovation and the importance of climate risks



Monitoring of the macroprudential recommendation

10

meetings

on the implementation of the recommendation



05 ...with the other national supervisory authorities

Financial stability topics

interaction with the Portuguese Insurance and Pension Funds Supervisory Authority and the Portuguese Securities Market Commission



European legislation

collaboration on proposals to transpose or implement



National Plan for Financial Education

enhancement of the plan



2 Monetary policy and asset management

The Banco de Portugal contributes to defining and implementing the Eurosystem's monetary policy with the primary objective of maintaining price stability in the euro area. This is done through the Governor's participation in the Governing Council of the European Central Bank (ECB), a collegiate body responsible for the monetary policy of the euro area as a whole, as well as through the participation of the Bank's staff in the technical committees that assist the Council and the implementation of approved measures.

... The Governing Council has changed the monetary policy stance, with
... the corresponding implementation by the Bank at national level.

For more than a decade, until the end of 2021, monetary policy in the euro area was highly accommodative. Amid persistently low inflation, the Governing Council lowered the key ECB interest rates to levels close to zero or negative and adopted a number of additional measures to increase liquidity and finance the economy, such as asset purchase programmes and targeted liquidity-providing operations.

This environment changed in 2021. Inflation started to rise and inflationary pressures became broad-based. By the end of 2021, euro area inflation was close to 5%. The Governing Council then announced it would reduce the pace of net asset purchases from the first quarter of 2022 onwards. This announcement marked the start of the monetary policy normalisation process in the euro area, which continued in 2022.

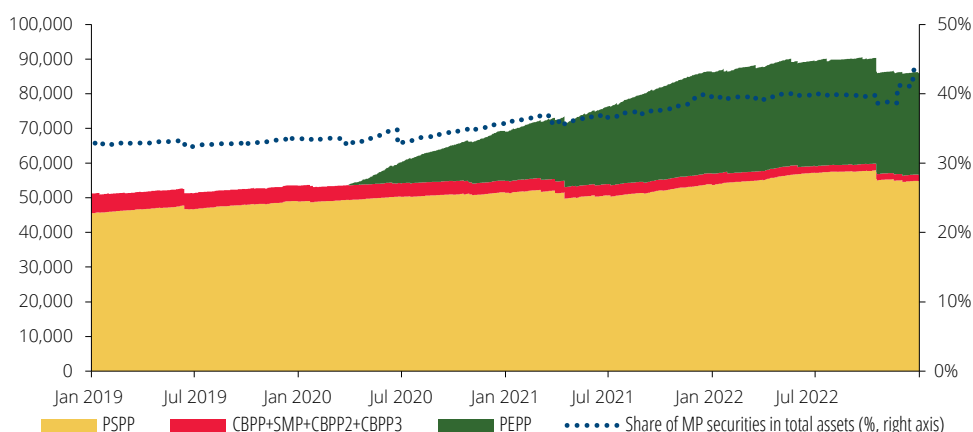
In the first half of the year, the pace of net asset purchases gradually declined. Net purchases under the temporary pandemic emergency purchase programme (PEPP) ceased at the end of March and those of the pre-pandemic programme (asset purchase programme – APP) ended in early July. Nevertheless, the maturing securities continued to be reinvested in full. At the end of the year, the securities held on the Bank's balance sheet under the APP and PEPP reached €56.5 billion and €29.4 billion respectively, totalling 43.5% of assets (Chart II.2.1). The share of Portuguese debt held by the Eurosystem was 2.2% of the total under the public sector purchase programme (PSPP), which is part of the APP, and 2.3% under the PEPP, in line with the Banco de Portugal's share in the ECB's capital (2.3%).

In July, the Governing Council started raising interest rates amid the continued rise in inflation. The Governing Council considers that the primary monetary policy instrument in the euro area are changes to key interest rates. In July, September, October and December, the Governing Council increased the three key interest rates by a cumulative 2.5 percentage points (Chart II.2.2). At the end of December, the interest rate on the main refinancing operations stood at 2.5%, the interest rate on the deposit facility at 2% and the interest rate on the marginal lending facility at 2.75%. In the current environment of excess liquidity, the most relevant key interest rate is the rate on the deposit facility.

Also in July, to ensure that monetary policy is transmitted smoothly across all euro area countries, the Governing Council approved a new instrument to protect the transmission of monetary policy

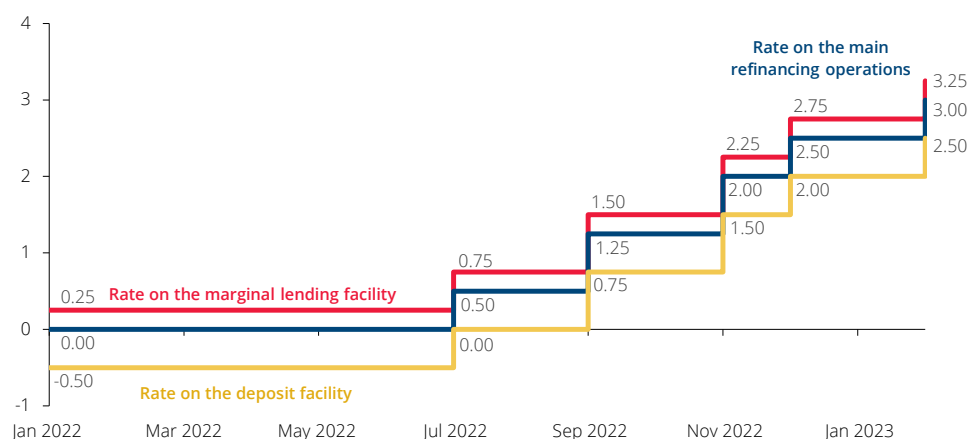
(Transmission Protection Instrument – TPI). The TPI will enable the Eurosystem to make secondary market purchases of government debt securities issued in jurisdictions that might be experiencing some deterioration in financing conditions not warranted by fundamentals, if criteria that ensure the pursuit of sustainable fiscal and macroeconomic policies are met. With this new instrument, the Governing Council underlines its commitment to the singleness of monetary policy in the euro area, which is a precondition to deliver on its price stability mandate.

Chart II.2.1 • Evolution of the outstanding amount of asset purchase programmes in Portugal (2019–2022) | EUR millions



Source: Banco de Portugal. | Notes: PEPP – pandemic emergency purchase programme; CBPP – covered bond purchase programme; SMP – securities markets programme; CBPP2 – second covered bond purchase programme; CBPP3 – third covered bond purchase programme; PSPP – public sector purchase programme; MP – monetary policy. The PSPP and the CBPP3 are part of the asset purchase programme (APP). One-off decreases, such as in October 2022, are due to the fact that maturities occurring in a given month are reinvested in a smooth manner throughout that year.

Chart II.2.2 • Evolution of the key ECB interest rates | Per cent



Source: ECB. | Note: End-of-month figures.

As the rate on the deposit facility moved into positive territory, the two-tier system for remunerating excess reserve holdings previously in place was suspended and the remuneration of excess reserve holdings (at 0%) became less attractive for credit institutions compared to the alternative of using the deposit facility to place their liquidity on a daily basis. Consequently, recourse by these institutions (counterparties) to the deposit facility increased considerably from September onwards (Table II.2.1).

Table II.2.1 • Monetary policy implementation in Portugal, main indicators (2019–2022)

	2019	2020	2021	2022	Δ 2022–2021
Number of Eurosystem open market operations	133	256	160	158	-1%
Number of open market operations resident counterparties participated in	68	55	13	13	0%
Number of standing facility operations involving resident counterparties	36	5	5	1,745	1,740 (a)
Number of eligible (resident) counterparties	35	34	32	35	9%
Number of (resident) counterparties participating in open market operations and standing facilities	11	18	14	28	100%
Outstanding amount of liquidity-providing operations (EUR millions/year-end)	17,355	32,164	41,862	16,052	-62%
Outstanding amount of liquidity-absorbing operations (EUR millions/year-end)	6	4	4	42,973	42,969 (a)
Outstanding amount of collateral pools (resident counterparties, EUR millions/year-end)	51,275	66,986	73,665	61,069	-17%
Outstanding amount of monetary policy portfolios (EUR millions/year-end)	53,479	69,050	86,171	85,992	-0,2%

Source: Banco de Portugal. | Notes: The outstanding amount of liquidity-providing operations includes foreign exchange transactions. (a) Changes in absolute values.

In October, the Governing Council changed the interest rates applicable to the third series of targeted longer-term refinancing operations (TLTRO III). This instrument was recalibrated to ensure that it was consistent with the broad monetary policy normalisation process and to reinforce the transmission of increases in the key ECB interest rates to bank lending conditions. As the conditions of these operations became less attractive, credit institutions were offered additional voluntary repayment dates.

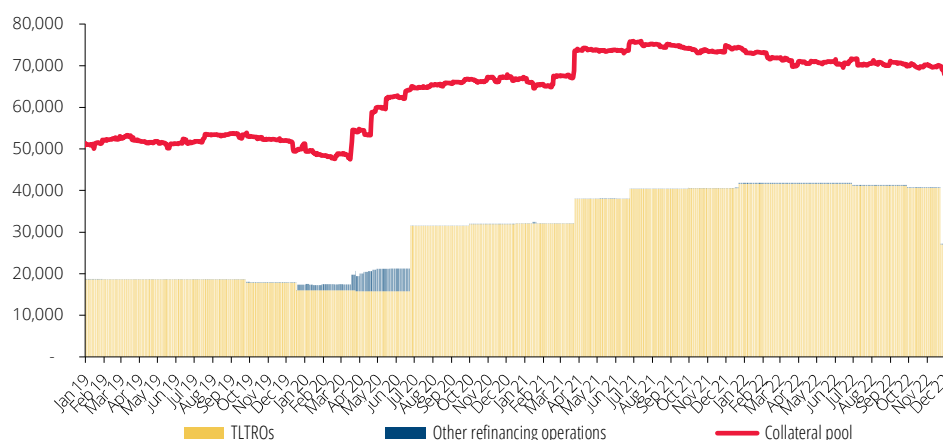
In Portugal, institutions made early repayments to the amount of €24.1 billion throughout the year, mostly following the recalibration. At the end of 2022, the take-up of TLTROs amounted to €15.8 billion (98.5% of total refinancing operations), €25.8 billion less than in the previous year (Chart II.2.3). The total value of the assets used as collateral for monetary policy operations by Portuguese counterparties reached €61,069 million at the end of the year, remaining comfortably above the value of outstanding operations.

The Governing Council's decision, in March 2022, to gradually phase out the collateral easing measures – introduced to facilitate access to Eurosystem credit operations during the pandemic crisis – did not restrict the availability of eligible collateral for Portuguese counterparties to access these operations.

In parallel to the adjustments made to the remuneration of the TLTRO III, the remuneration of minimum reserves held by credit institutions with the Eurosystem was set at the deposit facility rate, instead of the (higher) main refinancing operations rate. This change aimed to align the remuneration of minimum reserves with money market conditions.

At the end of the year, euro area inflation was still high compared to the medium-term target and the Eurosystem projections pointed to inflation remaining above 2% in the period 2023–25 (6.3% in 2023, 3.4% in 2024 and 2.3% in 2025). Against this background, the Governing Council announced that it expected to raise key interest rates further in the future, in order to reach levels that were sufficiently restrictive to ensure a timely return of inflation to its target. In February 2023, the Governing Council raised the three key interest rates by 0.5 percentage points. It also announced that it intended to raise interest rates by another 0.5 percentage points in March and would then evaluate the subsequent path of monetary policy.

Chart II.2.3 • Evolution of the outstanding amount of refinancing operations and the value of the collateral pool in Portugal (2019–2022) | EUR millions



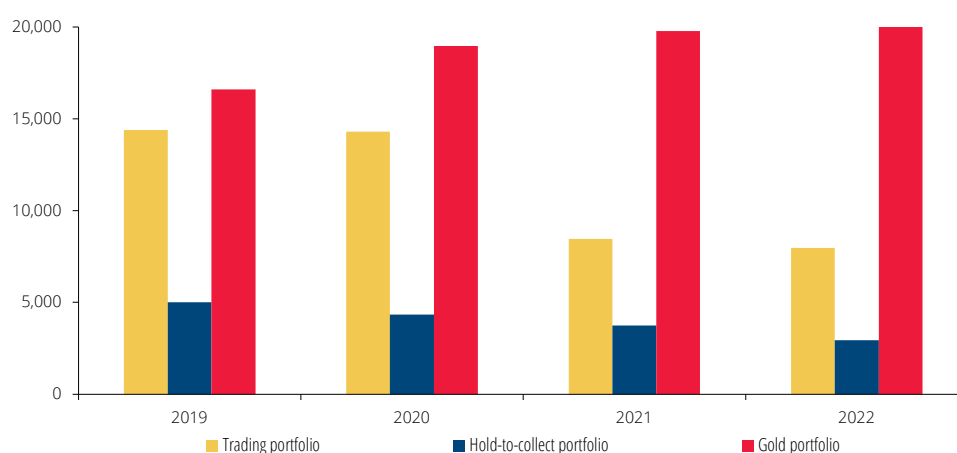
Source: Banco de Portugal. | Note: TLTROs – targeted longer-term refinancing operations.

As communicated in December 2022, the APP portfolio will decline at a measured and predictable pace from March 2023 onwards, as only part of the payments from maturing securities is to be reinvested. The decline in the portfolio will amount to €15 billion per month, on average, until the end of June 2023 and its subsequent pace will be determined over time. Payments from securities purchased under the PEPP will continue to be reinvested in full until at least the end of 2024.

As at 31 December, the Banco de Portugal's own investment assets amounted to €31.8 billion.

The Banco de Portugal manages a set of own investment assets denominated in euro, foreign currency and gold. As at 31 December 2022, the market value of these assets amounted to €31,797 million, a decrease of 0.6% compared to the end of 2021, and was allocated among the trading, hold-to-collect and gold portfolios (Chart II.2.4).

Chart II.2.4 • Own investment asset portfolios (2019–2022) | EUR millions



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

Assets in the trading portfolio declined by 5.8% from 2021, due to a decision to reduce foreign currency exposure. As at 31 December, euro-denominated assets accounted for 76.9% of the total value of this portfolio. The Bank continued to participate in green bond investment funds, managed by the Bank for International Settlements (BIS), and formalised its commitment to environmental sustainability when managing its own investment assets by publishing its Responsible Investment Charter in May.

The hold-to-collect portfolio decreased by 21.5% from 2021, given that not all maturing amounts were reinvested. This portfolio consists of assets denominated in euro and held to maturity.

The stock of gold held by the Bank remained unchanged (382.6 tonnes) but increased in value by 5.6%.

In addition to its own assets, the Banco de Portugal manages two ECB reserve portfolios with Lietuvos bankas, denominated in US dollars (USD) and Chinese renminbi (CNY). As at 31 December 2022, these two portfolios amounted to USD 1,057 million (€991 million) and CNY 4,440 million (€603 million).

... The criteria and limits applicable to the management of financial risks in own investment asset operations were revised.

Monetary policy instruments – refinancing operations and asset purchases – involve financial risks that are managed and monitored by the Eurosystem and the Banco de Portugal. The Bank managed the risks involved in implementing monetary policy by applying eligibility criteria for counterparties, issuers and assets and by imposing haircuts and limits on the use of collateral, which continued to be valued according to a common Eurosystem methodology.

In Eurosystem credit operations, risk derives from counterparties and, indirectly, from the credit quality of the assets pledged as collateral. In asset purchase programmes, risk derives from direct exposure to the assets and their issuers. There is also a refinancing risk arising from the implementation of the medium/long-term asset purchase programmes financed by remunerated short-term liabilities.

The Banco de Portugal may bear the financial risks associated with these instruments or they may be shared by the Eurosystem based on the ECB's capital key distribution: the Banco de Portugal bears the risk of Portuguese public debt securities held on its balance sheet, while the risk of private debt securities is shared by the Eurosystem, in particular covered bonds purchased by the Banco de Portugal.

The management of financial risks arising from own investment assets is based on eligibility criteria and limits which depend on the institutions, countries, operations and instruments, taking into account the credit, foreign exchange and interest rate risks of assets and operations. In 2022 credit limits by country were revised in line with the Bank's risk profile. A regular review of the criteria and other limits was also conducted to incorporate the latest information on market terms and risk assessment.

3 Payment systems and means of payment

The Banco de Portugal regulates, oversees and promotes the smooth functioning of payment systems, indispensable for the stability and efficiency of the financial system and the Portuguese economy, and the successful implementation of monetary policy. The Bank also issues euro banknotes, puts coins into circulation, checks the authenticity and fitness of the cash it receives and collaborates with the Portuguese criminal police against counterfeiting, protecting public trust in the single currency.

... The Bank monitored compliance with the rules introduced ... by the revised Payment Services Directive.

The Banco de Portugal monitored compliance with the requirements applicable to the activity of payment service providers, namely those introduced by the revised Payment Services Directive. Among other issues it analysed, (i) the functioning of interfaces to communicate with account information service providers and payment initiation service providers, which are the two new services regulated by the Directive, (ii) the enforcement of strong customer authentication and (iii) major operational or security incidents and subsequent reporting about them by payment service providers.

It also developed specific actions to verify compliance with independence requirements between card payment schemes and processing entities operating in Portugal, as well as the correct enforcement of the IBAN non-discrimination rule, under which it must be possible to make credit transfers and direct debits from or to any payment account with an IBAN from a Single Euro Payments Area (SEPA) Member-State.

... Implementation of the National Strategy for Retail ... Payments.

The Bank continued its dialogue with market players through the Portuguese Payment Systems Interbank Commission (*Comissão Interbancária para os Sistemas de Pagamentos* – CISP) and the Payment Systems Forum (*Fórum para os Sistemas de Pagamentos* – FSP).

Under the FSP, which brings together the key players in the supply and demand of payment services, the implementation of the [National Strategy for Retail Payments | 2022 Horizon \(in Portuguese only\)](#), adopted in 2020 to promote safe, efficient and innovative payment solutions in the Portuguese market that are accessible to all, was completed.

To fulfil the initiatives set out in the document, information on electronic payments and in particular, on contactless payments was shared with the public and technical conditions were established to encourage the use of this technology. The use of strong customer authentication solutions, biometric elements for authentication and digital signature and identification tools was also monitored. In collaboration with the legislator, the cheque's legal protection and the possibility of

making the acceptance of electronic payment instruments mandatory were assessed. Additionally, a study was carried out to create a solution that makes it possible to connect the IBAN to a payee's identifier (their mobile phone number, for example) and confirm the transfer payee and the direct debit debtor.

The Strategy's results are being evaluated and will be taken into consideration in the development of a new strategic document on retail payments in Portugal.

Under the scope of the investigation phase of the digital euro, a market contact group was established.

The Banco de Portugal participated in the investigation phase of the digital euro, which should be complete by October 2023. In April 2022, aiming to listen to different stakeholders on the design and distribution of the digital euro and on the opportunities it would provide if issued, the Banco de Portugal created the Market Contact Group on the Digital Euro.

As a result of the work developed by the Eurosystem, the Governing Council of the ECB approved and disclosed, in September and December, a set of design and distribution options related to priority use cases when launching the digital euro, the mechanism used to validate transactions, the privacy model, tools to avoid an excessive use of digital euro as store of value, the role of supervised intermediaries in the distribution chain, functionalities that would allow users to increase and decrease the amount of digital euro available in their wallets (funding and defunding) and settlement and distribution models to be adopted. Work to develop user interface prototypes also began, under the responsibility of five entities chosen for that purpose.

Technological innovation in the Portuguese financial market: mitigation of barriers to innovation and development of emergent business models and new products and services.

The Banco de Portugal took part in organising the fourth edition of Portugal FinLab, a joint initiative of the three financial sector supervisory authorities that aims to bring together innovation as applied to the financial sector and the supervisors. This edition received 16 applications, including three from foreign entities. Five projects were chosen for assessment by the supervisors, of which two were analysed by more than one authority.

The Bank also published the activity report for the period 2020-21 for the Sub-Committee on Digital Innovation & Fintech, the internal structure responsible for monitoring the fintech market and digital innovation. The Bank began reflecting on its strategic approach to innovation in the financial sector, having launched a public consultation to gather the market's input on the approach it should take on innovation facilitators.

The Bank concluded a study on the establishment of business relationships through digital channels (digital onboarding), as a result of which it disclosed a set of guidelines to the supervised entities to strengthen the means, mechanisms and proceedings adopted by those entities.

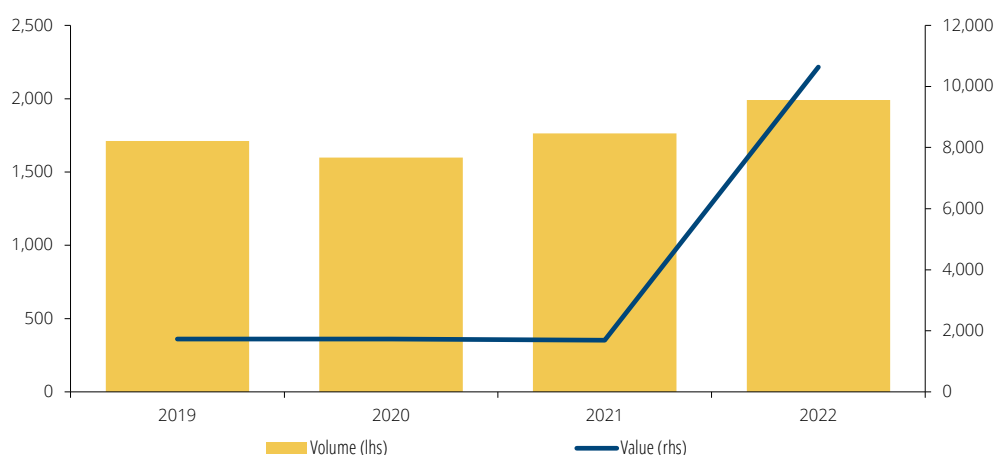
Market infrastructures, on which the movement of financial resources in the economy is dependent, functioned with no disturbances.

The Banco de Portugal operates the Portuguese components of TARGET Services (TARGET2, TARGET2-Securities and TARGET Instant Payment Settlement) and manages the national retail payment system, the Interbank Clearing System (*Sistema de Compensação Interbancária* – SICOI). It also oversees the functioning of financial market infrastructures, assessing them for the management of cyber, liquidity, credit and operational risks.

In 2022, the Bank concluded the exercise of identifying the payment schemes and arrangements under its jurisdiction, which will be subject to the new oversight framework for electronic payments approved by the Governing Council in November 2021 (PISA Framework). It also assessed the national system of retail payments within the scope of the new framework for the cyber resilience of financial market infrastructures (“Cyber Resilience Oversight Expectations”). On behalf of the Eurosystem, the Bank assessed Euronext Securities Porto under the European regulation on securities settlement and on central securities depositories and in a context of strong instability in the energy market, monitored more closely the activity of OMIClear, the national central counterparty with activity focused on the energy derivatives market.

TARGET2-PT, the Portuguese component of the Eurosystem’s large-value payment system, processed approximately two million transactions totalling €10,635 billion (Chart II.3.1). Regarding 2021, activity in TARGET2-PT rose by 13% in volume and the amount settled was about six times higher. The increase in the number of settled operations reflected the rise in both customer operations and operations between financial institutions. The sudden rise in the amount settled in TARGET2-PT resulted mainly from operations with the Banco de Portugal, whose value was about 31 times higher than that recorded in 2021 (representing 83% of the total value settled). This increase is explained by the constitution of overnight deposits by institutions from September 2022 due to the rise in ECB official interest rates.

Chart II.3.1 • Overall transactions settled in TARGET2-PT (2019–2022) | Volume in thousands and value in EUR billions

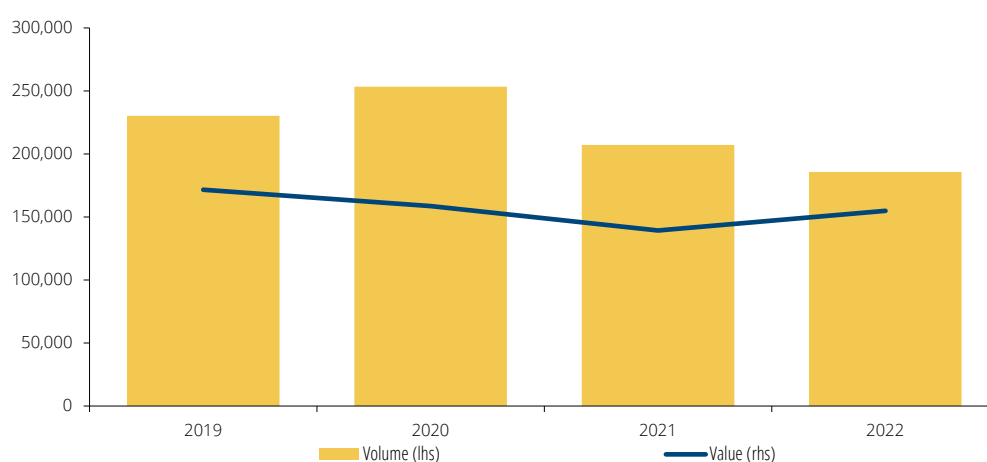


Source: Banco de Portugal.

186 thousand transactions were settled in TARGET2-Securities (T2S), the Eurosystem's securities settlement system, by the Portuguese community, totalling €155 billion, a decline of 10.3% in volume and an increase of 11.2% in value from 2021 (Chart II.3.2). Settlements related to shares, bonds and Portuguese Treasury bills amounted to around 93% of settled amounts in 2022.

In TARGET Instant Payment Settlement (TIPS), the service provided by the Eurosystem for pan-European instant payment settlement, payment service providers in the Portuguese community sent and received 7.5 million transactions, totalling €6.5 billion. The growth trend observed from December 2021 reflects the impact of the measures defined by the ECB Governing Council in July 2020 to ensure a pan-European reachability of instant credit transfers.

Chart II.3.2 • Securities settled by the national community (2019–2022) | Volume in units and value in EUR millions



Source: Banco de Portugal.

Work on the TARGET2 consolidation with T2S and the evolution of TARGET Services continued. This work focused on testing the new platform and configuring the production environment. However, the frequent unavailability of the test environment and the existence of software bugs made it so the ECB, on 20 October, decided to postpone the project's go-live date to March 2023.

The Banco de Portugal also provided account management services in euro to supranational entities and central banks located in jurisdictions outside the euro area, in accordance with the harmonised terms and conditions in the Eurosystem.

In terms of retail payments, SICOI – a system that clears cheque, bill of exchange, direct debit, credit transfer, bank card and instant credit transfer transactions – processed 3.7 billion transactions, to the amount of €655.5 billion. The volume and value of transactions processed in this system increased by 20.8% and 16.2% respectively, from the previous year, due to the dynamics of the economy, but also due to high inflation. There was growth in value in all electronic payment instruments, but the use of paper-based instruments continued to decline in terms of volume (Chart II.3.3). Instant credit transfers saw the highest growth, 34.3% in volume and 54.4% in value, although these remain residual in total transactions, 2.1% in value and 0.3% in volume (Chart II.3.3 and Chart II.3.4).

As of 31 December 2022, the list of cheque defaulters (LCD) disseminated by the Banco de Portugal through the banking system to prevent misuse of cheques, comprised 6,916 entities (19.3% less

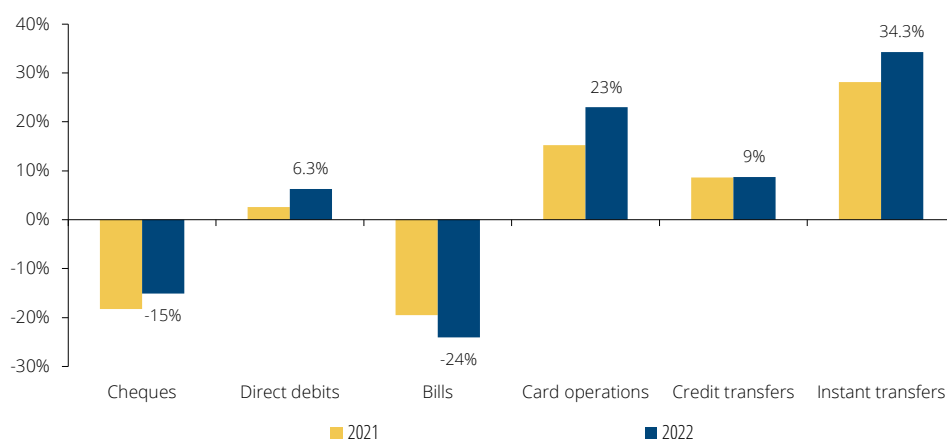
than in 2021), of which 25% were firms and 75% were households. Throughout the year, the Banco de Portugal removed 6,146 entities from the list (22.3% less than in 2021) and added 4,493 entities (18.2% more). The number of entities added to the LCD had not increased since 2008.

Chart II.3.3 • Share by payment instrument in the number of transactions processed in SICOI (2022) | Per cent



Source: Banco de Portugal.

Chart II.3.4 • Evolution of the volume of transactions processed in SICOI by payment instrument (2021–2022) | Year-on-year growth rate



Source: Banco de Portugal.

The last series of escudo banknotes expired in 2022. €94 million worth of escudo banknotes belonging to this series were never exchanged.

In 2022, the deadline to exchange the last series of escudo banknotes by the European single currency was reached. €94 million worth of this series' escudo banknotes were never exchanged, remaining in public possession. They represented an extraordinary profit for the Banco de Portugal in 2022, as the responsibility to pay them has ended.

Throughout the year, 557.5 million euro banknotes were put into circulation by the Banco de Portugal and 558.1 million banknotes were received from credit institutions and the general public. These volumes surpassed those of 2021 and got closer to pre-pandemic numbers. Given that inflows surpassed outflows, the trend observed in Portugal in 2020 and 2021 was reversed, the net issuance of euro banknotes having once again decreased. This evolution is chiefly explained by the pick-up in tourism (one of the main methods of entry of banknotes to Portugal) and possibly, by the return to the central bank of part of the banknotes held as a store of value during the period of uncertainty caused by the pandemic crisis.

Net issuance of coins in Portugal by volume, rose 5.3% when compared to 2021. Due to the need to replace the lowest denominations, the Banco de Portugal negotiated a new coin exchange agreement with the Belgian Treasury, with 1 and 2 cent coins being exchanged for 50 cent coins. The agreement will come into operation in 2023 and will bring economic benefits to the Portuguese State as it removes the need to produce new 1 and 2 cent coins, the manufacturing cost of which is higher than their face value.

The Bank checked the authenticity and fitness of the banknotes it received; 84.7 million banknotes were considered unfit. It also checked and valued, by hand, 40,954 and 3,875 severely damaged and mutilated euro and escudo banknotes returning the corresponding amounts to their owners.

The number of counterfeit banknotes and coins remained low. In Portugal, 10,732 counterfeit banknotes were removed from circulation, mostly €10 and €20 banknotes, amounting to 3% of total counterfeit banknotes withdrawn from circulation in the euro area. Furthermore, 2,133 counterfeit euro coins were detected, mainly €2 coins.

The Banco de Portugal trained 9,080 cash handlers.

A cooperation protocol was entered into with the Banco de Moçambique to promote the prevention and elimination of euro banknote counterfeiting and forgery; and another with the Banco de Cape Verde, covering all domains relative to cash and the fight against counterfeiting, including the possibility of delegating Cabo Verde escudo banknote production to VALORA – Serviços de Apoio à Emissão Monetária, S. A. The Banco de Portugal would provide all necessary support to the origination, plate production and paper acquisition needed.

4 Regulation

The Banco de Portugal participates in the preparation of draft legislation, collaborates with Parliament and the Government, and issues administrative regulations in matters related to its tasks. This often requires cooperation with European authorities, especially in the framework of the European System of Financial Supervision, and with other national authorities, in particular within the National Council of Financial Supervisors.

... The Bank worked with the Ministry of Finance to develop
... and negotiate several European regulatory initiatives,
... in particular the “Banking Package 2021”: CRD VI
... and CRR III.

At European level, the Banco de Portugal continued its collaboration with the Ministry of Finance in negotiating the “Banking Package 2021” (which includes the new Capital Requirements Directive and Regulation – CRD VI and CRR III), implementing the latest Basel III reforms and strengthening the harmonisation of the supervisory framework for credit institutions, including in the areas of risk and governance management and sustainability.

The Bank monitored the negotiation of the new European package for the prevention of money laundering and terrorist financing (ML/TF), which, among other major changes, will create a European supervisor in this area.

It also monitored the negotiation of the Instant Payments Regulation and the revision of the Consumer Credit Directive (CCD), the Distance Marketing of Consumer Financial Services Directive (DMFSD) and the Mortgage Credit Directive (MCD), as well as the final stages of the negotiation of the Regulation on markets in crypto-assets (MiCA), the Regulation on digital operational resilience for the financial sector (DORA) and the Corporate Sustainability Reporting Directive (CSRD). It also intervened in the discussions on the revision of the European crisis management and deposit insurance (CMDI) and payment services (PSD2) frameworks.

The Bank cooperated with the European Banking Authority (EBA) by participating in the preparation of regulatory tools on (i) large exposures, (ii) own funds requirements for market risk and securitisation operations, (iii) management of interest-rate risk in the banking book, (iv) authorisation of investment firms as credit institutions and branches of credit institutions having their head office in third countries, (v) planning and operationalisation of resolution actions and (vi) methodologies for calculating contributions to deposit guarantee schemes.

It also participated in preparing public consultations and reports within the EBA, including on environmental risk management and supervision, the impact study of the implementation of Basel III, and transparency and amount of fees charged in the European Union for retail banking products and services.

As a member of the G20/OECD Task Force on Financial Consumer Protection, the Bank cooperated on revising the principles for protecting consumers of financial products.

At national level, the Bank continued to work with the Ministry of Finance on the revision of the preliminary draft of the *Código da Atividade Bancária* (legal framework governing banking activity

and supervision) and assisted in the draft legislation revising the Legal Framework of Credit Institutions and Financial Companies to transpose the fifth Capital Requirements Directive (CRD V) and the second Bank Recovery and Resolution Directive (BRRD II), which materialised through Law No 23-A/2022 of 9 December 2022. It also prepared a proposal for preliminary draft legislation to transpose the Directive on Credit Servicers and Credit Purchasers and with a new Central Credit Registry framework.

In addition, the Banco de Portugal issued – including through the National Council of Financial Supervisors (CNSF) – more than 40 opinions on legislative initiatives by the Government and Parliament, namely on measures mitigating the effects of the increase in interest rates on credit agreements for the acquisition or construction of permanent own housing (Decree-Law No 80-A/2022 of 25 November 2022) and on the Decree-Law transposing the Directive on Accessibility Requirements.

In the context of the CNSF, the Bank collaborated in the preparation of proposals to transpose or implement European legislation in the national legal order, most notably the Covered Bonds Directive, the Pan-European Personal Pension Product Regulation, the Regulation on a Pilot Regime for Market Infrastructures based on Distributed Ledger Technology, and the amendment to the Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EMIR).

As regards administrative regulations, the Bank worked on the revision of its regulations concerning (i) payment institutions and electronic money institutions, (ii) entities operating with virtual assets regarding the prevention of money laundering and terrorist financing and (iii) regular contributions to the Deposit Guarantee Fund and the Resolution Fund.

5 Macprudential policy and supervision

The Banco de Portugal regularly identifies and assesses risks to financial stability and takes measures to strengthen the sector's resilience. The Bank also has supervisory powers over institutions. These tasks are exercised jointly or in close cooperation with other European and national authorities.

Portuguese banks carried out their activity against the background of rising key interest rates, which contributed to improving some of the sector's indicators.

The Bank monitored the banking sector and its main counterparties – households and firms – using analytical tools adapted to the recovery from the pandemic situation and the impact of the conflict in Ukraine.

In line with the post-pandemic economic recovery, the Portuguese banking system's return on assets increased (Table II.5.1). This mostly reflected an improvement in net interest income and lower credit impairments.

The share of non-performing loans (NPLs) continued to decline, reaching a record low of 3.0%. This was broad-based across loans to firms and households. The impairment coverage ratio for the total portfolio increased to 55.4% and was much higher in the sectors most affected by rising prices for energy and/or other commodities (91.5%). The NPL ratio net of impairments also decreased, reaching 1.3% at the end of 2022. The non-financial private sector's stage 2 loan ratio (i.e. loans with a substantial increase in credit risk) went from 12.5% at the end of 2021 to 11.1% at the end of 2022.

The capital ratio increased by 0.1 percentage points from December 2021, reaching 18.1%.

The Banco de Portugal recommended new limits to the maximum maturity of new credit for house purchase.

The Banco de Portugal continued to monitor the implementation of the macroprudential recommendation it issued in 2018, which established limits on new credit agreements for house purchase and consumer credit to ensure the resilience of credit institutions and borrowers' access to financing they can afford without significant risk of default.

As mentioned in the *Macroprudential Recommendation on new credit agreements for consumers – progress report*, almost all new credit agreements were within the limits set in the recommendation. However, during the pandemic years, the average maturity of new credit for house purchase did not converge towards 30 years by the end of 2022, as foreseen in the recommendation. To foster this convergence, the Banco de Portugal amended the maximum maturity of new credit for house purchase with effect from 1 April 2022, establishing lower limits for borrowers aged over 30. This amendment was adopted after consulting the National Council of Financial Supervisors, the associations representing the sector and Associação Portuguesa para a Defesa do Consumidor (DECO).

Table II.5.1 • Portuguese banking system indicators (2019–2022)

	Unit	2019	2020	2021	2022
Total assets (gross)/GDP (nominal)	%	182.1	205.4	207.2	184.8
Profitability					
Return on assets (ROA) ^(a)	%	0.45	0.05	0.46	0.70
Operating result ^(b)	%	0.94	0.89	0.88	1.08
Net interest income ^(c)	%	1.6	1.5	1.4	1.7
Return on equity (ROE) ^(d)	%	4.8	0.5	5.4	8.8
Cost-to-income ^(e)	%	59.2	57.8	53.4	50.4
Credit risk cost ^(f)	%	0.52	1.01	0.33	0.29
Net profit for the year	EUR, millions	1,752	195	1,998	3,162
Liquidity					
Central bank funding ^(g)	%	4.4	7.8	9.4	3.6
Loan-to-deposit (LtD) ratio ^(h)	%	87.1	84.7	81.1	78.2
Liquidity coverage ratio (LCR) ⁽ⁱ⁾	%	218.5	245.9	260.0	229.2
Asset quality					
NPL ratio ^(j)	%	6.2	4.9	3.7	3.0
Households, house purchase ^(j)	%	2.4	2.0	1.6	1.1
Households, consumption and other purposes ^(j)	%	8.2	8.5	7.5	6.9
Non-financial corporations ^(j)	%	12.3	9.7	8.1	6.5
NPL ratio (net of impairments) ^(k)	%	3.0	2.2	1.7	1.3
Households, house purchase ^(k)	%	1.8	1.4	1.0	0.7
Households, consumption and other purposes ^(k)	%	3.4	2.9	2.6	2.5
Non-financial corporations ^(k)	%	5.4	4.2	3.8	2.9
NPL impairment coverage ratio ^(l)	%	51.5	55.0	52.5	55.4
Households, house purchase ^(l)	%	26.3	30.6	32.7	40.4
Households, consumption and other purposes ^(l)	%	58.8	66.2	64.9	64.1
Non-financial corporations ^(l)	%	56.5	56.4	53.2	55.9
Total non-performing loans	EUR, millions	17,199	14,416	12,148	9,875
Total non-performing loans net of impairments	EUR, millions	8,347	6,494	5,774	4,402
Stage 2 loan ratio – Total	%	9.4	11.2	11.6	10.3
Stage 2 loan ratio – Non-financial private sector	%	9.6	12.0	12.5	11.1
Stage 2 loan ratio – Households	%	7.7	7.8	8.5	8.1
Stage 2 loan ratio – Non-financial corporations	%	12.6	18.6	18.8	16.0
Solvency					
Capital ratio ^(m)	%	16.9	18.0	18.0	18.1
Common Equity Tier 1 (CET 1) ratio ⁽ⁿ⁾	%	14.3	15.3	15.5	15.3
Leverage ratio ^(o)	%	7.9	7.7	7.0	6.7

Source: Banco de Portugal. | Notes: (a) Profit and loss for the year 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 for the year 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).

When monitoring the macroprudential recommendation, the Banco de Portugal held 10 bilateral meetings with the institutions to assess the measures to be adopted to foster convergence of the average maturity towards 30 years by the end of 2022. The institutions were warned of the importance of having internal control mechanisms in place to prevent consumer credit transactions from circumventing the limits set out in the Recommendation. Evidence gathered from existing reporting instruments suggests that this type of transaction has been of little significance. The institutions also reported not having detected significant situations in their internal reviews.

In its 2022 report on risks and vulnerabilities in residential real estate markets, the European Systemic Risk Board again assessed the macroprudential policy adopted by Portugal as appropriate and sufficient to mitigate the risks identified.

In a context of high and more persistent inflation, monetary policy normalisation and prospects of an economic slowdown, the Banco de Portugal maintained the countercyclical capital buffer rate at 0% of risk exposures for credit institutions and investment firms with credit exposures to the domestic non-financial private sector. The list of third countries the Portuguese banking system is exposed to for the purposes of recognising and setting the countercyclical capital buffer was also updated. At the end of the year, this list still consisted of Mozambique and Macao.

The Bank amended the list of other systemically important institutions (O-SIIs), which now includes Caixa Central de Crédito Agrícola Mútuo. This list already included, in descending order of systemic importance: Banco Comercial Português, Caixa Geral de Depósitos, LSF Nani Investments (Novo Banco), Banco Santander Totta, Banco BPI and Caixa Económica Montepio Geral. Capital requirements were established for each O-SII.

The Bank decided not to reciprocate the macroprudential measures imposed in 2022 by the macroprudential authorities of the Netherlands, the Republic of Lithuania, Belgium and Germany, as it did not consider them relevant for the Portuguese banking system.

... The Banco de Portugal assessed the business model, internal governance and financial resilience of supervised institutions, maintaining a regular dialogue with the banking sector and the auditors.

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 in the European Union (including, but not limited to, Banco Santander Totta and Banco BPI). The Bank was part of the ECB's cross-border team managing inspections on market risk, credit risk and internal governance and took part in two inspections of institutions with their head office in another SSM country.

As for the institutions directly supervised by the Banco de Portugal, prudential supervision focused its activity on three priority areas: (i) business model, (ii) internal governance and (iii) financial resilience. These priorities were established following an analysis of the main challenges that supervised institutions face in the current economic and regulatory environment and are in line with those set by the SSM for significant institutions.

The Bank assessed the business models of supervised institutions to identify potential weaknesses in their ability to generate future income, in particular in view of the intensification of digital transformation and climate transition challenges. In this context, it assessed their funding and capital plans and strategic digitalisation plans, issuing recommendations where needed, and checked whether financial risk identification and management practices were aligned with the supervisory expectations on climate-related and environmental risks released in 2021.

Regarding internal governance, it assessed whether candidates for the management and supervisory bodies of supervised institutions complied with the applicable legal requirements, communicating supervisory expectations on the renewal of mandates in advance. This exercise resulted in 943 registrations of members of corporate bodies, 560 more than in 2021 (Table II.5.2). In addition, 595 recommendations were issued, mainly with respect to preventing conflicts of interests (47%), enhancing qualifications (38%) and gender diversity (2%).

Table II.5.2 • Registration acts (2019–2022)

	Dec 19	Dec 20	Dec 21	Dec 22	Δ 2022–2021
Registered members of corporate bodies					
Management bodies	402	251	180	413	233
Supervisory bodies	327	154	134	322	188
Board of the general meeting	186	92	69	208	139
	915	497	383	943	560
Registration acts with regard to qualifying holdings	227	480	225	275	50
Statutory amendments	112	112	113	126	13
Total	339	592	338	401	63

Source: Banco de Portugal.

The Bank assessed the suitability of the supervisory bodies' regulations, whether the members of the management and supervisory bodies attended training on emerging risks and analysed the level of diversity in the composition of these bodies. It also carried out analyses on the gender pay gap and on high earners' remuneration.

Supervisory actions were conducted to assess compliance with the requirements on conduct, organisational culture and internal governance and control systems set out in Notice No 3/2020 and Instruction No 18/2020. The Bank also participated in thematic reviews carried out by the ECB on these matters.

133 authorisation proceedings were conducted on the establishment of new institutions, the acquisition of qualifying holdings, mergers and statutory amendments. To streamline these proceedings, the Bank continued to notify the applicants in advance of its main prudential concerns and expectations. In liaison with other supervisory authorities, it assessed whether there were risks incompatible with an authorisation to acquire qualifying holdings in Portuguese institutions. It received 1,131 and sent 819 passport notifications, including on members of corporate bodies, the establishment of branches, statutory amendments, networks (agents) and branches, holdings, voluntary winding-up proceedings, mergers and divisions. As at 31 December 2022, 1,231 credit institutions, financial companies, payment institutions and electronic money institutions were registered with the Banco de Portugal (Table II.5.3).

As regards financial resilience, the Bank's actions were aimed at ensuring adequate capital and liquidity buffers given the risk profile and operational environment of supervised institutions in a complex macroeconomic context and particularly turbulent geopolitical situation.

As part of the annual Supervisory Review and Evaluation Process (SREP), the Bank also carried out a comprehensive assessment of seven banks' risk profiles, covering their business model and the quality of internal governance arrangements. As a result, it identified 85 situations requiring measures by the institutions. Where applicable, capital requirements were adjusted to the level of risk taken.

Table II.5.3 • Total registered institutions, by type (2019–2022)

	Dec 19	Dec 20	Dec 21	Dec 22	Δ 2022–2021
Registered institutions					
Credit institutions	165	164	162	157	-5
Financial companies	89	40	38	25	-13
Payment institutions	47	30	33	34	1
Electronic money institutions	12	5	5	4	-1
Holding companies	24	14	14	9	-5
Branches of subsidiaries of EU-based credit institutions	3	2	2	2	0
Branches of EU-based financial companies	2	0	0	3	3
Representative offices of credit institutions and financial companies based abroad	22	22	21	21	0
	364	277	275	255	-20
Credit institutions based in EEA States, providing services	553	424	434	480	46
Payment institutions based in EEA States, providing services	438	225	262	287	25
Electronic money institutions based in EEA States, providing services	234	146	174	202	28
EU-based account information service providers, providing services			3	7	4
Total	1,225	795	873	976	103

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

In line with the ECB's decision for significant credit institutions, the Banco de Portugal established that the relief measures adopted in the pandemic context on Pillar 2 Guidance and the combined capital buffer would cease on 31 December 2022 for less significant credit institutions. The Bank carried out supervisory actions to prevent possible disruptions or breaches of prudential rules and limits and imposed capital recovery plans and corrective measures.

It assessed compliance with the guidelines issued on credit risk management at the time of the pandemic and provided additional supervisory expectations on the identification of vulnerable sectors and effects arising from the invasion of Ukraine by the Russian Federation. The Bank continued to regularly monitor plans to reduce non-performing assets and imposed additional measures in case of deviations.

Given the combined effects of geopolitical tensions and the increase in key interest rates on financial markets, the Bank carried out supervisory actions to anticipate and mitigate a potential negative impact from market risk and, in particular, interest rate risk on the risk profile of supervised institutions. The Bank concluded a comprehensive exercise on interest rate risk in the banking book (IRRBB) and analyses on aspects related to IRRBB management, control and reporting and on institutions' preparedness for the regulatory changes on this subject planned for 2023. The risk associated with institutions' debt securities portfolios was also analysed.

In view of the digital transformation taking place in the banking system and the growing use of outsourcing, the Bank carried out supervisory actions to foster the operational resilience and cybersecurity of supervised institutions. In this context, the Bank developed the Portuguese framework for advanced security testing (TIBER-PT) and monitored the first pilot test of the kind in Portugal. It also set expectations and recommendations for supervised institutions on cybersecurity and operational resilience.

To foster the quality of data reported and used by supervised institutions, the Bank started to prepare a horizontal programme of special independent audits on the subject. It also developed a platform that allows institutions to independently verify their prudential obligations and compliance status.

Information sharing with the banking sector remained a priority for the Banco de Portugal, which organised seminars with experts and sector representatives on prudential reporting obligations, data quality, digital innovation and the importance of climate-related risks, as well as dialogue initiatives with external auditors. The Bank welcomed Andrea Enria, Chair of the ECB's Supervisory Board, who held working sessions with the prudential supervision team and met with the CEOs of significant institutions headquartered in Portugal and representatives from the Portuguese Banking Association.

As part of the supervision of retail banking markets, the Banco de Portugal required institutions to repay more than €3 million in respect of unduly charged fees and interest.

The Bank monitored the implementation of the extraordinary measures to mitigate the impact of the increase in interest rates on agreements concluded by bank customers. Against this background, the Bank monitored compliance with the temporary suspension of the payment of the early repayment fee, in part or in full, in credit agreements for the purchase or construction of permanent owner-occupied dwellings. The Bank also checked compliance with the obligation to disclose information on the possibility of penalty-free redemption of retirement, education and retirement/education savings plans, and required changes to the information provided by some institutions.

The Bank continued to monitor compliance with the rules limiting or prohibiting the collection of fees for providing services linked to credit agreements. The Bank assessed compliance with the prohibition to charge fees for processing instalments on home loan and consumer credit agreements concluded as of 1 January 2021, issuing debt statements for bank customers to have access to social support, social benefits or public services, issuing and providing a document extinguishing the real guarantee and renegotiating loan terms.

The Bank monitored how institutions calculate and charge arrears and fees to recover outstanding amounts on credit cards and credit lines, as well as information provided to customers in arrears. In overdraft facilities and overrunning, it identified the undue collection of minimum interest.

As a result of the supervisory measures taken to correct situations of undue collection, institutions repaid more than €3 million to customers for unduly charged fees and interest in 111,872 transactions.

In accordance with Law No 57/2020 of 28 August 2020, which lays down rules protecting bank customers in various areas, the Bank also sent the Parliament and the Ministry of Finance the *Report on cross-selling practices and bank fees*.

The Bank assessed the signing-up processes for consumer credit products through digital channels and carried out inspections on the institutions' websites to monitor the information provided to customers on personal, car and home loan credit products on offer. Monitored institutions were required to change the signing-up processes and information on these products.

Through "mystery shopper" inspections, the Bank monitored the information institutions provided to customers when offering home loans and their compliance with the obligation to provide assistance to customers, particularly on the financial impact of the increase in interest rates and the consequences of entering into arrears on the agreement. It also checked whether institutions were complying with the rule prohibiting the conclusion of a credit agreement being dependent on opening or maintaining

a current account with the lending institution and assessed the institutions' commercial practices on bundling. As a result of these actions, the Bank required the institutions inspected to put in place mechanisms ensuring that the offering of home loan agreements at their branches is regularly assessed and any irregularities or weaknesses detected are corrected.

It also monitored compliance with the obligations to disclose basic bank accounts (BBAs), the price list and the complaints book at the branches of credit and payment institutions throughout Portuguese territory, requiring institutions to disclose the information in question in a prominent and permanent place at all branches.

The Bank analysed 19,225 advertising materials for banking products and services offered by 57 institutions, 3.2% less than in 2021. It required the correction of 349 advertising materials of 36 institutions, a decline in the non-compliance ratio from 2.6% in 2021 to 1.8% in 2022.

It received 21,778 complaints from bank customers against the conduct of financial institutions, 12.7% more than in 2021. This is largely explained by an increase in complaints related to reporting by institutions of incorrect registrations in the Central Credit Register and a rise in card payment fraud. The Banco de Portugal found weaknesses and irregularities in 2.2% of the closed complaints.

Following inspections carried out on financial institutions, the Bank issued 2,829 specific orders and recommendations to 143 institutions and initiated 117 administrative sanctioning proceedings against 32 institutions.

The Bank decided on 683 applications for authorisation to pursue the activity of credit intermediary. At the end of 2022, a total of 5,636 credit intermediaries were registered.

The Bank carried out inspections of 243 credit intermediaries and nine institutions acting as credit intermediaries to assess compliance with the obligation to disclose information on their websites and the availability of appropriate means for customer service, as well as compliance with information obligations and the availability of a complaints book in establishments open to the public. It carried out targeted inspections of non-tied credit intermediaries. It also analysed 68 advertising materials and assessed 80 complaints from bank customers against the conduct of credit intermediaries. To remedy the deficiencies detected in these inspections, the Bank issued 88 specific orders and initiated 266 administrative sanctioning proceedings against credit intermediaries.

In 2022 the Bank hosted the Annual General Meeting of the International Financial Consumer Protection Organisation (FinCoNet) in Lisbon and jointly organised with FinCoNet – which the Bank headed until November – an international seminar on the supervision of retail banking markets.

Regarding anti-money laundering and countering the financing of terrorism (AML/CFT), the Bank initiated a cycle of inspections focused on the so-called “golden visas”.

In AML/CTF, the Banco de Portugal concluded cross-cutting inspections of two supervised institutions and one inspection which assessed (i) procedures to identify beneficial owners and understand the ownership and control structures of customers that are legal persons or entities treated as legal persons and (ii) measures undertaken following disclosures from civil society organisations, such as the International Consortium of Investigative Journalists.

It also carried out inspections of eight entities to assess the robustness of control mechanisms for correspondent banking relationships and initiated an inspection programme of 12 institutions to scrutinise the procedures put in place to address the money-laundering and terrorism financing risk associated with granting Residence Permits for Investment Activity (commonly known as a “golden visa”).

As a result of all these inspections, it issued 176 supervisory measures aimed at improving the control procedures and mechanisms of supervised entities. The Bank also analysed annual reports from 34 supervised entities, resulting in 194 supervisory measures.

As national competent authority – solely for AML/CFT purposes – for registering entities intending to operate with virtual assets, the Bank received and handled 21 initial registration applications and seven requests for changes to the initial registration, granted registration to five entities and answered more than 100 requests for information.

⋮ 17 administrative sanctioning proceedings were initiated ⋮ for non-authorised financial activity.

Regarding the prevention and repression of non-authorised financial activity, the Banco de Portugal conducted 312 new inquiries, concluded 266 proceedings and carried out 23 on-site inspections. The inquiries led to the initiation of 17 administrative sanctioning proceedings against entities not authorised to conduct financial activity subject to Banco de Portugal supervision and 45 communications to the Prosecutor General of the Portuguese Republic for evidence of criminal offences. Public warnings were issued against 59 entities 17 websites were taken down and 36 social media profiles were reported for violation of banking laws. Furthermore, the Bank cooperated in investigations with the judiciary and police authorities.

⋮ The number of suitability reassessment proceedings doubled.

The Banco de Portugal examined 263 proceedings for the possible withdrawal of authorisation granted to supervised entities (including for 122 credit intermediaries), 80 proceedings for a reassessment of the suitability of members of the management and supervisory bodies of supervised institutions – twice as many as in 2021 – as well as seven proceedings for the possible suspension of 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 the purpose.

6 Resolution

In its capacity as national resolution authority under the Single Resolution Mechanism, the Banco de Portugal seeks to ensure adequate conditions for the effective resolution, where needed, of failed credit institutions or banking groups without disturbing the stability of the financial system.

Portuguese credit institutions increased their loss-absorbing capacity.

Regarding institutions under the direct responsibility of the Single Resolution Board, the Bank continued to participate in resolution planning work through joint resolution teams.

Moreover, it continued to monitor the loss-absorption capacity of each group or institution, with a view to ensuring compliance with the intermediate and final targets of the minimum requirement for own funds and eligible liabilities (MREL). In 2022, national institutions issued debt instruments eligible for the MREL to an amount of over €2,400 million, plus €1,025 million of instruments eligible for own funds that contribute to achieve the MREL targets. This resulted in an increase in their loss-absorption capacity, thereby reinforcing resolvability.

The Bank took part in an exercise organised by the Single Resolution Board that consisted of simulating the resolution of a fictitious banking group operating in several Member States, including Portugal.

It also deepened its capacity development work on the preparation and implementation of potential resolution measures, aiming to reach adequate levels of readiness, as is mandatory for all resolution authorities.

The Banco de Portugal participated in the plenary sessions and extended executive sessions of the Single Resolution Board, the Banking Union's resolution authority. On 30 June and 1 July, in Lisbon, the Bank hosted the Banking Union's Plenary Session, which was attended by the permanent members of the Single Resolution Board and the high-level representatives of national resolution authorities, the European Commission, the European Central Bank and the European Banking Authority. Since it came into operation, in January 2015, it was the third time that the Plenary Session met in person outside Brussels, the previous occasions having been in Frankfurt and in Madrid.

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 monitoring 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 the Portuguese Parliament. It collaborated with the Court of Auditors on auditing Novo Banco's management and with Parliament's Budget and Finance Committee.

The Banco de Portugal continued to support the functioning of the Deposit Guarantee Fund and the Resolution Fund.

The Banco de Portugal provided the technical and administrative services necessary for a smooth functioning of the Deposit Guarantee Fund and the Resolution Fund. It established parameters for calculating the contributions due by the two funds' member institutions and carried out the procedures to calculate and collect them. As the designated authority for the Deposit Guarantee Fund, the Bank continued to ensure its participation in the working group on deposit guarantee schemes created by the European Banking Authority.

7 Enforcement function and upholding the legality of the Bank's decisions

The Banco de Portugal imposes sanctions where supervised entities do not comply with the standards or specific orders they are required to.

... The number of administrative offence proceedings concluded
... by the Banco de Portugal has increased more than sixfold.

The Banco de Portugal initiated 660 administrative offence proceedings, more than twice the previous year, and concluded 710, more than six times the figure of 2021. The decisions on the concluded proceedings led to the imposition of fines totalling €14.8 million, of which enforcement of €1.8 million was suspended.

The increase in the number of cases initiated was mainly due to a strengthening of supervisory activity and a revision of the procedures for identifying and reporting offences to establish liability for administrative offences. In turn, the increase in finalised proceedings reflects the adoption of new IT tools and the revision of the procedures applicable to the conduct of infringement proceedings, making it possible to simplify and streamline the conduct of less complex proceedings and to allocate resources to larger and more complex proceedings.

Banking conduct proceedings accounted for 60% of the proceedings initiated and concluded, reflecting both the high volume of customer complaints and the intensification of supervisory activities concerning compliance with the rules on the taking-up and pursuit of credit intermediation. In turn, proceedings involving breaches of rules on the prevention of money laundering and terrorist financing (ML/TF) led to the highest amount of fines being imposed: 52% of the total fines imposed in the proceedings concluded.

Of the proceedings concluded, only three were judicially appealed. Proceedings initiated before 2021 accounted for 6% of all proceedings pending at the end of the year (Tables II.7.1 and II.7.2).

In addition to the more complex proceedings (particularly on prudential matters), priority was given to administrative offence proceedings involving offences related to obligations for the prevention of money laundering and terrorist financing, with 41 of these proceedings being concluded, with the imposition of fines greater than seven million euro.

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

With regard to the legality of the Banco de Portugal's decisions, litigation against the Bank, the Resolution Fund and the Deposit Guarantee Fund remained high. In addition to litigation emerging

from supervisory decisions, there is still a high number of judicial proceedings 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, extending to foreign jurisdictions and the European Court of Justice, as well as arbitration proceedings.

Table II.7.1 • Administrative offence proceedings (2019–2022)

Proceedings	2019	2020	2021	2022	Δ 2022–2021
Carried forward from the previous year	247	247 ^(a)	303	507 ^(a)	+ 204
Initiated	115	204	313	660	+ 347
Concluded	117	148	116	710	+ 594
Pending at the end of the year	245 ^(a)	303	500 ^(a)	457	- 43

Source: Banco de Portugal. | Note: (a) 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 II.7.2 • Administrative offence proceedings initiated and concluded, by topic (2022)

Nature of the offence	Proceedings initiated	Proceedings concluded
Prudential	169	120
Banking conduct ^(a)	379	432
ML/TF prevention obligations	9	41
Cash recycling	77	84
Non-authorised financial activity	17	16
Other	9	17
Total	660	710

Source: Banco de Portugal. | Note: (a) Including proceedings originating from the Banking Conduct Supervision Department, but also proceedings from other sources, whose offences include non-compliance with banking conduct rules.

In these proceedings, rulings were delivered in favour of the Banco de Portugal, the Deposit Guarantee Fund and the Resolution Fund. Several judicial proceedings were also finalised. Particularly noteworthy by their relevance are: (i) confirmation of the judgment delivered by the South Administrative Central Court, which ruled that the resolution measure applied to BANIF was lawful and that the applicable legal framework was constitutional, and (ii) the delivery of a judgment of the European Court of Justice, which held, inter alia, that the national legislation based on which the BES resolution measure was adopted is compatible with Article 17(1) of the Charter of Fundamental Rights of the European Union. Also concerning the resolution measure applied to BES, favourable decisions were rendered in the national proceedings, notably dismissing the lawsuit for non-contractual civil liability for an unlawful act.

8 Knowledge creation and sharing

The Banco de Portugal produces and disseminates studies and statistics, with the purpose of making informed decisions, promoting knowledge of and debate about the Portuguese economy and advising the government on the design of public policies. It also fosters the financial education of the Portuguese population, thereby contributing to informed decision-making and the stability of the financial system. In addition, it shares knowledge with the central banks of emerging and developing countries, with the primary goal of safeguarding global monetary and financial stability.

... The Bank diversified its channels for disseminating its analyses and research and generated opportunities to interact with civil society.

The Banco de Portugal has published a new research agenda. The agenda lists the priority research topics for the period up to 2025, with particular focus on analysing the interaction between digital transformation in the financial system and central bank policies, public policies and the economic implications of climate change. On the latter topic, the Bank continued to cooperate on the National Adaptation Roadmap 2100, promoted by the Portuguese Environment Agency, which will culminate in setting up guidelines on territorial and sectoral adaptation to climate change.

Against a backdrop of recovery from the pandemic, research focused on issues related to the recovery, financial position, insolvency and corporate restructuring and the impact of backstops put in place. Analytical work was also carried out on various public policies, including taxation, the fight against poverty, education and mitigation of the effects of climate change.

In the field of financial stability, it undertook research to quantify the build-up of vulnerabilities associated with credit and house price developments, allowing for a better understanding of the risks inherent in central projections and the outcome of tail events. Research was also carried out around the debate on the existence of impediments to the use of capital buffers by banks, as well as on the interrelation between sovereign risk and the cost of capital.

In the *Economic Bulletin* and the *Financial Stability Report*, the Bank released analyses on the economic consequences of the war in Ukraine, the effects of rising inflation and interest rates on the financial situation of households and firms, and inequality issues. In the *Central Balance Sheet Studies* series, the Bank published a sectorial analysis of Portuguese non-financial corporations. The Banco de Portugal also launched the *Financial Stability Notes* series, with the aim of showcasing prudential regulatory initiatives of relevance to the national financial system.

15 articles were published in the *Banco de Portugal Economic Studies*. These articles covered topics of relevance to the economic debate on the Portuguese economy, notably financial literacy, child poverty, firms' solvency during the pandemic and the energy mix in Portugal and the euro area. A synopsis of the solvency and credibility of central banks was also published. The Bank published 26 articles in the *Working Papers* and *Occasional Papers* series, notably an occasional paper on climate change and the economy. In addition, 24 articles by Bank staff members were published or accepted for peer-reviewed publication in international scientific journals. Opinions, comments on case-law and articles on issues such as bank resolution, central bank money and the duty of secrecy were published in the *Cadernos Jurídicos* (Legal Papers).

The Banco de Portugal's Microdata Research Laboratory (BPLIM) reinforced its support to academic research using data from the Portuguese economy. Over the year, 40 new research projects were approved and 26 were completed. Among the topics analysed by the new projects are

the interactions between climate-related factors and economic activity, as well as the solvency and access to credit of Portuguese firms. At the end of the year, there were 138 ongoing projects in BPLIM, involving 227 researchers, of whom 189 were from 16 Portuguese universities and 36 from foreign universities, mainly from Europe and the US, and 18 from non-university research institutions, including international institutions.

The Bank produced podcasts on the results of published analytical work and launched the “Economic Forum”, a space for discussion with academia and civil society on research undertaken. To promote a better understanding of its activities by non-expert audiences, it started publishing accessible summaries of the *Economic Bulletin* and released new webpages and podcasts which explain its mission and functions in a simple manner. It launched its “Community Meetings”, i.e., listening events with firms, workers, universities and other civil society institutions on economic issues. The Governor also held the first of a series of meetings with civil society stakeholders, in which he invited members of the Portuguese Economic and Social Council to share views and concerns about the broad-based increase in prices.

The Bank held a number of conferences throughout the year, to foster knowledge in key areas for its mission and contribute to public debate about the Portuguese economy. As part of the celebration of its 175th anniversary, the conference “Rebuilding Social Capital: the role of central banks” took place in April. The 11th Conference on Portuguese Economic Development in the European Area, focusing on public policy analysis, was also held in November, and was broadcast live on social media. As part of this conference, the José da Silva Lopes Prize was awarded for the best Master’s degree theses in economics and business management presented at Portuguese universities over the previous two years. This prize was awarded to the theses examining the impacts of the major financial crisis on Portuguese firms, and the importance of business and innovation strategies on the competitiveness of firms in uncertainty scenarios.

58 scientific seminars and four advanced courses were held with the participation of the Portuguese scientific community. In addition, a workshop on labour economy was co-organised with the Banco de España, the 8th Conference on Financial Intermediation and the 3rd Conference on New Trends and Developments in Econometrics, bringing together national and foreign experts. In the context of BPLIM, the Bank held the workshop “Empirical Research with Large Datasets” at the Porto Business School.

In partnership with the European Central Bank and the other Eurosystem central banks, the Banco de Portugal held the 11th edition of the Generation Euro Students’ Award for the 2021-22 academic year. This is a competition between secondary schools geared towards raising students’ awareness of the importance of price stability and euro monetary policy. The “Janus” team of Colégio Luso-Francês, in Porto, won the Portuguese edition of the competition, by presenting a recommendation for the ECB’s monetary policy decision of March 2022. 117 teams from 56 Portuguese schools participated in this competition.

... To promote statistical literacy, StatFlix (an e-learning
... programme on the Portuguese economy’s main statistics) was
... launched and shared with twelve universities.

The Banco de Portugal released over 250,000 statistical series on the Portuguese economy and the euro area on the BPstat website, including new direct investment statistics broke down by ultimate investor – presented to journalists in a workshop – and new regional economic and financial indicators of non-financial corporations. The publication of central balance sheet statistics was brought forward, and the main results were shared with business associations through a webinar.

In order to follow current economic developments more closely, the Banco de Portugal released new statistical information on housing loans, broken down by type of rate and reference rate.

The main statistical results were made available on BPstat via 106 statistical press releases. The Bank simplified the language used on the website and introduced a new way of browsing through information. BPstat received 1.4 million hits, 40% more than in 2021.

The Bank provided the Enterprise and Sector Tables to enterprises, to enable managers to compare the performance of their enterprises to those of the same sector and size class. 12 thousand enterprises viewed these tables: 90% were micro or small enterprises and most were in the sectors of trade (26%), manufacturing (16%) and scientific and technical activities (13%). In addition, publicly accessible Sector Tables were published, which include around 150 economic and financial indicators on Portuguese enterprises, presented by sector of economic activity and size class, as well as ratios of other European countries for each sector of activity.

To promote statistical literacy, in October 2022 the Bank launched StatFlix, an e-learning programme for university students of economics and management on the main statistics of the Portuguese economy, which twelve Portuguese universities have already shared with their students. The programme is available in Portuguese and in English.

In partnership with the Directorate-General for Education, the Bank held three webinars on balance of payments statistics for upper-secondary teachers of economics, engaging over 400 participants. Together with Statistics Portugal and Eurostat, it organised the 5th European Statistics Competition, in which 178 teams from 56 Portuguese lower- and upper-secondary schools 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 public policymaking. With the Irving Fisher Committee on Central Bank Statistics, in September the Bank co-organised the conference “Communication on central bank statistics: unlocking the next level”, which brought together around 200 experts from organisations involved in the production of statistics from more than 50 countries.

As part of its participation in the Eurosystem, the Banco de Portugal incorporated new requirements introduced by the ECB on national financial accounts, including a greater breakdown of institutional sectors and financial instruments, as well as the reporting of statistics on payment systems and instruments. For financial institutions, it published a new instruction on securities portfolio statistics, setting out the reporting of new information to meet statistical, supervisory and financial stability needs. The payment reporting system to the Banco de Portugal is now being redesigned, making it possible to collect daily and transaction-by-transaction data, to be used for statistical purposes, economic analyses and the continuous monitoring of the operation of payment systems.

Together with the OECD and the European Commission, the Bank carried out its first survey on the digital financial literacy of the Portuguese population.

The Banco de Portugal, along with the Organisation for Economic Co-operation and Development (OECD) and the European Commission, continued to work further on the development of a national digital financial literacy strategy for Portugal. As part of this project, the first survey on the digital financial literacy of the Portuguese population was carried out, a pioneering questionnaire aimed

at assessing the behaviour, attitudes and knowledge of the population in terms of digital financial products and services and online security procedures. An international workshop was also held in Lisbon to discuss the results of a survey of Portuguese stakeholders on their digital financial training initiatives and outlook for future strategy.

The Bank launched the second stage of the digital financial education #TopTip campaign, aiming to promote the safe use of banking products and services on digital channels, now featuring topics more targeted at an adult population. As part of this campaign, decoders on digital financial fraud, digital banking services, remote account opening, online shopping and online consumer credit were published on the Bank Customer Website and on social media.

During World Investor Week, a public awareness campaign was conducted on the risks of using crypto-assets as a means of payment, including the dissemination of videos on the Bank Customer Website and on social media.

To promote the financial inclusion of migrant populations – particularly Ukrainian refugees – the Bank and the High Commission for Migration organised training sessions on minimum banking services for migrant support centre staff and distributed over 70,000 leaflets on these services in Portuguese, English, French and Ukrainian. As part of the protocol with the Ministry of Labour, Solidarity and Social Security, videos, posters and leaflets on minimum banking services were distributed through the Ministry's customer service desks.

Supported by its network of branches and regional delegations, the Bank organised 717 training courses throughout the country, involving more than 23,000 participants. These courses, organised in partnership with schools, local authorities and other citizens' advisory bodies, addressed topics such as family budget planning, savings and the safe use of digital channels when accessing banking products and services. The Bank also held 396 training courses on euro banknotes and coins, with over 9,000 participants.

As part of the National Plan for Financial Education, the Bank and the other financial supervisors formed new partnerships. Of particular note was the agreement signed with the Tax and Customs Authority, which made it possible to integrate content on taxes and taxation into financial literacy initiatives and the Plan's website, the 'Todos Contam' website.

At the invitation of the European Commission and the OECD International Network on Financial Education (OECD/INFE), the Bank actively participated at the conference to launch the financial skills benchmark for the adult population of the European Union (having also contributed to the benchmark's preparation). The Bank shared its digital financial training initiatives in the repository launched by the European Supervisory Authorities (ESAs).

⋮ The Bank carried out 182 cooperation initiatives with entities ⋮ from emerging and developing countries.

Cooperation with emerging and developing countries continued to grow, featuring 182 initiatives and a greater number of external participants (Figure II.8.1). The central banking core business areas were the topics most commonly addressed in the initiatives, with a focus on supervision, financial stability and statistics.

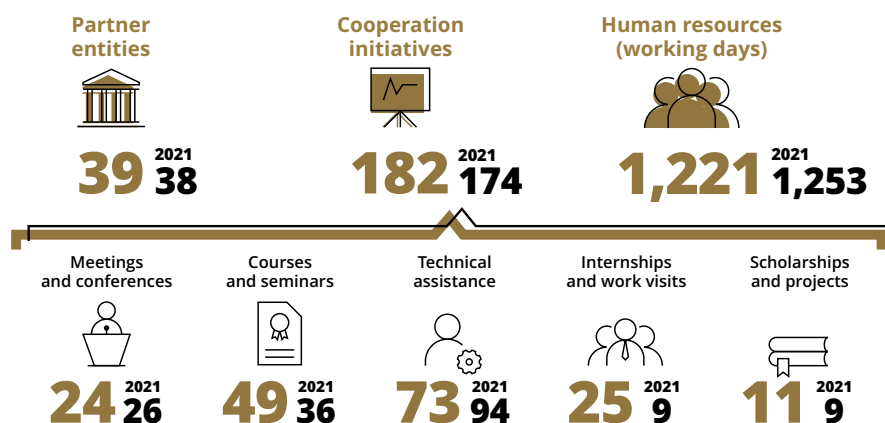
The central banks of Portuguese-speaking countries continued to be its main cooperation partners, with 156 initiatives. Against this backdrop, the Bank held the 32nd Lisbon Meeting between the Central Banks of Portuguese-speaking Countries, focusing on the short-term and structural challenges facing central banks.

Cooperation was consolidated in other geographies, notably with partners from neighbouring EU countries (11 initiatives in 2022), Latin America and the Caribbean (9), Africa (3), and Asia and the Pacific (3). The Bank took part in the cooperation programmes of the European System of Central Banks: it carried out initiatives with the central banks of North Macedonia and Kosovo, participated in the launch of the second stage of the programme targeting central banks in the Balkans and was involved in the preparatory work for a pilot project with African central banks. It also co-operated with the Ukrainian central bank, both bilaterally and in the context of an EU programme led by Poland.

The Bank also continued to co-operate with the International Monetary Fund on institutional capacity-building initiatives, particularly with Angola and Kazakhstan, in the areas of supervision and risk management.

In a year of high uncertainty and heightened challenges in the aftermath of the pandemic, in December 2022, Portugal confirmed its intention to join global efforts to support the most vulnerable countries. To this end, it undertook to voluntarily channel part of its Special Drawing Rights (SDRs) – increased through the August 2021 general allocation – through a Banco de Portugal investment in the Deposit and Investment Account of the Poverty Reduction and Growth Trust. The investment, amounting to SDR 264 million over a ten-year period and scheduled for 2023, will support the IMF in providing more favourable terms to low-income countries.

Figure II.8.1 • Cooperation initiatives in 2022 and comparison with the previous year



Source: Banco de Portugal.



Acting for Sustainability Highlights in 2022

Integrating climate risks into the missions of the Banco de Portugal

Financial stability and prudential supervision

- Identification of the need for regulatory changes in accordance with the Climate Framework Law;
- Single Supervisory Mechanism (SSM) thematic review on climate and environmental risks;
- SSM supervisory stress test on climate risk.

Monetary policy

- Climate stress test of the Eurosystem balance sheet.

Advising the government and economic research

- 21 technical inputs to government consultations;
- Incorporation of climate change into the research agenda for 2022-25;
- 3 published papers on the economic impact of climate change;
- Participation in the project National Adaptation Roadmap 2100.

External representation

- Representation in 24 structures devoted to sustainability.

AREA 1



Reinforcing ESG sustainability in internal management

More sustainable asset management

- Responsible Investment Charter;
- Reporting on the carbon footprint of own assets portfolio.

Reducing the ecological footprint

- Implementation of the Lisbon Green Capital 2020 Commitment;
- Calculation of the ecological footprint of its 19 buildings;
- Participation in an ECB study on the environmental impact of cash issuance.

Corporate social responsibility

- Review of the financial support policy for external entities;
- Signing of the ESCB & SSM Equality, Diversity and Inclusion Charter.



Promoting ESG awareness

Production and dissemination of content

- Sustainability and social responsibility pages on the Bank's website.

Events

- 10 public speeches by Board Members;
- Cooperation with central banks from Portuguese-speaking countries.

AREA 3

9 Governance and social and environmental responsibility

Under the motto “Acting for Sustainability”, the Bank follows an approach to environmental, social and corporate governance (ESG) sustainability based on three major objectives: (i) to integrate climate risks into its mission of safeguarding financial stability, maintaining price stability and advising the government; (ii) to strengthen ESG sustainability in its internal management; and (iii) to promote ESG awareness among employees and external stakeholders.

The previous chapters introduced the main initiatives within the Bank’s various areas of operation aimed at integrating climate risk into its missions and raising awareness among its stakeholders. This chapter deals with sustainability from the Bank’s perspective as an organisation.

... The Bank changed its structure and how it operates to better
... meet new challenges related to analysing vast quantities of data,
... risk management and technological innovation.

Following a proposal from the Minister of Finance and after hearing the competent parliamentary committee, in November 2022 the Council of Ministers appointed new members to the Board of Directors of the Banco de Portugal. In its new composition, gender parity was reached at Board level.

Three departments were reorganised in 2022: (i) the Statistics Department, to streamline the transformation of data into knowledge, (ii) the Risk Management Department, to separate financial risk from strategic and operational risk activities, and (iii) the Information Systems and Technology Department, to position itself as a strategic partner of the Bank’s core functions and to pursue modernisation, innovation while boosting trust in the digital environment.

30 internal audits were carried out, 22 of which were exclusively domestic and eight under the internal audit function of the European System of Central Banks (ESCB), the Eurosystem and the Single Supervisory Mechanism (SSM). The audits covered most of the Bank’s business areas, focusing mainly on supervisory and legal enforcement tasks, cash issuance and information systems (Table II.9.1). Audits continued to rely on an integrated and risk-oriented approach, the use of systems for automatic data collection and analysis, and the management of audit processes, as well as the application of agile principles focused on stakeholders’ needs and geared towards a more efficient and effective audit function.

The Banco de Portugal published internal rules on integrated risk management, formalising the architecture, methodologies, instruments and practices of internal control, risk management and organisational resilience. In recognition of the work carried out over the last decade to implement an integrated strategic, financial and operational risk management model, the Banco de Portugal received the “Risk Manager” prize at the Central Banking Awards 2022 and reached the top level of maturity in risk management at the annual independent assessment of the International Operational Risk Working Group (IORWG), ranking among the top five central banks out of the 74 considered in three out of the five categories assessed.

The exercise to identify the main risks of the Bank’s activity targeted priority risks. The corresponding cross-cutting mitigation measures were included in the Strategic Plan’s priority initiatives. The risk tolerance levels set by the Board of Directors were monitored via key risk indicators (KRIs), and preventive action was taken on the most relevant of these. In addition, regular exercises helped

identify, assess and mitigate operational risks. 108 operational risk incidents were analysed and 33 mitigating measures were implemented.

Table II.9.1 • Audits (2022)

Breakdown by function	Domestic	ESCB, Eurosystem and SSM
Monetary policy and other operational duties		2
Supervision and legal enforcement	5	1
Payment systems and processes	2	1
Cash issuance	5	1
Statistics		1
Resolution and deposit guarantee	2	
Human resources	3	
Information systems/Information and communication technologies		1
Communication and image management	1	
Procurement and logistics (including contract management)	1	1
Risk and compliance	1	
Governance, internal functioning and management quality	2	
Reserve management and financial assets		
Total	22	8

Source: Banco de Portugal.

Financial risk management continued to rely on eligibility criteria and limits by type of counterparty, country, operation and instrument, as well as on the calculation of metrics based on standard methodologies in line with those used by the Eurosystem. The figures obtained were compared with the financial buffers in the balance sheet (provisions, reserves and income) in order to monitor the degree to which risks are covered and to compare them with the financial risk management strategic 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.

The Compliance Office received 193 requests from employees for an opinion on the application of the rules of conduct. In compliance with national legislation, internal rules on combating harassment and discrimination in the workplace and internal reporting procedures have been revised.

The Data Protection Officer replied to 96 requests on personal data matters and assessed the need to submit seven regulatory projects of the Bank involving the processing of personal data to the Portuguese Data Protection Authority, for prior consultation. In addition, the Bank conducted two audits with the purpose of strengthening controls and the institutional culture of personal data protection. It co-organised the colloquium "Data Protection and the New Challenges in the Financial Sector" with the Portuguese Banking Association, in which the Portuguese Data Protection Authority also participated.

⋮ The Bank continued to interact regularly with the Portuguese ⋮ Parliament.

The Governor appeared before the Portuguese Parliament at the annual hearing provided for in the Statute of the Banco de Portugal and in the context of hearings with the financial sector regulators on housing loans. Vice-Governor Luís Máximo dos Santos appeared before a hearing on banking

fees and, as Chair of the Resolution Fund, a hearing on the Court of Auditors' audit of the public funding and management of Novo Banco. Interactions with the Portuguese Parliament also included issuing opinions on draft legislation, responding to inquiries and producing reports required by law (Table II.9.2).

Table II.9.2 • Interactions with Parliament in 2022

Process	No of interactions
Hearings	5
Requests for opinions	3
Inquiries	2
Reporting	2
Invitations	2
Total	14

Source: Banco de Portugal.

In the Equality, Diversity and Inclusion Charter of the European System of Central Banks and the Single Supervisory Mechanism, the Bank has undertaken to promote an inclusive working culture.

In July, the Banco de Portugal signed the Equality, Diversity and Inclusion Charter of the European System of Central Banks and the Single Supervisory Mechanism, undertaking, as an employer, to promote equal rights and opportunities, the diversity of its teams, and inclusive working cultures, in line with the fundamental rights enshrined in the Treaty on European Union.

In 2022, the proportion of female staff continued to grow, reaching 52.1% at the end of the year. As at 31 December, the Bank had 1,721 employees, 1.1% less than in 2021 (Table II.9.3), as a result of 128 employees leaving (67 due to retirement and 61 due to employment contract terminations) and 108 new hires. The number of staff assigned to supervisory tasks increased by 8.2% from 2021, representing 31% of total staff at the end of the year.

Under the annual internship programme, 101 trainees were recruited and 20 summer internships were offered.

Recruitments, retirements and the termination of contracts increased from the previous year. There is a strong concentration of staff members aged 26 to 45. The average age of staff members dropped from 42 to 41.3 years old (42.5 for men and 40.3 for women), mainly as a result of the increase in retirements (Table II.9.4).

Table II.9.3 • Staff developments (2019-2022)

	2019	2020	2021	2022	Δ 2022-2021
Total staff	1,778	1,777	1,741	1,721	-1.1%
Active ^(a)	1,700	1,700	1,672	1,642	-1.8%
Supervisory tasks ^(b)	481	495	487	527	8.2%
Unpaid leave/secondment	78	77	69	79	14.5%

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.

Table II.9.4 • Staff developments: gender, movements and age groups (2019–2022)

		2019	2020	2021	2022
Total staff	Men	892	881	854	825
	Women	886	896	887	896
Movements	Recruitments	161	102	56	108
	Retirements	100	80	48	67
	Termination of contracts	36	23	44	61
Age group	<=25	94	104	79	63
	[26;35]	579	552	521	506
	[36;45]	483	542	583	615
	[46;55]	272	283	286	305
	[56;65]	334	272	246	210
	>=66	16	24	26	22

Source: Banco de Portugal.

To align individual career expectations and staff member skills with the available in-house job offers, 47 internal recruitment processes were launched, of which 23 for management functions. The breakdown by function shows that around 20% of staff members perform management tasks while the remaining staff perform technical and operational tasks (Table II.9.5).

The Bank established a minimum of three days of in-person working per week for workers performing functions compatible with remote working, in order to balance the advantages of in-person working with the flexibility of remote working.

Table II.9.5 • Staff: breakdown by function (2022)

	Men	Women	Total	%
Senior management	43	17	60	3%
Middle management	147	165	312	18%
Professional staff	514	663	1,177	68%
Management and technical-administrative staff	83	10	93	5%
Unpaid leave/secondment	38	41	79	5%
Total	825	896	1,721	100%

Source: Banco de Portugal.

... The focus remained on the digital and data analysis skills of staff
... members, via the Bank's Data Science School.

The Banco de Portugal's academy (BdP Academy) maintained a diversified training programme geared towards enhancing technical and behavioural skills of staff members. In total, 59,223 training hours were given, and 1,658 staff members participated in at least one session (Table II.9.6).

Table II.9.6 • Training: participants and hours (2019–2022)

	2019	2020	2021	2022	Δ 2022-2021
Total participants	1,842	1,697	1,624	1,658	2.1%
Hours	67,678	49,182	67,472	59,223	-12.2%
Participation rate	103.6%	95.5%	93.3%	96.3%	3.3%
Staff members	1,778	1,777	1,741	1,721	-1.1%

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

The Bank continued to focus on improving digital and data analysis skills through its Data Science School, with 969 courses completed by the end of 2022 over a total of 13,427 hours of training. The teaching model was shared with the Single Supervisory Mechanism.

The Banco de Portugal's first Datathon, a 24-hour data challenge, brought together 53 participants to work on a real business solution by applying the techniques learned at the Data Science School.

The Bank provided financial support, totalling €90,135, to staff members who applied to higher education and specialised courses.

An online Open Day was held for universities, with presentations and visits to virtual stands and themed chat rooms. Students from 15 higher education establishments across the country participated in the event.

To prevent occupational risks and to promote a safe and healthy working environment, 280 workstations were assessed, the operating conditions of 200 work equipment items were checked, and 14 emergency exercises were conducted.

25 work-related injuries were recorded, 15 more than in 2021, of which one was serious, corresponding to a ratio of 2.02 injury and 0.08 serious injury per 200,000 hours worked. The increase in work-related injuries compared to 2021 was chiefly due to an increase in home-to-work travel following a widespread return to in-person work.

... The Bank proceeded with its digital transformation plan,
... anchored in the adoption of innovative technological solutions
... and the strengthening of trust in the digital environment.

It strengthened its internal advanced analytics and artificial intelligence capabilities using a technology platform providing self-service tools for abstractive summarisation, entity recognition and document classification.

As part of the ongoing integrated information management programme, the internal data warehouse incorporated foreign exchange information, the central bank balance sheet, international banking statistics, non-financial sector indebtedness, financial derivatives, in-house credit assessment system ratings and enterprises in the Central Balance Sheet Database.

The preparation of the in-house systems to connect to the market infrastructure linking system (*Sistema de Ligação às Infraestruturas de Mercado* – SLIM) was completed in early 2023, and will serve as the interface between in-house applications and the consolidated platform of the new TARGET services (Chapter II.2).

... The Bank communicated with the public and the media
... on a regular basis, reporting on its work with the purpose
... of contributing to greater understanding of its tasks.

The Bank released 100 issues of its publications (Table II.9.7) and 255 press releases and published 76 speeches by senior officials. It released 40 podcasts, 24 videos and seven decoders on its website and on social media (Table II.9.8).

Table II.9.7 • Regular publications (2022)

Publication	Objective	Frequency	Language ^(a)
<i>Annual Report</i>	Description of the Bank's activities and financial statements	Annual	PT and EN
<i>Official Bulletin</i>	Collection of all legal acts produced by the Bank in its regulatory capacity	Monthly	PT
<i>Report on Monetary Policy Implementation</i>	Summary on the implementation of the monetary policy of the Eurosystem in Portugal	Annual	PT
<i>Economic Bulletin</i>	Detailed analysis of the Portuguese economy and release of macroeconomic projections	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-written by external researchers, and economic synopses. The articles are preceded by a non-technical summary	Quarterly	PT and EN
<i>Coincident Indicators</i>	Publication of coincident indicators for economic activity and private consumption in Portugal	Monthly	PT and EN
<i>Spillovers</i>	Publication on research, economic analysis and economic events promoted by the Bank	Semi-annual	EN
<i>Bank Lending Survey</i>	Release of detailed results for Portugal taken from the Eurosystem's survey	Quarterly	PT and EN
<i>Financial Stability Report</i>	Evaluation of emerging risks in the Portuguese markets and financial system, by identifying possible adverse shocks and assessing their consequences for the stability of the financial system	Semi-annual	PT and EN
<i>Macroprudential Recommendation on new credit agreements for consumers – progress report</i>	Assessment of the degree of implementation of the Macroprudential Recommendation	Annual	PT and EN
<i>Portuguese Banking System</i>	Description of developments in the Portuguese banking system, based on indicators on the balance sheet structure, asset quality, liquidity and funding, profitability, solvency and leverage	Quarterly	PT and EN
<i>Banking Conduct Supervision Report</i>	Information on the regulation and audit of retail banking markets, as well as on the Banco de Portugal's initiatives in terms of financial information and training	Annual	PT and EN
<i>Credit Markets Monitoring Report (New)</i>	Assessment of developments in markets for home and mortgage loans and consumer credit subject to the Banco de Portugal's banking conduct supervision	Annual	PT and EN
<i>Developments in Basic Bank Accounts (New)</i>	Description of developments in basic bank accounts	Semi-annual	PT
<i>Developments in bank customers' complaints (New)</i>	Assessment of developments in complaints from bank customers regarding the conduct of financial institutions in retail banking markets over the first half of the year	Annual	PT
<i>Structured Deposits Market (New)</i>	Assessment of developments in the market for structured deposits and in returns on maturing deposits	Annual	PT
<i>Statistical Activity Plan</i>	Description of the Bank'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>	Report 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>	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.

Table II.9.8 • Communication: main indicators (2019–2022)

Channels	Indicators	2019	2020	2021	2022
Website	Press releases	264	312	283	255
	Public speeches	62	44	75	76
	Decoders	45	18	6	7
	Users	2,787,495	3,304,010	3,513,203	4,270,084
	Viewed webpages	22,948,275	20,727,262	21,669,166	23,002,447
Bank Customer Website	News	109	132	111	110
	Users	504,271	614,687	833,389	1,218,925
	Viewed webpages	1,586,850	1,988,571	2,182,158	2,416,977
Instagram	Posts	93	105	139	126
	Impressions	163,107	2,844,980	1,900,273	1,644,065
LinkedIn	Posts	542	710	784	814
	Impressions	2 554 948	2 876 284	2 728 992	4 655 793
Twitter	Tweets	1,218	1,312	1,338	1,465
	Impressions	1,201,536	2,887,000	1,650,000	1,506,098
YouTube	New videos	42	42	35	24
	Views	99,274	156,706	150,600	113,288

Source: Banco de Portugal.

The Bank held eight press conferences to present its most important publications, replied to 394 media information requests and organised two workshops for journalists. A weekly newsletter was sent to journalists addressing the main topics on the Bank's agenda.

Its communication initiatives focused mainly on economic, financial and statistical literacy (Chapter II.8). As part of the celebration of the 20th anniversary of the introduction of euro banknotes and coins, the Bank launched a communication campaign on digital channels and a temporary exhibition at the Money Museum entitled "20 years in your pocket – the Euro". As part of the commemoration of its 175th anniversary and in the spirit of openness to the community, the Banco de Portugal organised, with the support of Lisbon City Council, a free concert in Praça do Comércio, with the performances of Lisbon Metropolitan Orchestra and João Gil. The Bank also held a session commemorating the ten years of the refurbishment and restoration of its head office.

Communication with the public in English involved the translation of new content on the institutional website, the Bank Customer Website and of a large share of the Bank's publications, covering a total of 5,400 pages processed. The statutory publications of the European Central Bank were also translated into Portuguese.

The Bank provided face-to-face assistance to over 203,000 citizens across its various sites, both on the mainland and in the autonomous regions. Overall satisfaction indicators stood at 3.85 on a scale of "1 – not satisfied" to "4 – very satisfied".

The Bank received 75,476 telephone calls and 15,984 messages from the public, sent by e-mail or using the forms available on its website and the Bank Customer Website. These contacts mainly aimed to clarify issues related to the Bank's databases, complaints against financial institutions and rules applicable to the marketing of banking products and services.

In compliance with the Law for Access to Administrative Documents (*Lei de Acesso aos Documentos Administrativos*), the Secretary-General of the Banco de Portugal was appointed as being responsible for access to administrative information and replied to seven requests from natural and legal persons.

The Bank received 25 complaints in its *Livro de Reclamações* (complaints book), nine fewer than in 2021. The subjects most targeted by complainants were disagreement with internal procedures and services provided by the Bank.

Consultations to the Bank's databases continued to be sizeable (Table II.9.9), most notably the Central Credit Register, with around four million consultations by individuals and firms, 27% more than in 2021.

Table II.9.9 • Services to the public: main indicators (2019-2022)

Services	Indicators	2019	2020	2021	2022
Analysis of bank customers' complaints	Complaints received against financial institutions	18,104	19,660	19,322	21,778
	Complaints received against credit intermediaries	114	74	83	80
Consultations of account reports	Reports issued	396,465	388,959	439,072	548,430
Consultations of credit liabilities reports	Reports issued	2,455,320	2,731,119	3,173,030	4,019,085
Consultation of information on the prohibition of the use of cheques	Consultations of the List of Cheque Defaulters	9,844	8,484	7,084	7,882
Dissemination of information on lost documents ^(a)	Requests disseminated	220	269	559	622
Visitors at information desks Historical Archive/Library	Visits	237,203	149,876	133,289	203,544
	Consultations of archived documents	675	312	296	366
	Library consultations (on-site and online)	5,262	2,276	4,126	6,452
Money Museum	Activities	1,127	271	300	911
	Visitors	74,796	25,446	25,000	71,013

Source: Banco de Portugal. | Notes: (a) In 2020, the automatic dissemination of requests made via the Bank Customer Website was introduced; they are included in this indicator.

The Bank held the fourth edition of the "Archive Afternoons" (Tardes de Arquivo) conference, on "The Agencies of the Banco de Portugal, a documentary contribution to local history" to familiarise internal and external users (mainly archivists and researchers) with the Bank's Historical Archive.

Drawing from its library collection, the Bank released on its institutional website reports from boards of directors of Portuguese and foreign firms between the 19th century and the end of the 20th century.

The Money Museum welcomed 71 thousand visitors and hosted 557 activities for schools. A new site was launched for the Museum, with a reworked design and new functionalities, including the possibility of going on a 360-degree virtual tour. The exhibition "Sea of identities: Gulbenkian's numismatic treasures" was also held. With the Official Printing Office (Imprensa Nacional-Casa da Moeda), it co-organised the Coin Collector Festival (Festa do Numismata), which included a market to sell and exchange coins as well as free cultural and educational activities for various audiences. In addition, the series of exhibitions 'Bank Sites' (Lugares do Banco) was resumed in Castelo Branco, after an interruption due to the pandemic, with the aim of raising awareness of the Bank's various agencies and delegations.

... The volunteering programme engaged 209 volunteers in standing initiatives to support education and communities close to the Bank.

In 2022, the Banco de Portugal's ten-year-long volunteering programme was celebrated with a series of initiatives culminating in a conference on the challenges of corporate social responsibility.

209 volunteers were involved in regular volunteering projects (Table II.9.10). The Bank and its staff donated medicines, first aid materials and other essential goods to help the victims of the war in Ukraine. The Banco de Portugal lent a van to a partner association and hired a bus to take goods to the Polish-Ukrainian border and to bring back refugees.

Table II.9.10 • Social responsibility and volunteer work: main indicators (2022)

Permanent volunteers	209
Students receiving support	409
Schools receiving support	38
Number of meals donated	6,706
Computers and IT equipment donations	413
Support to the internal management of private social solidarity institutions	16

Source: Banco de Portugal.

The financial support policy for external entities has been revised aiming to improve the transparency of the process, promoting equal opportunities and strengthening engagement with supported entities, with an expected regular assessment of existing partnerships and funded projects. Under this policy, the Bank sponsored 22 initiatives in the fields of education and information exchange, totalling €55,043 (Table II.9.11). The Bank also financed two scholarship programmes, as part of its cooperation activity (Chapter II.8), to the overall amount of €52,613: 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 II.9.11 • Initiatives supported by the Banco de Portugal (2022)

CEBRA Annual Meeting 2023
Research Center on Regulation and Supervision of the Financial Sector
Concert to celebrate the 100 th anniversary of the birth of José Saramago
Conference <i>Classification and Data Science in the Digital Age</i> Portuguese Association for Classification and Data Analysis
Conference <i>Giving Credit to Dictatorship: Authoritarian Regimes and Financial Capitalism in the Twenties Century</i> ICS
Conference with Michael Sandel IDEFF – University of Lisbon School of Law
NOVAFRICA Conference on Economic Development
<i>Economia Viva 2022</i> Students Association of the NOVA School of Business and Economics
Economics Week 2022 Students Association of Iscte – University Institute of Lisbon
José Saramago Foundation
Iberometrics 2023
Lisbon Accounting Conference 2022
Jacques Delors Award 2022 Jacques Delors European Information Centre
Prize to top students at the post-graduate course on statistical systems NOVA School of Business and Economics
5 th Lisbon Meeting on Economics and Political Science NOVA School of Business and Economics
18 th Portuguese Economists' Association Conference – State Budget 2023
15 th Conference of the Portuguese Economic Journal
VII IFM International Forum on Management Universidade da Madeira
JOCLAD2022 – 29 th Data Classification and Analysis Days
22 nd A.N.D.A.R. Days (National Association of Patients with Rheumatoid Arthritis)
Annual campaign of ABRAÇO – Association in Support of People Living with HIV/AIDS
Pirilampo Mágico campaign 2022 (benefiting people with intellectual disabilities) CERCI

Source: Banco de Portugal.

The Bank continued to take action to promote environmental sustainability while managing its own investment asset portfolio, issuing money and managing its buildings.

In compliance with the provisions of the Climate Framework Law, the Bank has started to draw up a programme to decarbonise its activity, which is expected to be completed by the end of 2023.

As part of the management of its own investment asset portfolio, the Banco de Portugal published its Responsible Investment Charter and participated in the Eurosystem's work to disclose, in the first quarter of 2023, the carbon footprint of central banks' own portfolios, based on common data and a harmonised methodology.

At technical level, the Bank participated in the Eurosystem's study on the environmental footprint of the use of euro banknotes, based on 2019 data, whose results will be published in 2023. Its findings show that the payment made by a euro area citizen with banknotes over a year has a marginal environmental impact compared to that of other day-to-day activities: the effect is equivalent to that of a citizen driving a car for eight kilometres.

The calculation of the Bank's carbon footprint in 2022, encompassing its 19 buildings, pointed to a slight decrease in greenhouse gas emissions, due to the lower consumption of fuel and gas (scope 1) and electricity in the regional delegations of the Azores and Madeira (scope 2).

From a broader perspective of environmental sustainability, the Bank monitored indicators on the sustainability of its operations, including the consumption of plastic and paper, water, energy, greenhouse gas (GHG) emissions and waste generated (Table II.9.12).

The Bank sent 99% of waste generated by its operation for recycling and recovery, thereby helping to re-use materials. As activity normalised after the pandemic, water consumption grew by 15% from 2021. Electricity consumption – which is almost entirely from renewable sources – decreased by 1%. In line with the energy saving plan launched by the government, the Bank has developed a plan to reduce energy consumption in its buildings and decrease its dependence on the electricity grid.

Table II.9.12 • Consumption of materials, energy, water, GHG emissions and waste generated (2019–2022)

	2019	2020	2021	2022
Materials consumption (tonnes)	44.80	20.36	15.23	14.18
Energy consumption within the organisation (gigajoule)	83,957	78,453	81,189	80,228
Fuel	10,565	9,060	8,366	8,286
Electricity ^(a)	73,392	69,393	72,823	71,942
Electricity consumption from 100% renewable sources	-	98%	99%	99%
Water consumption (m ³)	53,530	39,910	41,406	47,736
Greenhouse gas (GHG) emissions (CO2 tonnes)				
Direct Scope 1	706 (a)	1023	983	577 (a)
Indirect Scope 2 ^(b)	4,342	157	119	99
Indirect Scope 3	N/A	1,712	1,203	N/A
Waste generated (tonnes) ^(c)	382	296	223	270
Hazardous waste	4.20	2.74	3.66	5.80
Recovery – not intended for final disposal	1.99	2.44	1.54	2.87
Disposal – intended for final disposal	2.22	0.30	2.12	2.93
Non-hazardous waste	378.15	293.49	219.80	264.40
Recovery – not intended for final disposal	377.80	290.77	218.37	264.38
Disposal – intended for final disposal	0.35	2.72	1.43	0.02

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 explains 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.

III 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

In 2022 developments in the economic environment prompted a number of monetary policy decisions by the Eurosystem to address inflationary pressures, interrupting a long period of very low positive or even negative interest rates. A cycle of rapidly rising key interest rates started as of the second half of 2022, which was unexpected a year earlier, and which materialised the balance sheet structure risk, with a major impact on the future profits and losses of the Eurosystem central banks.

At the end of 2022 the Banco de Portugal's balance sheet totalled €198 billion, down by around €21 billion from the preceding year, mainly driven by a decrease in lending to credit institutions as a result of the change in monetary policy in the euro area.

In 2022 income before provisions and taxes totalled €668 million, remaining at the high level of previous years. This was fuelled by positive realised gains/losses arising from financial operations within the scope of foreign reserves and euro assets and the extraordinary result from the last expiry of the time limit for exchanging escudo banknotes. In the second half of the year the interest margin started to reflect the effects of the above monetary policy decisions, which led to income before provisions and taxes for the year lower than in 2021.

In the context of the aforementioned developments in the balance sheet structure risk, the Bank decided to increase the General risk provision, taking into account, among other factors, the results of a medium to long-term projection for financial statements and risk management.

Net profit for the year 2022 was €297 million.

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 2022, 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 statute, the Board of Auditors prepared a report and issued an opinion on the financial statements.

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

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

1.1 Balance Sheet



€197,900 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 2018-2022 period, from a management perspective. Chart 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 2021.

Table II.1.1 • Main balance sheet items 2018-2022 (management's perspective) | EUR millions

	2018	2019	2020	2021	2022	Δ 2022/2021
Total balance sheet	157,953	159,785	192,439	219,196	197,900	(21,296)
Claims and liabilities related to monetary policy operations						
Claims related to monetary policy operations	69,952	70,804	101,214	128,008	102,014	(25,994)
Lending to credit institutions	18,743	17,325	32,164	41,837	16,022	(25,815)
Securities held for monetary policy purposes	51,208	53,479	69,050	86,171	85,992	(179)
Liabilities to credit institutions related to monetary policy operations	(14,096)	(19,213)	(31,613)	(58,525)	(46,429)	12,096
Gold and foreign reserves and euro assets						
Gold	13,786	16,654	18,989	19,796	20,986	1,189
Trading portfolio	14,254	14,118	13,712	8,404	7,988	(416)
Medium-term investment portfolio	5,440	4,744	4,071	3,572	3,180	(392)
Other claims	1,983	1,765	1,859	2,221	2,687	466
Banknotes in circulation	28,051	27,962	30,892	33,258	33,854	595
Intra-Eurosystem claims and liabilities						
Intra-Eurosystem claims	(46,695)	(49,194)	(51,530)	(53,751)	(56,124)	(2,373)
Intra-Eurosystem liabilities	82,814	76,976	80,195	79,280	68,567	(10,714)
Liabilities for collateralised applications (net)	-	5,049	8,300	9,440	8,867	(573)
Liabilities to other entities denominated in euro	9,745	7,418	18,111	11,433	10,357	(1,076)
Other liabilities	657	868	336	740	544	(196)
Other liabilities	653	865	336	740	544	(196)
Provisions	4	2	-	-	-	-
Own funds						
Revaluation accounts	10,882	13,786	16,047	17,004	18,171	1,167
General risk provision	3,677	3,677	3,677	3,677	3,912	235
Capital and reserves	1,860	2,022	2,173	2,280	2,382	102
Retained earnings	(479)	(453)	(505)	(395)	(402)	(7)
Profit for the year	806	759	535	508	297	(211)

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

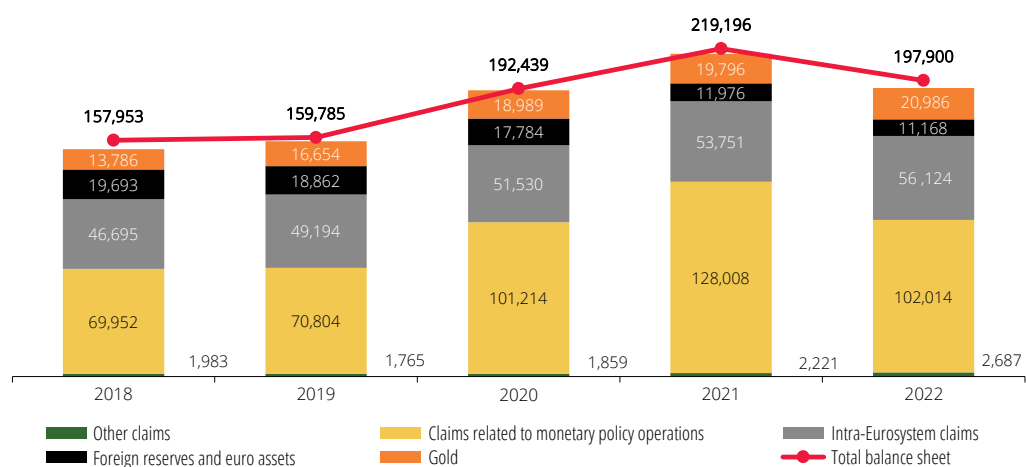


Chart II.1.2 • Developments in the balance sheet – main liabilities and own funds | EUR millions

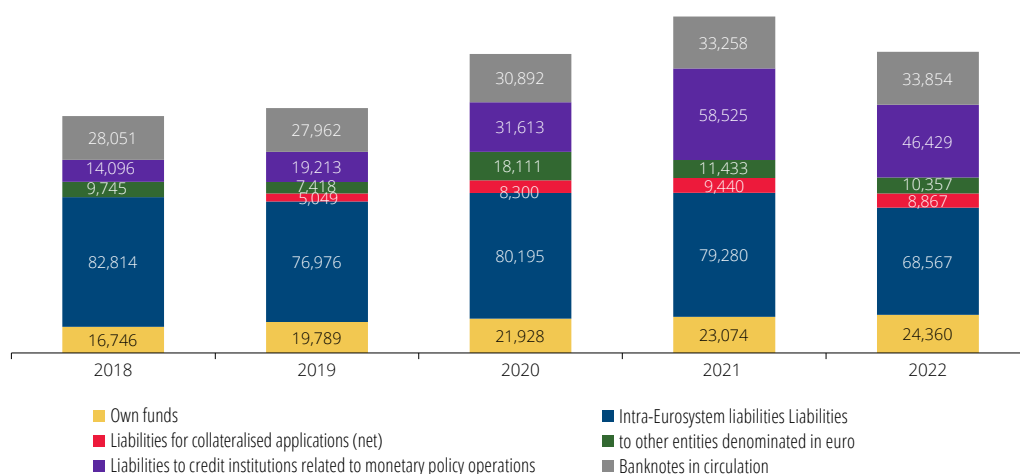
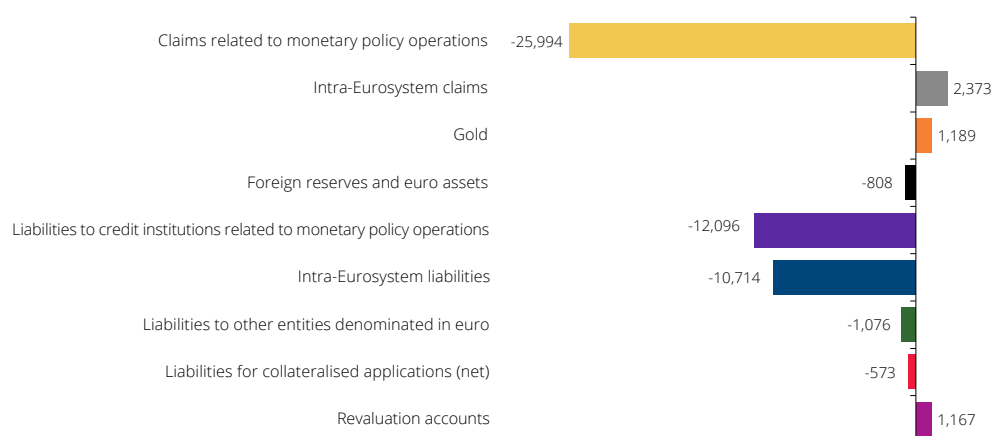


Chart II.1.3 • Main balance sheet items' variation from 2021 | EUR millions



1.1.1 Claims and liabilities related to monetary policy operations

Developments in the euro area economic environment in 2022, notably persistent rising inflation, led to the implementation of restrictive measures, mainly a rise in official interest rates and a reduction of central banks' balance sheets. Against this background, the Governing Council announced: (i) that net purchases under the PEPP (Pandemic Emergency Purchase Programme) would be discontinued in March and those under the APP (Asset Purchase Programme) would be discontinued in July; (ii) also in July, a rise in key interest rates by 50 basis points for the first time in 11 years, followed by further increases of 75 basis points in September and November and 50 basis points in December, bringing the deposit facility rate (DFR) to 2% and the main refinancing operations (MRO) rate to 2.5%; (iii) that interest rates on targeted longer-term refinancing operations (TLTRO III) would be recalibrated at the end of October, with effect from the end of November and (iv) the remuneration rate of minimum reserves would be changed from the MRO to the DFR.

Chart II.1.4 • Developments in official interest rates in 2022 | Percentage

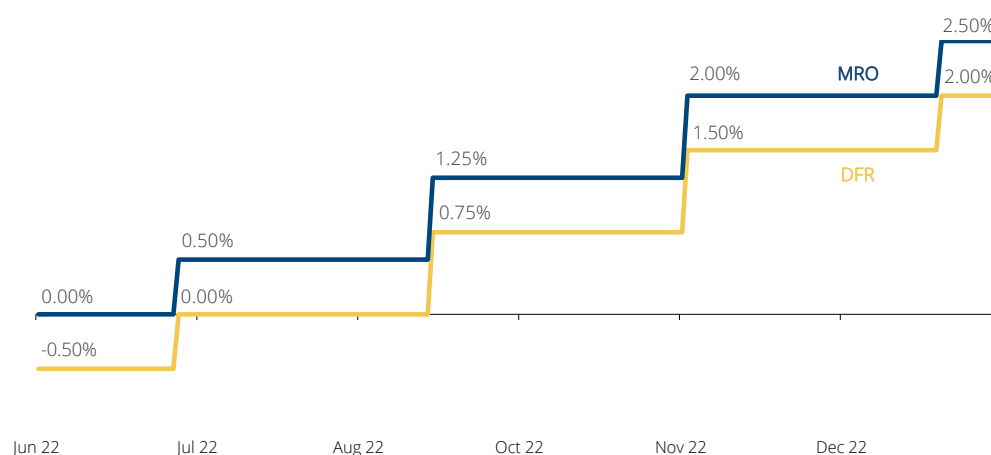
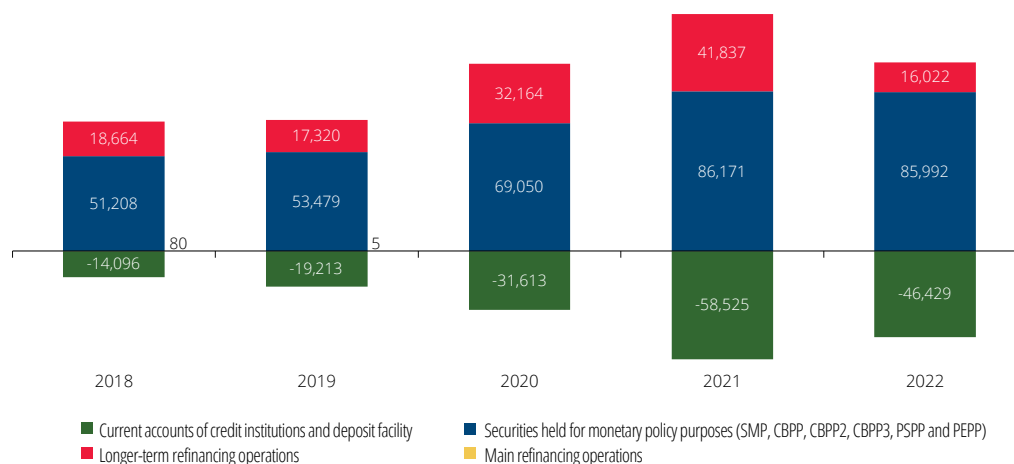


Chart II.1.5 • Aggregates of monetary policy operations | EUR millions



At the end of 2022 monetary policy assets showed a net decrease of €25,994 million compared to 31 December 2021, reflecting the aforementioned decrease in financing operations, partly offset by a decrease in deposits from credit institutions (by about €12,096 million from the same period a year earlier).

The portfolio of securities held for monetary policy purposes showed virtually no changes.



€-179 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 monetary policy as approved by the Governing Council of the ECB, namely through: (i) the securities market programme (SMP), closed to new purchases; (ii) the third covered bond purchase programme (CBPP3); (iii) the public sector purchase programme (PSPP) and (iv) the pandemic emergency purchase programme (PEPP). 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. In the course of 2022 securities held under the CBPP2 fully matured, and therefore as at 31 December 2022 the ECB and the euro area NCBs no longer held these securities.

At the end of 2022 securities held for monetary policy purposes totalled €85,992 million, about 43% of the Banco de Portugal's total assets. Compared to the same period a year before, the volume of the item was maintained, with only a slight decrease of -€179 million (in 2021: +€17,121 million).

As regards the APP, the average monthly purchase pace of €20 billion since 2019 was maintained throughout the first quarter of 2022. In March 2022 the Governing Council determined that the amount of net purchases would be €40 billion in April, €30 billion in May and €20 billion in June. In June 2022 the Governing Council decided to end net asset purchases under the APP as of 1 July 2022, downsizing its portfolio at a measured pace, by continuing reinvestments until the end of February 2023 and curtailing reinvestments from the beginning of March 2023 until the end of the second quarter of 2023.

As regards the Banco de Portugal's participation in the APP, the overall PSPP net amount grew by €1,016 million in 2022, reaching a total of €54,777 million, mostly Portuguese government debt securities whose risk is not shared with the Eurosystem, and to a lesser extent (18%), supranational securities.

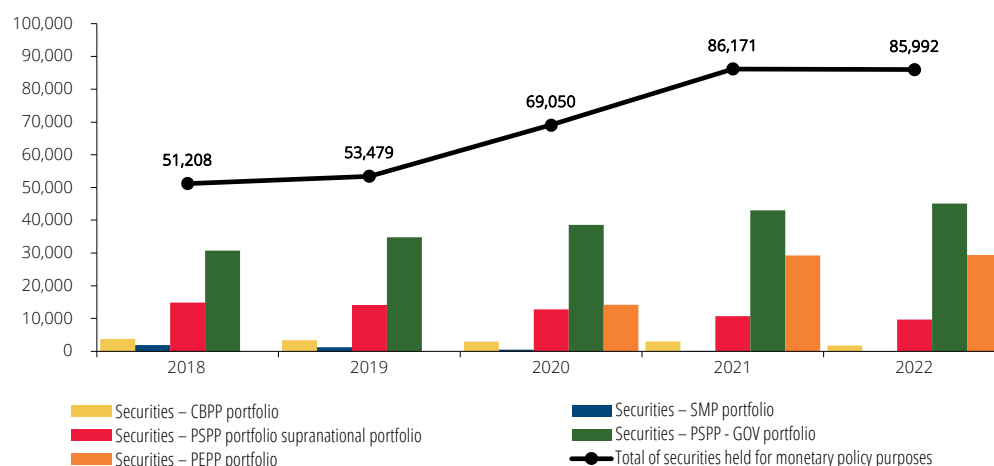
In March 2022 the Governing Council announced that net purchases under the PEPP would be discontinued while reinvestment in securities maturing in the meantime would continue until 2024. As at 31 December 2022 the Banco de Portugal held securities under the PEPP to the amount of €29,391 million (all of which Portuguese government debt securities), which accounted for an increase of €129 million from the previous year.

The increase in the PSPP and the PEEP was solely due to purchases of Portuguese government debt securities (with an increase of €2,105 million) since the supranational securities component fell by €1,089 million compared to 2021. By the end of 2022 supranational and Portuguese government debt securities reached 18% and 82% respectively, of the total value recorded under the PSPP programme, against 20% and 80% respectively, over the same period of the previous year.

Despite the growth in volume of Portuguese government debt securities, the associated risk decreased as a result of an upgrade in the Portuguese Republic's rating at the end of the third quarter of 2022. However, as a result of a sharp increase in interest rates, there was a significant amount of unrealised capital losses on these securities at year end.

All purchase programmes involving securities held for monetary policy purposes are accounted for at amortised cost less potential impairment losses, with potential gains or losses not reflecting their value in the balance sheet. Losses are recognised only if securities are sold early.

Chart II.1.6 • Securities held for monetary policy purposes | EUR millions



€-25,815 million

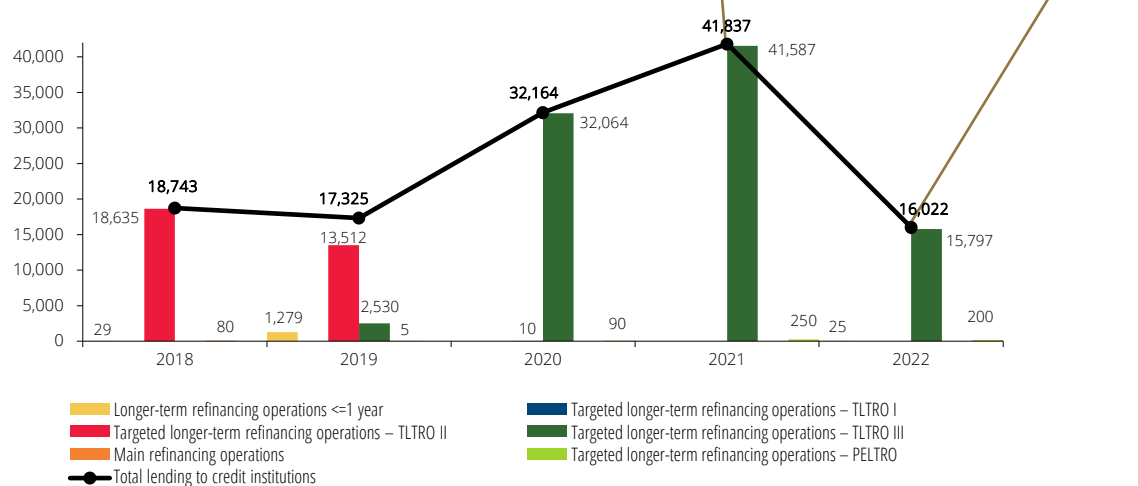
Changes in lending to credit institutions

Until 22 November 2022, TLTRO III were remunerated in accordance with the initial decisions taken by the Governing Council, i.e. the final interest rate applicable to each operation could be as low as the average interest rate on the deposit facility prevailing over the lifetime of the operation, benefiting, for the period from 24 June 2020 to 23 June 2022, from a 50 basis points rebate below the average deposit facility rate in force during the same period.

On 27 October 2022 the Governing Council decided to adjust the interest rates applicable to TLTRO III, with effect from 23 November 2022. Therefore, the interest rate would be prospectively the deposit facility rate then in force – which turned positive in September 2022 – resulting in significant early repayments. On the Banco de Portugal's balance sheet, TLTRO III decreased significantly by €25,790 million to €15,797 million as at 31 December 2022.

A pandemic emergency longer-term refinancing operation (PELTRO) also matured in September 2022 (a -€50 million change from 2021, to a total of €200 million).

Chart II.1.7 • Liquidity-providing operations | EUR millions

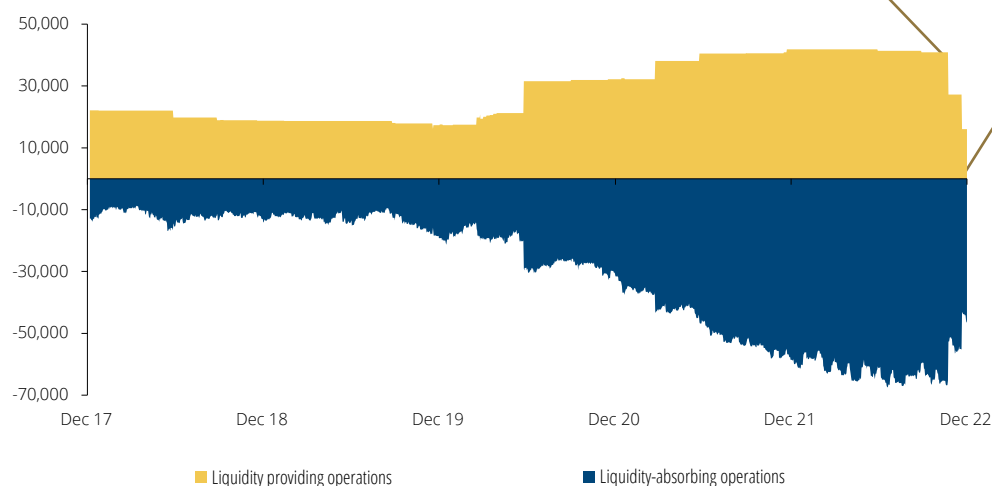


The decrease in liquidity-providing operations throughout 2022, associated with the aforementioned maintenance of the volume of monetary policy securities, also led to a substantial reduction of the Bank's liabilities to credit institutions (deposits of credit institutions and deposit facilities).

Up to 20 December 2022 the banks' minimum reserve balances were remunerated at the ECB reference rate for main refinancing operations. On 27 October 2022 the Governing Council decided that for the period from 21 December 2022 onwards they would be remunerated at the Eurosystem's deposit facility rate, which resulted in a decrease of half a percentage point in the remuneration rate.

In terms of the Bank's liabilities to credit institutions, deposits were transferred from credit institutions to deposit facility operations as a result of the remuneration of excess deposits (0%) being less attractive after the deposit facility rate turned positive in September 2022.

Chart II.1.8 • Daily balances in liquidity-providing and liquidity-absorbing operations | EUR millions



1.1.2 Gold and foreign reserves and euro assets

Gold



€20,986 million

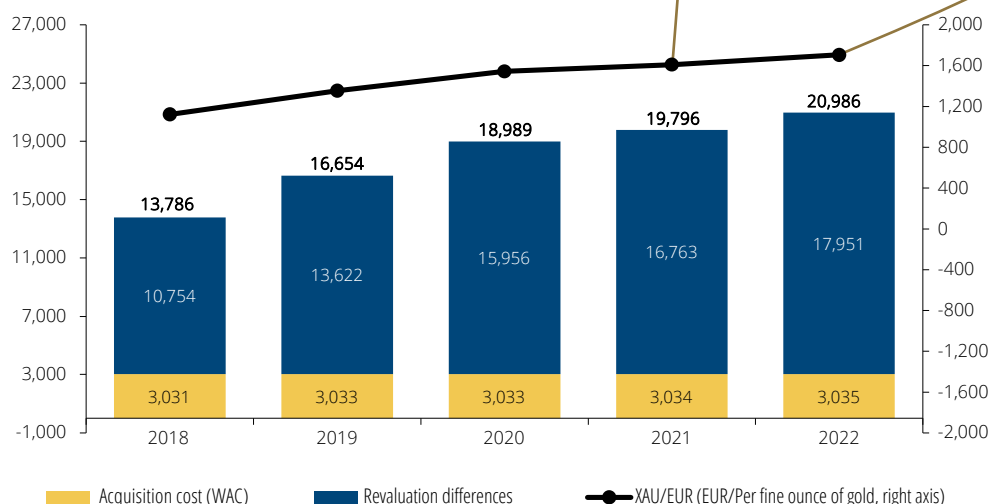
Gold reserve

The Banco de Portugal's gold reserve totalled €20,986 million by the end of 2022, a €1,189 million rise from 2021, 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 (+6.2%) as there was a minor devaluation in the gold price denominated in US dollars (-0.2%).

This reserve remained unchanged at 382.6 tonnes. The value increase in euro was offset by a change of an equivalent amount in the balance sheet item Revaluation accounts (Chart II.1.9) (Point 1.1.6). At the end of 2022 Gold revaluation differences totalled €17,951 million.

In 2022 the Banco de Portugal continued to invest in gold, in order to get return on these reserve assets, which consisted mainly of gold swaps for foreign currency and euro, recorded in the accounts as collateralised loans, in line with the applicable rules.

Chart II.1.9 • 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 in the medium/long-term investment portfolio. Thus, Foreign reserves and euro assets recorded a total of €11,168 million by the end of 2022, reflected in an €808 million decline (-7%) from the same period a year earlier.

- Trading portfolios (denominated in euro and foreign currency)



€7,988 million

Total trading portfolios in euro and foreign currency

In 2022 the trading portfolio consisted of investments in euro (€3,992 million) and assets denominated in foreign currency (€3,996 million) predominantly denominated in US dollars, valued at market prices.

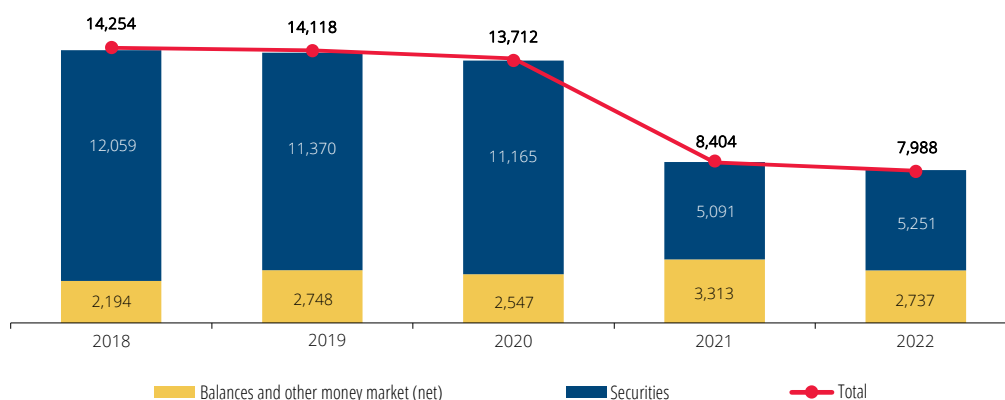
Net foreign reserves and euro assets denominated in foreign currency amounted to €3,996 million, the foreign currency position corresponding to €1,814 million and the remainder essentially related to euro swaps for foreign currency amounting to €2,183 million (€2,855 million as at 31 December 2021).

As at 31 December 2022 the foreign currency portfolio also included gold swaps for foreign currency in the amount of €1,410 million (gold investment operations). However, in net terms, these operations have no impact on the volume of this portfolio.

In terms of composition by instrument, investing in securities proceeded as in previous years, representing 56% of the total of this portfolio as at the end of 2022.

In 2022 the trading book included a portion of bonds meeting Environmental, Social and Governance (ESG) criteria. As at 31 December €270 million securities met these criteria (2021: €333 million).

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



- Medium/long-term investment portfolio



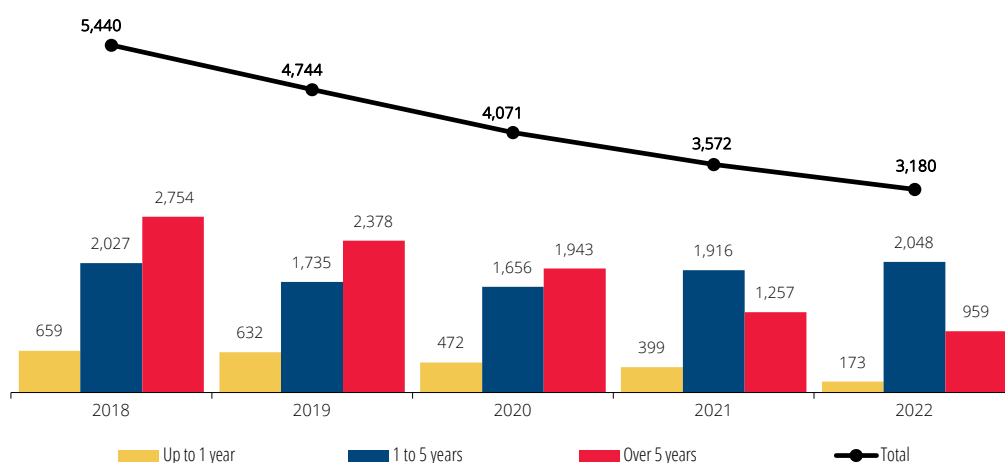
€3,180 million

Medium/long-term investment portfolio, composed of securities denominated in euro

At the end of 2022 the medium/long-term investment portfolio totalled €3,180 million, accounted for at amortised cost less any impairment losses, representing a 11% decrease from 2021, given that not all amounts available were reinvested. With regard to developments in maturing securities in the portfolio (Chart II.1.11), maturities of between one and five years were predominant, due to the decision not to invest in the years of negative interest rates for the European market.

In 2022 the Banco de Portugal started investing in bonds meeting ESG criteria in this portfolio. Total securities meeting these criteria amounted to €150 million.

Chart II.1.11 • Medium/Long-term investment portfolio by maturity | EUR millions



1.1.3 Banknotes in circulation



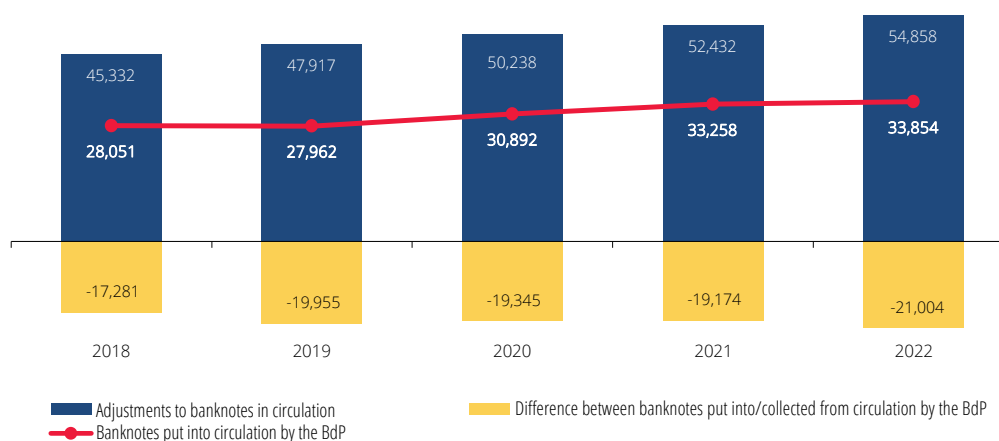
€33,854 million

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.1.12). This item shows a €595 million increase (+2%) compared to 2021, 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 2022 this adjustment totalled €54,858 million, which represented a €2,425 million increase (+5%) compared to the same period of the previous year. The growth in these adjustments reflected the combination of increased circulation in the Eurosystem and the widening of the aforementioned difference.

Chart II.1.12 • Banknotes in circulation | EUR millions



1.1.4 Intra-Eurosystem claims and liabilities

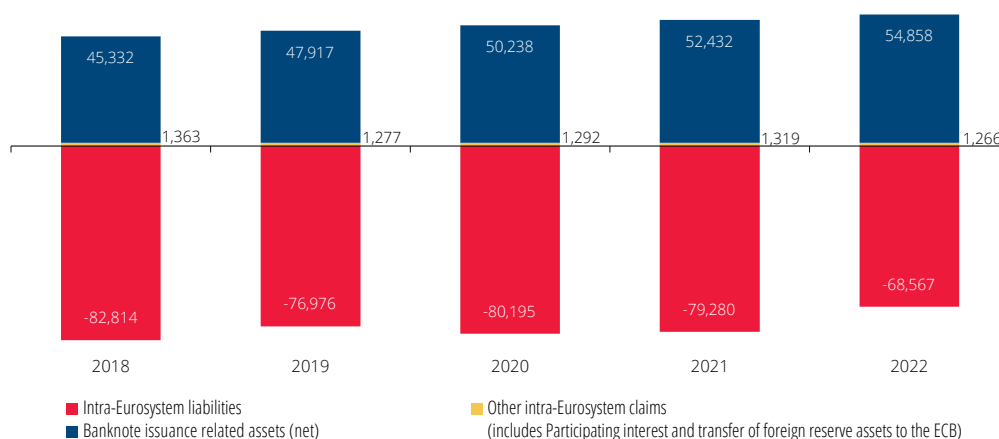


€68,567 million

Intra-Eurosystem liabilities

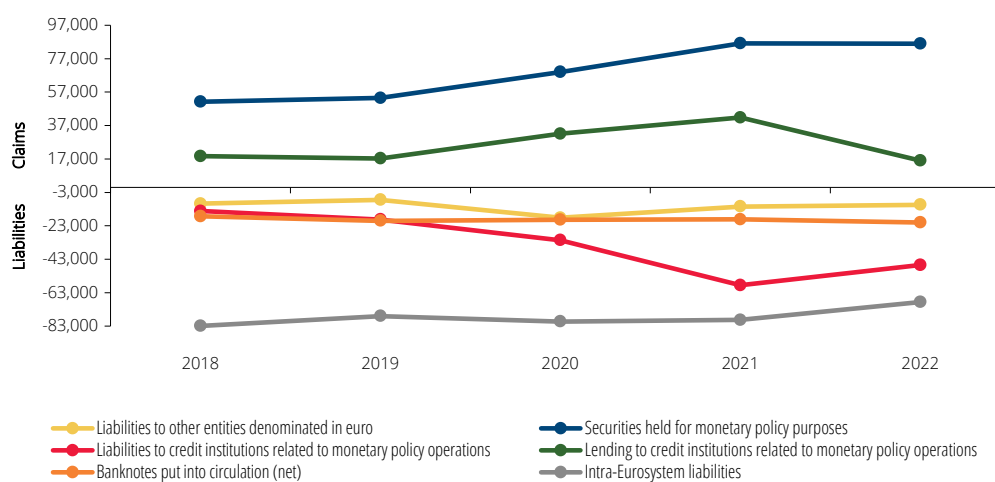
Intra-Eurosystem claims (Chart II.1.13) included the remunerated position relating to adjustments to banknotes in circulation (€54,858 million) mentioned in point 1.1.3.

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



As at 31 December 2022 Intra-Eurosystem liabilities totalled €68,567 million, representing a decrease of €10,714 million from 2021 (Chart II.1.13 and II.1.14) and fully encompassed liabilities arising from the TARGET account. This essentially and indirectly reflected the impact of the decrease in lending to credit institutions (TLTRO III) (Point 1.1.1).

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



1.1.5 Liabilities to other entities denominated in euro



€6,980 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 (€6,980 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



€1,167 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 €1,286 million in 2022 (to €24,360 million), largely owing to the increase in positive revaluation accounts and to the positive Net profit for the year (Chart II.1.15).

The increase in positive revaluation accounts (€1,167 million, to €18,171 million) was mainly due to a rise in potential capital gains on Gold (+€1,188 million).

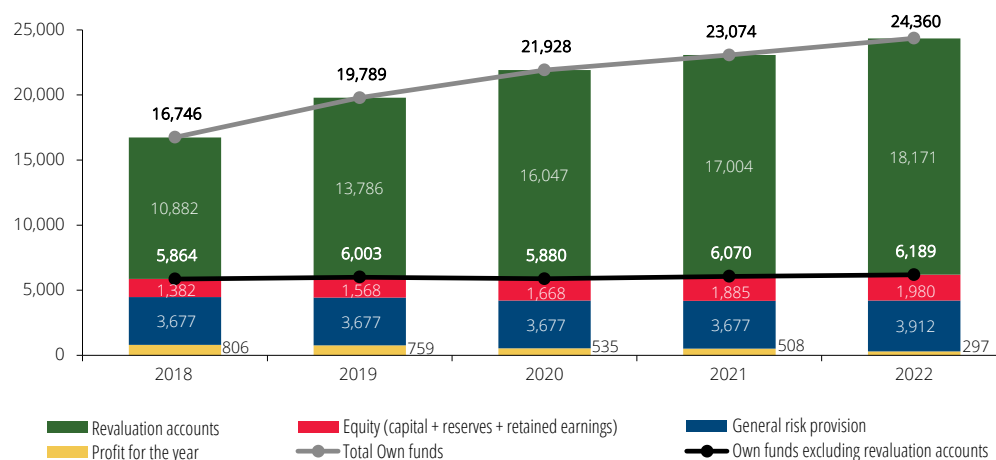
Movements in the General risk provision are reviewed on an annual basis and take into account, among other factors, the risk assessment carried out for the period under review, in accordance with a methodology common to the Eurosystem, as well as the projection of these risks over a medium-term horizon, with a view to strengthening own funds and maintaining financial autonomy levels suited to the Bank's mission, enabling it at any time to cover potential losses, including those resulting from risk sharing with the Eurosystem.

In 2022, with the increase in interest rates, the balance sheet structure risk began to materialise, underpinned by the fact that securities held under monetary policy programmes have fixed and relatively low yields, and are funded by short-term liabilities with sharply rising interest rates. Furthermore, monetary policy securities showed a significant increase in latent losses, due to the aforementioned rise in interest rates. On the other hand, financial risks associated with these securities decreased as a result of the upgrade in the Portuguese Republic's rating. Against this background, this provision was increased by €235 million in 2022, totalling €3,912 million in December.

This provision is equivalent to a reserve as it is permanent in nature, being intended to cover any balance sheet risks in the medium and long term, as mentioned.

In addition to Revaluation accounts and the General risk provision, also worth mentioning is (i) the recognition of 2022 net income (€297 million), and conversely (ii) the impact of the distribution of €406 million in Dividends to the State from the 2021 Net profit and (iii) the recognition in Retained earnings of net actuarial and financial gains of 2022, relating to the Pension Fund – Defined-Benefit Plan (totalling €17 million).

Chart II.1.15 • Own funds | EUR millions



1.2 Profit and loss account



€668 million

Income before provisions and taxes

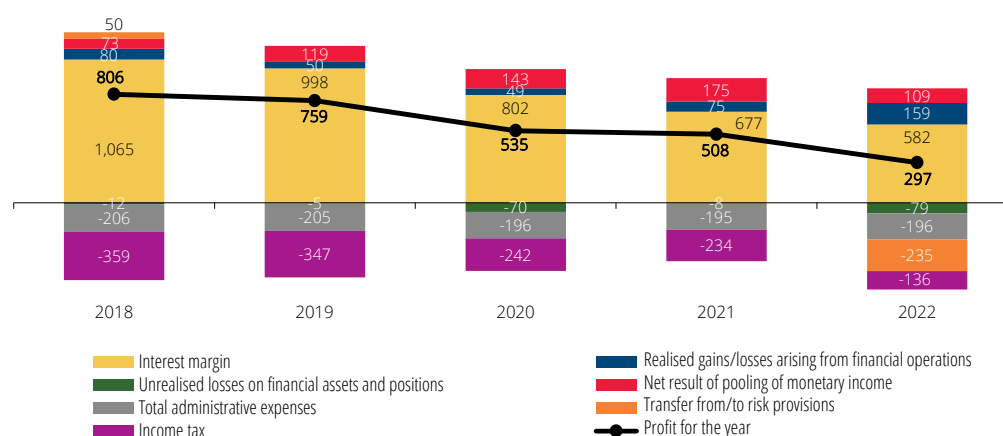
The main components of the Profit and loss account from 2018 to 2022 are shown in Table II.1.2. Net profit for the year 2022 was €297 million.

Table II.1.2 • Main profit and loss account items 2018-2022 | EUR millions

	2018	2019	2020	2021	2022	Δ 2022/2021
Interest margin	1,065	998	802	677	582	(95)
Realised gains/losses arising from financial operations	80	50	49	75	159	84
Unrealised losses on financial assets and positions	(12)	(5)	(70)	(8)	(79)	(72)
Income from equity shares and participating interests	39	72	56	18	4	(14)
Net result of pooling of monetary income	73	119	143	175	109	(66)
Total administrative expenses	206	205	196	195	196	1
Staff costs	138	139	132	130	131	1
Supplies and services from third parties	52	47	45	46	47	2
Other administrative expenses	1	1	1	2	2	-
Depreciation and amortisation for the year	15	18	18	18	16	(2)
Banknote production costs	13	7	10	12	7	(5)
Other net profit/loss	89	85	4	11	95	84
Income before provisions and taxes	1,115	1,106	777	742	668	(73)
Transfer from/to risk provisions	50	-	-	-	(235)	(235)
Income before taxes	1,165	1,106	777	742	433	(308)
Income tax	(359)	(347)	(242)	(234)	(136)	98
Profit for the year	806	759	535	508	297	(211)

Income before provisions and taxes was €668 million, down by €73 million from the previous year. This decrease resulted essentially from a reduction in the interest margin, an increase in unrealised losses on financial assets, and a decrease in net result of pooling of monetary income. With regard to the interest margin, there were negative contributions from: (i) the increase in interest payable on liabilities to credit institutions, as a result of the rise in policy rates (which compares with a receivable in the same period a year earlier, in the previous context of negative interest rates); (ii) net interest payable on Eurosystem's claims and liabilities arising from the rise in the MRO; and (iii) interest payable to the public sector. These negative impacts were partly offset by (i) the increase in interest on the euro portfolio of foreign reserves and euro assets, as a result of the increase in rates of return and (ii) the decrease in the amount of interest payable on TLTRO III, following the end of the rebate associated with these operations in June 2022. Offsetting this reduction in the interest margin, there was an increase in (i) realised gains/losses arising from financial operations of foreign reserves and euro assets, boosted by favourable market conditions, and (ii) non-recurring results obtained upon expiry of the time limit for exchanging escudo banknotes. Administrative expenses were similar to the previous year, in pursuit of efficiency and cost containment objectives.

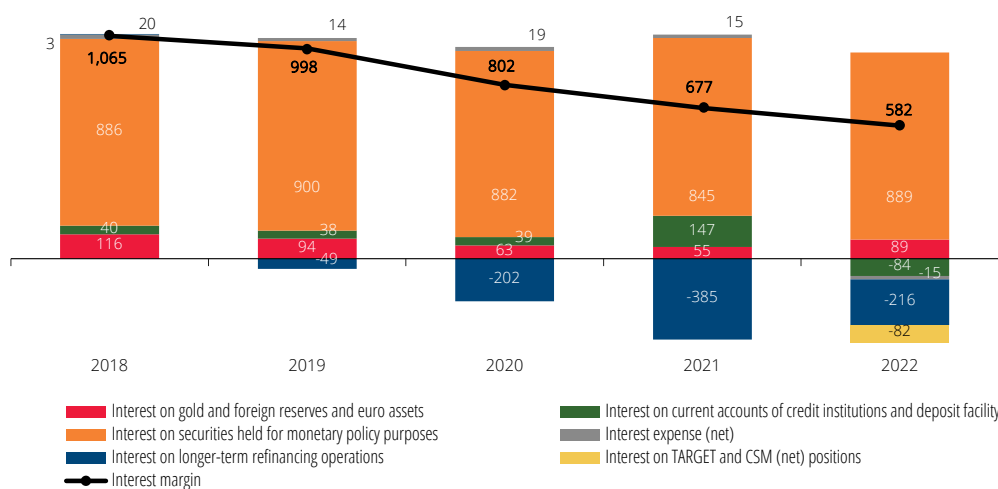
Chart II.1.16 • Developments in the main profit/loss items | EUR millions



1.2.1 Interest margin

In 2022 the Interest margin continued to be the main component of the Banco de Portugal's income statement, with an amount of €582 million. However, it represented a €95 million decline (-14%) against 2021, maintaining its downward trend since 2018.

Chart II.1.17 • Interest margin | EUR millions



€-217 million

Impact on the interest margin associated with TLTRO III

Interest payable on these operations totalled €216 million in 2022, down by €169 million from 2021 due to the end of the interest rate rebate on these operations in June 2022.



€-84 million

Impact on the interest margin from current accounts of credit institutions and deposit facilities

The recognition of interest payable in 2022, relating to liabilities to credit institutions, which stems from monetary policy decisions taken by the Governing Council to raise its key interest rates sharply, contributed to the reduction in the interest margin in the year under review.



€-32 million

Impact on the interest margin of general government current accounts

Interest from the public sector had a negative impact of €32 million to the reduction in the interest margin, with an inflection of the rates applicable to these deposits in 2022.



€44 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 the most relevant contribution to the interest margin, with a total of €889 million in 2022. Interest on this component increased from 2021 (€44 million) given the increase in rates of return resulting from reinvestments, as the volume of this portfolio remained stable.

1.2.2 Net result of financial operations and unrealised losses

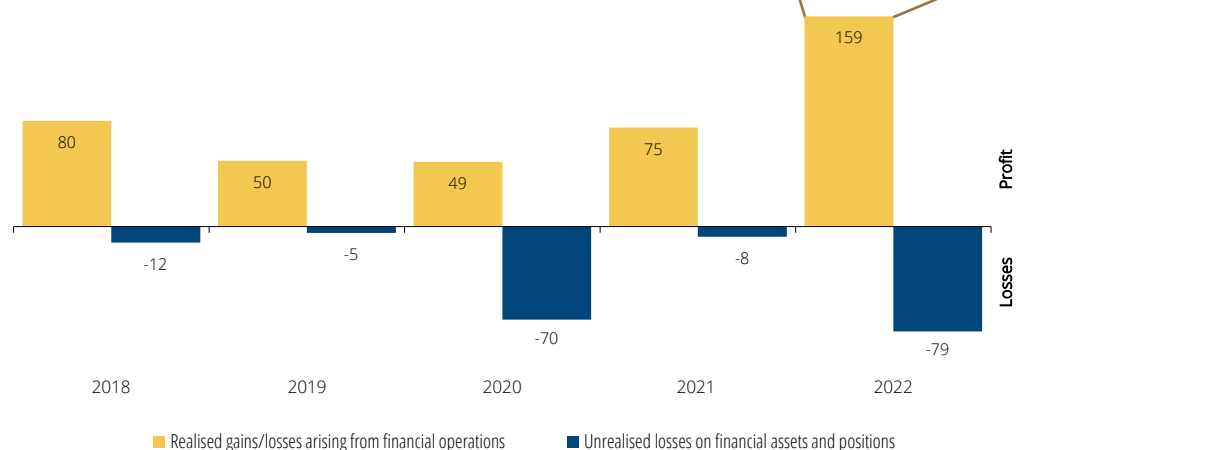


€159 million

Realised gains/losses arising from financial assets and positions

Realised gains/losses arising from financial assets and positions showed a positive value of €159 million at the end of 2022 (Chart II.1.18), i.e. an €84 million increase on the same period in 2021. These realised gains/losses are essentially associated with financial operations with assets in the Bank's trading portfolio.

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



€79 million

Unrealised losses on financial assets and positions

As regards Unrealised losses on financial assets and positions, the overall amount recognised in 2022 was €79 million, a sharp increase of €72 million compared to the previous year. This increase was driven by the rise in interest rates and is mostly visible in potential losses in securities denominated in euro and in US dollars (€71 million and €8 million respectively). In accordance with the Eurosystem's harmonised accounting rules, unrealised losses are recognised as expenses as at 31 December, while unrealised gains are taken to the balance sheet under the items of Revaluation accounts.

1.2.3 Net result of pooling of monetary income



€109 million

Net result of pooling of monetary income within the Eurosystem, for the year 2022

In 2022 the item Net result of pooling of monetary income included (i) the result of the Eurosystem's monetary income pooling method for the year (€108.1 million) and (ii) corrections to results calculated in previous years arising from retroactive changes to the method of calculating TLTRO III (+€1.0 million).

In 2022 the overall monetary income of the Eurosystem stood at €7,134 million (2021: €1,170 million), up by €5,964 million. This results from a return to positive key interest rates and a decrease in TLTRO III interest expenses.

In particular, in 2022 the Banco de Portugal continued to show an amount receivable as a result of the monetary income sharing calculation method, due to the fact that the weight of its net contributions in total Eurosystem contributions was lower than the corresponding capital key (2.34051%).

1.2.4 Income from equity shares and participating interests

This item recognises dividends received by the Banco de Portugal, in particular, in 2022, those relating to its participating interests in the Bank for International Settlements (BIS), concerning 2021 profit distribution.

1.2.5 Total administrative expenses

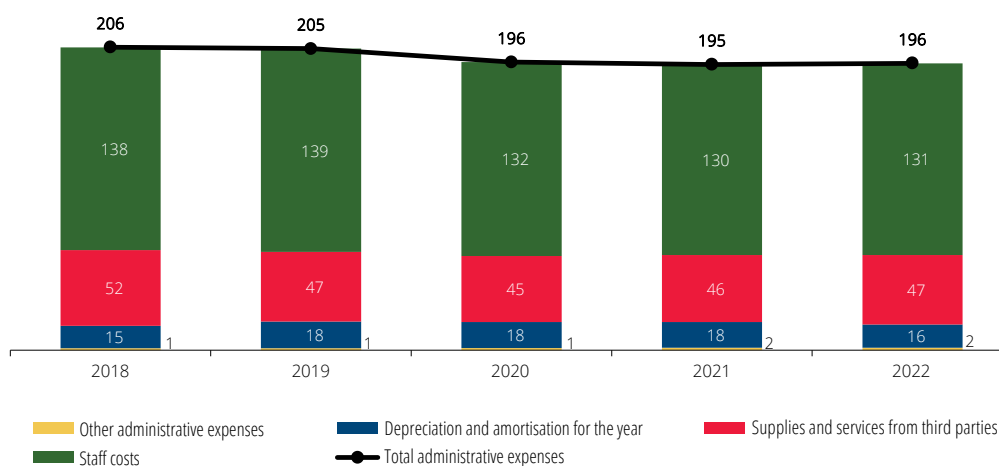


€196 million

Administrative expenses

In 2022 Total administrative expenses amounted to €196 million (Chart II.1.19), at a similar level to the year before, reflecting the pursuit of rationalisation and containment of resources.

Chart II.1.19 • Administrative expenses | EUR millions



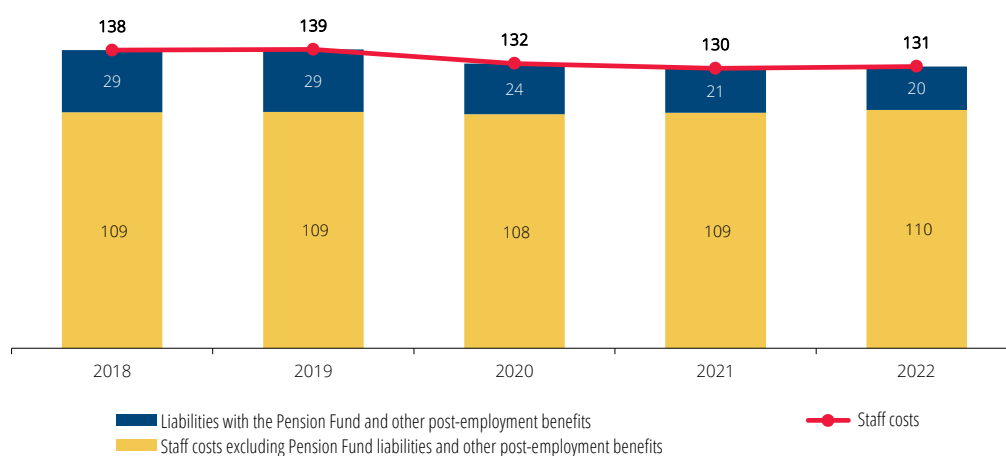


€+1 million

Increase in staff costs

In 2022 Staff costs increased by €1 million from 2021, mainly explained by a €1 million increase in the remuneration component, as a result of the offsetting effect of salary updates and the drop in the number of Bank employees, compared to the previous year (31 December 2022: 1,642 employees; 31 December 2021: 1,672 employees). Compulsory and voluntary social charges decreased from 2021, as a result of the decrease in charges with the Pension Fund – Defined-Benefit Plan due to the impact of the increase in the discount rate (-€1 million), partly offset by the increase in the number of retirements compared to 2022 (+€0.5 million).

Chart II.1.20 • Staff costs excluding Pension Fund liabilities and other post-employment benefits | EUR millions



€47 million

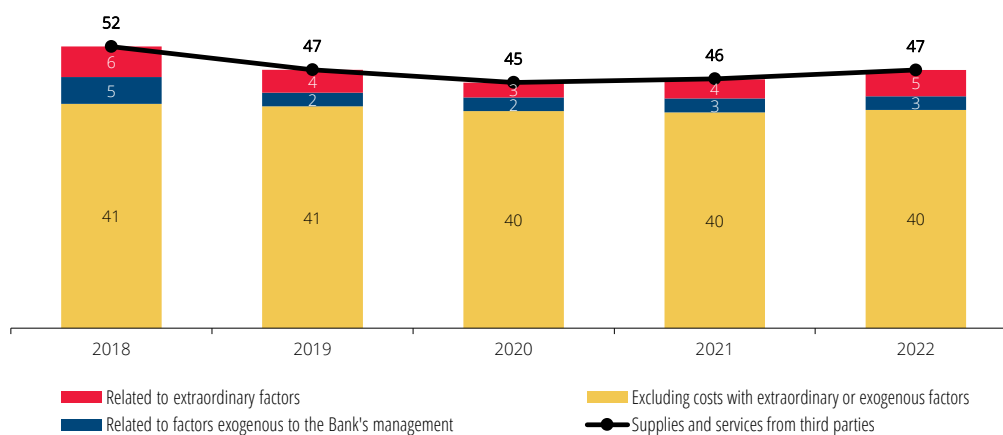
Supplies and services from third parties

Supplies and services from third parties amounted to €47 million at the end of 2022 (24% of total administrative expenses), with a contained increase of €1.6 million (Chart II.1.21).

Supplies and services from third parties associated with extraordinary factors, mainly related to the provision of legal and financial advice provided under resolution measures, increased by €1.2 million from 2021.

Supplies and services from third parties related to the Banco de Portugal's management showed almost the same amount as in the previous year (€40 million), up by €0.5 million. This reflected efficient management of resources in recent years, with an impact on cost containment and effective management control with the implementation of cross-cutting measures within the organisation.

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



Lisbon, 28 February 2023

BOARD OF DIRECTORS*

Governor

Mário Centeno

Vice-Governors

Luís Máximo dos Santos**

Clara Raposo**

Directors

Hélder Rosalino | Helena Adegas** | Rui Pinto** | Francisca Guedes de Oliveira**

* As at 31 December 2022. Luís Manuel Sanches Laginha de Sousa and Ana Paula de Sousa Freitas Madureira Serra served as Directors up to 30 November 2022.

** By Resolution of the Council of Ministers No 117-C/2022 of 24 November 2022, published in Official Gazette No 228, Series 1, of 25 November 2022, the term of office of Vice-Governor Luís Augusto Máximo dos Santos was renewed, with effect from 20 June 2021, and Vice-Governor Clara Patrícia Costa Raposo, and Directors Helena Maria de Almeida Martins Adegas and Rui Miguel Correia Pinto were appointed, with effect from 1 December 2022. Director Francisca Rodrigues Sarmento Guedes de Oliveira was also appointed, with effect from 1 January 2023.

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 2022, to the amount of €297.29 million, was distributed as follows:

10% to the legal reserve €29,728,867.42

10% to other reserves €29,728,867.42

and, under subparagraph (c),

80% to the State, as dividends €237,830,939.39

pursuant to Decision of the Secretary of State of Finance No 86/2023 of 12 May 2023.

2 Financial Statements and Notes

Financial Statements

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

Assets	Notes	31 Dec 2022		31 Dec 2021
		Gross assets	Depreciation, amortisation and impairment	Net Assets
1 Gold and gold receivables	2	20,985,509		19,796,309
2 Claims on non-euro area residents denominated in foreign currency		9,367,880		8,961,267
2.1 Receivables from the IMF	3	4,069,996		3,902,084
2.2 Balances with banks and security investments, external loans and other external assets	4	5,297,884		5,059,183
3 Claims on euro area residents denominated in foreign currency	4	108,209		148,992
4 Claims on non-euro area residents denominated in euro	5	599,583		887,432
4.1 Balances with banks, security investments and loans		599,583		887,432
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	16,021,880		41,837,110
5.1 Main refinancing operations		–		–
5.2 Longer-term refinancing operations		16,021,880		41,837,110
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	226,849		9,199
7 Securities of euro area residents denominated in euro		89,188,832		88,477,928
7.1 Securities held for monetary policy purposes	7	85,992,003		86,170,635
7.2 Other securities	5	3,196,829		2,307,294
9 Intra-Eurosystem claims	8	56,123,893		53,750,759
9.1 Participating interest in the ECB		206,054		191,775
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		54,857,596		52,432,194
9.5 Other intra-Eurosystem claims		115,990		182,538
10 Items in the course of settlement		–		–
11 Other assets		5,605,103	327,536	5,327,247
11.1 Coins of the euro area		42,190		69,941
11.2 Tangible fixed assets and intangible assets	9	471,391	326,737	149,887
11.3 Other financial assets	10	3,239,996		3,631,279
11.4 Off-balance-sheet instruments revaluation differences		18		–
11.5 Accruals and income collected in advance	11	1,369,237		1,046,567
11.6 Sundry	12	482,271	798	429,574
Total depreciation and amortisation	9		326,737	
Total impairment	19		798	
Total assets		198,227,738	327,536	219,196,244

Liabilities, revaluation accounts, general risk provision and equity	Notes	31 Dec 2022	31 Dec 2021
1 Banknotes in circulation	13	33,853,731	33,258,353
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	46,429,256	58,524,812
2.1 Current accounts of credit institutions for compliance with minimum reserve requirements		3,456,241	58,520,512
2.2 Deposit facility		42,973,015	4,300
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	3,050,838	2,281,122
5 Liabilities to other euro area residents denominated in euro	15	10,236,369	11,259,646
5.1 General government		6,979,967	9,306,386
5.2 Other liabilities		3,256,401	1,953,261
6 Liabilities to non-euro area residents denominated in euro	16	5,968,821	7,340,774
7 Liabilities to euro area residents denominated in foreign currency	4	108,058	–
8 Liabilities to non-euro area residents denominated in foreign currency	4	1,301,770	–
8.1 Deposits, balances and other liabilities		1,301,770	–
8.2 Liabilities arising from the credit facility under ERM II		–	–
9 Counterpart of special drawing rights allocated by the IMF	3	3,480,965	3,437,026
10 Intra-Eurosystem liabilities	8	68,566,825	79,280,432
10.1 Liabilities related to the issuance of ECB debt certificates		–	–
10.2 Net liabilities arising from balances of TARGET accounts		68,566,825	79,280,432
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		543,995	739,942
11.1 Off-balance-sheet instruments revaluation differences		–	–
11.2 Accruals and income collected in advance	17	496,857	589,597
11.3 Sundry	18	47,138	150,345
12 Provisions	19	–	–
13 Revaluation accounts	20	18,171,023	17,003,957
14 General risk provision	19	3,911,622	3,676,622
15 Equity	21	1,979,642	1,885,478
15.1 Capital		1,000	1,000
15.2 Reserves and retained earnings		1,978,642	1,884,478
16 Profit for the year		297,289	508,081
Total liabilities, revaluation accounts, general risk provision and equity		197,900,202	219,196,244

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 2022	31 Dec 2021
1	Interest income		1,482,081	1,112,155
2	Interest expense		900,099	434,950
3	Net interest income	22	581,982	677,205
4	Realised gains/losses arising from financial operations	23	159,432	75,027
5	Unrealised losses on financial assets and positions	24	79,379	7,723
6	Transfer from/to risk provisions	19	(235,000)	–
7	Net result of financial operations, unrealised losses and risk provisions		(154,947)	67,304
8	Fees and commissions income		5,076	4,880
9	Fees and commissions expense		9,785	10,179
10	Net income from fees and commissions		(4,708)	(5,299)
11	Income from equity shares and participating interests	25	3,961	17,848
12	Net result of pooling of monetary income	26	109,158	174,837
13	Other income	27	104,469	19,792
14	Total net income		639,914	951,687
15	Staff costs	28	130,666	129,777
16	Supplies and services from third parties	29	47,278	45,659
17	Other administrative expenses		1,599	1,591
18	Depreciation and amortisation for the year	9	15,995	17,641
19	Total administrative expenses		195,538	194,668
20	Banknote production costs		6,608	11,749
21	Other expenses	27	4,345	3,596
22	Losses for impairment of assets (losses/reversals)	19	(11)	(202)
23	Transfer to the reserve relating to capital gains on gold sales		–	–
24	Total costs and losses (net)		206,481	209,811
25	Profit/loss before taxes		433,433	741,876
26	Income tax		136,145	233,795
26.1	Income tax – current	30	133,615	232,213
26.2	Income tax – deferred	30	2,530	1,582
27	Profit for the year		297,289	508,081

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
Position as at 31 December 2020 (7)		1,000	618,030	1,554,232	(504,803)	535,358	2,203,816
2020 profit distribution							
Dividends distribution to shareholders	21					(428,287)	(428,287)
Other operations	21		53,536	53,536		(107,072)	–
Sub-total of 2020 profit distribution (8)		–	53,536	53,536	–	(535,358)	(428,287)
Changes in 2021							
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)
Sub-total of changes in 2021 (9)		–	–	–	109,949	–	109,949
Net profit for the year (10)						508,081	508,081
Comprehensive income for the year (11) = (9) + (10)		–	–	–	109,949	508,081	618,029
Position as at 31 December 2021 (12) = (7) + (8) + (11)		1,000	671,566	1,607,768	(394,855)	508,081	2,393,559
Position as at 31 December 2021 (7)		1,000	671,566	1,607,768	(394,855)	508,081	2,393,559
2021 profit distribution							
Dividends distribution to shareholders	21					(406,465)	(406,465)
Other operations	21		50,808	50,808		(101,616)	–
Sub-total of 2021 profit distribution (8)		–	50,808	50,808	–	(508,081)	(406,465)
Changes in 2022							
Actuarial gains/losses of the Pension Fund	32				(16,935)		(16,935)
Income tax – current	30				–		–
Adjustments on account of deferred taxes	30				9,484		9,484
Sub-total of changes in 2022 (9)		–	–	–	(7,451)	–	(7,451)
Net profit for the year (10)						297,289	297,289
Comprehensive income for the year (11) = (9) + (10)		–	–	–	(7,451)	297,289	289,837
Position as at 31 December 2022 (12) = (7) + (8) + (11)		1,000	722,374	1,658,576	(402,306)	297,289	2,276,932

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 banking activity.

The bases for preparation of the financial statements, envisaged in the PCBP in force, rely on two major regulations: (i) the Accounting Guideline of the European Central Bank¹ (ECB), which, taking into account Article 26(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 IFRS2² 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.

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. 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 at www.ecb.europa.eu.

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

1.2 Synopsis of the main accounting policies

The main accounting policies and valuation criteria used in the preparation of the financial statements of 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 – International Securities Identification Number – 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, 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 accounted for 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 only being changed when the amount purchased on a given day is higher than the amount sold.

Participating interests in subsidiaries and associated companies, disclosed under Other financial assets, are valued in accordance with the recommendations of the ECB Accounting Guideline, through the Net Asset Value³ valuation method. The remaining participating interests are recognised according to the acquisition cost criterion, subject to potential impairment losses.

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

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

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

	Number of years
Tangible fixed assets	
Buildings and other constructions	10 to 50
Premises	4 to 20
Equipment	
Machinery and tools	4 to 8
Computer hardware	3 to 5
Transport equipment	4 to 8
Furniture and fittings	4 to 8
Intangible assets	3 to 6

According to IAS 36, where there is any indication that a tangible fixed asset or an intangible asset may be impaired, the asset's recoverable amount must be estimated, and an impairment loss is recognised in the Profit and loss account whenever the net carrying amount is higher than the estimated recoverable amount.

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

The recognition and measurement rules set out in IFRS 16 apply to tangible or intangible assets, for which the Bank concluded leases with a duration greater than 12 months, that is, (i) the recognition in Assets of rights-of-use of these assets, 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 Bank, 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 (medium/long-term investment 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/long-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.

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

Intra-Eurosystem balances, recognised under Liabilities arising from balances of TARGET accounts,⁵ result from cross-border payments within the EU that are settled in euro. These transactions are for the most part initiated by private entities, 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.⁶

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 the item Banknotes in circulation. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the 'banknote allocation key'.⁷

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the difference between banknotes put into circulation and banknotes withdrawn from circulation by that NCB gives rise to remunerated

4. Equity value means the total of the ECB's reserves, revaluation accounts and general risk provision, 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.

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.

intra-Eurosystem balances.⁸ These claims or liabilities are disclosed under sub-items Net claims/ liabilities related to the allocation of euro banknotes within the Eurosystem.

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

(i) 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, PSPP 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, unless otherwise decided by the Governing Council.⁹ Any such a decision shall be taken where, on the basis of an estimate prepared by the Executive Board, the Governing Council expects that the ECB will have an overall annual loss or will make an annual net profit that is less than its income earned on euro banknotes in circulation and the above-mentioned securities purchase programmes, or when expenses incurred by the ECB in connection with the banknotes are deducted upon the Governing Council's decision. 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.

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

9. Decision of the ECB of 15 December 2014 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and securities purchased under the Securities Markets Programme (recast) (ECB/2014/57), OJ J 53, 25.2.2015, p.24.

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

The Banco de Portugal's liabilities to the Pension Fund, detailed in Note 32, are calculated on an annual basis, on the cut-off date for the accounts, by the Sociedade Gestora dos Fundos de Pensões do Banco de Portugal (SGFPBP), using the Projected Unit Credit Method. The main (financial and demographic) actuarial assumptions used in the calculation of these liabilities are also presented in Note 32.

The recognition of costs and liabilities related to retirement pensions is made in accordance with IAS 19. According to the provisions laid down therein, the amount recorded in Staff costs refers to the current service cost and to the net interest cost, which is calculated by applying a single interest rate to the Fund's assets and liabilities. Actuarial gains and losses result chiefly from (i) differences between the actuarial and financial assumptions used and actual values and (ii) changes in the actuarial and financial assumptions. These gains and losses are directly recognised under Retained earnings.

The Pension Fund – Defined-Benefit Plan 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 (financial and demographic) actuarial assumptions used in the calculation of the present value of these benefits are presented in Note 32.

Annually, 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 – 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 legal or constructive obligation, (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 and which do not give rise to any adjustment are disclosed in Note 36.

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).

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 2022		31 Dec 2021	
	Fine ounces ^(a)	EUR thousands	Fine ounces ^(a)	EUR thousands
Gold stored at the Banco de Portugal	5,549,238	9,467,416	5,549,238	8,931,404
Gold sight accounts	744,135	1,269,549	808,223	1,300,822
Gold investments	6,007,088	10,248,543	5,942,332	9,564,083
Gold reserve	12,300,461	20,985,509	12,299,794	19,796,309

Note: (a) Ounce of fine gold.

As at 31 December 2022 the gold item had increased by €1,189,200 thousand compared to the previous year-end balance, chiefly due to a rise in the gold price denominated in euro (+6.0%). This increase was due to the US dollar appreciation against the euro (+6.2%) since there was a minor devaluation of the gold price in US dollars (-0.2%). 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 2022 at the market price of €1,706,08 per fine ounce of gold, a 6.0% increase against €1,609,48 on 31 December 2021.

Capital gains resulting from this asset (€17,950,591 thousand on 31 December 2022, and €16,762,523 thousand on 31 December 2021) 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 2022, 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:

	31 Dec 2022		31 Dec 2021	
	Fine ounces	EUR thousands	Fine ounces	EUR thousands
In the country – Banco de Portugal	5,549,238	9,467,416	5,549,238	8,931,404
Abroad				
Bank of England	5,992,153	10,223,063	5,991,571	9,643,332
Bank for International Settlements (BIS)	640,743	1,093,155	640,658	1,031,128
Federal Reserve System – United States	–	–	–	–
Banque de France	118,327	201,874	118,327	190,445
	6,751,223	11,518,092	6,750,556	10,864,904
	12,300,461	20,985,509	12,299,794	19,796,309

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

	31 Dec 2022		31 Dec 2021	
	SDR thousands	EUR thousands	SDR thousands	EUR thousands
IMF quota	2,060,100	2,578,627	2,060,100	2,546,078
IMF's holdings	(1,594,017)	(1,995,231)	(1,594,045)	(1,970,080)
Reserve tranche position in the IMF	466,083	583,397	466,055	575,998
SDR holdings	2,785,491	3,486,599	2,691,226	3,326,086
Claims on the IMF	3,251,575	4,069,996	3,157,282	3,902,084
Counterpart of special drawing rights allocated by the IMF	(2,780,990)	(3,480,965)	(2,780,990)	(3,437,026)
Liabilities to the IMF	(2,780,990)	(3,480,965)	(2,780,990)	(3,437,026)

Positions with the IMF, i.e. Special Drawing Rights (SDRs), are treated as a foreign currency, as described in point 1.2(e) of Note 1.

The Reserve tranche position in the IMF reflects the equivalent in euro on 31 December 2022 of Portugal's share in the IMF, corresponding to the initial participation and subsequent payments, less IMF deposits with the Banco de Portugal. The share of the Banco de Portugal in the IMF remained unchanged in 2022, and the variation in its value denominated in euro resulted solely from changes in the SDR price compared to December 2021.

In 2022 the Banco de Portugal conducted net purchases totalling SDR 94 million to support the most vulnerable countries.

Changes in the different claim and liability items include the effect of the SDR appraisal against the euro (+1.3%), from 1.2359 on 31 December 2021 to 1.2517 on 31 December 2022.

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

	31 Dec 2022	31 Dec 2021
Claims on non-euro area residents denominated in foreign currency		
Securities	1,392,928	1,969,437
Balances with banks, deposits and other money markets	3,904,956	3,089,746
	5,297,884	5,059,183
Claims on euro area residents denominated in foreign currency		
Securities	79,834	38,383
Balances with banks, deposits and other money markets	28,376	110,609
	108,209	148,992
Liabilities to euro area residents denominated in foreign currency		
Deposits, balances and other liabilities	(108,058)	-
Liabilities to non-euro area residents denominated in foreign currency		
Deposits, balances and other liabilities	(1,301,770)	-
	3,996,265	5,208,175

As at 31 December 2022 the amount of the foreign currency trading portfolio was lower than in the previous year by €1,211 thousand.

Net foreign reserves and euro assets denominated in foreign currency amounted to €3,996,265 thousand, the foreign currency position corresponding to €1,813,926 thousand. The remainder is essentially related to temporary foreign exchange transactions in the amount of €2,182,578 thousand, which have no associated exchange rate risk (2021: €2,855,164 thousand).

Of particular note is the liability for collateralised operations for gold investment in the amount of €1,409,828 thousand, which are disclosed under liabilities to other euro area residents denominated in euro and to non-euro area residents denominated in foreign currency, with no equivalent in 2021. These operations have no net impact on the overall value of the portfolio.

As at 31 December 2022 and 2021 the securities portfolio denominated in foreign currency was broken down as follows:

	31 Dec 2022	31 Dec 2021
Securities of non-euro area residents denominated in foreign currency		
Government debt	1,174,907	822,109
Paragovernmental and supranational	218,021	1,142,887
Companies/financial institutions	–	4,441
	1,392,928	1,969,437
Securities of euro area residents denominated in foreign currency		
Government debt	18,875	–
Paragovernmental and supranational	60,959	38,383
	79,834	38,383
	1,472,761	2,007,820

As at 31 December 2022 the portfolio denominated in foreign currency continued to be mainly composed of investments denominated in US dollars, as in previous years.

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

	31 Dec 2022	31 Dec 2021
Claims on non-euro area residents denominated in euro		
Securities	581,233	775,732
Balances with banks, deposits and other money markets	18,350	111,700
of which: Amounts transferred as collateral	18,350	–
	599,583	887,432
Claims on euro area residents denominated in euro		
Securities	3,196,829	2,307,294
Balances with banks, deposits and other money markets	226,849	9,199
of which: Amounts transferred as collateral	13,400	8,270
	3,423,678	2,316,493
Other liabilities to euro area credit institutions denominated in euro		
Liabilities to gold swap – euro area residents denominated in euro	(2,797,057)	(2,027,924)
Amounts received as collateral	(134,168)	(83,350)
	(2,931,225)	(2,111,274)
Liabilities to non-euro area residents denominated in euro		
Liabilities to gold swap – non-euro area residents denominated in euro	(5,896,078)	(6,994,510)
Amounts received as collateral	(71,290)	(342,650)
	(5,967,368)	(7,337,160)

The euro trading portfolio (securities, balances with banks and other net investments) increased, compared to 31 December 2021, primarily due to an increase in the yields of these assets at the end of 2022.

As at 31 December 2022 Euro swap transactions for foreign currency were also outstanding, as described in Note 4.

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

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

	31 Dec 2022	31 Dec 2021
Securities of non-euro area residents denominated in euro		
Paragovernmental and supranational	556,916	756,850
Companies/financial institutions	8,224	18,882
Government debt	16,093	–
	581,233	775,732
Securities of euro area residents denominated in euro		
Government debt	2,961,391	2,011,810
Paragovernmental and supranational	235,437	295,483
	3,196,829	2,307,294
	3,778,062	3,083,026

The items Other liabilities to euro area credit institutions and Liabilities to non-euro area residents denominated in euro incorporated liabilities relating to gold swaps for euro (Note 1.1 (g)), conducted with a view to optimising gold results (Note 16).

By decision of the Eurosystem and with effect from 2021, current accounts of credit institutions that are not freely disposable to institutions at any time are shown under the balance sheet item Other liabilities to euro area credit institutions. Against this background, this item totalled €3,050,838 thousand as at 31 December 2022 and included, in addition to the amounts shown in the table above, deposits to guarantee the Interbank Clearing System (Sistema de Compensação Interbancária – SICOI) (€119,613 thousand).

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

At end-2022 the value of refinancing operations denominated in euro to euro area credit institutions relating to monetary policy operations at Eurosystem level reached €1,324,347,000 thousand (2021: €2,201,882,062 thousand), of which €16,021,880 thousand corresponded to the Banco de Portugal and all of them longer-term refinancing operations (2021: €41,837,110 thousand).

Longer-term refinancing operations are liquidity-providing reverse transactions. These operations are conducted at fixed-rate tender procedures with full allotment.

In December 2020 the Governing Council added three operations to the series of seven targeted longer-term refinancing operations (TLTRO III) initiated in 2019, 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 life of the operation. Furthermore, in response to the COVID-19 pandemic, in 2020¹⁰ 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%. Moreover, on 27 October 2022 the Governing Council decided that, from 23 November 2022 until the maturity date or early repayment date of each respective TLTRO III operation, the interest rate will be indexed to the average applicable key ECB interest rates over this period. On the same date the Governing Council also decided to introduce three additional voluntary early repayments dates to offer additional opportunities for participants to repay part or all of their loans before maturity.

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 twelve months, until 23 June 2022.

Against this background, 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. This means that for 2022 the following approach was used for the accrual of interest on TLTRO III: (i) up to 23 June 2022 real interest rates over the special interest rate periods, for which interest rate data were reported to counterparties on 10 June 2022, (ii) for the period from 24 June 2022 to 22 November 2022, the average of the ECB interest rates applicable between the settlement date and 22 November 2022, and (iii) from 23 November 2022 to 31 December 2022, the average of the ECB interest rates applicable in this period. The impact of the change in key interest rates in 2022 on interest relating to the pre-special interest rate period is also considered in 2022.

Furthermore, of the four so-called non-targeted Pandemic Emergency Longer-term Refinancing Operations (PELTROs) granted in 2021 on a quarterly basis, each with a maturity of approximately one year, three matured during 2021 and the fourth in 2022. These operations provided liquidity backstop to the euro area banking system and helped to preserve the smooth functioning of the money market during the pandemic period. PELTROs were 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). As at 31 December 2022 and 2021 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 Eurosystem NCBs, 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 2022 the portfolio of Securities held for monetary policy purposes consisted of government sector securities and covered bonds, acquired by the Banco de Portugal under the debt securities market programme (SMP),¹¹ the third covered bond purchase programme (CBPP3),¹² the public sector purchase programme (PSPP),¹³ in its government and supranational

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.

securities components, and the pandemic emergency purchase programme (PEPP),¹⁴ mainly in its government securities component (Point 1.2(f) of Note 1).

All securities held under the first and second covered bond purchase programmes (CBPP1 and CBPP2) matured in the course of 2022, and therefore the ECB and the euro area NCBs had no holdings of these securities as at 31 December 2022.

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

	Start date	End date	Decision	Universe of eligible securities ^(a)
Completed/expired programmes				
CBPP	July 2009	June 2010	ECB/2009/16	Covered bonds from euro area residents
CBPP 2	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
Asset purchase programme (APP)				
CBPP 3	October 2014	assets	ECB/2020/8 (amended)	Covered bonds from euro area residents
ABSP	November 2014	assets	ECB/2014/45 (amended)	Senior and guaranteed mezzanine 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
Pandemic emergency purchase programme (PEPP)				
PEPP	March 2020	assets	ECB/2020/17 (amended)	All asset categories eligible under the APP ^(b)

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

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

	31 Dec 2022		31 Dec 2021	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes				
SMP	99,158	102,187	133,170	146,406
CBPP2	–	–	58,298	58,704
CBPP3	1,725,009	1,613,252	2,956,945	3,016,853
PSPP – Government securities	45,106,326	40,536,840	43,001,119	46,967,950
PSPP – Supranational securities	9,670,580	8,365,619	10,759,659	11,401,513
PEPP – Government securities	29,390,930	25,093,834	29,255,928	29,318,299
PEPP – Covered bonds	–	–	5,517	5,527
	85,992,003	75,711,732	86,170,635	90,915,252

14. Decision of the ECB of 18 March 2020 on a pandemic emergency purchase programme (ECB/2020/17), OJ L 91, 25.3.2020, p. 1-4.

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 2022 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.

During the first quarter of 2022 the Eurosystem continued its net purchases under the APP¹⁵ at a monthly pace of €20 billion on average. In March 2022 the Governing Council decided¹⁶ to revise the net purchase amounts to €40 billion in April, €30 billion in May and €20 billion in June, while in June 2022 the Governing Council decided¹⁷ to end net asset purchases under the APP as of 1 July 2022. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP until the end of February 2023. Subsequently, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time. The Governing Council will regularly reassess the pace of the APP portfolio reduction to ensure it remains consistent with the overall monetary policy strategy and stance, to preserve market functioning, and to maintain firm control over short-term money market conditions.

In addition, during the first quarter of 2022, the Eurosystem continued its net asset purchases under the PEPP,¹⁸ albeit at a lower pace than in the previous quarter, following the decision of the Governing Council in December 2021.¹⁹ Based on the same decision, net PEPP purchases were discontinued at the end of March 2022. The Governing Council intends to reinvest principal payments from maturing securities purchased under the PEPP until at least the end of 2024. The Governing Council will continue applying flexibility in reinvestments, to counter risks to the monetary policy transmission mechanism related to the pandemic. The future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance. Securities purchased under these non-standard monetary policy programmes are valued on an amortised cost basis subject to impairment tests (Point 1.2(f) of Note 1).

Under monetary policy programmes, total securities held by the Eurosystem NCBs amounted to the following: €2,142,532 thousand in the SMP (2021: €5,486,277 thousand), €276,856,688 thousand in the CBPP3 (2021: €273,233,157 thousand), €2,066,580,909 thousand in the PSPP – Government securities (2021: €1,988,515,781 thousand), €275,228,136 thousand in the PSPP – Supranational securities (2021: €264,536,991 thousand), €344,119,235 thousand in the CSPP (2021: €309,675,550 thousand), €1,317,936,824 thousand in the PEPP – Government securities (2021: €1,244,196,273 thousand), €145,687,092 thousand in the PEPP – Supranational securities (2021: €130,590,451 thousand), €5,282,762 thousand in the PEPP – Covered bonds

15. Further details on the APP can be found on the [ECB's website](#).

16. See press release of 10 March 2022 on the Governing Council Decisions.

17. See press release of 9 June 2022 on the Governing Council Decisions.

18. Further details on the PEPP can be found on the [ECB's website](#).

19. See press release of 16 December 2022 on the Governing Council Decisions.

(2021: €5,377,112 thousand) and €46,073,878 thousand in the PEPP – Private sector bonds (2021: €43,781,623 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, they may be shared by the various 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. In this context, 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. In cases where impairment indicators are observed, further analysis is performed to confirm that the underlying securities' cash flows have not been affected by an impairment event.

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 in 2022 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 NBCs 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 ESCB²⁰ or whenever there is a change in composition of the ESCB national central banks.

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

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 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%
Euro area NCBs		81.3286%
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%
Non-euro area NCBs		18.6714%
		100.0000%

In 2020, despite 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 additional annual instalments, in 2021 and 2022.²¹

In this context, in 2021 the Banco de Portugal transferred to the ECB an amount of €14,279 thousand. Similarly, a third tranche of the same amount was transferred in 2022. Thus the paid-up capital of the ECB by the Banco de Portugal was €191,775 thousand at the end of 2021 and €206,054 thousand at the end of 2022.

Foreign reserves transferred to the ECB

This item represents claims arising from the transfer of foreign reserve assets from the Eurosystem NCBs 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 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 to the ECB remain at the current level, the claim equivalent to this transfer was marginally adjusted. This resulted in a slight decrease of €4,233 thousand in these assets, repaid by the ECB on 3 February 2020.

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

This item consists of the Banco de Portugal's claims relating to the allocation of euro banknotes within the Eurosystem (Points 1.2(i) and (j) of Note 1).

The increase in this asset position, compared with 31 December 2021 (from €52,432,194 thousand to -€54,857,596 thousand), was due to a rise in overall circulation in the Eurosystem (+2% from 2021) and an increase in the Banco de Portugal's asset position relating to the difference between banknotes put into circulation and banknotes withdrawn from circulation by the Bank (Note 13). The asset position of the adjustment to circulation is remunerated at the marginal interest rate on the Eurosystem's MROs.

Other intra-Eurosystem claims/liabilities

As at 31 December 2022 the balance of the item Other claims within the Eurosystem, in the amount of €115,990 thousand, referred to (i) the net result of the monetary income calculation method in the total amount of €109,158 thousand, which included adjustments to the result of the monetary income calculation method related to prior years, in the net amount of €1,015 thousand, settled on 31 January 2023 (Note 26), and (iii) the amount transferred to the ECB of €6,833 thousand related to interest payable under the SURE programme (Support to Mitigate Unemployment

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

Risks in an Emergency), within the scope of the economic and financial assistance programme for Portugal, as laid down in the protocol signed between the parties.

With respect to 2022, the Governing Council, in view of the ECB's overall financial result for the year, decided to retain the full amount of income derived from banknotes in circulation, as well as income earned on ECB securities purchased under the SMP, CBPP3, ABSPP, PSPP and PEPP portfolios (Point 1.2(j) of Note 1). Therefore, no amounts related to the ECB's income were due to the Banco de Portugal at the end of 2022.

Net liabilities arising from balances of TARGET accounts

As at 31 December 2022 Net liabilities arising from balances of TARGET accounts (Point 1.2(h) of Note 1) showed a credit position of €68,566,825 thousand (31 December 2021: €79,280,432 thousand). Interest on this position is calculated at the marginal interest rate on the Eurosystem's MROs.

NOTE 9 • TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

	31 Dec 2022	31 Dec 2021
Tangible fixed assets		
Land	50,756	50,756
Buildings and other constructions	109,483	109,483
Premises	89,312	88,781
Equipment	102,149	104,144
Museum and art collections	9,867	9,780
	361,567	362,945
Leased assets		
Buildings and other constructions	11,849	11,796
Equipment	145	145
	11,994	11,942
Intangible assets		
Computer software	85,887	81,252
Other intangible assets	394	389
	86,281	81,641
Tangible fixed assets and intangible assets under construction	11,550	10,388
Total gross tangible fixed assets and intangible assets	471,391	466,915
Accumulated depreciation and amortisation		
Depreciation of tangible fixed assets	(237,690)	(235,231)
Depreciation of leased assets	(10,179)	(7,603)
Amortisation of intangible assets	(78,868)	(74,195)
	(326,737)	(317,028)
Total net tangible fixed assets and intangible assets	144,654	149,887

In 2021 and 2022 movements in this item were as follows:

	31 Dec 2020			Depreciation and amortisation for the year	31 Dec 2021
	Net balance	Additions	Disposals		Net balance
Tangible fixed assets					
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
	133,498	4,096	267	9,613	127,714
Leased assets					
Buildings and other constructions	6,829	–	58	2,509	4,262
Equipment	125	–	–	48	77
	6,954	–	58	2,558	4,339
Intangible assets					
Computer software	9,292	3,341	–	5,432	7,202
Other intangible assets	282	1	–	39	244
	9,574	3,342	–	5,470	7,446
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction - Projects	5,755	7,394	2,762	–	10,388
Advances	–	–	–	–	–
	5,755	7,394	2,762	–	10,388
	155,782	14,833	3,087	17,641	149,887

	31 Dec 2021			Depreciation and amortisation for the year	31 Dec 2022
	Net balance	Additions	Disposals		Net balance
Tangible fixed assets					
Land	50,756	–	–	–	50,756
Buildings and other constructions	48,252	–	–	1,620	46,633
Premises	9,082	816	174	2,851	6,873
Equipment	9,843	4,388	267	4,216	9,748
Museum and art collections	9,780	87	–	–	9,867
	127,714	5,290	440	8,687	123,877
Leased assets					
Buildings and other constructions	4,262	52	–	2,528	1,786
Equipment	77	–	–	48	28
	4,339	52	–	2,577	1,814
Intangible assets					
Computer software	7,202	4,693	–	4,692	7,203
Other intangible assets	244	5	–	40	210
	7,446	4,698	–	4,732	7,412
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction - Projects	10,388	5,951	4,789	–	11,550
Advances	–	–	–	–	–
	10,388	5,951	4,789	–	11,550
	149,887	15,991	5,229	15,995	144,654

The increase in the Equipment item was mainly due to the purchase of equipment and IT systems and infrastructure and equipment for cash handling. As regards the Premises item, the increase is mainly related to security and air conditioning installations.

In 2022 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 markets and statistics.

The amount under tangible and intangible fixed assets in progress as at 31 December 2022 largely related to IT infrastructures and systems projects, in particular the development of the TARGET system – BdP link, of the TEB system (processing of bank loans), 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 2022	31 Dec 2021
Participating interest in non-euro area resident entities	21,650	21,650
Participating interest in euro area resident entities	37,528	37,244
Medium/Long-term investment portfolio	3,180,012	3,571,696
Other assets	806	689
	3,239,996	3,631,279

The item Other financial assets essentially includes the Banco de Portugal's participating interests and its medium/long-term investment portfolio.

The Banco de Portugal's participating interests as at 31 December 2022 and 2021 were broken down as follows:

	31 Dec 2022		31 Dec 2021	
	% share	Value	% share	Value
Participating interest in non-euro area resident entities				
Bank for International Settlements (BIS)	1.57%	21,650	1.57%	21,650
Participating interest in euro area resident entities				
SGFPBP, S.A.	97.91%	3,407	97.91%	3,255
Valora, S.A.	100.00%	33,771	100.00%	33,639
EUROPAFI	0.25%	349	0.25%	349
Swift	0.01%	1	0.01%	1
		37,528		37,244

Changes in the value of the participating interests in the SGFPBP and Valora resulted chiefly from the use of the Net Asset Value valuation method, with the counterpart of the valuation differences being directly recognised in the Profit and loss account (Note 27). The Banco de Portugal used interim financial statements of the entities in which it has a participating interest to value these interests, with reference to 31 December 2022, which according to those entities showed values fairly close to the final ones.

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

Within the scope of the Banco de Portugal's own fund management, the medium/long-term investment portfolio, given its characteristics, is included in Other financial assets. This portfolio is exclusively composed of securities denominated in euro and is valued at amortised cost less potential impairment losses. The decrease from 2021 results from the fact that not all the amounts available were reinvested.

In 2022 and 2021 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 2022	31 Dec 2021
Accruals		
Interest and other income receivable from central bank operations	1,312,041	970,409
Securities held for monetary policy purposes	964,912	913,196
Net position in relation to the allocation of euro banknotes	251,697	239
Lending to credit institutions related to monetary policy	29,395	–
IMF	18,243	348
Gold investments	15,861	24,957
Trading portfolio denominated in euro and foreign currency	6,872	8,870
Medium/Long-term investment portfolio	16,745	21,041
Other	8,317	1,758
Other accruals	2,025	2,015
	1,314,066	972,424
Prepaid expenses		
Prepaid expenses from central bank operations	32,350	57,757
Other prepaid expenses	8,396	8,904
Deferred tax assets	14,425	7,482
	55,171	74,143
	1,369,237	1,046,567

As at 31 December 2022 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 €964,912 thousand (2021: €913,196 thousand) and from the net balance arising from the allocation of banknotes, in the amount of €251,697 thousand (2021: €239 thousand).

The item Prepaid expenses from central bank operations comprises mainly accrued coupon interest on securities held in the Banco de Portugal's portfolios (i.e. trading portfolio, medium/long-term investment 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 2022 was interest on (i) securities held for monetary policy purposes (€27,002 thousand in 2022 and €56,459 thousand in 2021) and (ii) trading and medium/long-term investment portfolios (€5,348 thousand in 2022 and €1,928 thousand in 2021).

The item Other prepaid expenses 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 €4,155 thousand (2021: €4,963 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 2022 and 2021.

NOTE 12 • OTHER ASSETS – SUNDRY

	31 Dec 2022	31 Dec 2021
Lending to employees	172,867	169,014
Special credit situations – BP/Finangeste Arrangement	398	409
Other special credit situations	400	400
Pension Fund – Defined-benefit plan	174,878	192,455
Pension Fund – Defined-contribution plan – Reserve account	43,519	48,400
Sundry debtors	13,644	8,662
Corporate Income Tax – Estimate for income taxes	(133,615)	–
Corporate Income Tax – Payments on account and additional payment on account	203,476	–
Other reduced value accounts	6,703	11,043
	482,271	430,383
Impairment of recoverable amounts	(798)	(809)
	481,472	429,574

The item 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 €398 thousand as at 31 December 2022 (2021: €409 thousand). The decrease in 2022 corresponded to the nominal amount of claims recovered in that year by Finangeste, transferred to the Bank through the calculation of an annual instalment. As at 31 December 2022 and 2021 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 as at 31 December 2022 and 2021 (Note 32).

The position concerning the Pension Fund – Defined-Contribution Plan – Reserve account of the Sponsor reflected the value of the participating units of this Fund held by the Banco de Portugal as at 31 December 2022 and 2021, valued at market price as at those dates (Note 32).

The estimate for income tax is detailed in Note 30. In 2022 the net value between this estimate and the value of payments on account and additional payments on account results in a net asset position, thus being included in this item. In 2021 this net position was a net liability, therefore included in item Other liabilities – sundry (Note 18).

NOTE 13 • BANKNOTES IN CIRCULATION

Euro banknotes in circulation as at 31 December 2022 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 2022	31 Dec 2021
Banknotes in circulation		
Banknotes put into circulation (net)	(21,003,866)	(19,173,842)
Adjustments to circulation in the Eurosystem	54,857,596	52,432,194
	33,853,731	33,258,353

In 2022 the total value of euro banknotes in circulation in the Eurosystem increased by 2% (2021: 8%). In accordance with the banknote allocation key, on 31 December 2022 the Banco de Portugal recorded an aggregate value of banknotes in circulation of €33,853,731 thousand compared to €33,258,353 thousand on 31 December 2021. The difference between banknotes put into circulation and banknotes withdrawn from circulation by the Banco de Portugal as at 31 December 2022 continued to show a debit balance, higher than in 2021. This increase was due, among other factors, to a rebound in tourism in Portugal throughout 2022. 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 2022 the balance on Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (€46,429,256 thousand) chiefly reflected the contribution of deposit facility operations outstanding (€42,973,015 thousand as at 31 December 2022 and €4,300 thousand as at 31 December 2021), and the current accounts of credit institutions with the Banco de Portugal (€3,456,241 thousand in 2022 and €58,520,512 thousand in 2021). The increase in deposit facility operations and the decline in current accounts of credit institutions reflected the increase in the deposit facility rate to positive values as of September and the consequent suspension of the two-tier system for remunerating excess liquidity holdings.

The item Current accounts of credit institutions 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 banks' reserve requirement balances were, until 20 December 2022, remunerated at the ECB's reference rate for the main refinancing operations. On 27 October 2022 the Governing Council decided that for the period from 21 December 2022 they would be remunerated at the Eurosystem's deposit facility rate. On 30 October 2019, the Governing Council had introduced a two-tier system for reserve remuneration. This system was based on the introduction of a two-tier system for reserve remuneration, which exempted the part in excess of the minimum reserve requirements from negative remuneration at the rate applicable on the deposit facility. The exempt tier was remunerated at an annual rate of 0%. The volume of reserve holdings in excess covered by this scheme was determined as a multiple of 6, depending on an institution's minimum reserve requirements. The non-exempt tier of excess liquidity holdings continued to be remunerated at 0% or the deposit facility rate, whichever was lower. Following the rise in the deposit facility rate to above zero as of 14 September 2022, the Governing Council of the ECB decided to suspend the two-tier system and to set the multiplier at zero.

As at 31 December 2022 the item Deposit facility included the balance of deposit facility operations outstanding, which correspond 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 2022	31 Dec 2021
Liabilities to other euro area residents denominated in euro		
General government		
Current accounts of the Portuguese Treasury and Debt Management Agency (IGCP)		
European Financial Stabilisation Mechanism (EFSM)	6,038,316	8,373,489
European Financial Stability Facility (EFSF)	711,260	711,122
Current accounts of General government for SICOI guarantees	230,391	221,775
	6,979,967	9,306,386
Other liabilities		
Current accounts of the autonomous funds	577,322	577,063
Current accounts of other entities	2,679,079	1,376,198
	3,256,401	1,953,261
	10,236,369	11,259,646

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(1)(d) of the Guideline of the ECB on domestic asset and liability management operations by the national central banks (ECB/2019/7).

The current accounts of autonomous funds in 2022 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 2022 the balance on the item Liabilities to non-euro area residents denominated in euro included: (i) temporary liabilities for collateralised loans under gold investments of €5,896,078 thousand (2021: €6,994,510 thousand) (Note 5), (ii) euro amounts received as collateral worth €71,290 thousand (2021: €342,650 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 €1,453 thousand (2021: €3,614 thousand).

NOTE 17 • ACCRUALS AND INCOME COLLECTED IN ADVANCE

	31 Dec 2022	31 Dec 2021
Income collected in advance		
Other income collected in advance	2	2
Deferred tax liabilities	282	293
	285	296
Accruals		
Accruals from central bank operations	471,329	564,852
Other accruals	25,243	24,449
	496,572	589,301
	496,857	589,597

Under Accruals from central bank operations reference should be made to accrued interest payable on lending to credit institutions (€296,505 thousand) (2021: €560,534 thousand), notably that related to TLTRO III and interest payable on TARGET liabilities in the amount of €128,857 thousand (2021: €225 thousand).

The decrease compared to 2021 was mainly due to the offsetting effect of the decrease in interest payable on Lending to credit institutions, due to the end of the interest rate rebate for TLTRO III on 24 June 2022.

Other accruals reflected accrued staff costs (€19,384 thousand) and accrued supplies and services from third parties payable (€5,859 thousand).

NOTE 18 • OTHER LIABILITIES – SUNDRY

	31 Dec 2022	31 Dec 2021
Third parties	21,892	22,677
Liabilities relating to the payment to employees of seniority bonuses	13,280	16,482
Other central bank liabilities	6,833	4,191
Banknotes withdrawn from circulation	–	94,763
Estimate for income taxes	–	225,499
Corporate Income Tax – Payments on account and additional payment on account and withholdings at source	–	(213,595)
Other accounts of reduced individual value	5,133	329
	47,138	150,345

The item Third parties included a lease liability relating to future liabilities with property lease agreements with a duration of more than 12 months, recognised under IFRS 16 (Point 1.2(e) of Note 1), which as at 31 December 2022 amounted to €1,751 thousand (2021: €4,181 thousand).

The item Liabilities relating to the payment to employees of seniority bonuses reflected as at 31 December 2022 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, were recorded in the Profit and loss account, as described in point 1.2(m) of Note 1. In 2022 actuarial gains/losses were positive (Note 32) and recognised under Other income.

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. This decrease from 31 December 2021 was largely due to the expiry of the time limit for exchanging the following banknotes: (i) 1,000 escudo banknote, portraying Pedro Álvares Cabral; (ii) 10,000 escudo banknote, portraying Infante D. Henrique; (iii) 2,000 escudo banknote, portraying Bartolomeu Dias; 500 escudo banknote, portraying João de Barros; and (v) 5,000 escudo banknote, portraying Vasco da Gama (Note 27). As at 31 December 2022 there were no unexpired escudo-denominated banknotes.

The estimate for income tax is detailed in Note 30. In 2022 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 asset position, shown under Other assets – sundry (Note 12). In 2021 this was a net liability position and was therefore shown here.

NOTE 19 • IMPAIRMENT, PROVISIONS AND GENERAL RISK PROVISION

Accounting movements in items Impairment and provisions for the years 2021 and 2022 may be summarised as follows:

	Balance as at 31 Dec 2020	2021			Balance as at 31 Dec 2021
		Increase	Decrease	Net value	
Impairment of assets					
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)	–
	1,085	–	(276)	(276)	809
Provisions					
Provisions for litigation	20	–	(20)	(20)	–

	Balance as at 31 Dec 2021	2022			Balance as at 31 Dec 2022
		Increase	Decrease	Net value	
Impairment of assets					
Adjustments for Special credit situations – BP/Finangeste Arrangement	409	–	(11)	(11)	398
Adjustments for other special credit situations	400	–	–	–	400
	809	–	(11)	(11)	798

Under Adjustments for Special credit situations – BP/Finangeste Arrangement, the decrease in 2022 includes €11 thousand, which were not recognised directly in profit or loss and only entailed the derecognition of the asset and its impairment.

Movements in the General risk provision in 2021 and 2022 were as follows:

	Balance as at 31 Dec 2020	2021		Balance as at 31 Dec 2021
		Increase	Decrease	
General risk provision	3,676,622	-	-	3,676,622

	Balance as at 31 Dec 2021	2022		Balance as at 31 Dec 2022
		Increase	Decrease	
General risk provision	3,676,622	235,000	-	3,911,622

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.

Article 8 of the ECB's Accounting Guideline recommends the establishment of general risk provisions. 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. The Board of Directors decides on the movements in the provision by 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 with an impact on the Banco de Portugal's accounts.

In 2022 the General risk provision was increased by €235,000 thousand. This increase took into account the results of the risk assessment and of the medium to long-term projection of the financial statements, with a view to covering potential future risks.

In 2022 the increase in interest rates triggered balance sheet structure risk, due to the fact that the securities of the monetary policy programmes have fixed and relatively low yields and are funded by short-term liabilities with sharply rising interest rates. Furthermore, these securities showed a significant increase in latent losses, as a result of the aforementioned rise in interest rates. On the other hand, financial risks associated with these securities declined as a result of the upgrade in 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. Gains or losses are recognised only if securities are sold early.

NOTE 20 • REVALUATION ACCOUNTS

	31 Dec 2022	31 Dec 2021
Gold revaluation differences	17,950,591	16,762,523
Foreign currency revaluation differences	215,294	215,950
Securities revaluation differences	5,137	25,484
Revaluation differences	18,171,023	17,003,957

Gold increased by €1,188 thousand compared to 2021, as a result of the appreciation in the price of gold in euro (Note 2).

Potential capital gains resulting from fluctuations in the price of securities as at 31 December 2022 corresponded to securities denominated in foreign currency and euro, amounting to €5,123 and €15 thousand respectively (2021: €21,538 thousand and €3,946 thousand respectively).

NOTE 21 • EQUITY

Movements in the Equity item in 2022 and 2021 are detailed in the Statement of changes in equity.

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

In accordance with Article 53(2) of the Statute of Banco de Portugal, net profit for the year shall be distributed as follows: 10% to the legal reserve, 10% to other reserves to be decided by the Board of Directors and the remainder to the State, as dividends, or to other reserves, as approved by the Minister of State and Finance, on a proposal of the Board of Directors. Net profit for the year 2021 gave rise to the transfer of €50,808 thousand to the Legal reserve and an equal amount to Other reserves, and to the distribution of dividends to the State totalling €406,465 thousand.

Actuarial gains/losses of liabilities related to the Pension Fund and deferred taxes recognised on 31 December 2022 accounted for total retained earnings (Notes 30 and 32).

NOTE 22 • NET INTEREST INCOME

	31 Dec 2022	31 Dec 2021
Interest income		
Gold	28,117	39,753
Trading portfolio denominated in foreign currency	29,681	18,666
Securities	27,132	18,018
Balances with banks, deposits and other money markets	2,549	648
Trading portfolio denominated in euro	9,648	4,593
Other investments	9,648	4,593
International Monetary Fund	49,101	1,125
Lending to euro area credit institutions – standard operations	1	–
Securities held for monetary policy purposes	889,484	845,144
Lending operations with the ESBC	325,210	–
Medium/Long-term investment portfolio	23,121	28,294
Off-balance-sheet instruments	13,268	1,202
Other assets	1,028	502
Current accounts of credit institutions for compliance with minimum reserve requirements	113,422	147,053
General government	–	19,115
Other liabilities to euro area residents denominated in euro	–	6,707
	1,482,081	1,112,155
Interest expense		
Trading portfolio denominated in euro	1,174	36,564
Securities	1,174	35,047
Balances with banks, deposits and other money markets	–	1,517
Longer-term refinancing operations	215,887	385,173
Deposit facility	196,981	–
General government	32,340	–
Other liabilities to euro area residents denominated in euro	3,501	–
Intra-Eurosystem liabilities	402,749	–
International Monetary Fund	42,799	979
Off-balance-sheet instruments	4,667	12,235
	900,099	434,951
Net interest income	581,982	677,204

The decrease in Net interest income in the Profit and loss account in 2022 was largely due to the recognition of interest payable, with no equivalent in the previous year, in items Liabilities to credit institutions, Liabilities to other entities and Intra-Eurosystem liabilities. This recognition results from the first increase in 11 years of the key interest rates by 50 basis points, in July, followed by further increases of 75 basis points in September and November and 50 basis points in December, bringing the DFR to 2% and the MRO to 2.5%.

Partly offsetting this negative impact was a decrease in interest payable on longer-term refinancing operations as a result of the end of the interest rate rebate on these operations on 24 June 2022. Also of note is the growth in interest receivable relating to (i) Foreign reserves and euro assets, specifically those relating to trading portfolios in foreign currency and in euro, associated with the increase in rates of return; (ii) interest on the monetary policy securities portfolio as a result of the increase in their average rate of return; and (iii) interest relating to the CSM asset position (no equivalent in 2021).

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 2022	31 Dec 2021
Foreign exchange transactions	117,194	8,154
Other financial operations in foreign currency	(8,372)	43,497
Financial operations in euro	(17,543)	7,757
Medium and long-term investments	4,639	–
Interest rate futures	50,255	1,625
Transactions in the portfolio for monetary policy purposes	13,259	13,993
	159,432	75,027

In 2022 realised gains/losses arising from financial operations grew by €84,405 thousand compared to 2021.

In 2022 of particular note were gains from (i) financial operations associated with foreign exchange transactions in the amount of €117,194 thousand (2021: €8,154 thousand), (ii) medium and long-term investments in the amount of €4,639 thousand, with no equivalent in 2021, and (iii) interest rate futures to hedge the securities trading portfolio denominated in euro in the amount of €50,225 thousand (2021: €1,625 thousand). Part of these increases reflect strategic decisions taken within the scope of Foreign reserves and euro assets, with these positive results more than offsetting net losses on trading portfolio assets in foreign currency and euro (€8,372 thousand and €17,543 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 2022	31 Dec 2021
Unrealised exchange rate losses	10	2
Unrealised losses on investments in foreign currency	8,110	606
Unrealised losses on euro operations	71,260	7,114
	79,379	7,723

As regards the item Unrealised losses on financial assets and positions, the amount recognised in 2022 resulted mainly from losses caused by a fall in the price of securities in the trading portfolio denominated in foreign currency and 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 2022 this income was not distributed.

This item includes dividends received, referring to 2021 results, from the Banco de Portugal's participating interests in the ECB (€976 thousand), in the BIS (€2,980 thousand) and EUROPAFI (€5 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, CBPP III, PSPP-SUPRA and PEPP-SUPRA portfolio	Real remuneration rate		
Non-euro area national central banks' assets related to liquidity-providing operations	Real remuneration rate		
Accrued coupon interest related to securities held for monetary policy purposes with impairment (shared income and risk)	Not applicable		
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 2022, the difference (known as 'the gap'), calculated at the ECB reference rate for 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 all NCBs according to the subscribed ECB capital key.

In 2022 total contributions from the Eurosystem increased considerably, from €1,170,158 thousand to €7,136,056 thousand. This increase was mostly driven by a return to positive key interest rates and a decrease in TLTRO III interest related expense (Notes 6 and 22).

The net result of the pooling of monetary income (€108,143 thousand) corresponded to the difference between the net contribution of the Banco de Portugal, in the amount of €58,876 thousand, and the allocation to the Banco de Portugal according to the aforementioned capital key, in the amount of €167,020 thousand, plus adjustments related to previous years in the amount of €1,015 thousand, resulting from backward-looking changes to the calculation method.

		31 Dec 2022	31 Dec 2021
A	Total contribution from all Eurosystem NCBs	7,136,056	1,170,158
B	Paid-up capital key	2.3405%	2.3405%
C = A x B	Total reallocation to the Banco de Portugal	167,020	27,388
D	Total effective contribution from the Banco de Portugal	58,876	(143,844)
E = C – D	Result of the method	108,143	171,231
F	Eurosystem adjustments to the result of the method relating to previous years	1,015	3,606
G	Eurosystem provisions	–	–
H = E + F + G	Net result of pooling of monetary income	109,158	174,837

The net result of pooling of monetary income method for the year, amounting to €108,143 thousand (2021: €171,231 thousand) decreased by €63,088 thousand compared to 2021. This was due to the increase in the proportion of the Banco de Portugal's deductions in total Eurosystem contributions. However, the weight of these net contributions remained below the adjusted capital key of the Banco de Portugal, and a receivable continued therefore to be recorded in Net result of pooling of monetary income.

NOTE 27 • OTHER INCOME AND EXPENSES

	31 Dec 2022	31 Dec 2021
Other income		
Capital gains on tangible and intangible fixed assets	9	87
Previous fiscal years income	706	10,943
Sales and supply of services to third parties	4,311	4,082
Sundry income	99,442	4,680
	104,469	19,792
Other expenses		
Capital losses on tangible and intangible fixed assets	149	69
Previous fiscal years expenses	154	1,116
Sundry expenses	4,042	2,411
	4,345	3,596
	100,123	16,196

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 €3,505 thousand (2021: €3,285 thousand).

Under the item Sundry income, in 2022 reference should be made to: (i) €93,978 thousand related to the expiry of escudo banknotes of various portraits (Note 18); (ii) €3,552 thousand related to positive actuarial deviations under the rules laid down in point 1.2(m) of Note 1; (iii) €680 thousand related to credit recovery under the BP/Finangeste Arrangement (Note 12); and (iv) profit resulting from the adjustment of the value of the Banco de Portugal's interests in Valora and the SGFPBP, resulting from the implementation of the Net Asset Value method as explained in point 1.2(e) of Note 1 and Note 10 (€132 thousand and €152 thousand respectively).

Under the item Sundry expenses, in 2022 reference should be made to the impact of the valuation of the Reserve account of the Sponsor concerning the Pension Fund – Defined-Contribution Plan, which resulted in a loss of €3,505 thousand (Note 32).

NOTE 28 • STAFF COSTS

	31 Dec 2022	31 Dec 2021
Remuneration of the members of the Board of Directors and Board of Auditors	1,279	1,193
Employees' salaries	84,714	83,590
Compulsory social charges	32,323	33,315
Voluntary social charges	11,299	10,499
Other staff costs	1,051	1,180
	130,666	129,777

In 2022 staff costs totalled €130,666 thousand, an €889 thousand increase from 2021 (+1%).

This increase was mainly due to an increase in employees' salaries, driven by a salary update in 2022 (1.1%) and an increase in voluntary social charges, more specifically an increase in early retirement costs (+€514 thousand), due to the higher number of employees in this situation, compared to 2021 (Note 32).

The decrease compared to 2021 in the item Compulsory social charges was largely related to a decrease in the annual charge with the Pension Fund – Defined-Benefit Plan (–€1,153 thousand) (Note 32), as a consequence of a rise in the discount rate.

NOTE 29 • SUPPLIES AND SERVICES FROM THIRD PARTIES

	31 Dec 2022	31 Dec 2021
Electricity	1,410	2,734
Travel, accommodation and other transport	1,501	795
Litigation and notary services	5,056	3,766
Maintenance and repairs	4,520	5,013
Rentals	912	767
Fuel and water	549	459
Specialised work		
Surveillance and security	4,768	4,773
IT	2,822	3,242
Use of databanks	3,027	2,885
Remuneration of SGFP	3,133	3,040
Other specialised work	3,817	3,653
Software licensing and maintenance	8,900	8,668
Training	988	1,034
Other supplies and services from third parties	5,874	4,832
	47,278	45,659

At the end of 2022 Supplies and services from third parties amounted to €47,278 thousand, reflecting an increase of 3.5% compared to the same period in 2021.

The main contributors to this increase were (i) an increase in judicial services, litigation and notary services (€1,290 thousand), related mainly to the provision of legal and financial advice under resolution measures, (ii) an increase in business travel expenses (€678 thousand), owing to the Bank's return to normal levels of activity following the pandemic, and (iii) the decrease in electricity expenses (€1,324 thousand) relating to the government measure aimed at cutting the network access charge to mitigate the impact of rising energy prices.

NOTE 30 • INCOME TAX

The Banco de Portugal is subject to corporate income tax and to the corresponding municipal and state surcharge and autonomous taxation.

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 2021 and 2022 income tax liabilities were broken down as follows:

	2022	2021
Estimated current tax on profit/loss	133,615	232,213
Estimated current tax on equity	–	(6,714)
Withholdings at source	(24)	(24)
Payments on account and additional payments on account	(203,476)	(213,572)
	(69,885)	11,904

In 2022 no income tax on retained earnings was recorded, given the end of the 10-year period in which negative balance sheet variations arising from the change in 2011 in the accounting policy for recording actuarial gains and losses of the Pension Fund – Defined-Benefit Plan could be deducted from the tax base.²²

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:

	2022	2021
Current tax		
Corporate income tax collection	90,092	158,253
Municipal corporate tax and state surtax	43,406	74,109
Tax benefits (CFEI II)	–	(281)
Autonomous taxation	116	131
	133,615	232,213
Deferred tax	2,530	1,582
Total income tax	136,145	233,795
Profit/loss before taxes	433,433	741,876
Effective tax rate	31.41%	31.51%

22. On 30 December 2011 Law No 64-B/2011 was published, approving the State Budget for 2012, which lays down in Article 183 that the negative balance sheet variations recorded in the 2011 tax year arising from changes in the 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, should not be 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 was recognised against equity in these periods.

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

	2022			2021		
	Basis	Tax ^(a)	Rate	Basis	Tax ^(a)	Rate
Income before taxes Tax calculated at nominal rate	433,433	134,936	31.13%	741,876	232,096	31.29%
Adjustments						
Net Asset Value (Note 27)	(284)	(88)	(0.02%)	(1,143)	(358)	(0.05%)
Tax estimate shortage or surplus (Note 27)	(233)	(72)	(0.02%)	380	119	0.02%
Severance benefits, retirement benefits and other post-employment or long-term benefits	(7,453)	217	0.05%	(4,062)	231	0.03%
Pension Fund	3,624	1,128	0.26%	5,231	1,637	0.22%
Corrections from previous periods (Note 27)	154	48	0.01%	1,112	348	0.03%
Other	431	127	0.03%	300	174	0.02%
Tax benefits	(662)	(206)	(0.05%)		(518)	(0.07%)
Autonomous taxation		116	0.03%		131	0.02%
Other – Effect of rate change		(61)	(0.01%)		(65)	(0.01%)
		136,145	31.41%		233,795	31.51%

Note: (a) It refers to current tax and deferred tax, where applicable.

With regard to the reconciliation of tax rates, in 2022 there was a difference of +28 basis points between the nominal rate of 31.13% and the effective rate of 31.41% (2021: difference of +22 basis points between the nominal rate of 31.29% and the effective rate of 31.51%), and in none of the years were there mutually offsetting materially relevant adjustments.

The adjustment made to employment termination benefits, retirement benefits and other post-employment or long-term employee benefits, in the amount of €7,453 thousand, related to the allocation of early retirements, seniority bonuses and bonuses for reaching retirement age, under the terms of collective work agreements in force. 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 (€3,624 thousand) resulted from the definitive difference between the expenses contributing to the ceiling provided for in Article 43(2) of the Corporate Income Tax Code and said ceiling.

Tax benefits set out in the table above relate to the net job creation benefit (€643 thousand) and the allocation of donations of a social nature (€15 thousand).

In 2021 and 2022 the movements related to deferred tax assets and liabilities were broken down as follows:

		2021		
	31 Dec 2020	Change in		31 Dec 2021
		Equity	Profit/Loss	
Assets				
Temporarily non-deductible provisions and impairments	338	–	(85)	253
Staff benefits				
Pension fund - transitional regime	6,669	(6,669)	–	–
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
Liabilities				
Depreciation surplus (reinvestment of capital gains)	(304)	–	11	(293)
	(304)	–	11	(293)
	20,843	(12,072)	(1,582)	7,189

		2022		
	31 Dec 2021	Change in		31 Dec 2022
		Equity	Profit/Loss	
Assets				
Temporarily non-deductible provisions and impairments	253	–	(4)	250
Staff benefits				
Pension fund – transitional regime	–	–	–	–
Seniority bonus	5,157	–	(1,006)	4,151
Early retirements	2,071	9,484	(1,531)	10,024
Litigation	–	–	–	–
	7,482	9,484	(2,541)	14,425
Liabilities				
Depreciation surplus (reinvestment of capital gains)	(293)	–	11	(282)
	(293)	–	11	(282)
	7,189	9,484	(2,530)	14,142

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 tax was 31.26% in 2022, lower than in 2021 by 3 basis points. Also, with regard to deferred tax, temporary differences have no expiry dates.

NOTE 31 • OFF-BALANCE-SHEET INSTRUMENTS

	31 Dec 2022	31 Dec 2021
Contracted financial operations	(298,500)	(91,599)
Collateral given	(1,471,623)	(1,471,623)
Collateral received	71,788,734	88,659,112
Items held in custody	26,786,335	29,747,253
Irrevocable credit lines	(4,044,214)	(4,041,455)

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 2022 and 31 December 2021 these positions related only to derivative financial instruments essentially designed to manage risks associated with their assets and liabilities, as follows:

	31 Dec 2022					31 Dec 2021	
	Contract value ^(a)		Market value ^(b)	Effect on profit/loss ^(c)	Accrued interest ^(d)	Contract value ^(a)	
	Purchases	Sales	Net	Net	Net	Purchases	Sales
Currency forwards	6,073	(6,073)	14	(21)	35	–	–
Currency swaps	2,502,926	(2,502,926)	(53,490)	(57,030)	3,540	3,057,678	(3,057,678)
Interest rate futures	–	(298,500)	–	–	–	97,063	(188,662)

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 monetary policy operations of the Eurosystem in the amount of €71,784,647 thousand as at 31 December 2022 (€88,654,130 thousand as at 31 December 2021), 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 (€20,848,649 thousand) and securities held in custody by the Banco de Portugal as collateral in monetary policy operations with other NCBs, under the CCBM (€5,039,200 thousand).

As at 31 December 2022 the item Irrevocable credit lines recorded the amount of €2,082,800 thousand for the limit on the intraday credit lines of the Portuguese financial system and the amount of SDR 1,567,000 thousand (€1,961,414 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

The Pension Fund of the Banco de Portugal – Defined-Benefit Plan is a closed-end fund made up of autonomous assets and solely earmarked for the fulfilment of the Banco de Portugal's liabilities relating to the Pension Plan and the Healthcare Plan. The Pension Plan guarantees the payment of retirement and survivors' pensions and death grants to staff recruited by the Banco de Portugal before 3 March 2009, and the payment of post-employment charges to SAMS (the social and health assistance service for banking sector employees) concerning all staff members. The Healthcare Plan takes responsibility for the payment of post-employment healthcare costs and covers all staff.

Until 31 December 2010 the Banco de Portugal was the sole entity responsible for the payment of the retirement and survivors' pensions of staff (and their dependents) recruited by the Bank before 3 March 2009, who were covered by a substitutive social security scheme for bank employees, enshrined in the collective labour regulations for the banking sector. Decree-Law No 1-A/2011 of 3 January 2011 laid down that from 1 January 2011 the Banco de Portugal's active employees recruited before 3 March 2009 and registered in Caixa de Abono de Família dos Empregados Bancários (CAFEB),²³ the family allowance fund for bank employees, are now integrated in the general social security scheme with respect to statutory retirement pensions.

Thus, the Pension Fund – Defined-Benefit Plan, in terms of the statutory retirement/old-age pensions of the Bank's staff recruited before 3 March 2009, maintained under its responsibility the payment of past-service liabilities until 31 December 2010. From 1 January 2011 onwards, the Pension Fund only covers liability for the difference between 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 – and the benefits calculated under the general social security scheme. The payment of disability and death grants remained totally under the Fund's responsibility as well.

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	The longevity risk of the population covered proves to be higher than 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, thus 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 adopting a Fund's investment policy driven by the objective of offsetting variability in liabilities arising from these movements.

- Pension Fund Plans
 - Pension plan
 - (a) Participants

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

Number of scheme members	31 Dec 2022	31 Dec 2021
Active members	657	727
Retired members	2,073	2,065
Pensioners	592	592
	3,322	3,384

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 2022	31 Dec 2021
Active members	35	33
Retired members	15	14
Pensioners	13	12

(b) Methodology, assumptions and accounting policy

Liabilities arising from the pension plan funded through the Pension Fund – Defined-Benefit Plan were calculated on an actuarial basis by the SGFPBP, using the Projected Unit Credit Method, in accordance with the principles laid down in IAS 19.

The main actuarial and financial assumptions adopted are as follows:

	Actuarial and financial assumptions used			
	31 Dec 2022	1 Jan 2022	31 Dec 2021	1 Jan 2021
Discount rate	3.739%	1.048%	1.048%	0.420%
Expected return rate on the Fund's assets	n. a.	1.048%	n. a.	0.420%
Wage growth				
1st year	4.442%	2.672%	2.672%	1.750%
Subsequent years	3.869%	3.456%	3.456%	2.262%
Pensions growth rate				
1st year	3.000%	1.254%	1.254%	0.750%
Subsequent years	2.435%	2.028%	2.028%	1.262%
Tables used				
– Mortality – Male population	TV 88/90 adjusted by 2 years	TV 88/90 adjusted by 1 year	TV 88/90 adjusted by 1 year	
– Female population	TV 88/90 adjusted by 6 years	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 ^(a)				
1st year	66 years and 4 months		66 years and 7 months	
2nd year	66 years and 4 months		66 years and 4 months	
Percentage of married members	80%		80%	
Age difference between spouses	3 years		3 years	

Note: (a) For the purpose of projecting the Normal Retirement Age, from the third year onwards, an annual increase in average life expectancy at 65 years of age is assumed to be 0.1 years.

The discount rate was calculated using interest rates on private debt bond issues of high credit quality and whose denomination and maturity are adequate for the term structure of the Pension Fund's liabilities.

For the purpose of establishing the funding needs of the Pension Fund – Defined-Benefit Plan, the SGFPBP uses, as a matter of prudence, a lower discount rate, based on interest rates on sovereign bond issues. Thus, the value of the Fund's liabilities considered in the Banco de Portugal's accounts is below that calculated for the purpose of determining 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 2022	31 Dec 2021
Active members	1,721	1,741
Retired members and pensioners	2,597	2,603
	4,318	4,344

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

Average life expectancy (years)	31 Dec 2022	31 Dec 2021
Active members	44	42
Retired members	16	14
Pensioners	13	12

(b) Methodology, assumptions and accounting policy

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

	Actuarial and financial assumptions used			
	31 Dec 2022	1 Jan 2022	31 Dec 2021	1 Jan 2021
Discount rate	3.739%	1.048%	1.048%	0.420%
Expected return rate on the Fund's assets	n. a.	1.048%	n. a.	0.420%
Growth rate of the average/annual expenses				
Disability pensions	4.983%	4.380%	4.380%	4.987%
Other	6.700%	6.377%	6.377%	3.784%
Tables used				
– Mortality – Male population	TV 88/90 adjusted by 2 years	TV 88/90 adjusted by 1 year	TV 88/90 adjusted by 1 year	
– Female population	TV 88/90 adjusted by 6 years	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 ^(a)				
1st year	66 years and 4 months		66 years and 7 months	
2nd year	66 years and 4 months		66 years and 4 months	
Projection for the following years:				
Percentage of married members	80%		80%	
Age difference between spouses	3 years		3 years	

Note: (a) For the purpose of projecting the Normal Retirement Age, from the third year onwards, an annual increase in average life expectancy at 65 years of age is assumed to be 0.1 years.

• Evolution of liabilities and assets of the Pension Fund

	31 Dec 2022			31 Dec 2021		
	Retired members and pensioners	Active members	Total	Retired members and pensioners	Active members	Total
Total past-service liabilities of the Fund						
Retirement and survival benefits	1,011,341	358,392	1,369,733	1,178,204	614,982	1,793,186
Pensions' inherent charges to SAMS	57,354	18,930	76,284	66,751	33,440	100,190
Death grants	1,811	620	2,431	2,222	1,166	3,388
Healthcare	54,694	17,362	72,055	58,590	28,479	87,068
	1,125,200	395,304	1,520,504	1,305,766	678,066	1,983,833

The table below presents the evolution of past-service liabilities of the Pension Fund in 2022 and 2021:

Past-service liabilities	2022	2021
Value at the beginning of the year	1,983,833	2,001,710
Current service cost	15,681	15,391
Benefits payable (expected value)	(78,879)	(78,124)
Interest cost	20,785	8,407
Actuarial gains/losses	(422,276)	34,374
Increase in liabilities arising from early retirements (based on information at the beginning of the year)	1,360	2,075
Value at the end of the year	1,520,504	1,983,833

The Fund's financial management is geared towards hedging the risks implicit in assumed liabilities, which may be mitigated by financial instruments, with the aim of maintaining the funding level.

Among the various assumptions adopted in the valuation of the Fund's liabilities, the most relevant due to their impact on the value of liabilities are those relating to longevity, the discount rate, and the rate of increase of salaries and pensions.

The table below shows the sensitivity of the Fund's assets and liabilities to changes in the assumptions adopted:

Sensitivity as at 31 Dec 2022	One-year increase in life expectancy	10 b.p. reduction in discount rate ^(a)	10 b.p. increase in wages and pension growth rates ^(b)
Impact on the Pension Fund's assets	0.0%	1.1%	1.0%
Impact on the Pension Fund's liabilities	3.9%	1.3%	1.3%
Impact on the Pension Fund's funding ratio	-3.9%	-0.2%	-0.3%

Notes: (a) Assuming a stable spread between interest rates on private and sovereign debt. Should this spread between the rates vary, the impact on the Fund's assets and the financing of a 10 b.p. reduction in discount rate will be different from that presented. (b) The wages and pensions growth rate only affects the value of the Pension Plan's liabilities (and not that of the Healthcare Plan). The impact on the Fund's assets is based on the assumption that the wages and pensions growth rate results from an increase in inflation, with a resulting increase in the price of inflation-linked bonds comprised in the Fund's assets.

On 31 December 2022 the modified duration of liabilities stood at 13.7 (2021: 16.1) 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 -1.9 (2021: -3.0).

Fund's assets	2022	2021
Value at the beginning of the year	2,176,288	2,081,228
Current contributions paid to the Fund	12,169	12,595
On account of the Banco de Portugal	10,445	10,853
On account of the employees	1,724	1,742
Contributions paid on account of early retirements	5,706	4,429
Benefits and inherent charges paid by the Fund	(80,087)	(77,034)
Net income of the Fund	(418,694)	155,070
Value at the end of the year	1,695,382	2,176,288

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

Fund's investments	31 Dec 2022	31 Dec 2021
Land and buildings	264,166	243,441
Variable income securities	85,183	163,475
Fixed income securities	1,327,374	1,746,566
Cash and bank deposits	4,735	8,122
Other	13,925	14,684
	1,695,382	2,176,288

Land and buildings includes the Castilho Building, used by the Banco de Portugal, which was recorded in 2022 at a value of €41,097 thousand.

Securities portfolio of the Fund	31 Dec 2022	31 Dec 2021
Variable income securities		
Participation units – Investment funds	85,183	163,475
Fixed income securities		
Government debt	1,327,374	1,746,566
	1,412,557	1,910,041

At the end of 2022, the funding level of the Banco de Portugal's Pension Fund – Defined-Benefit Plan stood at 111.5%, above that of the scenario used to calculate the funding needs (most prudent scenario) of 105.9%.

The value of actuarial gains and losses calculated in 2022 and 2021 can be broken down as follows:

	31 Dec 2022	31 Dec 2021
Actuarial gains/losses		
Population movements	(2,087)	(7,669)
Technical gains and losses	(395)	(333)
Wage growth	(12,076)	(1,380)
Increase in pensions	(927)	1,994
Change in average healthcare expenses	1,990	9,333
Adjustments to the model	(2,060)	(1,737)
Change in career promotion of any type	–	(18,374)
Change in mortality	(162,071)	–
Other gains and losses	5,278	1,065
Indexation of assumptions:		
Wage and salary growth in labour force	(73,976)	(120,528)
Salary growth in beneficiaries	(78,785)	(100,815)
Change in average healthcare expenses	(10,442)	(13,318)
Discount rate	757,828	217,388
	422,276	(34,374)
Financial gains and losses		
Benefits paid vs expected benefits, excluding early retirement (A)	1,828	3,093
Compensation of final contributions due to early retirement (B)		259
Return on the Fund vs expected return	(441,040)	146,328
	(439,211)	149,681
Total gains and losses recognised under Retained Earnings	(16,935)	115,307
Increase in benefits paid and final contributions due to early retirement allocated during the year (C)	(1,360)	(2,263)
Total gains and losses between benefits paid and expected benefits (A)+(B)+(C)	468	1,090

Actuarial gains and losses in 2022 recorded a gain associated with the discount rate, arising from the difference between the initial value for this rate and its value at the end of the year (see the table of assumptions), resulting in a €757,828 thousand decrease in the Fund's liabilities. A loss was also recorded, arising from the revision of the mortality assumption, to recognise the increase by one and two years in life expectancy for male and female populations. This had the effect of a €162,071 thousand increase in liabilities and 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, with the consequent increase in the value of the Fund's liabilities of €152,761 thousand.

The item Other deviations mainly included the updated values 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 are summarised in the table below:

	2022	2021
Staff costs		
Current service cost ^(a)	13,556	13,188
Interest cost	20,785	8,407
Expected return on the Fund's assets	(22,801)	(8,741)
Increase in liabilities arising from early retirements	4,852	4,338
Increase in liabilities arising from early retirements (based on information at the beginning of the year)	1,360	2,075
Increase in benefits paid and final contributions due to early retirement allocated during 2022	3,492	2,263
	16,392	17,192

Note: (a) Excluding costs borne by staff and other entities.

Seniority and retirement 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.

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	2022	2021
Value at the beginning of the year	16,482	15,477
Seniority bonuses paid	(1,151)	(1,276)
Current service cost	1,360	1,309
Interest cost	141	37
Actuarial gains/losses	(3,552)	936
Value at the end of the year	13,280	16,482

As at 31 December 2022 the modified duration of liabilities with seniority bonuses stood at 9.7 (2021: 11.6).

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

	Actuarial and financial assumptions used			
	31 Dec 2022	01 Jan 2022	31 Dec 2021	01 Jan 2021
Discount rate	3.755%	0.853%	0.853%	0.242%
Wage growth				
1st year	4.442%	2.671%	2.671%	2.502%
Subsequent years	3.825%	3.358%	3.358%	2.141%
Tables used				
– Mortality – Male population	TV 88/90 adjusted by 2 years		TV 88/90 adjusted by 1 year	
– Female population	TV 88/90 adjusted by 6 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	
Momento de atribuição da pensão de reforma no RGSS ^(a)				
1st year	66 years and 4 months		66 years and 7 months	
2nd year	66 years and 4 months		66 years and 4 months	
Projection for the following years:				
– Developments in average life expectancy at 65 years, in years	+ 0.10 every year		+ 0.10 every year	

Note: (a) 1 For the purpose of projecting the Normal Retirement Age, from the third year onwards, an annual increase in average life expectancy at 65 years of age is assumed to be 0.1 years.

The population considered for the calculation of these liabilities in December 2022 was 1,721 members (2021: 1,741).

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. As at 31 December 2022 this insurance scheme covered 5 members (2021: 10 participants).

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

The Banco de Portugal's company-level agreements provide for a supplementary defined-contribution pension plan, funded through contributions from the Bank and its staff, as regards the Banco de Portugal staff who started working in the banking sector after 3 March 2009 and are covered by the general social security scheme by virtue of Decree-Law No 54/2009 of 2 March 2009 (Point 1.2(l) of Note 1). This plan was created in 2010, backdated to 23 June 2009.

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

The Banco de Portugal has set up a closed-end 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 2022 the supplementary pension plan funded through this Pension Fund covered 1,110 members (2021: 1,046).

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 2022 the assets of the Fund amounted to €50,974 thousand, broken down as follows:

Participation units (in value)	31 Dec 2022	31 Dec 2021
Reserve account (Note 12)	43,519	48,399
Members' individual accounts	7,455	6,887
	50,974	55,286

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 these amounts each month 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	2022	2021
Value at the beginning of the year	48,399	22,015
Transfer of rights to members – contributions of the year	(1,375)	(1,233)
Increase in the reserve account	–	25,000
Revaluation of the period (Note 27)	(3,505)	2,617
Value at the end of the year	43,519	48,399

NOTE 33 • RISK MANAGEMENT

Effective and efficient risk management contributes to the fulfilment of the Banco de Portugal's statutory responsibilities as the central bank of the Portuguese Republic. The Banco de Portugal follows an Integrated Risk Management Policy aimed at ensuring the institution's robustness and sustainability, ultimately contributing to the pursuit of its strategic goals. The Integrated Risk Management Policy is materialised in the Risk Appetite Statement, which sets the risk profile and degree of tolerance defined by its Board of Directors and is characterised by a prudent, integrated and forward-looking view of risks in the various areas of the Bank.

The Banco de Portugal adopts the Institute of Internal Auditors' Three Lines Model in its risk management. The first line in risk management is made up of the structures in charge of business processes that trigger risks and is responsible for governance. The second line in risk management comprises the structures that oversee risk management, financial control, business continuity,

security, ethics and compliance, and personal data protection at the Banco de Portugal. The third line in risk management is ensured by the internal audit of the Banco de Portugal and comprises independent actions to assess the effectiveness of the performance of the first two lines. Implementation of the Integrated Risk Management Policy is ensured by second line structures, in articulation with the Risk Committee and the other departments of the Bank, and it is monitored by the Board of Auditors and the Board of Directors on a regular basis.

- Strategic risk management

Strategic risks may impair the pursuit of the mission entrusted to the Banco de Portugal and are affected by strategic decision-making. The Board of Directors assesses these risks by regularly identifying the main risks of the Bank's activity.

- Financial risk management

- Risk management policies

Financial risks primarily arise from own investment asset management operations and participation in the ECB's monetary policy. They can be categorised into credit risk, market risk and interest rate mismatch risk, the latter having gained relevance with the financing of medium to long-term asset purchase programmes against short-term interest-bearing liabilities.

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

The Banco de Portugal's own investment assets are managed with reference to a strategic benchmark portfolio that results from a strategic asset allocation (SAA) exercise reflecting the preferences of the Board of Directors in terms of risk and return. 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. This benchmark is valid for a one-year period but may be subject to a mid-term review. The strategic benchmark 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 assets is based on eligibility criteria and limits set out in the Investment Guidelines approved by its Board of Directors. In the case of credit risk, the criteria and limits are based on credit 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 to foreign currency positions.

The valuation, performance attribution and control of limits and restrictions in asset management operations are carried out with recourse to 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 settlement of the operations and the monitoring of the positions and main risk measures. Standard 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 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 several aggregate risk indicators produced by the ECB, supplemented by risk indicators computed by the Bank for monetary policy intervention portfolios.

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 coverage by the Banco de Portugal's financial buffers (capital, reserves and provisions). This exercise is also taken into account in the decisions concerning the General risk provision (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 2022 and 2021 is as follows:

	31 Dec 2022		31 Dec 2021	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes (Note 7)	85,992,003	75,711,732	86,170,635	90,915,252
Medium/Long-term investment portfolio (Note 10)	3,180,012	2,918,993	3,571,696	3,716,785
	89,172,015	78,630,725	89,742,330	94,632,037

Market prices were used to assess the market value of the securities, as previously presented. These assets were significantly down in value, particularly in the case of securities held for monetary policy purposes, as a result of rising market interest rates (Note 19).

Market prices were also used to assess the market value of the financial assets recognised on the financial statements (Point 1.2(f) of Note 1).

- Non-financial risk management

Non-financial risks are events that lead to negative impacts for the Bank in business, financial or image/reputation areas, and which may have their origin in failures or deficiencies in business processes, staff, systems or third-party actions. Non-financial risks are divided into several risk subcategories, whose identification, assessment and monitoring is provided by the second line structures in risk management. Risk controlling by subcategory of non-financial risk is carried out using Key Risk Indicators (KRI), which monitor risk alignment over time, with the risk profile and tolerance set out by the Board of Directors. KRI results are reported to the Board of Directors.

Non-financial risks are managed by using risk management instruments implemented by the second line in risk management, identified in the Integrated Risk Management Policy adopted by the Bank.

NOTE 34 • PENDING LEGAL PROCEEDINGS

As at 31 December 2022, 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 of various nature (including claims for damages), administrative lawsuits (including lawsuits challenging an administrative act, an order for a required action to be taken, non-contractual civil liability for a lawful and unlawful act and litigation concerning public procurement), levies-related lawsuits (concerning contributions to the banking sector and periodical contributions to the Resolution Fund), interim injunctions, proceedings for the provision of information, administrative offence proceedings, proceedings related to labour disputes and monitoring of judicial winding-up of credit institutions and financial companies. Interventions before the European Court of Justice may also be mentioned in the context of the reference for a preliminary ruling, as well as the monitoring of cases in foreign jurisdictions (in particular, Spain) and arbitral tribunals.

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 according to the typologies identified and the nature of the proceedings in question, is presented below.

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

By its nature, the resolution process of Banco Espírito Santo, S. A. (hereinafter "BES"), taking the form of the transfer of most of BES's activity and assets, liabilities and off-balance-sheet items to a bridge bank, Novo Banco, S. A., led to a significant increase in litigation, with proceedings brought against Banco de Portugal in (civil and administrative) national courts specifically by virtue of its decisions as national resolution authority as adopted pursuant to its Statute and the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* – RGICSF), approved by Decree-Law No 298/92 of 31 December 1992.

Within 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 (20:00), as amended by the decision of the same Board of Directors of 11 August 2014 (17:00), 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 set 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-making of the resolution measure or with access to certain documents prepared by an external entity.

The Banco de Portugal contested such lawsuits, by invoking supervisory secrecy under Article 80 of RGICSF or 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 judgment that has the force of *res judicata*, the Banco de Portugal will only have to provide information and issue certificates, which will not involve the payment of pecuniary sums (aside from legal costs) at any time, 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 judgment 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.

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 Procedure Code), which provided for the selection of two actions (pilot proceedings) with the 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.

Regarding the pilot proceedings, on 19 March 2019, twenty judges of the Administrative Court of the Lisbon District rendered a unanimous judgment confirming the constitutionality of the legal framework on bank resolution and the full legality of the resolution measure. Thus, multiple allegations of unconstitutionality or illegality attributed to the referred decision of 3 August, as well as to the prior deliberation on prudential provisioning, were rejected in bulk.

The applicants of the two pilot proceedings appealed against that judgment 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 judgment, 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 ECJ judgment on specific EU-law matters.

On 14 October 2021, Advocate General Giovanni Pitruzzella delivered an opinion very much in favour of the view expressed by the Banco de Portugal in those proceedings.

On 5 May 2022, following the Advocate General's opinion, the ECJ rendered its judgment very much in favour of the interests of the Banco de Portugal in this litigation. In that judgment, the Court held that the national legislation under which BES resolution was taken, is compatible with Article 17(1) of the Charter of Fundamental Rights of the European Union. It also ruled that the transposition by a Member State, only in part, of certain provisions of a directive before the expiry of the period prescribed for its transposition is not, as a matter of principle, liable seriously to compromise the result prescribed by that directive.

As the questions regarding the conformity of the national legislation with EU law have been clarified, it is for the Supreme Administrative Court to render its judgment in the pilot proceeding, which is pending. Accordingly, the Banco de Portugal awaits the latter developments of the pilot proceedings and their consequences for the remainder of the suspended litigation.

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 judgment dismissing in its entirety the proceedings in which some (formal and substantive) unconstitutionality and illegality were claimed in relation to the resolution measure imposed on BES. This judgment has acquired the force of *res judicata* since no appeal has been lodged.

In turn, in October 2022, the Administrative and Tax Court of Porto rendered a decision in proceedings contesting the BES resolution measure brought by a shareholder and claiming the existence of several (formal and substantive) unconstitutionality and illegality. This decision dismissed in its entirety the lawsuit, thus constituting a further favourable case-law precedent with the force of *res judicata*.

At the end of 2022, the Administrative and Tax Court of Sintra delivered a further favourable decision on the merits of the case. Despite the fact that it is a lawsuit for non-contractual civil

liability for an unlawful act (and not a lawsuit challenging an administrative act), the Court, in assessing the requirements for non-contractual civil liability, held that BES's resolution measure was lawful in a particularly reasoned manner, thus acquitting the Banco de Portugal.

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 the 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 also 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 judgment rendered by the Administrative Court of the Lisbon District and the recent judgments 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, which were 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. Some of those suspension decisions have been reverted in appeal proceedings, while 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.

However, there were significant developments in 2022: in one of those lawsuits, the Court delivered a conclusive opening order recognising the exception of procedural illegitimacy to seek action claimed by the Banco de Portugal and handing down a decision in favour of the defendants. The Court held that the applicants have no direct and personal interest in challenging the award decision, which has not immediately and detrimentally affected them, as their legal position has previously been ascertained when the rules on the eligibility of tenderers were laid down (such

rules have since become indisputable because they were not timely challenged). An appeal was lodged against that decision, thus the relevant proceedings are still ongoing.

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 2022, 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 judgment 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 tendency of the decisions to be delivered by the Courts in the interim injunction. 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 still pending at the first instance.

Finally, there were also fourteen 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 intends 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 an 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 ECJ. In this context and following the submission of observations of all the parties and the oral public hearing held in September 2020, the Advocate General Juliane Kokott rendered

an Opinion, published in November 2020, which was favourable not only to the interests of the NBSE, but also to the Banco de Portugal and the Resolution Fund.

However, on 29 April 2021, the European Court of Justice rendered a judgment in the opposite direction to that advocated by Advocate General. On that basis, the Supreme Court of Spain decided, in 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 the other pending proceedings, the intervention of the Banco de Portugal and the Resolution Fund has already been approved for the most part, and thus the relevant proceedings are still ongoing. In three of those lawsuits, following the intervention of the Banco de Portugal and the Resolution Fund being approved in 2022, the Spanish Supreme Court decided to refer the case for a preliminary ruling to the ECJ, referring four questions, in which written observations have already been submitted by all the parties. As a result of this request for a preliminary ruling, the other proceedings in respect of which the intervention of the Banco de Portugal and the Resolution Fund have already been approved are suspended.

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: its intervention is limited to defending the recognition of the resolution measure.

- 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 18 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. The applicants appealed to the Supreme Administrative Court, which decided to reject those appeals, currently pending a decision by the Constitutional Court following the lodging of a constitutional appeal.

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 the scheduling of the pre-trial hearing phase/conclusive opening order or a judgment to be rendered.

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 significant decrease in those civil lawsuits compared to previous years. Those civil lawsuits have been brought to an end by decisions based on particularly procedural grounds; nevertheless, some of those decisions expressed jurisprudential understandings confirming the legality of the Banco de Portugal's decisions.

Despite the 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, considering the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of the Banco de Portugal.

The aforementioned administrative 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. Regarding the proceedings which exclusively seek for the annulment of the decisions, 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.

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

In all these lawsuits, the initial phase has come to an end, and they are awaiting further procedural developments. Some of those lawsuits have already been tried.

In particular, in the lawsuits brought against the Banco de Portugal (i.e. not exclusively against the Deposit Guarantee Fund), a judgment was delivered in 2022, which declared the application to be inadmissible and handed down a decision in favour of the defendants, with an appeal still pending. A relevant judgment on the substance of the case was also given: the Lisbon TAC decided in March 2022, in a lawsuit for non-contractual civil liability, to acquit the Banco de Portugal, concluding that there was no unlawful act, in particular the Banco de Portugal's failure to exercise its supervisory powers. The judgment has been appealed and a final decision is awaited.

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 significant 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, suspension of voting rights, supervisory matters, procedures for authorising the pursuit of an activity, litigation concerning public procurement or claims relating to access to administrative documents or the removal of names from databases managed by the Banco de Portugal.

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 2022 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.

Lastly, as the lawsuits relating to the resolution measures have not yet come to a meaningful number of judgments – although, those few judgments that have been delivered indicate a 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 2022.

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 2022 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 2022 a member of the Board of Directors of the Banco de Portugal was on the Board of Directors of the SGFPBP and 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.

Transactions between the Bank and the SGFP and Valora in 2022 and 2021 were as follows:

	31 Dec 2022	31 Dec 2021
SGFP		
Staff transfer	1,686,232	1,401,918
Reimbursement of costs incurred	150,580	132,257
Acquisition of pension fund management services	(3,133,304)	(3,039,704)
Costs of services provided to the Banco de Portugal	(198,600)	(131,166)
Valora		
Staff transfer	950,030	799,161
Reimbursement of costs incurred	136,350	159,671
Costs of printing euro banknotes	(6,418,394)	(9,661,835)
Costs of transferred staff	(19,209)	(21,108)
Costs of services provided to the Banco de Portugal	–	(8,502)

One 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.

NOTE 36 • SUBSEQUENT EVENTS

As a result of Croatia's accession to the ESCB, the weightings assigned to the other NCBs in the ECB's subscribed capital key were adjusted with effect from 1 January 2023. The new weightings are shown in the table below:

NCB	Country	Key for subscription of the ECB's capital	
		From 1 Jan 2023	Until 31 Dec 2022
Nationale Bank van België/Banque Nationale de Belgique	Belgium	2.9630%	2.9630%
Deutsche Bundesbank	Germany	21.4394%	21.4394%
Eesti Pank	Estonia	0.2291%	0.2291%
Banc Ceannais na hÉireann/Central Bank of Ireland	Ireland	1.3772%	1.3772%
Bank of Greece	Greece	2.0117%	2.0117%
Banco de España	Spain	9.6981%	9.6981%
Banque de France	France	16.6108%	16.6108%
Hrvatska narodna banka	Croatia	0.6595%	–
Banca d'Italia	Italy	13.8165%	13.8165%
Central Bank of Cyprus	Cyprus	0.1750%	0.1750%
Latvijas Banka	Latvia	0.3169%	0.3169%
Lietuvos bankas	Lithuania	0.4707%	0.4707%
Banque centrale du Luxembourg	Luxembourg	0.2679%	0.2679%
Bank Ċentrali ta' Malta/Central Bank of Malta	Malta	0.0853%	0.0853%
De Nederlandsche Bank	Netherlands	4.7662%	4.7662%
Oesterreichische Nationalbank	Austria	2.3804%	2.3804%
Banco de Portugal	Portugal	1.9035%	1.9035%
Banka Slovenije	Slovenia	0.3916%	0.3916%
Národná banka Slovenska	Slovakia	0.9314%	0.9314%
Suomen Pankki – Finlands Bank	Finland	1.4939%	1.4939%
Euro area NCBs		81.9881%	81.3286%
Българска народна банка /Bulgarian National Bank	Bulgaria	0.9832%	0.9832%
Česká národní banka	Czech Republic	1.8794%	1.8794%
Danmarks Nationalbank	Denmark	1.7591%	1.7591%
Hrvatska narodna banka	Croatia	–	0.6595%
Magyar Nemzeti Bank	Hungary	1.5488%	1.5488%
Narodowy Bank Polski	Poland	6.0335%	6.0335%
Banca Națională a României	Romania	2.8289%	2.8289%
Sveriges Riksbank	Sweden	2.9790%	2.9790%
Non-euro area NCBs		18.0119%	18.6714%
		100.0000%	100.0000%

Pursuant to Council Decision (EU) 2022/1211 of 12 July 2022, having regard to the Treaty on the Functioning of the European Union, and in particular Article 140(2) thereof, Croatia adopted the single currency on 1 January 2023. In accordance with Article 48.1 of the Statute of the ESCB and the legal acts adopted by the Governing Council on 30 December 2022,²⁴ Hrvatska narodna banka transferred the remainder of its capital subscription to the ECB. In accordance with Article 48.1, in conjunction with Article 30.1, of the Statute of the ESCB, Hrvatska narodna banka transferred foreign reserve assets to the ECB for the amount of its capital subscription to the ECB. As a result of the change in the capital key, following the accession of Hrvatska narodna banka to the Eurosystem, the Banco de Portugal's share in the paid-up capital (capital key) of the ECB decreased from 2.34051% to 2.32168%. The Banco de Portugal's share in the subscribed capital of the ECB is 1.9035%.

24. Decision ECB/2023/135 of 30 December 2022 on the paying-up of capital, transfer of foreign reserve assets and contributions by Hrvatska narodna banka to the European Central Bank's reserves and provisions, OJ L 17, 19/01/2023, p. 94.

Agreement of 30 December 2022 between Hrvatska narodna banka and the European Central Bank regarding the claim credited to Hrvatska narodna banka by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 18, 19/01/2023, p. 1.

3 External Auditors' Report



Auditors' Report

(Free translation from 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 2022 (which shows total assets of Euros 197.900.202 thousands and total shareholders' equity of Euros 2.276.932 thousands, including a net profit of Euros 297.289 thousands), the statement of income, and the statement of changes in equity for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Banco de Portugal as at 31 December 2022, and 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 other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of Banco de Portugal and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

- a) the preparation of the financial statements, which present fairly the financial position and the financial performance of Banco de Portugal in accordance with the accounting principles included in the Chart of Accounts of Banco de Portugal;
- b) the preparation of the management report;
- c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
Receção: Palácio Sottomayor, Avenida Fontes Pereira de Melo, nº16, 1050-121 Lisboa, Portugal
Tel: +351 213 599 000, Fax: +351 213 599 999, www.pwc.pt
Matriculada na CRC sob o NIPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. pertence à rede de entidades que são membros da PricewaterhouseCoopers International Limited, cada uma das quais é uma entidade legal autónoma e independente.

- d) the adoption of appropriate accounting policies and criteria appropriate in the circumstances; and
- e) the assessment of Banco de Portugal's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Banco de Portugal's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure process of Banco de Portugal's financial information.

Auditor's responsibilities for the audit of the financial statements

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

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

- a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Banco de Portugal's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Banco de Portugal's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Banco de Portugal to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

f) communicate with those charged with governance, including the supervisory board, 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 verifying that the information included in the management report is consistent with the financial statements.

Report on other legal and regulatory requirements

Management report

In our opinion, the information included in the management report is consistent with the audited financial statements and, taking into account the knowledge and assessment about Banco de Portugal, no material misstatements were identified.

17 March 2023

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

José Manuel Henriques Bernardo, ROC no. 903
Registered with the Portuguese Securities Market Commission under no. 20160522

(This is a translation, not to be signed)

4 Report and Opinion of the Board of Auditors

Report and Opinion of the Board of Auditors 2022

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 2022, in terms of regular supervision of the Banco de Portugal's activity, the Board of Auditors (i) participated, without voting rights, in the meetings of the Board of Directors, (ii) reviewed the minutes of the meetings of the Board of Directors and the Executive Committee for Administrative and staff- related Issues and (iii) held monthly meetings for the monitoring of the Banco de Portugal's functions and activities.

The Board of Directors 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. Such monitoring was essentially focused on the review and discussion of a several reports and information produced by the Accounting Department, the Risk Management Department, the Markets and Reserve Management Department, the Audit Department and other departments and structural units of the Banco de Portugal, responsible for or involved in the performance of their respective activities, regular meetings with those in charge of the relevant services, including the external auditors, and requests for additional information on subjects being monitored, in particular, situations deemed to have significant risk, whenever necessary or convenient.

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

The Board of Auditors analysed in particular the financial information contained in the Management Report and Accounts for the fiscal year ended on 31 December 2022 – approved in the meeting of the Board of Directors held on 28 February 2023 – and the conclusions of the external audit work carried out by PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda., which issued its opinion on 17 March 2023 without any qualification or emphasis of matter.

In 2022, mainly from the second half of the year onwards, the Banco de Portugal's activity was significantly affected by developments in the economic environment, marked by a persistent and rapid increase in inflation rates, which led the European Central Bank to a completely different monetary policy stance, marked by a sharp increase in the key interest rates (stopping a long period of very low or even negative interest rates), and the accelerated ending of a set of non-standard monetary policy measures. This set of measures resulted in a significant reduction in the Banco de Portugal's balance sheet and income in 2022, with the expectation that, over the medium term, the maintenance or increase in interest rates will have a significant adverse impact on the Banco de Portugal's income.

As a result of rising interest rates, the balance sheet structure risk started to materialise, embodied by the fact that monetary policy securities show fixed and relatively low yields and are financed by short-term liabilities with a sharp rise in interest rates, complemented by the fact that they show a significant increase in unrealised losses as a consequence of the aforementioned rise in interest rates. In this context, the General risk provision was reinforced by €235 million, amounting to a total of €3,912 million in December.

The Report and Financial Statements for the fiscal year ending on 31 December 2022 show a sharp reduction in the Banco de Portugal's balance sheet, by €21.3 billion, from €219.2 billion on 31 December 2021 to €197.9 billion as at 31 December 2022, with the decrease in the monetary policy securities portfolio, by €25.8 billion, mainly contributing to this negative change, due to early repayments of targeted longer-term refinancing operations (TLTRO III) for credit institutions. Other significant changes include (i) the appreciation of gold by €1.2 billion, owing to an increase in the gold price per ounce of gold in euro; (ii) the reduction in management assets of trading and medium/long-term investment portfolios by €808 million; and (iii) the reduction in intra-Eurosystem claims, by €2.4 billion, and in liabilities (iv) the reduction in current accounts of credit institutions with the Banco de Portugal, by €12.1 billion, (v) the decrease in Intra-Eurosystem liabilities by €10.7 billion, mainly liabilities arising from the TARGET account, and (vi) the decrease in liabilities to other entities amounting to €1.1 billion.

In turn, the Profit for the year, amounting to €297 million, which benefited from the non-recurring income relating to the time limit for exchanging escudo banknotes in the year, in the amount of €94 million, decreased by €211 million compared to 2021. The main contributors to this reduction were: (i) the decrease in the interest margin by €95 million (from €677 million in 2021 to €582 million in 2022) and (ii) the €235 million reinforcement of the General risk provision to accommodate the outcome of the assessment of potential future risks and the projection for the financial statements over the medium term.

Despite these effects, in 2022, the Banco de Portugal's own funds (which include the items Revaluation accounts, General risk provision, Capital and Reserves and Profit for the year) showed a positive change in the amount of €1.3 billion, largely due to an increase in the positive revaluation accounts resulting from the appreciation of gold by €1.2 billion.

The Board of Auditors also analysed the proposal for the distribution of profit for 2022, to the amount of €297,288,674.20. The Board of Directors, in accordance with Article 63(2) of the Statute of Banco de Portugal, will submit to the Minister of Finance the following proposal for the distribution of profit:

- 10% to the legal reserve€29,728,867.42
- 10% to other reserves.....€29,728,867.42
- The remainder to the State, as dividends..... €237,830,939,39

In light of the above, the Board of Auditors raises no objection to the approval of the 2022 Financial Statements, nor to the proposal for the distribution of profit presented by the Board of Directors of the Banco de Portugal.

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

Lisbon, 24 March 2023

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.)

