



# ANNUAL REPORT

Activities and Financial Statements 2012



*Banco de Portugal*

EUROSYSTEM



**ANNUAL REPORT**  
ACTIVITIES AND FINANCIAL STATEMENTS  
2012

*Lisboa, 2013*  
*[www.bportugal.pt](http://www.bportugal.pt)*



***Banco de Portugal***  
EUROSYSTEM

**BANCO DE PORTUGAL**

Av. Almirante Reis, 71

1150-012 Lisboa

[www.bportugal.pt](http://www.bportugal.pt)

**Edition**

Office of the Governor

Accounting Department

**Design and Distribution**

Administrative Services Department

Documentation, Editing and Museum Division

Editing and Publishing Unit

**Number of copies**

100

ISBN 978-989-678-187-3 (print)

ISBN 978-989-678-188-0 (on-line)

ISSN 0870-0060 (print)

ISSN 1646-5083 (on-line)

Legal Deposit no 343415/12

# CONTENTS

## MANAGEMENT OF THE BANK

## HEADS OF DEPARTMENT, REGIONAL DELEGATIONS AND DISTRICT AGENCIES

### I. ACTIVITIES IN 2012

|           |  |
|-----------|--|
| <b>19</b> | <b>EXECUTIVE SUMMARY</b>   |
| <b>22</b> | Box 1   Banking Union and the Single Supervisory Mechanism                                 |
| <b>24</b> | Box 2   Financial stability measures under the Economic and Financial Assistance Programme |
| <b>26</b> | <b>1. FINANCIAL STABILITY</b>  |
| <b>26</b> | 1.1. Macro-supervision of the financial system   |
| <b>27</b> | 1.2. Prudential supervision  |
| <b>30</b> | 1.3. Banking conduct supervision   |
| <b>31</b> | 1.4. Legal enforcement   |
| <b>34</b> | 1.5. Deposit guarantee and resolution funds  |
| <b>34</b> | 1.6. Payment systems oversight   |
| <b>35</b> | <b>2. FUNCTIONS AS MONETARY AUTHORITY</b>  |
| <b>35</b> | 2.1. Economic research and advice  |
| <b>35</b> | 2.2. Monetary policy implementation  |
| <b>37</b> | 2.3. Asset management  |
| <b>37</b> | 2.3.1. ECB's foreign reserve management  |
| <b>37</b> | 2.3.2. Management of the Bank's own investment assets                                      |
| <b>38</b> | 2.4. Statistics  |
| <b>38</b> | 2.5. Payment systems   |
| <b>39</b> | 2.5.1. TARGET2-PT and TARGET2-Securities   |
| <b>40</b> | 2.5.2. Retail payment systems  |
| <b>42</b> | 2.5.3. Management of the use of cheques  |
| <b>42</b> | 2.6. Currency issuance   |
| <b>42</b> | 2.6.1. Production of euro banknotes  |
| <b>42</b> | 2.6.2. Banknote sorting  |
| <b>43</b> | 2.6.3. Detection of counterfeit banknotes and coins  |
| <b>44</b> | 2.6.4. Cash recycling  |

|    |  |
|----|--|
| 45 | 2.6.5. Roadmap for greater convergence of NCB cash services            |
| 45 | 2.6.6. Second series of euro banknotes                                 |
| 46 | <b>2.7. International representation and institutional cooperation</b> |
| 46 | 2.7.1. International relations   |
| 49 | 2.7.2. National institutional cooperation                              |
| 51 | <b>3. EFFICIENT ORGANISATION AND MANAGEMENT OF RESOURCES</b>           |
| 51 | <b>3.1. Internal governance, risk management and control</b>           |
| 51 | 3.1.1. Organisational structure  |
| 52 | 3.1.2. Risk management   |
| 52 | 3.1.3. Internal audit  |
| 53 | <b>3.2. Information and communication systems</b>                      |
| 54 | <b>3.3. Human resource management</b>                                  |
| 54 | 3.3.1. Staff composition   |
| 56 | 3.3.2. Compensation policy   |
| 57 | 3.3.3. Human resource development                                      |
| 58 | <b>3.4. Budget and building management</b>                             |
| 59 | <b>4. COMMUNICATION AND SUPPLY OF SERVICES TO THE COMMUNITY</b>        |
| 59 | <b>4.1. Communication with the public</b>                              |
| 59 | 4.1.1. Institutional website and Bank Customer Website                 |
| 62 | 4.1.2. E-mail, telephone and personalised answering system             |
| 62 | 4.1.3. Publications  |
| 64 | <b>4.2. Interaction with the financial community – BPnet</b>           |
| 64 | <b>4.3. Cooperation with Portuguese and international entities</b>     |
| 64 | 4.3.1. Communication initiatives within the Eurosystem                 |
| 65 | 4.3.2. Statistical dissemination                                       |
| 65 | 4.3.3. Cash-related training   |
| 66 | 4.3.4. Exchange of information with the scientific community           |
| 67 | <b>4.4. Social responsibility and environmental sustainability</b>     |
| 67 | 4.4.1. Library, archive, exhibitions and visits                        |
| 68 | 4.4.2. Social responsibility   |
| 69 | Box 3   Central Credit Register of Banco de Portugal                   |
| 70 | Box 4   Central Balance-Sheet Database of Banco de Portugal            |

## **ANNEXES**

- 74** A.1. Table 1 | Major legal and regulatory measures
- 78** A.2. Table 1 | Institutional representation
- 87** Table 2 | Institutional representation
- 89** A.3. Table 1 | Presentations at seminars and conferences in 2012
- 100** Table 2 | Articles published in 2012

## **II. FINANCIAL STATEMENTS**

- 107** 1. PRESENTATION
- 107** 1.1. Developments in the composition of the balance sheet
- 116** 1.2. Developments in the Profit and Loss Account
- 122** 2. FINANCIAL STATEMENTS
- 126** 3. NOTES ON THE FINANCIAL STATEMENTS
- 126** 1.1. Bases of presentation
- 127** 1.2. Synopsis of the main accounting policies
- 170** 4. EXTERNAL AUDITORS' REPORT
- 172** 5. REPORT AND OPINION OF THE BOARD OF AUDITORS





# MANAGEMENT OF THE BANK







## **GOVERNOR**

Carlos da Silva Costa

## **BOARD OF DIRECTORS**

### **Governor**

Carlos da Silva Costa

### **Vice-Governors**

Pedro Miguel de Seabra Duarte Neves

José Joaquim Berberan e Santos Ramalho

### **Directors**

José António da Silveira Godinho

João José Amaral Tomaz





## **BOARD OF AUDITORS**

### **Chairman**

Emílio Rui da Veiga Peixoto Vilar

### **Members**

Rui José Conceição Nunes

Amável Alberto Freixo Calhau

## **ADVISORY BOARD**

Carlos da Silva Costa

Pedro Miguel de Seabra Duarte Neves

José Joaquim Berberan e Santos Ramalho

Manuel Jacinto Nunes

José da Silva Lopes

Vítor Manuel Ribeiro Constâncio

José Alberto Vasconcelos Tavares Moreira

Luís Miguel Couceiro Pizarro Beleza

António José Fernandes de Sousa

Emílio Rui da Veiga Peixoto Vilar

Valentim Xavier Pintado

Almerindo da Silva Marques

João Moreira Rato

Roberto de Sousa Rocha Amaral

Rui Manuel Teixeira Gonçalves





HEADS OF DEPARTMENT,  
REGIONAL DELEGATIONS AND  
DISTRICT AGENCIES







**Office of the Governor (GAB)**

Paulo Ernesto Carvalho Amorim

**Secretariat to the Boards (SEC)**

Paulo Ernesto Carvalho Amorim

**Legal Enforcement Department (DAS)**

José da Cunha Nunes Pereira

**Audit Department (DAU)**

Francisco Martins da Rocha

**Accounting Department (DCC)**

José Pedro Silva Ferreira

**Issue and Treasury Department (DET)**

António Pinto Pereira

**Statistics Department (DDE)**

João António Cadete de Matos

**Economics and Research Department (DEE)**

Ana Cristina de Sousa Leal

**Human Resources Department (DRH)**

António Manuel Marques Garcia

**Risk Management Department (DGR)**

Helena Maria de Almeida Martins Adegas

**Markets and Reserve Management Department (DMR)**

Rui Manuel Franco Rodrigues Carvalho

**Organisation and Information Technology Department (DOI)**

António Jacinto S. Nunes Marques

**International Relations Department (DRI)**

Nuno Homem Leal de Faria

**Administrative Services Department (DSA)**

Eugénio Fernandes Gaspar

### **Banking Conduct Supervision Department (DSC)**

Maria Lúcia de Almeida Leitão

### **Banking Prudential Supervision Department (DSP)**

Vasco Manuel da Silva Pereira

### **Legal Services Department (DJU)**

José Gabriel Cortez Rodrigues Queiró

### **Payment Systems Department (DPG)**

Jorge Manuel Egrejas Francisco

## **OPORTO BRANCH**

Manuel Maia Marques

## **REGIONAL DELEGATIONS**

### **Regional Delegation of the Azores**

Ibéria Maria de Medeiros Cabral Serpa

### **Regional Delegation of Madeira**

Maria Heliadora Vieira Geraldos Matos

## **DISTRICT AGENCIES**

### **Braga**

Fernanda da Conceição C. Carvalho Barros

### **Castelo Branco**

Rui António da Silva Santa Rajado

### **Coimbra**

Maria João Botelho Simões Raposo de Sousa

### **Évora**

Paulo Ruben Alvernaz Rodrigues

### **Faro**

Victor Manuel Geraldos Ribeiro

### **Viseu**

Gentil Pedrinho Amado

# ACTIVITIES IN 2012



1. FINANCIAL STABILITY
2. FUNCTIONS AS MONETARY AUTHORITY
3. EFFICIENT ORGANISATION AND MANAGEMENT OF RESOURCES
4. COMMUNICATION AND SUPPLY OF SERVICES TO THE COMMUNITY



## EXECUTIVE SUMMARY

The primary objectives of Banco de Portugal, central bank of the Eurosystem and national authority responsible for the supervision of credit institutions, are to maintain price stability and to safeguard financial system stability. This dual mission and the key principles of independence and accountability are reflected in the four strategic guidelines set out for 2011-2013, which have guided activity in 2012:

- Financial stability within the European context;
- Effective contribution to the Bank's function as monetary authority within the framework of the Eurosystem;
- Efficient organisation and resource management;
- Communication and provision of services to the community.

In 2012 Banco de Portugal carried out its activity in a particularly demanding environment. At the national level, the adjustment of the Portuguese economy and of the banking system continued, under the Economic and Financial Assistance Programme (EFAP). At the cross-border level, important tensions persisted in terms of financial stability and monetary policy transmission in the euro area, which led, in particular, to the decision to create a European banking union (Box 1 | Banking Union and the Single Supervisory Mechanism).

### Financial stability within the European context

In order to preserve financial stability, Banco de Portugal, within its remit, has played a fundamental role in ensuring compliance with EFAP's measures (Box 2 | Financial Stability measures under the Economic and Financial Assistance Programme). More generally, the Bank has continually sought to strengthen the effectiveness of the financial system's regulation and supervision and, simultaneously, the confidence, reliability and availability of payment systems.

In 2012, the Bank participated in different initiatives to improve the regulatory framework of the financial system. Worthy of note were, at the prudential level, changes in bank access to capitalisation operations with recourse to public investment, the new preventive early intervention and resolution mechanism, and changes to deposit guarantee schemes. In the field of banking conduct supervision, key initiatives related to the prevention and management of non-compliance situations, access to minimum banking services, housing loans and payment services.

Strengthening solvency and protecting liquidity in the banking system continued to be main concerns in 2012. Banco de Portugal reviewed and monitored bank recapitalisation processes, in particular those resorting to public capital. The Bank also had a pro-active role in defining the non-standard monetary policy measures adopted by the European Central Bank (ECB), which allowed for a significant widening of collateral available for access to ECB financing and an extension of maturities in financing operations, improving the liquidity position of the banking system.

Banco de Portugal has promoted greater interaction between micro- and macro-prudential supervisory functions in order to better appraise the existence of financial imbalances with systemic impact. Therefore, the traditional static analysis focusing on individual institutions has been complemented with a prospective and systemic view, based on cross-sectional analysis of banks' capital and funding plans as well as on stress tests.

Prudential supervision was also strengthened through regular inspections focused on the whole credit portfolio or classes of assets particularly exposed to macroeconomic or market developments. In this context, inspections have been made on credit portfolios of the construction and real estate sectors, covering the eight main banking groups. In parallel, permanent teams working in close cooperation with main banking groups have been strengthened. At legal enforcement level, the average period for the conclusion of breach of regulations proceedings was reduced in 2012.



Financial literacy and training continue to be essential pillars of the Bank's banking conduct supervision strategy. In 2012, the Bank participated in the initiatives of the National Plan for Financial Education, in cooperation with other regulators making up the National Council of Financial Supervisors.

### **Effective contribution to the Bank's functions as monetary authority within the framework of the Eurosystem**

The activity of Banco de Portugal, in its capacity as monetary authority, covers a number of functions shared by the Eurosystem/ESCB: economic research and advice; implementation of monetary policy; financial asset and gold management; statistics; payment systems; currency issuance; and international relations and cooperation.

The research and analyses carried out by Banco de Portugal are crucial to its active and influential work within the Eurosystem. In this context, the Bank provided monetary policy advice to the Governor, produced macroeconomic projections for Portugal and analysed monetary and financial conditions in the Portuguese economy.

Banco de Portugal continued to ensure the implementation of monetary policy operations by resident credit institutions, checked compliance with the ECB's minimum reserve requirements and prepared liquidity forecasts for the resident banking system. The Bank participated in the ECB's external reserve management and managed its own investment asset portfolio. In order to foster the redistribution of liquidity among Portuguese banks, Banco de Portugal launched a platform to register and process unsecured interbank money market operations (MMI/SG) in September 2012, in which participating institutions may exchange funds through operations without underlying assets.

In addition to regularly compiling and releasing a wide set of monetary, financial and balance of payments statistics, in 2012 Banco de Portugal continued to enhance the use of information in microdata databases, namely the Central Balance-Sheet Database, the Central Credit Register, the Securities Statistics Integrated System and the balance of payments.

As operator, regulator and catalyst for payment systems, Banco de Portugal continued to ensure the smooth operation of TARGET2-PT and prepared the implementation of the TARGET2-Securities system. The Bank ensured the management and regulation of retail payment systems within the Interbank Clearing System (SICOI), promoted the implementation of the Single Euro Payments Area (SEPA) in Portugal and ensured the smooth management of the use of cheques. Banco de Portugal continued to promote an efficient and secure use of euro banknotes and coins, as part of its responsibility for the production, sorting and recycling of euro banknotes, monitoring withdrawals and deposits of banknotes and coins at the Bank, detection of counterfeit banknotes and coins, and provision of sundry cash services.

The regular performance of the tasks entrusted to Banco de Portugal involves intense international activity, which, to a great extent, relates to the Bank's participation in the different Eurosystem structures that prepare the decisions of the ECB's Governing Council and in other European Union (EU) institutions. The Bank has also participated in the work of other international organisations dealing with economic and financial issues, especially the International Monetary Fund (IMF) and the Bank for International Settlements (BIS), and has increased cooperation activities with other central banks, in particular from Portuguese-speaking countries.

### **Efficient organisation and management of resources**

In 2012, Banco de Portugal strengthened its internal management model and continued to invest in the development and motivation of its staff and in the improvement of technological means and procedures.

The Risk Management Department and the Committee for Risk and Internal Control were established, reflecting the strategic importance attached to risk management. The Bank therefore ensured the

independence, transparency, separation of functions, overall vision and integrated management of the various types of financial and operational risk.

In the field of human resources, Banco de Portugal aims to maintain a specialised team capable of responding sustainably in the medium to long term to the tasks entrusted to it, including those associated with the supervision and regulation of the financial system and under the Economic and Financial Assistance Programme to Portugal. At the end of 2012, the number of staff employed by Banco de Portugal was 1,682, similar to the number at the end of 2008, notwithstanding the significant increase seen in the meantime in its tasks. The Bank's staff has been rejuvenated and staff members are now more qualified. Its composition by gender has become more balanced. The Bank has infrastructures to support distance communication, mobility and collaborative work, including videoconferencing studios, unified communications and a Wi-Fi network.

In 2012, as in the previous year, the Board of Directors decided to adopt salary containment measures resulting in an overall saving equivalent to that of the measures established in the State Budget for 2012. Containment measures were defined and implemented autonomously, thus safeguarding the Bank's independence to make decisions and respecting the limits enshrined in the Labour Code and the instruments of collective labour regulation. The Bank continued to apply a cost restraint policy in its acquisition of goods and services, implementing restraint measures to reduce energy consumption and to save on information and communication services. The new Chart of Accounts was also prepared, with a positive impact in terms of enhanced transparency and financial autonomy.

### **Communication and provision of services to the community**

Banco de Portugal is committed to greater transparency and proximity with Portuguese society, so as to consolidate its role at national and international level. Banco de Portugal seeks to improve the quality of the economic and statistical information it produces and of the various services it supplies to the community. In communicating with the public, Banco de Portugal favours the use of the institutional website and the Bank Customer Website.

In October 2012 the bank created the Corporate Area of the institutional website. In this area, corporations may consult the list of credit liabilities in the Central Credit Register and the List of Cheque Defaulters, the Enterprise and Sector Table, the Communication of External Transactions and Positions, the Survey on International Investment and Qualified Information on Cash.

The Bank introduced new contents in the Bank Customer Website on the prevention and management of arrears on credit agreements and the new minimum banking services scheme.

In 2012 the Bank's head office reopened, following extensive restoration and repair works. The old Church of São Julião was restored in order to house the Money Museum. The museum's main goal is to foster financial literacy and help promote cultural activities in Lisbon's Baixa area.

## BOX 1 | BANKING UNION AND THE SINGLE SUPERVISORY MECHANISM

As the financial crisis unfolded, the European and Monetary Union architecture revealed its vulnerabilities. The separation between sovereign and banking risk and overcoming financial market fragmentation within the euro area have become a priority.

Following the Conclusions of the European Council and the Declaration of the Euro Area Summit in June 2012, the European Commission submitted in September a legislative package on the creation of a Single Supervisory Mechanism,<sup>3</sup> accompanied by a roadmap for the setting up of Banking Union, which also outlines complementary steps within the supervisory function, namely as regards crisis management and resolution of credit institutions, and deposit guarantee at European level.

The Single Supervisory Mechanism, which covers all banks in the euro area, is the first step towards the construction of Banking Union. On 13 December 2012, the EU Council agreed on the proposals submitted by the Commission, and negotiations were started with the European Parliament. The final approval and the entry into force of the Regulations are envisaged for the end of the first half of 2013.

The ECB shall be responsible for the prudential supervision of credit institutions in the euro area, pursuant to the respective Regulation, carrying out these tasks within the scope of the Single Supervisory Mechanism, which comprises the ECB and responsible national authorities. Its purpose is to 'contribute to the safety and soundness of credit institutions and to the stability of the financial system in the EU and individual Member States, taking due account of the singleness and integrity of the internal market'. Credit institutions in other Member States may also come to be covered by ECB supervision, within the scope of the enhanced cooperation mechanisms that may be established with the respective authorities.

The ECB's tasks comprise:

- Authorising credit institutions and revoking the authorisation;
- Evaluating qualifying shareholdings;
- Ensuring compliance with prudential regulations set out in EU legislation;
- Evaluating the adequacy of procedures, strategies and capital of the institutions against the risks incurred, carrying out stress tests and, based on the evaluation, imposing additional capital requirements or other specific requirements envisaged in EU legislation;
- Exercising supervision on a consolidated basis and participating in colleges of supervisors;
- Participating in the supplementary supervision of financial conglomerates, where applicable;
- Exercising supervisory tasks within the scope of recovery plans and early intervention measures in the event of default, or under default risk, of prudential requirements by the institutions.

<sup>3</sup> Formed by two Regulation proposals: (i) one conferring specific tasks upon the European Central Bank, pursuant to Article 127(6) of the Treaty, concerning the prudential supervision of credit institutions and creating a Single Supervisory Mechanism (SSM); (ii) another amending Regulation (EU) No 1093/2010, by introducing some adjustments to the functioning of the European Banking Authority, with a view to the creation of the Single Supervisory Mechanism.



The agreed text provides for a supervision model where the ECB assumes responsibility for the effective and consistent operation of the whole integrated supervisory system. However, there will be an articulated distribution of tasks among the ECB and national supervisory authorities, depending on the size of the institutions and the characteristics of national banking systems. In particular, the ECB takes on the direct supervision of the larger credit institutions, whereas national supervisory authorities shall assist the ECB in that task and shall be responsible for the direct supervision of smaller institutions, within the scope of a common framework and overall instructions defined by the ECB.

The ECB may, at any time, take on direct responsibility for a smaller institution, when deemed necessary to ensure the implementation of strict and consistent supervisory standards.

The ECB shall have at its disposal all the powers given by EU legislation to the competent authorities in terms of supervision, including sanctioning powers.

The ECB shall fully take on the tasks envisaged in the regulation one year after its entry into force, except if the ECB decides to postpone it, should the system not be fully functional.

As regards macro-prudential supervision, the ECB may, pursuant to EU legislation, apply stricter measures than those defined by national authorities, with both parties obliged to provide ex ante notification of the measures to be adopted, either by national authorities or the ECB.



## BOX 2 | FINANCIAL STABILITY MEASURES UNDER THE ECONOMIC AND FINANCIAL ASSISTANCE PROGRAMME

The Economic and Financial Assistance Programme (EFAP) agreed with the European Commission, the International Monetary Fund (IMF) and the European Central Bank (ECB) has been under way since May 2011. The programme incorporates an adjustment strategy whose purpose is to restore financial market confidence and create conditions promoting competitiveness and sustainable economic growth. This strategy rests on three pillars: (1) budget consolidation, (2) stability of the financial system, and (3) structural transformation of the Portuguese economy.

Banco de Portugal has important responsibilities in the implementation of the EFAP, chiefly within the framework of its mandate to ensure the stability of the national financial system. The Governor of Banco de Portugal, together with the Minister of State and Finance, have signed the letter of intent that accompanied the Programme's memoranda of understanding. In that capacity, the Governor was heard by the 'Parliamentary Ad Hoc Committee entrusted with the task of monitoring the measures of the Economic and Financial Assistance Programme to Portugal' on 13 April 2012.<sup>4</sup>

Banco de Portugal is involved in the preparation, monitoring and implementation of the measures intended to ensure bank solvency and liquidity conditions, strengthening the regulatory framework and supervising the banking system. The Bank coordinates the quarterly review of banks' capital and funding plans and stress-testing exercises. It is also responsible for evaluating banks' liquidity and capital plans. In addition, the Bank's framework for the prudential supervision of the banking system has been strengthened through regular inspections focusing on the whole credit portfolio or classes of assets particularly exposed to unfavourable macroeconomic or market developments. In order to strengthen the liquidity position of the banking system, the Bank took measures allowing for a significant widening of the pool of assets available as collateral for the ECB's monetary policy operations and launched a new platform for unsecured interbank money market operations. Table 1 presents the structural benchmarks – key targets in the quarterly reviews of the Programme – defined in the EFAP until the end of 2012 for the financial stability pillar.

Banco de Portugal has also contributed (both directly and indirectly) to other initiatives within the scope of the Programme, including economic and financial advice to the Government and statistical reporting. In this regard, the Bank has actively participated in different initiatives led by national authorities within the scope of EFAP, with special emphasis on the Ministry of Finance, Ministry of Economy, Ministry of Justice and ESAME (unit responsible for monitoring Portuguese State commitments arising from the Memorandum of Understanding). Banco de Portugal has also been involved in the preparation of legislative initiatives related to the regulatory framework governing the prevention and management of arrears on credit agreements with private bank customers. In the statistical field, it is worth noting a wide range of relevant indicators for both assessing compliance with quantitative targets and monitoring the analysis of economic and financial developments. The Bank also bears responsibility in terms of processing repayments and interest payments, as an intermediary between financing entities and the Portuguese Treasury and Government Debt Agency (*Instituto de Gestão da Tesouraria e do Crédito Público* – IGCP).

<sup>4</sup> The purpose of this Committee is to monitor the implementation of measures and compliance with the objectives defined under the EFAP.

Table 1

| EFAP'S STRUCTURAL CONDITIONALITY FOR FINANCIAL STABILITY |   |   |
|--|---|---|
| Date   | Structural benchmarks   | Measures adopted  |
| 2011   |   |   |
| June   | Design a programme of special on-site inspections to validate the data on assets that banks provide as inputs to the solvency assessment.   | Special Inspection Programme (SIP) addressed at the eight largest Portuguese banking groups, consisting in the assessment of credit portfolios, the cross-sectional review of credit risk capital requirement calculations and the validation of the methodologies and parameters used in stress-testing exercises.<br><br><i>[see Banco de Portugal's press releases on Special Inspection Programme results of 16 December 2011 and 1 March 2012]</i>   |
| September  | Seek evaluation of the enhanced solvency and deleveraging assessment framework by a joint team of experts from the EC, the ECB and the IMF.   | The expert mission from the EC/ECB/IMF concluded in late June 2011 that Banco de Portugal's evaluation framework regarding bank solvency and deleveraging is broadly appropriate; recommendations were also made to improve some specific components.<br><br><i>[see reports by the EC and the IMF relating to the first quarterly review of compliance with the EFAP]</i>  |
| September  | Improve disclosure on non-performing loans by adding a new ratio aligned with international practices to the current ratio that covers only overdue loan payments.  | Start of publication of the non-performing loans ratio.<br><br>Instructions No 22/2011 and 23/2011 of Banco de Portugal establish the regulations to calculate the risk credit ratio  |
| December   | Amend relevant legislation in consultation with the EC, the ECB and the IMF to strengthen the early intervention framework, introduce a regime for restructuring of banks as a going concern under official control and strengthen deposit insurance framework. | <ul style="list-style-type: none"> <li>- Decree-Law No 31-A/2012 of 10 February amends the Legal Framework of Credit Institutions and Financial Companies;</li> <li>- Executive Order No 420/2012 of 21 December approves the Regulations governing the Resolution Fund;</li> <li>- Decree-Law No 31-A/2012 of 10 February enhances the framework applicable to the Deposit Guarantee Fund, and revises the settlement system of institutions subject to the supervision of Banco de Portugal.</li> </ul> |
| December   | Amend the Insolvency and Corporate Recovery Code to better facilitate effective rescue of viable firms and support rehabilitation of financially responsible individuals.   | Law No 16/2012 of 20 April amends the Insolvency and Corporate Recovery Code (Decree-Law No 53/2004 of 18 March), simplifying formalities and procedures and introducing a special revitalisation process.  |
| 2012   |   |   |
| January  | Amend the framework for bank access to public capital.  | Law No 4/2012 of 11 January lays down that banks' capital increases through public capital shall be considered as a supplement and last resort solution.  |
| June   | Make effective the amendments to the insolvency legal framework to better support rescue of viable firms (after completing all necessary legislative and publication requirements).   | Decree-Law No 178/2012 of 3 August establishes SIREVE (out-of-court company recovery system).   |
| July   | Prepare a proposal for encouraging the diversification of financing alternatives to the corporate sector.   | A joint team of the Ministry of Finance/Banco de Portugal/CMVM (Portuguese Securities Market Commission) proposed other financing sources for corporations, as an alternative to bank credit.<br><br><i>[see reports by the EC and the IMF relating to the fifth quarterly review of EFAP].</i>   |



## 1. FINANCIAL STABILITY

Safeguarding the stability of the Portuguese financial system is part of Banco de Portugal's mandate. In order to fulfil its mission, Banco de Portugal is entrusted with various tasks and competences, such as: last resort refinancing within the scope of the European System of Central Banks (ESCB), regulation and supervision, payment systems oversight and implementation of deterrent measures and sanctions.

Banco de Portugal has defined a wide-ranging strategy to ensure the strength of the institutions, to preserve the financial system's integrity and to safeguard confidence in the banking system. This strategy is based on four major objectives: to reinforce bank solvency; to protect banking system liquidity; to enhance the effectiveness of the supervision of the financial system and, in particular, the banking sector; and to improve the regulatory framework.

This chapter describes activities undertaken by Banco de Portugal in 2012, aiming at safeguarding financial stability.

### 1.1. MACRO-SUPERVISION OF THE FINANCIAL SYSTEM

Banco de Portugal monitors the financial sector's cyclical developments and structural trends, with a view to identifying and evaluating vulnerabilities and sources of systemic risk that may jeopardise financial stability.

The global financial crisis has stressed the need to carry out regular appraisals and improve macro-prudential methodologies and instruments. Changes in the financial architecture and governance of the European Union (EU) have contributed to strengthening the role played by the Bank in this field. This trend will continue under Banking Union and the new institutional framework of the macro-prudential authority in Portugal.

In 2012 Banco de Portugal's macro-prudential activity included the monitoring of the banking system, the development of macro-prudential and systemic risk instruments, and the dissemination of regular reviews on financial stability.

Banco de Portugal has closely monitored the national banking system, in particular through a quarterly review of the capital and funding plans of the eight main banking groups. These plans are an important instrument for evaluating the adjustment of the banking sector and the general economy, as they contain detailed information on the medium and long-term projections for the banking groups' balance sheets and profit and loss accounts. Under the Economic and Financial Assistance Programme (EFAP), the consistency between the aggregation of individual plans and the macroeconomic scenario was assessed, especially as regards the financing of the economy. The Bank has also conducted quarterly stress tests on the biggest banking institutions, based on a common macroeconomic scenario. The tests confirmed the institutions' resilience even against particularly adverse macroeconomic scenarios.

In parallel, Banco de Portugal continued to develop macro-prudential and systemic-risk evaluation instruments. Work focused on: (i) indicators of contagion risk among sectors and institutions; (ii) the characteristics and optimality of the different macro-prudential instruments; (iii) stress test methodologies; (iv) the interaction between the modelling of the financial sector and the real economy; and (v) households' and corporations' financial situation (making use of the available microeconomic databases). The combination of micro and macroeconomic information is crucial for reviewing macro-prudential policy, since the materialisation of risks has differing impacts on the various economic agents. It is important to mention that work has been developed within the scope of the Bank's participation in international bodies, such as the Macro-prudential research network (MaRs) (see Chapter 2, Section 2.7).

The release of regular analyses on financial stability gains relevance in view of the ongoing economic adjustment. In 2012 Banco de Portugal published two issues of the Financial Stability Report (in March and November) as well as studies on financial stability, some of which were published in leading international journals. The Financial Stability Reports contained articles authored by the Bank's economists on: indebtedness and households' default probability; access to credit by non-financial firms; systemic risk models; systemic liquidity risk models; and a scoring model for Portuguese non-financial corporations.

## 1.2. PRUDENTIAL SUPERVISION

In its capacity as prudential supervisor of financial institutions, the main purpose of Banco de Portugal is to contribute to the stability, efficiency and soundness of the financial system and to ensure the safety of deposits and the confidence of depositors.<sup>3</sup> To this end, the Bank participates in the refinement of the legal and regulatory framework applicable to the financial sector, develops intense activity in terms of inspections and evaluates conditions of access to banking activity.

In 2012 the legal and regulatory framework of prudential supervision continued to be significantly strengthened, chiefly in the EFAP context. Banco de Portugal participated actively in the preparation of relevant legislation and produced a range of associated regulatory standards (see Annex A.1 Major legal and regulatory measures). In particular, changes were introduced in the framework for bank access to capitalisation operations through public funds, and a new framework was established for preventive, early intervention and resolution mechanisms. The deposit guarantee scheme was also amended.

The capitalisation framework sets out that the recapitalisation of banks through public funds may take place as a supplementary measure and a solution of last resort, when market conditions do not allow raising of private capital in good time to fulfil solvency ratios. The main concerns of the new framework are to maintain the management of the recipient institution in the private sphere, albeit subject to compliance with an agreed business plan; to protect the financial interests of the State; and to ensure a level playing-field. Under this framework, Banco de Portugal shall be responsible for analysing the recapitalisation plans, submitting the draft decision to the member of Government responsible for finance, and monitoring and overseeing compliance with the obligations of the recipient credit institutions.

The framework for preventive, early intervention and resolution mechanisms gives Banco de Portugal powers to intervene in distressed institutions subject to its supervision. It sets out three distinct intervention phases – early intervention, interim management and resolution – and creates the Resolution Fund (mainly financed by the supervised institutions) and a pre-judicial winding-up phase. Banco de Portugal has published regulations on the recovery and resolution plans that credit institutions authorised to take deposits shall submit on an annual basis, and regulations on the creation and operation of bridge banks to be set up within the scope of the application of resolution measures.

Finally, as regards the deposit guarantee scheme, the purpose of the Deposit Guarantee Fund has been clarified, its financing has been strengthened for situations where the Fund's resources prove to be insufficient, and preferential rights have been applied to deposits covered by the guarantee and to credits owned by the fund itself.

Banco de Portugal has strengthened inspection teams operating in the main banking groups. This approach makes it possible to better understand how these institutions, their internal systems and their strategic guidance operate, and gain swifter access to information, allowing the early detection of potential problems.

Following the Special Inspections Programme (SIP), implemented from June 2011 to February 2012, Banco de Portugal has decided to include in its banking system supervisory framework regular inspections covering either the overall credit portfolio or asset classes most exposed to macroeconomic, market or other developments worthy of special attention.

---

<sup>3</sup> For further details, see: *A supervisão enquanto mecanismo de promoção e salvaguarda da estabilidade financeira* (in Portuguese only), note distributed by the Governor of Banco de Portugal on 1 February 2013, on the occasion of the hearing regarding the bank capitalisation process at the Committee on Budget, Finance and Public Administration of the Portuguese Parliament. See Banco de Portugal's website (Bank and the Eurosystem / Public speeches).

Against this background, in the second half of 2012, an assessment was made of the exposure of the eight main banking groups to the construction and real estate sectors (On-site Inspections Programme – OIP). The respective results were published in December 2012.<sup>4</sup>

In addition, four specific inspections were performed on banks and four on start-ups.

As a result of all the inspections undertaken, Banco de Portugal has issued specific recommendations for each institution covered and defined implementation plans for the necessary corrective measures, and has regularly monitored their implementation.

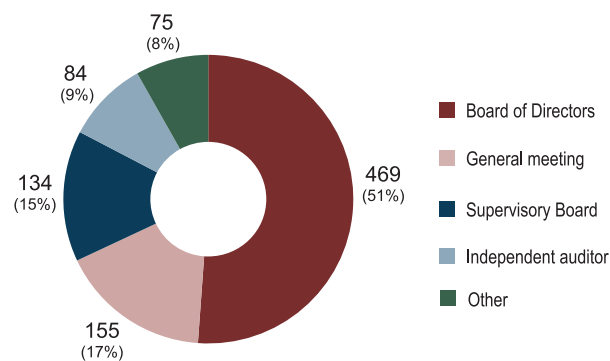
In parallel, Banco de Portugal has widened the scope for the traditional analysis of supervision, extending the review of the business model and financing and capital plans to a two/three-year horizon. This is an indispensable complement to the usual static analysis of the capital and liquidity situation.

Banco de Portugal began conducting regular stress tests with a view to evaluating the ability of the main banking groups to withstand adverse economic and financial scenarios<sup>5</sup> and assessing the strength of the methodologies and parameters used by banks in these tests.

In 2012 Banco de Portugal assessed 917 processes on access to activity (Chart 1.1). The number of credit institutions, financial companies and payment institutions increased from 393 on 31 December 2011 to 394 on 31 December 2012 (Table 1.1). The Bank evaluated the suitability and professional qualifications requirements of the members of the institutions' management and supervisory boards, as well as shareholders' suitability requirements, in order to guarantee the sound and prudent management of the institutions, thereby contributing to safeguarding depositors' and other stakeholders' confidence.

**Chart 1.1**

**PROCESSES RELATED TO ACCESS TO BANKING ACTIVITY IN 2012**



Source: Banco de Portugal.

<sup>4</sup> For further information, see 'On-site inspections programme on exposure to the construction and real estate sectors', Banco de Portugal's Press release of 3 December 2012 (available at Banco de Portugal's website, Bank and the Eurosystem / Press releases).

<sup>5</sup> The tests assess the prospective ability of the main banking groups to maintain Core Tier 1 capital ratios above 6 per cent, after having absorbed simulated shocks.

Table 1.1

| INSTITUTIONS REGISTERED IN PORTUGAL  |   |            |               |           |               |           |
|--|---|------------|---------------|-----------|---------------|-----------|
|  | Registered institutions<br>31 Dec. 2011 |            | Registrations |           | Cancellations |           |
|  | Number of institutions                  |            |               |           |               |           |
|  | 2012                                    | 2011       | 2012          | 2011      | 2012          | 2011      |
| <b>Credit institutions</b>   | 197                                     | 200        | 2             | 5         | 5             | 12        |
| Banks, including <sup>(a)</sup> <sup>(1)</sup>   | 59                                      | 59         | 1             | 4         | 2             | 9         |
| - Branches of banks in other EU Member States <sup>(a)</sup>   | 21                                      | 21         | 1             | 4         | 2             | 7         |
| - Branches of banks in non-EU Member States  | 2                                       | 2          |               |           |               |           |
| Savings Banks <sup>(2)</sup>   | 7                                       | 8          |               |           | 1             |           |
| Central and mutual agricultural credit banks   | 91                                      | 91         |               |           |               |           |
| Credit financial institutions  | 19                                      | 20         |               |           | 1             | 1         |
| Investment companies <sup>(3)</sup>  | 3                                       | 3          |               |           |               |           |
| Financial leasing companies  | 1                                       | 1          |               |           |               |           |
| Factoring companies  | 3                                       | 3          |               |           |               |           |
| Mutual guarantee companies   | 4                                       | 4          |               |           |               |           |
| Branches of other foreign credit institutions <sup>(a)</sup>   | 10                                      | 11         | 1             | 1         | 1             | 2         |
| <b>Financial companies</b>   | 104                                     | 105        | 1             | 1         | 2             | 8         |
| Dealers <sup>(4)</sup>   | 3                                       | 4          |               |           | 1             |           |
| Brokers <sup>(5)</sup>   | 7                                       | 7          |               |           |               | 1         |
| Foreign exchange or money market mediating companies <sup>(6)</sup>  | 1                                       | 1          |               |           |               |           |
| Investment fund management companies <sup>(7)</sup>  | 50                                      | 50         | 1             | 1         | 1             | 3         |
| Credit card issuing or management companies  |   |            |               |           | 1             | 3         |
| Wealth management companies <sup>(8)</sup>   | 14                                      | 14         |               |           |               |           |
| Group purchase management companies <sup>(9)</sup>   | 6                                       | 6          |               |           |               |           |
| Exchange offices <sup>(10)</sup>   | 17                                      | 17         |               |           |               | 3         |
| Credit securitisation fund management companies  | 4                                       | 4          |               |           |               |           |
| Other companies <sup>(11)</sup>  | 2                                       | 2          |               |           |               |           |
| <b>Payment institutions</b>  | 24                                      | 18         | 6             | 12        | 0             | 1         |
| Including other EU Member State institutions operating through branches  | 7                                       | 5          | 2             | 2         |               |           |
| operating through agents   | 8                                       | 5          | 3             | 3         |               | 1         |
| Representative offices of credit institutions and financial companies having their head office abroad                    | 23                                      | 23         | 1             |           | 1             | 5         |
| Holding companies  | 46                                      | 47         | 4             | 1         | 5             | 4         |
| <b>Total</b>   | <b>394</b>                              | <b>393</b> | <b>14</b>     | <b>19</b> | <b>13</b>     | <b>30</b> |
| Credit institutions having their head office in an EEA <sup>(*)</sup> country, providing cross-border services           | 487                                     | 468        | 24            | 21        | 5             | 6         |
| Payment institutions having their head office in an EEA <sup>(*)</sup> country, providing cross-border services          | 112                                     | 89         | 23            | 49        |               |           |
| Electronic money institutions having their head office in an EEA <sup>(*)</sup> country, providing cross-border services | 10                                      |            | 49            |           |               |           |

(a) Developments not justified by registrations and cancellations are due to a branch that started to take deposits. (1) Of which, on 31 December 2012, one was undergoing winding-up proceedings. (2) Of which, on 31 December 2012, two were undergoing winding-up proceedings. (3) Of which, on 31 December 2012, one was undergoing winding-up proceedings. (4) Of which, on 31 December 2012, one was undergoing winding-up proceedings. (5) Of which, on 31 December 2012, one was undergoing winding-up proceedings. (6) Which, on 31 December 2012, was undergoing winding-up proceedings. (7) Of which, on 31 December 2012, one was undergoing winding-up proceedings. (8) which, on 31 December 2012, one was undergoing winding-up proceedings. (9) Of which, on 31 December 2012, three were undergoing winding-up proceedings. (10) Of which, on 31 December 2012, two were undergoing winding-up proceedings. (11) Of which, on 31 December 2012, one was undergoing winding-up proceedings. (\*) European Economic Area.

Source: Banco de Portugal.

### 1.3. BANKING CONDUCT SUPERVISION <sup>6</sup>

Banco de Portugal is the entity responsible for retail banking conduct supervision. Banking conduct supervision covers the opening of accounts and bank deposits, housing loans, consumer and corporate credit and payment services. The Bank regulates the conduct of credit institutions, their compliance with information requirements and their market practices when disclosing and selling retail banking products and services. In parallel, the Bank oversees compliance by credit institutions with the legal framework in force, through inspections and complaint analysis. If detecting irregularities or non-compliance situations, the Bank issues recommendations and specific orders and may start administrative proceedings. Financial information and literacy are also essential aspects of the Bank's action, since they are key for responsible financial decision-making.

In 2012 Banco de Portugal contributed to improving the regulatory framework of retail banking markets, especially as regards the prevention and management of non-compliance situations, access to minimum banking services, mortgage credit and payment services. Some of the Bank's regulatory initiatives complement legislation produced in these fields (see Annex A.1 Major legal and regulatory measures).

Non-compliance prevention and management systems in credit agreements signed with household customers have complemented a range of incentives for responsible action at all credit stages. Credit institutions now must implement procedures to regularly monitor contracts, preventing non-compliance by their customers. In addition, bank customers who have breached their repayment obligations under the credit agreements shall have the right to be integrated in the Out-of-Court Arrears Settlement Procedure. This establishes a negotiation mechanism with a view to obtaining agreement between bank customers and credit institutions for the out-of-court settlement of arrears.

Access to minimum banking services has been extended to household customers who are holders of only one deposit account. Household customers have the right to a range of bank services deemed essential at relatively low prices, such as the opening of deposit accounts and the use of the respective debit card.

As regards payment services, Banco de Portugal has published the new classification of payment cards issued by the institutions. The Bank has reiterated that deferred debit cards must have a credit ceiling, whose interest-free utilisation shall mandatorily be repaid in full at a date defined by the parties, and that the use of the card in POS terminals up to the amount of that ceiling cannot affect the balance available before that date. In addition to the classification of payment cards, Banco de Portugal has defined best practices for commissions charged to retailers for accepting payment cards in POS terminals.

In 2012 Banco de Portugal carried out on-site inspections on branches of credit institutions, e.g. 'mystery customer' exercises and accredited inspections, and off-site inspections. As regards 'mystery customer' exercises, Banco de Portugal checked compliance with information requirements – including providing customers with information on price lists, standardised information sheets and contractual terms and conditions – and assessed whether the information provided at the counter was complete, accurate and transparent. As regards accredited inspections at the counters and central services of credit institutions, the Bank assessed internal procedures, evaluating compliance with the rules applicable to the agreements and traded products. Off-site inspections reviewed the institutions' websites, information reported to Banco de Portugal (price lists, standardised information sheets and agreements) and advertising campaigns on bank products and services.

In 2012 the Bank received 15,603 complaints from bank customers (6 per cent more than in 2011), 51 per cent of which were entered in the complaints books of the institutions and the remainder were sent directly to Banco de Portugal, chiefly through the Bank Customer Website. Most subject matters were related to deposit accounts (31 per cent), consumer credit (25 per cent) and mortgage credit (11 per cent).

---

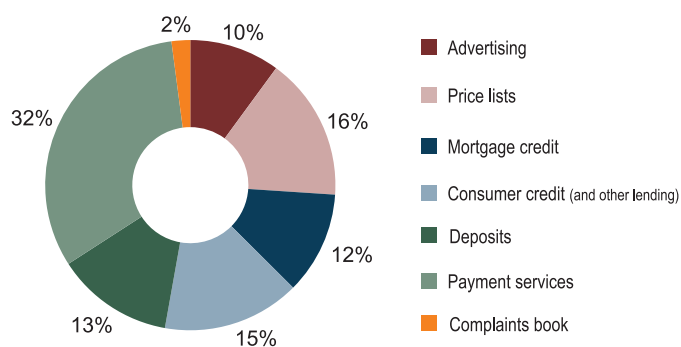
<sup>6</sup> For more detailed information on banking conduct supervision activities, please see the respective annual reports and semi-annual summaries published in Banco de Portugal's website (Bank Customer Website section).



In order to correct irregularities detected during its inspections, in 2012 Banco de Portugal issued 1,102 recommendations and specific orders, mostly covering compliance with regulatory rules and regulations within the scope of payment services, price list and consumer credit (Chart 1.2).

**Chart 1.2**

**RECOMMENDATIONS AND SPECIFIC ORDERS IN 2012**



Source: Banco de Portugal.

In 2012 Banco de Portugal continued to enrich the contents of the Bank Customer Website. This Website plays an important role in providing financial information to bank customers, and provides full and updated information on the characteristics of the banking products and the regulatory framework applicable to a range of services provided to the public (see Chapter 4, section 4.1).

Banco de Portugal has participated, in cooperation with the other regulators in the National Council of Financial Supervisors, in the initiatives of the National Plan for Financial Education, namely the approval of the Guiding Principles of financial literacy initiatives; the launch of the *Todos Contam* ('Everybody counts') website; the celebration of the financial literacy day; the organisation of the *Todos Contam* competition; and the preparation of the financial literacy benchmark. The two latter initiatives have been developed in cooperation with the Ministry of Education and Science.<sup>7</sup>

#### 1.4. LEGAL ENFORCEMENT

Banco de Portugal may take preventive, corrective and resolution measures with a view to preventing and reducing irregularities by the supervised financial entities and entities carrying out financial activities but that are not licensed or authorised. For this purpose, the Bank is responsible for defending the banking perimeter, revoking authorisations granted to credit institutions, re-evaluating the suitability of the members of financial institutions' boards and cancelling their registration, starting administrative proceedings and acting to prevent money laundering and terrorist financing.

Turning to the protection of the banking or regulatory perimeter, in 2012 the Bank carried out a number of on-site and off-site investigations, including 16 inspections, in order to check the possible exercise of financial activities by non-authorised persons or entities or other irregularities and adopt the appropriate sanctions. The Bank has also continued to cooperate with legal authorities and the police in investigations of potential crimes and administrative offences.

<sup>7</sup> For further details on financial literacy initiatives developed within this scope, see the report of the National Plan for Financial Education, which will be published as an annex to the report of the National Council of Financial Supervisors.

In 2012 the Bank initiated seven proceedings regarding the possible withdrawal of authorisation of credit institutions and financial companies and eight proceedings of re-evaluation (based on supervening facts) of the suitability of members of the management and auditing boards of institutions subject to the supervision of and registration with Banco de Portugal. The Bank has also monitored 14 liquidation proceedings under the responsibility of State commissioners, judicial liquidators or liquidation committees appointed for the purpose.

In 2012 Banco de Portugal shortened the average time for conclusion of administrative proceedings. Of the 167 proceedings conducted by Banco de Portugal (91 carried forward from previous years and 76 initiated in 2012), 82 were the object of a decision by the Bank in 2012, i.e. 46 more than in 2011. In 2012 17 decisions made by Banco de Portugal were refuted (Table 1.2).

**Table 1.2 | Administrative proceedings in 2012**

| OVERALL INDICATORS  |  |   |                |
|---|--|---|----------------|
|   | Proceedings carried forward in 2011  |   | 91             |
|   | Proceedings initiated in 2012  |   | 76             |
|   | Proceedings settled in 2012  |   | 82             |
|   | Proceedings pending at 31 Dec. 2012  |   | 85             |
| PROCEEDINGS INITIATED   76  |  |   |                |
| Enabling legal act  | Decree-Law No 454/91 of 28 December 1991   | Legal System Governing the Cheque   | 1 proceeding   |
|   | Decree-Law No 298/92 of 31 December 1992   | Legal Framework of Credit Institutions and Financial Companies                          | 32 proceedings |
|   | Law No 5/2002 of 11 January  | Legal framework establishing measures to combat organised, economic and financial crime | 2 proceedings  |
|   | Decree-Law No 156/2005 of 15 September   | Complaints Book   | 5 proceedings  |
|   | Decree-Law No 195/2007 of 15 May   | Legal framework regulating euro banknote recirculation activity                         | 1 proceeding   |
|   | Law No 25/2008 of 5 June   | Money laundering and terrorist financing  | 21 proceedings |
|   | Decree-Law No 317/2009 of 30 October   | Legal Framework of Payment Services and Electronic currency                             | 14 proceedings |
| Infractions   | Non-authorized financial activity  |   |                |
|   | False accounting   |   |                |
|   | Non-compliance with information requirements   |   |                |
|   | Non-compliance with reporting requirements   |   |                |
|   | Non-compliance with accounting rules and procedures  |   |                |
|   | Non-compliance with rules to prevent money laundering and terrorist financing  |   |                |
|   | Non-compliance with rules relating to the opening of deposits  |   |                |
|   | Non-compliance with rules relating to the recirculation of euro banknotes  |   |                |
|   | Non-compliance with rules relating to the use of cheques   |   |                |
|   | Non-compliance with registration rules   |   |                |
|   | Non-compliance with rules on conflicts of interest   |   |                |
|   | Non-compliance with mandatory provisions regulating the activity of credit institutions, including infringement of Article 28 of Decree-Law No 133/2009 on maximum rates |   |                |
|   | Non-compliance with rules of conduct   |   |                |
| Failure to provide / Non-existence / Non-advertisement of Complaints Book |  |   |                |
| Non-observance of prudential rules  |  |   |                |
| Supply of false information to Banco de Portugal                          |  |   |                |
| Non-authorized payment operations   |  |   |                |
| Defendants  | 26 credit institutions   |   |                |
|   | 6 payment institutions   |   |                |
|   | 8 financial companies  |   |                |
|   | 1 group purchase management company  |   |                |
|   | 2 holding companies  |   |                |
|   | 2 other entities   |   |                |
|   | Holders of positions and functions in institutions   |   |                |
| Other natural persons   |  |   |                |

PROCESSOS DE CONTRAORDENAÇÃO DECIDIDOS | 82

|                    |   |  |                |
|--------------------|---|--|----------------|
| Enabling legal act | Decree-Law No 454/91 of 28 December 1991  | Legal System Governing the Cheque  | 5 proceedings  |
|                    | Decree-Law No 298/92 of 31 December 1992  | Legal Framework of Credit Institutions and Financial Companies                                       | 62 proceedings |
|                    | Decree-Law No 156/2005 of 15 September  | Complaints Book  | 7 proceedings  |
|                    | Law No 25/2008 of 5 June  | Money laundering and terrorist financing   | 5 proceedings  |
|                    | Decree-Law No 317/2009 of 30 October  | Legal Framework of Payment Services and Electronic Currency  | 3 proceedings  |
| Infractions        | Non-authorized financial activity<br>False accounting<br>Non-compliance with information requirements<br>Non-compliance with reporting requirements<br>Non-compliance with accounting rules and procedures<br>Non-compliance with rules to prevent money laundering and terrorist financing<br>Non-compliance with rules relating to the opening of deposits<br>Non-compliance with rules relating to the recirculation of euro banknotes<br>Non-compliance with rules relating to the use of cheques<br>Non-compliance with registration rules<br>Non-compliance with rules on conflicts of interest<br>Non-compliance with mandatory provisions regulating the activity of credit institutions, including infringement of Article 28 of Decree-Law No 133/2009 on maximum rates<br>Non-compliance with rules of conduct<br>Failure to provide / Non-existence / Non-advertisement of Complaints Book<br>Non-observance of prudential rules<br>Supply of false information to Banco de Portugal<br>Non-authorized payment operations |  |                |
|                    | Defendants  | 32 credit institutions   |                |
|                    |   | 2 payment institutions   |                |
|                    |   | 8 financial corporations   |                |
|                    |   | 1 group purchase management company  |                |
|                    |   | 1 holding company  |                |
|                    |   | 3 other entities   |                |
|                    |   | Holders of positions and functions in institutions Other natural persons                             |                |
|                    | Appeals   | 17 sanctions decided by Banco de Portugal in breach of regulations proceedings in 2012 were appealed |                |

Source: Banco de Portugal.

Banco de Portugal evaluates the adequacy of the procedures and systems to prevent money laundering and terrorist financing adopted by the entities subject to its supervision or providing services under supervision. In 2012 the Bank carried out inspections on 16 entities subject to its supervision and three inspections on other entities, with a view to checking the conditions and requirements for the launch of activity. Regulations were drafted and information systems implemented as required for on-site and off-site supervision tasks and a draft notice was concluded on the prevention of money laundering and terrorist financing, to be submitted to public consultation in early 2013. In parallel, the Bank has disseminated through the financial system information on anti-money laundering and anti-terrorist financing and on the implementation of international financial sanctions.

## 1.5. DEPOSIT GUARANTEE AND RESOLUTION FUNDS

In 2012 the Bank continued to provide the technical and administrative services required for the smooth operation of the deposit guarantee funds, and also started to provide support to the operation of the Resolution Fund. The Bank supplies the human resources for the secretariat, accounting processing of the operations and preparation of the annual financial statements of each fund, as well as legal support, where required. Support to the Deposit Guarantee Fund also included financial resource management and participation in the collection of annual contributions.<sup>8</sup> The relevant parameters for the purpose of calculating the annual contributions of member institutions to the Deposit Guarantee Fund were set in Instructions of Banco de Portugal No 33/2012 and No 34/2012.

## 1.6. PAYMENT SYSTEMS OVERSIGHT

Banco de Portugal is responsible for the oversight of payment systems and financial market infrastructures, and ensures their operational safety and efficiency, simultaneously contributing to financial stability. The Bank's work in this field is in line with the principles established by the Eurosystem and covers, in addition to large-value payment systems, retail payment systems, securities clearing and settlement systems and payment instruments – especially electronic such as payment cards, credit transfers and direct debits.

In 2012 the Bank participated in a number of initiatives of the European System of Central Banks related to its task as overseer of payment systems, particularly:

- Revising the requirements to be applied to retail payment systems, in accordance with the new principles established by the BIS for financial market infrastructures (Principles for Financial Market Infrastructures);
- Publishing oversight expectations for links between retail payment systems;
- On the Eurosystem's survey on the correspondent banking;
- Implementing the database project for OSCAR payment cards (Oversight for Card Schemes Database), which started operation on 14 December 2012.

Within the scope of the securities clearing and settlement systems, Banco de Portugal has contributed to the establishment of the oversight framework of TARGET2-Securities and to the exercise of interdependencies mapping (institution-based and system-based interdependencies).

---

<sup>8</sup> Additional information on the activity of the Deposit Guarantee Fund during 2012 can be obtained from the respective annual report and financial statements, published at [www.fgd.pt](http://www.fgd.pt). The annual report and financial statements of the Resolution Fund can be found at [www.fundoseresolucao.pt](http://www.fundoseresolucao.pt).

## 2. FUNCTIONS AS MONETARY AUTHORITY

The activities of Banco de Portugal as monetary authority cover various shared Eurosystem/ESCB functions, notably in terms of economic research and advice, monetary policy implementation, management of official foreign reserves and gold, statistics, payment systems, currency issuance, and international relations and cooperation. The following sections present the main developments in each of these areas in 2012.

### 2.1. ECONOMIC RESEARCH AND ADVICE

The research and analyses carried out by Banco de Portugal are crucial to its active and influential work as monetary authority within the Eurosystem.

In this context, the following are particularly relevant: monetary policy advice to the Governor, participation in the various Eurosystem structures preparing the decisions of the Governing Council of the European Central Bank (ECB), production of macroeconomic projections for Portugal – which are part of the euro area projections – and analysis of monetary and financial conditions in the Portuguese economy, including the functioning of the monetary policy transmission mechanism.

Banco de Portugal continues to invest heavily in research into most features of the Portuguese economy that are relevant to its functions as economic adviser. In this respect, the Bank has paid particular attention to the functioning of product and labour markets, international trade, short/medium-term economic modelling tools and the macroeconomic impact of fiscal policy.

The Bank's research and analyses are a regular part of its publications (see Chapter 4). In 2012, in addition to texts on macroeconomic developments in Portugal, the Bank published articles on a variety of issues, such as fiscal devaluation, a comparison of the cyclical evolution in economies, public-private wage gaps, sectoral credit risk in the euro area, competition in the Portuguese economy, short-term economic modelling for Portugal, welfare costs of inflation, income inequality in the EU and in Portugal, labour market segmentation, heterogeneity in monetary policy transmission in the euro area and the importance of institutional cooperation and social capital in economic adjustment processes.

### 2.2. MONETARY POLICY IMPLEMENTATION

In 2012 the Eurosystem's monetary policy continued to be strongly affected by the sovereign debt crisis and financial market tensions in the euro area. Against this background, the Governing Council of the ECB decided to introduce a number of non-standard monetary policy measures, notably:

- to conduct two refinancing operations with a maturity of 36 months and the option of early repayment after one year;
- to reduce the reserve ratio from 2% to 1%;
- to increase the collateral available for Eurosystem credit operations by widening the eligibility criteria.<sup>9</sup>

In August 2012 the ECB announced a new outright purchase programme in the secondary market for sovereign debt in the euro area (OMTs – Outright Monetary Transactions), which focuses on shorter maturities (up to three years). No limits are set on the size and the liquidity injected into the system is fully sterilised.

---

<sup>9</sup> The Governing Council of the ECB reduced the rating threshold and amended the eligibility requirements for certain asset-backed securities (ABS), suspended the application of the minimum credit rating threshold in the case of marketable debt instruments issued or guaranteed by governments under an external aid programme and admitted marketable debt instruments if denominated in US dollars, pounds sterling, or yen provided that they are issued and held in the euro area and they fulfil all other eligibility criteria.

In addition to these measures, the ECB maintained the non-standard measures it had adopted previously, such as fixed-rate, full-allotment refinancing operations and swap facility agreements with other central banks, which enable the ECB to provide liquidity in different currencies.

Within the non-standard measures, two programmes were terminated: in September 2012 the Securities Markets Programme (SMP), enabling the purchase of public and private euro area debt in the secondary market (introduced on 10 May 2010); in October 2012 the second covered bond purchase programme (CBPP2) (launched in October 2011).

These decisions involved intense and complex preparatory work in which Banco de Portugal actively participated. They have considerably improved the liquidity situation of the domestic banking system, in particular by increasing the average maturities for financing from the Eurosystem and by considerably widening the pool of assets available as collateral (the annual average value rose to €77,605 million, i.e. an increase of 27% from 2011). The increase in marketable assets (owing to increased use of credit institution bonds and debt securities issued by the State) and above all the acceptance of a wider range of credit claims to non-financial corporations and households, following the approval by the Governing Council of the ECB of a framework for additional credit claims for Portugal in February 2012 have contributed to these developments.<sup>10</sup>

The implementation of the Eurosystem monetary policy is decentralised. Banco de Portugal ensures the implementation of monetary policy operations with resident credit institutions, monitors compliance with the ECB's minimum reserve system and forecasts the resident banking system's liquidity (Table 2.1).

**Table 2.1**

| <b>MONETARY POLICY OPERATIONS – MAIN INDICATORS</b>                          |             |             |               |
|--|-------------|-------------|---------------|
|  | <b>2011</b> | <b>2012</b> | <b>Change</b> |
| Number of open market operations conducted by the Eurosystem                 | 198         | 194         | -2 %          |
| Number of open market operations in which resident institutions participated | 96          | 79          | -18 %         |
| Number of uses of standing facilities by resident institutions               | 855         | 1,424       | 67 %          |
| Average balance of monetary policy operations (EUR millions)                 | 44,730      | 53,771      | 20 %          |

Source: Banco de Portugal.

In order to foster the redistribution of liquidity among Portuguese banks, Banco de Portugal launched a platform to register and process unsecured interbank money market operations (MMI/SG) in September 2012, in which institutions may exchange funds through operations without collateral. The MMI/SG was launched with 17 participating entities. By the end of 2012, 274 transactions had been carried out and €14.4 billion had been traded (following an upward trend, with the average daily balance rising from €75 million in September to €467 million in December). The secured interbank money market (MMI/CG), which will enable participating institutions to exchange funds through collateral mobilisation, is scheduled to become available in 2013.

In November 2012 Banco de Portugal closed the Central Securities Depository in the Market Electronic Transfer System (SITEME). As from that date, the issuance, settlement and redemption of Portuguese Treasury Bills started taking place in the central securities depository system of Interbolsa – Sociedade Gestora de Liquidação de Sistemas Centralizados de Valores Mobiliários, SA (company responsible for the management of securities settlement systems and central securities depository systems).

<sup>10</sup> See Instruction of Banco de Portugal No 7/2012.

In view of the various amendments to the operational and legal framework on the implementation of the Eurosystem monetary policy and the measures to boost the domestic money market, Banco de Portugal amended the relevant legal framework and introduced changes into IT systems.<sup>11</sup>

## 2.3. ASSET MANAGEMENT

Banco de Portugal manages two types of asset portfolios: (i) the ECB's foreign reserve portfolio, corresponding to the initial transfer of foreign reserve assets from Banco de Portugal to the ECB, according to its capital key; and (ii) the Bank's own investment asset portfolio.

### 2.3.1. ECB's foreign reserve management

The management of the ECB's foreign reserve is decentralised, under an agency agreement signed with the national central banks (NCBs) of the Eurosystem in compliance with the rules, procedures and guidelines defined by the ECB.

Some NCBs exchanged portfolios at the start of 2012. Banco de Portugal opted for managing a portfolio denominated in US dollars (USD). At the end of the year, according to the rules for the allocation of shares in foreign reserves and to market valuation, this portfolio was equivalent to €1,115 million.

### 2.3.2. Management of the Bank's own investment assets

The management of the Bank's own investment assets is subject to risk and liquidity constraints, with the Bank paying particular attention to credit risk.

The Bank's own investment asset portfolio is composed of assets denominated in euro, foreign currency and gold.

The assets denominated in foreign currency and a large share of the assets denominated in euro are actively managed and valued at market prices (trading portfolio). A share of the assets in euro is held to maturity (medium-term investment portfolio). Although valued at market prices, assets in gold are passively managed.

At the end of 2012, the Bank's own investment asset portfolio was valued at €30,727 million, a drop of 1.4% from the end of 2011 (Table 2.2).

**Table 2.2**

EUR millions

| OWN INVESTMENT ASSET PORTFOLIO   |               |               |             |
|----------------------------------|---------------|---------------|-------------|
|                                  | 2011          | 2012          | Change      |
| Trading portfolio                | 10,024        | 9,364         | -660        |
| Medium-term investment portfolio | 6,185         | 5,854         | -331        |
| Gold portfolio                   | 14,964        | 15,509        | 545         |
| <b>Total</b>                     | <b>31,173</b> | <b>30,727</b> | <b>-446</b> |

Source: Banco de Portugal.

At the end of 2012, the trading portfolio at market prices and year-end exchange rates was valued at €9,364 million (-6.6% compared with the end of 2011), of which 91.5% related to securities denominated in euro and the remaining 8.5% to securities denominated in foreign currencies.

<sup>11</sup> Banco de Portugal amended the instructions regulating the operation of the Intervention Operations Market (Instruction of Banco de Portugal No 1/99) and SITEME (Instruction of Banco de Portugal No 47/98). The Bank also issued instructions on the acceptance and use of additional credit claims as collateral for Eurosystem credit operations (Instruction of Banco de Portugal No 7/2012) and rules governing the functioning of MMI/SG (Instruction of Banco de Portugal No 25/2012).

At the end of 2012, the medium-term investment portfolio reached €5,854 million, below the value seen at the end of 2011, as the funds from assets maturing in 2012 were transferred to the trading portfolio.

The gold portfolio was valued at €15,509 million at the end of 2012, growing by 3.6% in value from the end of 2011. This change is the result of a rise in the price of gold in US dollars in international markets, which more than offset the effect of the depreciation of the US dollar against the euro. The quantity of gold held by the Bank remained unchanged at 382.5 tonnes.

## 2.4. STATISTICS

Banco de Portugal compiles and produces monetary, financial, foreign exchange and balance of payment statistics, collaborating with the ECB in gathering statistical information needed to perform the ESCB tasks. The statistics compiled or produced by the Bank are particularly important for the preparation of research and forecasts on the Portuguese economy.

The quality and timely release of statistical information compiled and produced by the Bank are crucial for strengthening the users' confidence and for consolidating its reputation as a national statistical authority.

Banco de Portugal has reached the objectives established in the Statistical Activity Plan for 2012 as regards quality and strict compliance with the deadlines to compile and release the statistics it produces. In this context, the regular compilation and release of statistics are particularly relevant in the following fields: balance sheet and interest rates of monetary financial institutions; profit and loss account of other monetary financial institutions; non-monetary financial institutions; Central Credit Register; securities markets; balance of payments; international investment position; national financial accounts; non-financial sector indebtedness; public finances; Central Balance-Sheet Database; foreign exchange statistics; payment systems; and currency issuance.

In order to ensure the quality of compiled statistics, Banco de Portugal has continued to exploit in an integrated manner and to analyse the consistency of information in microdata databases, namely the Central Balance-Sheet Database, the Central Credit Register, the Securities Statistics Integrated System and the balance of payments. Regulations were amended in order to meet information needs as regards balance sheet and interest rate statistics of monetary financial institutions, specifically the collection of individual information on interest rates applied to lending operations with non-financial corporations.<sup>12</sup> The Bank also published an Instruction regarding statistics on external transactions and positions to support the new system for compiling balance of payment statistics, which is scheduled to come into effect in 2013.<sup>13</sup>

## 2.5. PAYMENT SYSTEMS<sup>14</sup>

Banco de Portugal regulates, monitors and promotes the smooth operation of payment systems. In 2012 the activities of Banco de Portugal in this field mainly focused on the following objectives:

- to ensure the smooth operation of TARGET2-PT and implement the TARGET2-Securities system;
- to ensure the management and regulation of retail payment systems within the Interbank Clearing System (SICOL) and promote the implementation of the Single Euro Payments Area (SEPA) in Portugal;
- to ensure the smooth operation and management of the use of cheques.

<sup>12</sup> Instruction of Banco de Portugal No 20/2012 of 15 June amended Instruction of Banco de Portugal No 12/2010 of 17 May.

<sup>13</sup> Instruction of Banco de Portugal No 27/2012 of 17 September amended by Instruction of Banco de Portugal No 56/2012 of 28 December.

<sup>14</sup> For detailed information on the most relevant developments and statistical data regarding payment systems, see the Report on Payment Systems published on an annual basis by Banco de Portugal and available at <http://www.bportugal.pt/pt-PT/SistemasdePagamento/Publicacoes1/Paginas/Publicacoes.aspx>



### 2.5.1. TARGET2-PT and TARGET2-Securities

TARGET2 is the Eurosystem's real-time gross settlement system. This is a Single Shared Platform (SSP) offering a real-time payment and settlement service in central bank money.

In 2012 the volume of transactions processed in TARGET2-PT continued to increase (growing by 1% compared with 2011), but settled amounts decreased by 34.9%. At national level, this decrease is justified, to a great extent, by a reduction in the amounts settled in open market operations, specifically as a result of longer-term refinancing operations. At cross-border level, this reduction is mainly the result of a decrease in interbank transactions (Table 2.3).

In 2012 the operation of TARGET2-PT was stable and efficient. The usual exercises to ensure the contingency measures envisaged to address system malfunctions are fully operational were conducted on the initiative of Banco de Portugal or within the Eurosystem.

**Table 2.3**

Volume in thousands; value in EUR billions

| OVERALL TRANSACTIONS SETTLED THROUGH THE GROSS SETTLEMENT SYSTEM IN PORTUGAL |              |              |              |              |             |              |
|--|--------------|--------------|--------------|--------------|-------------|--------------|
|  | 2011         |              | 2012         |              | Change (%)  |              |
|  | Volume       | Value        | Volume       | Value        | Volume      | Value        |
| <b>Total transactions settled</b>  | <b>1,591</b> | <b>7,052</b> | <b>1,608</b> | <b>4,590</b> | <b>1,0</b>  | <b>-34,9</b> |
| <b>Domestic transactions</b>   | <b>683</b>   | <b>4274</b>  | <b>661</b>   | <b>2,828</b> | <b>-3,1</b> | <b>-33,8</b> |
| Inter-institutional operations   | 372          | 3873         | 372          | 2,377        | 0,0         | -38,6        |
| Securities Settlement Systems <sup>(1)</sup>                                 | 96           | 184          | 89           | 189          | -7,2        | 2,6          |
| of which: Interbolsa   | 95           | 123          | 88           | 151          | -7,3        | 23,1         |
| Other settlement systems <sup>(2)</sup>                                      | 215          | 217          | 200          | 263          | -6,7        | 21,0         |
| of which: SICOI  | 215          | 217          | 199          | 211          | -7,2        | -2,9         |
| <b>Cross-border transactions</b>   | <b>909</b>   | <b>2,778</b> | <b>947</b>   | <b>1,762</b> | <b>4,1</b>  | <b>-36,6</b> |
| Inter-institutional operations   | 639          | 2,636        | 706          | 1,622        | 10,4        | -38,5        |
| Securities Settlement Systems <sup>(3)</sup>                                 | 236          | 47           | 206          | 53           | -12,8       | 12,4         |
| of which: Interbolsa   | 233          | 44           | 203          | 48           | -13,0       | 9,6          |
| Other settlement systems <sup>(4)</sup>                                      | 33           | 95           | 34           | 87           | 4,5         | -8,5         |
| of which: SICOI  | 28           | 14           | 25           | 13           | -9,9        | -6,0         |

Source: Banco de Portugal.

(1) Including the following systems: Interbolsa, OMIClear and SITEME – Securities Settlement.

(2) Including the following systems: Interbank Money Market (IMM) and Interbank Clearing System (SICOI).

(3) Including the following systems: Bank of Greece Settlement System (BOGS), Clearstream Banking Frankfurt AG, Eurex Clearing AG, Euronext Paris S. A., European Commodity Clearing AG, Hellenic Exchanges S. A., Interbolsa, LCH Clearnet, S.A., OMIClear and SITEME – Securities Settlement.

(4) Including the following systems: Athens Clearing Office, DIAS, EURO1, Interbank Clearing System (SICOI) and STEP2.

As regards developments in the system:

- Two consultations with participating institutions were held regarding the connection of TARGET2 to TARGET2-Securities and the revision of the strategy to migrate TARGET2 to the ISO 20022 standard;
- The TARGET2 pricing was amended (and entered into force in January 2013);
- Banco de Portugal migrated to the SSP's standing facilities module in April 2012;
- The Interbank Money Market went live in September as an ancillary system of TARGET2-PT;

- The regulation on TARGET2-PT was amended at the end of 2012 in order to comply with requirements to access intraday credit.<sup>15</sup>

TARGET2-Securities (T2S) is the future Eurosystem platform for securities settlement in central bank money. This platform will enable the use of available liquidity in TARGET2 to be optimised and rationalised, promote the integration of European financial markets and the links between central securities depositories (CSDs), and will synchronise the physical and financial settlement of securities transactions.

Three key project milestones were reached in 2012:

- The signing of the T2S Framework Agreement<sup>16</sup> between the major European CSDs (accounting for 99% of the euro area securities market) and the NCBs (Banco de Portugal and Interbolsa signed the T2S Framework Agreement on 26 June 2012);
- The completion of feasibility assessments by NCBs and CSDs in June identifying the impact to their internal systems of connecting to T2S and potential changes in services offered;
- The approval of schedules to launch the connection of CSDs and NCBs to T2S in November. Banco de Portugal is scheduled to migrate in the first migration wave on 22 June 2015.

### 2.5.2. Retail payment systems

Banco de Portugal regulates and manages the retail payment system SICOI, which processes payment transactions up to €100,000 through cheques, bills of exchange, direct debits, credit transfers and payment cards.

In 2012 SICOI processed 1,984 million payments (a total of €324 billion), accounting for a decrease of almost 6% in terms of value from the previous year (Table 2.4.). These developments reflect a contraction in domestic demand, specifically a drop in the consumption of goods and services. In 2012 only direct debits and credit transfers recorded an increase. The volume and value of payment card transactions processed through the Multibanco subsystem recorded an annual decrease for the first time. Similarly to previous years, the cheque subsystem continued to decrease in importance in total SICOI transactions.

In 2012 Banco de Portugal introduced changes to SICOI in order to promote a smooth and transparent operation of this payment system. New clearing cycles were added for credit transfers and direct debits and some of the reasons for cheque return were redefined.

---

<sup>15</sup> The new regulation is set out in Instruction of Banco de Portugal No 54/2012 of 15 January 2013.

<sup>16</sup> The T2S Framework Agreement is an agreement between the Eurosystem, represented by an NCB or the ECB, and a participating CSD. It contains the rights and obligations of the parties regarding T2S governance, project schedule, and technical and procedural requirements, among other relevant issues.

Table 2.4

Volume in millions and value in EUR billions

| TOTAL TRANSACTIONS IN SICOI      |         |       |         |       |            |        |
|----------------------------------|---------|-------|---------|-------|------------|--------|
|                                  | 2011    |       | 2012    |       | Change (%) |        |
|                                  | Volume  | Value | Volume  | Value | Volume     | Value  |
| Total                            | 2,005.8 | 343.8 | 1,983.9 | 323.7 | -1.1%      | -5.8%  |
| Cheques                          | 79.7    | 106.6 | 65.9    | 85.4  | -17.4%     | -19.9% |
| Bills of exchange <sup>(1)</sup> | 0.19    | 1.4   | 0.15    | 1.1   | -19.1%     | -20.4% |
| Credit transfers                 | 102.5   | 130.3 | 108.0   | 131.9 | 5.3%       | 1.2%   |
| Legacy scheme                    | 101.3   | 126.2 | 83.7    | 110.6 | -17.4%     | -12.4% |
| SEPA scheme <sup>(1)</sup>       | 1.2     | 4.1   | 24.3    | 21.3  | 1,937.5%   | 416.1% |
| Direct debits <sup>(2)</sup>     | 127.7   | 16.9  | 133.1   | 18.1  | 4.2%       | 6.8%   |
| Multibanco <sup>(3)</sup>        | 1,695.6 | 88.5  | 1,676.8 | 87.2  | -1.1%      | -1.5%  |

Source: Banco de Portugal.

<sup>(1)</sup> Including transactions to a value equal to or above €100,000.<sup>(2)</sup> Direct debit instructions (DDIs) submitted and not cancelled. Also including DDIs with a value equal to or above €100,000.<sup>(3)</sup> ATM/POS network.

### Single Euro Payments Area – SEPA

With the Single Euro Payments Area (SEPA), Europe will have a fully integrated retail payments market. This will enable individuals, businesses and public administrations to make cashless payments throughout the euro area, from a single bank account, using a single set of payment instruments as easily, efficiently and safely as they can make them in their country of origin.

SEPA credit transfers and SEPA direct debits can be used in Portugal since 28 January 2008 and 1 November 2010 respectively. In December 2012 34.6% of transfers originating in Portugal and 0.15% of direct debits were in SEPA format, compared with European averages of 30.6% and 2.07% respectively.

In 2012 Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 established 1 February 2014 as the end-date for migration to the new SEPA formats. From 1 February 2014, all retail payments in euro through credit transfers and direct debits must comply with SEPA technical requirements established in the Regulation.

Banco de Portugal published the National SEPA Migration Plan<sup>17</sup> in order to ensure a timely, gradual and efficient migration to SEPA credit transfers and direct debits in Portugal. This Plan establishes a series of activities, timelines and objectives to be complied with by all stakeholders (Banco de Portugal, payment service providers, businesses and public administrations). In parallel, the Specialised Section dedicated to SEPA of the Fórum para os Sistemas de Pagamentos (Payment Systems Forum) fostered a dialogue with the main market stakeholders.

In 2012 the Comissão Interbancária para os Sistemas de Pagamentos (CISP – Portuguese Payment Systems Interbank Commission)<sup>18</sup> paid particular attention to: migration of national payment schemes to SEPA; development of best interbank practices; issuing of security recommendations for card payments via the internet; redesign of payment statistics; and analysis of solutions to implement e-payments and m-payments in Portugal.

<sup>17</sup> The National SEPA Migration Plan was published on 11 December 2012 and is available at <http://www.bportugal.pt/SiteCollectionDocuments/DPG-SP-SEPA-PNMigração.pdf>.

<sup>18</sup> CISP is an advisory body of Banco de Portugal created in 1997 and composed of representatives from the main national payment system institutions.

### 2.5.3. Management of the use of cheques

Banco de Portugal manages the List of Cheque Defaulters.

In 2012 35,601 entities were added to the List of Cheque Defaulters and 38,709 entities were removed from the list upon expiry of the legal period or following a decision of Banco de Portugal. As at 31 December 2012, the list included 60,736 entities.

Under the legal framework governing unfunded cheques, Banco de Portugal analysed 9,549 requests submitted by private entities and credit institutions to have the names removed from the list or the inclusion on the list cancelled. The Bank's regional network analysed around 42% of requests.

## 2.6. CURRENCY ISSUANCE

Banco de Portugal promotes an efficient and secure use of euro banknotes and coins. Within the Eurosystem, the Bank is responsible for producing, sorting and recycling euro banknotes, monitoring withdrawals and deposits of banknotes and coins at the Bank, detecting counterfeit banknotes and coins and providing cash services.<sup>19</sup>

### 2.6.1. Production of euro banknotes

The ECB is entrusted with the task of establishing the total volume of euro banknotes to be produced annually, according to the shortages or surpluses indicated by the euro area NCBs. The ECB allocates to each NCB a share of the total annual production (a maximum of three denominations to achieve economies of scale). Decentralised banknote production requires the quality of banknotes to be uniform and high, subject to strict control.

In 2012 Banco de Portugal was responsible for printing 238.99 million €10 banknotes, 214.99 million of which to meet its own needs and the remainder (24 million) to distribute among other NCBs.

As in previous years, the production tender was awarded to Valora S. A., a printing works fully owned by Banco de Portugal. In compliance with the delivery schedule among NCBs for 2012, Banco de Portugal received 176.40 million banknotes of two denominations (€20 and €5) (the latter from the second series of euro banknotes) and sent 131.91 million banknotes of all denominations.

### 2.6.2. Banknote sorting

Banco de Portugal ensures the authenticity and quality of banknotes in circulation through the sorting of cash, which includes sorting (authenticity and fitness checking), deducting and destroying banknotes. Sorting and authenticity checking of legal currency are decentralised, carried out by the printing works and custody service in Carregado and the banknote sorting centres in Lisbon, the Oporto branch and the regional delegations.

In 2012 the Bank's sorting systems processed around 836 million banknotes (an increase of 16.2% compared with 2011 (Table 2.5).

---

<sup>19</sup> The State, through the Ministry of Finance, is the entity responsible for issuing coins in Portugal, while Banco de Portugal ensures they are put into circulation via withdrawals from credit institutions and exchange operations with the public.

**Table 2.5**10<sup>6</sup> banknotes

| <b>BANKNOTES PROCESSED IN THE SORTING SYSTEMS OF BANCO DE PORTUGAL   2011 – 2012</b> |             |             |                      |
|--|-------------|-------------|----------------------|
| <b>Denomination (€)</b>  | <b>2011</b> | <b>2012</b> | <b>Δ 2011 – 2012</b> |
| 500  | 1           | 1           | 8.4%                 |
| 200  | 1           | 1           | -11.2%               |
| 100  | 7           | 6           | -15.5%               |
| 50   | 63          | 67          | 6.1%                 |
| 20   | 310         | 350         | 13.0%                |
| 10   | 279         | 329         | 18.0%                |
| 5  | 60          | 83          | 38.4%                |
| <b>Total</b>   | <b>719</b>  | <b>836</b>  | <b>16.2%</b>         |

Source: Banco de Portugal.

Of processed banknotes, 590 million were classified as fit for recycling while the remaining banknotes were deducted and destroyed. The annual unfit rate of processed banknotes stood at 29.4%, similarly to the previous year (Table 2.6).

**Table 2.6**

Per cent

| <b>DEVELOPMENTS IN THE UNFIT RATE   2011 – 2012</b> |             |             |                      |
|---|-------------|-------------|----------------------|
| <b>Denomination (€)</b>                             | <b>2011</b> | <b>2012</b> | <b>Δ 2011 – 2012</b> |
| 500   | 35.1        | 11.8        | -23.3                |
| 200   | 35.7        | 10.6        | -25.1                |
| 100   | 50.4        | 13.8        | -36.6                |
| 50  | 30.8        | 31.9        | 1.0                  |
| 20  | 25.3        | 22.7        | -2.5                 |
| 10  | 25.1        | 27.4        | 2.3                  |
| 5   | 72.5        | 65.4        | -7.1                 |
| <b>Total</b>  | <b>29.9</b> | <b>29.4</b> | <b>-0.4</b>          |

Source: Banco de Portugal.

In 2012 Banco de Portugal implemented a quality management system for the activities in the Bank's central distribution and sorting unit (located in Carregado), which resulted in the Bank obtaining a quality certification in accordance with the ISO 9001:2008 standard in November. The quality management system enables the central distribution and sorting unit to function on the basis of a range of auditable procedures and in accordance with internationally recognised standards.

### 2.6.3. Detection of counterfeit banknotes and coins

In 2012, 11,440 counterfeit euro banknotes were withdrawn from circulation in Portugal, i.e. a decrease of 27.8% from 2011 (4,401 fewer banknotes). Counterfeit banknotes seized in Portugal accounted for 2.2% of total counterfeit banknotes detected in the euro area over the same period. The €50 banknote was seized the most in Portugal (5,855 counterfeit banknotes), followed by the €20 banknote (4,229 counterfeit banknotes). These denominations together accounted for 88% of counterfeits detected in Portugal. The €50 and €20 banknotes also accounted for the highest number of counterfeit banknotes seized in the euro area (Table 2.7).

Table 2.7

Volume of banknotes

| COUNTERFEIT BANKNOTES SEIZED IN   2011 – 2012 |               |               |                |
|---|---------------|---------------|----------------|
| Denominação (€)                               | 2011          | 2012          | Δ 2011 – 2012  |
| 500   | 21            | 38            | 81.0 %         |
| 200   | 82            | 98            | 19.5 %         |
| 100   | 805           | 534           | -33.7 %        |
| 50  | 8666          | 5855          | -32.4 %        |
| 20  | 5597          | 4229          | -24.4 %        |
| 10  | 540           | 571           | 5.7 %          |
| 5   | 130           | 115           | -11.5 %        |
| <b>Total</b>                                  | <b>15 841</b> | <b>11 440</b> | <b>-27.8 %</b> |

Source: CMS2 (Counterfeit Monitoring System) on 21 January 2013.

As regards coins, 3,178 counterfeit euro coins were withdrawn from circulation in Portugal (i.e. a decrease of 27% from 2011). Similarly to the other euro area countries, the €2 coin had the highest share of total seized counterfeits, followed by the €0.50 coin (Table 2.8).

Table 2.8

Volume of coins

| COUNTERFEIT COINS SEIZED IN PORTUGAL   2011 – 2012 |              |              |                |
|--|--------------|--------------|----------------|
| Denomination (€)                                   | 2011         | 2012         | Δ 2011 – 2012  |
| 2.00   | 2,334        | 2,390        | 2.4 %          |
| 1.00   | 325          | 283          | -12.9 %        |
| 0.50   | 1,692        | 505          | -70.2 %        |
| <b>Total</b>                                       | <b>4,351</b> | <b>3,178</b> | <b>-27.0 %</b> |

Source: CMS2 (Counterfeit Monitoring System) on 21 January 2013.

#### 2.6.4. Cash recycling<sup>20</sup>

Banco de Portugal continued carrying out on-site and off-site inspections of cash recycling at the levels seen in the previous year. In the fourth quarter, the Bank began carrying out on-site inspections to the recycling of euro coins by cash-in-transit companies.

The Bank has developed an IT application for entities subject to cash recycling legal frameworks to facilitate compliance with, inter alia, data reporting requirements both on the activity and retaining of suspect counterfeit banknotes and coins.

In 2012 the Bank also published several regulatory instruments on cash recycling (see Annex A.1 Major legal and regulatory measures).

Tables 2.9 and 2.10 show the Bank's cash recycling activities in 2012 compared with the previous fiscal year.

<sup>20</sup> Cash recycling is regulated by Decree-Law No 195/2007 of 15 May and Decree-Law No 184/2007 of 10 May as regards banknotes and coins respectively.

**Table 2.9**

| CASH RECYCLING   BANKNOTES                          |      |      |
|---|------|------|
| Indicator (number)                                  | 2011 | 2012 |
| Recycling contracts with professional cash handlers | 152  | 154  |
| Inspections of professional cash handlers           | 962  | 954  |
| Reports analysed <sup>(1)</sup>                     | 145  | 320  |
| Equipment testing at the manufacturers' premises    | 11   | 15   |

Source: Banco de Portugal.

(1) Data are not comparable due to changes in data reporting rules on cash recycling.

**Table 2.10**

| CASH RECYCLING   COINS                              |      |      |
|---|------|------|
| Indicator (number)                                  | 2011 | 2012 |
| Recycling contracts with professional cash handlers | 4    | 4    |
| Inspections of professional cash handlers           | 0    | 4    |
| Reports analysed                                    | 0    | 8    |

Source: Banco de Portugal.

### 2.6.5. Roadmap for greater convergence of NCB cash services

In February 2007 the Governing Council of the ECB adopted a roadmap consisting of six measures, to achieve, in the medium term, increased convergence of Eurosystem NCB cash services.<sup>21</sup> In 2012 the possibility of credit institutions allowing deposits and withdrawals of side and orientation-independent euro banknotes became generalised.<sup>22</sup>

### 2.6.6. Second series of euro banknotes

Banco de Portugal has participated in the development of the second series of euro banknotes. The launch of this series was announced in November 2012.

The Europa series maintains the theme of the current series, 'ages and styles of Europe', featuring a renewed design that is easily recognised by the public. The new banknotes include a portrait of Europa, a figure from Greek mythology and the origin of the name of our continent. In order to increase their resistance to counterfeiting, the banknotes incorporate new security features, benefiting from advances in banknote technology.

<sup>21</sup> These measures are carried out under the creation of the Single Euro Cash Area. Banco de Portugal implemented the following Eurosystem measures throughout 2007: free access for all credit institutions to the cash services of any NCB; the acceptance without restrictions of coin deposits at NCB counters; and the extension of NCB opening hours and/or the adoption of equivalent measures. In 2010 Banco de Portugal implemented a measure on the establishment of packaging standards at Eurosystem level for cash deposits and withdrawals. The IT application GOLD was also launched in 2010, allowing the installation of electronic interfaces between NCBs and credit institutions for the communication of deposit/withdrawal orders, although only for domestic transactions.

<sup>22</sup> Only one Roadmap measure has not yet been fully implemented: the installation of electronic interfaces between NCBs and the respective credit institutions for deposits and withdrawals at any NCB.

The Europa series has the same denominations as its predecessor, i.e. €5, €10, €20, €50, €100, €200 and €500. The new banknotes will be introduced gradually and in ascending order over several years. The €5 banknote will be the first to be introduced in May 2013. The first series will gradually be withdrawn and eventually cease to be legal tender. The date when this occurs will be announced well in advance. However, the banknotes of the first series will retain their value indefinitely and can be exchanged at the cash offices of Eurosystem NCBs at any time.

## 2.7. INTERNATIONAL REPRESENTATION AND INSTITUTIONAL COOPERATION

### 2.7.1. International relations

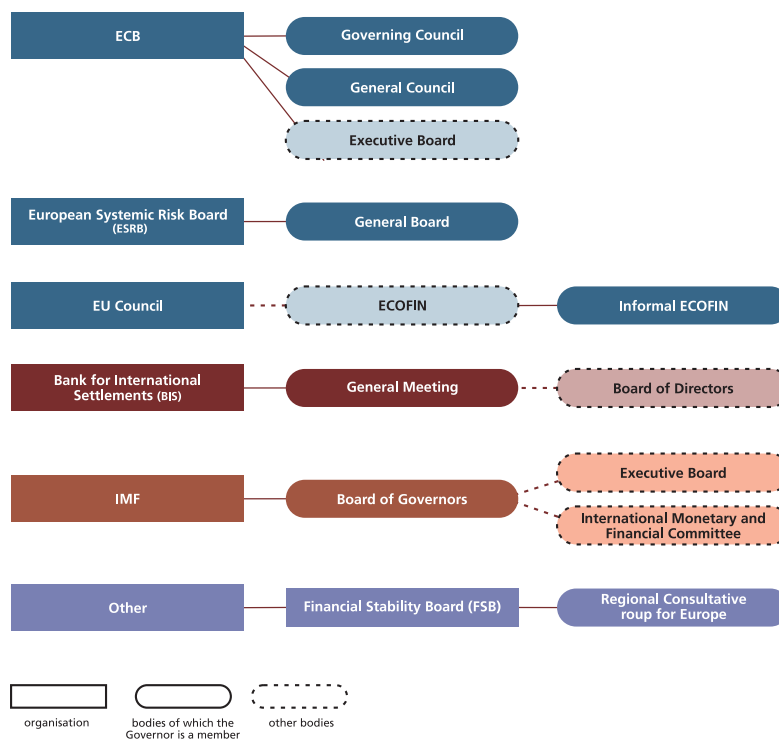
The tasks entrusted to Banco de Portugal involve an intense international activity, which, to a great extent, relates to the Bank's participation in the Eurosystem/ESCB and other EU institutions, but also the IMF. The Bank's activities related to the implementation of the Economic and Financial Assistance Programme (agreed with the EU, the IMF and the ECB) have taken on particular importance since mid-2011.

The Bank participates in other international organisations dealing with economic and financial issues, such as the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD) and carries out intense cooperation activities with other central banks, in particular from Portuguese-speaking countries.

The Governor of Banco de Portugal is a member of the ECB's decision-making bodies (the Governing Council and the General Council) and the General Board of the European Systemic Risk Board (ESRB), participates in the General Meeting of the BIS, the IMF Board of Governors, the Financial Stability Board's Regional Consultative Group for Europe and the Informal ECOFIN Councils (Chart 2.1).

Chart 2.1

#### INTERNATIONAL REPRESENTATION | MAIN BODIES





The Governor participates in the Governing Council of the ECB on a personal and independent basis. The preparation, technical monitoring and implementation of the Governing Council's decisions involve a number of regular structures, such as committees and working groups, and ad-hoc structures, where the Bank is represented. In 2012 the Governing Council held 23 meetings. In addition to monetary policy decisions and other issues under its mandate (payment systems, auditing, cash and day-to-day management of the ECB), the Governing Council actively participated in the debate on the new European institutional architecture, in particular the creation of the Banking Union and the Single Supervisory Mechanism.

Banco de Portugal participates in committees and working groups related to monetary policy, financial stability, economic analysis, statistics, risk management, payment systems, information systems, cash, communication and human resources (see Annex A.2 – Table 1). This representation in such diverse areas requires the involvement of all its departments, in some cases using a significant number of dedicated resources (Table 2.11).

**Table 2.11**

| INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012 |  |  |                 |
|---|--|--|-----------------|
|   | Number of structures and substructures | Number of meetings and teleconferences |                 |
|   |  | Face-to-face meetings                  | Teleconferences |
| ECB/Eurosystem  | 120                                    | 460                                    | 504             |
| European Union  | 63                                     | 331                                    | 67              |
| Of which:   |  |  |                 |
| European Commission and Eurostat  | 19                                     | 70                                     | -               |
| European Supervisory Authorities  | 32                                     | 175                                    | 47              |
| ESRB  | 7                                      | 22                                     | 8               |
| Portuguese-speaking countries   | -                                      | 17                                     | -               |
| IMF   | -                                      | 2                                      | -               |
| BIS   | -                                      | 6                                      | -               |
| OECD  | 3                                      | 14                                     | 1               |
| Other   | 8                                      | 39                                     | 4               |
| <b>TOTAL</b>  | <b>194</b>                             | <b>869</b>                             | <b>576</b>      |

Source: Banco de Portugal.

The European Systemic Risk Board (ESRB) is responsible for the macroprudential oversight of the EU's financial system. Banco de Portugal participates in the ESRB both as an NCB of the ESCB and a national banking supervisory authority. The Governor of Banco de Portugal is a member with voting rights of this board's decision-making body, the General Board, which meets on a quarterly basis. In 2012 the General Board prepared and released risk dashboards, research, commentaries and recommendations on financial stability in the EU. This work was the result of the activities of several substructures in which experts from Banco de Portugal participated, specifically the Advisory Technical Committee, a consultative body which assists the General Board.

In addition, Banco de Portugal participated in nine supervisory colleges (three of which promoted and organised by the Bank) in 2012. The Bank was also involved in the work of the European Banking Authority (EBA), which concluded, inter alia, the EU Capital Exercise and established Technical Standards in line with its mandate in 2012.

At the EU Council level, Banco de Portugal participated in the negotiations of a broad range of relevant legislative initiatives, such as the implementation of the Basel III Agreement in the European Union, the recovery and resolution of credit institutions and the creation of the Single Supervisory Mechanism. Banco de Portugal contributed to the discussion and analysis of initiatives to regulate banking conduct at the European level (specifically regarding the trading of mortgage credit agreements and indexed deposits) and in working groups to prevent money laundering and terrorist financing.

Banco de Portugal participated in the work of the EU Economic and Financial Committee and Economic Policy Committee, as well as some of their substructures, which play an important role in preparing the ECOFIN Council. The debate on issues related to financial stability and the creation of a banking union was particularly relevant in 2012. The Governor attended the informal ECOFIN Councils that took place in Copenhagen and Nicosia.

Banco de Portugal is Portugal's agent with the IMF and therefore has several financial responsibilities. As such, the Bank follows the issues on this organisation's agenda, actively participating in the discussion and decision-making process. In 2012 the IMF's work programme focused mostly on the review of members' quotas and the governance reform. This review is expected to double members' quotas, which implies for Portugal an increase from the current SDR 1,029.7 million (Special Drawing Rights) to SDR 2,060.1 million. As for the governance reform, it is proposed, inter alia, that the Executive Board consists only of elected Executive Directors (some are currently appointed) and that advanced European economies reduce their representation by two chairs. In April 2012 Portugal concluded the ratification procedures associated with these changes.

The Governor and other elements from Banco de Portugal were part of the national delegation participating in the IMF/World Bank Spring Meetings (16 to 22 April), in Washington D.C. and Annual Meetings (12 and 13 October) in Tokyo. In November 2012 an IMF mission visited Portugal under the Article IV consultation. Banco de Portugal participated and contributed to this mission's work.

Banco de Portugal maintains cooperation relations with other central banks of emerging and developing countries. Portuguese-speaking countries continue to be at the centre of cooperation activities. In 2012 cooperation initiatives with EU candidate and potential candidate countries nevertheless increased, mainly within the Eurosystem/ESCB (Chart 2.2).

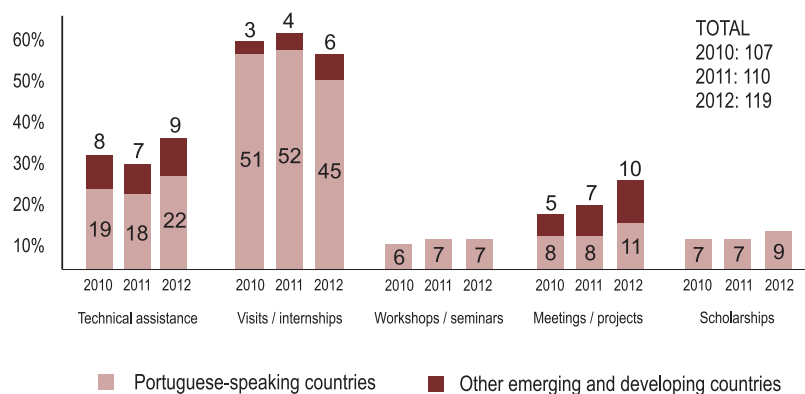
Cooperation with emerging and developing countries may be broken down into two major components:

- i) the first comprises a variety of initiatives by several of the Bank's structures in partnership with their counterparts: technical assistance, meetings (across-the-board and sectoral), workshops, seminars, work visits, internships and scholarships. These initiatives form a coherent set, systematized in the Bank's annual Cooperation Plan.
- ii) the second encompasses activities related to macroeconomic monitoring or involvement with the countries in question.

Within the first component, technical assistance and sectoral meetings among Portuguese-speaking central banks increased rather markedly in 2012. By contrast, although still predominant, the number of internships and work visits to Banco de Portugal decreased slightly.

Chart 2.2

COOPERATION PLAN: NUMBER OF ACTIVITIES CARRIED OUT | 2010 – 2012



Source: Banco de Portugal.

In 2012 three high-level meetings were held among Portuguese-speaking central banks: in September, the 6th Governors' meeting was held in Brazil, attended, as every two years, by the leaders of the Portuguese-speaking central banks; in October, at the time of the Annual Meetings of the IMF and the World Bank, the Monetary Authority of Macao hosted a financial forum for Portuguese-speaking countries; and the 22nd Lisbon Meeting was held in November.

As for the second component of the cooperation activities, in addition to the economic analysis of Portuguese-speaking countries, presented in several publications (see Chapter 4), Banco de Portugal participated in the structures responsible for the smooth operation of the Exchange Rate Cooperation Agreement between Portugal and Cape Verde and the Economic Cooperation Agreement between Portugal and São Tomé and Príncipe. These agreements aim to consolidate macroeconomic stability in these Portuguese-speaking African countries and enhance their economic and financial relations with Portugal and the euro area.

### 2.7.2. National institutional cooperation

Banco de Portugal interacts with other national organisations within its remit. In 2012 the Bank cooperated with the other financial supervisors – the *Comissão do Mercado de Valores Mobiliários* (Portuguese Securities Market Commission) and the *Instituto de Seguros de Portugal* (Portuguese Insurance and Pension Funds Supervisory Authority) – in particular in the *Conselho Nacional de Supervisores Financeiros* (National Council of Financial Supervisors), chaired by the Governor of Banco de Portugal. The Bank also participated in the *Conselho Nacional de Supervisão de Auditoria* (National Council for Audit Supervision), which it chaired in 2012. It also cooperated closely with Statistics Portugal and the other entities belonging to the National Statistical System (Table 2.12).

Table 2.12

| NATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012 |                    |                  |
|--|--------------------|------------------|
|  | Number of meetings | Body/ Department |
| National Financial Stability Committee                             | 2                  | GOV              |
| National Council of Financial Supervisors                          | 6                  | GOV / Vice-GOV   |
| National Council for Audit Supervision                             | 12                 | GOV / ADM        |
| Investor Compensation Scheme                                       | 16                 | GOV / ADM        |
| Statistical Council and substructures                              | 22                 | DDE and DEE      |
| Other working groups on statistics                                 | 9                  | DDE              |
| Working group on the prevention of money laundering                | 2                  | DAS              |
| Working groups on cash   | 8                  | DET              |
| Working groups on legal issues                                     | 43                 | DJU              |
| Portuguese group of SWIFT users                                    | 10                 | DMR              |
| Association of SAP users in Portugal                               | 1                  | DOI              |
| Forum for banking conduct supervision                              | 1                  | DSC              |
| <b>TOTAL</b>   | <b>132</b>         |                  |

Source: Banco de Portugal.

Within the Economic and Financial Assistance Programme, the Bank collaborated with several government bodies, in particular the Ministry of Finance, the Ministry of Solidarity and Social Security, the Ministry of Economy and Employment and the Ministry of Justice (see Annex A.2 – Table 2).

### 3. EFFICIENT ORGANISATION AND MANAGEMENT OF RESOURCES

#### 3.1. INTERNAL GOVERNANCE, RISK MANAGEMENT AND CONTROL

##### 3.1.1. Organisational structure

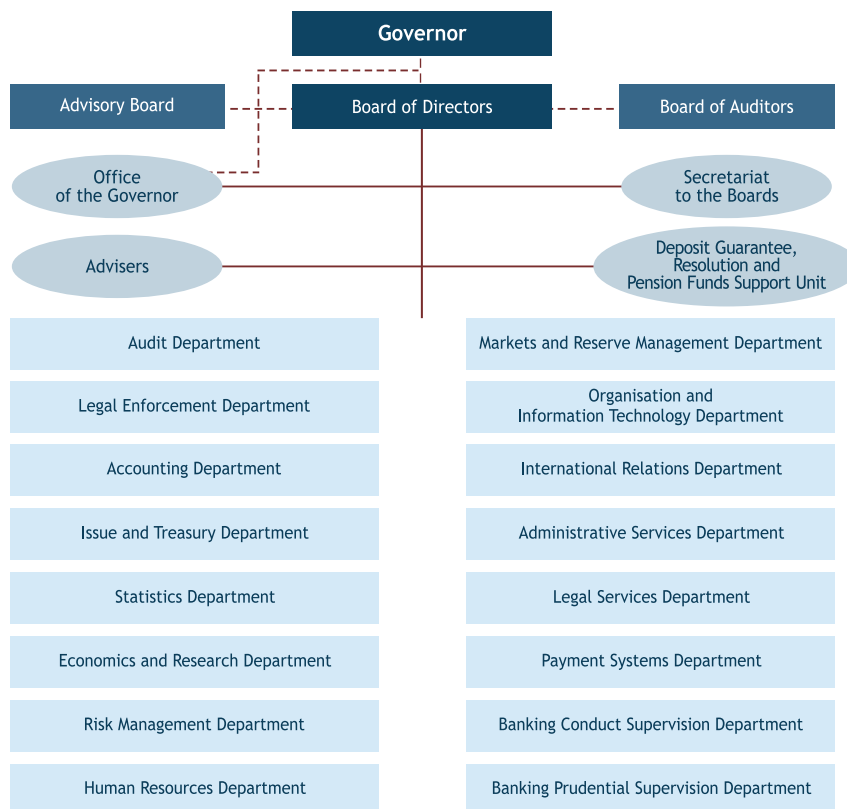
The organisational and functional structure of Banco de Portugal has been evolving so as to incorporate best governance and management practices and to accommodate developments in its tasks.

This organisational change reflects the recognition of the strategic importance given to risk management by Banco de Portugal, as well as the adoption of the best practices and principles in this domain, namely in terms of independence, transparency, segregation of functions, overall view and integrated management of the various types of financial and operational risks.

The Risk Management Department brings together the previously separated tasks linked to the identification, assessment, control and management of the risks associated with Banco de Portugal's activities, ensuring that such risks remain at levels consistent with the risk tolerance profile and level defined by the Board of Directors. Accordingly, a clear distinction was drawn between the powers delegated to the unit responsible for monetary policy implementation and asset management (Markets and Reserve Management Department) and the unit responsible for the quantification and integrated management of financial risks that arise from those operations (Risk Management Department). The Committee for Risk and Internal Control is a forum for discussion of risk management and risk control issues, with the participation of the Board of Directors and the relevant departments.

In 2012 the scope of the Deposit Guarantee Fund's Support Unit was also extended to incorporate the newly established Resolution Fund and was renamed Deposit Guarantee, Resolution and Pension Funds Support Unit.

The Bank's organisation chart as at 31 December 2012 was as follows:



### 3.1.2. Risk management

The Central Bank's own funds operations and the monetary policy operations carries financial risks: mainly, market risk and credit risk. These operations may result in losses arising not only from asset price movements (interest rate, exchange rate and gold price) – market risk – but also from the failure of counterparties and issuers to meet their contractual obligations or from the deterioration of their credit profile – credit risk.

The Bank continuously monitors and assesses risks associated with its activity, through the production of indicators (value-at-risk and credit value-at-risk) and the conduction of stress tests on a regular basis. The risk of asset management operations is monitored through eligibility criteria and investment guidelines established by the Board of Directors. In order to mitigate the risks arising from the Eurosystem credit operations, the Bank applies a series of rules and procedures established and approved by the ECB.

In 2012, Banco de Portugal implemented, monitored and improved the risk control framework supporting monetary policy operations conducted with resident counterparties, particularly for risks associated with non-standard measures, which are entirely taken by the National Central Bank. Banco de Portugal also contributed towards the assessment of the performance of the credit assessment sources accepted under the Eurosystem Credit Assessment Framework<sup>23</sup> and towards the implementation of the European Datawarehouse, which is set to be the largest information repository on asset-backed securities (ABSs).

In addition to the financial risks associated with asset management, Banco de Portugal is exposed to operational risks, related to potential weaknesses in the governance model and business processes, the behaviour of individuals, issues regarding Information Technology Systems, or those caused by external events, which may result in financial or property losses and damage to the Bank's reputation. Consequently, in 2012, the Bank completed a preliminary assessment of its critical tasks and identified measures to reduce the likelihood of associated risks and mitigate possible impacts. The main risks related to the bank's core tasks were also analysed, namely as regards information security, internal and external communication and the safety of the Bank's premises. In order to identify and understand the risks associated with the Bank's main activities, a process to record incidents has been internally developed.

In 2012 the Business Continuity Plan was expanded to include new information systems and two testing and real-time disaster simulation rounds were conducted, with distinct technical and functional purposes, which covered most business functions, namely all business functions requiring up to 48 hours' recovery time.

### 3.1.3. Internal audit

The Internal Audit Department assesses the adequacy and efficiency of risk management, internal control and governance systems on a fair and preventive basis and, more broadly, the efficiency, security and compliance of Banco de Portugal's processes, activities and operations. It regularly monitors the implementation of recommendations issued, with a view to ensuring that all findings are properly tackled by the Bank.

---

<sup>23</sup> The Eurosystem Credit Assessment Framework (ECAAF) was established to ensure that collateral used in Eurosystem credit operations meets the 'high credit standards' defined in the Statute of the ESCB. This framework provides for the use of different credit assessment sources: external credit assessment institutions (rating agencies), NCBs' in-house credit assessment systems (ICASs), banks' internal ratings-based (IRB) systems or third-party providers' rating tools (RTs).

39 audits were carried out in 2012, 33 of which were internal and six related to systems and processes that are common to or shared with the ESCB/Eurosystem (Table 3.1).

**Table 3.1**

| <b>INTERNAL AND ESCB AUDITS, BY MAIN AREA OF ACTIVITY</b>  |                        |                    |              |
|--|------------------------|--------------------|--------------|
|  | <b>Internal audits</b> | <b>ESCB audits</b> | <b>Total</b> |
| Direct support to the Board of Directors, including specific audits  | 5                      | 1                  | 6            |
| Direct support to the Board of Auditors  | 3                      | -                  | 3            |
| Cross-cutting Bank activities  | 2                      | -                  | 2            |
| Markets and reserve management   | 2                      | 1                  | 3            |
| Issue and treasury at the head office, Oporto Branch, regional delegations and agencies                          | 9                      | 1                  | 10           |
| Banking supervision  | 4                      | -                  | 4            |
| Payment systems and operations   | 1                      | 1                  | 2            |
| Statistical production and economic research   | 0                      | 1                  | 1            |
| Information technologies   | 4                      | 1                  | 5            |
| Human resources management activities and administrative support   | 2                      | -                  | 2            |
| Sociedade Gestora dos Fundos de Pensões do Banco de Portugal (Banco de Portugal's Pension Fund Managing Company) | 1                      | -                  | 1            |
| <b>Total</b>   | <b>33</b>              | <b>6</b>           | <b>39</b>    |

Source: Banco de Portugal.

### **3.2. INFORMATION AND COMMUNICATION SYSTEMS**

Banco de Portugal aims to match its information and communication systems to its business needs and priorities, by rationalising work processes and optimising the cost/benefit ratio of the technical solutions and services provided.

In 2012 the Bank implemented a series of infrastructural systems and solutions to support distance communication, mobility and collaborative work, including videoconferencing studios, unified communications and a Wi-Fi network.

The Bank's web platform – Internet and Intranet – was migrated onto Microsoft Office Sharepoint Server 2010, thus becoming more secure and providing new data mining opportunities.

In terms of monetary policy implementation, the Bank has developed the new collateral management information system (*Gestão das Operações e Ativos de Garantia – GOPM*), whose first version will be launched in 2013, and updated its SITEME (market electronic transfer system) and EEB (bank loans eligibility) application systems.

Turning to statistics, the projects associated with BPstat mobile and the implementation of the new Corporate Area (*Área de Empresa*) of the Bank's institutional website were concluded (see Chapter 4). The Bank redesigned the Central Balance-Sheet Database information system, the balance of payments and international investment position statistics compilation system, the integrated securities statistics system and the national financial accounts system.

The website *Todos Contam* ('Everybody Counts') was launched, within the context of the National Plan for Financial Education, under the aegis of the National Council of Financial Supervisors.

### 3.3. HUMAN RESOURCE MANAGEMENT

Banco de Portugal aims to maintain a specialised team capable of responding sustainably in the medium to long term to the tasks entrusted to it, including those associated with the supervision and regulation of the financial system and under the Economic and Financial Assistance Programme to Portugal.

Indeed, it's the Bank's goal to recruit staff with the required skills and foster their expertise. Recruitment and selection approaches are manifold: internal and external competitions, internal mobility, wide-ranging use of the staff's potential, executive search and spontaneous applications.

Both the compensation and benefits policy and the human resources policy favour merit and professional and academic qualification. Incentivising internal mobility is one of the strategic areas of human resources policy, focusing on the staff's career development, skill building and the sharing of knowledge between business areas.

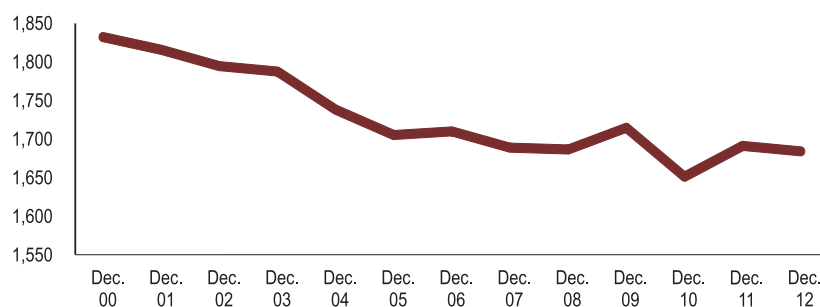
#### 3.3.1. Staff composition

At the end of December 2012 the number of staff employed by Banco de Portugal was 1,682 (seven less than at the end of 2011). In 2012, 57 members of staff left the Bank (51 following retirement), while 50 members of staff and 39 trainees were recruited.

Over the past decade, the number of staff has been declining. At the end of 2012 the number of staff was similar to that at the end of 2008, despite the significant increase in Banco de Portugal's tasks (Chart 3.1).

Chart 3.1

#### STAFF DEVELOPMENTS



Source: Banco de Portugal.

The composition of staff by gender has become more balanced. At the end of the year, 52 per cent of staff members were male and 48 per cent were female (Table 3.2).

At the end of 2012 the number of retired staff was 1,880, eight more than in 2011, while pensioners numbered 536, four more than in the previous year.



Table 3.2

| STAFF DEVELOPMENTS   BROKEN DOWN BY GENDER AND MOVEMENTS |              | 2008   | 2009  | 2010   | 2011  | 2012   |
|--|--------------|--------|-------|--------|-------|--------|
| Developments   | Staff        | 1,685  | 1,713 | 1,648  | 1,689 | 1,682  |
|  | % change     | -0.1 % | 1.7 % | -3.8 % | 2.5 % | -0.4 % |
| Gender   | Male         | 927    | 915   | 865    | 879   | 878    |
|  | Female       | 759    | 798   | 783    | 810   | 804    |
| Movements  | Recruitments | 54     | 96    | 80     | 94    | 50     |
|  | Retirements  | 46     | 64    | 137    | 47    | 51     |

Source: Banco de Portugal.

As a result of the high number of retirements over the past few years and the new recruitments, the Bank's staff has been rejuvenated (Table 3.3 and Chart 3.2). Between 2008 and 2012, the share of employees under 35 increased from 16% to 27%, while the share of employees over 45 decreased from 69% to 56%.

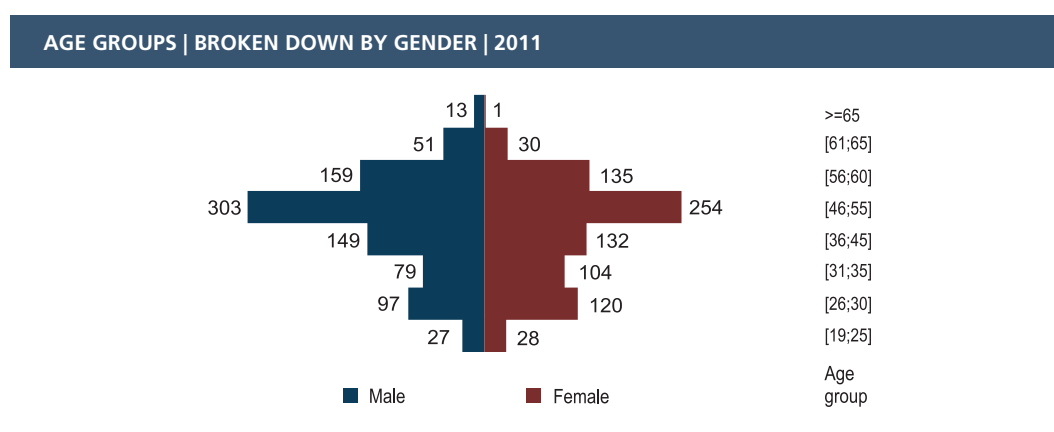
As at 31 December 2012 the average age of the Bank's staff remained at 45.6 years (46.7 years for male employees and 44.5 years for female employees). The 46-55 age group had the highest share (557 employees), followed by the 56-60 age group (294 employees).

Table 3.3

| AGE GROUP DEVELOPMENTS |              |              |              |              |              |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Age group              | 2008         | 2009         | 2010         | 2011         | 2012         |
| [19;25]                | 23           | 58           | 66           | 77           | 55           |
| [26;30]                | 121          | 151          | 177          | 208          | 217          |
| [31;35]                | 129          | 134          | 147          | 165          | 183          |
| [36;45]                | 256          | 263          | 264          | 267          | 281          |
| [46;55]                | 764          | 713          | 672          | 619          | 557          |
| [56;60]                | 257          | 266          | 244          | 260          | 294          |
| [61;64]                | 130          | 124          | 74           | 90           | 81           |
| >=65                   | 5            | 4            | 4            | 3            | 14           |
| <b>Total</b>           | <b>1,685</b> | <b>1,713</b> | <b>1,648</b> | <b>1,689</b> | <b>1,682</b> |

Source: Banco de Portugal.

Chart 3.2

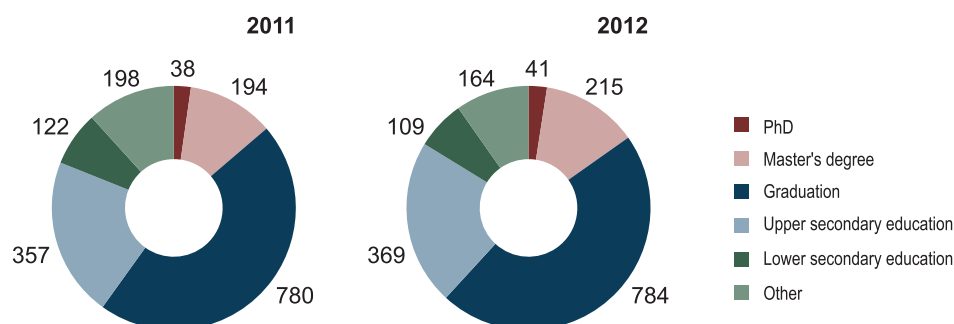


Source: Banco de Portugal.

Given the responsibility and complexity of the Bank's tasks, staff members must be highly educated. As at 31 December 2012 around 62% of staff members had a graduate degree. The share of employees with a PhD or Master's degree increased from 2011 (Chart 3.3).

**Chart 3.3**

**LEVEL OF EDUCATION**



Source: Banco de Portugal.

Broken down by function, 15% of the employees are managerial staff, 44% are senior professional or professional staff and 37% are technical-administrative staff or perform operational functions (Table 3.4).

**Table 3.4**

**STAFF | BROKEN DOWN BY FUNCTION**

|   |              |              |
|---|--------------|--------------|
| Senior management                                   | 44           | 3 %          |
| Middle management                                   | 209          | 12 %         |
| Senior professional/professional staff              | 745          | 44 %         |
| Technical-administrative staff and support services | 626          | 37 %         |
| Seconded / unpaid leave                             | 58           | 3 %          |
| <b>Total</b>  | <b>1,682</b> | <b>100 %</b> |

Source: Banco de Portugal.

### 3.3.2. Compensation policy

Banco de Portugal aims to contain costs while promoting merit and the quality of its employees' work.

Over the past two years, the Bank's compensation policy was influenced by the Portuguese economic and financial context. In 2012, as in the previous year, the Board of Directors decided to join in the country's adjustment efforts, adopting salary containment measures resulting in an overall saving equivalent to that of the measures established in the State Budget for 2012. Containment measures were defined and implemented autonomously, thus safeguarding the Bank's independence to make decisions and respecting the limits enshrined in the Labour Code and the instruments of collective labour regulation.

Also noteworthy were developments in the Bank's pension funds, which are managed by Sociedade Gestora dos Fundos de Pensões do Banco de Portugal, S. A. (Pension Funds Managing Company): the Defined Benefit Pension Fund, a closed-end pension fund covering staff who started working in the

banking sector before March 2009, and the Defined Contribution Pension Fund, a supplementary pension plan that is voluntary for staff who started working in the banking sector after March 2009. Investment policies of both funds comply with prudential rules and criteria approved by the Board of Directors, which limit the risks associated with management.

In 2012 the management of the Defined Benefit Pension Fund had two main goals: to preserve the benefits of the employees covered by the fund, against the backdrop of the transfer of future old-age pension liabilities to social security<sup>24</sup> and to maintain a high level of solvency in the fund. As at 31 December 2012 the fund's assets amounted to €1,430.8 million invested in euro area bonds and liquidity (78.6%), equity (11.1%) and real estate (7.2%), and the remaining 3.1% concerned net claims on third parties. The overall funding level of the Defined Benefit Pension Fund was 101.9%, i.e. above the minimum level established in Notice of Banco de Portugal No 12/2001 (98.0%).

The management of the Defined Contribution Pension Fund mainly seeks to promote the fund as the second pillar of protection for staff that started working after March 2009. In 2012 participants were given the choice between a portfolio comprising only interest rate instruments and a portfolio comprising interest rate instruments and equity. As at 31 December 2012 each of these portfolios amounted to around €2.6 million. Equity accounted for 9% of the total market value of the interest rate instruments and equity portfolio. Given the high financial market instability and with a view to mitigating credit risk, interest rate instruments continued to include only short-term investments. At the end of 2012 the Defined Contribution Pension Fund had 276 participants, as the majority of new staff members have opted for this fund.

### 3.3.3. Human resource development

The human resource development activity is part of an integrated policy to manage the careers and skills of the Bank's staff.

In 2012, 685 training courses were held, of which 296 were internal and 389 were external (256 in Portugal and 133 abroad). A total of 80.6% of the Bank's staff attended 51,377.5 hours of training (Table 3.5).

**Table 3.5**

| TRAINING           | 2008   | 2009   | 2010   | 2011   | 2012   |
|--------------------|--------|--------|--------|--------|--------|
| Participants       | 1,395  | 1,528  | 1,598  | 1,447  | 1,356  |
| Hours              | 64,397 | 48,414 | 66,223 | 51,750 | 51,377 |
| Participation rate | 82 %   | 89 %   | 97 %   | 85 %   | 80 %   |

Source: Banco de Portugal.

<sup>24</sup> In March 2009 the Defined Benefit Pension Fund was closed to new staff, who are now covered by the general social security scheme (Decree-Law No 54/2009 of 2 March). As of January 2011 the fund's beneficiaries (i.e. the Bank's staff who started working in the banking sector before March 2009) are also covered by the general social security scheme concerning old-age pensions corresponding to years of service after that date (Decree-Law No 1-A/2011 of 3 January). The Fund therefore continues to cover old-age pension payments to those workers corresponding to years of service before January 2011, as well as disability and survivors benefits. The Defined Benefit Pension Fund also covers the supplement intended to make up for the difference between benefits calculated under the general social security scheme and the benefits based on the applicable collective labour agreements and on internal regulations.

In 2012 Banco de Portugal and the Nova School of Business and Economics of Universidade Nova de Lisboa signed a sponsorship and cooperation protocol to promote training and investigation in the field of financial regulation, supervision and audit. This partnership's goal is to improve the quality of university studies in relevant areas for the Portuguese financial system stability, whilst strengthening the technical skills of the Bank's staff and widening its recruitment pool.

### 3.4. BUDGET AND BUILDING MANAGEMENT

Banco de Portugal has improved the internal financial management processes, so as to save costs and promote efficiency. The budget model was enhanced, particularly in terms of budgeting and control of relevant expenditure; the costing procedure was adjusted to internal management objectives; the implementation of internal rules was strengthened, with the publication of non-compliance reports. The new Chart of Accounts was also prepared (which has been approved in 2013, but with effect from 1 January 2012), with a positive impact in terms of enhanced transparency and financial autonomy.

In addition to the above-mentioned staff cost reduction measures, in 2012 the Bank applied a cost restraint policy in its acquisition of goods and services. Restraint measures were implemented, which resulted in a reduction of around 7% in energy consumption. The renegotiation of contracts for the provision of information, software development and communication services also resulted in substantial savings.

Banco de Portugal reinforced the control mechanisms of public procurement processes and, where any administrative or financial advantage was foreseeable, the Bank participated in joint procurement procedures within the scope of the Eurosystem Procurement Coordination Office (EPCO).

In 2012 the Bank's head office reopened, in Rua do Comércio, in Lisbon, following five years of restoration and repair works that involved several entities and companies. The old Church of São Julião was restored in order to house the Money Museum. The museum's main goal is to foster financial literacy and help promote cultural activities in Lisbon's Baixa area.

The head office's rehabilitation proved to be uniquely challenging, particularly as it was the first time restoration works involved an entire block of the Baixa Pombalina area. With the discovery of several archaeological materials – namely a 45-metre section of King Dinis' Wall and the remains of the church's main altar – the works project and plans had to be changed. The interior of the office buildings was remodelled, in order to improve working conditions for the bank's staff and to comply with European seismic resistance and energy efficiency rules and legislation on fire safety.<sup>25</sup>

In 2012 the Bank also remodelled the façade of the Faro Regional Delegation and completed the expansion of the main building at the Carregado Complex, which doubled the area for banknote printing works.

<sup>25</sup> For more information on the head office's rehabilitation works, see (in Portuguese only) <http://www.bportugal.pt/SiteCollectionImages/BrochuraReabSede.pdf>

## 4. COMMUNICATION AND SUPPLY OF SERVICES TO THE COMMUNITY

Banco de Portugal's communication policy is an important instrument for greater proximity, transparency, recognition and prestige at national and international level. Banco de Portugal seeks to improve the quality of the economic and statistical information it produces and of the various services it supplies to the community and in particular to bank customers. As in other areas of activity, the Bank is geared towards greater resource efficiency, social responsibility and environmental sustainability. This chapter describes the activities carried out by Banco de Portugal in 2012, in its communication with the public, interaction with the financial community, cooperation with other entities and social responsibility work.

### 4.1. COMMUNICATION WITH THE PUBLIC

#### 4.1.1. Institutional website and Bank Customer Website

##### **Institutional website**

In October 2012 the Bank created simultaneously the Corporate Area of the institutional website and the online consultation services of the Central Credit Register and the List of Cheque Defaulters. Also, an area was created for releasing Banco de Portugal's clarifications to the media on the different aspects of the institution's functioning. The institutional website also contains press releases, public interventions by the Governor and other members of the Board of Directors at several national and international events and EFAP-related documents.

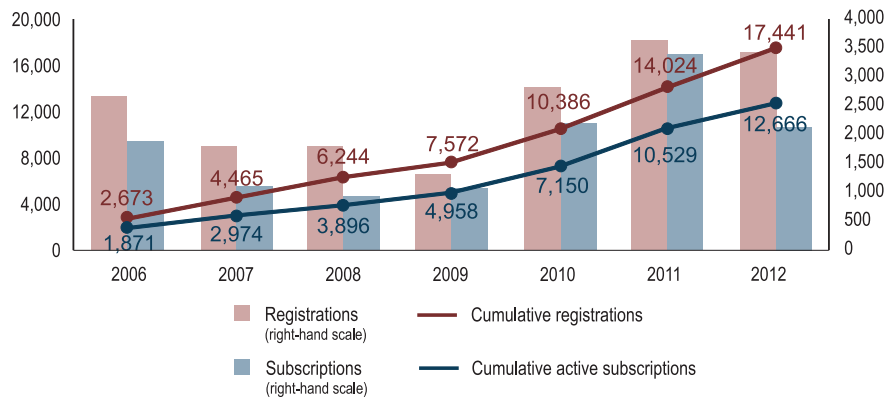
In the Corporate Area, which is specifically for enterprises, the Bank releases content and a series of online services for data consultation and submission, with recourse to secure authentication mechanisms. In this area, enterprises may consult the list of credit liabilities in the Central Credit Register and the List of Cheque Defaulters, the Enterprise and Sector Table, the Communication of External Transactions and Positions, the Survey on International Investment and Qualified Information on Cash (see Box 3 | Central Credit Register of Banco de Portugal and Box 4 Central Balance-Sheet Database of Banco de Portugal). As at the end of 2012, the Corporate Area had 42,952 participating institutions and 58,041 registered users.

In 2012 the institutional website released 72 press releases and 33 public interventions, i.e. 24 and 9 more than in 2011.

Banco de Portugal updates the statistical data available on a daily basis at BPstat | statistics online. The number of users registered with BPstat rose by 24% from 2011 (Chart 4.1). In 2012 Banco de Portugal launched a statistical dissemination service for portable devices – *BPstat mobile* – that makes available the main indicators for the Portuguese economy and statistical series from the Banco de Portugal Statistical Interactive Database. The new service allows users to research information, build and view charts for all statistical series and consult the related metadata.

Chart 4.1

## NUMBER OF USERS REGISTERED WITH BPSTAT AND SUBSCRIPTIONS | AS AT 31 DECEMBER 2012



Source: Banco de Portugal

In 2012 visits to Banco de Portugal's institutional website rose by 51%. This rise was particularly significant on the 'services to the public' and 'statistics' webpages, reflecting the creation of new services in the Corporate Area and in online consultations (Table 4.1).

Table 4.1

Daily average

| VISITS TO BANCO DE PORTUGAL'S INSTITUTIONAL WEBSITE |                                      | 2009   | 2010   | 2011   | 2012   |
|---|--------------------------------------|--------|--------|--------|--------|
| Total number of visits                              |                                      | 24,425 | 32,317 | 37,217 | 56,309 |
| Visits to webpages by area                          | Statistics                           | 6,587  | 10,021 | 14,343 | 17,588 |
|   | Banco de Portugal and the Eurosystem | 2,815  | 5,634  | 7,248  | 7,335  |
|   | Services to the public               | 1,180  | 1,121  | 1,092  | 5,134  |
|   | Economic research                    | 1,799  | 2,160  | 2,720  | 3,092  |
|   | Supervision                          | 1,673  | 2,184  | 1,427  | 1,492  |
|   | Publications and interventions       | 904    | 1,003  | 1,118  | 1,158  |
|   | Legislation and regulations          | 962    | 1,591  | 669    | 846    |
|   | Monetary policy                      | 1,658  | 1,263  | 964    | 840    |
|   | Banknotes and coins                  | 947    | 911    | 850    | 832    |
|   | Payment systems                      | 452    | 413    | 408    | 474    |

Source: Banco de Portugal.

### Bank Customer Website

The Bank Customer Website plays an important role in providing comprehensive and updated information on banking products' characteristics – deposits, housing loans, consumer credit and payment services – and on the applicable regulatory framework (see Chapter 1). Through the Bank Customer Website

bank customers may lodge complaints against credit institutions, request information, make requests to locate financial assets of deceased account holders and consult information regarding the Central Credit Register and the List of Cheque Defaulters.

In 2012 the Bank introduced new contents in the Bank Customer Website on the recent regulatory framework governing the prevention and management of arrears on credit agreements and the new minimum banking services scheme. Among other functionalities, the website now includes a tool for quick searches of information leaflets on indexed deposits and dual deposits. It also released information on compensation paid on the amounts invested by bank customers in those deposit accounts.

The number of visits to the Bank Customer Website increased by 43% in 2012, with a daily average of 6,336 page views (Table 4.2). The most viewed area in 2012 was banking products. Pages associated with services provided by Banco de Portugal were also well visited (complaints, credit liabilities, prohibition of the use of cheques and location of financial assets of deceased account holders).

**Table 4.2** Daily average

| VISITS TO THE BANK CUSTOMER WEBSITE |                                   | 2009  | 2010  | 2011  | 2012  |
|-------------------------------------|-----------------------------------|-------|-------|-------|-------|
| Total number of visits              |                                   | 3,378 | 3,930 | 4,427 | 6,336 |
| Visits to webpages by area          | Banking products                  |       | 735   | 934   | 1,525 |
|                                     | Complaints                        |       | 499   | 488   | 566   |
|                                     | Publications                      |       | 402   | 536   | 633   |
|                                     | Interest rates                    |       | 386   | 491   | 787   |
|                                     | Customer rights                   |       | 385   | 419   | 475   |
|                                     | Credit liabilities                |       | 230   | 253   | 448   |
|                                     | Banknotes and coins               |       | 190   | 282   | 323   |
|                                     | Prohibition of the use of cheques |       | 109   | 115   | 170   |
|                                     | Institutions                      |       | 91    | 106   | 134   |
|                                     | Accounts of deceased holders      |       | 84    | 79    | 100   |

Source: Banco de Portugal.

The use of simulators available on the Bank Customer Website increased by 75% in 2012, especially the deposit account simulator (Table 4.3).

**Table 4.3** Daily average

| VISITS TO THE BANK CUSTOMER WEBSITE – USE OF SIMULATORS |                  | 2009 | 2010 | 2011 | 2012 |
|---|------------------|------|------|------|------|
| Total number of times simulators were accessed          |                  | 218  | 268  | 303  | 532  |
| Visits to webpages by area                              | Interest rate    | 66   | 72   | 95   | 129  |
|   | Housing credit   | 63   | 63   | 64   | 91   |
|   | Consumer credit  | 46   | 87   | 61   | 83   |
|   | Deposit accounts | 43   | 46   | 83   | 229  |

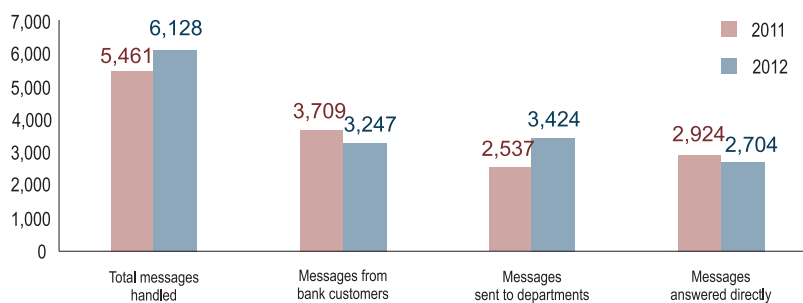
Source: Banco de Portugal.

#### 4.1.2. E-mail, telephone and personalised answering system

In 2012 Banco de Portugal's general e-mail address (info@bportugal.pt) received and handled 6,128 valid messages (12% more than in 2011), 3,247 of which came from banking service users (12% less, reflecting greater use of the tools provided for consultations and complaints) (Chart 4.2). There was a clear increase in messages related to the start of the online consultation of records in the Central Credit Register and the List of Credit Defaulters and to the implementation of enterprises' statistical reporting of international operations. Around 43% of the messages were answered directly; the remainder (predominantly from banking service users) were forwarded to the competent services.

Chart 4.2

#### MESSAGES RECEIVED IN THE BANK'S GENERAL E-MAIL ADDRESS



Source: Banco de Portugal.

In August 2012 the Banco de Portugal Call Centre was set up, operating on weekdays between 9 a.m. and 6 p.m. (as of 1 February 2013 this service operates under telephone number 707 201 409). This Centre may be used for clarification of Banco de Portugal's services, notably bank customer complaints, Central Credit Register, List of Credit Defaulters and the location of financial assets of diseased account holders. In 2012 around 2,700 telephone calls were answered.

Banco de Portugal provides information in person or in writing at its various offices open to the public (head office, Oporto branch, regional delegations and agencies). In 2012, 103 thousand credit customers were served within the scope of the Central Credit Register, accounting for a 16.6% decline from the previous year, in parallel with an increase in use of online consultations.

#### 4.1.3. Publications

##### Economic information

Banco de Portugal releases studies and analyses on the Portuguese economy in a suite of economic publications: Annual Report, (quarterly) Economic Bulletin, the Monthly Economic Indicators, and the results of the bank lending survey. These publications also include articles authored by the Bank's economists. In 2012 the Bank published 19 articles in the regular series of Working Papers and Occasional Papers, resulting from research work developed by its economists. This work has been published in reputed international journals (in 2012, 42 articles written by the Bank's economists were published or accepted for publication) (see Annex A.3 – Table 2).



## Statistical information

Banco de Portugal releases statistical information on a monthly basis through the Statistical Bulletin. In 2012 the number of series included increased considerably (626 monthly series more than in 2011).

The 'Main indicators' chapter of the Statistical Bulletin introduced in 2011 was extended to include statistical indicators on non-financial sector indebtedness, loans granted by the financial sector, coincident indicators of economic activity and private consumption and the effective exchange rate index deflated by unit labour costs.

A new chapter 'K' was introduced on non-financial sector indebtedness. The information published combines several analysis dimensions (debtor sector and financing sector, type of instrument, original maturity, economic activity and firm size) and crosses data compiled in various statistical domains.

In 2012 Banco de Portugal started to release information on assets securitised by credit securitisation companies and funds (broken down by country and institutional sector of the originator and debtor); quarterly net transactions; quarterly data for the debt of Madeira's regional government, the Azores' regional government and local government; data for deficit-debt adjustments, and general government revenue and expenditure.

Three supplements to the Statistical Bulletin were published in 2012 – *A Gestão da Qualidade nas Estatísticas do Banco de Portugal* ('Quality management in Banco de Portugal's statistics'), 'General Government Statistics' and 'Papers presented by the Statistics Department in national and international fora' – and 10 statistical press releases, especially on the release of new statistical series. As regards the Central Balance-Sheet Database studies, the Bank published five new 'Sectoral Analyses': two on non-financial corporations and the others on the textile and clothing industries, the footwear industry and the agricultural sector.

## Banking conduct supervision

Banco de Portugal disseminates information on its activity in the regulation and audit of retail banking markets on a regular basis. In the year under analysis the Bank published the 2011 Banking Conduct Supervision Report and the Banking Conduct Supervision Semi-Annual Report for the first half of 2012. Banco de Portugal prepared publications on banking products and services, including a leaflet and a brochure on minimum banking services, and a brochure on the new regime of prevention and management of arrears.

## Payment systems

In 2012 Banco de Portugal published the third and fourth issues of the SEPA.pt newsletter on main developments in the construction of the Single Euro Payments Area (SEPA). The Report on Payment Systems was also published, presenting the most relevant facts and statistical data on payment systems, both as regards large-value payments and retail payments.

## International cooperation

In 2012 Banco de Portugal published for the first time the Cooperation Journal and #Lusofonia, and released another issue of Economic Developments in Portuguese-speaking African Countries and Timor-Leste, which includes an economic analysis and an extended set of statistical information. With these publications, the Bank aims to raise public awareness on emerging market and developing economies, with a focus on Portuguese-speaking countries. In the Cooperation Journal the Bank publishes a set of macroeconomic indicators for the Portuguese-speaking African countries and Timor-Leste, summarises

the cooperation initiatives undertaken with counterpart institutions and addresses issues in the international economic agenda relevant for emerging and developing countries. The #Lusofonia releases socio-economic indicators for Portuguese-speaking countries, both as a whole and individually.

### Banco de Portugal in the context of the single currency

In November, marking the Bank's 166th anniversary, the brochure entitled *O Banco de Portugal no contexto da Moeda Única* ('Banco de Portugal in the context of the single currency') was released. This brochure allows a wider audience to acquaint itself with the tasks performed by the Bank, the governance model and the principles governing its actions, as well as the resources used in the pursuit of its mission.

## 4.2. INTERACTION WITH THE FINANCIAL COMMUNITY – BPNET

Banco de Portugal favour use of *BPnet* – the Bank's extranet – for operational communication with financial institutions. At the end of 2012 *BPnet* provided 84 distinct services (79 in 2011), related to 12 business areas of the Bank, with 4,152 registered users from 335 institutions (an average of 1,021 visits per working day). The reduction in the number of visits in 2012 is related to a decline in the number of consultations of the Central Credit Register, against a background of lower credit granting, and to institutions' rationalisation of the number of registered users (Table 4.4).

Table 4.4

| DEVELOPMENTS IN BPNET SERVICES         |         |         |         |         |
|--|---------|---------|---------|---------|
|  | 2009    | 2010    | 2011    | 2012    |
| Available services                     | 57      | 75      | 79      | 84      |
| Number of users                        | 4,247   | 4,481   | 4,400   | 4,152   |
| Participating financial institutions   | 348     | 339     | 332     | 335     |
| Number of times services were accessed | 615,525 | 707,570 | 602,705 | 373,628 |
| Help desk                              | 8,992   | 6,847   | 5,849   | 6,027   |

Source: Banco de Portugal.

## 4.3. COOPERATION WITH PORTUGUESE AND INTERNATIONAL ENTITIES

### 4.3.1. Communication initiatives within the Eurosystem

Banco de Portugal plays an active role in external communication at the level of the European System of Central Banks (ESCB). The Bank contributes to the preparation and publication of reports and in particular to the preparation of the Portuguese versions of the main regular publications of the ECB – Annual Report, Convergence Report and quarterly issues of the Monthly Bulletin.

In 2012 Banco de Portugal organised the first edition of the Generation Euro Students' Award jointly with the ECB and the euro area national central banks (NCBs), which aims to raise awareness among secondary school students about the importance of the single monetary policy and the objective of maintaining price stability. Banco de Portugal invited Portugal's secondary schools to take part in the Portuguese Generation Euro Students' Award, with 113 students in competition. The winning team – from São Lourenço Secondary School in Portalegre – took part in the European prize-giving ceremony, in Frankfurt on 20 and 21 June, attended by the ECB President and the Governors of the national central banks.

### 4.3.2. Statistical dissemination

In addition to releasing statistical data to the general public, Banco de Portugal reports a wide set of statistical information to international organisations, especially the ECB, Eurostat, IMF, OECD and BIS, and promotes clarification sessions for specific audiences.

In 2012 Banco de Portugal continued to comply strictly with international organisations' reporting deadlines, and the number of series reported increased by 9% from 2011 (Table 4.5). In 2012 the Bank reported to the BIS annual data on financial national accounts for the first time (financial liabilities of non-financial corporations and households).

**Table 4.5**

| REPORTING TO INTERNATIONAL BODIES |         |          |         |          |         |          |
|-----------------------------------|---------|----------|---------|----------|---------|----------|
|                                   | 2010    | %        | 2011    | %        | 2012    | %        |
| Total reporting                   | 1,176   | yoy: 9%  | 1,188   | yoy: 1%  | 1,173   | yoy: -1% |
| deviation* = 0                    | 915     | 78%      | 897     | 75,5%    | 927     | 79%      |
| deviation* < 0                    | 261     | 22%      | 291     | 24,5%    | 245     | 21%      |
| deviation* > 0                    | 0       | 0%       | 0       | 0%       | 0       | 0%       |
| Total series                      | 476,624 | yoy: 12% | 450,369 | yoy: -6% | 490,213 | yoy: 9%  |

\* Deviation from the date set in the reporting schedules.

yoy: year-on-year.

Source: Banco de Portugal.

In 2012 the second Conference of the Central Balance-Sheet Database was held on 'Banco de Portugal's information relevant to decision-making by Portuguese enterprises'. The first session of this second conference took place in Loulé and the second and third sessions in Braga and Aveiro respectively.

Within the scope of reformulating the balance of payments and international investment position statistics' IT system, the Bank held a number of meetings and presentations, covering all banking sector entities and a great number of non-financial corporations.

### 4.3.3. Cash-related training

In its capacity as currency issuer and regulator of the Portuguese cash system, Banco de Portugal carries out intense training activities, covering inter alia professional cash handlers, bureaux de change or other cash handlers, schools, law enforcement authorities, and national and foreign experts (Table 4.6).

Professional cash handlers are the first line of defence in the fight against counterfeiting. The Bank organises face-to-face and e-learning training courses on euro banknotes and coins and methods for checking their authenticity. In 2012 the Bank accredited 32 trainers in this area, distributed into 11 training centres, also taking advantage of the network of agencies, regional delegations and the Oporto branch to meet the need for face-to-face training throughout the country.

Table 4.6

Number of trainees

| TRAINING ON EURO BANKNOTES AND COINS |                    |                             |                              | 2011  | 2012  |
|--------------------------------------|--------------------|-----------------------------|------------------------------|-------|-------|
| Professionals                        | Banknotes          | Face-to-face                |                              | 445   | 359   |
|                                      |                    | E-learning                  |                              | 3,906 | 9,772 |
|                                      | Coins              | Face-to-face                |                              | 29    | 42    |
|                                      |                    | E-learning                  |                              | 7,057 | 1,507 |
| General public                       | Banknotes<br>Coins | Law enforcement authorities |                              | 322   | 522   |
|                                      |                    | Face-to-face                | Schools                      | 4,136 | 6,237 |
|                                      |                    |                             | Retailers and other entities | 479   | 588   |

Source: Banco de Portugal.

Banco de Portugal signed a protocol with ACAPO (the Portuguese association for the blind and partially sighted), on training their instructors. Four people obtained this accreditation in 2012. The Bank also sponsored a Braille edition with information on the euro and developed training courses with a group of hearing impaired individuals.

Cash-related training also covers experts, criminalists, and national and foreign law enforcement authorities. In 2012 banknote-related training was provided to experts from the central banks of Angola and Mozambique and, under the Pericles Programme,<sup>26</sup> from the Central Bank, the National Criminalistics Institute and the Federal Police of Brazil. The Bank hosted training courses on the characteristics of euro coins held for the Criminal Police, the central banks of Cyprus, Timor-Leste and Spain and the anti-counterfeiting centres of Cyprus and Italy.

Banco de Portugal developed an e-learning application on the euro, in cooperation with an external company. Its content is currently being updated in order to include the launch of the 'Europa' series €5 banknote. In 2012 the ECB acknowledged the quality of this application and its acceptance and ability to penetrate the banking system. Therefore, it decided that it would be released in English, to be translated into the languages of the NCBs interested. Banco de Portugal received requests from Banco de España and the National Criminalistics Institute to translate and use e-learning contents on euro banknotes.

#### 4.3.4. Exchange of information with the scientific community

Banco de Portugal promotes the exchange of information with the scientific community in Portugal and abroad, by organising conferences, seminars and training courses, actively participating in events hosted by other entities, and publishing articles in specialist publications on its areas of intervention.

<sup>26</sup> Programme established by Council Decision 2001/923/EC of 17 December 2001 promoting cooperation among Portuguese, European and international authorities responsible for fighting euro counterfeiting. The forecast measures include exchanges of information (seminars, workshops, meetings and conferences), staff placements and exchanges, as well as technical, scientific and operational back-up. Initially forecast for the period from 1 January 2002 to 31 December 2005, the programme was extended until 31 December 2013.

In the field of economic research, the Bank hosted conferences on monetary economics (July), econometric methods (September) and economic development in the European area (November). The Bank also organised a number of seminars on specific economic theory and policy themes (see Annex A.3 – Table 1). These conferences and seminars had the participation of renowned national and international economists.

In October another conference was held on Audit and Management for those responsible for auditing financial institutions, under the theme 'Overall Risk Management: Governance and Control'. Discussions took place on governance and risk control key policies and practices, from the viewpoint of supervisors, auditors and risk managers in financial institutions.

In 2012 Banco de Portugal, in partnership with the Portuguese Economists' Association, started a cycle of conferences with central bank governors. The speakers in the four sessions were the governors of the central banks of Sweden, Iceland, the Netherlands and Colombia.

A workshop entitled 'Stability and confidence in European financial markets – the role of supervision and regulation' was held in November, co-organised by the delegation of the European Commission in Lisbon. The workshop included national supervisors and representatives from the European Parliament, European Central Bank, European Commission and European Banking Authority. Its main purpose was to raise public and specialist media awareness of the measures taken to address the financial crisis and the planned reforms, namely the Banking Union project and the reform of the European banking sector structure.

In addition to being directly involved in the organisation of a number of events, the Bank participated in conferences and seminars hosted by other entities, through communications and presentations by members of the Bank's Board of Directors or staff. In the year under review over 100 articles written by members of the Bank's staff were published in several specialist publications, including certain top international titles (see Annex A.3 – Table 2).

## 4.4. SOCIAL RESPONSIBILITY AND ENVIRONMENTAL SUSTAINABILITY

### 4.4.1. Library, archive, exhibitions and visits

Banco de Portugal places its historical archives at the disposal of the community, either in the reading room or on the Bank's website, providing a specialised reference service in areas such as economics, finance and law. The Bank's library hosted information campaigns for university students and researchers, and published the electronic version of the library's newsletter.

Exhibitions at the Museum of Banco de Portugal welcomed 8,700 visitors in 2012. The permanent exhibition in Lisbon, entitled 'Money in the West of the Iberian Peninsula: From the objects used as money to the euro' was visited by more than 4,500 people, mainly groups from vocational and secondary schools, and visitors from central banks. The exhibition *Memória e Intimismo* ('Memory and Intimism'), in Oporto, attracted 3,700 visitors, and the exhibition *Dinheiro nos Açores* ('Money in the Azores'), in Ponta Delgada, approximately 500, mainly individual visits. The Museum launched a design competition among secondary art schools, to promote the creation of specific merchandising products in the textile and jewellery areas.

Within the scope of the rehabilitation and restoration works of the head office building and the old Church of São Julião, Banco de Portugal received visitors from the scientific community, notably universities and professional associations, covering areas such as archaeology, restoration, architecture and engineering.

In the year under review Banco de Portugal was visited by six schools, totalling 170 students, who attended lectures on the central bank's tasks and activities.

#### 4.4.2. Social responsibility

In 2012 Banco de Portugal continued to support initiatives of particular interest to the Portuguese economy and key social and cultural organisations.

As in 2011, an initiative was developed during the Christmas season together with the institution ENTREAJUDA, under the slogan *Pessoas Solidárias – Reforce esta Ideia* (Solidary people – Reinforce this idea). Funds raised among the Bank's staff were subsequently channelled into assistance packages and delivered to families in need that are supported by charities.

Within the project called *Banco de Portugal Voluntário* (Banco de Portugal volunteers), the programme *Vocações + Matemática* was held, in partnership with EPIS (*Empresários pela Inclusão Social* – Entrepreneurs for Social Inclusion). The objective of this programme is to fight educational underachievement in mathematics through tutoring by volunteers from the Bank of students in the 7th and 9th year of secondary school, chosen by the above institution.

In 2012 the Bank pursued its policy to donate IT equipment and furniture to IPSS (private charitable institutions) and other institutions.

## BOX 3 | CENTRAL CREDIT REGISTER OF BANCO DE PORTUGAL

The Central Credit Register (CCR) is an information system, managed by Banco de Portugal, containing information reported by the participant entities on actual credit liabilities in regular situations (positive information), on default events (negative information), and on potential credit liabilities representing irrevocable commitments in the financial system.

The main purpose of the CCR is to support its participants in assessing risk in credit granting, being also used by Banco de Portugal for purposes such as financial institutions supervision, financial system stability analysis, carrying out of monetary policy and intraday credit operations and compilation of statistics.

Credit beneficiaries have the right to consult the data contained in the CCR about them. Consultations can be made in a safe, easy and cheaper way through Banco de Portugal's institutional website.

The CCR contains information on credit granted by resident credit institutions to companies (since 1978) and individuals (since 1993), also providing information on credit obtained from credit institutions located in other European countries (since 2005), as well as on guarantors and warrantors (since 2007).

### Comparison between European public Central Credit Registers

|                                   | Portugal | Spain | Italy | Austria | Germany | Belgium | France | Czech Republic | Romania |
|-----------------------------------|----------|-------|-------|---------|---------|---------|--------|----------------|---------|
| <b>Information collected</b>      |          |       |       |         |         |         |        |                |         |
| Credit standing                   | Y        | Y     | Y     | Y       | Y       | Y       | Y      | Y              | Y       |
| Level of responsibility           | Y        | Y     | Y     | Y       | Y       | Y       | Y      | Y              | Y       |
| Instrument or purpose             | Y        | N     | N     | N       | N       | N       | N      | Y              | N       |
| Original maturity                 | Y        | Y     | Y     | N       | N       | N       | Y      | Y              | Y       |
| Residual maturity                 | Y        | N     | N     | N       | N       | N       | N      | N              | N       |
| Credit fallen due (amount)        | Y        | Y     | Y     | Y       | N       | N       | N      | Y              | Y       |
| Type of guarantee                 | Y        | Y     | Y     | Y       | Y       | N       | N      | Y              | Y       |
| Value of the guarantee            | Y        | N     | N     | N       | Y       | N       | N      | Y              | Y       |
| Debtors' insolvency or bankruptcy | Y        | N     | Y     | Y       | N       | N       | N      | N              | N       |
| Currency of denomination          | Y        | Y     | N     | N       | N       | Y       | N      | Y              | Y       |
| Country granting the credit       | Y        | Y     | N     | Y       | Y       | Y       | N      | Y              | N       |
| Information on warrantors         | Y        | Y     | N     | N       | Y       | N       | N      | N              | N       |

For several years now, the coverage of the CCR managed by Banco de Portugal has occupied the leading position in the public central credit registers ranking of the *Doing Business* annual report, published by the World Bank.

Statistical information on credit granted by the resident financial sector, compiled from CCR data, is published in section A.11 of the 'Main Indicators' of the *Statistical Bulletin* of Banco de Portugal and in section B.9 of the same publication, and is also available on the BPstat | Statistics online chronological series.

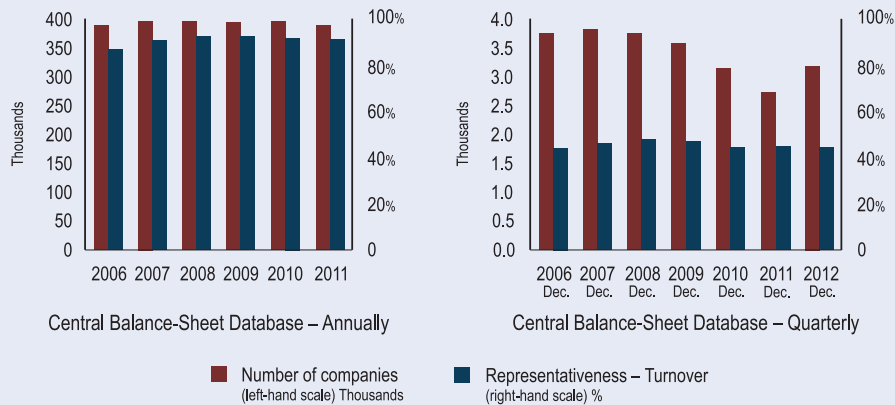
### The CCR in numbers

- €50: prescribed minimum reporting threshold;
- 15 types of financial products;
- 6 million registered private debtors;
- 300 thousand registered companies;
- 200 participants;
- 23 million liability balances reported per month.

## BOX 4 | CENTRAL BALANCE-SHEET DATABASE OF BANCO DE PORTUGAL

The Central Balance-Sheet Database (CBSD) of Banco de Portugal is an economic and financial database on Portuguese non-financial corporations. Information is based on annual data reported since 2006, under the so-called Simplified Corporate Information, and on quarterly data obtained from the Quarterly Survey to Non-Financial Corporations, which is jointly carried out with Statistics Portugal.

### Central Balance-Sheet Database



Source: Banco de Portugal.

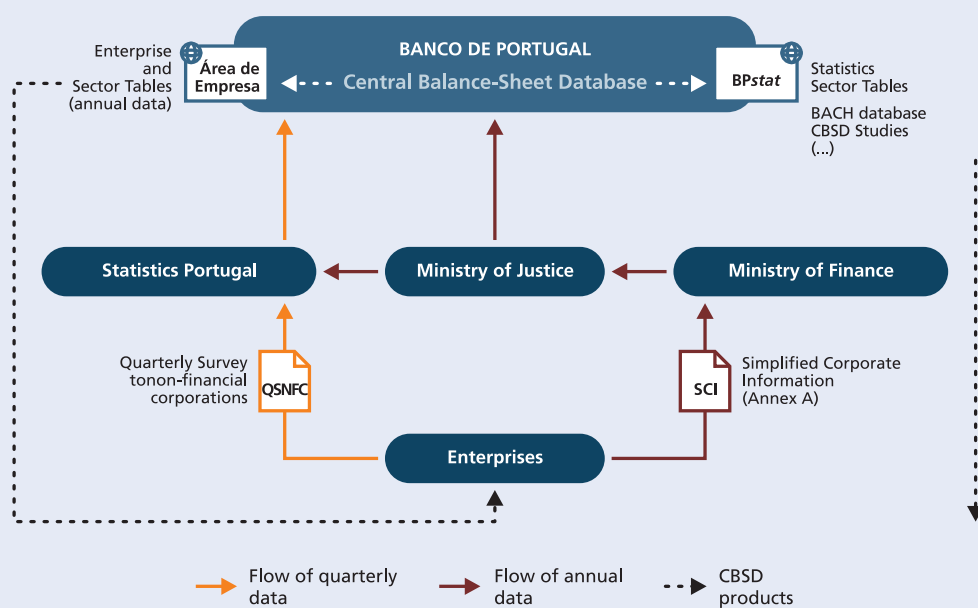
The CBSD's main purpose is to contribute to a better understanding of the economic and financial situation of the Portuguese non-financial corporations. To this end, the following products are available:

- Enterprise and Sector Tables, containing information on companies and respective economic activity sector and size class; this information can be consulted on a restricted access section of the Corporate Area of Banco de Portugal's website;
- Sector Tables and Chapter G of the Statistical Bulletin of Banco de Portugal, containing aggregate data, available from BP stat | Statistics online;
- Portugal's contribution to the BACH international database, containing aggregate data on non-financial corporations of several European countries;
- Studies of the Central Balance-Sheet Database, containing analyses based on CBSD data as well as on other information sources;
- Statistical information included in the financial stability and monitoring analyses of the Portuguese economic situation, available on several regular publications of Banco de Portugal.

Through the Central Balance-Sheet Database conferences, Banco de Portugal discloses the results of the sectoral analyses, as well as relevant products and services for corporate activity.



## STATISTICAL DATA FLOWS



### The Central Balance-Sheet Database in numbers

- 100% of the non-financial corporations in Portugal;
- 3 thousand variables per enterprise;
- Results available 4 months (quarterly) and 10 months (annually) after the reference period;
- 360 thousand Enterprise and Sector Tables;
- 4.7 thousand 'economic activity sector / size class' aggregates;
- 100 internationally comparable indicators.





A.1 MAJOR LEGAL AND REGULATORY MEASURES

A.2.1. INTERNATIONAL INSTITUTIONAL REPRESENTATION  
OF BANCO DE PORTUGAL IN 2012

A.2.2. NATIONAL INSTITUTIONAL REPRESENTATION  
OF BANCO DE PORTUGAL IN 2012

A.3.1. PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012

A.3.2. ARTICLES PUBLISHED IN 2012

## Annex A.1

### MAJOR LEGAL AND REGULATORY MEASURES

| Area                   | Subject matter                                | Instrument   | Description  |
|------------------------|---|--|--|
| Prudential Supervision | Solvency                                      | Notice of Banco de Portugal No 5/2012 of 20 January              | Identifies the institutions that are subject to the measures laid down in the Recommendation of the European Banking Authority (EBA/REC/2011/1), in the context of a coordinated set of measures aimed at restoring confidence in the banking sector.  |
|                        |   | Law No 4/2012 of 11 January                                      | Amends the legal framework governing banks' access to capitalisation operations through public investment (enshrined in Law No 63-A/2008 of 24 November), laying down that banks' capital increases through public capital shall be considered as a supplement and last resort solution.   |
|                        |   | Executive Order No 150-A/2012 of 17 May                          | Defines the procedures required for the implementation of Law No 63-A/2008 of 24 November, within the scope of capitalisation operations through public investment. It entrusts Banco de Portugal with the power to monitor and supervise compliance by beneficiary credit institutions with the relevant obligations.   |
|                        |   | Circular Letter of Banco de Portugal No 1/2012/DSP of 17 January | Recommends that credit institutions retain their earnings for the fiscal year 2011 or, if earnings are to be distributed as dividends, they should be immediately reinvested in capital, in order to ensure an actual increase in their own funds.   |
|                        |   | Instruction of Banco de Portugal No 18/2012 of 4 May             | Requests the identification and pointing out of credit restructuring events due to customers' financial difficulties.  |
|                        | Preventive, corrective and resolution regime  | Decree-Law No 31-A/2012 of 10 February                           | Defines the new preventive, corrective and resolution regime set out in an amendment to the Legal Framework of Credit Institutions and Financial Companies, providing for three distinct implementation phases: (i) corrective intervention; (ii) interim administration; and (iii) resolution. This legal framework confers powers on Banco de Portugal to intervene in institutions under its supervision in situations of financial distress, creates a Resolution Fund, and establishes a pre-judicial winding-up proceeding for the institutions under its supervision. It also changes other winding up-related aspects. |
|                        |   | Notice of Banco de Portugal No 12/2012 of 8 October              | Defines the rules applicable to the recovery plans that authorised deposit-taking institutions must submit on an annual basis.   |
|                        |   | Notice of Banco de Portugal No 13/2012 of 8 October              | Defines the rules applicable to the setting-up and operation of bridge banks set up by a decision of Banco de Portugal within the scope of its legal powers to apply resolution measures.  |
|                        | Electronic Money Institutions                 | Notice of Banco de Portugal No 18/2012 of 18 December            | Defines the rules applicable to the resolution plans that institutions must submit on an annual basis, with a view to enabling the preparation by Banco de Portugal of the resolution measures to be applied to a specific institution.  |
|                        |   | Decree-Law No 242/2012 of 7 November                             | Regulates the taking up of the business of electronic money institutions and the provision of electronic money issuance services, transposing into Portuguese law Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions, by amending the legal framework regulating the taking up of the business of payment institutions and the provision of payment services, approved as an annex to Decree-Law No 317/2009 of 31 October.  |
|                        | Deposit Guarantee Fund and Resolution Fund    | Decree-Law No 31-A/2012 of 10 February                           | Increases the effectiveness of the deposit guarantee, by limiting the purpose of the Deposit Guarantee Fund, increasing the financing means available in the event of lack of resources and by granting preferential rights to the deposits covered by the guarantee and to claims securitised by the Deposit Guarantee Fund.  |
|                        |   | Notice of Banco de Portugal No 10/2012 of 27 September           | Updates the calculation method of contributions to the Mutual Agricultural Credit Guarantee Fund, by identifying a new reference ratio (Core Tier 1 ratio which replaces the solvency ratio), as well as a new calculation basis for that ratio, for the purpose of determining the weightings applicable to the calculation of each member institution's contribution rate.   |
|                        |   | Notice of Banco de Portugal No 11/2012 of 27 September           | Updates the calculation method of contributions to the Deposit Guarantee Fund, by identifying a new reference ratio (Core Tier 1 ratio which replaces the solvency ratio), as well as a new calculation basis for that ratio (on a consolidated basis), for the purpose of determining the weightings applicable to the calculation of each member institution's contribution rate.  |
|                        |   | Instruction of Banco de Portugal No 33/2012 of 15 October        | Sets the base rate applicable to the calculation of each member institution's contribution to the Deposit Guarantee Fund in 2013.  |
|                        |   | Instruction of Banco de Portugal No 34/2012 of 15 October        | Stipulates that member institutions cannot replace their annual contribution to the Deposit Guarantee Fund with irrevocable payment commitments.   |
|                        | Institutions' governance and management model | Notice of Banco de Portugal No 10/2011 of 9 January 2012         | Regulates the principles and rules governing the remuneration policy of the members of governing and supervisory bodies, as well as relevant employees of credit institutions, investment firms and branches established in Portugal of credit institutions and investment firms having their head office outside the European Union.  |

## MAJOR LEGAL AND REGULATORY MEASURES

| Area   | Subject matter   | Instrument  | Description   |
|--|--|---|---|
| Money laundering and terrorist financing                   |  | Notice of Banco de Portugal No 9/2012 of 29 May   | Defines the information requirements in the field of money laundering and terrorist financing risk management to be periodically reported to Banco de Portugal.   |
|  |  | Instruction of Banco de Portugal No 46/2012 of 17 December  | Approves the Self-Assessment Questionnaire, a new reporting instrument enabling Banco de Portugal to have a better perception of the quality of the money laundering and terrorist financing prevention systems implemented by institutions and to obtain quantitative supporting data.   |
| Banking Conduct Supervision                                | Prevention and settlement of arrears on credit agreements with household customers | Decree-Law No 227/2012 of 25 October  | Defines principles and rules to be observed by credit institutions in preventing and managing arrears situations arising from credit agreements with household customers, establishes that each credit institution must develop and implement a Pre-Arrears Action Plan (PRAP) and defines an out-of-court procedure to assist the negotiations between household customers and credit institutions for the settlement of arrears situations (OASP). In addition, it provides for the creation of the Assistance Network for Indebted Consumers (ANIC).   |
|  |  | Law No 58/2012 of 9 November  | Establishes an extraordinary regime for protection of housing loan borrowers in a very difficult economic situation, who have signed credit agreements used to purchase, build or make ordinary or extraordinary maintenance and repairs and improvements to owner-occupied homes.  |
|  |  | Notice of Banco de Portugal No 17/2012 of 17 December   | Establishes the requirements that credit institutions shall observe in the prevention and out-of-court resolution of arrears on credit agreements, regulating the provisions of Decree-Law No 227/2012 of 25 October.   |
|  |  | Instruction of Banco de Portugal No 44/2012 of 17 December  | Establishes that credit institutions must report to Banco de Portugal information on credit agreements under the Out-of-Court Arrears Settlement Procedure (pursuant to Decree-Law No 227/2012 of 25 October), as well as on credit agreements covered by the extraordinary regime for protection of housing loan borrowers in a very difficult economic situation, in accordance with the provisions laid down in Law No 58/2012 of 9 November.  |
|  |  | Circular Letter of Banco de Portugal No 93/2012/DSC of 28 December  | Provides guidance on the coordination between the Out-of-Court Arrears Settlement Procedure, regulated by Decree-Law No 227/2012 of 25 October, and the procedure set out in the extraordinary regime for protection of housing loan borrowers in a very difficult economic situation, established by Law No 58/2012 of 9 November.   |
|  | Mortgage credit  | Decree-Law No 226/2012 of 18 October  | Extends the legal framework of mortgage credit (set out in Decree-Law No 51/2007 of 7 March) to all credit agreements signed with household customers, which are backed by residential mortgages or other rights on immovable property.   |
|  |  | Law No 59/2012 of 9 November  | Amends Decree-Law No 349/98 of 11 November 1998, creating safeguards for housing loans borrowers, in particular: (i) restriction of the credit institutions' right to terminate credit agreements for default by the borrower; (ii) borrower's right to resume a credit agreement after its termination; and (iii) prohibition on increasing credit charges following the renegotiation of credit, due to lease of the dwelling by the borrower, in the event of unemployment or change in the place of employment of the borrower, or due to divorce, legal separation of spouses and properties, dissolution of a life partnership or death of either one of the spouses. |
|  |  | Notice of Banco de Portugal No 16/2012 of 17 December   | Extends the information obligations incumbent upon credit institutions when negotiating and signing housing credit agreements, as well as during the lifetime of such agreements, to credit agreements signed with household customers, which are backed by mortgages or other rights on immovable property.  |
|  |  | Instruction of Banco de Portugal No 45/2012 of 17 December  | Establishes the Standardised Information Sheet models to be provided by credit institutions to household customers before the conclusion of housing loans, related loans (crédito conexo) and other mortgage credit agreements, which are backed by mortgages or other rights on immovable property, following the amendments introduced by Decree-Law No 226/2012 of 18 October.   |
|  | Minimum banking services   | Decree-Law No 225/2012 of 17 October  | Amends the legal framework of the minimum banking services, so that they can be accessed by household customers holding only one demand deposit account. It grants household customers the right to acquire a range of banking services considered essential at reduced cost, such as opening a demand deposit account and use of a number of payment services, including a debit card. These services are provided by the credit institutions that have voluntarily signed the protocol on the provision of minimum banking services.  |
| Notice of Banco de Portugal No 15/2012 of 13 December      |  | Regulates the information obligations of credit institutions that have voluntarily decided to sign the protocol on the provision of minimum banking services and establishes the duty of credit institutions to make known such decision as well as the access conditions to these services.  |   |
| Instruction of Banco de Portugal No 43/2012 of 17 December |  | Establishes the compulsory reporting of information by credit institutions on the provision of minimum banking services.  |   |
| Credit agreements denominated in foreign currency          | Circular Letter of Banco de Portugal No 86/2012/DSC of 20 December                 | Defines best practice on foreign currency lending to be observed by the credit institutions that have implemented the recommendations of the European Systemic Risk Board (ESRB), aimed at preventing risks resulting from potentially adverse exchange rate developments, with a negative impact on the charges borne by the customer. |   |

| MAJOR LEGAL AND REGULATORY MEASURES |                                       |  |  |
|-------------------------------------|---------------------------------------|--|--|
| Area                                | Subject matter                        | Instrument   | Description  |
| Banking Conduct Supervision         | Payment and electronic money services | Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012   | Amends Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community, establishing technical and business requirements for credit transfers and direct debits, to increase their safety, cover and soundness. It sets forth that Member States should establish out-of-court complaint and resolution procedures for the settlement of disputes arising from the implementation of this Regulation and should lay down the penalties applicable to infringement of it.  |
|                                     |                                       | Decree-Law No 242/2012 of 7 November   | Regulates the taking up of the business of electronic money institutions and the provision of electronic money issuance services, transposing into Portuguese law Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009. In particular, it introduces changes in: (i) the legal framework regulating the taking up of the business of electronic money institutions and the provision of electronic money issuance services (Decree-Law No 317/2009 of 30 October); (ii) the Legal Framework of Credit Institutions and Financial Companies (Decree-Law No 298/92 of 31 December 1992); (iii) the legislation on the Complaints Book (Decree-Law No 156/2005 of 15 September); and (iv) the legal framework of agreements relating to the distance marketing of financial services entered into with consumers (Decree-Law No 95/2006 of 29 May). |
|                                     |                                       | Circular Letter of Banco de Portugal No 66/2012/DSC of 20 November   | Within the scope of the legal framework of cross-border payment operations in the European Union (Regulation (EC) No 924/2009), provides a set of understandings to ensure its uniform implementation, in particular as regards the charging of fees and information obligations in the price list.  |
|                                     |                                       | Circular Letter of Banco de Portugal No 3/2013/DSC of 1 February   | Within the scope of the marketing of payment cards and consumer credit regime supervision (Decree-Law No 133/2009 of 2 June), provides clarification on the correct classification of the cards issued by institutions and defines the best practice to be followed when charging fees on retailers associated with the acceptance of payment cards in point-of-sale terminals.  |
| Monetary policy                     | Money market                          | Decree-Law No 192/2012 of 23 August  | Amends Decree-Law No 105/2004 of 8 May (financial collateral arrangements) to introduce credit claims as an eligible type of collateral for Eurosystem credit operations.  |
|                                     |                                       | Instructions of Banco de Portugal Nos 8/2012, 9/2012, 17/2012, 28/2012, 39/2012 and 53/2012 that introduce amendments to Instruction of Banco de Portugal No 1/99 of 31 December 1998. | Regulates the Intervention Operations Market.  |
|                                     |                                       | Circular Letter of Banco de Portugal No 10/2012/DMR of 22 November   | Publication of a new price list of the services provided by SITEME (market electronic transfer system) as a result of Banco de Portugal central securities deposit phasing-out and revokes Circular Letter of Banco de Portugal No 6/2012/DMR of 23 August.  |
|                                     |                                       | Instruction of Banco de Portugal No 7/2012 of 15 February as amended by Instructions of Banco de Portugal Nos 9/2012 and 29/2012   | Regulates the acceptance and use of additional credit claims as collateral in the Eurosystem's credit operations.  |
|                                     |                                       | Instructions of Banco de Portugal Nos 26/2012 and 42/2012 that introduce amendments to Instruction of Banco de Portugal No 47/98 of 23 December 1998                                   | Regulates the market electronic transfer system within the scope of financial settlement operations in regulated markets.  |
|                                     |                                       | Instruction of Banco de Portugal No 25/2012 of 23 August   | Regulates the unsecured interbank money market.  |

## MAJOR LEGAL AND REGULATORY MEASURES

| Area              | Subject matter                    | Instrument  | Description  |
|-------------------|-----------------------------------|---|--|
| Payment systems   | SEPA                              | Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012                            | Establishes technical and business requirements for credit transfers and direct debits in euro and amends Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009.  |
|                   | TARGET2-PT                        | Instruction of Banco de Portugal No 54/2012 of 15 January 2013  | Amends the TARGET2-PT Regulation, in order to include the intraday credit access conditions.   |
|                   | SICOL (Interbank Clearing System) | Instruction of Banco de Portugal No 4/2012 of 15 February   | Amends Instruction of Banco de Portugal No 3/2009, following the introduction of additional clearing cycles for the TEI (electronic funds transfer) subsystem, SEPA segment.   |
|                   |                                   | Instruction of Banco de Portugal No 22/2012 of 16 July  | Amends Annex IV to Instruction of Banco de Portugal No 3/2009 published in the Official Bulletin No 2 of 16 February 2009, which regulated the Interbank Clearing System (SICOL), following the introduction of changes in the reasons for cheque return.  |
|                   |                                   | Instruction of Banco de Portugal No 55/2012 of 15 January 2013  | Amends the Interbank Clearing System (SICOL) Regulation, updating its references, following the publication of the Guideline of the European Central Bank (ECB/2012/27) of 5 December 2012 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) (recast).  |
| Statistics        | Monetary and financial statistics | Instruction of Banco de Portugal No 20/2012 of 15 June  | Amends Instruction of Banco de Portugal No 12/2010 on balance sheet and interest rate statistics of the monetary financial institutions, regulating in particular the collection of individual information on interest rates on new lending operations with non-financial corporations, as well as information on the evolution of the credit portfolio. |
|                   | Balance of payments               | Instruction of Banco de Portugal No 27/2012 of 17 September as amended by Instruction of Banco de Portugal No 56/2012 | On external operations and positions statistics, supporting the new compilation system of balance of payments statistics and international investment position statistics (revokes Instruction of Banco de Portugal No 34/2009 as from 1 October 2013).  |
| Currency issuance |                                   | Instruction of Banco de Portugal No 5/2012 of 15 February   | On the reporting of information on the authentication of euro coins and handling of euro coins unfit for circulation.  |
|                   |                                   | Instruction of Banco de Portugal No 6/2012 of 15 February   | On the reporting of information on fitness and authenticity checks and on euro banknote recycling.   |
|                   |                                   | Instruction of Banco de Portugal No 30/2012 of 15 October   | Amends Instruction of Banco de Portugal No 30/2009 of 15 January 2010, generally allowing credit institutions to make deposits and withdrawals of non-faced and non-oriented euro banknotes.   |
|                   |                                   | Instruction of Banco de Portugal No 35/2012 of 15 October   | On training professional cash-handlers within the scope of euro banknote and coin recycling.   |
|                   |                                   | Instruction of Banco de Portugal No 36/2012 of 15 October   | On the monitoring by Banco de Portugal of euro banknote and coin recycling.  |
|                   |                                   | Instruction of Banco de Portugal No 37/2012 of 15 October   | On the use of intelligent banknote neutralisation systems and exchange of euro banknotes damaged by such systems.  |
|                   |                                   | Instruction of Banco de Portugal No 38/2012 of 15 October   | On the observance of the obligation to retain banknotes and coins, which are counterfeit, false or suspect.  |

Annex A.2 | Table 1

| INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012 |                             |  |  |                 |                                       |                              |                         |                                       |                                   |  |
|---|-----------------------------|--|--|-----------------|---------------------------------------|------------------------------|-------------------------|---------------------------------------|-----------------------------------|--|
| Scope   | Structure                   | Committee/<br>Working group  | Main activities  | Structural unit | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                                   |  |
|   |                             |  |  |                 |                                       |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconfe-<br>rences |  |
| Eurosistem  | European Central Bank (ECB) | Governing Council  | Conduct of monetary policy, including decisions on interest rates and non-standard measures, in a context of high uncertainty and tensions in financial and sovereign debt markets. Adoption of several guidelines and decisions needed to carry out the remaining statutory tasks entrusted to the Eurosystem.  | GOV             | 23                                    |                              | 1                       | 2                                     |                                   |  |
|   |                             | General Council  | Analysis of the EU economic, monetary and financial situation; approval of the annual public finance report and of the Convergence Report 2012; analysis of macro-prudential issues; and preparation of international fora meetings.   | GOV             | 4                                     | 1                            |                         |                                       |                                   |  |
|   |                             | SEPA High-Level Group / SEPA Council   | Discussion of main issues regarding the further development of SEPA: European Regulation, innovation, security, communication and governance.  | ADM             | 2                                     |                              |                         |                                       |                                   |  |
|   |                             | High-Level Group on Supervision  | Establishment of the Single Supervisory Mechanism (SSM) and transition modalities  | ADM             | 3                                     |                              |                         |                                       |                                   |  |
|   |                             | Task Force on Supervisory Issues   | Preparation of the decisions of the High-Level Group on Supervision, in particular as regards the identification of institutions with systemic relevance, mapping of the euro area banking system, preparation of the SSM supervisory model, and reporting system.   | DSP             | 6                                     | 2                            | 4                       | 8                                     | 4                                 |  |
|   |                             | Organisational Analysis Working Group (OWG)  | Within the framework of the Eurosystem's Functions Inventory: biennial review of the functions grid; consultation of Eurosystem/ESCB Committees on the current classification of functions. Within the framework of the EPCO Steering Committee: assessment of the 2012 draft budget and procurement plan; approval of the annual activity report. Monitoring of Operational Risk Management (ORM) and Business Continuity Management (BCM).   | DRH/DGR         | 5                                     |                              | 1                       | 1                                     |                                   |  |
|   |                             | Eurosystem Procurement Coordination Office (EPCO)  | Conclusion of the 54 documents on the Eurosystem Best Public Procurement Practices; preparation and implementation of 10 joint procurements, most of them enabling financial, administrative and service harmonisation with major financial benefits for the Eurosystem, e.g. Thomson/Reuters terminals, DBRS credit rating services, rating services for the Common Eurosystem Pricing Hub, standard software packages, global hotel agreements, air transport, and external services assessing the quality of audit activities. With a view to future procurements, studies and analyses were made on banknote packaging, computer hardware and software and insurance services. | DSA/DOI         | 6                                     |                              | 19                      | 4                                     | 9                                 |  |
|   |                             | International Relations Committee (IRC)  | Analysis of global economic and financial developments; monitoring of and contribution to the preparation of Eurosystem/ESCB positions on the international financial architecture, in particular on main G20 and IMF issues (capital flows, global financial security network, surveillance, quota and governance reform and programme conditionality); monitoring of developments in the international monetary system and review of developments in EU's neighbouring regions, especially challenges to the financial stability of EU candidate countries.  | ADM/DRI         | 5                                     | 4                            | 3                       | 5                                     |                                   |  |
|   |                             | - High-Level Seminar on the Mediterranean Region   | Reflection on the recent experience of the euro area and Mediterranean countries, focusing on three areas: (i) economic and financial developments; (ii) monetary policy implementation; and (iii) macro-prudential policies and financial stability.  | GOV             | 1                                     |                              | 1                       | 1                                     |                                   |  |
|   |                             | - High-Level Seminar of the Eurosystem and Latin American Central Banks  | Discussion of two major topics: (i) key factors behind the sovereign debt crises and economic policy responses; and (ii) overall liquidity, capital flows and macro-prudential policies.   | GOV             | 1                                     |                              |                         |                                       |                                   |  |
|   |                             | - High-Level Eurosystem Seminar with Central Banks and Monetary Agencies of the Gulf Cooperation Council (GCC) | Discussion of three major topics: (i) economic, financial and fiscal challenges in the euro area; (ii) systemic risk analysis and prevention of financial crises; and (iii) international architecture in the monetary and financial area.   | GOV             | 1                                     |                              |                         |                                       |                                   |  |
|   |                             | Eurosystem IT Steering Committee (EISC)  | IT governance within the Eurosystem/ESCB: definition of operational models and rules, analysis of IT projects and systems (in place or under development); advice to the Governing Council of the ECB.   | CON             | 5                                     | 4                            |                         |                                       |                                   |  |



**INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012**

| Scope      | Structure                   | Committee/<br>Working group                             | Main activities  | Structural unit | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                                   |
|------------|-----------------------------|---|--|-----------------|---------------------------------------|------------------------------|-------------------------|---------------------------------------|-----------------------------------|
|            |                             |   |  |                 |                                       |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconfe-<br>rences |
| Eurosystem | European Central Bank (ECB) | <i>Monetary Policy Committee (MPC)</i>                  | Assessment of the implications of the euro area sovereign debt crisis, including the adoption of non-standard monetary policy measures. Preparation of Eurosystem macroeconomic projections and monitoring of EU public finances. Analysis of the heterogeneity of monetary and financial conditions in the euro area.   | DEE             | 10                                    | 5                            | 7                       | 23                                    |                                   |
|            |                             | <i>Market Operations Committee (MOC)</i>                | Monitoring of the financial crisis developments, in particular the sovereign debt crisis; advice on the implementation and monitoring of non-standard monetary policy measures; and monitoring of the EU/IMF programmes implementation in Greece, Ireland and Portugal.  | DMR             | 6                                     | 142                          | 15                      | 20                                    | 232                               |
|            |                             | <i>Banknote Committee (BANCO)</i>                       | Monitoring of developments in the second series of the euro banknotes (ES2); analysis of the strategy to be followed by the Eurosystem up to 2020 regarding cash, and other activities related to euro banknote production, issuance and counterfeiting.   | DET             | 8                                     | 0                            | 13                      | 46                                    | 5                                 |
|            |                             | <i>Payment and Settlement Systems Committee (PSSC)</i>  | Monitoring of TARGET2 developments, specifically regarding adaptations for T2S go-live; contribution to SEPA implementation, specifically in view of the drafting of the relevant European Regulation; participation in the oversight of payment systems and instruments at ESCB level.  | DPG             | 11                                    | 4                            | 18                      | 86                                    | 8                                 |
|            |                             | <i>Statistics Committee (STC)</i>                       | Monitoring of ongoing projects in multiple statistical domains, among others: securities portfolio statistics aimed at improving the compilation process of euro area quarterly accounts and the implementation processes of new methodological manuals (e.g. ESA2010, BPM6). Contribution to the work of the Reflexion Group on cooperation between the ESCB and the European Statistical System (ESS).   | DDE             | 4                                     |                              | 15                      | 47                                    | 2                                 |
|            |                             | <i>Budget Committee (BUCCOM)</i>                        | Assistance to the Governing Council of the ECB in the assessment of the ECB's budget: execution of the 2011 budget, intermediate execution of the 2012 budget and proposal for the 2013 budget.  | DCC             | 4                                     | 2                            |                         |                                       |                                   |
|            |                             | <i>Eurosystem/ESCB Communications Committee (ECCO)</i>  | Activities regarding Eurosystem communication policy, instruments and platforms; monitoring of issues covered by the media which are relevant to the ESCB NCBs; monitoring of public awareness of the Eurosystem and the euro; development of educational and information materials.   | DR/GAB          | 4                                     | 1                            | 5                       | 14                                    |                                   |
|            |                             | <i>Financial Stability Committee (FSC)</i>              | Assistance to the ECB's decision-making bodies in the performance of their tasks relating to financial system stability and prudential supervision of credit institutions, specifically analysis of the Financial Stability Review; discussion of issues on crisis regulation, supervision and management.   | DEE/DSP         | 3                                     | 0                            | 3                       | 6                                     | 3                                 |
|            |                             | <i>Accounting and Monetary Income Committee (AMICO)</i> | Advice to the Governing Council of the ECB on accounting and allocation of monetary income; further accounting harmonisation among Eurosystem NCBs; analysis of the accounting treatment of new operations, in particular regarding the sovereign debt crisis and non-standard monetary policy operations, update of accounting standards, production of the Comparison of ESCB Accounting Framework with the IFRS and of the Terms of Reference highlighting the importance of Central Banks' financial strength.               | DCC             | 4                                     | 1                            | 1                       | 4                                     | 1                                 |
|            |                             | <i>Legal Committee (LEGCO)</i>                          | Monitoring of legal issues within the Eurosystem, in particular the sovereign debt crisis and the Target2-Securities project.  | DJU             | 11                                    | 4                            | 1                       |                                       |                                   |
|            |                             | <i>Information Technology Committee (ITC)</i>           | Monitoring of activities related to the development of projects within the ESCB, in particular in Shared Services. Definition of a cooperation framework of ITC substructures in service management and definition of roles and responsibilities in articulation with service providers and the EISC. Strengthened articulation with business committees, as well as COMCO (e.g. reconciliation of the framework underlying the POCP (official plan of public accounting) with the methodologies established by this committee). | DOI             | 6                                     |                              | 6                       | 24                                    | 5                                 |
|            |                             | <i>Internal Auditors Committee (IAC)</i>                | Planning and conducting of internal audits on joint systems and processes at the ESCB/Eurosystem level to ensure efficient risk management, control and governance processes.  | DAU             | 6                                     | 3                            | 1                       | 4                                     | 5                                 |

| INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012             |  |   |   |                        |   |                              |                         |                                       |                                   |
|---|--|---|---|------------------------|---|------------------------------|-------------------------|---------------------------------------|-----------------------------------|
| Scope   | Structure  | Committee/<br>Working group   | Main activities   | Structural unit        | Number of<br>face-to-face<br>meetings   | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                                   |
|   |  |   |   |                        |   |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconfe-<br>rences |
| Eurosystème   | European Central Bank (ECB)  | <i>Committee on Controlling (COMCO)</i>   | Following the work of the Joint OWG/COMCO Task Force, the mandate of COMCO was extended and its name was changed from Committee on Cost Methodology to Committee on Controlling, and the Working Group on Controlling and Methodological Issues (CMI-EG) was created.<br><br>Financial control of projects, activities and systems in place in the Eurosystem/ESCB, in particular cost assessment, financial envelopes, cost/benefit analyses and development of methodologies and instruments in this area (ETCO, ECBA, etc.). | DCC                    | 5   | 2                            | 1                       | 1                                     | 1                                 |
|   |  | <i>Risk Management Committee (RMC)</i>  | Preparation and monitoring of non-standard monetary policy measures; monitoring of counterparties with outstanding Eurosystem credit operations; analysis, from a risk management perspective, of the future operational framework for monetary policy implementation and several aspects related to the management of the foreign currency reserves of the Eurosystem.   | DMDRGR                 | 4   | 27                           | 3                       | 1                                     | 7                                 |
|   |  | <i>High-Level Task Force on the Establishment of Eurosystem Internal Credit Risk Assessment</i> | Analysis, discussion and preparation of a report for the Governing Council of the ECB with the recommendations on the building up of internal capabilities to assess credit risk in the Eurosystem.   | DGR                    | 1   |                              |                         |                                       |                                   |
|   |  | <i>Human Resources Conference (HRC)</i>   | Identification of opportunities and development of recommendations for joint NCB training activities; proposal of measures to promote staff mobility among NCBs; exchange of information on HR practices and policies; exploration of other cooperation areas within HR management; development of a platform for sharing information on intra-ESCB job offers and mobility.  | DRH                    | 3   |                              |                         |                                       |                                   |
|   |  | <i>Heads of Security of Central Banks</i>   | Exchange of information and experiences on physical security, to analyse threats and implement best practice. Analysis of some of the main incidents and preparation of reports supporting the ongoing process of operational risk analysis and management.   | DSA                    | 2   | 20                           |                         |                                       |                                   |
|   |  | <i>ESCB Information Management Network</i>  | 3rd ESCB Information Management Network Meeting held in Lisbon, with the main purpose of following the best practices and sharing knowledge on Eurosystem Libraries and Archives regarding access to and digital preservation of documentation.   | DSA                    | 1   |                              |                         |                                       |                                   |
|   |  | <i>ESCB Museum Directors</i>  | Working group meeting in the renovated premises of Banco de Portugal's head office in Lisbon. Analysis of NCBs' projects regarding the creation of museums and interpretative centres. Sharing of experiences and search for solutions.   | DSA                    | 1   |                              |                         |                                       |                                   |
|   |  | <i>Task Force on Common Rules and Minimum Standards</i>   | Identification of common rules and minimum standards for handling sensitive information at ESCB level.  | DRI                    | 1   |                              |                         |                                       |                                   |
|   |  | <i>Other</i>  | Identification of common rules and minimum standards for handling sensitive information at ESCB level.  | DAS/DMIR/DOI           | 2   |                              | 2                       | 4                                     |                                   |
|   |  | European Union  | Council of the European Union   | <i>Informal ECOFIN</i> | Monitoring of the economic and financial situation, including developments in sovereign debt markets and definition of operational strategies; financial stability and financial sector developments; financial services reforms; and preparation of the IMF/World Bank meetings. | GOV                          | 2                       |                                       |                                   |
| <i>Working Party on Financial Services – CRD IV / CRR</i>                           | Analysis and negotiation of Commission proposals to strengthen the regulation of the banking sector: the Capital Requirements Directive (CRD IV) regulates the taking up and pursuit of the business of credit institutions and the Capital Requirements Regulation (CRR) establishes the prudential requirements institutions must comply with. |   |   | DSP                    | 5   |                              |                         |                                       |                                   |
| <i>Working Party on Financial Services – Mortgage Credit Directive Expert Group</i> | Discussion of a proposal for a Mortgage Credit Directive presented by the European Commission on 31 March 2011 (under discussion at the end of 2012).  |   |   | DSC                    |   |                              |                         |                                       |                                   |

**INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012**

| Scope          | Structure                              | Committee/<br>Working group  | Main activities   | Structural unit | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                                   |
|----------------|--|--|---|-----------------|---------------------------------------|------------------------------|-------------------------|---------------------------------------|-----------------------------------|
|                |  |  |   |                 |                                       |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconfe-<br>rences |
| European Union | Council of the European Union          | <i>Working Party on Financial Services – DMIF II Expert Group</i>            | Discussion of proposals for a Directive (MiFID II) and a Regulation (MiFIR) on markets in financial instruments published by the European Commission on 20 October 2011 and 3 July 2012 respectively. The proposal for a Directive extends conduct of business rules to be established in MiFID II to structured deposits and the Regulation information requirements.  | DSC             | 5                                     |                              |                         |                                       |                                   |
|                |  | <i>Working Party on Financial Services – Banking Recovery and Resolution</i> | Negotiation of the proposal for a Directive on the recovery and resolution of credit institutions and investment firms.   | DSP             |                                       |                              |                         |                                       |                                   |
|                |  | <i>Ad-Hoc Working Party on the Banking Supervision Mechanism</i>             | Negotiation of European Commission proposals on: (i) granting the ECB with prudential supervision powers and creation of the Single Supervisory Mechanism (SSM); and (ii) introduction of amendments to the Regulation that established the European Banking Authority, in the light of the powers granted to the ECB.  | DSP             | 7                                     |                              |                         |                                       |                                   |
|                | Economic and Financial Committee (EFC) | <i>Economic and Financial Committee (EFC)</i>                                | Monitoring of the economic and financial developments in Member States and the EU; stress test exercise performed by the EBA; financial sector developments and reforms; coordination of EU positions at international level; preparation of ECOFIN Council's works and decisions, including its informal meetings.   | ADM/GAB         | 11                                    | 2                            |                         |                                       |                                   |
|                |  | <i>- EFC – Alternates</i>  | Preparation of EU positions at international level (G20 and IMF); monitoring of the economic and financial situation; preparation of the EFC annual report on the movement of capital and the freedom of payments.  | GAB             | 3                                     |                              |                         |                                       |                                   |
|                |  | <i>- EFC – Sub-Committee on IMF and Related Issues (SCIMF)</i>               | Preparation of contributions to EU positions at the G20 and the IMF, in particular regarding issues on the reform of the international monetary system (including the management of capital flows, quota and governance reform, surveillance, review of conditionality and facilities for low-income countries, IMF resources, and monitoring of the final purpose of gold sales profit).   | DRI             | 4                                     | 5                            |                         |                                       |                                   |
|                |  | <i>- EFC Sub-Committee on EU sovereign debt markets (ESDM)</i>               | Monitoring of developments in European sovereign debt markets, in particular the impact and challenges posed by the sovereign debt crisis in the euro area; and preparation of standardised Collective Action Clauses (CACs) for all Member States.   | DMR             | 3                                     |                              |                         |                                       |                                   |
|                |  | <i>- EFC – Euro Coin Sub-Committee (ECS)</i>                                 | Authentication of euro coins and handling of coins unfit for circulation; monetary agreements with third parties; commemorative coin to celebrate 10 years of euro banknotes and coins; consolidation of provisions relating to euro coins; technical specifications of coins; cross-border cash transport; protection of the authentication of euro coins.   | DET             | 2                                     | 0                            |                         |                                       |                                   |
|                | Economic Policy Committee (EPC)        |  | Implementação dos mecanismos de alerta no âmbito do Semestre Europeu. Discussão da política económica europeia em áreas estruturais como o emprego, a energia e os orçamentos nacionais.  | DEE             | 9                                     |                              | 3                       | 8                                     |                                   |
|                | European Commission                    | <i>European Banking Committee</i>  | Development of EU banking legislation and policy issues regarding banking activity, providing opinion on implementation measures to be adopted under the EU Directives.   | DSP             | 4                                     |                              |                         |                                       |                                   |
|                |  | <i>European Committee of Central Balance-Sheet Data Offices (ECCBSO)</i>     | Publication of a Report on the European Central Balance-Sheet Data Offices products and services, coordinated by Banco de Portugal's CBSDO; redesign of the BACH database and website; selection of Banco de Portugal's CBSDO to take over the presidency of the BACH Working Group; signing of an institutional cooperation protocol between ECCBSO and the Committee on Monetary Financial and Balance of Payments Statistics (CMFB). | DDE             | 1                                     |                              | 4                       | 7                                     |                                   |
|                |  | <i>European Financial Conglomerates Committee</i>                            | Adoption of measures implementing the Financial Conglomerates Directive.  | DSP             | 2                                     |                              |                         |                                       |                                   |
|                |  | <i>Early Intervention Working Group</i>                                      | Preparation of a legislative proposal on crisis management and resolution measures.   | DSP             | 4                                     |                              |                         |                                       |                                   |

| INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012 |                                     |  |  |                 |                                       |                              |                         |                                       |                                   |
|---|-------------------------------------|--|--|-----------------|---------------------------------------|------------------------------|-------------------------|---------------------------------------|-----------------------------------|
| Scope   | Structure                           | Committee/<br>Working group  | Main activities  | Structural unit | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                                   |
|   |                                     |  |  |                 |                                       |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconfe-<br>rences |
| European Union  | Eurostat                            | <i>Capital Requirements Directive Working Group</i>  | Preparation of a legislative proposal revising the Capital Requirements Directive (CRD) to strengthen the regulation of the banking sector.  | DSP             | 4                                     |                              | 1                       | 3                                     |                                   |
|   |                                     | <i>European Group of Auditors' Oversight Bodies</i>  | Advice to the Commission on the adoption of implementation measures for the Directive on Statutory Audit and cooperation between public cooperation systems for statutory auditors and audit firms.  | DSP (CNSA)      | 1                                     |                              |                         |                                       |                                   |
|   |                                     | <i>Committee on Credit Agreements for Consumers</i>  | Review of the annual percentage rate of charge (APR) calculation method laid down in Directive 2008/48/EC on credit agreements for consumers.  | DSC             | 1                                     |                              |                         |                                       |                                   |
|   |                                     | <i>Committee on the Prevention of Money Laundering and Terrorist Financing</i>   | Analysis of topics relating to payment and electronic money services provision and the application of Regulation No 1781/2006; listing of equivalent third countries; drafting of the revision of Directive 2005/60/EC; coordination and preparation of the FATF plenary meetings.   | DAS             | 5                                     |                              |                         |                                       |                                   |
|   |                                     | <i>Balance of Payments Committee</i>   | Discussion of the future strategy in the field of balance of payments and international investment position statistics. Presentation and discussion of the new framework of non-financial corporations statistics (Framework Regulation Integrating Business Statistics – FRIBS).  | DDE             | 1                                     |                              |                         |                                       |                                   |
|   |                                     | <i>Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)</i>  | Approved the implementation of a European revisions policy to be effective as of September 2014. Further development of best practice regarding cooperation, which included the listing of the best practices, describing the cooperation agreements and protocols at country level. Analysis of topics related to the revision of international manuals and to the standardisation and consistency of statistics associated with the new European legislative initiatives for the prevention and correction of macroeconomic imbalances. Activities related to the Excessive Deficit Procedure (EDP). | DDE             | 2                                     |                              | 10                      | 14                                    |                                   |
|   |                                     | <i>- CMFB Executive Body</i>   | Preparation of the CMFB's plenary meetings.  | DDE             | 6                                     |                              |                         |                                       |                                   |
|   | <i>Euroindicators Working Group</i> | Presentation of developments in the Euroindicators in 2011/2012 and work programme for 2012. Discussion of issues relating to Handbooks updates, revisions policy, flash estimates, implementation of indicators, databases for the Principal European Economic Indicators (PEEIs), including the vintage database, release of statistics including online publication, regular production of coincident indicators and developments in JDemetra+. | DDE  | 1               |                                       |                              |                         |                                       |                                   |
|   | European Commission/Eurostat        | <i>Other</i>   |  | DET/DPG         | 2                                     |                              | 4                       | 12                                    |                                   |
|   | European Systemic Risk Board (ESRB) | <i>General Board</i>   | Analysis and assessment of risks to financial stability and of systemic vulnerabilities in the EU, including in particular the preparation and disclosure of risk panels, occasional studies, macro-prudential commentaries, and public and confidential recommendations in order to mitigate such risks and vulnerabilities.  | ADM/DSP         | 4                                     |                              |                         |                                       |                                   |
| <i>- Advisory Technical Committee (ATC)</i>                             |                                     | Technical analysis and discussion of several issues in preparation of the General Board meetings, specifically: risks and potential vulnerabilities for financial stability in the EU; drawing up of recommendations.  | DEE/DSP  | 10              |                                       | 7                            | 10                      | 6                                     |                                   |
| European Banking Authority (EBA)  | <i>Board of Supervisors</i>         | Development of banking sector regulations; convergence of practices across supervisory colleges; identification and quantification of systemic risk in cooperation with the ESRB; performance of EU-wide stress test exercises and capital enhancement exercises to restore confidence and stability in the markets.   | ADM/DSP  | 4               | 4                                     | 1                            | 6                       |                                       |                                   |

INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012

| Scope  | Structure   | Committee/<br>Working group   | Main activities  | Structural unit | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                              |
|--|---|---|--|-----------------|---------------------------------------|------------------------------|-------------------------|---------------------------------------|------------------------------|
|  |   |   |  |                 |                                       |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences |
| European Union   | European Banking Authority (EBA)  | - Standing Committee on Regulation and Policy (SCRePol)   | Contribution to the preparation of binding or non-binding rules on the areas of banking, payments, e-money, and intervention in financial institutions in financial distress and resolution.   | DSP             | 39                                    |                              | 11                      | 38                                    | 10                           |
|  |   | - Standing Committee on Oversight and Practices (SCOP)  | Contribution to the development of procedures on the identification of vulnerabilities, in cooperation with other supervisory authorities, specifically regarding the functioning of supervisory colleges and joint decisions on capital adequacy and risk assessment; and development of common supervisory standards.                    | DSP             | 12                                    |                              | 5                       | 9                                     | 4                            |
|  |   | - Standing Committee on Accounting, Reporting and Auditing (SCARA)  | Contribution to developments in accounting, reporting, auditing and transparency.  | DSP             | 16                                    |                              | 6                       | 14                                    | 17                           |
|  |   | - Standing Committee on Consumer Protection and Financial Innovation  | Implementation of EBA's mandate in the area of financial innovation and consumer protection, specifically by promoting transparency, simplicity and fairness in retail banking markets, monitoring of their functioning, analysis of innovative practices and assessment of the impact of product characteristics and marketing practices. | DSC             | 5                                     |                              | 4                       | 2                                     | 2                            |
|  |   | - Review Panel  | Peer reviews of the supervisory authorities' activities targeted at strengthening their action.  | DSP             | 2                                     |                              |                         |                                       |                              |
|  |   | - EBA/ECB Impact Study Group  | Analysis and preparation of quantitative impact studies on the regulatory framework; data collection to monitor developments in minimum capital requirements under Directives 2006/48/EC and 2006/49/EC; analysis of the pro-cyclical effects of the Capital Requirements Directive (CRD).   | DSP             | 2                                     | 1                            |                         |                                       |                              |
|  |   | - Task Force on Intervention Strategy   | Definition of the European Banking Authority's remit on issues relating to the protection of consumers of financial products and services and financial innovation, as well as of the steps to be taken (e.g. legal instruments).  | DSC             | 1                                     |                              |                         |                                       | 5                            |
|  |   | - Press Officers Network  | Coordination of communication activities.  | GAB             | 1                                     | 2                            |                         |                                       |                              |
|  | - IT Sounding Board   | Analysis of issues relating to both central banks and the European Banking Authority (EBA), such as projects on the reporting of data by banks to EBA.  | DOI/<br>DSP  |                 |                                       | 2                            | 4                       |                                       |                              |
|  | European Securities and Market Authority (ESMA)                               | European Enforcers Coordination Sessions (EECS)   | Coordination of accounting enforcement activities among Member States, in order to contribute to consistent application of IAS/IFRS.   | DSP             | 6                                     | 1                            |                         |                                       |                              |
| Joint Committee of European Supervisory Authorities (EBA / ESMA / EIOPA) | Joint Committee Sub-Committee on Consumer Protection and Financial Innovation | Assistance to the Joint Committee to ensure the necessary degree of consistency amongst the European Supervisory Authorities (EBA, EIOPA and ESMA) in relation to matters pertaining to consumer protection and financial innovation covered under the Joint Committee's work programme.  | DSC  | 2               |                                       | 2                            | 1                       |                                       |                              |
|  | Joint Committee on Financial Conglomerates (JCFC)                             | Prudential issues and sanctions related to the Financial Conglomerates Directive and identification and assessment of potential risks from financial conglomerates. This includes participation in Workstream 3 (on sanctions and strengthening enforcement), under a call for advice from the European Commission on this Directive. | DSP/DAS  | 6               | 1                                     | 1                            | 3                       |                                       |                              |
|  | Anti-Money Laundering Task Force (AMLTF)                                      | Conclusion of the protocol for cooperation among supervisors; preparation of a cross-sectional report on the identification of the ultimate beneficial owner (UBO); preparation of a cross-sectional report on the implementation of simplified due diligence (SDD); creation of a Working Group on risk-based supervision.           | DAS  | 2               |                                       |                              |                         |                                       |                              |
|  | Other   |   | DPG  |                 |                                       | 2                            | 5                       | 5                                     |                              |

| INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012 |   |   |   |                    |                                       |                              |                         |                                       |                                   |
|---|---|---|---|--------------------|---------------------------------------|------------------------------|-------------------------|---------------------------------------|-----------------------------------|
| Scope   | Structure   | Committee/<br>Working group   | Main activities   | Structural unit    | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                                   |
|   |   |   |   |                    |                                       |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconfe-<br>rences |
| Portuguese-speaking countries   | Joint Committee of European Supervisory Authorities<br>(EBA / ESMA / EIOPA)           | <i>Lisbon Meeting</i>   | In the public session: presentation and discussion of economic and financial issues of relevance for the Portuguese-speaking countries, in particular the challenges faced by monetary policy in the context of natural resources exploitation. In the two restricted sessions: reflection on the multilateral cooperation among Portuguese-speaking countries and on the IMF/World Bank meetings agenda. | GOV/ADM/<br>DR/GAB | 1                                     |                              |                         |                                       |                                   |
|   |   | <i>Governors' Meeting</i>   | Discussion focused on financial integration instruments and experiences and financial integration and cooperation relations.  | GOV                | 1                                     |                              |                         |                                       |                                   |
|   |   | <i>Banking Audit Meeting</i>  | Analysis of several issues relating to risk governance and control. This Conference gathered for the first time auditors of the Portuguese-speaking central banks. Such initiatives will be regularly held in the future.   | DAU                | 1                                     |                              |                         |                                       |                                   |
|   |   | <i>IT Systems Forum</i>   | Reflection focused on five areas: (i) new IT systems governance experiences; (ii) evolution of the Business Continuity Plans; (iii) applicational security in central banks' IT systems; (iv) innovative IT solutions; and (v) use of the Portuguese-speaking central banks website.  | ADM/CON/<br>DO/DR1 | 1                                     |                              |                         |                                       |                                   |
|   |   | <i>Accounting Meeting</i>   | Presentation and discussion of several topics, such as implementation of the International Financial Reporting Standards (IFRS), accounting information systems, internal control and payments, financial reporting transparency, own fund levels, relationship with the Treasury and operational risk assessment.  | DCC                | 1                                     |                              |                         |                                       |                                   |
|   |   | <i>Issue and Treasury Meeting</i>   | The working sessions were focused in particular on issue and treasury management, relationship with banknote manufacturers, banknote counterfeiting and custody of valuables.   | DET                |                                       |                              |                         |                                       |                                   |
|   |   | <i>Payment Systems Meeting</i>  | Analysis of several issues focused on three topics: (i) large-value settlement systems; (ii) payment systems oversight; and (iii) retail payments.  | DPG                | 1                                     |                              |                         |                                       |                                   |
|   |   | <i>Statistics Meeting</i>   | Discussion focused on the following main topics: (i) review of changes in the statistical function of Portuguese-speaking central banks; (ii) production of monetary and financial statistics; (iii) challenges facing balance of payments statistics; (iv) sectoral statistics; and (v) IT role in the automation of procedures.   | DDE                | 1                                     |                              |                         |                                       |                                   |
|   |   | <i>Jurists Meeting</i>  | Reflection on several topics from a legal perspective: (i) deposit insurance; (ii) reputational issues; (iii) banking services and consumer rights; (iv) impact of and response to the international crisis; (v) preventing and combating currency counterfeiting; and (vi) implementation of the new FATF recommendations.   | DJU                | 1                                     |                              |                         |                                       |                                   |
|   | Economic Cooperation Agreement<br>between Portugal and Cape Verde (ACC)               | <i>ACC Commission (COMACC)</i>  | Discussion and reflection on various key issues, in the context of the objectives pursued by ACC: promotion of macroeconomic and financial stability in Cape Verde and strengthening of economic and financial ties with Portugal and the euro area.  | DRI                | 2                                     |                              |                         |                                       |                                   |
|   |   | <i>- Macroeconomic Monitoring Unit (UAM-ACC)</i>  | Preparation of reports on the macroeconomic situation of Cape Verde and other technical contributions supporting ACC's smooth functioning.  | DRI                | 2                                     |                              |                         |                                       |                                   |
|   | Economic Cooperation Agreement<br>between Portugal and<br>São Tomé and Príncipe (ACE) | <i>ACE Commission (COMACE)</i>  | Analysis and reflection on various key issues, in the context of the objectives pursued by ACE: promotion of macroeconomic and financial stability in São Tomé and Príncipe and strengthening of economic and financial ties with Portugal and the euro area.   | DRI                | 2                                     |                              |                         |                                       |                                   |
|   |   | <i>Macroeconomic Monitoring Unit (UAM-ACE)</i>  | Preparation of reports on the macroeconomic situation of São Tomé and Príncipe and other technical contributions supporting ACE's smooth functioning.   | DRI                | 2                                     |                              |                         |                                       |                                   |
| <i>Working Group on International Payment Systems</i>                   |   | Start of its activities, focusing on the experience of the various Portuguese-speaking countries and on the diagnosis of the situation, searching for solutions to further develop cooperation and integration among Portuguese-speaking countries. | DRI   | 2                  |                                       |                              |                         |                                       |                                   |

**INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012**

| Scope                        | Structure                                | Committee/<br>Working group                                | Main activities  | Structural unit | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                                   |
|------------------------------|--|--|--|-----------------|---------------------------------------|------------------------------|-------------------------|---------------------------------------|-----------------------------------|
|                              |  |  |  |                 |                                       |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconfe-<br>rences |
| Other international meetings | International Monetary Fund (IMF)        | Annual Meetings  | Global economic and financial situation; IMF action plan for the international monetary system, distinguishing between responding to more immediate threats and medium-term priorities relating to reforming the system and achieving a common understanding on areas deemed fundamental for promoting global stability.   | GOV             | 1                                     |                              |                         |                                       |                                   |
|                              |  | Spring Meetings  | Global economic and financial situation; role of the IMF in responding to global challenges and threats, including monitoring and supervising growing financial interlinkages, strengthening the global financial safety net and supporting low-income countries.  | GOV             | 1                                     |                              |                         |                                       |                                   |
|                              | Bank for International Settlements (BIS) | Annual General Meeting                                     | Issues arising from shareholder relationships, approval of the BIS accounts and annual report.   | GOV             | 1                                     |                              |                         |                                       |                                   |
|                              |  | Meeting of Governors                                       | Topics from the international financial agenda, including developments and risks in the global economic situation, financial market developments and policy initiatives aiming to increase global financial stability, in particular in the area of financial regulation.  | GOV             | 4                                     |                              |                         |                                       |                                   |
|                              |  | Irving Fischer Committee                                   | Discussions mainly focused on: (i) data sharing issues; (ii) workshop on balance of payments statistics to be held in the first half of 2013; (iii) initiatives envisaged for the 2013 International Year of Statistics; (iv) next congress of the International Statistical Institute (Hong Kong 2013); and (v) topic of the satellite seminar, on the so-called shadow banking system.   | DDE             | 1                                     |                              |                         |                                       |                                   |
|                              | Financial Stability Board                | Regional Consultative Group for Europe                     | Brings together representatives of regulatory and financial supervisory authorities from FSB members (representing G20 countries) and authorities of some non-member European countries (such as Portugal), constituting an institutional mechanism that aims to facilitate the exchange of views on vulnerabilities in the financial systems and debate on initiatives (ongoing or potential) to promote financial stability.   | GOV             | 1                                     | 0                            |                         |                                       |                                   |
|                              | CEMLA                                    | Meeting of Governors                                       | Reflection on four issues: (i) international economic and financial prospects; (ii) G20 agenda under Mexico's presidency; (iii) reform of the international financial system; (iv) impact on the emerging economies of measures to address the international crisis.   | GOV             | 1                                     |                              |                         |                                       |                                   |
|                              |  | Meeting of Treasurers                                      | Analysis of issues relating to the strategic planning, in particular management indicators and models, as well as of aspects related to the production and management of banknotes and coins.  | DET             | 1                                     |                              |                         |                                       |                                   |
|                              |  | Meeting of Counterfeit Coin Experts                        | Analysis of methodologies for the registration of counterfeits, counterfeit indicators and other aspects related to the communication of banknote features.  | DET             | 1                                     |                              |                         |                                       |                                   |
|                              |  | Meeting of Central Bank Internal Auditors                  | Topics debated included, among others, quality certification of audit departments, their role in corporate governance of central banks and the intervention of auditors in international financial crises.   | DAU             | 1                                     |                              |                         |                                       |                                   |
|                              | OECD                                     | Economic Policy Committee                                  |  |                 | DEE                                   | 1                            |                         |                                       |                                   |
|                              |  | Working Party No 1   |  |                 | DEE                                   | 2                            |                         | 1                                     | 2                                 |
|                              |  | Working Party on Financial Statistics                      | Discussion focused on: (i) financing of non-financial corporations; (ii) household financial vulnerabilities; (iii) estimate of household financial accounts and wealth; and (iv) investors and public authorities' behaviour in the context of population ageing. Presentation of the major objectives of this Working Party for 2013-2014.   |                 | DDE                                   | 1                            |                         | 2                                     | 2                                 |
|                              |  | Working Party on International Trade in Goods and Services | Discussion of country-level developments in the adoption of the new international manuals, e.g. BPM6, MSITS 2010 and IMTS 2010. Review of the work undertaken for the preparation of the new manuals' compilation guides.  |                 | DDE                                   | 1                            |                         |                                       |                                   |
|                              |  | Committee on Financial Markets (CFM)                       | Monitoring of key developments in financial markets and promotion of international cooperation, identifying policies and measures that aim to ensure the efficient operation of the markets and preserve financial stability. Holding of 'round tables' with industry representatives, 'tours de table' and conferences, including topics such as financial system guarantees and financial education (INFE). In this area, the 'High Level Principles on Financial Consumer Protection' were analysed and approved for presentation to the G20. |                 | DSP / DSC / DMR                       | 2                            |                         |                                       |                                   |

| INTERNATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012 |  |  |   |   |                                       |                              |                         |                                       |                                   |  |
|---|--|--|---|---|---------------------------------------|------------------------------|-------------------------|---------------------------------------|-----------------------------------|--|
| Scope   | Structure  | Committee/<br>Working group  | Main activities   | Structural unit   | Number of<br>face-to-face<br>meetings | Number of<br>teleconferences | Memo:<br>sub-structures |                                       |                                   |  |
|   |  |  |   |   |                                       |                              | Number                  | Number of<br>face-to-face<br>meetings | Number of<br>teleconfe-<br>rences |  |
| Other international meetings  | OECD   | <i>Task Force on Financial Consumer Protection</i>   | Definition of guidelines on the implementation of the 'High-Level Principles on Financial Consumer Protection', adopted by the G20 in October 2011. | DSC   | 3                                     |                              |                         |                                       | 1                                 |  |
|   | European Association for Banking and Finance History (EABH)    |  | <i>Public Policies &amp; the Direction of Financial Flows – Archives and the People Recording Working Life in Financial Institutions.</i>           | DSA   | 2                                     |                              |                         |                                       |                                   |  |
|   | International Network on Financial Education (INFE)            | <i>Advisory Board</i>  |   | Definition of the strategic guidelines for INFE's work and operational model.   | DSC                                   | 1                            |                         |                                       |                                   |  |
|   |  | <i>Plenary Session</i>   |   | Definition of principles and best practice on financial education, including financial education at school, assessment of financial literacy, definition of national strategies, financial inclusion and savings incentives. Promotion of international cooperation in financial education. | DSC                                   | 2                            |                         | 2                                     |                                   |  |
|   | International Financial Consumer Protection Network (FinCoNet) | <i>Governing Council</i>   |   | Discussion of market conduct regulatory and supervisory principles in retail financial markets. Continuation in 2012 of the FinCoNet institutionalisation process started in 2011. Banco de Portugal is represented in the Governing Council.   | DSC                                   |                              | 4                       |                                       |                                   |  |
|   |  | <i>Plenary Session</i>   |   |   | DSC                                   |                              |                         |                                       |                                   |  |
|   | Financial Action Task Force (FATF)                             | <i>Plenary meetings</i>  |   | Mutual evaluation and issue of recommendations as part of the international financial action.   | DAS                                   | 4                            |                         |                                       |                                   |  |
|   |  | <i>International Cooperation Review Group</i>  |   | Revision of the FATF Recommendations, in particular to assess the system against money laundering and terrorist financing.  | DAS                                   | 6                            |                         |                                       |                                   |  |
|   |  | <i>Working Group on Evaluations and Implementation (Expert Group A and Expert Group B)</i> |   |   |                                       |                              |                         |                                       |                                   |  |
|   | Child and Youth Finance  | <i>International Summit</i>  |   | Brings together several international organisations in order to put in place systems, programmes and strategies for the promotion of child and youth financial education and protection.  | DSC                                   | 1                            |                         |                                       |                                   |  |
| <i>Regional Meeting</i>   |  |  |   | DSC   | 1                                     |                              |                         |                                       |                                   |  |
| <i>Other</i>  |  |  |   | DET/DMR/<br>DAS   | 11                                    |                              | 6                       | 6                                     |                                   |  |
| SUM   |  |  |   |   | 422                                   | 244                          | 194                     | 447                                   | 332                               |  |



**Annex A.2 | Table 2**

| NATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012   |   |  |                  |                   |
|--|---|--|------------------|-------------------|
| Structure  | Mission / Main tasks  | Relevant legislation   | Meetings in 2012 | Body / Department |
| National Financial Stability Committee   | Exchange information, assess risks for financial stability and coordinate the authorities responsible for financial regulation and supervision.   | Memorandum of Understanding between Ministry of Finance, Banco de Portugal, Insurance and Pension Funds Supervisory Authority (ISP) and Securities Market Commission (CMVM), of 27 July 2007 | 2                | GOV               |
| National Council of Financial Supervisors  | Promote coordination of the financial system supervisory authorities (Banco de Portugal, Insurance and Pension Funds Supervisory Authority (ISP) and Securities Market Commission (CMVM)). Chaired by the Governor of Banco de Portugal.  | Decree-Law No 228/2000 of 23 September   | 6                | GOV / Vice-GOV    |
| National Council for Audit Supervision   | Composed of Banco de Portugal, Securities Market Commission (CMVM), Insurance and Pension Funds Supervisory Authority (ISP), Portuguese Institute of Statutory Auditors and Inspectorate-General of Finance.  |  | 12               | GOV/ADM           |
| Investor Compensation Scheme   | Make sure that investors are given compensation for rights that cannot be satisfied due to the financial situation of the entity providing the relevant investment services. Its participating entities are: investment firms and credit institutions having their head office in Portugal and authorised to make investment operations. This scheme is managed by an executive committee and chaired by a member of the Securities Market Commission (CMVM). It has two other members: one is a member of the Board of Directors of Banco de Portugal and the other is appointed by the Minister of Finance. |  | 16               | GOV/ADM           |
| Plenary of the Statistical Council   | Provide guidance to and coordinate the National Statistical System.   | National Statistical System Law  | 3                | DDE               |
| Standing Section of Statistical Coordination   | Prepare the document entitled Linhas Gerais da Atividade Estatística Oficial (General Guidelines of Official Statistical Activity) – defining the relevant priorities and monitoring them on an annual basis – to be submitted to the Plenary of the Statistical Council.   | National Statistical System Law  | 5                | DDE               |
| Standing Section of Economic Statistics  | Monitor the production of official economic statistics and analyse their supporting methodologies, assessing their responsiveness to user needs.  | National Statistical System Law  | 1                | DDE               |
| Standing Section of Social Statistics  | Monitor the production of official social statistics and analyse their supporting methodologies, assessing their responsiveness to user needs.  | National Statistical System Law  | 1                | DDE               |
| Standing Section of Statistical Confidentiality  | Monitor and ensure respect for the statistical confidentiality principle.   | National Statistical System Law  | 1                | DDE               |
| Ad-hoc Section for the Revision of the National Statistical System Law                                     | Present draft legislation for the revision of the National Statistical System Law.  | National Statistical System Law  | 1                | DDE               |
| Working Group on the Development of Macroeconomic Statistics   | Monitor and issue an opinion on work to implement the new methodologies in the field of macroeconomic statistics.   | National Statistical System Law  | 3                | DDE+DEE           |
| Working Group on Labour Market Statistics  | Conclude the Report on Labour Market Statistical Sources and their use by a number of entities. Further deepening of the action plan for the exchange of labour market data between institutions.   | National Statistical System Law  | 1                | DDE+DEE           |
| Working Group on Economic and Social Classifications   | Monitor and approve the study of the National Statistical System's Classification of Economic and Social Activities.  | National Statistical System Law  | 1                | DDE               |
| Working Group on the Creation of a Single File for the National Statistical System                         | Create the Single File responding to the needs of several entities within the National Statistical System and complying with national and international rules.  | National Statistical System Law  | 1                | DDE               |
| Expert Group on the Preparation of the Broad Guidelines for the Official Statistical Activity in 2013-2017 | Present a draft project of the Broad Guidelines for the Official Statistical Activity and its priorities for the period 2013-2017 and assess the degree of implementation of the Broad Guidelines in 2008-2012.   | National Statistical System Law  | 3                | DDE               |
| Monitoring Group on the Classification of Economic Activities Information System                           | Monitor the National Statistical System's Classification of Economic Activities.  | National Statistical System Law  | 1                | DDE               |
| Working Group on General Government Statistics   | Institutional cooperation in the field of compilation of general government statistics, involving Statistics Portugal (INE), the Directorate-General of the Budget and Banco de Portugal.   | National Statistical System Law  | 8                | DDE               |
| Working Group on the Monitoring of the Central Credit Register   | Monitor the operation of the Central Credit Register managed by Banco de Portugal.  | Decree-Law No 204/2008 of 14 October: legal framework of the Central Credit Register   | 1                | DDE               |

| NATIONAL INSTITUTIONAL REPRESENTATION OF BANCO DE PORTUGAL IN 2012   |   |   |                  |                   |
|--|---|---|------------------|-------------------|
| Structure  | Mission / Main tasks  | Relevant legislation  | Meetings in 2012 | Body / Department |
| Working Group on the Prevention of Money Laundering and Terrorist Financing                                    | Promote the coordination of the financial system supervisory authorities (Banco de Portugal, Insurance and Pension Funds Supervisory Authority (ISP) and Securities Market Commission (CMVM)) as regards the procedures relating to the prevention of money laundering and terrorist financing.   | Law No 25/2008 of 25 June   | 2                | DAS               |
| Working Group on RERT III  | Within the powers entrusted to Banco de Portugal by the Exceptional Tax Regularisation Scheme III (RERT III), provide for the implementation of the circuits and procedures involving the intervening parties (Banco de Portugal, credit institutions and Tax Administration) and support to potential participants and their representatives.  | Law No 64-B/2011 of 30 December, Article 166 (Official Gazette No 250, Series I). Executive Order No 17-A/2012 of 19 January (Official Gazette No 14, Series I). Circular Letter of Banco de Portugal No 2/2012/DET of 25 January (Official Bulletin No 2/2012) | 2                | DET               |
| Interbank Working Group on Cash  | Prepare and monitor the implementation at national level of the common framework for banknote recycling to be adopted by credit institutions.   | Decree-Law No 195/2007 of 15 May. Decision of the European Central Bank of 16 September 2010 (ECB/2010/14)  | 2                | DET               |
| Sub-Working Group on Banknote Recirculation  | Prepare and monitor the implementation at national level of the common framework for banknote recycling to be adopted by credit institutions and other professional cash handlers.  | Decree-Law No 195/2007 of 15 May. Decision of the European Central Bank of 16 September 2010 (ECB/2010/14)  | 2                | DET               |
| Metal Coin Permanent Monitoring Group  | Composed of Banco de Portugal, Portuguese Mint and Official Printing Office (INCM) and Directorate-General for the Treasury for the monitoring on an ongoing basis of operational and regulatory issues relating to metal coins.  | Decree-Law No 184/2007 of 10 May. Regulation (EU) No 1210/2010 of 15 December 2010  | 2                | DET               |
| Exceptional regime applicable to urgent decisions by shareholders  | Propose legislative changes to expedite the decision-making process in financial sector companies, in the context of the financial crisis (Banco de Portugal, Insurance and Pension Funds Supervisory Authority (ISP) and Securities Market Commission (CMVM)).   | Commercial Companies Code, Legal Framework of Credit Institutions and Financial Companies and Securities Code   | 4                | DJU               |
| Monitoring and study of the proposal to amend Law No 63-A/2008 (recapitalisation of credit institutions)       | Within the framework of the Memorandum of Understanding, revision of Law No 63-A/2008 of 24 November in order to accommodate the new capital requirements and to introduce further improvements (Banco de Portugal and Ministry of Finance).  | Law No 4/2012 of 11 January and Executive Order No 150-A/2012 of 17 May   | 7                | DJU               |
| Insolvency and out-of-court corporate debt restructuring   | Within the framework of the Memorandum of Understanding, revision of legislation on insolvency, in order to create a special financial reorganisation process of companies in distress, as well as of the Out-of-Court Conciliation Procedure with the Institute for Support to Small and Medium-Sized Enterprises and Innovation (IAPMEI), arriving more rapidly at solutions with higher corporate recovery rates (Banco de Portugal, ESAME – unit responsible for monitoring Portuguese State commitments arising from the Memorandum of Understanding, Ministry of Economy, Ministry of Justice/Directorate-General for Justice Policy) | Law No 16/2012 of 20 April amending the Insolvency and Corporate Recovery Code, and Decree-Law No 178/2012 of 3 August, establishing SIREVE (out-of-court company recovery system)  | 4                | DJU               |
| Arrears management and out-of-court recovery of household debts to credit institutions                         | Establish procedures and rules to be complied with by credit institutions in monitoring and managing risk default situations and out-of-court settlement of arrears on credit agreements with household customers (Banco de Portugal, ESAME – unit responsible for monitoring Portuguese State commitments arising from the Memorandum of Understanding, Ministry of Justice/Directorate-General for Justice Policy).   | Decree-Law No 227/2012 of 25 October  | 15               | DJU+DSC           |
| Draft amendment of the regime applicable to the over-indebtedness support system (Executive Order No 312/2009) | Create a support network for bank customers within the scope of the prevention and out-of-court settlement of arrears on credit agreements (Banco de Portugal, Ministry of Justice).  | Decree-Law No 227/2012 of 25 October; Executive Order No 2/2013 of 2 January  | 7                | DJU+DSC           |
| Secrecy obligation of the National Council for Audit Supervision   | Study of the secrecy obligation issue with regard to relations between the National Council for Audit Supervision and its members and third parties (Banco de Portugal, Insurance and Pension Funds Supervisory Authority (ISP), Securities Market Commission (CMVM), Inspectorate-General of Finance, Portuguese Institute of Statutory Auditors).   | Decree-Law No 225/2008 of 20 November   | 6                | DJU               |
| Portuguese Group of SWIFT Users (GPUS)   | Promote the liaison between SWIFT and the national financial institutions that are members of GPUS.   | Decree-Law No 225/2008 of 20 November   | 10               | DMR               |
| Association of SAP Users in Portugal (GUSP)  | Promote cooperation and sharing of experiences among the organisations that use SAP products or services, defending their common interests. GUSP is recognised by SAP in Portugal as the official community of the network of local users' organisations.   |   | 1                | DOI               |
| Forum for Banking Conduct Supervision  | Consultative structure supporting Banco de Portugal's banking conduct supervision, designed as a space for sharing information and views on retail banking markets' operation.  |   | 1                | DSC               |
|  |   | SUM   | 132              |                   |

**Annex A.3 | Table 1**

| PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012   |               |   |  |                  |
|---|---------------|---|--|------------------|
| Event   | Date of event | Subject   | Speaker(s)   | Body/ Department |
| <i>Seminar</i> – Administrative penalty in the Brazilian Financial Law  | 22-23 Mar.    | Administrative penalty in the financial system: the Portuguese experience and Community law   | João Raposo  | DAS              |
| <i>Workshop</i> – Money laundering and terrorist financing: the new FATF standards  | 4 Dec.        | Risk-based financial supervision  | José Nunes Pereira, Carlos Lopes, Maria João Gomes | DAS              |
| 11th Audit and Management Days – Banco de Portugal  | 24 Oct.       | Governance and risk control: the best audit practices   | Francisco Rocha                                    | DAU              |
| 19th Annual Conference of the Portuguese Institute of Internal Auditing (IPAI)  | 22 Nov.       | Audit, risk and financial crisis: The need for a new paradigm?  | Francisco Rocha                                    | DAU              |
| ESCB Joint Task Force on Credit Registers   | 17 Jan.       | Use of the Portuguese Central Credit Register for the quarterly statistical reports on the indebtedness of non-financial corporations and households        | Ana M. de Almeida                                  | DDE              |
| ESCB Task Force on the Valuation of FDI Positions   | 18-19 Jan.    | Methods in international standards to value direct investment positions   | Márcio Mateus                                      | DDE              |
| <i>Workshop</i> – Structural change in the context of the adjustment programme  | 20 Jan.       | Building up on knowledge: preparing for the future  | João Cadete de Matos                               | DDE              |
| <i>Seminar</i> – Presentation of BPstat mobile  | 13 Feb.       | Statistical dissemination by Banco de Portugal  | João Cadete de Matos                               | DDE              |
| <i>Workshop</i> – Practical issues in the implementation of BPM6, current and capital account   | 20 Feb.       | Personal transfers – the Portuguese case  | Carla Ferreira                                     | DDE              |
| <i>Eurostat seminar</i> – Business related statistics: the strategy for the years to come in the context of the needs of the main users | 28-29 Feb.    | Innovative solutions to compile balance of payments statistics minimising costs and ensuring quality  | João Cadete de Matos                               | DDE              |
| ESCB Working Group on Euro Area Accounts  | 5-6 Mar.      | Questionnaire on financial accounts' compilation systems and on impacts of the future changes to be introduced by the new ESA 2010 regulation: main results | Filipa Lima  | DDE              |
| ESCB Working Group on Euro Area Accounts  | 5-6 Mar.      | ESA 2010 difficult items for financial accounts: Standardised Guarantees: national experience – a presentation by Banco de Portugal                         | Filipa Lima  | DDE              |
| Presentation of Banco de Portugal statistics – NOVA School of Business & Economics  | 6 Mar.        | The statistical function of Banco de Portugal   | João Cadete de Matos                               | DDE              |
| Presentation of Banco de Portugal statistics – NOVA School of Business & Economics  | 6 Mar.        | BPstat – Statistics online  | José Faustino                                      | DDE              |
| <i>Eurostat-ECB workshop</i> – Efficient ways of statistical data collection from enterprises   | 22-23 Mar.    | IES – Data collection system in Portugal: how it works  | Margarida Brites                                   | DDE              |
| 19th Journeys of Classification and Data Analysis   | 28-31 Mar.    | Reaping the benefits of integrating the micro-databases available at Banco de Portugal  | Paula Menezes                                      | DDE              |
| 19th Journeys of Classification and Data Analysis   | 28-31 Mar.    | Statistical information in mobile devices   | José Faustino                                      | DDE              |
| 19th Journeys of Classification and Data Analysis   | 28-31 Mar.    | Business intelligence in statistical systems: a stepwise approach   | Rita Sanchas                                       | DDE              |
| Balance of Payments Working Group   | 2 Apr.        | The use of payment cards data for travel statistics   | Carla Marques                                      | DDE              |
| <i>Seminar</i> – School of Economics and Management (University of Minho)   | 10 Apr.       | The statistical function of Banco de Portugal   | João Cadete de Matos                               | DDE              |
| <i>Seminar</i> – School of Economics and Management (University of Minho)   | 10 Apr.       | BPstat – Statistics online  | José Faustino                                      | DDE              |
| <i>Seminar of Economics</i> – ISEG School of Economics and Management   | 12 Apr.       | The statistical function of Banco de Portugal   | João Cadete de Matos                               | DDE              |
| <i>Seminar of Economics</i> – ISEG School of Economics and Management   | 12 Apr.       | BPstat – Statistics online  | José Faustino                                      | DDE              |

| PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012  |               |   |                       |                     |
|--|---------------|---|-----------------------|---------------------|
| Event  | Date of event | Subject   | Speaker(s)            | Body/<br>Department |
| The independent world forum for central bankers and financial supervisors – Current challenges and the future of central bank statistics | 23-26 Apr.    | New statistical requirements for monetary and macroprudential policy – Case-study: exploring micro-databases for macroeconomic statistical analysis | Ana M. de Almeida     | DDE                 |
| Presentation of Banco de Portugal statistics – ISCTE-University Institute of Lisbon  | 9 May         | The statistical function of Banco de Portugal   | Ana M. de Almeida     | DDE                 |
| 11th biennial session of the Group of Experts on National Accounts of the United Nations Economic Commission for Europe                  | 2-4 May       | Compilation and measurement issues for the financial sector: the cases for FISIM and securitisation in Portugal                                     | Ana M. de Almeida     | DDE                 |
| Presentation of Banco de Portugal statistics – Institute of Accounting and Administration of Porto                                       | 15 May        | The statistical function of Banco de Portugal   | Ana M. de Almeida     | DDE                 |
| Presentation of Banco de Portugal statistics – Catholic University in Porto  | 15 May        | The statistical function of Banco de Portugal   | Ana M. de Almeida     | DDE                 |
| Presentation of Banco de Portugal statistics – Institute of Accounting and Administration of Porto                                       | 15-16 May     | The Central Balance-Sheet Database  | Margarida Brites      | DDE                 |
| Presentation of Banco de Portugal statistics – Catholic University in Porto  | 15-16 May     | The Central Balance-Sheet Database  | Margarida Brites      | DDE                 |
| Presentation of Banco de Portugal statistics – Faculty of Economics (University of Porto)  | 15 May        | The statistical function of Banco de Portugal   | Ana M. de Almeida     | DDE                 |
| Presentation of Banco de Portugal statistics – Faculty of Economics (University of Porto)  | 15-16 May     | The Central Balance-Sheet Database  | Margarida Brites      | DDE                 |
| European Conference on Quality in Official Statistics (Q2012)  | 30 May-1 June | Statistical quality control and the operational risk management framework   | António Agostinho     | DDE                 |
| European Conference on Quality in Official Statistics (Q2012)  | 31 May-1 June | Data quality management in statistical systems: the importance of business intelligence   | Maria do Carmo Aguiar | DDE                 |
| ESCB Working Group on Monetary and Financial Statistics – thematic meeting   | 1 June        | The reclassification of holding companies from the non-financial corporate sector to the financial sector under ESA 2010                            | Paula Casimiro        | DDE                 |
| Presentation of Banco de Portugal statistics – Faculty of Economics (University of Porto)  | 1 June        | Corporate and sectoral information on the Central Balance-Sheet Database  | Margarida Brites      | DDE                 |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Loulé   | 18 June       | Banco de Portugal statistics from which enterprises can benefit   | João Cadete de Matos  | DDE                 |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Loulé   | 18 June       | Analysis of the accommodation sector  | Homero Gonçalves      | DDE                 |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Loulé   | 18 June       | Corporate and sectoral information on the Central Balance-Sheet Database  | Margarida Brites      | DDE                 |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Loulé   | 18 June       | Corporate Area ( <i>Área de Empresa</i> ) on Banco de Portugal's website  | Luís Teles            | DDE                 |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Loulé   | 18 June       | The role of enterprises in the new system of external statistics  | Carla Marques         | DDE                 |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Loulé   | 18 June       | Access to corporate information in the Central Credit Register  | Paula Casimiro        | DDE                 |
| 4th Iberian-Atlantic Symposium on Regional Statistics  | 22-23 June    | Regional financial statistics   | João Cadete de Matos  | DDE                 |
| Travel Workshop  | 27-28 June    | The use of credit and debit cards in the compilation of item "travel and tourism"   | Ana Beatriz Matos     | DDE                 |

**PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012**

| Event   | Date of event | Subject   | Speaker(s)           | Body/ Department |
|---|---------------|---|----------------------|------------------|
| <i>Seminar</i> – Use of administrative files for statistical purposes (ISEGI)                                 | 9 July        | The use of the IES in the analysis of data from the quarterly survey to non-financial corporations                                    | Rita Póiares         | DDE              |
| Joint meeting of the y-BIS and the JSPE   | 23-26 July    | Drawn to excellence – a sample of issues critical for compiling and disseminating central bank statistics                             | João Cadete de Matos | DDE              |
| Joint meeting of the y-BIS and the JSPE   | 23-26 July    | Credit statistics based on Central Credit Register data   | Rodrigo Batista      | DDE              |
| Joint meeting of the y-BIS and the JSPE   | 23-26 July    | Sampling design for the balance of payment statistics – the Portuguese case   | Helena Marques       | DDE              |
| Joint meeting of the y-BIS and the JSPE   | 23-26 July    | Extrapolation of the data received from the quarterly survey on a sample of non-financial corporations                                | Cloé Magalhães       | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | Balance of the transformations in the statistical function of Banco de Portugal   | João Cadete de Matos | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | The statistical exploration of the Central Credit Register by Banco de Portugal   | João Cadete de Matos | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | Treatment of data on other financial intermediaries and auxiliaries in monetary and financial statistics                              | Carla Marques        | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | The new system of balance of payments statistics under development by Banco de Portugal   | Carla Marques        | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | How statistics may help prevent financial crises  | João Cadete de Matos | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | Use of surveys in the compilation of statistical information  | Carla Marques        | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | Sectoral studies – analysis and studies on economic activity  | João Cadete de Matos | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | Public sector statistics  | João Cadete de Matos | DDE              |
| 7th Statistical Meeting of the Central Banks from Portuguese-speaking countries                               | 20-26 Aug.    | The role of IT in the automatization of procedures for the production and dissemination of statistics: Banco de Portugal's experience | João Cadete de Matos | DDE              |
| <i>Seminar</i> – Innovative approaches to turn statistics into knowledge                                      | 24-26 Sep.    | Statistical information in mobile devices   | José Faustino        | DDE              |
| <i>Seminar</i> – Presentation of the Corporate Area ( <i>Área de Empresa</i> ) on Banco de Portugal's website | 1 Oct.        | New services provided by Banco de Portugal to enterprises and households  | João Cadete de Matos | DDE              |
| <i>Seminar</i> – Presentation of the Corporate Area ( <i>Área de Empresa</i> ) on Banco de Portugal's website | 1 Oct.        | Online consultation of Central Credit Register information  | Paula Casimiro       | DDE              |
| <i>Seminar</i> – Presentation of the Corporate Area ( <i>Área de Empresa</i> ) on Banco de Portugal's website | 1 Oct.        | Central Balance-Sheet Database information  | Margarida Brites     | DDE              |
| <i>Seminar</i> – Presentation of the Corporate Area ( <i>Área de Empresa</i> ) on Banco de Portugal's website | 1 Oct.        | New reporting system for the balance of payments  | Carla Marques        | DDE              |
| OCDE Working Party on Financial Statistics and Working Party on National Accounts                             | 1 Oct.        | Identifying holding companies and SPEs in the wake of the ESA 2010 implementation: a contribute from Banco de Portugal                | Ana M. de Almeida    | DDE              |
| European Committee of Central Balance-Sheet Data Offices Plenary meeting                                      | 18-19 Oct.    | Products and services of the European CBSOs   | Ana M. de Almeida    | DDE              |

| PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012   |               |  |                      |                  |
|---|---------------|--|----------------------|------------------|
| Event   | Date of event | Subject  | Speaker(s)           | Body/ Department |
| European Committee of Central Balance-Sheet Data Offices Plenary meeting  | 18-19 Oct.    | Report 2012 – New BACH Userguide   | Margarida Brites     | DDE              |
| OECD Working Party on International Trade in Goods and Trade in Services Statistics   | 22-24 Oct.    | Integrating data sources and frameworks for compiling "Travel"   | Patrícia Gonçalves   | DDE              |
| <i>Workshop</i> – The implementation of BPM6  | 29-30 Oct.    | Investment income attributable to investment fund shareholders   | Carla Marques        | DDE              |
| <i>Workshop</i> – The implementation of BPM6  | 29-30 Oct.    | Accrued income within other investment   | Marta Veloso         | DDE              |
| International Marketing and Outputs Database Conference – IMAODBC   | 8-12 Oct.     | Statistical information in mobile devices  | José Faustino        | DDE              |
| Working Group on the Development of Macroeconomic Statistics of the Statistical Council   | 5 Nov.        | Banco de Portugal's experience in the identification of SPEs and financial holding companies in preparation of the ESA 2010 implementation | Teresa Crespo        | DDE              |
| <i>Workshop</i> – Financial inclusion indicators  | 5-6 Nov.      | Measuring the evolution of monetary and financial services in Portugal   | João Cadete de Matos | DDE              |
| Presentation of Banco de Portugal statistics – ISEG School of Economics and Management  | 8 Nov.        | The statistical function of Banco de Portugal  | Luís Teles           | DDE              |
| Presentation of Banco de Portugal statistics – ISEG School of Economics and Management  | 8 Nov.        | Banco de Portugal's Central Balance-Sheet Database   | Margarida Brites     | DDE              |
| ECB Financial Accounts Seminar  | 14 Nov.       | National compilation practices: the experience of Banco de Portugal  | Filipa Lima          | DDE              |
| ESCB Risk Assessment Working Group – thematic meeting   | 16 Nov.       | Products and services of the European CBSOs – Report 2012  | Homero Gonçalves     | DDE              |
| Presentation of the new reporting system for the balance of payments (Banco de Portugal, together with the Association for Construction Companies, Public Works and Services) | 22 Nov.       | Corporate Area ( <i>Área de Empresa</i> ) and the new system of balance of payments statistics   | Carla Marques        | DDE              |
| Presentation of the new reporting system for the balance of payments (Banco de Portugal, together with the Association for Construction Companies, Public Works and Services) | 22 Nov.       | Collection application for the communication of external operations and positions  | Patrícia Gonçalves   | DDE              |
| Presentation of the new reporting system for the balance of payments (Banco de Portugal, together with the Association for Construction Companies, Public Works and Services) | 22 Nov.       | Guidelines for the reporting of short-term construction services in the scope of the new system balance of payments statistics             | Pedro Pólvora        | DDE              |
| Presentation of the new reporting system for the balance of payments (Banco de Portugal, together with the Association for Construction Companies, Public Works and Services) | 22 Nov.       | Guidelines for the reporting of long-term construction services in the scope of the new system balance of payments statistics              | Carmen Cabral        | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Braga  | 26 Nov.       | Banco de Portugal statistics from which enterprises can benefit  | João Cadete de Matos | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Braga  | 26 Nov.       | Corporate and sectoral information in the Central Balance-Sheet Database   | Margarida Brites     | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Braga  | 26 Nov.       | Corporate Area ( <i>Área de Empresa</i> ) on Banco de Portugal's website   | Luís Teles           | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Braga  | 26 Nov.       | The role of enterprises in the new system of external statistics   | Carla Marques        | DDE              |

## PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012

| Event   | Date of event | Subject   | Speaker(s)           | Body/ Department |
|---|---------------|---|----------------------|------------------|
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Braga  | 26 Nov.       | Access to corporate information in the Central Credit Register  | Paula Casimiro       | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Braga  | 26 Nov.       | Analysis of the textile and clothing sector   | Homero Gonçalves     | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Aveiro   | 26 Nov.       | Banco de Portugal statistics from which enterprises can benefit   | João Cadete de Matos | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Aveiro   | 26 Nov.       | Corporate and sectoral information in the Central Balance-Sheet Database  | Margarida Brites     | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Aveiro   | 26 Nov.       | Corporate Area ( <i>Área da Empresa</i> ) on Banco de Portugal's website  | Luís Teles           | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Aveiro   | 26 Nov.       | The role of enterprises in the new system of external statistics  | Carla Marques        | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal – in Aveiro   | 26 Nov.       | Access to corporate information in the Central Credit Register  | Paula Casimiro       | DDE              |
| 2nd Conference on the Central Balance-Sheet Database of Banco de Portugal   | 26 Nov.       | Analysis of the footwear sector   | Homero Gonçalves     | DDE              |
| Standing Section of Economic Statistics – Statistical Council   | 26 Nov.       | Statistical implications of the Economic and Financial Assistance Programme: Banco de Portugal's experience   | João Cadete de Matos | DDE              |
| 14th Textile Industry Forum   | 28 Nov.       | Analysis of the textile and clothing sector   | Homero Gonçalves     | DDE              |
| Presentation at the School of Management and Technology, Polytechnic Institute of Santarém  | 30 Nov.       | Banco de Portugal's Central Balance-Sheet Database  | Margarida Brites     | DDE              |
| Workshop on the new functions for the Portuguese economy in a context of globalisation – Portuguese Commerce and Services Confederation (CCP)               | 6 Dec.        | The new system of balance of payments statistics  | Carla Marques        | DDE              |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Hotel Association) – in Lisbon                        | 4 Dec.        | Corporate Area ( <i>Área de Empresa</i> ) and the new system of balance of payments statistics  | Carla Marques        | DDE              |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Hotel Association) – in Lisbon                        | 4 Dec.        | Collection application for the communication of external operations and positions   | Patrícia Gonçalves   | DDE              |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Hotel Association) – in Lisbon                        | 4 Dec.        | Guidelines for the reporting of hotels and resorts in the scope of the new balance of payments system   | Beatriz Matos        | DDE              |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Hotel Association) – in Faro                          | 10 Dec.       | Corporate Area ( <i>Área de Empresa</i> ) and the new system of balance of payments statistics  | Carla Marques        | DDE              |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Hotel Association) – in Faro                          | 10 Dec.       | Collection application for the communication of external operations and positions and guidelines for the reporting of hotels and resorts in the scope of the new balance of payments system | Patrícia Gonçalves   | DDE              |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Association of Travel and Tourism Agencies) – in Faro | 10 Dec.       | Corporate Area ( <i>Área de Empresa</i> ) and the new system of balance of payments statistics  | Carla Marques        | DDE              |

## PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012

| Event   | Date of event | Subject   | Speaker(s)            | Body/<br>Department |
|---|---------------|---|-----------------------|---------------------|
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Association of Travel and Tourism Agencies) – in Faro   | 10 Dec.       | Collection application for the communication of external operations and positions and guidelines for the reporting of travel agencies and tour operators in the scope of the new balance of payments system | Patrícia Gonçalves    | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Association of Travel and Tourism Agencies) – in Lisbon | 11 Dec.       | Corporate Area ( <i>Área de Empresa</i> ) and the new system of balance of payments statistics  | Carla Marques         | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Association of Travel and Tourism Agencies) – in Lisbon | 11 Dec.       | Collection application for the communication of external operations and positions   | Ana Margarida Meneses | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Association of Travel and Tourism Agencies) – in Lisbon | 11 Dec.       | Guidelines for the reporting of travel agencies and tour operators in the scope of the new balance of payments system   | Patrícia Gonçalves    | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Association of Travel and Tourism Agencies) – in Porto  | 12 Dec.       | Corporate Area ( <i>Área de Empresa</i> ), the new balance of payments system and guidelines for the reporting of travel agencies and tour operators in the scope of the new balance of payments system     | Carla Marques         | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Association of Travel and Tourism Agencies) – in Porto  | 12 Dec.       | Collection application for the communication of external operations and positions   | Ana Margarida Meneses | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Hotel Association) – in Porto                           | 12 Dec.       | Corporate Area ( <i>Área de Empresa</i> ), the new balance of payments system and guidelines for the reporting of hotels and resorts in the scope of the new balance of payments system                     | Carla Marques         | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Hotel Association) – in Porto                           | 12 Dec.       | Collection application for the communication of external operations and positions   | Ana Margarida Meneses | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Forwarding Agents Association) – in Porto               | 13 Dec.       | Corporate Area ( <i>Área de Empresa</i> ), the new balance of payments system and guidelines for the reporting of forwarding agents in the scope of the new balance of payments system                      | Carla Marques         | DDE                 |
| The new reporting system for the balance of payments (Banco de Portugal, together with the Portuguese Forwarding Agents Association) – in Porto               | 13 Dec.       | Collection application for the communication of external operations and positions   | Ana Margarida Meneses | DDE                 |
| The new reporting system for the balance of payments – 1st session in Porto   | 13 Dec.       | The new system of balance of payments statistics and practical cases in the scope of the communication of external operations and positions   | Carla Marques         | DDE                 |
| The new reporting system for the balance of payments – 1st session in Porto   | 13 Dec.       | Corporate Area ( <i>Área de Empresa</i> ) and collection application for the communication of external operations and positions   | Ana Margarida Meneses | DDE                 |
| The new reporting system for the balance of payments – 1st session in Lisbon  | 14 Dec.       | The new system of balance of payments statistics and practical cases in the scope of the communication of external operations and positions   | Carla Marques         | DDE                 |
| The new reporting system for the balance of payments – 1st session in Lisbon  | 14 Dec.       | Corporate Area ( <i>Área de Empresa</i> ) and collection application for the communication of external operations and positions   | Ana Margarida Meneses | DDE                 |
| The new reporting system for the balance of payments – 2nd session in Lisbon  | 14 Dec.       | The new system of balance of payments statistics and practical cases in the scope of the communication of external operations and positions   | Carla Marques         | DDE                 |



## PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012

| Event  | Date of event   | Subject   | Speaker(s)         | Body/ Department |
|--|-----------------|---|--------------------|------------------|
| The new reporting system for the balance of payments – 2nd session in Lisbon                           | 14 Dec.         | Corporate Area ( <i>Área de Empresa</i> ) and collection application for the communication of external operations and positions                           | Patrícia Gonçalves | DDE              |
| Working Group on the Development of Macroeconomic Statistics of the Statistical Council                | 18 Dec.         | The new system of balance of payments statistics  | Filipa Lima        | DDE              |
| U. Cambridge, UK   | 16 Jan.         | Unconventional fiscal policy at the zero bound  | Pedro Teles        | DEE              |
| <i>Workshop</i> – Structural change in the context of the adjustment programme                         | 20 Jan.         | Financing of households and non-financial corporations  | Luísa Farinha      | DEE              |
| Sveriges Riksbank seminar  | 7-10 Feb.       | Collateral requirements: macroeconomic fluctuations and macroprudential policy  | Caterina Mendicino | DEE              |
| Firms' financing and default risk during and after the crisis – Banque de France (Paris)               | 9-10 Feb.       | Borrowing patterns, bankruptcy and voluntary liquidation  | Pedro Portugal     | DEE              |
| University of Surrey, UK   | 23 Feb.         | Short and long interest rate targets  | Pedro Teles        | DEE              |
| University of Trento   | 1 Mar.          | The tip of the iceberg: a quantitative framework for estimating trade costs   | Luca Opromolla     | DEE              |
| Conference on Fiscal Policy in the Aftermath of the Financial Crisis – Brussels                        | 2-3 Mar.        | Unconventional fiscal policy at the zero bound  | Pedro Teles        | DEE              |
| <i>Workshop</i> – Assessing contagion risk, in the scope of the WS3 of MaRs (ECB) – Frankfurt          | 9 Mar.          | The determinants of sovereign bond spreads in the euro area in the context of economic and financial crisis   | Luciana Barbosa    | DEE              |
| 3rd meeting of the Macroprudential Research Network (MaRs), Workstream 2 – Frankfurt                   | March           | Systemic risk analysis using forward-looking distance-to-default series   | Martin Saldías     | DEE              |
| Conference of the International Research Forum on Monetary Policy (IRFMP) – Frankfurt                  | 16-17 Mar.      | Discussion of the working paper <i>Managing a liquidity trap: monetary and fiscal policy</i> , by Iván Werning  | Pedro Teles        | DEE              |
| 5th Financial Risks International Forum – Institut Louis Bachelier, Paris                              | 22-23 Mar.      | Towards a CCA-based systemic risk indicator   | Nuno Silva         | DEE              |
| The macroeconomic imbalance procedure: undertaking surveillance on external competitiveness – LIME, EC | 27-28 Mar.      | New competitiveness indicators: firms' characteristics, size and exports extensive and intensive margin   | João Amador        | DEE              |
| RES 2012 Conference – Cambridge  | 26-28 Mar.      | Financial frictions and interest rate shocks  | Bernardino Adão    | DEE              |
| Royal Economic Society   | 26-28 Mar.      | Managers mobility, trade status and wages   | Luca Opromolla     | DEE              |
| 14th Workshop in International Economics and Finance – Buenos Aires                                    | 2-3 Apr.        | Discussion of the working paper <i>Optimal fiscal adjustment and the commitment-to-forgive issue</i> , by Carlos Eduardo Gonçalves and Bernardo Guimarães | Pedro Teles        | DEE              |
| University Carlos III – Madrid   | 13 Apr.         | The sources of wage variation: a tree-way high-dimensional fixed effects model  | Pedro Portugal     | DEE              |
| FEDEA/FRD/IZA Conference   | 13 Apr.         | Excess worker turnover and fixed-term contracts: causal evidence in a two-tier system   | Álvaro Novo        | DEE              |
| Dual labour markets and the single contract – Milan  | 13 Apr.         | Excess worker turnover in two-tier systems: match and firm heterogeneity  | Álvaro Novo        | DEE              |
| 4th Annual Meeting on the Economics of Risky Behaviours (AMERB) – Istanbul                             | 27-29 Apr.      | The impact of drug decriminalization in Portugal  | Pedro Portugal     | DEE              |
| Money is back, Bank of England and the euro area business cycle network – London                       | 30 Apr. - 1 May | Short and long interest rate targets  | Pedro Teles        | DEE              |
| SOLE   | 3-6 May         | The impact of minimum wage on low-wage earners: employment and match evidence   | Álvaro Novo        | DEE              |
| FSI Seminar – Basel  | 8-10 May        | Financial stability and stress testing  | Paula Antão        | DEE              |

| PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012   |                  |   |                             |                     |
|---|------------------|---|-----------------------------|---------------------|
| Event   | Date of event    | Subject   | Speaker(s)                  | Body/<br>Department |
| 16th Conference on Theories and Methods in Macroeconomics – Nantes  | 10-11 May        | Unconventional fiscal policy at the zero bound  | Pedro Teles                 | DEE                 |
| Midwest Macroeconomic Meetings – University of Notre Dame, South Bend, USA  | 11-13 May        | Wage rigidity and employment adjustment at the firm level: evidence from survey data  | Carlos Robalo Marques       | DEE                 |
| 9th Workshop on Money, Banking and Financial Markets – Düsseldorf   | 24-25 May        | Systemic risk analysis using forward-looking distance-to-default series   | Martín Saldías              | DEE                 |
| Colloquium: Economics Research Seminar – Aalto University, University of Helsinki, and Hanken School of Economics | 1 June           | Unconventional fiscal policy at the zero bound  | Pedro Teles                 | DEE                 |
| Financial and Macroeconomic Stability: Challenges Ahead – Istanbul  | 4-6 June         | Systemic risk analysis using forward-looking distance-to-default series   | Martín Saldías              | DEE                 |
| Portuguese Economic Journal 2012 – Porto  | 5-7 July         | Wage rigidity and employment adjustment at the firm level: evidence from survey data  | Fernando Martins            | DEE                 |
| 6th Annual Meeting of the Portuguese Economic Journal   | 6-7 June         | An analysis of the developments in Portuguese students' performance in the OECD Programme for International Student Assessment (PISA) | Manuel Pereira              | DEE                 |
| 11th Conference on Research on Economic Theory and Econometrics (CRETE) – Milos                                   | 10-16 June       | Inflation and inequality  | Isabel Horta Correia        | DEE                 |
| 11th Conference on Research on Economic Theory and Econometrics (CRETE 2012) – Greece                             | 11-15 June       | Exogenous public spending in the optimal taxation problem   | Pedro Teles                 | DEE                 |
| SABE 2012 – Granada   | 12 June          | The impact of minimum wage on low-wage earners: employment and match evidence   | Álvaro Novo                 | DEE                 |
| 4th Annual Meeting on the Economics of Risky Behaviours (AMERB) – Istanbul  | 13-14 June       | The impact of drug decriminalization in Portugal  | Pedro Portugal              | DEE                 |
| Restoring growth and unwinding imbalances in the EU – ECB   | 14 June          | Competition in Portuguese economy in the period 2000-2009   | João Amador                 | DEE                 |
| Economic and Social Council   | 16 June          | The Portuguese labour market  | Álvaro Novo e Mário Centeno | DEE                 |
| De Nederlandsche Bank workshop  | 19 June          | Household credit delinquency: does the borrowers' indebtedness profile play a role?   | Luísa Farinha               | DEE                 |
| SED 2012 Conference   | 22-24 June       | Debt financing  | Bernardino Adão             | DEE                 |
| Dual labour markets and the single contract – Milan   | 22-23 June       | Panel discussion  | Pedro Portugal              | DEE                 |
| EALE ESPE 2012 – Bern   | 22 June          | The impact of minimum wage on low-wage earners: employment and match evidence   | Álvaro Novo                 | DEE                 |
| 1st Meeting of the Portuguese Econometric Society   | 23 June          | External dependence on international output growth: tales from the tails  | António Rua                 | DEE                 |
| 1st Meeting of the Portuguese Econometric Society – NOVA Business School  | 23 June          | Macroeconomic forecasting with MIDAS  | Cláudia Duarte              | DEE                 |
| 32nd International Symposium on Forecasting, ISF 2012 – Boston, USA   | 24-27 June       | Quantile regression for long memory testing: a case of realized volatility  | Paulo Rodrigues             | DEE                 |
| Econometric Society Summer Meeting – Evanston, USA  | 27 June - 1 July | Evaluating the identification strength in DSGE models. An a priori approach   | Nikolay Iskrev              | DEE                 |
| 3rd World Finance Conference – Rio de Janeiro   | 2-4 July         | Systemic risk analysis using forward-looking distance-to-default series   | Martín Saldías              | DEE                 |
| IZA Workshop: Youth Unemployment and Labor Market Integration – Bonn  | 2-3 July         | The impact of the minimum age on low-wage earners: employment and match evidence  | Cláudia Duarte              | DEE                 |
| 6th Annual Meeting of the Portuguese Economic Journal   | 5-7 July         | Wage rigidity and employment adjustment at the firm level: evidence from survey data  | Fernando Martins            | DEE                 |

**PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012**

| Event   | Date of event    | Subject  | Speaker(s)           | Body/ Department |
|---|------------------|--|----------------------|------------------|
| Portuguese Economic Journal 2012 – Porto  | 5-7 July         | Analysis of Portuguese students' performance in the OCDE Programme for International Student Assessment                  | Manuel Pereira       | DEE              |
| Portuguese Economic Journal 2012 – Porto  | 6-7 July         | Capital taxation and globalization   | Isabel Horta Correia | DEE              |
| NBER Summer Institute   | 15-21 July       | The precautionary effect of government expenditures on private consumption   | Valerio Ercolani     | DEE              |
| Day Ahead Conference 2012 – Banco de España   | 26-31 Aug.       | Discussion of a research paper by A. Maddaloni (ECB) and J.L. Peydro   | Caterina Mendicino   | DEE              |
| 66th Congress of the European Meeting of the Econometric Society – Málaga                     | 23 Aug. - 1 Sep. | Wage rigidity and employment adjustment at the firm level: evidence from survey data                                     | Fernando Martins     | DEE              |
| ESEM 2012 – Málaga  | 26 Aug. - 1 Sep. | Wage rigidity and employment adjustment at the firm level: evidence from survey data                                     | Fernando Martins     | DEE              |
| European Meetings of the Econometric Society – Málaga   | 27-31 Aug.       | Short and long interest rate targets   | Pedro Teles          | DEE              |
| EEA 2012 – Málaga   | 27-31 Aug.       | Financial frictions and interest rate shocks   | Bernardino Adão      | DEE              |
| ESEM 2012 – Málaga  | 27-31 Aug.       | Unconventional fiscal policy at the lower bound  | Isabel Horta Correia | DEE              |
| International Study Group on Exports and Productivity (ISGEP), Stockholm Technical University | 29-30 Sep.       | Is the world spinning faster? Assessing the dynamics of export specialization  | João Amador          | DEE              |
| LuBraMacro 2012   | 31 Aug. - 2 Sep. | Discussion of a research paper by C. Reis (UCP) and V. Panuzi (FRB)  | Caterina Mendicino   | DEE              |
| LuBraMacro – Porto  | 1-2 Sep.         | Discussion of the paper <i>Fiscal discoveries, stops and defaults</i> , by Luís Catão, Ana Fostel and Romain Ranciere    | Bernardino Adão      | DEE              |
| LuBraMacro – Porto  | 1-2 Sep.         | Discussion of the paper <i>Targeting the Poor: A Macroeconomic Analysis of Cash Transfer Programs</i> , by Tiago Berriel | Isabel Horta Correia | DEE              |
| 8th Dynare Conference   | 20-21 Sep.       | Housing market dynamics: any news?   | Sandra Gomes         | DEE              |
| Banque de France ComNet Workshop  | 20-21 Sep.       | A theory of entry and exit in export markets   | Luca Opromolla       | DEE              |
| 20th Congress of the Portuguese Statistical Society – Catholic University, Porto              | 28-29 Sep.       | Previsibility tests  | Paulo Rodrigues      | DEE              |
| AIEL 2012   | 27-28 Sep.       | Unemployment insurance: a life vest of re-employment wages   | Mário Centeno        | DEE              |
| Seminar – Amsterdam   | 26-28 Sep.       | Stress testing 2.0 – gearing up for 2012   | Paula Antão          | DEE              |
| 5th Expert Forum on Advanced Stress Testing Techniques – Hong Kong                            | 9-10 Oct.        | Discussion of the article <i>Incorporating Sovereign Risk and Macro Feedbacks in Stress Testing</i> , by Dale Gray       | Paula Antão          | DEE              |
| ECB/WGF workshop on structural reform – Frankfurt   | October          | Increasing competition in the labour and non-tradable goods market: the Portuguese case                                  | Gabriela Castro      | DEE              |
| 53rd Annual Conference of the Italian Economic Association                                    | 18 Oct.          | The impact of minimum wage on low-wage earners: employment and match evidence  | Álvaro Novo          | DEE              |
| Brownbag seminar  | 22 Oct.          | A Copula-based analysis of systemic risk dynamics  | Martín Saldías       | DEE              |
| Students Lunch Seminar – UCL London   | 24 Oct.          | Girls school attendance: a dynamic discrete choice structural model approach   | Hugo Reis            | DEE              |
| University of Minho – Braga   | 31 Oct.          | Short and long interest rate targets   | Pedro Teles          | DEE              |
| Moneda y Credit (Money & Credit)  | 14-16 Nov.       | Discussion of a research paper by M. Rubio (Banco de España) and J. Carrasco (URJC)                                      | Caterina Mendicino   | DEE              |
| ECB workshop  | 28-29 Nov.       | Towards a CCA-based systemic risk indicator  | Nuno Silva           | DEE              |
| IMT Institute for Advanced Studies – Lucca  | 9-13 Dec.        | The precautionary effect of government expenditures on private consumption   | Valerio Ercolani     | DEE              |



| PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012   |               |   |                                |                     |
|---|---------------|---|--------------------------------|---------------------|
| Event   | Date of event | Subject   | Speaker(s)                     | Body/<br>Department |
| Getúlio Vargas Foundation   | 10 Dec.       | Short and long interest rate targets  | Pedro Teles                    | DEE                 |
| SAE Conference – Vigo   | 12-15 Dec.    | Capital taxation and globalization  | Isabel Horta Correia           | DEE                 |
| <i>Seminar</i> – ISCTE-University Institute of Lisbon   | December      | Taxation and globalization  | Isabel Horta Correia           | DEE                 |
| AMES 2012 – Delhi   | 19-23 Dec.    | Wage rigidity and employment adjustment at the firm level: evidence from survey data                                | Fernando Martins               | DEE                 |
| AMES 2012   | 19-23 Dec.    | Wage rigidity and employment adjustment at the firm level: evidence from survey data                                | Fernando Martins               | DEE                 |
| Technical seminar on reporting the recycling of banknotes and coins (for credit institutions and other professional cash handlers that have signed a contract with Banco de Portugal) | 29 Jan.       | Modules on the reporting of recycling activities – banknotes / coins  | Ana Cristina Guerreiro         | DET                 |
| 14th IS/IT Forum of central banks from Portuguese-speaking countries  | 4-6 June      | Certification model for the access to individual or corporate information ( <i>Área de Empresa</i> )                | João Nascimento Rodrigues      | DOI                 |
| 14th IS/IT Forum of central banks from Portuguese-speaking countries  | 4-6 June      | Availability of statistical indicators in mobile devices  | Jorge Ponte                    | DOI                 |
| 14th IS/IT Forum of central banks from Portuguese-speaking countries  | 4-6 June      | Unified communication solutions   | Bruno Tenório, Cristina Guedes | DOI                 |
| 14th IS/IT Forum of central banks from Portuguese-speaking countries  | 4-6 June      | Comparative table of the use of ICTs in central banks (summarised survey)   | Isabel Queiroz                 | DOI                 |
| EBA: Workshop on data analysis – London   | 24 Sep.       | BI at Banco de Portugal   | Pedro Carlos Silva             | DOI                 |
| SEE Workshop for ESCB e-mail administrators – Madrid  | 8 Nov.        | End-point signing and encryption on the IBM Lotus platform  | Carlos Florindo                | DOI                 |
| 5th meeting on payment systems of central banks from Portuguese-speaking countries  | 16-18 May     | Developments in the habits and costs of using retail payments systems in Portugal                                   | Maria Tereza Cavaco            | DPG                 |
| Smart Cards – Annual Congress of Cards and Means of Payments  | 30-31 May     | SEPA: establishment of the migration end-date and consequences for the banking business                             | Rui Pimentel                   | DPG                 |
| 5th Conference on Payment and Securities Settlement Systems (National Bank of the Republic of Macedonia – NBRM)   | 4-6 June      | Organisation and activities of Banco de Portugal in the field of payments and securities settlement systems         | Rui Pimentel                   | DPG                 |
| 5th Conference on Payment and Securities Settlement Systems (National Bank of the Republic of Macedonia – NBRM)   | 4-6 June      | Security of retail payments and the activities of the European SecuRe Pay Forum                                     | Rui Pimentel                   | DPG                 |
| 5th Conference on Payment and Securities Settlement Systems (National Bank of the Republic of Macedonia – NBRM)   | 4-6 June      | Innovations in retail payments and the Green Paper of the European Commission on card, Internet and mobile payments | Rui Pimentel                   | DPG                 |
| Mobile Payments 2012 – Evolution of the mobile payments markets   | 10-11 Oct.    | Innovation in retail payments: challenges posed to regulator  | Rui Pimentel                   | DPG                 |
| World Bank Global Payments Week 2012  | 23-26 Oct.    | The national payments system of Portugal  | Jorge Egrejas Francisco        | DPG                 |
| SEPA – Single Euro Payments Area  | 22 Nov.       | Migration to SEPA – what should we do?  | Maria Tereza Cavaco            | DPG                 |
| Seminar of the annual meeting of the Task Force on Central Bank Cooperation (ECB-IRC)   | 23 Oct.       | Central bank cooperation in times of crisis: reflections on the experience of the recent years                      | Maria João Azevedo             | DRI                 |
| 22nd Lisbon Meeting of the central banks from Portuguese-speaking countries   | 20 Nov.       | World economic and financial agenda after Tokyo: what remains   | Luís Saramago                  | DRI                 |
| 22nd Lisbon Meeting of the central banks from Portuguese-speaking countries   | 21 Nov.       | Cooperation between central banks – some reflections on the recent experience and future action                     | Maria João Azevedo             | DRI                 |

| PRESENTATIONS AT SEMINARS AND CONFERENCES IN 2012   |               |   |  |                  |
|---|---------------|---|--|------------------|
| Event   | Date of event | Subject   | Speaker(s)   | Body/ Department |
| Child and Youth International – Child and Youth Finance International Summit                    | 3-4 Apr.      | Financial education   | Lúcia Leitão   | DSC              |
| OECD – International Framework for Financial Education (INFE) Conference on Financial Education | 10-11 May     | The Portuguese National Plan for Financial Education                              | Lúcia Leitão   | DSC              |
| The Portuguese Bank Training Institute – European Financial Education Partnership (EFEP)        | 28 June       | National policy on financial education  | Susana Narciso   | DSC              |
| World Bank Global Payments Week   | 23-25 Oct.    | Consumer protection and financial literacy in the provision of payment services   | Lúcia Leitão   | DSC              |
| National Council of Financial Supervisors – Financial Education Day                             | 31 Oct.       | Financial Education Day   | Lúcia Leitão   | DSC              |
| Center for Studies in Public Law and Regulation – 11th CEDIPRE Forum                            | 2 Nov.        | Banking conduct regulation  | Fernando Coelho  | DSC              |
| Child and Youth Finance Regional Meeting for Europe and Central Asia                            | 6-7 Nov.      | The Portuguese National Plan for Financial Education                              | Lúcia Leitão   | DSC              |
| International workshop on bank fees regulation in the retail banking sector – Banco de Portugal | 16 Nov.       | Bank fees regulation in Portugal  | Fernando Coelho  | DSC              |
| International workshop on bank fees regulation in the retail banking sector – Banco de Portugal | 16 Nov.       | Principles applied to bank fees regulation  | Dílar Ferreira, Maria João Candeias, Fernanda Matias, Inês Claro | DSC              |
| Association of Specialised Credit Institutions (ASFAC) – Annual conference                      | 4 Dec.        | Regulation and conduct supervision of the banking sector                          | Lúcia Leitão   | DSC              |
| 11th Audit and Management Days  | 24 Oct.       | The outlook and role of regulation and supervision in governance and risk control | Adelaide Cavaleiro   | DSP              |
| 22nd Lisbon Meeting of the central banks from Portuguese-speaking countries                     | 20 Nov.       | Recognition at EU level of an equivalent supervision in third countries           | Adelaide Cavaleiro   | DSP              |

## Annex A.3 | Table 2

| ARTICLES PUBLISHED IN 2012  |  |   |                 |
|---|--|---|-----------------|
| Article   | Author(s)  | Publication   | Body/Department |
| Unconventional fiscal policy at the zero bound  | Isabel Horta Correia, Emmanuel Farhi, Juan Pablo Nicolini, Pedro Teles | American Economic Review                                      | DEE             |
| Worldwide synchronization since the nineteenth century: a wavelet-based view  | António Rua  | Applied Economics Letters                                     | DEE             |
| The impact of education on household income and expenditure inequality  | Nuno Alves   | Applied Economics Letters                                     | DEE             |
| Household finance survey: methodology and results (in Portuguese only)  | Sónia Costa, Luísa Farinha   | Banco de Portugal Occasional Paper 1/2012                     | DEE             |
| Fiscal devaluation  | Isabel Horta Correia   | Winter 2011 Economic Bulletin of Banco de Portugal            | DEE             |
| A comparison of the cyclical evolution of various geographic areas of reference with Portugal                               | Raul Guerreiro, Paulo Rodrigues, Jorge Andraz                          | Winter 2011 Economic Bulletin of Banco de Portugal            | DEE             |
| Public-private wage gaps in the period prior to the adoption of the euro: an application based on longitudinal data         | Maria Manuel Campos, Mário Centeno                                     | Winter 2011 Economic Bulletin of Banco de Portugal            | DEE             |
| Sectoral credit risk in the euro area   | Martín Saldías   | Winter 2011 Economic Bulletin of Banco de Portugal            | DEE             |
| Competition in the Portuguese economy: a view on tradables and non-tradables  | João Amador, Ana Cristina Soares                                       | Spring 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Fiscal institutions and public spending volatility in Europe  | Bruno Albuquerque  | Spring 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Welfare costs of inflation with distortionary taxation  | Bernardino Adão, André C. Silva  | Spring 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Revisiting the effectiveness of monetary and fiscal policy in the US, measured on the basis of structural VARs              | Manuel Coutinho Pereira  | Spring 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| On the targeting of short and long term interest rates  | Bernardino Adão, Isabel Correia, Pedro Teles                           | Summer 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Labour cost-cutting strategies: microeconomic evidence from survey data   | Daniel Dias, Carlos Robalo Marques, Fernando Martins                   | Summer 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Mobility and income inequality in the European Union and in Portugal  | Nuno Alves, Carlos Martins   | Summer 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Wavelets in economics   | António Rua  | Summer 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Measuring competition in the Portuguese economy using profit elasticities   | João Amador, Ana Cristina Soares                                       | Autumn 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| An evaluation of government expenditures' externalities   | Valerio Ercolani, João Valle e Azevedo                                 | Autumn 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Product switching or re-classification? An application to Portuguese international trade                                    | Rúben Branco, Luca Opromolla   | Autumn 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Short-term forecasting for the Portuguese economy: a methodological overview  | Paulo Esteves, António Rua   | Autumn 2012 Economic Bulletin of Banco de Portugal            | DEE             |
| Households' indebtedness: a microeconomic analysis based on the results of the Households' Financial and Consumption Survey | Sónia Costa, Luísa Farinha   | May 2012 Financial Stability Report of Banco de Portugal      | DEE             |
| Access to credit by non-financial firms   | António Antunes, Ricardo Martinho                                      | May 2012 Financial Stability Report of Banco de Portugal      | DEE             |
| Systemic risk analysis and option-based theory and information  | Martín Saldías   | May 2012 Financial Stability Report of Banco de Portugal      | DEE             |
| Systemic liquidity risk   | Diana Bonfim, Moshe Kim  | November 2012 Financial Stability Report of Banco de Portugal | DEE             |
| Households' default probability: an analysis based on the results of the HFCS   | Sónia Costa  | November 2012 Financial Stability Report of Banco de Portugal | DEE             |
| A scoring model for Portuguese non-financial enterprises  | António Antunes, Ricardo Martinho                                      | November 2012 Financial Stability Report of Banco de Portugal | DEE             |

**ARTICLES PUBLISHED IN 2012**

| Article  | Author(s)   | Publication  | Body/ Department |
|--|---|--|------------------|
| Statistical quality control and the operational risk management framework  | António Agostinho, Manuela Raminhos, Alexandra Miguel           | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Data quality management in statistical systems: the importance of business intelligence  | Maria do Carmo Aguiar, Isabel Lavrador                          | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Drawn to excellence – a sample of issues critical for compiling and disseminating central bank statistics                                  | João Cadete de Matos  | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Understanding central banking statistics to enhance statistical and financial literacy in Europe   | Luís Teles Dias, Per Nymand-Andersen                            | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Statistical information in mobile devices  | José Faustino   | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Innovative solutions to compile balance of payments statistics minimising costs and ensuring quality                                       | João Cadete de Matos, Carla Marques                             | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Business intelligence in statistical systems: a stepwise approach  | Maria do Carmo Aguiar, Rita Sanchas                             | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Identifying holding companies and special purpose entities in the wake of the ESA 2010 implementation: a contribute from Banco de Portugal | Ana M. de Almeida, M. Teresa Crespo, Paula Menezes, Lígia Nunes | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Data validation methods and tools in the framework of a security-by-security/investor-by-investor system                                   | Maria do Carmo Aguiar   | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Reaping the benefits of integrating the micro-databases available at the Banco de Portugal   | Paula Menezes, Luís D'Aguiar                                    | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Statistics on securitisation in Portugal – compilation issues and data assessment  | Ana M. de Almeida, Teresa Crespo                                | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Compilation and measurement issues for the financial sector: the cases for FISIM and securitisation in Portugal                            | Ana M. de Almeida, M. Teresa Crespo, Sílvia F. Santa            | Supplement to the Statistical Bulletin of Banco de Portugal 3 2012 | DDE              |
| Public-private wage gaps in the period prior to the adoption of the euro: an application based on longitudinal data                        | Maria Manuel Campos, Mário Centeno                              | Banco de Portugal Working Paper 1/2012                             | DEE              |
| Asset pricing with a bank risk factor  | João Pedro Pereira, António Rua                                 | Banco de Portugal Working Paper 2/2012                             | DEE              |
| A wavelet-based assessment of market risk: the emerging markets case   | António Rua, Luís C. Nunes                                      | Banco de Portugal Working Paper 3/2012                             | DEE              |
| Cohesion within the euro area and the U.S.: a wavelet-based view   | António Rua, Artur Silva Lopes                                  | Banco de Portugal Working Paper 4/2012                             | DEE              |
| Excess worker turnover and fixed-term contracts: causal evidence in a two-tier system  | Mário Centeno, Álvaro Novo                                      | Banco de Portugal Working Paper 5/2012                             | DEE              |
| The dynamics of capital structure decisions  | Paula Antão, Diana Bonfim                                       | Banco de Portugal Working Paper 6/2012                             | DEE              |
| Quantile regression for long memory testing: a case of realized volatility   | Uwe Hessler, Paulo Rodrigues, Antonio Rubia                     | Banco de Portugal Working Paper 7/2012                             | DEE              |
| Competition in the Portuguese economy: an overview of classical indicators   | João Amador, Ana Cristina Soares                                | Banco de Portugal Working Paper 8/2012                             | DEE              |
| Market perception of fiscal sustainability: an application to the largest euro area economies  | Maximiano Pinheiro  | Banco de Portugal Working Paper 9/2012                             | CON              |
| The effects of public spending externalities   | Valerio Ercolani, João Valle e Azevedo                          | Banco de Portugal Working Paper 10/2012                            | DEE              |

| ARTICLES PUBLISHED IN 2012   |   |  |                  |
|--|---|--|------------------|
| Article  | Author(s)   | Publication                              | Body/ Department |
| Collateral requirements: macroeconomic fluctuations and macro-prudential policy  | Caterina Mendicino  | Banco de Portugal Working Paper 11/2012  | DEE              |
| Wage rigidity and employment adjustment at the firm level: evidence from survey data                                   | Daniel Dias, Carlos Robalo Marques, Fernando Martins                | Banco de Portugal Working Paper 12/2012  | DEE              |
| How to create indices for bank branch financial performance measurement using MCDA techniques: an illustrative example | Fernando Ferreira, Paulo Rodrigues, Sérgio Santos, Ronald Spahr     | Banco de Portugal Working Paper 13/2012  | DEE              |
| On international policy coordination and the correction of global imbalances   | Bruno Albuquerque, Cristina Manteu                                  | Banco de Portugal Working Paper 14/2012  | DEE              |
| Identifying the determinants of downward wage rigidity: some methodological considerations and new empirical evidence  | Daniel Dias, Carlos Robalo Marques, Fernando Martins                | Banco de Portugal Working Paper 15/2012  | DEE              |
| Systemic risk analysis using forward-looking distance-to-default series  | Martín Saldías  | Banco de Portugal Working Paper 16/2012  | DEE              |
| Competition in the Portuguese economy: insights from a profit elasticity approach                                      | João Amador, Ana Cristina Soares                                    | Banco de Portugal Working Paper 17/2012  | DEE              |
| Liquidity risk in banking: is there herding?   | Diana Bonfim, Moshe Kim   | Banco de Portugal Working Paper 18/2012  | DEE              |
| Bank size and lending specialization   | Diana Bonfim, Qinglei Dai   | Banco de Portugal Working Paper 19/2012  | DEE              |
| Testing for persistence change in fractionally integrated models: An application to world inflation rates              | Luis Martins, Paulo Rodrigues                                       | Computational Statistics & Data Analysis | DEE              |
| Regional tourism development: culture, nature, life cycle and attractiveness   | João Romão, João Guerreiro, Paulo Rodrigues                         | Current Issues in Tourism                | DEE              |
| Euro area labour markets and the crisis  | José Francisco Maria  | ECB Occasional Paper Series No 138       | DEE              |
| Competitiveness and external imbalances within the euro area   | Sandra Rua  | ECB Occasional Paper Series No 139       | DEE              |
| The impact of persistent cycles on zero frequency unit root tests  | Tomás Castro, Paulo Rodrigues, Robert Taylor                        | Econometric Theory                       | DEE              |
| Costly intermediation and consumption smoothing  | António Antunes, Tiago Cavalcanti, Anne Villamil                    | Economic Inquiry                         | DEE              |
| Price-level targeting rules and financial shocks: the case of Canada   | Ali Dib, Caterina Mendicino, Yahong Zhang                           | Economic Modelling                       | DEE              |
| Fiscal institutions and public spending volatility in Europe   | Bruno Albuquerque   | Economic Modelling                       | DEE              |
| The EAGLE. A model for policy analysis of macroeconomic interdependence in the euro area                               | Sandra Gomes, Pasqual Jacquinot, Massimiliano Pisani                | Economic Modelling                       | DEE              |
| On the amplification role of collateral constraints  | Caterina Mendicino  | Economics Letters                        | DEE              |
| The dynamic effects of shocks to wages and prices in the United States and the Euro Area                               | Rita Duarte, Carlos Robalo Marques                                  | Empirical Economics                      | DEE              |
| A counterfactual analysis of bank mergers  | Diana Bonfim, Pedro Pita Barros, Moshe Kim, Nuno Martins            | Empirical Economics                      | DEE              |
| Structural reforms and macroeconomic performance in the euro area countries: a model-based assessment                  | Sandra Gomes, Pasqual Jacquinot, Matthias Mohr, Massimiliano Pisani | International Finance                    | DEE              |
| Fiscal consolidation in a small euro area economy  | José Francisco Maria, Vanda Almeida, Gabriela Castro, Ricardo Felix | International Journal of Central Banking | DEE              |
| Approximating and forecasting macroeconomic signals in real-time   | João Valle e Azevedo  | International Journal of Forecasting     | DEE              |
| Improved forecasting of autoregressive series by weighted least squares approximate REML estimation: Comment           | Paulo Rodrigues   | International Journal of Forecasting     | DEE              |
| Does the euro area forward rate provide accurate forecasts of the short rate?  | Sónia Costa, Ana Galvão   | International Journal of Forecasting     | DEE              |



**ARTICLES PUBLISHED IN 2012**

| Article   | Author(s)   | Publication  | Body/<br>Department |
|---|---|--|---------------------|
| A multiple criteria framework to evaluate bank branch potential attractiveness                                  | Fernando Ferreira, Ronald Spahr, Sérgio Santos, Paulo Rodrigues | International Journal of Strategic Property Management | DEE                 |
| What happens after default? Stylized facts on access to credit  | Diana Bonfim, Daniel Dias, Christine Richmond                   | Journal of Banking and Finance                         | DEE                 |
| A theory of entry and exit into exports markets   | Alfonso Irarrazabal, Luca Opromolla, Giammario Impullitti       | Journal of International Economics                     | DEE                 |
| Evaluating the strength of identification in DSGE models. An a priori approach                                  | Nikolay Iskrev  | Journal of Monetary Economics                          | DEE                 |
| Money is an experience good: competition and trust in the private provision of money                            | Ramon Marimon, Juan Pablo Nicolini, Pedro Teles                 | Journal of Monetary Economics                          | DEE                 |
| The margins of multinational production and the role of intra-firm trade  | Alfonso Irarrazabal, Andreas Moxnes, Luca Opromolla             | Journal of Political Economy                           | DEE                 |
| An assessment of Portuguese banks' costs and efficiency   | Miguel Boucinha, Nuno Ribeiro, Thomas Weyman-Jones              | Journal of Productivity Analysis                       | DEE                 |
| Finite sample performance of frequency – and time-domain tests for seasonal fractional integration              | Paulo Rodrigues, Antonio Rubia, João Valle e Azevedo            | Journal of Statistical Computation and Simulation      | DEE                 |
| The welfare gains of financial liberalization: capital accumulation and idiosyncratic risks                     | António Antunes, Tiago Cavalcanti                               | Journal of the European Economic Association           | DEE                 |
| Dynamic threshold modelling and the US business cycle   | M. de Carvalho, K. F. Turkman, António Rua                      | Journal of the Royal Statistical Society Series C      | DEE                 |
| Why ex(im)porters pay more: evidence from matched firm-worker panels  | Pedro Martins, Luca Opromolla                                   | Labour Economics                                       | DEE                 |
| Excess worker turnover in two-tier systems: firm and match heterogeneity  | Mário Centeno, Álvaro Novo                                      | Labour Economics                                       | DEE                 |
| Firms' price and wage adjustment in Europe: survey evidence on nominal stickiness                               | Fernando Martins  | Labour Economics, Elsevier                             | DEE                 |
| Portugal: rebalancing the economy and returning to growth through job creation and better capital allocation    | Ildeberta Abreu, Álvaro Pina                                    | OECD Economics Department Working Papers No 994        | DEE                 |
| The flexible Fourier form and local generalised least squares de-trended unit root tests                        | Paulo Rodrigues, Robert Taylor                                  | Oxford Bulletin of Economics and Statistics            | DEE                 |
| Do low-wage workers react less to longer unemployment benefits? Quasi-experimental evidence                     | Mário Centeno, Álvaro A. Novo                                   | Oxford Bulletin of Economics and Statistics            | DEE                 |
| Money growth and inflation in the euro area: a time-frequency view  | António Rua   | Oxford Bulletin of Economics and Statistics            | DEE                 |
| The reservation wage unemployment duration nexus  | John Addison, António Ferreira Machado, Pedro Portugal          | Oxford Bulletin of Economics and Statistics            | DEE                 |
| Dynamic factor models with jagged edge panel data: taking on board the dynamics of the idiosyncratic components | Maximiano Pinheiro, António Rua                                 | Oxford Bulletin of Economics and Statistics            | DEE                 |
| A wavelet-based assessment of market risk: the emerging markets case  | António Rua, Luís Catela Nunes                                  | Quarterly Review of Economics and Finance              | DEE                 |
| The tip of the iceberg: a quantitative framework for estimating trade costs                                     | Alfonso Irarrazabal, Andreas Moxnes, Luca Opromolla             | Review of Economics and Statistics                     | DEE                 |
| Product and destination mix in export markets   | João Amador, Luca Opromolla                                     | Review of World Economics                              | DEE                 |
| Choosing between time and state dependence: micro evidence on firms' price-reviewing strategies                 | Daniel Dias, Carlos Robalo Marques, Fernando Martins            | Scandinavian Journal of Economics                      | DEE                 |
| Determining the number of global and country-specific factors in the euro area                                  | Francisco Dias, Maximiano Pinheiro, António Rua                 | Studies in Nonlinear Dynamics & Econometrics           | DEE                 |
| Assessing the impact of shocks on international tourism demand for Portugal                                     | Ana Daniel, Paulo Rodrigues                                     | Tourism Economics                                      | DEE                 |
| Girls school attendance: A Dynamic discrete choice structural approach  | Hugo Reis   | UCL Working Paper                                      | DEE                 |



| ARTICLES PUBLISHED IN 2012   |   |  |                     |
|--|---|--|---------------------|
| Article  | Author(s)                                       | Publication                                      | Body/<br>Department |
| Estimating the demand for school attributes in Pakistan  | Pedro Carneiro, Hugo Reis                       | UCL Working Paper                                | DEE                 |
| First names, identity, and assimilation of immigrants in the United States                               | Pedro Carneiro, Hugo Reis                       | UCL Working Paper                                | DEE                 |
| Housing market dynamics: any news?   | Sandra Gomes, Caterina Mendicino                | ISEG-UTL WP 23/2012                              | DEE                 |
| House prices, credit growth, and excess volatility: implications for monetary and macroprudential policy | Paolo Gelain, Kevin Lansing, Caterina Mendicino | Federal Reserve Bank of San Francisco WP 2012-11 | DEE                 |
| Total of articles  | 104   |  |                     |

# FINANCIAL STATEMENTS



1. PRESENTATION
2. FINANCIAL STATEMENTS
3. NOTES ON THE FINANCIAL STATEMENTS
4. EXTERNAL AUDITORS' REPORT
5. REPORT AND OPINION OF THE BOARD OF AUDITORS



## 1. PRESENTATION

For the purposes laid down in Article 54 of the Organic Law of Banco de Portugal, this Report presents the financial statements for the year 2012<sup>49</sup> (see sections 2. and 3.), which have been prepared according to the new Chart of Accounts of Banco de Portugal (*Plano de Contas do Banco de Portugal – PCBP*), in force since 1 January 2012.

The annual accounts of Banco de Portugal are subject to an external audit, pursuant to the provisions laid down in Article 46 of its Organic Law (see section 4.). Pursuant to the provisions of Article 43 of the same Law, the Board of Auditors prepared a report and issued an opinion on the financial statements (see section 5.). The Advisory Board issued its opinion on the Bank's accounts.

### 1.1. Developments in the composition of the balance sheet

The table below shows the developments in the year-end positions of the main items of the balance sheet of Banco de Portugal in the 2008-2012 period:

EUR millions

|  | 2008          | 2009          | 2010          | 2011           | 2012           | Δ 2012/2011  |
|--|---------------|---------------|---------------|----------------|----------------|--------------|
| <b>ASSETS</b>  | <b>50,676</b> | <b>62,524</b> | <b>99,750</b> | <b>109,768</b> | <b>119,406</b> | <b>9,638</b> |
| Gold   | 7,644         | 9,425         | 12,979        | 14,964         | 15,509         | 545          |
| IMF (net)  | 148           | 263           | 298           | 306            | 301            | (5)          |
| Foreign reserves and euro assets (net)                                   | 14,533        | 15,064        | 19,183        | 16,011         | 15,015         | (996)        |
| Foreign currency   | 732           | 529           | 2,053         | 594            | 871            | 277          |
| Euro   | 13,800        | 14,535        | 17,130        | 15,417         | 14,144         | (1,273)      |
| Trading portfolio  | 9,179         | 9,138         | 11,259        | 9,351          | 8,402          | (948)        |
| Medium-term investment portfolio   | 4,621         | 5,397         | 5,870         | 6,067          | 5,742          | (325)        |
| Claims related to monetary policy operations                             | 10,210        | 16,708        | 45,060        | 53,270         | 59,768         | 6,498        |
| Lending to credit institutions   | 10,210        | 16,061        | 40,899        | 46,002         | 52,784         | 6,782        |
| Securities held for monetary policy purposes                             | -             | 648           | 4,161         | 7,269          | 6,984          | (285)        |
| Intra-Eurosystem claims  | 16,838        | 19,130        | 20,195        | 23,019         | 26,347         | 3,328        |
| Participating interest and transfer of foreign reserve assets to the ECB | 1,088         | 1,123         | 1,152         | 1,181          | 1,210          | 29           |
| Other intra-Eurosystem claims  | 15,750        | 18,007        | 19,043        | 21,838         | 25,136         | 3,299        |
| Other claims   | 1,245         | 1,056         | 1,101         | 1,241          | 1,526          | 285          |
| <b>LIABILITIES AND OWN FUNDS</b>   | <b>50,676</b> | <b>62,524</b> | <b>99,750</b> | <b>109,768</b> | <b>119,406</b> | <b>9,638</b> |
| Banknotes in circulation   | 17,254        | 18,608        | 19,376        | 20,452         | 21,003         | 552          |
| Banknotes put into circulation (net)                                     | 1,575         | 663           | 333           | (1,369)        | (4,022)        | (2,653)      |
| Adjustments to circulation   | 15,679        | 17,945        | 19,043        | 21,821         | 25,025         | 3,204        |
| Liabilities to credit institutions related to monetary policy operations | 5,402         | 8,771         | 4,921         | 5,691          | 8,136          | 2,444        |
| Liabilities to other entities denominated in euro                        | 1             | 2             | 1             | 4,869          | 5,484          | 614          |
| Intra-Eurosystem liabilities   | 18,953        | 23,436        | 59,921        | 60,964         | 66,026         | 5,062        |
| Other liabilities  | 484           | 364           | 444           | 516            | 356            | (161)        |
| Provisions*  | 141           | 99            | 54            | 23             | 8              | (16)         |
| Own funds  | 8,382         | 10,365        | 14,098        | 16,295         | 17,454         | 1,160        |
| Revaluation differences  | 4,788         | 6,479         | 10,055        | 12,061         | 12,657         | 596          |
| General risk provision*  | 2,016         | 2,301         | 2,464         | 2,924          | 3,192          | 268          |
| Equity   | 1,230         | 1,330         | 1,381         | 1,278          | 1,156          | (122)        |
| Profit for the year  | 349           | 254           | 198           | 31             | 449            | 418          |

\* The items Provisions and General risk provision were adjusted in accordance with the rules of the new PCBP for all years shown.

<sup>49</sup> Totals / sub-totals included in the financial statements may not add up due to rounding, since figures in this section are presented in EUR millions.

End-2012 positions of the main items of the balance sheet of Banco de Portugal, as well as their changes from 2011, are presented below with a similar aggregation to the analyses made in this Report:

**Table 2**

EUR millions

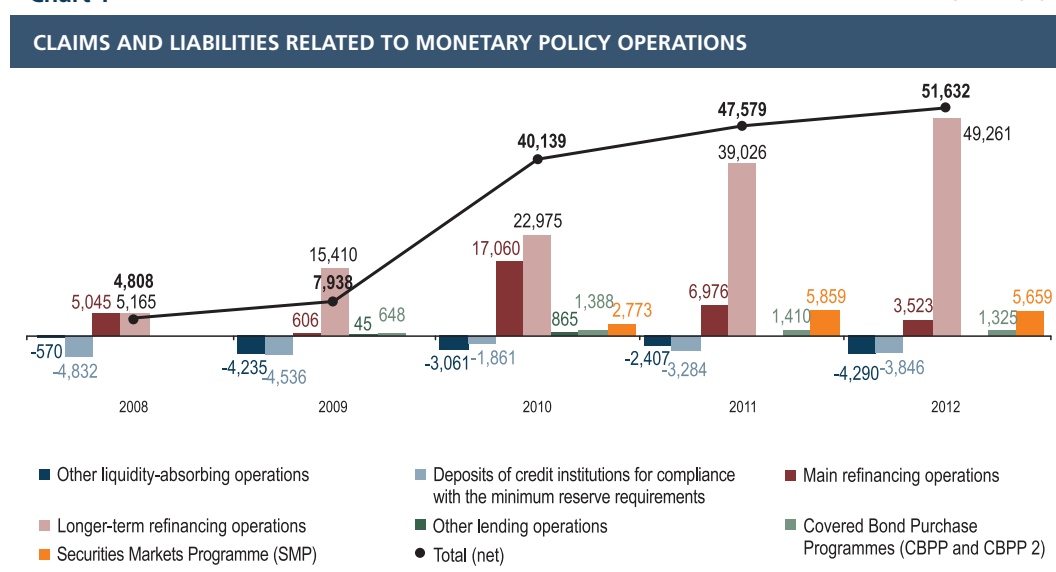
|  | 2011          | 2012          | Δ 2012/2011  |
|--|---------------|---------------|--------------|
| <b>a) Claims and liabilities related to monetary policy operations</b>   | <b>47,579</b> | <b>51,632</b> | <b>4,053</b> |
| Claims related to monetary policy operations                             | 53,270        | 59,768        | 6,498        |
| Liabilities to credit institutions related to monetary policy operations | (5,691)       | (8,136)       | (2,444)      |
| <b>b) Gold, foreign reserves and euro assets (net)</b>                   | <b>30,975</b> | <b>30,524</b> | <b>(451)</b> |
| Gold   | 14,964        | 15,509        | 545          |
| Foreign reserves and euro assets (net)                                   | 16,011        | 15,015        | (996)        |
| <b>c) Other balance sheet assets</b>                                     | <b>24,566</b> | <b>28,174</b> | <b>3,608</b> |
| IMF (net)  | 306           | 301           | (5)          |
| Intra-Eurosystem claims  | 23,019        | 26,347        | 3,328        |
| Other assets   | 1,241         | 1,526         | 285          |
| <b>d) Banknotes in circulation</b>                                       | <b>20,452</b> | <b>21,003</b> | <b>552</b>   |
| Banknotes put into circulation (net)                                     | (1,369)       | (4,022)       | (2,653)      |
| Adjustments in circulation   | 21,821        | 25,025        | 3,204        |
| <b>e) Intra-Eurosystem liabilities</b>                                   | <b>60,964</b> | <b>66,026</b> | <b>5,062</b> |
| <b>f) Other liabilities</b>  | <b>5,409</b>  | <b>5,847</b>  | <b>438</b>   |
| Liabilities to other entities  | 4,869         | 5,484         | 614          |
| Other liabilities  | 516           | 356           | (161)        |
| Provisions   | 23            | 8             | (16)         |
| <b>g) Own funds</b>  | <b>16,295</b> | <b>17,454</b> | <b>1,160</b> |
| Revaluation differences  | 12,061        | 12,657        | 596          |
| General risk provision   | 2,924         | 3,192         | 268          |
| Equity   | 1,278         | 1,156         | (122)        |
| <b>Profit for the year</b>   | <b>31</b>     | <b>449</b>    | <b>418</b>   |

**a) Claims and liabilities related to monetary policy operations**

The total (net) balance of monetary policy operations, carried out within the framework of the Eurosystem, recorded an increase in 2012 (€ +4,053 million), albeit far lower than the rises seen in previous years (€ +7,440 million in 2011 and € +32,201 million in 2010) (Chart 1).

**Chart 1**

EUR millions

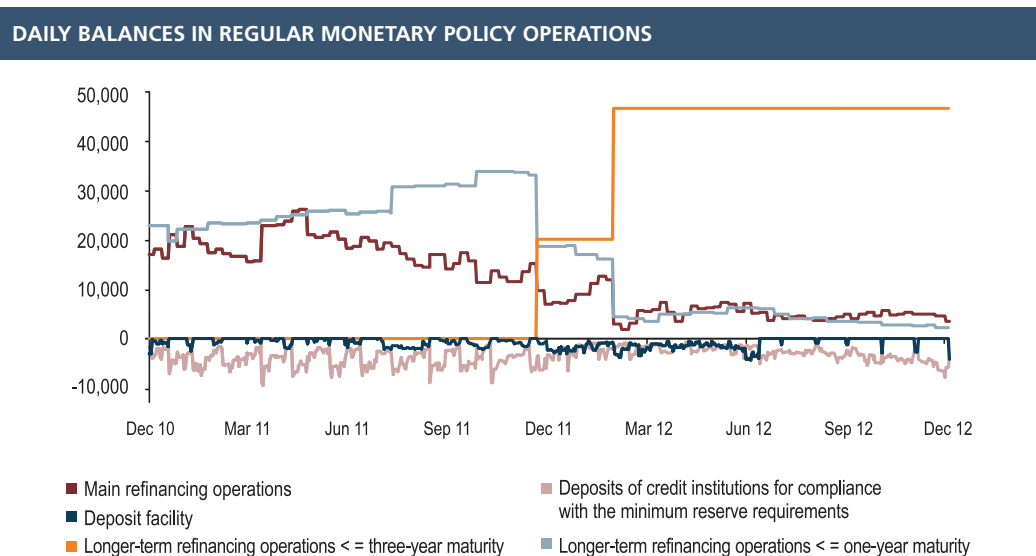




Developments in refinancing to credit institutions were accompanied by a change in its composition, with credit institutions resorting largely to the longer-term refinancing operation with a maturity of three years, announced by the European Central Bank (ECB) in February 2012 (like they had in the first operation of this type in December 2011). Conversely, they reduced markedly the recourse to the main refinancing operations and to the longer-term refinancing operations with a maturity of less than one year (Chart 4). These movements were reflected in a significant lengthening of the average maturity of refinancing by the Eurosystem, in line with banks' objective of stabilising their funding, in the context of the gradual deleveraging process of their balance sheets.

Chart 4

EUR millions



Turning to the portfolio of securities held for monetary policy purposes, investment amounts reflect the participation of Banco de Portugal in the stabilisation programmes approved by the Eurosystem, as regards the shared conduct of non-standard monetary policy operations. The overall amount of this portfolio declined slightly by € -285 million compared with end-2011, as a result of the combined effect of securities reaching maturity and investments, standing at € 6,984 million in December 2012. As shown in Chart 5, these portfolios show slight changes in the course of 2012, with negligible investment in the Securities Markets Programme (SMP) of the Eurosystem in the first quarter of the year and in the second Covered Bond Purchase Programme (CBPP 2). No further purchases are expected neither for CBPP (terminated in June 2010) nor for SMP and CBPP 2 (terminated in September and October 2012 respectively). These portfolios are all valued at amortised cost and held-to-maturity.

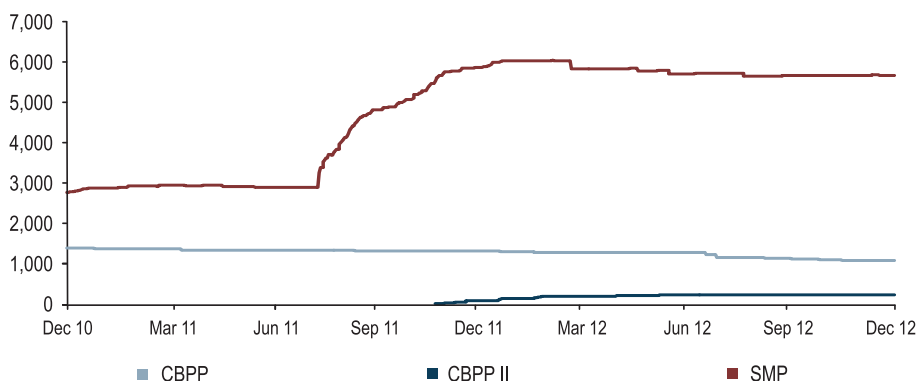
Still within the scope of the non-standard monetary policy measures and in order to address bond market distortions in some euro area countries, the Governing Council of the ECB approved in August 2012 the creation of a new programme for the purchase of euro area sovereign bonds, called outright monetary transactions (OMTs). In 2012 no purchases were made under this programme.



Chart 5

EUR millions

**DAILY BALANCES IN THE PORTFOLIOS OF SECURITIES HELD FOR MONETARY POLICY PURPOSES**



**b) Gold, foreign reserves and euro assets (net)**

• Gold

The gold reserve of Banco de Portugal remained virtually unchanged from 2011, in volume terms (remaining at 382.5 tons). Therefore, the increase in the value of the gold reserve from December 2011 (€ +545 million), was solely due to a rise in the price of gold, followed by a change of an equivalent amount in the item Revaluation differences.

Gold price movements reflected its appreciation in US dollars, in line with the trend seen in previous years, partly countered by the reduction in the exchange rate of the US dollar against the euro in 2012 (Charts 6 and 7).

Chart 6

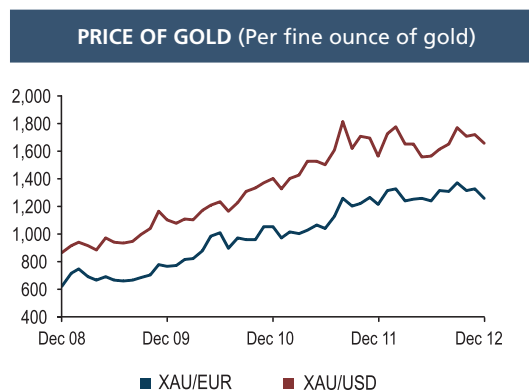
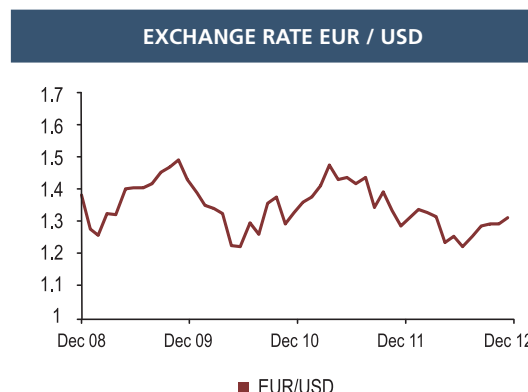


Chart 7



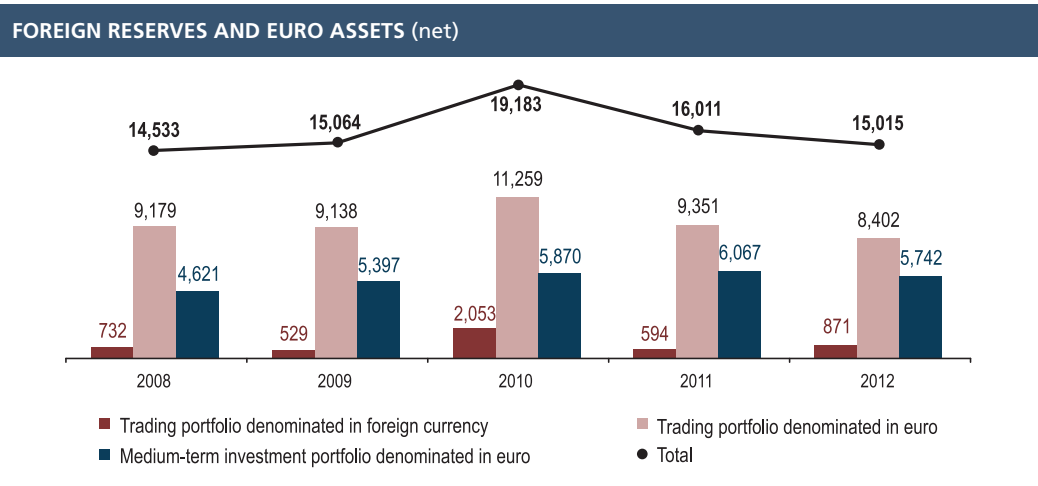
• Foreign reserves and euro assets (net)

Foreign reserves and euro assets of Banco de Portugal declined slightly in 2012 compared with 2011 (€ -996 million). There was a reduction in the trading and investment portfolios of € -948 million and € -325 million respectively, partly offset by an increase in the trading portfolio denominated in foreign currency (€ +277 million). These changes however do not affect the portfolio's global structure, which favours investments denominated in euro.

These developments reflect the Bank's investment decision, within the flexibility allowed by the agreements established at Eurosystem level, as well as the trade-off between risk and profitability, given the present economic and financial situation.

Chart 8

EUR millions



Euro money market interest rates decreased in the course of the year, chiefly reflecting market expectations and the ECB monetary policy decisions, amidst strong financial instability in the European sovereign debt market, which only eased in the second half of the year (Chart 9). Such instability and its subsequent easing strongly affected developments in yields on the main European bond markets, where the majority of the Bank's financial investment is concentrated. Yields were very different across markets throughout 2012, requiring an additional effort and increased flexibility in asset management (Charts 9, 10, 11 and 12). In annual average terms, there was a broadly based fall in yields compared with 2011.

Chart 9

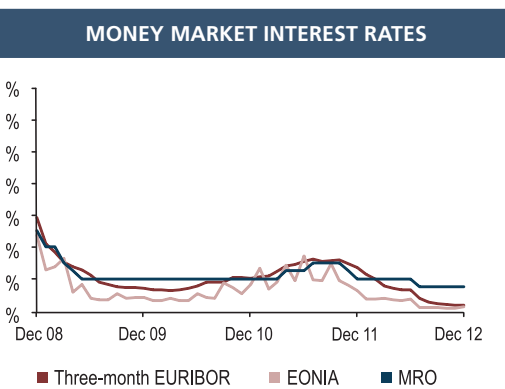


Chart 10

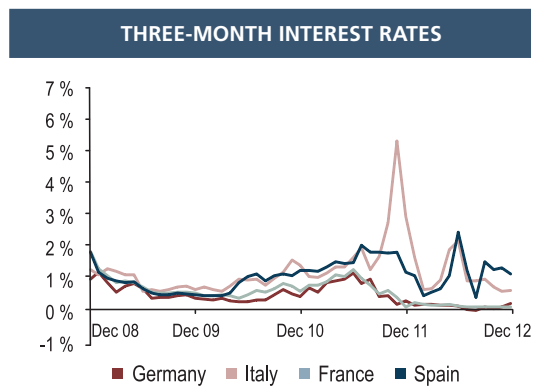


Chart 11

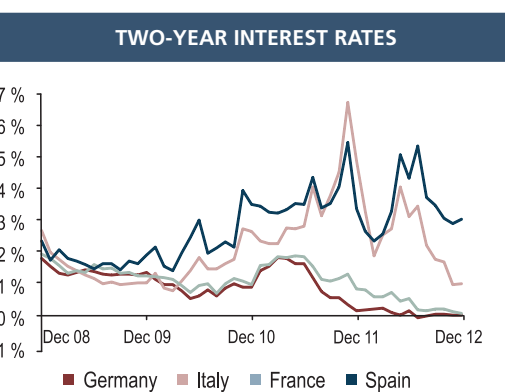
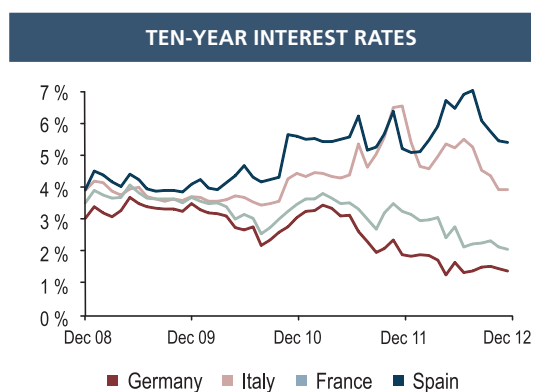
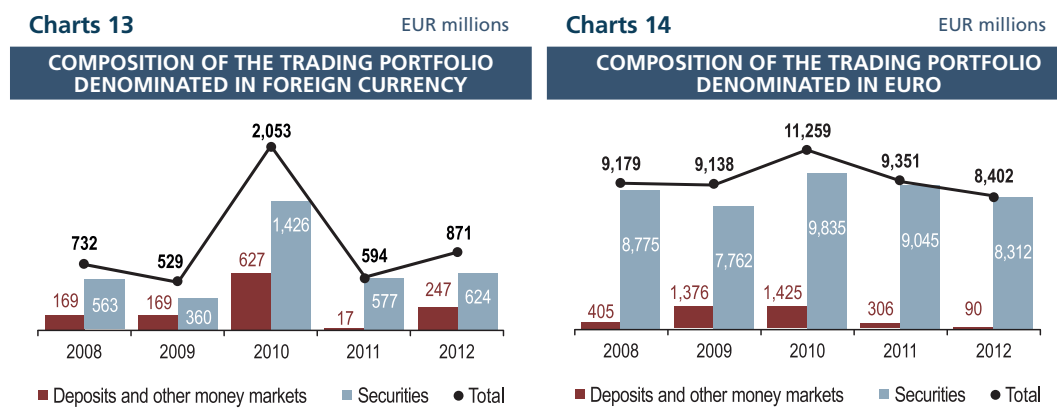


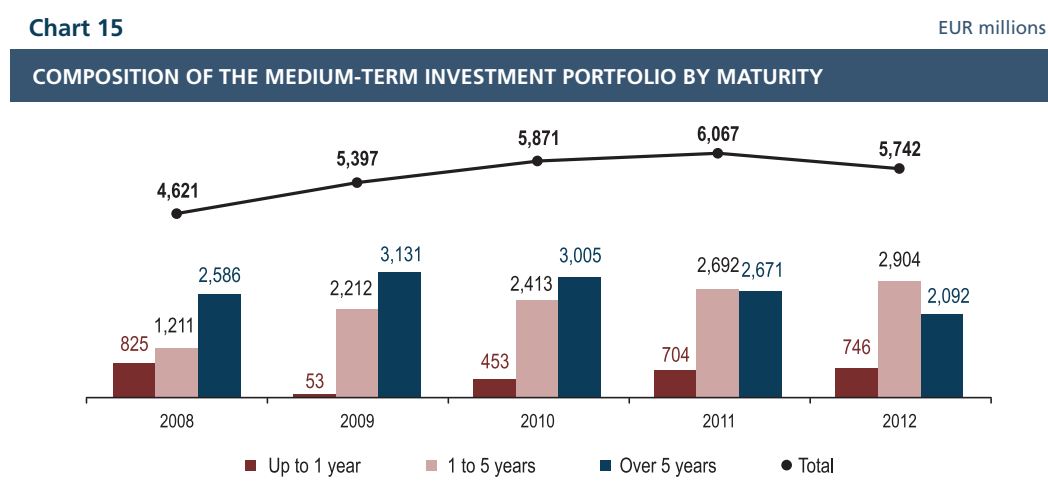
Chart 12



In terms of the composition by instrument, the trading portfolio denominated in euro and in foreign currency, continues to be mainly composed of securities, similarly to previous years, although deposits and other investment in foreign currency strengthened somewhat in the period under review (Charts 13 and 14). Securities in this portfolio are valued at market prices.



The medium-term investment portfolio (Chart 15), fully denominated in euro, valued at amortised cost and held to maturity, continues to be almost exclusively composed of securities.



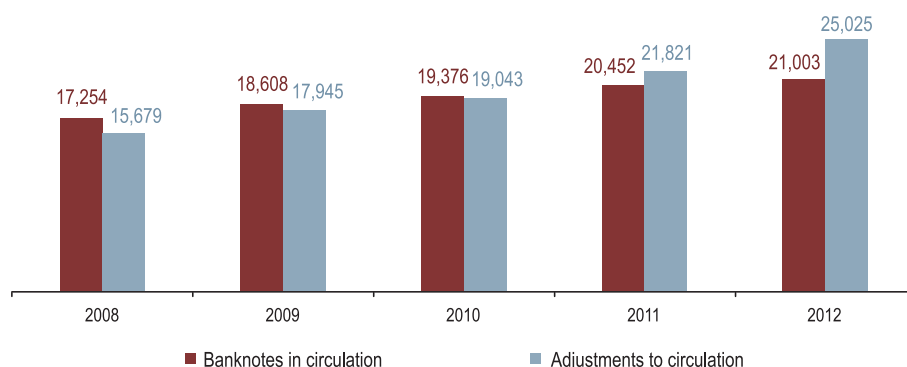
### c) Other balance sheet assets

Among the other asset items in the balance sheet of Banco de Portugal, special reference should be made to Intra-Eurosystem claims due to both their weight in the total balance sheet and their steady positive evolution in recent years. This item includes the remunerated item relating to adjustments in banknotes in circulation, which were made in accordance with Decision ECB/2010/29. In December 2012 these adjustments totalled € 25,025 million (€ +3,204 million more than in December 2011). The increase in this asset position reflects the combined effect of a rise in circulation at Eurosystem level and the widening of the positive difference between banknotes withdrawn from circulation and banknotes put into circulation by the Bank (Chart 16). Additionally, the rise in intra-Eurosystem claims also reflects the payment in December 2012 of the third and last instalment, to the amount of € 29 million, of Banco de Portugal's contribution to the increase in the ECB's subscribed capital. The total increase in subscribed capital, decided by the ECB at the end of 2010, amounted to € 5 billion, with the contribution from Banco de Portugal totalling € 87.5 million, paid in three annual instalments between 2010 and 2012.

### d) Banknotes in circulation

The aggregate Banknotes in circulation, recorded on the liabilities side of the balance sheet of Banco de Portugal, reflects the share allocated to Portugal of banknotes in circulation in the Eurosystem (Chart 16). This aggregate continued to be on a steady growth path, started when the euro entered into circulation, reflecting a rise in overall circulation at Eurosystem level, which increased by € 552 million in 2012.

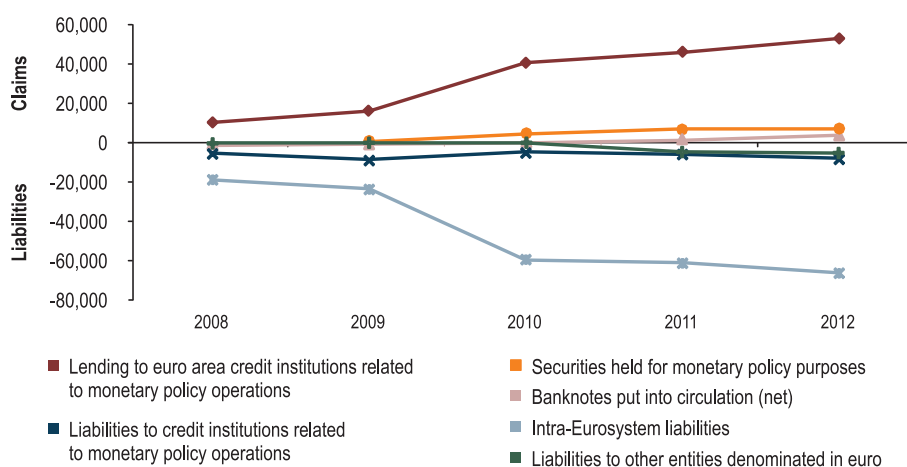
**Chart 16** EUR millions  
**BANKNOTES IN CIRCULATION AND ADJUSTMENTS TO CIRCULATION**



### e) Intra-Eurosystem liabilities

In December 2012, the value of Intra-Eurosystem liabilities (mostly liabilities arising from TARGET accounts) increased sharply from 2011 (€ +5,062 million), strongly influenced by developments in lending to credit institutions and by an increase in the debtor position relating to the difference between banknotes put into circulation and banknotes withdrawn from circulation by Banco de Portugal. The increase arising from these factors was partly offset by the impact of the rise in liabilities to the general government and liabilities to credit institutions (Chart 17).

**Chart 17** EUR millions  
**INTRA-EUROSYSTEM LIABILITIES AND MAIN OFFSETTING BALANCE SHEET ITEMS**



## f) Other liabilities

In the aggregate Other liabilities, the item Liabilities to other euro area residents denominated in euro, relates almost exclusively to balances of the general government current accounts. These liabilities increased by € 614 million from December 2011 mainly reflecting the value of the current accounts of the Portuguese Treasury and Government Debt Agency (*Instituto de Gestão da Tesouraria e do Crédito Público* – IGCP) relating to loan disbursements from the European Union (EU) and the International Monetary Fund (IMF) under the Economic and Financial Assistance Programme to Portugal (*Programa de Assistência Económica e Financeira a Portugal* – PAEF). Within the framework of this programme, a protocol was signed in 2011 between Banco de Portugal and IGCP, creating special accounts and establishing all the conditions under which the Bank receives the funds and makes transfers of capital, interest and expenditure inherent to the Programme. This protocol is based on the principle of neutrality, so that the Bank will have no gains or losses with the external financing to Portugal.

According to the new PCBP, the item Provisions only includes provisions falling under the definition of liabilities. Therefore, the figures shown only relate to the provision for Eurosystem monetary policy operations, whose movements depend on decisions of the Governing Council of the ECB.

## g) Own funds

In 2012 Banco de Portugal's own funds (revaluation differences, general risk provision, equity and net profit for the year) presented an overall increase of € 1,160 million. This increase was chiefly due to rises in positive gold revaluation differences (€ +545 million), net profit for the year € +418 million) and general risk provisions (€ +268 million) (Chart 18).

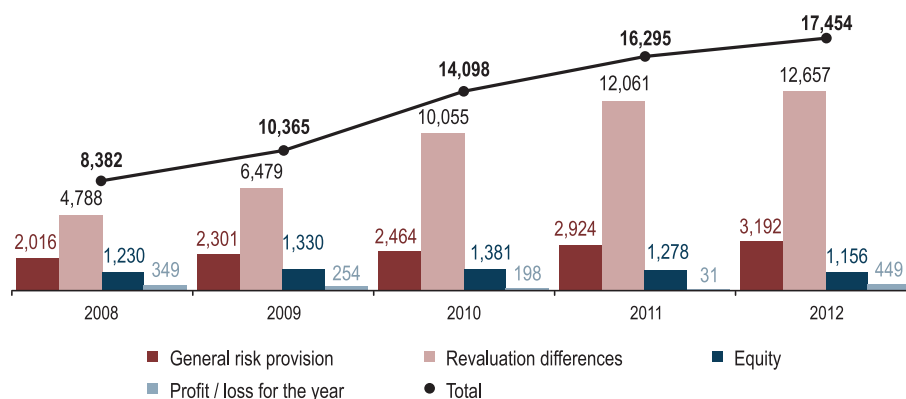
With the approval of the new PCBP, in force since 1 January 2012, a new general risk provision was created, covering all balance sheet financial risks to which Banco de Portugal is exposed. Therefore, the item Provisions no longer includes several provisions for specific purposes, whose amount was used to set up the new general risk provision. The new provision is equivalent to a reserve, considering its permanent nature, being intended to cover potential balance sheet risks in a medium to long-term perspective. According to the recommendation of the ECB and IMF, taking into consideration developments in financial markets, as well as the broadly based deterioration of credit risk, central banks must increase their own funds to be able, at any time, to cover potential losses, including those resulting from risk sharing with the Eurosystem, while maintaining financial autonomy levels suited to their mission. Against this background, in 2012 the Bank recorded a net increase of € 268 million in this provision, taking into account, among other factors, the assessment of risks for the period under analysis.

The reduction in Equity (€ -122 million) resulted from the impact on retained earnings and other reserves of both the recognition of liabilities to retired employees and pensioners related to post-employment benefits, which until 2011 were directly recognised in staff costs when they were paid, as well as the recognition of actuarial losses of 2012 (as explained in Notes 21 and 32 of section 3.).

Chart 18

EUR millions

## OWN FUNDS



## 1.2. Developments in the Profit and Loss Account

The main components of the Profit and Loss Account from 2008 to 2012 are shown in the table below:

Table 3

EUR millions

|   | 2008  | 2009 | 2010  | 2011  | 2012  | Δ 2012/2011 |
|---|-------|------|-------|-------|-------|-------------|
| Interest margin   | 660   | 538  | 607   | 729   | 803   | 74          |
| Interest income   | 1,403 | 826  | 1,149 | 1,614 | 1,513 | -101        |
| Interest expense  | -743  | -288 | -542  | -885  | -710  | 175         |
| Realised gains / losses arising from financial operations | 64    | 165  | 156   | -70   | 91    | 160         |
| Unrealised losses on financial assets and positions       | -14   | -6   | -222  | -18   | -2    | 16          |
| Transfer from / to risk provisions                        | -173  | -145 | -163  | -460  | -268  | 192         |
| Income from equity shares and participating interests     | 32    | 27   | 45    | 25    | 20    | -6          |
| Net result of pooling of monetary income                  | 41    | -56  | 35    | -9    | 113   | 122         |
| Total administrative expenses                             | 163   | 164  | 175   | 165   | 168   | 3           |
| Staff costs   | 117   | 118  | 121   | 111   | 108   | -4          |
| Excluding those related to supervision                    | 103   | 104  | 104   | 95    | 91    | -4          |
| Related to supervision                                    | 13    | 14   | 16    | 16    | 17    | 1           |
| Supplies and services from third parties                  | 36    | 36   | 40    | 37    | 41    | 4           |
| Excluding those related to PAEF                           | 36    | 36   | 40    | 36    | 36    | -           |
| Related to PAEF   | -     | -    | -     | 1     | 5     | 4           |
| Other administrative expenses                             | 1     | 1    | 1     | 1     | 1     | -           |
| Depreciation and amortisation for the year                | 10    | 9    | 14    | 16    | 18    | 2           |
| Costs with banknote production                            | 15    | 18   | 13    | 12    | 15    | 4           |
| Other net profit / loss                                   | 52    | 11   | 12    | 16    | 41    | 25          |
| Income before taxes                                       | 484   | 353  | 283   | 37    | 614   | 577         |
| Income tax – current                                      | -162  | -52  | -80   | -201  | -     | 201         |
| Income tax – deferred                                     | 28    | -46  | -4    | 195   | -165  | -360        |
| Net profit for the year                                   | 349   | 254  | 198   | 31    | 449   | 418         |

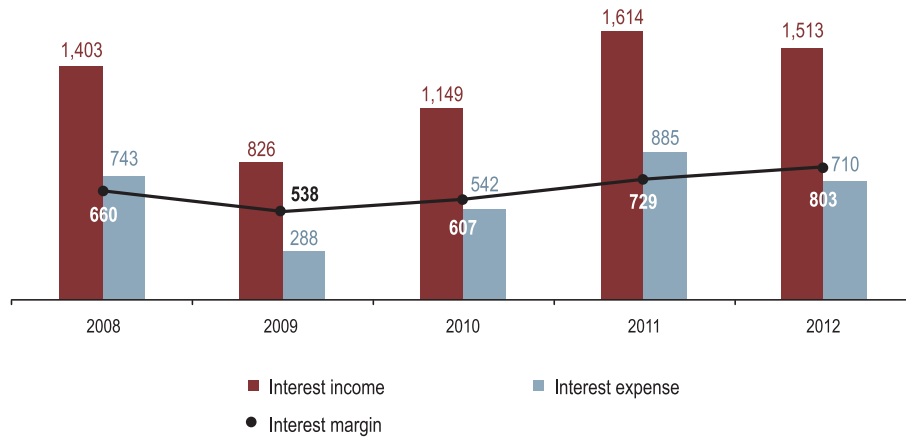
Net profit for the year 2012 stood at € 449 million, increasing by € 418 million from 2011.

The rise recorded in 2012 was chiefly due to an increase in the interest margin, in realised gains / losses arising from financial operations and in net result of pooling of monetary income, as well as from a rise resulting from the reduction in the increase in the general risk provision, in view of the weighting of several factors inherent to the assessment of Banco de Portugal's risks.

Chart 19

EUR millions

INTEREST MARGIN

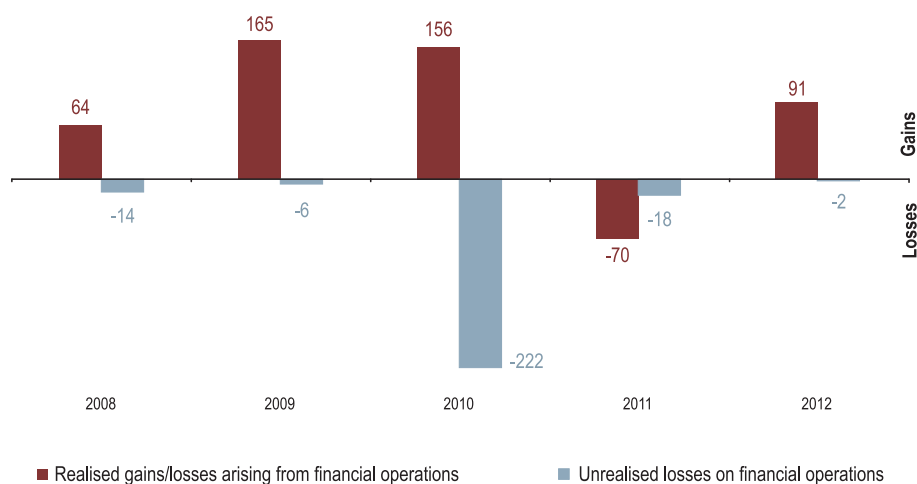


In 2012 the interest margin, which is the main component of the Profit and Loss Account of Banco de Portugal, amounted to € 803 million, increasing by 10 % (€ +74 million) from 2011 (Chart 19). This rise was chiefly due to the fact that the reduction in interest expense was higher than the decline in interest income. With regard to interest expense, the reduction was chiefly due to a significant fall in the rates associated with the main liabilities in the balance sheet, most notably Intra-Eurosystem liabilities (TARGET) and liabilities to the general government. As to the fall in interest income, the main contributor was the reduction in income across the board, with the exception of income from securities held for monetary policy purposes, which owing to their nature, generated much higher yields than the other remunerated assets. The fall in interest income was also partly offset by the rise from 2011 in the average balances of some major asset items, such as lending to credit institutions, adjustments to circulation and portfolio of securities held for monetary policy purposes.

Chart 20

EUR millions

NET RESULT OF FINANCIAL OPERATIONS AND UNREALISED LOSSES



Realised gains / losses arising from financial operations stood at € 91 million, increasing by € +160 million from 2011 (Chart 20), when transactions in securities denominated in euro posted realised losses.

With regard to changes in potential losses, their value continued to decline compared with previous years, totalling € 2 million in 2012 (€ 18 million in 2011 and € 222 million in 2010). These potential losses relate to negative foreign currency revaluation differences (€ 1.4 million) and securities price devaluation (€ 1.0 million). In accordance with the harmonised accounting rules of the Eurosystem, unrealised losses were recognised in costs for the year as at 31 December, while unrealised gains continue to be recognised in the balance sheet in the respective revaluation differences items.

Chart 21

EUR millions

TRANSFER FROM / TO RISK PROVISIONS



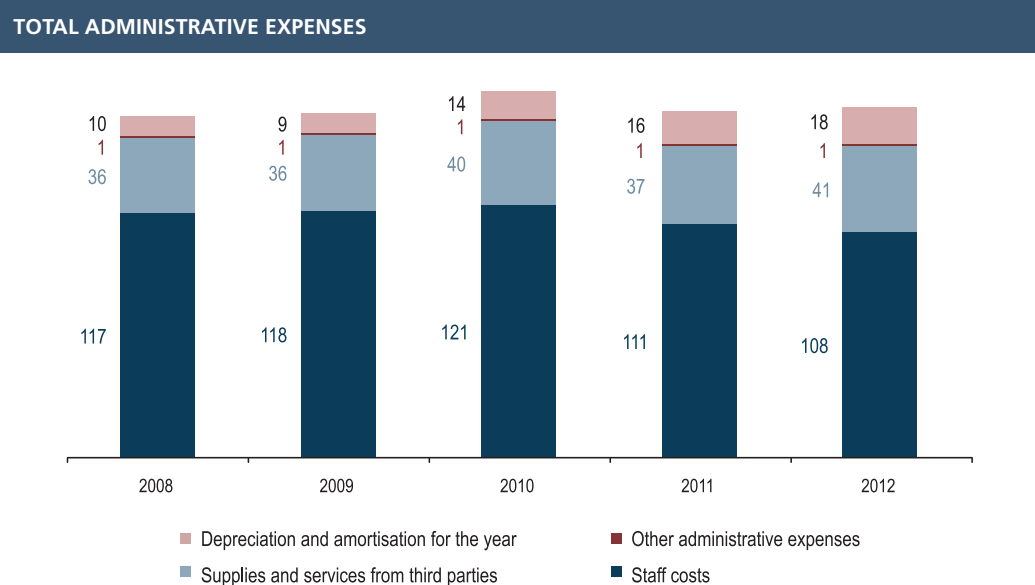


At the end of the year the potential losses referred to above were covered by using the general risk provision (€ 2 million) and this provision was increased by € 270 million. This increase took into consideration the prudential criteria set out in PCBP and the medium and long-term overall risk positions in the balance sheet to which the Bank is exposed, in a context in which the strengthening of central banks' own funds is increasingly important. This is all the more relevant as central banks must be able to cover potential losses, including those resulting from the sharing of risk with the Eurosystem, while maintaining financial autonomy levels suited to their mission.

In 2012 the item Net result of pooling of monetary income, in general terms, includes the result of the method used in this period and past-years adjustments (to the amount of € 97 million) and the income relating to the share of Banco de Portugal in the reduction of the provision for risks shared with the Eurosystem in monetary policy operations (€ 16 million). The sharp rise in the result of pooling of monetary income from 2011, chiefly reflects developments in monetary policy operations of Portugal and the Eurosystem. Changes in the provision for risks shared with the Eurosystem in monetary policy operations reflect a decision of the Governing Council of the ECB, in view of positive developments in the execution of collateral received as a guarantee for these operations for which a provision was set up.

Chart 22

EUR millions



In 2012 administrative expenses increased by 2 % from 2011 (€ 3 million), standing at € 168 million (Chart 22). The main component of these expenses, i.e. Staff costs (accounting for 64 % of the total), decreased by 3 % from 2011 (€ -4 million) standing at € 108 million in 2012. Therefore, in 2012, in line with the policy pursued since 2010, salary containment and expenditure cuts continued to be implemented. This scenario is a reflection of the guidance of the Board of Directors of Banco de Portugal to join the effort made by the Portuguese population in the present economic and financial context. The accumulated reduction in staff costs in the past two periods totalled around € 13 million (-11 %). Excluding expenditure related to the increased supervisory responsibilities, with inherent rises in staff costs, the reduction would have reached € 14 million (-13 %). In 2012 a number of transitional measures continued to be applied, namely those on remuneration components and other staff costs that are not legally or contractually binding and some additional measures were implemented, such as the suspension of the

payment of the holiday subsidy to the Bank's staff. In turn, the Board of Directors voluntarily decided to cancel the payment of the Christmas bonus and holiday subsidy to its members and continued to apply the salary reduction. With regard to the new hiring policy, in 2012 the Bank continued to increase the number of its professional staff to meet its increased responsibilities in the present economic and financial context, in particular, in banking supervision.

Supplies and services from third parties (accounting for 25 % of total administrative expenses) amounted to € 41 million, increasing by 11 % from 2011, chiefly reflecting the effect of expenses within the scope of the PAEF; excluding this effect there was a 0.8 % rise from 2011 (€ 0.3 million). This rise is chiefly due to an increase in both prices and taxes, being particularly relevant in the Bank's consumption expenses, e.g. electricity and other expenditure essential for the Bank's activity.

The fact that Supplies and services from third parties only recorded a slight rise (0.8 %) was only due to persistent expenditure containment efforts and efficient resource management – including the revision of hiring policies – implemented by the Bank's departments. To this end, specific intervention areas were identified and solutions implemented yielding significant savings levels, which were quite significant in some items of Supplies and services from third parties.

In 2012 depreciation and amortisation for the year amounted to € 18 million, increasing by 13 % from December 2011, due to the end in 2012 of large-value projects, resulting from investments made in previous years, mainly in works in buildings and facilities and in the Bank's document management system.

In 2012 there was an increase in expenditure with the production of banknotes compared with 2011, chiefly due to a rise in the share of banknote production allocated by the ECB to Banco de Portugal in 2012.

As to the tax impact on profit / loss for 2012, in addition to the recognition of expenditure with current taxes (€ 0.3 million relating to autonomous taxation), the Bank reversed deferred tax assets set up in 2011 (see note 30 of section 3.).

Lisbon, 26 February 2013

BOARD OF DIRECTORS

**Governor**

Carlos da Silva Costa

**Vice-Governors**

Pedro Miguel de Seabra Duarte Neves

José Joaquim Berberan e Santos Ramalho

**Directors**

José António da Silveira Godinho

João José Amaral Tomaz

## Profit distribution

In accordance with the provisions set forth in Article 53 (2) of the Organic Law of Banco de Portugal, the net profit for the year of 2012, to the amount of €449.15 million, was distributed as follows:

10% to the legal reserve ..... € 44,915,439.90

10% to other reserves ..... € 44,915,439.90

and, pursuant to subparagraph (c),

to the State, as dividends ..... € 359,323,519.16

pursuant to Decision No 59/2013 of 29 April 2013 of the Minister of State and Finance.

## 2. FINANCIAL STATEMENTS

II

122

BANCO DE PORTUGAL | ACTIVITIES AND FINANCIAL STATEMENTS 2012

| BALANCE SHEET OF BANCO DE PORTUGAL  |             |                    |   |                    |                       |                    |
|---|-------------|--------------------|---|--------------------|-----------------------|--------------------|
| ASSETS  | Note number | 31 Dec. 2012       |   |                    | 31 Dec. 2011 Restated | 31 Dec. 2011       |
|   |             | Gross assets       | Depreciation, amortisation and impairment | Net passets        | Net passets           | Net passets        |
| 1. Gold and gold receivables  | 2           | 15,509,114         | -   | 15,509,114         | 14,964,159            | 14,964,159         |
| 2. Claims on non-euro area residents denominated in foreign currency                                  |             | 1,663,495          | -   | 1,663,495          | 1,524,468             | 1,524,468          |
| 2.1. Receivables from the IMF   | 3           | 1,241,500          | -   | 1,241,500          | 1,262,970             | 1,262,970          |
| 2.2. Balances with banks and security investments, external loans and other external assets           | 4           | 421,995            | -   | 421,995            | 261,497               | 261,497            |
| 3. Claims on euro area residents denominated in foreign currency                                      | 4           | 448,673            | -   | 448,673            | 332,363               | 332,363            |
| 4. Claims on non-euro area residents denominated in euro  | 5           | 511,637            | -   | 511,637            | 693,923               | 693,923            |
| 4.1. Balances with banks, security investments and loans  |             | 511,637            | -   | 511,637            | 693,923               | 693,923            |
| 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           | 52,783,910         | -   | 52,783,910         | 46,001,500            | 46,001,500         |
| 5.1. Main refinancing operations  |             | 3,523,000          | -   | 3,523,000          | 6,976,000             | 6,976,000          |
| 5.2. Longer-term refinancing operations   |             | 49,260,910         | -   | 49,260,910         | 39,025,500            | 39,025,500         |
| 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           | 58,435             | -   | 58,435             | 164                   | 164                |
| 7. Securities of euro area residents denominated in euro  |             | 14,816,394         | -   | 14,816,394         | 15,925,261            | 15,925,261         |
| 7.1. Securities held for monetary policy purposes   | 7           | 6,984,254          | -   | 6,984,254          | 7,268,817             | 7,268,817          |
| 7.2. Other securities   | 5           | 7,832,140          | -   | 7,832,140          | 8,656,444             | 8,656,444          |
| 9. Intra-Eurosystem claims  | 8           | 26,346,681         | -   | 26,346,681         | 23,018,975            | 23,018,975         |
| 9.1. Participating interest in the ECB  |             | 201,933            | -   | 201,933            | 172,760               | 172,760            |
| 9.2. Claims equivalent to the transfer of foreign reserves to the ECB                                 |             | 1,008,345          | -   | 1,008,345          | 1,008,345             | 1,008,345          |
| 9.3. Net claims arising from balances of TARGET accounts  |             | -                  | -   | -                  | -                     | -                  |
| 9.4. Net claims related to the allocation of euro banknotes within the Eurosystem                     |             | 25,024,918         | -   | 25,024,918         | 21,820,552            | 21,820,552         |
| 9.5. Other intra-Eurosystem claims  |             | 111,485            | -   | 111,485            | 17,319                | 17,319             |
| 10. Items in the course of settlement   |             | 4                  | -   | 4                  | 17                    | 17                 |
| 11. Other assets  |             | 7,548,177          | 280,388                                   | 7,267,789          | 7,307,536             | 7,307,536          |
| 11.1. Coins of the euro area  |             | 50,097             | -   | 50,097             | 46,537                | 46,537             |
| 11.2. Tangible and intangible fixed assets  | 9           | 333,662            | 206,478                                   | 127,184            | 123,065               | 123,065            |
| 11.3. Other financial assets  | 10          | 5,822,689          | -   | 5,822,689          | 6,144,941             | 6,144,941          |
| 11.4. Off-balance-sheet instruments revaluation differences   |             | -                  | -   | -                  | -                     | -                  |
| 11.5. Accruals and prepaid expenses   | 11          | 910,240            | -   | 910,240            | 775,872               | 775,872            |
| 11.6. Sundry  | 12/19       | 431,488            | 73,910                                    | 357,579            | 217,121               | 217,121            |
| Total depreciation and amortisation   |             | -                  | 206,478                                   | -                  | -                     | -                  |
| Total impairment  | 19          | -                  | 73,910                                    | -                  | -                     | -                  |
| Total assets  |             | <b>119,686,522</b> | <b>280,388</b>                            | <b>119,406,134</b> | <b>109,768,366</b>    | <b>109,768,366</b> |

| Liabilities, revaluation differences,<br>general risk provision and equity                                | Note<br>number | 31 Dec. 2012       | 31 Dec. 2011<br>Restated | 31 Dec. 2011       |
|---|----------------|--------------------|--------------------------|--------------------|
| 1. Banknotes in circulation   | 13             | 21,003,305         | 20,451,773               | 20,451,773         |
| 2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro | 14             | 8,135,794          | 5,691,371                | 5,691,371          |
| 2.1. Current accounts of credit institutions for compliance with minimum reserve requirements             |                | 3,846,051          | 3,284,118                | 3,284,118          |
| 2.2. Deposit facility   |                | 4,289,742          | 2,406,403                | 2,406,403          |
| 2.3. Fixed-term deposits  |                | -                  | -                        | -                  |
| 2.4. Fine-tuning reverse operations   |                | -                  | -                        | -                  |
| 2.5. Deposits related to margin calls   |                | -                  | 850                      | 850                |
| 3. Other liabilities to euro area credit institutions denominated in euro                                 |                | -                  | -                        | -                  |
| 5. Liabilities to other euro area residents denominated in euro   | 15             | 5,483,618          | 4,869,372                | 4,869,372          |
| 5.1. General government   |                | 5,223,337          | 4,743,253                | 4,743,253          |
| 5.2. Other liabilities  |                | 260,282            | 126,119                  | 126,119            |
| 6. Liabilities to non-euro area residents denominated in euro   | 16             | 426                | 336                      | 336                |
| 7. Liabilities to euro area residents denominated in foreign currency                                     |                | -                  | -                        | -                  |
| 8. Liabilities to non-euro area residents denominated in foreign currency                                 |                | -                  | -                        | -                  |
| 8.1. Deposits, balances and other liabilities   |                | -                  | -                        | -                  |
| 8.2. Liabilities arising from the credit facility under ERM II  |                | -                  | -                        | -                  |
| 9. Counterpart of special drawing rights allocated by the IMF   | 3              | 940,110            | 957,046                  | 957,046            |
| 10. Intra-Eurosystem liabilities  | 8              | 66,025,846         | 60,964,229               | 60,964,229         |
| 10.1. Liabilities related to the issuance of ECB debt certificates  |                | -                  | -                        | -                  |
| 10.2. Net liabilities arising from balances of TARGET accounts  |                | 66,025,846         | 60,923,110               | 60,923,110         |
| 10.3. Net liabilities related to the allocation of euro banknotes within the Eurosystem                   |                | -                  | -                        | -                  |
| 10.4. Other net liabilities within the Eurosystem   |                | -                  | 41,120                   | 41,120             |
| 11. Other liabilities   |                | 355,091            | 597,677                  | 516,119            |
| 11.1. Off-balance-sheet instruments revaluation differences   |                | -                  | -                        | -                  |
| 11.2. Accruals and income collected in advance  | 17             | 63,247             | 85,848                   | 85,848             |
| 11.3. Sundry  | 18             | 291,843            | 511,829                  | 430,270            |
| 12. Provisions  | 19             | 7622               | 23,334                   | 2,947,338          |
| 13. Revaluation accounts  | 20             | 12,657,389         | 12,061,292               | 12,061,292         |
| 14. General risk provision  | 21             | 3,191,622          | 2,924,004                | -                  |
| 15. Equity  |                | 1,156,156          | 1,196,549                | 1,278,324          |
| 15.1. Capital   |                | 1,000              | 1,000                    | 1,000              |
| 15.2. Reserves and retained earnings  |                | 1,155,156          | 1,195,549                | 1,277,324          |
| 16. Profit for the year   |                | 449,154            | 31,382                   | 31,165             |
| Total liabilities, revaluation differences,<br>general risk provision and equity                          |                | <b>119,406,134</b> | <b>109,768,366</b>       | <b>109,768,366</b> |

HEAD OF THE ACCOUNTING DEPARTMENT  
José Pedro Silva Ferreira

Note: Totals / sub-totals included in the financial statements and respective notes may not add up due to rounding, since figures are presented in EUR thousands.

| PROFIT AND LOSS ACCOUNT   |             |                  |                       |                  |
|---|-------------|------------------|-----------------------|------------------|
| ITEMS   | Note number | 31 Dec. 2012     | 31 Dec. 2011 Restated | 31 Dec. 2011     |
| 1. Interest income  |             | 1,512,827        | 1,614,143             | 1,614,143        |
| 2. Interest expense   |             | 710,155          | 885,158               | 885,158          |
| <b>3. Net interest income</b>   | 22          | <b>802,672</b>   | <b>728,985</b>        | <b>728,985</b>   |
| 4. Realised gains / losses arising from financial operations                        | 23          | 90,527           | (69,627)              | (69,627)         |
| 5. Unrealised losses on financial assets and positions                              | 24          | 2,382            | 18,353                | 18,353           |
| 6. Transfer from / to risk provisions   | 19          | (267,618)        | (459,764)             | (459,764)        |
| <b>7. Net result of financial operations, unrealised losses and risk provisions</b> |             | <b>(179,473)</b> | <b>(547,744)</b>      | <b>(547,744)</b> |
| 8. Fees and commissions income  |             | 6,406            | 3,803                 | 3,803            |
| 9. Fees and commissions expense   |             | 5,311            | 4,044                 | 4,044            |
| <b>10. Net income from fees and commissions</b>                                     |             | <b>1,095</b>     | <b>(241)</b>          | <b>(241)</b>     |
| 11. Income from equity shares and participating interest                            | 25          | 19,950           | 25,459                | 25,459           |
| 12. Net result of pooling of monetary income  | 26          | 112,822          | (9,179)               | (9,179)          |
| 13. Other income  | 27          | 46,341           | 17,863                | 17,863           |
| <b>14. Total net income</b>   |             | <b>803,408</b>   | <b>215,143</b>        | <b>215,143</b>   |
| 15. Staff costs   | 28          | 107,735          | 111,268               | 111,484          |
| 16. Supplies and services from third parties  |             | 41,033           | 37,077                | 37,077           |
| 17. Other administrative expenses   |             | 1,002            | 674                   | 674              |
| 18. Depreciation and amortisation for the year                                      | 9           | 17,929           | 15,697                | 15,697           |
| <b>19. Total administrative expenses</b>  |             | <b>167,699</b>   | <b>164,715</b>        | <b>164,932</b>   |
| 20. Costs with banknote production  |             | 15,079           | 11,569                | 11,569           |
| 21. Other expenses  | 27          | 6,754            | 3,905                 | 3,905            |
| 22. Losses for impairment of assets (losses / reversals)                            | 29          | (292)            | (2,069)               | (2,069)          |
| 23. Transfer to the reserve relating to capital gains on gold sales                 |             |                  |                       |                  |
| <b>24. Totals costs and losses (net)</b>  |             | <b>189,240</b>   | <b>178,120</b>        | <b>178,336</b>   |
| <b>25. Income before taxes</b>  |             | <b>614,168</b>   | <b>37,023</b>         | <b>36,806</b>    |
| 26. Income tax  |             | 165,013          | 5,641                 | 5,641            |
| 26.1. Income tax – current  | 30          | 325              | 200,768               | 200,768          |
| 26.2. Income tax – deferred   | 30          | 164,689          | (195,127)             | (195,127)        |
| <b>27. Profit for the year</b>  |             | <b>449,154</b>   | <b>31,382</b>         | <b>31,165</b>    |

HEAD OF THE ACCOUNTING DEPARTMENT

José Pedro Silva Ferreira

Note: Totals / sub-totals included in the financial statements and respective notes may not add up due to rounding, since figures are presented in EUR thousands.

| STATEMENT OF CHANGES IN EQUITY                                       |                 |                |                  |                                 |                                     |                         |                  |
|--|-----------------|----------------|------------------|---------------------------------|-------------------------------------|-------------------------|------------------|
| Description  | Paid up capital | Legal reserves | Other reserves   | Distributable retained earnings | Non-distributable retained earnings | Net profit for the year | Total equity     |
| Position as at 31 December 2010 (1)                                  | 1,000           | 205,027        | 1,175,020        | 36,460                          | -157,779                            | 209,513                 | 1,469,240        |
| <b>2010 profit distribution</b>                                      |                 |                |                  |                                 |                                     |                         |                  |
| Dividends distribution to shareholders                               | -               | -              | -                | -                               | -                                   | -158,698                | -158,698         |
| Other operations   | -               | 19,837         | 19,408           | 4,802                           | 6,768                               | -50,815                 | -                |
| <i>Sub-total of 2010 profit distribution (2)</i>                     | -               | 19,837         | 19,408           | 4,802                           | 6,768                               | -209,513                | -158,698         |
| <b>Changes in 2011</b>   |                 |                |                  |                                 |                                     |                         |                  |
| Impact arising from the accounting of other post-employment benefits | -               | -              | -                | -81,074                         | -701                                | 217                     | -81,558          |
| Actuarial gains / losses of the Pension Fund                         | -               | -              | -                | -                               | -94,043                             | -                       | -94,043          |
| Adjustments on account of deferred taxes                             | -               | -              | -                | -                               | 61,825                              | -                       | 61,825           |
| <i>Sub-total of changes in 2011 (3)</i>                              | -               | -              | -                | -81,074                         | -32,919                             | 217                     | -113,776         |
| Net profit for 2011 (4)  | -               | -              | -                | -                               | -                                   | 31,165                  | 31,165           |
| Comprehensive income for 2011 (5) = (3) + (4)                        | -               | -              | -                | -81,074                         | -32,919                             | 31,382                  | -82,611          |
| <b>Position as at 31 December 2011 (6) = (1) + (2) + (5)</b>         | <b>1,000</b>    | <b>224,864</b> | <b>1,194,428</b> | <b>-39,812</b>                  | <b>-183,931</b>                     | <b>31,382</b>           | <b>1,227,931</b> |
| Position as at 31 December 2011 (7)                                  | 1,000           | 224,864        | 1,194,428        | -39,812                         | -183,931                            | 31,382                  | 1,227,931        |
| <b>2011 profit distribution</b>                                      |                 |                |                  |                                 |                                     |                         |                  |
| Dividends distribution to shareholders                               | -               | -              | -                | -                               | -                                   | -18,699                 | -18,699          |
| Other operations   | -               | 3,117          | 50,611           | -41,045                         | -                                   | -12,683                 | 0                |
| <i>Sub-total of 2011 profit distribution (8)</i>                     | -               | 3,117          | 50,611           | -41,045                         | -                                   | -31,382                 | -18,699          |
| <b>Changes in 2012</b>   |                 |                |                  |                                 |                                     |                         |                  |
| Actuarial gains / losses of the Pension Fund                         | -               | -              | -                | -                               | -31,444                             | -                       | -31,444          |
| Actuarial gains / losses of other post-employment benefits           | -               | -              | -                | -                               | -20,246                             | -                       | -20,246          |
| Adjustments on account of deferred taxes                             | -               | -              | -                | -                               | -1,386                              | -                       | -1,386           |
| <i>Sub-total of changes in 2012 (9)</i>                              | -               | -              | -                | -                               | -53,076                             | -                       | -53,076          |
| Net profit for 2012 (10)   | -               | -              | -                | -                               | -                                   | 449,154                 | 449,154          |
| Comprehensive income for 2012 (11) = (9) + (10)                      | -               | -              | -                | -                               | -53,076                             | 449,154                 | 396,079          |
| <b>Position as at 31 December 2012 (12) = (7) + (8) + (11)</b>       | <b>1,000</b>    | <b>227,981</b> | <b>1,245,039</b> | <b>-80,857</b>                  | <b>-237,007</b>                     | <b>449,155</b>          | <b>1,605,311</b> |

HEAD OF THE ACCOUNTING DEPARTMENT  
José Pedro Silva Ferreira

Note: Totals / sub-totals included in the financial statements and respective notes may not add up due to rounding, since figures are presented in EUR thousands.

### 3. NOTES ON THE FINANCIAL STATEMENTS

(Figures in EUR thousands)

#### NOTE 1 | BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

##### 1.1. Bases of presentation

The financial statements of Banco de Portugal have been prepared in accordance with the new Chart of Accounts of Banco de Portugal (*Plano de Contas do Banco de Portugal – PCBP*), which entered into force on 1 January 2012. A comparison with the former PCBP shows the creation of two new balance sheet items: Revaluation differences, formerly recorded under liabilities, and general risk provision. Unlike the other provisions, the latter is equivalent to a reserve, although its increases and reductions are directly made against profit / loss. These two new items are recorded in the balance sheet between Liabilities and Equity.

The new PCBP has not changed the policies and criteria for the recognition, measurement and valuation of the financial assets and liabilities of the Bank's core business activities, which are defined as being compulsory in the ECB accounting guideline. As regards non-core business activities, the Bank continues to follow the IFRS,<sup>50</sup> whenever certain conditions mentioned further below in this note occur.

The limits and rules regarding movements in provisions and reserves continue to be defined by the PCBP. As referred to above, the new PCBP creates a new general risk provision and eliminates the former provisions that had specific purposes. The new PCBP keeps unchanged the structure of the Equity items, only introducing the concept of Non-distributable retained earnings, separating them from the other retained earnings.

The new PCBP introduces a Statement of Changes in Equity, in line with the international accounting rules. In addition to this new statement, slight changes have been introduced in the structure of the balance sheet and of the Profit and Loss Account to make them more readily comprehensible. To enable comparability between the two reported periods, the 2011 financial statements are based on the new PCBP, while the items Provisions and General risk provision have been restated as a result of the adoption of the new PCBP.

The bases for preparation of the financial statements, as envisaged in the current PCBP, rely on two major regulations: (i) Accounting Guideline of the European Central Bank<sup>51</sup> (ECB), which adopts the mandatory rules applicable to the treatment of core central banking activities and the optional rules recommended for participating interests; and (ii) technical guidance on the recognition and measurement based on the IFRS for the remaining activities, which will be applied provided the following cumulative conditions are ensured:

- The issue is not subject to the mandatory accounting rules of the ECB Accounting Guideline;
- The implementation of technical guidance does not collide with the spirit and conceptual rationale of the ECB Accounting Guideline;
- The technical guidance does not collide with the legal provisions applicable to the Bank, in particular its Organic Law;
- The technical guidance does not collide with specific provisions of the PCBP on specific issues; and
- The issue does not collide with the central bank's specific role.

<sup>50</sup> IFRS: International Financial Reporting Standards.

<sup>51</sup> Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20).



In accordance with the ECB Accounting Guideline, the classification of assets and liabilities shall be made according to the residence in the euro area criterion. Thus, euro area assets and liabilities are those relating to euro area residents.

Participating interests in subsidiaries are recorded in the financial statements, as described in section 1.2. (h) of this note. Given the immaterial nature of the results of a possible consolidation process, the Bank does not prepare consolidated financial statements.

The Bank is an integral part of the European System of Central Banks (ESCB) being subject to the provisions laid down in Article 27 (1) of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the "Statute of the ESCB"), according to which the annual accounts of the national central banks (NCBs) of the Eurosystem shall be audited by independent external auditors. In this context, the Bank follows the good practice of the Eurosystem, defined for the purpose of ensuring the independence of the external auditors, being prohibited from hiring any other service from the same external auditor.

## 1.2. Synopsis of the main accounting policies

The main accounting policies and valuation criteria used in the preparation of the financial statements for the year 2012 are the following:

### a) Accrual basis of accounting

The Bank follows the accrual basis of accounting principle in relation to most financial statement items, namely with regard to interest income and interest expense on operations, which is recognised in the accounting period in which it is generated and not according to the moment in time in which it is paid or received.

### b) Recognition of gains and losses arising from financial operations

Realised gains / losses arising from financial operations are taken to the Profit and Loss Account on the settlement date, except in the situations envisaged in the "economic approach" alternative method, described in the ECB accounting guideline, under which at the end of the year gains and losses arising from spot transactions are recognised on the trade date.

In the course of the period, revaluation differences (difference between the market value and the weighted average cost) are recorded in the balance sheet, in specific revaluation accounts for each type of asset and currency.

At the end of the fiscal year, negative revaluation differences are recognised in the Profit and Loss Account as unrealised losses.

No netting is allowed on revaluation differences in any one security (ISIN code) or in any currency.

### c) Conversion of assets, liabilities, off-balance-sheet instruments and profit / loss denominated in foreign currency

Assets, liabilities and off-balance-sheet instruments denominated in foreign currency are converted into euro at the exchange rate prevailing on the financial statements date. The rate used in the conversion of income and expenses denominated in foreign currency is the one prevailing on the date of the recognition in the Profit and Loss Account.

### d) Transactions denominated in foreign currency

The calculation of gains and losses denominated in foreign currency is made on a currency-by-currency basis by reference to the respective weighted average cost, which is computed in accordance with the daily net average cost procedure, hereinafter called "daily average cost".

This method implies that, for a given asset position, the average exchange rate of each foreign currency is changed only when the amount purchased on a given day is higher than the amount sold. Gains and losses arising from sales are determined by the difference between the transaction value and the daily average cost.

Where the amounts sold are higher than those purchased, the daily average cost is determined by two components: day purchases (at the transaction value) plus the difference between day sales and purchases (at the historical weighted average cost). Where a liability position exists in respect of a foreign currency, the average cost of the liability position shall be affected by net sales, recognising gains and losses arising from the acquisitions.

Spot and forward foreign exchange transactions and currency swaps are recorded as follows:

- **Foreign exchange spot transactions**

- Spot purchases and sales of foreign currency are recorded on the settlement date, which is when the weighted average cost of the foreign currency position is affected, in compliance with the method described above;
- Spot purchases of foreign currency against the sale of euro are recorded at the transaction's exchange rate;
- Cross-currency spots are recorded in euro through the use of the spot exchange rate of the transaction's quote currency on the trade date;
- In spot sales of foreign currency against euro the transaction's foreign exchange gains and losses arise from the difference between the equivalent of the transaction in euro and the average cost of the foreign currency sold;
- In cross-currency spots, the operation's foreign exchange gains and losses arise from the difference between the equivalent in euro of the transaction's sold currency at the transaction's exchange rate and the equivalent in euro at the average cost of the foreign currency sold.

- **Foreign exchange forward transactions**

- These transactions are recognised in off-balance-sheet accounts from the trade date to the settlement date at the spot rate prevailing on the trade date;
- Cross-currency forwards are recorded in euro through the use of the spot exchange rate of the transaction's currency on the trade date. The difference between the spot and the forward equivalents is treated as interest payable / receivable on an accruals basis over the entire life of the transaction. The weighted average cost of the foreign currency position is affected two days after the trade date of the transaction;
- In forward sales of foreign currency, foreign exchange gains and losses arise from the difference between the equivalent in euro at the spot rate of the transaction's quote currency and the equivalent in euro at the weighted average cost of that currency, and are entered in the respective Profit and Loss Account on the date on which the purchase affects the acquisition cost. The difference between the spot and forward equivalents is treated as interest payable / receivable on an accruals basis up to the settlement date of the transaction.

- **Foreign exchange swaps**

- Foreign exchange swaps involve the simultaneous spot purchase / sale of one currency against another and the forward sale / purchase of the same amount of this currency against the other;
- Spot purchases / sales are treated as foreign exchange spot transactions (in balance sheet accounts); forward purchases / sales are treated as forward foreign exchange transactions and recognised in off-balance-sheet accounts from the trade date to the maturity date at the spot rate prevailing on the trade date;
- The difference between the spot and forward rates is treated as interest payable / receivable on an accruals basis over the entire life of the transaction;
- The weighted average cost of each foreign currency position is not affected by the simultaneous currency inflows and outflows;
- There are no revaluation differences in foreign currency positions, since they are derived from the spot and forward currency positions as a whole.

Foreign exchange transactions traded in one year, but whose settlement occurs in the subsequent year, are an exception to this accounting treatment, as they are recognised in the year when the transaction was traded, according to the so-called “alternative approach”, of the “economic approach” mentioned in section 1.2. (b) above.

#### **e) Gold**

Gold is valued at market price.

The accounting treatment of gold is similar to that of foreign currencies referred to in (d) above. In sum, the average cost of the gold stock is only changed when the amount purchased on a given day is higher than the amount sold. Gains and losses arising from sales are derived from the difference between the transaction value and the weighted average cost.

The method for the recognition of gains and losses is also similar to that of foreign exchange transactions.

#### **f) Securities held for monetary policy purposes**

The item Securities held for monetary policy purposes includes securities related to non-standard monetary policy measures and is comprised of the following portfolios:

- **Covered Bond Purchase Programme (CBPP)**

On the basis of the decisions taken by the Governing Council of the ECB on 7 May and 4 June 2009, which established a programme coordinated at Eurosystem level, Banco de Portugal has purchased, for monetary policy purposes, covered bonds denominated in euro and issued in the euro area. The purchases under this programme were fully implemented by 30 June 2010.

- **Eurosystem’s Securities Markets Programme (SMP)**

The decision taken by the Governing Council of the ECB on 14 May 2010 established a programme enabling the purchase of public debt securities with the aim of stabilising the European securities market, under which Banco de Portugal has purchased government bonds issued by euro area countries. The Governing Council of the ECB decided on 6 September 2012 to terminate this programme for new purchases.

- **Covered Bond Purchase Programme 2 (CBPP 2)**

With similar goals to the first Covered Bond Purchase Programme (CBPP), the Governing Council of the ECB decided on 3 November 2011 to launch a new purchase programme for this type of bonds (CBPP 2), under which Banco de Portugal has purchased euro-denominated bonds issued in the euro area. Since 31 October 2012 no further purchases have been envisaged under this programme.

The securities held in these portfolios, classified as held-to-maturity, are valued at acquisition cost plus the respective premium or amortised discount, being subject to impairment tests conducted at Eurosystem level.

#### **g) Securities for other than monetary policy purposes**

Banco de Portugal holds in its portfolio marketable securities (trading portfolio) and securities held to maturity (medium-term investment portfolio).

- **Trading portfolio**

The portfolio of marketable securities is valued at market price.

The calculation and recognition of profit / loss in marketable securities complies with the valuation method of the weighted average cost for each type of security. According to this method, the acquisition cost of the daily purchases is added to the weighted average cost of each type of security, so that a new weighted average cost can be calculated. Sales are deducted from the stock by applying the last weighted average cost. The difference between the value of sales and the weighted average acquisition cost plus the corresponding premium or discount, by type of security, is treated as realised gain / loss. In turn, the premium or discount amortised up to the sale is also treated as realised gain / loss (interest).

Revaluation differences are measured by the difference between the weighted average cost of the stock, plus the corresponding accrued premium or discount, and the respective market value, and treated as referred to in section 1.2. (b) of this note.

- **Medium-term investment portfolio**

The portfolio of securities held to maturity, classified as financial fixed assets, is valued at the historical weighted average cost, calculated in a totally independent manner from the remaining securities classified as trading securities, and is subject to impairment tests. The accounting treatment of interest, premiums and discounts of securities held in this portfolio is similar to that of the portfolio of marketable securities.

#### **h) Participating interests**

Participating interests of a long-standing nature, whose maintenance is of particular interest to the Bank's activity, are recorded in the financial statements under Other financial assets.

Participating interests in subsidiaries and associated companies are valued in accordance with the recommendations of the ECB Accounting Guideline, through the Net Asset Value valuation method.<sup>52</sup>

The remaining participating interests are recorded according to the acquisition cost criterion less adjustments when considered adequate.

---

<sup>52</sup> Net Asset Value (NAV) is the value of assets less the value of the liabilities of participated entities, multiplied by the share held by Banco de Portugal in those entities.

### i) Banknotes in circulation

The ECB and the 17 NCBs of the EU Member States whose currency is the euro, which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002,<sup>53</sup> with the exception of Banka Slovenije, which adopted the euro on 1 January 2007, the central banks of Cyprus and Malta, which adopted the euro on 1 January 2008, Národná banka Slovenska, which adopted the euro on 1 January 2009 and Eesti Pank, which adopted the euro on 1 January 2011. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the "banknote allocation key".<sup>54</sup>

The ECB has been allocated a share of 8 % of the total value of euro banknotes in circulation, whereas the remaining 92 % have been allocated to NCBs according to the respective ECB's capital key. The share of euro banknotes allocated to each NCB is disclosed under the balance sheet item Banknotes in circulation.

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the difference between banknotes put into circulation and banknotes withdrawn from circulation by that NCB also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,<sup>55</sup> are disclosed under the sub-item Net claim / liability related to the allocation of euro banknotes within the Eurosystem (see section 1.2. (j) of this note).

When a Member State adopts the euro, those intra-Eurosystem balances referring to euro banknotes in circulation are adjusted over a five-year period so that changes in banknote circulation patterns do not significantly alter NCBs' relative income positions. These adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments of intra-Eurosystem balances will cease to apply as of the first day of the sixth year after the cash changeover of each new Eurosystem participant.

The interest income and expense on these balances is cleared through the account of the ECB and disclosed in the Profit and Loss Account of NCBs under Net interest 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, shall be due to the NCBs in the same period it accrues and distributed on the second business day of the following financial year in the form of an interim distribution of profit.<sup>56</sup> It shall be distributed in full unless the ECB's net profit for the year is expected to be lower than its income earned on euro banknotes in circulation and subject to any decision by the Governing Council to reduce this income in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. The Governing Council may also decide to transfer all or part of the ECB's seigniorage income to a provision for foreign exchange rate, interest rate, credit and gold price risks.

<sup>53</sup> Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (ECB/2010/29), OJ L 35, 9.2.2011, p. 26.

<sup>54</sup> "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.

<sup>55</sup> Decision of the European Central Bank of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (ECB/2010/23), as amended by Decision of 3 November 2011 (ECB/2011/18).

<sup>56</sup> Decision of the European Central Bank of 25 November 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the securities markets programme (ECB/2010/24), as amended by Decision of 19 December 2012 (ECB/2012/33).

### j) Intra-ESCB balances

Pursuant to Article 28 of the Statute of the ESCB, the NCBs are the sole subscribers to and holders of the capital of the ECB. The subscription of capital shall be made according to the key established in Article 29. Thus, Banco de Portugal's share in the capital of the ECB and credits of 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 of the Statute of the ESCB. 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.

The intra-Eurosystem balance arising from the transfer of reserve assets to the ECB when Banco de Portugal joined the Eurosystem is denominated in euro and is recorded in the balance sheet under Transfer of foreign reserve assets to the ECB.

Intra-Eurosystem balances arising from the allocation of euro banknotes are included as a net single position and are recorded in the balance sheet under Claims / liabilities related to the allocation of euro banknotes within the Eurosystem (see section 1.2. (i) of this note).

Intra-Eurosystem balances result from cross-border payments in the EU that are settled in euro. These transactions are for the most part initiated by private entities and are initially settled in TARGET2 – Trans-European Automated Real-time Gross settlement Express Transfer system, and give rise to bilateral balances in the TARGET accounts of EU central banks. These bilateral balances are netted out by each NCB on a daily basis, leaving each NCB with a single position vis-à-vis the ECB only. Banco de Portugal's intra-Eurosystem balances are presented on the balance sheet and disclosed under Claims / liabilities arising from balances of TARGET accounts.

### k) Tangible and intangible fixed assets and assets under construction

Tangible and intangible fixed assets are valued at the acquisition cost less accumulated depreciation and amortisation. This acquisition cost includes expenditure directly attributable to the acquisition of goods.

Depreciation and amortisation is calculated on an annual basis, according to the constant quota method, by applying to the historical cost the maximum annual rates allowed for tax purposes, which were deemed not to differ substantially from their estimated useful life:

|                                   | Number of years |
|-----------------------------------|-----------------|
| <b>Tangible assets</b>            |                 |
| Buildings and other constructions | 10 to 50        |
| Facilities                        | 4 to 20         |
| Equipment                         |                 |
| Machinery and tools               | 4 to 8          |
| Computer hardware                 | 3 to 5          |
| Transport equipment               | 4 to 8          |
| Furniture and fittings            | 4 to 8          |
| <b>Intangible assets</b>          | 3               |

The depreciation of motor vehicles is made differently, depending on whether they are expected to be sold after five years (or four years in the case of hybrid vehicles) or to continue to be available for use by the Bank. Hence, the former are depreciated at a rate of 13 % over five years (or 13.75 % over four years in the case of hybrid vehicles), considering a residual value of 35 % (45 % in the case of hybrid vehicles) at the end of this period, and the latter at a rate of 10 % over eight years, considering a residual value of 20 % at the end of this period. The residual value is calculated according to the provisions laid down in Executive Order No 383/2003 of 14 May.

Tangible and intangible assets under construction are valued at the total expenses already charged to the Bank and transferred to fixed assets when their effective use starts, and hence their amortisation.

Costs incurred in relation to the maintenance and repair of tangible and intangible fixed assets are recorded as costs for the year.

### **l) Liabilities related to retirement pensions and other benefits**

Within the framework of the collective labour agreements in force for the banking sector, the Bank undertook the commitment to pay until 31 December 2010 to its employees hired before 3 March 2009, or to their dependents, who are covered by the defined-benefit plans of the Pension Fund of Banco de Portugal (i) retirement pensions to employees who have reached the statutory age limit, are disabled or have negotiated early retirement, (ii) survivors pensions, and (iii) supplementary benefits and death grants, and (iv) settlement of pensions' inherent charges to SAMS (social health assistance service for banking sector employees).

Decree-Law No 1-A/2011 of 3 January laid down that from 1 January 2011, the active employees of the Bank, enrolled in CAFEB (family allowance fund of bank employees) who were covered by the Pension Fund – Defined-benefit plan, will be covered by the general social security scheme when they reach the statutory retirement age.

The Pension Fund retains responsibility for death grants and disability payments, as well as for the payment of the supplement resulting from the difference between benefits calculated under the general social security scheme and the benefits defined in the respective Pension Plans, which are based on the collective labour agreements applicable and on the internal regulations of the Bank.

The Bank's liabilities related to retirement pensions and other benefits are calculated on an annual basis, on the cut-off date for the accounts, by *Sociedade Gestora do Fundo de Pensões do Banco de Portugal – SGFP* (Pension Fund Managing Company of Banco de Portugal), using the Projected Unit Credit Method. The main actuarial assumptions (both financial and demographic) used in the calculation of these liabilities are 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 interest cost less the expected income from the Pension Fund's assets. Actuarial gains / losses arise mainly (i) from differences between actuarial and financial assumptions used and the values actually recorded, and (ii) from changes introduced in actuarial and financial assumptions. These gains and losses will be directly recorded under Retained earnings.

Contributions to the Pension Fund are made in order to ensure its solvency, and the minimum funding of pension liabilities is 100 %, while that of past service liabilities of active employees is 95 %.

Pursuant to Decree-Law No 54/2009 of 2 March, the employees who have started working at the Bank after 3 March 2009 are covered by the general social security scheme. Nonetheless, these employees may opt for a supplementary pension plan, for which Banco de Portugal contributes with 1.5 % of the actual monthly compensation. However, since this is a defined-contribution plan, the Bank has

no legal or constructive obligation to pay any additional contribution if the pension fund does not hold adequate assets to pay all benefits to the employees regarding their service in the current or previous periods.

#### **m) Other post-employment benefits**

Until the 2011 period, liabilities related to other post-employment benefits were not recognised in Banco de Portugal's balance sheet. Payments made were directly recorded in Profit / loss in the year they were made. These post-employment benefits are chiefly related to: (i) allocation of retirement and survivors pensions to retired employees and pensioners who are not covered by the Pension Fund of Banco de Portugal; (ii) the extraordinary subsidy granted to the Bank's employees retired on or before 31 December 1993; and (iii) contribution to retired employees and pensioners' healthcare and funeral expenses. As from the 2012 period, Banco de Portugal recognises in liabilities the present value of liabilities to be paid in the future relating to the above-mentioned post-employment benefits.

The present value of these post-employment benefits is calculated on an annual basis, on the cut-off date for the accounts, by SGFP of Banco de Portugal, 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.

The recognition of expenses and liabilities with these other post-employment benefits is made in accordance with IAS 19. Banco de Portugal recognises, on an annual basis, in staff costs the amount relating to: (i) interest cost relating to benefits that retirees already receive, (ii) current service cost and interest cost relating to benefits that active employees will receive on retirement. Net gains / losses resulting from actuarial gains / losses, arising from variations and changes in assumptions or from changes in benefit conditions are directly recorded in Equity, under Retained earnings, in accordance with the accounting policy also adopted for the actuarial gains / losses of liabilities related to retirement pensions.

The impact of restating the financial statements for 2011 through recognition under Liabilities of the present value of liabilities related to these post-employment benefits is presented in note 32.

#### **n) Seniority bonuses**

Banco de Portugal recognises on the liabilities side of its balance sheet the present value of liabilities for years of service, regarding seniority bonuses.

The SGFP of Banco de Portugal calculates the current value of benefits with seniority bonuses on an annual basis, on the cut-off date for the accounts, using the Projected Unit Credit Method. The main actuarial assumptions (financial and demographic) used in the calculation of the present value of these benefits are presented in note 32.

On an annual basis, Banco de Portugal recognises directly under Profit / loss for the year the current service cost, interest cost and net actuarial gains / losses, arising from changes in assumptions or in the conditions of benefits.



#### **o) Income tax**

Charges for the year with the income tax are calculated in accordance with the provisions laid down in the Corporate Income Tax Code (*Código do Imposto sobre o Rendimento das Pessoas Coletivas – CIRC*) and the tax incentives and benefits applicable to the Bank.

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. Deferred taxes are calculated taking as a basis the best estimate of the amount of the tax to recover and to pay in the future.

#### **p) Derivative financial instruments**

Derivative financial instruments are revalued at their market price or in its absence the estimated market price. Revaluation differences are treated as described in section 1.2. (b) of this note, on an item-by-item basis.

#### **q) Impairment and provisions**

Impairment of assets is recognised in the balance sheet and shall be deducted from the book value of those assets. The value of this impairment results from the best estimate of losses associated with each asset class and takes as a reference the market price or in its absence the estimated market price.

Provisions are recognised in liabilities through the best estimate of the liability amount.

PCBP provides for the setting up of provisions resulting from shared risk 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 Bank follows the regime defined in the Corporate Income Tax Code.

#### **r) Revaluation differences**

Revaluation differences are calculated as described in section 1.2. (b) of this note. When these differences are positive, they are retained in the balance sheet in order not to distribute unrealised gains. Positive revaluation differences at the end of the year are presented on an item-by-item basis in the balance sheet between Liabilities and Equity.

It should be noted that at the end of the year, in consideration of the principle of prudence, when the revaluation differences are negative they are transferred to the Profit and Loss Account, contributing to the calculation of net profit / loss.

#### **s) General risk provision**

In accordance with Article 5 (2) of the Organic Law of Banco de Portugal, the Board of Directors may establish other reserves and provisions namely to meet depreciation risks or losses to which certain types of assets or operations are particularly liable.

The PCBP provides for the setting up of a general risk provision, which is equivalent to a reserve, considering its nature, although its increases and reductions are directly made against the Profit and Loss Account.

The definition of the amount of the general risk provision takes into account the prudent management criteria applicable to the liabilities of a central bank, in addition to the degree of volatility of the main assets of the Bank. Movements in the general risk provision are decided upon by the Board of Directors, in accordance with Article 5 (2) of the Organic Law of Banco de Portugal.

The general risk provision is considered as a separate item in the balance sheet, recorded between Liabilities and Equity.

#### t) Reserves and retained earnings

The Bank's reserves are set up and used according to the provisions of the Organic Law of Banco de Portugal, being divided as follows: (i) legal reserve; (ii) special reserve relating to gains on gold sales; and (iii) other reserves.

The special reserve relating to gains on gold sales, provided for in Article 53 (1) (b) of the Organic Law of Banco de Portugal is annually endowed with the exact amount of gains on these operations, with no maximum limit. Annual appropriations to increase this reserve are recognised in the Profit and Loss Account and contribute to the calculation of net profit / loss for the year.

Retained earnings represent profit / loss of previous years pending distribution by the Board of Directors, or profit / loss not recognised in the Profit and Loss Account as set out in the accounting rules.

#### NOTE 2 | GOLD AND GOLD RECEIVABLES

|                         | 31 Dec. 2012      |                   | 31 Dec. 2011      |                   |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
|                         | Fine ounces (*)   | EUR thousands     | Fine ounces (*)   | EUR thousands     |
| Gold stored at the Bank | 5,549,398         | 6,998,784         | 5,549,398         | 6,752,863         |
| Gold sight accounts     | 6,747,916         | 8,510,330         | 6,747,916         | 8,211,296         |
| <b>Gold reserve</b>     | <b>12,297,314</b> | <b>15,509,114</b> | <b>12,297,314</b> | <b>14,964,159</b> |

(\*) 1 ounce of fine gold corresponds to 31.103481 grams of fine gold.

As at 31 December 2012 the value of gold recorded an increase of € 544,955 thousand compared with the end balance in 2011. This resulted only from positive developments in the price of gold denominated in euro.

On 31 December 2012 the Bank's gold reserve was valued at the market price of € 1,261.179 per ounce of fine gold, which corresponds to a 3.6 % price rise, from € 1,216.864 on 31 December 2011. The increase in this price was due both to a rise in the price of the ounce of fine gold denominated in US dollars, from USD 1,574.50 on 31 December 2011 to USD 1,664.00 on 31 December 2012, partly countered by the appreciation of the euro against the US dollar (2.0 %) between these two dates. Unrealised gains resulting from this asset (€ 12,478,697 thousand on 31 December 2012) are recognised as positive revaluation differences according to the accounting policy described in sections 1.2. (c) and (r) of note 1 (see note 20).

With the entry into effect of the new PCBP on 1 January 2012, as referred to in section 1.1. of note 1, the provision for gold price risks was reduced and the risks associated with this reserve are now included, together with the coverage of the other financial risks in the new general risk provision (see note 19).

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

|  | 31 Dec. 2012     | 31 Dec. 2011     |
|--|------------------|------------------|
| IMF quota  | 1,200,321        | 1,221,945        |
| IMF's holdings   | (958,159)        | (975,470)        |
| Reserve tranche position in the IMF                        | 242,163          | 246,475          |
| SDR holdings   | 924,733          | 940,547          |
| Other claims on the IMF                                    | 74,605           | 75,949           |
| <b>Claims on the IMF</b>                                   | <b>1,241,500</b> | <b>1,262,970</b> |
| Counterpart of special drawing rights allocated by the IMF | (940,110)        | (957,046)        |
| <b>Liabilities to the IMF</b>                              | <b>(940,110)</b> | <b>(957,046)</b> |

The reserve tranche position in the IMF reflects the equivalent in euro, on 31 December 2012, of Portugal's quota in the IMF, corresponding to the initial participation and subsequent payments, to the total value of € 1,200,321 thousand (SDR 1,030 million) less IMF's holdings with Banco de Portugal, totalling € 958,159 thousand (SDR 822 million).

In December 2012 Claims on the IMF also included: (i) SDRs relating to the equivalent in euro of the SDR holdings assigned to Banco de Portugal (to the amount of SDR 924,733 thousand (SDR 793 million), virtually unchanged from 31 December 2011) and (ii) in Other claims on the IMF, the participation in the loans under the New Arrangements to Borrow (NAB), to the amount of € 74,605 thousand (SDR 64 million). The maximum amount of Banco de Portugal's participation in NAB is SDR 1,542 million (see note 31).

The liability position corresponds to the item Counterpart of special drawing rights allocated by the IMF, which showed a € 940,110 thousand (SDR 806 million) liability to the IMF on 31 December 2012.

In addition to the above operations, the changes in the different claim and liability items also include the effect of the SDR depreciation against the euro, compared with 31 December 2011 (-1.8 %).

In September 2009 the Executive Board of the IMF approved gold sales strictly limited to 403.3 metric tons. This gold sales programme was completed in December 2010. In February 2012 the Executive Board of the IMF approved a partial distribution of the gold sales profits (global amount of SDR 700 million) to all members in proportion to their quotas in the IMF, hoping that they would transfer the respective profit or make a new contribution of equivalent amounts of their share of the distribution to support lending to low-income countries. In this context, on 30 April 2012, Portugal agreed, after hearing the Minister for Finance, to transfer its share in the profits (€ 3,583 thousand) as a subsidy contribution to the Poverty Reduction and Growth Trust (PRGT) relating to concessional lending under the Extended Credit Facility (PRGT-ECF). These facilities are aimed at providing support to low-income countries in their efforts to achieve, maintain, or restore a stable and sustainable macroeconomic position. In line with the preceding, although with a net zero impact on profit / loss, the Bank recorded under Other income and gains its share in gold sales profits and under Other expenses and losses the transfer of that amount of profit as a contribution to the PRGT-ECF (see note 27).

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

|   | 31 Dec. 2012          | 31 Dec. 2011          |
|---|-----------------------|-----------------------|
| <b>Claims on non-euro-area residents denominated in foreign currency</b>        |                       |                       |
| Securities  | 417,528               | 260,112               |
| Balances with banks, deposits and other money markets                           | 4,467                 | 1,385                 |
|   | <u>421,995</u>        | <u>261,497</u>        |
| <b>Claims on euro area residents denominated in foreign currency</b>            |                       |                       |
| Securities  | 206,544               | 316,885               |
| Balances with banks, deposits and other money markets                           | 242,128               | 15,477                |
|   | <u>448,673</u>        | <u>332,363</u>        |
| Total security investments denominated in foreign currency                      | 624,072               | 576,997               |
| Total balances with banks, deposits and other money markets in foreign currency | 246,596               | 16,862                |
|   | <u><b>870,668</b></u> | <u><b>593,860</b></u> |

In 2012 there was an increase in the trading portfolio of claims denominated in foreign currency arising from strategic investment options of the Bank. The increase was seen across the several foreign currency items. Worth noting among these, due to its material nature, was the increase in deposits and other assets denominated in foreign currency, almost entirely comprised of term deposits.

The securities portfolio denominated in foreign currency, which is valued at market prices, continued to have a stronger weight in total claims denominated in foreign currency (72 %), having the following composition:

|  | 31 Dec. 2012          | 31 Dec. 2011          |
|--|-----------------------|-----------------------|
| <b>Securities of non-euro area residents denominated in foreign currency</b> |                       |                       |
| Government debt bonds  | 369,416               | 195,296               |
| Paragovernmental and supranational bonds                                     | 48,112                | 64,816                |
|  | <u>417,528</u>        | <u>260,112</u>        |
| <b>Securities of euro area residents denominated in foreign currency</b>     |                       |                       |
| Floating rate notes  | 150,974               | 152,889               |
| Paragovernmental and supranational bonds                                     | 55,570                | 163,996               |
|  | <u>206,544</u>        | <u>316,885</u>        |
|  | <u><b>624,072</b></u> | <u><b>576,997</b></u> |

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

|  | 31 Dec. 2012            | 31 Dec. 2011            |
|--|-------------------------|-------------------------|
| <b>Claims on non-euro area residents denominated in euro</b>                           |                         |                         |
| Securities   | 479,611                 | 388,331                 |
| Balances with banks, deposits and other money markets                                  | 32,026                  | 305,592                 |
|  | <u>511,637</u>          | <u>693,923</u>          |
| <b>Claims on euro area residents denominated in euro</b>                               |                         |                         |
| Securities   | 7,832,140               | 8,656,444               |
| Balances with banks, deposits and other money markets                                  | 58,435                  | 164                     |
|  | <u>7,890,575</u>        | <u>8,656,607</u>        |
| Total <b>security</b> investments denominated in euro                                  | 8,311,752               | 9,044,775               |
| Total <b>balances with banks, deposits and other money markets</b> denominated in euro | 90,461                  | 305,756                 |
|  | <u><u>8,402,213</u></u> | <u><u>9,350,531</u></u> |

The volume of the trading portfolio denominated in euro recorded a reduction compared with December 2011. At the level of the composition by financial instrument and residence, this reduction was more significant in securities of euro area residents, which continue to account for the largest share in this portfolio (93 %).

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

|  | 31 Dec. 2012            | 31 Dec. 2011            |
|--|-------------------------|-------------------------|
| <b>Securities of non-euro area residents denominated in euro</b> |                         |                         |
| Paragovernmental and supranational bonds                         | 453,402                 | 338,069                 |
| Floating rate notes  | -                       | 44,972                  |
| Other fixed-rate securities                                      | 26,209                  | 5,290                   |
|  | <u>479,611</u>          | <u>388,331</u>          |
| <b>Securities of euro area residents denominated in euro</b>     |                         |                         |
| Treasury bills   | 925,579                 | 4,171,833               |
| Government debt bonds  | 5,524,685               | 3,609,567               |
| Floating rate notes  | 5,003                   | 4,960                   |
| Mortgage bonds   | 23,091                  | 43,443                  |
| Paragovernmental and supranational bonds                         | 1,299,694               | 774,535                 |
| Other fixed-rate securities                                      | 54,088                  | 52,105                  |
|  | <u>7,832,140</u>        | <u>8,656,444</u>        |
|  | <u><u>8,311,752</u></u> | <u><u>9,044,775</u></u> |

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

On 31 December 2012 the value of refinancing operations to euro area credit institutions related to monetary policy operations denominated in euro at Eurosystem level stood at € 1,127,092 million (2011: €866,927 million), of which Banco de Portugal held €52,783,910 thousand (2011: €46,001,500 thousand).

The main refinancing operations (MROs) are liquidity-providing reverse transactions with a weekly frequency and a maturity of normally one week. Since October 2008 these operations have been conducted as fixed-rate tender procedures. On 31 December 2012 the total amount placed by Banco de Portugal, with full allotment, amounted to € 3,523,000 thousand (2011: € 6,976,000 thousand). These operations are a main instrument for pursuing interest rate objectives, for managing the liquidity situation in the money market and for signalling the ECB's monetary policy stance.

The longer-term refinancing operations (LTROs) are liquidity-providing reverse transactions with a maturity of three, six, twelve or thirty-six months. On 31 December 2012 the total amount placed by Banco de Portugal stood at € 49,260,910 thousand (2011: € 39,025,500 thousand), with a fixed or floating rate, with reference to the prevailing MRO rates.

On 8 December 2011 the Governing Council of the ECB approved LTROs with a maturity of thirty-six months, within the framework of additional enhanced credit support measures to support liquidity in the euro area money market. These operations were conducted with the option of early repayment after one year. The first LTRO was settled on 22 December 2011 and the second on 1 March 2012.

In accordance with Article 32.4 of the Statute of the ESCB, any risks from monetary policy operations, if they were to materialise, should eventually be shared in part or in full by all Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

Losses on these operations can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. It should be noted that for specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the ECB.

**NOTE 7 | SECURITIES HELD FOR MONETARY POLICY PURPOSES**

|  | 31 Dec. 2012     | 31 Dec. 2011     |
|--|------------------|------------------|
| <b>Securities held for monetary policy purposes</b>  |                  |                  |
| Covered Bond Purchase Programme (CBPP)               | 1,083,197        | 1,319,246        |
| Securities Markets Programme of the Eurosystem (SMP) | 5,659,076        | 5,858,589        |
| Covered Bond Purchase Programme 2 (CBPP 2)           | 241,981          | 90,982           |
|  | <u>6,984,254</u> | <u>7,268,817</u> |

On 31 December 2012 Securities held for monetary policy purposes contained securities acquired by Banco de Portugal within the scope of the purchase programmes for covered bonds<sup>57</sup> (CBPP and CBPP 2) and public debt securities acquired within the scope of the SMP<sup>58</sup> (see section 1.2. (f) of note 1).

Purchases under the first programme (CBPP) were fully implemented by 30 June 2010. The net reduction in this item in 2012 was chiefly due to bonds that matured.

Under the second programme (CBPP 2), the ECB and the NCBs purchased euro-denominated covered bonds with the purpose of easing funding conditions for banks and companies and encouraging banks to maintain or expand lending to their customers. The net increase in this item in 2012 was due to the purchases of bonds throughout the year until the end of the programme on 31 October 2012.

Regarding the SMP, the ECB and the NCBs purchased securities to address the malfunctioning of certain euro area debt securities market segments and to restore an appropriate monetary policy transmission mechanism. The net reduction in this item in 2012 was due to the maturity of securities that offset the impact of purchases on the year. The Governing Council of the ECB decided to terminate this programme on 6 September 2012.

The total Eurosystem NCB's holding of SMP securities amounts to € 192,608 million (2011: € 194,155 million), of which Banco de Portugal holds € 5,659,076 thousand. In accordance with Article 32.4 of the Statute of the ESCB, any risks from holdings of SMP securities, if they were to materialise, should eventually be shared by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

Part of the holdings under the SMP comprises debt securities issued by the Hellenic Republic. In February 2012 the Eurosystem central banks exchanged their holdings of Greek government bonds purchased under the SMP for new securities issued by the Hellenic Republic. The newly acquired securities have the same characteristics as those purchased under the SMP in terms of their nominal values, coupon rates, interest payment dates and redemption dates, and were not included on the list of eligible securities that were subject to restructuring in the context of the private sector involvement (PSI) initiative.

As referred to in Section 1.2. (f) of Note 1, at the end of the year impairment tests were conducted on the securities held for monetary policy purposes, on the basis of the information available and estimated recoverable amounts as at 31 December 2012. With regard to the impairment test conducted as at the end of 2012 on securities purchased under the SMP, the Governing Council of the ECB identified two impairment indicators relating to the holdings of Greek government bonds, which occurred in the course of 2012. The first was the restructuring in March 2012 of part of the debt issued by the Hellenic Republic in the context of the PSI initiative and the second was the debt buyback operation carried out by the Greek government in December 2012. The Governing Council considered that the occurrence of these impairment indicators did not warrant an impairment of the ECB's holdings since, on the basis of the information available as at 31 December 2012, there was no evidence of changes in the estimated future cash flows. No impairment losses were therefore recorded at the year-end on the holdings of Greek government bonds under the SMP.

Furthermore, there was no evidence of impairment in respect of the other securities purchased under the SMP or of the securities bought under the two Covered Bond Purchase Programmes (CBPP and CBPP 2).

The Governing Council assesses on a regular basis the financial risks associated with the securities purchased under the SMP and the covered bond purchase programmes.

<sup>57</sup> ECB Decision of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16) and ECB Decision of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17).

<sup>58</sup> ECB Decision of 14 May 2010 establishing a securities markets programme within the framework of the Eurosystem (ECB/2010/5).

**NOTE 8 | INTRA-EUROSISTEM CLAIMS AND LIABILITIES****Participating interest in the ECB**

Pursuant to Article 28 of the Statute of the ESCB, the NCBs of the Eurosystem are the sole subscribers to and holders of the capital of the ECB. The subscription of capital shall be according to the key established in accordance with Article 29, and specifically with its paragraph 3 under which the weightings assigned to the NCBs shall be adjusted every five years after the establishment of the ESCB.<sup>59</sup>

In accordance with the legal acts adopted on 29 December 2010 by the Governing Council of the ECB on the increase in the ECB's subscribed capital and pursuant to which the NCBs' additional capital contributions would be paid in three instalments, Banco de Portugal in 2012 made an additional contribution of € 29,173 thousand, corresponding to the payment of the third and last instalment of this capital increase.

According to Banco de Portugal's share in the paid up capital of the ECB – 1.7504 % since 1 January 2009 – this share increased from € 172,760 thousand on 31 December 2011 to € 201,933 thousand on 31 December 2012.

The share of Banco de Portugal in the ECB's capital, subscribed and paid up by the NCBs of the Eurosystem, stood at 2.50163 % on 31 December 2012 (remaining unchanged since 1 January 2011).

**Claims equivalent to the transfer of foreign reserves**

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

As a result of the adjustments in the share that NCBs hold in the subscribed capital of the ECB and due to the entrance of new NCBs into the Eurosystem, claims arising from the transfer of foreign reserve assets from participating NCBs to the ECB have also been adjusted, in accordance with the provisions of Article 30.3 of the Statute of the ESCB.

Since 1 January 2011 the overall claims of foreign reserve assets of all participating NCBs have stood at € 40,308 million, corresponding, according to their share, to claims on Banco de Portugal to the amount of € 1,008,345 thousand.

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

The item Net claims related to the allocation of euro banknotes within the Eurosystem consists of the claims of Banco de Portugal relating to the allocation of euro banknotes within the Eurosystem (see sections 1.2. (i) and 1.2. (j) of note 1). Banco de Portugal's share in the banknote allocation key has stood at 2.3015 % since 1 January 2011.

The increase in this asset position compared with December 2011 (€ +3,204,366 thousand) is due to the combination of a rise in overall circulation in the Eurosystem (+3 % up from 2011) and a rise in the Bank's asset position relating to the difference between banknotes put into circulation and banknotes withdrawn from circulation by the Bank (see Note 13). The asset position of the adjustment to circulation is remunerated at a marginal rate corresponding to the Eurosystem's MRO rate.

---

<sup>59</sup> The capital key is also adjusted as a result of the accession of new Member States to the EU.



### Other intra-Eurosystem claims

On 31 December 2012 the balance of the item Other intra-Eurosystem claims referred: (i) to claims / liabilities resulting from the calculation method of the monetary income of 2012 and adjustments relating to previous years, to the amounts of € 94,902 thousand and € 2,209 thousand respectively, settled on 31 January 2013 (see note 26) and (ii) and to an amount receivable of € 14,375 thousand in respect of part of the 2012 seigniorage income relating to euro banknotes issued by the ECB and of the securities acquired by the ECB under the SMP, also settled on 31 January 2013 (note 25).

### Net liabilities arising from balances of TARGET accounts

On 31 December 2012 Net liabilities arising from balances of TARGET accounts (see section 1.2. (j) of note 1) showed a credit position of € 66,025,846 thousand, comprising all TARGET balances (31 December 2011: € 60,923,110 thousand). This position is remunerated at a marginal rate corresponding to the Eurosystem's MRO rate.

### NOTE 9 | TANGIBLE AND INTANGIBLE FIXED ASSETS

|  | 31 Dec. 2012     | 31 Dec. 2011     |
|--|------------------|------------------|
| <b>Tangible fixed assets</b>                                   |                  |                  |
| Land   | 8,895            | 8,895            |
| Buildings and other constructions                              | 82,207           | 80,154           |
| Facilities   | 64,590           | 59,794           |
| Equipment  | 81,156           | 82,636           |
| Museum and art collections                                     | 8,814            | 8,764            |
|  | <b>245,662</b>   | <b>240,243</b>   |
| <b>Intangible fixed assets</b>                                 |                  |                  |
| Computer software  | 39,749           | 34,633           |
| <b>Tangible and intangible fixed assets under construction</b> | <b>48,251</b>    | <b>41,724</b>    |
| <b>Total gross tangible and intangible fixed assets</b>        | <b>333,662</b>   | <b>316,600</b>   |
| <b>Accumulated depreciation and amortisation</b>               |                  |                  |
| Depreciation of tangible fixed assets                          | (172,172)        | (166,821)        |
| Amortisation of intangible fixed assets                        | (34,306)         | (26,714)         |
|  | <b>(206,478)</b> | <b>(193,535)</b> |
| <b>Total net tangible and intangible fixed assets</b>          | <b>127,184</b>   | <b>123,065</b>   |

In 2011 and 2012 the movements in this item were as follows:

|  | 31 Dec. 2010<br>Net<br>balance | Additions     | Disposals    | Depreciation<br>and<br>amortisation<br>for the year | 31 Dec. 2011<br>Net<br>Balance |
|--|--------------------------------|---------------|--------------|---|--------------------------------|
| <b>Tangible fixed assets</b>                                   |                                |               |              |   |                                |
| Land   | 8,895                          | -             | -            | -   | 8,895                          |
| Buildings and other constructions                              | 40,179                         | 516           | -            | 2,516   | 38,179                         |
| Facilities   | 7,781                          | 949           | -            | 1,734   | 6,995                          |
| Equipment  | 11,438                         | 4,331         | 83           | 5,098   | 10,588                         |
| Museum and art collections                                     | 8,520                          | 356           | 112          | -   | 8,764                          |
|  | <b>76,814</b>                  | <b>6,153</b>  | <b>196</b>   | <b>9,349</b>  | <b>73,421</b>                  |
| <b>Intangible fixed assets</b>                                 |                                |               |              |   |                                |
| Computer software  | 7,951                          | 6,315         | -            | 6,347   | 7,919                          |
| <b>Tangible and intangible fixed assets under construction</b> |                                |               |              |   |                                |
| Fixed assets under construction<br>– Projects                  | 25,401                         | 22,825        | 7,476        | -   | 40,750                         |
| Advances   | 2,904                          | 77            | 2,007        | -   | 974                            |
|  | <b>28,305</b>                  | <b>22,902</b> | <b>9,483</b> | <b>-</b>  | <b>41,724</b>                  |
|  | <b>113,070</b>                 | <b>35,370</b> | <b>9,679</b> | <b>15,697</b>                                       | <b>123,065</b>                 |

|  | 31 Dec. 2011<br>Net<br>balance | Additions     | Disposals     | Depreciation<br>and<br>amortisation<br>for the year | 31 Dec. 2012<br>Net<br>Balance |
|--|--------------------------------|---------------|---------------|---|--------------------------------|
| <b>Tangible fixed assets</b>                                   |                                |               |               |   |                                |
| Land   | 8,895                          | -             | -             | -   | 8,895                          |
| Buildings and other constructions                              | 38,179                         | 2,129         | 59            | 2,552   | 37,697                         |
| Facilities   | 6,995                          | 5,467         | 47            | 2,973   | 9,442                          |
| Equipment  | 10,588                         | 2,949         | 20            | 4,877   | 8,641                          |
| Museum and art collections                                     | 8,764                          | 124           | 73            | -   | 8,814                          |
|  | <b>73,421</b>                  | <b>10,669</b> | <b>199</b>    | <b>10,402</b>                                       | <b>73,490</b>                  |
| <b>Intangible fixed assets</b>                                 |                                |               |               |   |                                |
| Computer software  | 7,919                          | 5,130         | -             | 7,607   | 5,442                          |
| <b>Tangible and intangible fixed assets under construction</b> |                                |               |               |   |                                |
| Fixed assets under construction –<br>Projects                  | 40,750                         | 18,444        | 11,104        | -   | 48,090                         |
| Advances   | 974                            | 118           | 930           | -   | 162                            |
|  | <b>41,724</b>                  | <b>18,562</b> | <b>12,034</b> | <b>-</b>  | <b>48,251</b>                  |
|  | <b>123,065</b>                 | <b>34,361</b> | <b>12,233</b> | <b>18,009</b>                                       | <b>127,184</b>                 |

The item Tangible and intangible fixed assets under construction on 31 December 2012 refers chiefly to projects under way related to works in the Bank's buildings and facilities and IT systems.

#### NOTE 10 | OTHER FINANCIAL ASSETS

|  | 31 Dec. 2012     | 31 Dec. 2011     |
|--|------------------|------------------|
| <b>Participating interest in non-euro area resident entities</b> |                  |                  |
| In the Bank for International Settlements (BIS)                  | 21,650           | 21,650           |
| <b>Participating interest in euro area resident entities</b>     |                  |                  |
| In Finangeste  | 36,005           | 36,408           |
| In SGFP of Banco de Portugal                                     | 2,718            | 2,580            |
| In Valora  | 20,500           | 17,601           |
| In Swift   | 1                | 42               |
| <b>Medium / long-term financial investments</b>                  | 5,741,815        | 6,066,660        |
|  | <b>5,822,689</b> | <b>6,144,941</b> |
| <b>Impairment of participating interests</b>                     | -                | -                |
|  | <b>5,822,689</b> | <b>6,144,941</b> |

Changes in the value of participating interests result chiefly from the use of the Net Asset Value valuation method, in which the valuation differences are directly recognised in Profit / loss for the year (see note 27). This procedure was not applied to participating interests in BIS and SWIFT, as the respective shares are residual (1.57 % and 0.01 %), being valued at acquisition cost, in accordance with the accounting policy described in section 1.2. (h) of note 1.

Within the scope of the Banco de Portugal's own fund management, the medium and long-term investment portfolio, given its characteristics, is included in Other financial assets. This portfolio, which is valued at amortised cost, decreased by € 324,845 thousand compared to 31 December 2011. These assets are subject to impairment tests and no evidence was found of changes in estimated future financial flows, and therefore no impairment loss was recorded.

The breakdown of this investment portfolio by type of financial instrument is as follows:

|  | 31 Dec. 2012     | 31 Dec. 2011     |
|--|------------------|------------------|
| <b>Securities denominated in euro</b>                              |                  |                  |
| Government debt bonds  | 5,176,606        | 5,601,690        |
| Mortgage bonds   | 249,501          | 248,824          |
| Bonds issued by paragonovernmental and supranational organisations | 315,708          | 216,146          |
|  | <b>5,741,815</b> | <b>6,066,660</b> |

**NOTE 11 | ACCRUALS AND PREPAID EXPENSES**

|   | 31 Dec. 2012   | 31 Dec. 2011   |
|---|----------------|----------------|
| <b>Accruals</b>   |                |                |
| Interest and other income receivable from central bank operations | 755,177        | 430,230        |
|   | <b>755,177</b> | <b>430,230</b> |
| <b>Prepaid expenses</b>   |                |                |
| Prepaid expenses from central bank operations                     | 20,150         | 44,566         |
| Other prepaid expenses  | 18,200         | 18,310         |
| Deferred tax assets   | 116,713        | 282,767        |
|   | <b>155,063</b> | <b>345,643</b> |
|   | <b>910,240</b> | <b>775,872</b> |

On 31 December 2012 accruals relating to Income receivable from central bank operations include essentially accrued interest on: (i) lending to credit institutions for monetary policy operations, (ii) securities held for monetary policy purposes, (iii) securities and other assets of trading portfolios denominated in euro and foreign currency and of the medium and long-term portfolio denominated in euro, and (vi) net claims / liabilities related to the allocation of euro banknotes, as referred to in section 1.2. (j) of note 1. The significant rise recorded is partly related to the rise in the amount of accrued interest receivable on lending related to monetary policy operations (€ 383,875 thousand on 31 December 2012 up from € 52,253 thousand), chiefly due to income receivable from LTROs.

The item Prepaid expenses relating to central bank operations chiefly consists of accrued coupon interest on securities held in the Bank's portfolios (i.e. trading portfolio, medium and long-term investment portfolio, and monetary policy portfolio) of outstanding interest paid to the counterparty at acquisition and which will be received by the Bank on the maturity date of the respective coupon or upon the sale of the securities, if it occurs before the maturity date.

The amount registered in Other prepaid expenses on 31 December 2012 includes, inter alia, € 14,844 thousand relating to the recognition of the updated value of the difference between financial flows related to interest receivable on Bank lending to its employees, at the interest rate applicable according to Labour Agreements (*Convenções Coletivas de Trabalho*) and market interest rates. The equivalent to this value is recorded against a deduction in the assets referring to lending to employees (see note 12).

Note 30 presents a more detailed description of the amount of deferred tax assets in 2011 and 2012.

**NOTE 12 | OTHER ASSETS – SUNDRY**

|  | 31 Dec. 2012   | 31 Dec. 2011   |
|--|----------------|----------------|
| Lending to employees                                       | 130,420        | 127,658        |
| Special credit situations                                  | 73,910         | 74,201         |
| Corporate Income Tax – Payments on account                 | 186,744        | 67,848         |
| Sundry debtors   | 3,513          | 7,371          |
| Pension Fund – Defined-benefit plan                        | 26,099         | -              |
| Pension Fund – Defined-contribution plan – Reserve account | 4,722          | 4,873          |
| Other central bank claims                                  | 2,584          | 5,543          |
| Other reduced value accounts                               | 3,497          | 3,828          |
|  | <b>431,488</b> | <b>291,323</b> |
| Impairment of special credit situations                    | (73,910)       | (74,201)       |
|  | <b>357,579</b> | <b>217,121</b> |

Lending to employees corresponds mostly to mortgage loans to employees.

The value entered in Special credit situations refers mostly to receivables from Finangeste under the Banco de Portugal / Finangeste Arrangement of 9 January 1995, to the amount of € 73,566 thousand (2011: € 73,858 thousand). An impairment for the value of this asset is recognised (see note 29).

The item Corporate Income Tax – Payments on account, to the amount of € 186,744 thousand, was calculated in order to comply with the provisions of Articles 105 and 105-A of the Corporate Income Tax Code. This amount will be recovered when the periodical income statement (Form 22) of the corporate income tax is submitted, as there was a tax loss in 2012 (see note 30).

The item Pension Fund – Defined-benefit plan relates to this Fund's surplus on 31 December 2012 (€ 26,099 thousand), resulting from the fact that this Fund on that date had a funding level above 100 %. On 31 December 2011 this Fund posted a deficit, recorded in Sundry liabilities (see Notes 18 and 32).

The value recognised in Pension Fund – Defined-contribution plan – Reserve account reflects the value of the units of participation of this Fund earmarked for the Bank on 31 December 2012, valued at market price, on that date (see note 32).

#### NOTE 13 | BANKNOTES IN CIRCULATION

Euro banknotes in circulation on 31 December 2012 consist of the Banco de Portugal's share in total euro banknotes in circulation in the Eurosystem (see section 1.2. (i) of note 1).

|  | 31 Dec. 2012      | 31 Dec. 2011      |
|--|-------------------|-------------------|
| <b>Banknotes in circulation</b>              |                   |                   |
| Banknotes put into circulation (net)         | (4,021,613)       | (1,368,778)       |
| Adjustments to circulation in the Eurosystem | 25,024,918        | 21,820,552        |
|  | <u>21,003,305</u> | <u>20,451,773</u> |

In 2012 the total value of euro banknotes in circulation in the Eurosystem increased by 3 %. In accordance with the banknote allocation key, on 31 December 2012 Banco de Portugal recorded an aggregate value of banknotes in circulation of € 21,003,305 thousand, compared with € 20,451,773 thousand on 31 December 2011. In turn, the difference between banknotes put into circulation and banknotes withdrawn from circulation recorded again on 31 December 2012 a debtor balance, rising strongly from 2011. These two effects combined account for the increase in the adjustment to circulation in the Eurosystem, which is recognised against an asset recorded in other Intra-Eurosystem claims (see note 8).

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

The balance on Liabilities to euro area credit institutions related to monetary policy operations denominated in euro on 31 December 2012 reflects chiefly the current accounts of credit institutions with Banco de Portugal (€ 3,846,051 thousand) and the balance on deposit facility operations outstanding on this date (€ 4,289,742 thousand).

Current accounts of credit institutions with Banco de Portugal serve a two-fold purpose: they are current / settlement accounts and accounts where funds are deposited for compliance with minimum reserve requirements, which are remunerated at the marginal rate for the Eurosystem's MROs.

**NOTE 15 | LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO**

Since 2011, the main component of the General government sub-item has been recourses resulting from the Economic and Financial Assistance Programme to Portugal (*Programa de Assistência Económica e Financeira a Portugal* – PAEF). Therefore, this item in addition to the balance on the current account of the Directorate-General of the Treasury also includes the value of the current accounts of the Portuguese Treasury and Government Debt Agency (*Instituto de Gestão da Tesouraria e do Crédito Público* – IGCP) relating to available loan disbursements from the EU and the IMF. On 31 December 2012 these current accounts referred to the EFSM – European Financial Stabilisation Mechanism and BSSF – Bank Solvency Support Facility). Within the framework of this programme, a protocol was signed in 2011 between Banco de Portugal and IGCP, establishing all the rules and procedures to guarantee the principle of neutrality, so that the Bank will have no gains or losses with the financial assistance from the EU and the IMF to the Portuguese Republic.

The sub-item Other liabilities includes the balances on current accounts with the Bank of guarantee funds and other financial intermediaries and financial auxiliaries.

**NOTE 16 | LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO**

The balance on the item Liabilities to non-euro area residents denominated in euro on 31 December 2012 corresponds to the balances of current accounts of international organisations (excluding the IMF) and several central banks.

**NOTE 17 | ACCRUALS AND INCOME COLLECTED IN ADVANCE**

|                                       | 31 Dec. 2012         | 31 Dec. 2011         |
|---------------------------------------|----------------------|----------------------|
| <b>Income collected in advance</b>    |                      |                      |
| Other income collected in advance     | 1                    | 1                    |
| Deferred tax liabilities              | 397                  | 376                  |
|                                       | <u>399</u>           | <u>378</u>           |
| <b>Accruals</b>                       |                      |                      |
| Accruals from central bank operations | 49,859               | 68,037               |
| Other accruals                        | 12,990               | 17,434               |
|                                       | <u>62,849</u>        | <u>85,471</u>        |
|                                       | <u><b>63,247</b></u> | <u><b>85,848</b></u> |

In Accruals from central bank operations stress should be laid on the contributions from: (i) the accrued remuneration of the December 2012 intra-ESCB balance relating to TARGET, to the amount of € 43,127 thousand (2011: € 59,547 thousand), (ii) the accrued interest to be paid, to the amount of € 5,599 thousand, regarding the remuneration of the Portuguese Treasury current accounts, arising from the operationalisation of the PAEF, as described in note 15 (2011: € 5,194 thousand), and (iii) from the accrued interest on the remuneration of minimum reserves since 12 December 2012, to the amount of € 781 thousand (2011: as from 14 December, € 2,704 thousand).

**NOTE 18 | OTHER LIABILITIES – SUNDRY**

|   | 31 Dec. 2012   | 31 Dec. 2011<br>Restated | 31 Dec. 2011<br>Reported |
|---|----------------|--------------------------|--------------------------|
| Banknotes withdrawn from circulation                                  | 159,817        | 174,153                  | 174,153                  |
| Third parties   | 13,130         | 14,108                   | 14,108                   |
| Liabilities relating to the payment of other post-employment benefits | 101,692        | 81,558                   | -                        |
| Liabilities relating to the payment to employees of seniority bonuses | 13,084         | 12,561                   | 12,561                   |
| Liabilities relating to the Pension Fund                              | -              | 21,867                   | 21,867                   |
| Estimate for income taxes   | 325            | 200,768                  | 200,768                  |
| Other central bank liabilities  | 2,584          | 5,543                    | 5,543                    |
| Other accounts of reduced individual value                            | 1,212          | 1,270                    | 1,267                    |
|   | <b>291,843</b> | <b>511,829</b>           | <b>430,270</b>           |

The item Banknotes withdrawn from circulation represents the Bank's liability to the holders of banknotes denominated in Portuguese escudos (legacy currency), as long as these can be exchanged. The reduction from 31 December 2011 is largely due to the end of the exchange period of the 100 escudo banknote, effigy Fernando Pessoa, and the 5,000 escudo banknote, effigy António Sérgio.

The item Liabilities with other post-employment benefits reflects the value of post-employment benefits, as described in section 1.2. (m) of note 1, which ceased to be directly recognised in Profit / loss (see note 28). The value of these liabilities is computed through the actuarial calculation carried out by SGFP of Banco de Portugal. Actuarial gains / losses associated with these liabilities, calculated at the end of the year, are directly recorded in Equity under Retained earnings, in accordance with the accounting policy described in note 1.2. (m). The impact of restatement on financial statements for 2011, as well as a detailed description of the change in these liabilities is presented in note 32.

The item Liabilities relating to the payment to employees of seniority bonuses as at 31 December 2012 reflects the value of liabilities for years of service, computed through the actuarial calculation carried out by SGFP of Banco de Portugal. Actuarial gains / losses associated with these liabilities, calculated at the end of the period under review, are recorded in Other income and losses (note 32).

The balance of Liabilities relating to the Pension Fund was zero on 31 December 2012, as on that date the Fund posted a surplus, recorded in Other assets (see Notes 12 and 32). As at 31 December 2011 the balance of € 21,867 thousand represented the deficit of the Fund on that date, resulting from the fact that the funding level of the Fund was below 100 %.

**NOTE 19 | IMPAIRMENT, PROVISIONS AND GENERAL RISK PROVISION**

Accounting movements in the item Impairment, provisions and general risk provision during the period ended on 31 December 2012 can be summarised as follows:

|   | Balance as<br>at 31 Dec.<br>2011<br>Reported | Restate-<br>ment   | Balance as<br>at 31 Dec.<br>2011<br>Restated | Increase       | Decrease      | Net<br>value    | Balance as<br>at 31 Dec.<br>2012 |
|---|--|--------------------|--|----------------|---------------|-----------------|----------------------------------|
| <b>Impairment of assets</b>                               |  |                    |  |                |               |                 |                                  |
| Impairment of debts receivable                            | 74,201                                       | -                  | 74,201                                       | -              | 292           | (292)           | 73,910                           |
|   | <b>74,201</b>                                | <b>-</b>           | <b>74,201</b>                                | <b>-</b>       | <b>292</b>    | <b>(292)</b>    | <b>73,910</b>                    |
| <b>Provisions for risks</b>                               |  |                    |  |                |               |                 |                                  |
| Provisions for gold price risks                           | 1,386,371                                    | (1,386,371)        | -  | -              | -             | -               | -                                |
| Provisions for foreign<br>exchange rate risks             | 72,700                                       | (72,700)           | -  | -              | -             | -               | -                                |
| Provisions for securities<br>price risks                  | 467,830                                      | (467,830)          | -  | -              | -             | -               | -                                |
| Provisions for interest rate risks                        | 322,103                                      | (322,103)          | -  | -              | -             | -               | -                                |
| Provisions for credit risks                               | 675,000                                      | (675,000)          | -  | -              | -             | -               | -                                |
|   | <b>2,924,004</b>                             | <b>(2,924,004)</b> | <b>-</b>                                     | <b>-</b>       | <b>-</b>      | <b>-</b>        | <b>-</b>                         |
| <b>Provisions</b>   |  |                    |  |                |               |                 |                                  |
| Provisions for monetary policy<br>operations – Eurosystem | 23,334                                       | -                  | 23,334                                       | -              | 15,712        | (15,712)        | 7,622                            |
|   | <b>23,334</b>                                | <b>-</b>           | <b>23,334</b>                                | <b>-</b>       | <b>15,712</b> | <b>(15,712)</b> | <b>7,622</b>                     |
| Total impairment of assets                                | 74,201                                       | -                  | 74,201                                       | -              | 292           | (292)           | 73,910                           |
| Total provisions  | 2,947,338                                    | (2,924,004)        | 23,334                                       | -              | 15,712        | (15,712)        | 7,622                            |
| <b>General risk provision</b>                             | <b>-</b>                                     | <b>2,924,004</b>   | <b>2,924,004</b>                             | <b>270,000</b> | <b>2,382</b>  | <b>267,618</b>  | <b>3,191,622</b>                 |

With the approval of the new PCBP, in effect since 1 January 2012, a new general risk provision was set up, to cover balance sheet financial risks to which Banco de Portugal is exposed, as described in section 1.2. (t) of note 1. Consequently, the balance of the several provisions for specific purposes was used on 1 January 2012 for the setting up of the new general risk provision. The values reported on 31 December 2011 were restated according to the new PCBP.

Regarding the accounting movements in the general risk provision, in the 2012 period, there were reductions by € 1,421 thousand and € 961 thousand relating to the coverage of unrealised exchange rate losses and securities price risks respectively, recognised in Profit / loss on 31 December 2012. In addition, this provision was increased by € 270,000 thousand to mitigate balance sheet risks and to increase the financial autonomy of the Bank.

As regards the provision for the coverage of monetary policy operations, whose movements result from decisions of the Governing Council of the ECB, a € 15,712 thousand reduction was made in 2012, following the assessment of the provision for risks shared in monetary policy operations of the Eurosystem (SEC/GovC/X/13/039.R of 22 January).



**NOTE 20 | REVALUATION ACCOUNTS**

|  | 31 Dec. 2012      | 31 Dec. 2011      |
|--|-------------------|-------------------|
| Gold revaluation differences             | 12,478,697        | 11,933,742        |
| Foreign currency revaluation differences | 17,465            | 53,770            |
| Securities revaluation differences       | 161,228           | 73,780            |
| <b>Revaluation differences</b>           | <b>12,657,389</b> | <b>12,061,292</b> |

With regard to gold, there was an increase in unrealised gains of € 544,955 thousand resulting from the valuation of the gold price in euro (see note 2).

Positive revaluation differences of foreign currency are mostly due to unrealised gains related to assets denominated in SDR.

The increase in unrealised gains resulting from fluctuations in the price of securities relates mainly to securities denominated in euro, as these account for around 93 % of the Bank's securities trading portfolio.

**NOTE 21 | EQUITY**

Movements in Equity for the 2011 and 2012 periods are detailed in the Statement of Changes in Equity.

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

In accordance with Article 53 (2) of the Organic Law of Banco de Portugal, the net profit for the year shall be distributed as follows: 10 % to the legal reserve (with no maximum limit), 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 for Finance, on a proposal of the Board of Directors.

Net profit for the year 2011 was allocated in accordance with Decision No 95/12 of 24 April 2012, of the Minister of State and Finance by allocating the amount of € 12,466 thousand to the Legal reserve and to Other reserves and by paying to the State, as dividends, the amount of € 18,699 thousand. On this date, the value recorded in distributable retained earnings was transferred to other reserves.

The impact of the accounting of other post-employment benefits, recorded in changes from 2011 in the Statement of Changes in Equity results from the recognition in the Bank's balance sheet of liabilities related to these benefits (see section 1.2. (m) of note 1). The impact resulting from the restatement in the financial statements of 2011 is shown in note 32.

Movements in 2012 in non-distributable retained earnings, expressed in the Statement of Changes in Equity, refer to actuarial gains / losses of the liabilities related to the Pension Fund and liabilities related to other post-employment benefits, as well as to associated deferred taxes, recognised on 31 December 2012 (see Notes 30 and 32).

**NOTE 22 | NET INTEREST INCOME**

|  | 31 Dec. 2012     | 31 Dec. 2011     |
|--|------------------|------------------|
| <b>Interest income</b>                                 |                  |                  |
| Securities   | 166,614          | 233,713          |
| Denominated in foreign currency                        | 8,794            | 19,717           |
| Denominated in euro                                    | 157,820          | 213,996          |
| Deposits and other assets                              | 3,308            | 16,088           |
| Denominated in foreign currency                        | 1,774            | 2,120            |
| Denominated in euro                                    | 1,535            | 13,968           |
| International Monetary Fund                            | 1,290            | 4,683            |
| Lending to euro area credit institutions               | 490,348          | 578,685          |
| Securities held for monetary policy purposes           | 406,677          | 276,866          |
| Intra-ESCB claims                                      | 216,465          | 265,081          |
| Financial fixed assets                                 | 226,249          | 236,762          |
| Off-balance-sheet instruments                          | 14               | 124              |
| Other claims   | 1,861            | 2,139            |
|  | <b>1,512,827</b> | <b>1,614,143</b> |
| <b>Interest expense</b>                                |                  |                  |
| Liabilities to euro area credit institutions           | 20,394           | 55,884           |
| Liabilities to euro area residents denominated in euro | 75,025           | 46,425           |
| International Monetary Fund                            | 1,015            | 3,647            |
| Intra-Eurosystem liabilities                           | 612,801          | 778,478          |
| Off-balance-sheet instruments                          | 920              | 723              |
|  | <b>710,155</b>   | <b>885,158</b>   |
| <b>Net interest income</b>                             | <b>802,672</b>   | <b>728,985</b>   |

In net interest income, there was a decrease in the main interest income components, in particular, lending to credit institutions and adjustments to circulation, namely as a result of the broadly based decline in yields, which was higher than the rise in the assets average balances. These reductions were partly offset by an increase in interest on securities held for monetary policy purposes, resulting from both higher yields and from the average balance on this item. The decrease in interest income was offset by an even higher decrease in interest expenses, in particular, a marked reduction in intra-Eurosystem liabilities, following a significant reduction in these liabilities.

**NOTE 23 | REALISED GAINS / LOSSES ARISING FROM FINANCIAL OPERATIONS**

|  | 31 Dec. 2012  | 31 Dec. 2011    |
|--|---------------|-----------------|
| Foreign exchange transactions                  | 29,015        | (11,155)        |
| Other financial operations in foreign currency | 863           | 15,036          |
| Financial operations in euro                   | 102,594       | (26,195)        |
| Off-balance-sheet instruments                  | (41,945)      | (47,312)        |
|  | <b>90,527</b> | <b>(69,627)</b> |

In Realised gains / losses arising from financial operations in 2012, mention should be made of the significant increase in Realised gains arising from portfolio management operations denominated in euro, mainly relating to securities portfolio transactions, which generated realised losses in 2011.

It should be noted that losses on off-balance sheet instruments are chiefly related to interest rate futures, whose results for management purposes are analysed together with those of the related assets, which are included in the Bank's portfolios.

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

|  | 31 Dec. 2012 | 31 Dec. 2011  |
|--|--------------|---------------|
| Unrealised exchange rate losses                      | 1,421        | 1             |
| Unrealised losses on investments in foreign currency | 409          | 1,789         |
| Unrealised losses on euro operations                 | 552          | 16,563        |
|  | <u>2,382</u> | <u>18,353</u> |

Unrealised losses decreased from December 2011, due to the reduction in the unrealised losses calculated for the valuation of the trading securities portfolio denominated in euro and in foreign currency.

Unrealised exchange rate losses increased from 2011, although the rise is non-negligible compared with the Bank's foreign currency portfolio (see note 4).

#### NOTE 25 | INCOME FROM EQUITY SHARES AND PARTICIPATING INTEREST

The Governing Council of the ECB each year makes a decision about the distribution of (i) seigniorage income which arises from the 8 % share of euro banknotes allocated to the ECB and (ii) the ECB's income arising from securities purchased under the Securities Markets Programme (SMP). The ECB shall distribute all of this income to the NCBs, unless otherwise decided by the Governing Council of the ECB in the financial year to which they relate. This item includes the total amount of € 14,375 thousand relating to this income in 2012 (2011: € 16,311 thousand).

In 2012 this item also included dividends received for the 2011 participating interest of Banco de Portugal chiefly: (i) in the ECB, to the amount of € 1,905 thousand (2011: € 4,285 thousand), (ii) in the Bank for International Settlements (BIS), to the amount of € 3,169 thousand (2011: € 2,797 thousand), and (iii) in Finangeste, to the amount of € 458 thousand (2011: € 2,066 thousand).

#### NOTE 26 | NET RESULT OF POOLING OF MONETARY INCOME

This item contains: (i) net result of pooling of monetary income, amounting to € 97,110 thousand<sup>60</sup> (2011: € -40,111 thousand<sup>61</sup>) and (ii) income relating to the share of Banco de Portugal in the reduction of the provision for risks shared with the Eurosystem in monetary policy operations, to the amount of € 15,712 thousand (2011: € 30,932 thousand) (see note 19).

<sup>60</sup> Includes the proceeds of the calculation of monetary income for 2012, to the amount of € +94,902 thousand and adjustments of previous years, amounting to € +2,209 thousand (see note 8).

<sup>61</sup> Includes the proceeds of the calculation of monetary income for 2011, to the amount of € -41,120 thousand and adjustments of previous years, amounting to € +1,009 thousand (see note 8).

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets less interest accrued or paid by the NCBs in respect of its liability base components.

The earmarkable assets consist of the following items: Lending to euro area credit institutions related to monetary policy operations denominated in euro; Securities held for monetary policy purposes; Claims equivalent to the transfer of foreign reserves to the ECB; Net intra-Eurosystem claims resulting from TARGET transactions; Net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; and a limited amount of gold holdings in proportion to each NCB's capital key share.

The liability base consists of the following items: Banknotes in circulation; Liabilities to euro area credit institutions related to monetary policy operations denominated in euro; Net intra-Eurosystem liabilities resulting from TARGET transactions; and Net intra-Eurosystem liabilities related to the allocation of euro banknotes.

Gold is considered to generate no income, and securities held by Banco de Portugal under the CBPP are considered to generate income at the latest available marginal rate for the Eurosystem's MROs. Where the value of a NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's MROs.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed ECB's capital key (see note 8). The difference between the monetary income pooled by Banco de Portugal, amounting to € 490,599 thousand, and reallocated to Banco de Portugal, to the amount of € 587,709 thousand, is the net result arising from the calculation of monetary income (€ 97,110 thousand).

#### NOTE 27 | OTHER INCOME AND EXPENSES

|  | 31 Dec. 2012  | 31 Dec. 2011  |
|--|---------------|---------------|
| <b>Other income</b>                                    |               |               |
| Capital gains on tangible and intangible fixed assets  | 710           | 1,160         |
| Previous fiscal years income                           | 810           | 110           |
| Sales and supply of services to third parties          | 3,179         | 3,267         |
| Sundry income  | 41,641        | 13,326        |
|  | <b>46,341</b> | <b>17,863</b> |
| <b>Other expenses</b>                                  |               |               |
| Capital losses on tangible and intangible fixed assets | 65            | 8             |
| Previous fiscal years expenses                         | 115           | 751           |
| Sundry expenses  | 6,574         | 3,146         |
|  | <b>6,754</b>  | <b>3,905</b>  |
|  | <b>39,587</b> | <b>13,958</b> |

Sundry income includes in particular: (i) € 22,919 thousand relating to the reduction in liabilities of the Pension Fund – Defined-benefit plan, due to the decrease in past service liabilities, as described in note 32; (ii) € 11,660 thousand due to the end of the exchange period of the 100 escudo banknote, effigy Fernando Pessoa, and the 5,000 escudo banknote, effigy António Sérgio (see note 18); (iii) profit resulting from the adjustment of the value of participating interests in Valora and SGFP of Banco de Portugal, due to the implementation of the Net Asset Value valuation method, as explained in section 1.2. (h) of note 1 (€ 2,898 thousand and € 137 thousand respectively); and (iv) € 3,583 thousand relating to the distribution to Portugal of profits of gold sales by the IMF, as described in note 3.

Sundry expenses includes in 2012: (i) € 3,583 thousand relating to contributions to the Poverty Reduction and Growth Trust (PRGT) by an equivalent amount to profits of gold sales by the IMF, mentioned above (for a more detailed explanation, see note 3); (ii) € 1,378 thousand relating to actuarial losses in the calculation of liabilities related to the payment to employees of seniority bonuses (see note 32); (iii) € 995 thousand related to Eurosystem projects; and (iv) € 403 thousand relating to costs and other expenses resulting from the adjustment of the value of the Bank's participating interest in Finangeste, due to the implementation of the Net Asset Value valuation method, as explained in section 1.2. (h) of note 1.

#### NOTE 28 | STAFF COSTS

|   | 31 Dec. 2012   | 31 Dec. 2011<br>Restated | 31 Dec. 2011<br>Reported |
|---|----------------|--------------------------|--------------------------|
| Remuneration of the members of the Board of Directors and Board of Auditors | 865            | 1,120                    | 1,120                    |
| Employees' salaries   | 71,107         | 73,334                   | 73,334                   |
| Compulsory social charges   | 26,370         | 27,209                   | 27,420                   |
| Voluntary social charges  | 7,093          | 7,248                    | 7,254                    |
| Other staff costs   | 2,299          | 2,356                    | 2,356                    |
|   | <b>107,735</b> | <b>111,268</b>           | <b>111,484</b>           |

The reduction in staff costs compared with 2011 is almost entirely due to the salary containment measures approved by the Board of Directors of Banco de Portugal, to join the effort made by the Portuguese population in the present economic and financial context. In 2012 the transitional measures implemented in previous years were maintained. These salary containment measures concentrated on remuneration components and other staff costs that are not legally and contractually binding and some additional measures were implemented, such as the suspension of the payment of the holiday subsidy to active employees.

Compulsory social charges include basically compulsory contributions from the Bank to the general social security scheme and to SAMS (social health assistance service for banking sector employees), to the amount of € 15,434 thousand and € 2,851 thousand (2011: € 16,393 thousand and € 3,058 thousand) and annual expenditure relating to the Pension Fund – Defined-benefit plan to the amount of € 6,601 thousand (2011: € 6,924 thousand) (see note 32).

In 2012 Banco de Portugal ceased to recognise directly in staff costs payments associated with other post-employment benefits, referred to in section 1.2. (m) of note 1. Presently, staff costs include the current service cost and interest cost relating to these benefits, as explained in note 32. Therefore, the amount of voluntary social charges includes the recognition of annual costs relating to other post-employment benefits, to the overall amount of € 3,870 thousand (2011: € 4,031 thousand included in the restated value).

On 31 December 2012 the Bank employed 1,682 staff (2011: 1,689). Among these, 54 were on secondment / assignment arrangements deemed in the public interest, or on unpaid leave, 8 were assigned to Valora and 37 to SGFP of Banco de Portugal.

#### NOTE 29 | IMPAIRMENT OF ASSETS (LOSSES / REVERSALS)

In 2012 this item records the reduction of the adjustment to Lending to other entities under the contract for the assignment of debts signed with Finangeste, to the amount of € 292 thousand (2011: € 2,069 thousand) (see note 19).

#### NOTE 30 | INCOME TAX

The Bank is subject to the corporate income tax and to the corresponding municipal corporate taxes.

Tax authorities are allowed a four-year period during which they can review the Bank's tax situation. Therefore, as a result of different interpretations of tax legislation, there may be additional payments. However, the Board of Directors of Banco de Portugal firmly believes that there will be no additional significant payment regarding previous financial periods.

On 31 December 2012 and 2011 the income tax item was broken down as follows:

|              | 31 Dec. 2012   | 31 Dec. 2011 |
|--------------|----------------|--------------|
| Current tax  | 325            | 200,768      |
| Deferred tax | 164,689        | (195,127)    |
|              | <b>165,013</b> | <b>5,641</b> |

In 2012 current tax only includes autonomous taxation, as the tax adjustments of profit / loss before tax for this period (described with greater detail in the table below) gave rise to tax losses of € 115,471 thousand. This tax loss can be deducted from taxable profit until 2017, being limited to 75 % of the respective taxable profit in each taxation period.

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

|   | 31 Dec. 2012     | 31 Dec. 2011   |
|---|------------------|----------------|
| <b>Calculation of current income tax</b>  |                  |                |
| Profit / loss before taxes  | 614,168          | 36,806         |
| Negative balance sheet variations not reflected in profit or loss                                   | (21,319)         | -              |
| Non-deductible provisions   | (675,000)        | 675,000        |
| Pension Fund and seniority bonuses  | (28,017)         | (8,307)        |
| Cancellation of the Net Asset Value effect  | (2,633)          | (5,196)        |
| Reversal of the adjustment of taxed assets  | (292)            | (2,069)        |
| Cancellation of economic double taxation of distributed profit                                      | (458)            | (2,066)        |
| Tax benefits  | (2,062)          | (1,748)        |
| Accounting capital gains  | (673)            | (1,152)        |
| Tax gains   | 299              | 579            |
| Charges not fully documented  | 126              | 260            |
| Depreciation and amortisation not deductible as costs   | 135              | 111            |
| Other   | 254              | 276            |
| Taxable income / (tax loss)   | (115,471)        | 692,495        |
| Current income tax (1)  | -                | 173,122        |
| Municipal corporate tax (2)   | -                | 10,249         |
| State surtax (3)  | -                | 17,262         |
| Autonomous taxation (4)   | 325              | 135            |
| <b>Current income tax</b>   | <b>325</b>       | <b>200,768</b> |
| <b>Reconciliation between current tax-related losses for the year and the balance sheet balance</b> |                  |                |
| - Recognition as current losses for the year (1)+(2)+(3)+(4)  | 325              | 200,768        |
| - Less: Payments on account and additional payments on account                                      | 186,744          | 67,848         |
| - Less: withholdings at source  | 7                | 2              |
| - Current balance (recoverable) / payable   | <b>(186,427)</b> | <b>132,918</b> |

With the approval of the new PCBP, the provision for credit risks created in 2011, to the amount of € 675,000 thousand, decreased and this difference together with the amounts of the other provisions for specific purposes were used to set up the new general risk provision. Considering that when this provision was set up in 2011, the provision for credit risks was not foreseen for tax purposes, this gave rise to a positive tax adjustment. Its reduction in 2012 gave rise to a negative tax adjustment, which basically explains the tax losses.

On 31 December 2012 the balances on deferred tax assets and liabilities can be broken down as follows:

| Computation<br>of deferred taxes | Assets and liabilities |              |                |              | Profit / loss  |                   |
|----------------------------------|------------------------|--------------|----------------|--------------|----------------|-------------------|
|                                  | 31 Dec. 2012           |              | 31 Dec. 2011   |              | 31 Dec. 2012   |                   |
|                                  | Assets                 | Liabilities  | Assets         | Liabilities  | Profit / loss  | Retained earnings |
| Provision for credit risks       | -                      | -            | 195,750        | -            | 195,750        | -                 |
| Pension Fund (assets)            | 60,439                 | -            | 61,825         | -            | -              | 1,386             |
| Credit impairment                | 23,279                 | -            | 21,516         | -            | (1,763)        | -                 |
| Seniority bonuses                | 4,122                  | -            | 3,643          | -            | (479)          | -                 |
| Interest rate subsidies          | 5                      | -            | 29             | -            | 23             | -                 |
| Excess amortisation              | -                      | (397)        | -              | (376)        | 21             | -                 |
| Tax loss                         | 28,868                 | -            | -              | -            | (28,868)       | -                 |
| Other                            | -                      | -            | 4              | -            | 4              | -                 |
|                                  | <u>116,713</u>         | <u>(397)</u> | <u>282,767</u> | <u>(376)</u> | <u>164,689</u> | <u>1,386</u>      |

With respect to deferred taxes, the Bank reversed the assets set up in 2011 for the Provision for credit risks, giving rise to an expense of € 195,750 thousand and recognised a deferred tax asset relating to the tax loss calculated for 2012 (€ 28,868 thousand). Save for the time difference relating to tax losses, the other time differences have no time limits.

#### NOTE 31 | OFF-BALANCE-SHEET INSTRUMENTS

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

|                          | 31 Dec. 2012 | 31 Dec. 2011 |
|--------------------------|--------------|--------------|
| Collateral given         | 487,632      | 487,632      |
| Collateral received      | 90,681,021   | 73,669,874   |
| Items held in custody    | 48,110,155   | 37,542,499   |
| Irrevocable credit lines | 3,948,438    | 2,790,063    |

Collateral given includes the promissory note signed by the Bank in favour of the IMF (see note 3).

Collateral received includes collateral related to the monetary policy operations of the Eurosystem, including collateral used via the Correspondent Central Banking Model (CCBM) (€ 90,676,669 thousand on 31 December 2012).

The Items held in custody include mainly: (i) Securities owned by the Portuguese State (€ 16,305,424 thousand); (ii) securities held in custody by the Bank as collateral in monetary policy operations with other NCBs, under the CCBM (€ 9,375,140 thousand); and (iii) the value of the promissory note in favour of the IMF issued by the Portuguese Republic, under the Economic and Financial Assistance Programme (Extended Fund Facility), to the amount of € 21,451,211 thousand (see note 15).

The item Irrevocable credit lines includes intraday credit lines of the Portuguese financial system to the amount of € 2,150,777 thousand (2011: € 1,730,063 thousand) and a credit line granted to the IMF (to the amount of SDR 1,542 million under the New Arrangements to Borrow (NAB) (€ 1,798,661 thousand) (see note 3).



## Derivative financial instruments

The Bank, in the performance of its tasks, uses derivative financial instruments chiefly intended to manage risks associated with its assets, liabilities and off-balance-sheet positions. These instruments normally have an underlying (i) market risk inherent in price or interest rate fluctuations and (ii) credit risk, generally corresponding to the early settlement or replacement cost of contracts at current market prices and rates.

On 31 December 2012 and 31 December 2011 the Bank posted the following open positions:

|                       | 31 Dec. 2012                  |           |                             |                              |                                 | 31 Dec. 2011                  |         |
|-----------------------|-------------------------------|-----------|-----------------------------|------------------------------|---------------------------------|-------------------------------|---------|
|                       | Contract value <sup>(1)</sup> |           | Market value <sup>(2)</sup> | Profit / loss <sup>(3)</sup> | Accrued interest <sup>(4)</sup> | Contract value <sup>(1)</sup> |         |
|                       | Purchases                     | Sales     | Net                         | Net                          | Net                             | Purchases                     | Sales   |
| Currency swaps        | 151,400                       | (151,400) | 139                         | 153                          | (14)                            | 75,000                        | 75,000  |
| Interest rate futures | 30,317                        | 716,539   | -                           | -                            | -                               | -                             | 379,107 |

(1) Theoretical or notional value of the contract.

(2) The market value corresponds to income or expenses associated with the potential closing of open positions, taking into account current market conditions and the valuation models commonly used.

(3) The effect on profit / loss corresponds to the impact on the Profit and Loss Account of the potential closing of open positions, taking into account current market conditions and the valuation models commonly used.

(4) The value of accrued interest corresponds to interest income and expense plus open positions until the balance sheet date.

## Legal proceedings

The Bank firmly believes, on this date, that it will not incur any significant expenses related to legal proceedings under way.

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

### Pension Fund of Banco de Portugal – Defined-benefit plan

#### (i) Overview

Until 31 December 2010 Banco de Portugal was the sole entity responsible for the payment of the retirement and survivors pensions of the staff (and their dependents) hired by the Bank before 3 March 2009, provided they were covered by a substitutive social security scheme, enshrined in the collective labour regulations for the banking sector. Therefore, they were not included in the general social security scheme. Decree-Law No 1-A/2011 of 3 January laid down that, from 1 January 2011, the active employees of Banco de Portugal, who were registered in *Caixa de Abono de Família dos Empregados Bancários – CAFEB* (family allowance fund of bank employees)<sup>62</sup> and covered by the Pension Fund – Defined-benefit plan, are now integrated in the general social security scheme with respect to the old-age pensions.

Therefore, after 1 January 2011, those pensions ceased to be covered in full by the Pension Fund, but the payment of disability and death grants remained under its responsibility, as well as the payment of the supplement intended to make up for the difference between statutory old-age pensions under the general social security scheme and the benefits defined in the respective pension plans, based on the respective labour agreements for the banking sector and the Bank's internal regulations.

This Pension Plan operates four benefit schemes relating to the basic salary and seniority supplements and three schemes relating to wage supplements. All schemes are currently closed to staff who started working in the banking sector after 2 March 2009 (Decree-Law No 54/2009 of 2 March).

<sup>62</sup> Dissolved by this Decree-Law.

The number of participants covered by the Pension Fund of Banco de Portugal is shown in the table below:

| Number of participants | 31 Dec. 2012 | 31 Dec. 2011 |
|------------------------|--------------|--------------|
| Active employees       | 1,410        | 1,463        |
| Retired employees      | 1,876        | 1,872        |
| Pensioners             | 534          | 532          |
|                        | <b>3,820</b> | <b>3,867</b> |

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

| Average life expectancy (years) | 31 Dec. 2012 | 31 Dec. 2011 |
|---------------------------------|--------------|--------------|
| Active employees                | 34           | 34           |
| Retired employees               | 15           | 15           |
| Pensioners                      | 12           | 12           |

#### (ii) Methodology, assumptions and accounting policy

Liabilities arising from the pension plans funded through the Pension Fund – Defined-benefit plan were calculated on an actuarial basis by *Sociedade Gestora do Fundo de Pensões do Banco de Portugal – SGFP* (Pension Fund Managing Company of Banco de Portugal), using the Projected Unit Credit Cost Method, in accordance with the principles laid down in IAS 19.

The main actuarial and financial assumptions are the following:

|   | Actuarial and financial assumptions used |          |
|---|--|----------|
|   | 2012                                     | 2011     |
| Discount rate (on 31 December)            | 3.79 %                                   | 4.49 %   |
| Expected return rate on the Fund's assets | 4.49 %                                   | 4.80 %   |
| Expected wage growth rate                 |  |          |
| 1st year                                  | 1.00 %                                   | 1.00 %   |
| Subsequent years                          | 3.39 %                                   | 3.08 %   |
| Pensions rate of increase                 |  |          |
| 1st year                                  | 0.00 %                                   | 0.00 %   |
| Subsequent years                          | 2.39 %                                   | 2.08 %   |
| Tables used                               |  |          |
| - Mortality                               | TV 88/90                                 |          |
| - Disability                              | 1978 – S.O.A. Trans. Male (US)           |          |
| - Turnover                                | T-1 Crocker Sarason (US)                 |          |
| Statutory retirement age                  | 65 years                                 | 65 years |
| Percentage of married participants        | 80 %                                     | 80 %     |
| Age difference between spouses            | 3 years                                  | 3 years  |

(iii) Changes in assets and liabilities of the Pension Fund – Defined-benefit plan

|   | 31 Dec. 2012                     |                  |           | 31 Dec. 2011                     |                  |           |
|---|----------------------------------|------------------|-----------|----------------------------------|------------------|-----------|
|   | Retired employees and pensioners | Active employees | Total     | Retired employees and pensioners | Active employees | Total     |
| <b>Total past service liabilities</b>               |                                  |                  |           |                                  |                  |           |
| Retirement and survivors pensions                   | 783,605                          | 544,060          | 1,327,665 | 725,171                          | 460,429          | 1,185,600 |
| Contributions to SAMS related to pensions           | 47,249                           | 27,575           | 74,824    | 43,812                           | 22,736           | 66,548    |
| Death grants  | 1,634                            | 589              | 2,223     | 15,648                           | 9,163            | 24,811    |
|   | 832,489                          | 572,224          | 1,404,712 | 784,631                          | 492,328          | 1,276,959 |
| <b>Fair value of plan assets</b>                    |                                  |                  | 1,430,811 |                                  |                  | 1,255,092 |
| <b>Surplus / (deficit)</b><br>(see Notes 12 and 18) |                                  |                  | 26,098    |                                  |                  | (21,867)  |
| <b>Funding ratio</b>                                |                                  |                  | 101.9 %   |                                  |                  | 98.3 %    |

The table below presents developments in past service liabilities in 2012.

| Past service liabilities            | 31 Dec. 2012     | 31 Dec. 2011     |
|-------------------------------------|------------------|------------------|
| Value at the beginning of the year  | 1,276,959        | 1,239,418        |
| Current service cost                | 9,487            | 8,954            |
| Pensions payable (expected value)   | (60,877)         | (59,578)         |
| Interest cost                       | 57,346           | 59,485           |
| Actuarial gains / losses            | 144,717          | 28,680           |
| Past service cost                   | (22,919)         | -                |
| <b>Value at the end of the year</b> | <b>1,404,712</b> | <b>1,276,959</b> |

There was a gain in Past service cost due to a change in pension plans, which resulted from a change in the calculation formula of the death grant in the social security system (Decree-Law No 13/2013 of 25 January). According to the accounting policy presented in section 1.2. (I) of note 1, these gains were directly recognised in gains for the year (see note 27).

The value of the Pension Fund's assets in 2011 and 2012 was as follows:

| Fund's assets                                      | 31 Dec. 2012     | 31 Dec. 2011     |
|--|------------------|------------------|
| Value at the beginning of the year                 | 1,255,092        | 1,230,687        |
| Current contributions paid to the Fund             | 11,966           | 12,180           |
| Contributions paid on account of early retirements | 3,734            | 4,067            |
| Extraordinary contributions paid to the Fund       | 50,000           | 74,000           |
| Pensions paid <sup>(1)</sup>                       | (58,756)         | (61,523)         |
| Net income of the Fund                             | 168,775          | (4,320)          |
| <b>Value at the end of the year</b>                | <b>1,430,811</b> | <b>1,255,092</b> |

(1) Includes the blocked amounts corresponding to the unpaid holiday subsidy and Christmas bonus in 2012.

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

| Fund's investments              | 31 Dec. 2012     | 31 Dec. 2011     |
|---------------------------------|------------------|------------------|
| Land and buildings              | 59,076           | 66,956           |
| Variable income securities      | 202,791          | 197,658          |
| Fixed income securities – Bonds | 1,108,584        | 956,213          |
| Cash and bank deposits          | 2,127            | 20,534           |
| Other                           | 58,234           | 13,731           |
|                                 | <b>1,430,811</b> | <b>1,255,092</b> |

At the end of 2012 the funding ratio of the Pension Fund stood at 101.9 %, i.e. slightly higher than at the end of 2011 (98.3 %). These developments in the funding level result, in part, from the extraordinary contribution made by the Bank to the Fund in the period under review (€ 50,000 thousand), which was intended to reduce the exposure to interest rate risk, by increasing the coverage level of liabilities related to assets directly dependent on interest rate levels, amidst high instability in euro area public debt markets.

Losses in 2012 and 2011 can be broken down as follows:

|   | 31 Dec. 2012     | 31 Dec. 2011    |
|---|------------------|-----------------|
| <b>Actuarial gains / losses</b>                 |                  |                 |
| Population movements                            | (12,522)         | (14,630)        |
| Technical gains and losses                      | 7,938            | 6,464           |
| Wage growth                                     | (1,713)          | (6,207)         |
| Increase in pensions                            | 2,920            | 7,869           |
| Adjustments to the model                        | 16,567           | 625             |
| Other gains and losses                          | 50               | -               |
| Change in assumptions:                          |                  |                 |
| Wage growth                                     | (19,768)         | 12,326          |
| Increase in pensions                            | (6,010)          | 17,794          |
| Discount rate                                   | (132,179)        | (52,921)        |
|   | <b>(144,717)</b> | <b>(28,680)</b> |
| <b>Financial gains and losses</b>               |                  |                 |
| Gains and losses in paid pensions               | 2,121            | (1,945)         |
| Gains and losses in expected income of the Fund | 111,151          | (63,418)        |
|   | <b>113,272</b>   | <b>(65,363)</b> |
|   | <b>(31,444)</b>  | <b>(94,043)</b> |

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

|                                      | 31 Dec. 2012 | 31 Dec. 2011 |
|--------------------------------------|--------------|--------------|
| <b>Staff costs</b>                   |              |              |
| Current service cost <sup>(1)</sup>  | 6,879        | 6,537        |
| Interest cost                        | 57,346       | 59,485       |
| Expected return on the Fund's assets | (57,624)     | (59,098)     |
|                                      | <u>6,600</u> | <u>6,924</u> |

(1) Excludes costs borne by staff and other entities.

### Pension Fund of Banco de Portugal – Defined-contribution plan

The changes introduced into Banco de Portugal's company-level agreement (*Acordo de Empresa*), published on 22 June 2009 in *Boletim do Trabalho e Emprego* (work and labour bulletin) provided for the setting up of a supplementary defined-contribution pension plan, financed through contributions from the Bank and its staff, as regards Banco de Portugal staff who started working in the banking sector after 3 March 2009 and are covered by the general social security scheme pursuant to Decree-Law No 54/2009 of 2 March (see section 1.2. (I) of note 1). This plan was created in 2010, backdated to 23 June 2009.

This supplementary defined-contribution pension plan, which is contributive with vested rights, is voluntary for the participants and compulsory for the associate whenever the participant adheres to this pension plan.

The choice of the pension fund in which these contributions are invested is the employee's responsibility and can be changed annually.

Banco de Portugal set up a pension fund in order to create an alternative funding vehicle for its employees who wish to join it.

At the end of 2012 the supplementary pension plan funded through this Pension Fund covered 276 participants (2011: 227).

When the Pension Fund was set up, Banco de Portugal made an initial contribution of € 5 million, which constituted a reserve account in its name. Participation units of this reserve account are transferred monthly to the individual accounts of its participants by the corresponding amounts:

- (i) Contributions from Banco de Portugal; and
- (ii) Contributions from the active participants (by withholding each month the respective amounts when salaries are processed).

Yields on funds earmarked for the reserve account will automatically revert to this account via the change in the market value of participation units.

As at 31 December 2012 the assets of the Fund amounted to € 5,130 thousand, broken down as follows:

| Participation units (in value)    | 31 Dec. 2012 | 31 Dec. 2011 |
|-----------------------------------|--------------|--------------|
| Reserve account (see note 12)     | 4,722        | 4,873        |
| Participants' individual accounts | 408          | 204          |
|                                   | <u>5,130</u> | <u>5,077</u> |

### Other post-employment benefits

In 2012 the Bank started to record in the balance sheet the present value of liabilities to be settled in the future relating to other post-employment benefits, as described in section 1.2. (m) of note 1. Until 2011, the Bank recorded these benefits directly in staff costs when they were paid.

The Bank's restated accounts as at 31 December 2011 are presented below:

|   | 31 Dec. 2011<br>Restated | Restatement    | 31 Dec. 2011<br>Reported |
|---|--------------------------|----------------|--------------------------|
| <b>Liabilities and equity</b>   | <b>109,768,366</b>       | -              | <b>109,768,366</b>       |
| 11. Sundry  | 597,677                  | 81,558         | 516,119                  |
| 11.3. Sundry liabilities  | 511,829                  | 81,558         | 430,270                  |
| Recognition of liabilities – 31 Dec. 2010                               | 81,074                   | 81,074         | -                        |
| Reduction in liabilities for the value paid in 2011                     | -4,288                   | -4,288         | -                        |
| Increase in liabilities for 2011 current service cost and interest cost | 4,071                    | 4,071          | -                        |
| Increase in liabilities for 2011 actuarial gains / losses               | 701                      | 701            | -                        |
| <b>15. Equity</b>   | <b>1,196,549</b>         | <b>-81,775</b> | <b>1,278,324</b>         |
| 15.2. Reserves and retained earnings                                    | 1,195,549                | -81,775        | 1,277,324                |
| Recognition of liabilities – 31 Dec. 2010                               | -81,074                  | -81,074        | -                        |
| 2011 actuarial gains / losses   | -701                     | -701           | -                        |
| <b>16. Net profit for the year</b>                                      | <b>31,382</b>            | <b>217</b>     | <b>31,165</b>            |
| Reduction in staff costs – Value paid in 2011                           | -                        | 4,288          | -4,288                   |
| Current service cost and interest cost                                  | -4,071                   | -4,071         | -                        |
| <b>Profit and loss account (net)</b>                                    | <b>31,382</b>            | <b>217</b>     | <b>31,165</b>            |
| 15. Staff costs   | -111,268                 | 217            | -111,484                 |
| Reduction in staff costs – Value paid in 2011                           | -                        | 4,288          | -4,288                   |
| Current service cost and interest cost                                  | -4,071                   | -4,071         | -                        |

In this context, liabilities for 2011 amounted to € 81,558 thousand and were recognised (i) against reserves and retained earnings and (ii) against the reduction, albeit residual, of net profit for that period.

Turning to the Profit and Loss Account, the restatement of staff costs showed in the table relates to: (i) the annulment of the value paid in 2011 corresponding to the other post-employment benefits and (ii) the current service cost and interest cost relating to these benefits.

The restated value of reserves, as at 31 December 2011, reflects a reduction of € 81,775 thousand in comparison with the amount reported on the same date, as a consequence of the above-mentioned movements.

Liabilities included in these other post-employment benefits result from (i) allocation of retirement and survivors pensions to retired employees and pensioners, who are not covered by the Pension Fund of Banco de Portugal; (ii) granting of an extraordinary subsidy to the Bank's employees who retired on or before 31 December 1993; and (iii) contribution to retired employees and pensioners' healthcare and funeral expenses. These liabilities are described with greater detail below.

**(i) Liabilities related to retirement pensions and other benefits paid to retired employees**

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

|                           | Actuarial and financial assumptions used |          |
|---------------------------|--|----------|
|                           | 2012                                     | 2011     |
| Discount rate             | 1.02 %                                   | 2.90 %   |
| Pensions rate of increase |  |          |
| 1st year                  | 0.00 %                                   | 0.00 %   |
| Subsequent years          | 1.70 %                                   | 1.43 %   |
| Tables used               |  |          |
| - Mortality               |  | TV 88/90 |

The amount of past service liabilities can be summarised as follows:

| Past service liabilities            | 31 Dec. 2012 | 31 Dec. 2011 |
|-------------------------------------|--------------|--------------|
| Value at the beginning of the year  | 1,287        | 1,408        |
| Pensions payable                    | (224)        | (251)        |
| Interest cost                       | 37           | 39           |
| Actuarial gains / losses            | 231          | 91           |
| <b>Value at the end of the year</b> | <b>1,331</b> | <b>1,287</b> |

In accordance with the accounting policy presented in section 1.2. (m) of note 1, the value of interest cost was recognised in staff costs (see note 28) and actuarial losses in retained earnings (see note 21).

The population considered for the calculation of these liabilities in December 2012 is 12 participants (2011: 13 participants).

**(ii) Liabilities relating to the extraordinary subsidy**

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

|                           | Actuarial and financial assumptions used |          |
|---------------------------|--|----------|
|                           | 2012                                     | 2011     |
| Discount rate             | 1.84 %                                   | 3.60 %   |
| Pensions rate of increase |  |          |
| 1st year                  | 0.00 %                                   | 0.00 %   |
| Subsequent years          | 2.08 %                                   | 1.85 %   |
| Tables used               |  |          |
| - Mortality               |  | TV 88/90 |

Changes in past service liabilities were as follows:

| Past service liabilities            | 31 Dec. 2012  | 31 Dec. 2011  |
|-------------------------------------|---------------|---------------|
| Value at the beginning of the year  | 19,333        | 20,598        |
| Pensions payable                    | (1,615)       | (1,661)       |
| Interest cost                       | 696           | 767           |
| Actuarial gains / losses            | 4,889         | (371)         |
| <b>Value at the end of the year</b> | <b>23,304</b> | <b>19,333</b> |

In accordance with the accounting policy presented in section 1.2. (m) of note 1, the value of interest cost was recognised in staff costs (see note 28) and actuarial losses in retained earnings (see note 21).

The population considered for the calculation of these liabilities in December 2012 is 1,200 participants (2011: 1,237 participants).

**(iii) Liabilities related to the contribution to healthcare and funeral expenses of retired employees and pensioners**

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

|  | Actuarial and financial assumptions used |         |
|--|--|---------|
|  | 2012                                     | 2011    |
| Discount rate  | 2.52 %                                   | 3.86 %  |
| Growth rate of the average / annual cost of expenses |  |         |
| Disability pensions                                  | 6.23 %                                   | 5.98 %  |
| Other  | 4.54 %                                   | 4.29 %  |
| Tables used  |  |         |
| - Mortality  | TV 88/90                                 |         |
| - Disability   | 1978 – S.O.A. Trans. Male (US)           |         |
| - Turnover   | T-1 Crocker Sarason (US)                 |         |
| Percentage of married participants                   | 80 %                                     | 80 %    |
| Age difference between spouses                       | 3 years                                  | 3 years |

Changes in past service liabilities were as follows:

| Past service liabilities            | 31 Dec. 2012                     |                  |               | 31 Dec. 2011                     |                  |               |
|-------------------------------------|----------------------------------|------------------|---------------|----------------------------------|------------------|---------------|
|                                     | Retired employees and pensioners | Active employees | Total         | Retired employees and pensioners | Active employees | Total         |
| Value at the beginning of the year  | 41,722                           | 19,216           | 60,938        | 41,202                           | 17,866           | 59,068        |
| Paid expenses                       | (2,143)                          | -                | (2,143)       | (2,376)                          | -                | (2,376)       |
| Current service cost                | -                                | 782              | 782           | -                                | 711              | 711           |
| Interest cost                       | 1,612                            | 742              | 2,354         | 1,781                            | 772              | 2,553         |
| Actuarial gains / losses            | 7,954                            | 7,172            | 15,126        | 1,115                            | (133)            | 982           |
| <b>Value at the end of the year</b> | <b>49,145</b>                    | <b>27,912</b>    | <b>77,057</b> | <b>41,722</b>                    | <b>19,216</b>    | <b>60,938</b> |



In accordance with the accounting policy presented in section 1.2. (m) of note 1, the value of interest cost and current service cost was recognised in staff costs (see note 28) and actuarial losses in retained earnings (see note 21).

The population considered for the calculation of these liabilities is the following:

| Number of participants           | 31 Dec. 2012 | 31 Dec. 2011 |
|----------------------------------|--------------|--------------|
| Active employees                 | 1,683        | 1,689        |
| Retired employees and pensioners | 2,393        | 2,389        |
|                                  | <b>4,076</b> | <b>4,078</b> |

### Seniority bonuses

The value of past service liabilities relating to seniority bonuses, as at 31 December 2012, totalled € 13,084 thousand (2011: € 12,561 thousand) (see note 18). The value of actuarial gains / losses referring to these obligations was recognised directly under Profit / loss, having reached € -1,378 thousand in 2012 (2011: € -626 thousand).

|                           | Actuarial and financial assumptions used |          |
|---------------------------|--|----------|
|                           | 2012                                     | 2011     |
| Discount rate             | 2.82 %                                   | 4.08 %   |
| Expected wage growth rate |  |          |
| 1st year                  | 1.00 %                                   | 1.00 %   |
| Subsequent years          | 2.96 %                                   | 2.77 %   |
| Tables used               |  |          |
| - Mortality               | TV 88/90                                 |          |
| - Disability              | 1978 – S.O.A. Trans. Male (US)           |          |
| - Turnover                | T-1 Crocker Sarason (US)                 |          |
| Statutory retirement age  | 65 years                                 | 65 years |

### NOTE 33 | RISK MANAGEMENT

Risk management in Banco de Portugal not only aims at ensuring the sustainability and profitability of the Bank itself, but also and foremost at contributing to the maintenance of the financial stability of the Portuguese banking system and at ensuring its participation in the Eurosystem. Therefore, Banco de Portugal is committed to pursuing a strict risk management policy.

On an on-going basis the Board of Directors of Banco de Portugal monitors the integrated management of the financial and operational risks, which is entrusted to the Risk Management Department in articulation with the Committee for Risk and Internal Control and the Bank's other departments, taking into account the defined risk profile and degree of tolerance.

## Financial risk management

Financial risks primarily comprise market and credit risk chiefly arising from the management of own investment assets and from the participation in the monetary policy operations of the Eurosystem. The latter include not only the standard monetary policy operations, but also the securities held for monetary policy purposes.

Market risk is associated with losses arising from fluctuations of prices and market rates, therefore comprising interest rate risk, foreign exchange rate risk and gold price risk. Monitoring and control of market risk is made namely through Value at Risk (VaR) indicators, which are produced and monitored on a daily basis, being supplemented by regular stress testing exercises.

Credit risk is associated with losses arising from the failure of a counterparty or an issuer to meet its financial obligations to the Bank. The reduction of the market value of assets, resulting from the deterioration of the credit profile of counterparties and issuers is also included under credit risk. Monitoring and control of credit risk is made on a regular basis through Credit Value at Risk (CVaR) indicators, for the Bank's own asset portfolios and for securities held for monetary policy purposes.

Risk in asset management operations is controlled by applying a number of eligibility criteria and limits which are set out in the Guidelines endorsed by the Board of Directors of Banco de Portugal. In the case of credit risk, the said criteria and limits are based on risk ratings assigned by rating agencies and incorporate a qualitative assessment of all information available, including the use of market indicators. Market risk is controlled through the application of limits to VaR, as well as by setting limits to foreign currency positions, and monitoring developments in interest rate risk-sensitivity measures, such as the modified duration.

The valuation, assessment, performance allocation and control of limits and restrictions of asset management operations is performed through an information system for the management of reserves and assets, similar to the one used by the ECB and by most NCBs of the Eurosystem. This system also executes the financial settlement of the operations and the monitoring of the positions and main risk measures. In addition, for the calculation of VaR and CVaR, use is also made of externally purchased software.

The exposure to credit risk arising from monetary policy operations results from the share of the Eurosystem's global exposure imputable to Banco de Portugal, according to its capital key, and from the operations whose risk is directly assumed by the Bank.

The risk of these operations is controlled by applying a number of rules and procedures defined at Eurosystem level. Follow-up and monitoring is made through a series of aggregate risk indicators produced by the ECB. Compliance with the relevant restrictions and limits is checked through a number of application systems developed internally by Banco de Portugal. In the specific case of the securities held for monetary policy purposes, created within the framework of the non-standard monetary policy measures, Banco de Portugal monitors its exposure on a regular basis through credit VaR measures produced by the Bank.

### **Operational risk management**

Operational risk is related to losses arising from weaknesses or inadequate performance of internal business processes, staff or systems, or third-party actions. The scope of application of the operational risk management process includes all processes, activities, functions, tasks and projects that may jeopardise the pursuance of the Bank's mission and goals arising from legislation, from its participation in the ESCB and from other requirements that may have a material negative impact on the Bank's activity and assets.

The Bank's operational risk management policy and methodology broadly follows the framework for operational risk management endorsed at Eurosystem / ESCB level, adjusted for the specific aspects of the Bank, and taking into account the international standards and the policies and practices followed by the community of central banks.

## 4. REPORT OF THE EXTERNAL AUDITORS



170



### AUDITOR'S REPORT

To the Board of Directors of Banco de Portugal

#### Introduction

1 We have audited the accompanying financial statements of Banco de Portugal, which comprise the balance sheet as at 31 December 2012, the profit and loss account, the statement of changes in Equity for the year then ended, as well as a summary of the accounting policies and other explanatory notes.

#### Board of Directors' responsibility for the Financial Statements

2 The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles of the Chart of Accounts of Banco de Portugal and for the internal control relevant to the preparation of financial statements that are free from material misstatement, due to fraud or error.

#### Auditor's Responsibility

3 Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements 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 the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

*PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.  
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal  
Tel +351 213 599 000, Fax +351 213 599 999, www.pwc.com/pt  
Matriculada na Conservatória do Registo Comercial sob o NUPC 506 628 752, Capital Social Euros 314.000  
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na Comissão do Mercado de Valores Mobiliários sob o nº 9077*

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

**Opinion**

6 In our opinion, the financial statements present fairly, in all material respects, the financial position of Banco de Portugal as at 31 December 2012, its financial performance and the changes in Equity for the year then ended, in accordance with the accounting principles in the Chart of Accounts of Banco de Portugal, which are summarised in Note 1 of the Notes on the financial statements.

Lisbon, 5 March 2013

PricewaterhouseCoopers & Associados  
– Sociedade de Revisores Oficiais de Contas, Lda.  
represented by

A handwritten signature in black ink, appearing to read 'José Manuel Henriques Bernardo', with a long horizontal line extending to the right.

José Manuel Henriques Bernardo, R.O.C.

## 5. REPORT AND OPINION OF THE BOARD OF AUDITORS

In accordance with the provisions laid down in Article 43 (1) (c) of the Organic Law of Banco de Portugal, the Board of Auditors submits its Report and issues its Opinion on the Financial Statements and respective Notes for the year ended on 31 December 2012, which were approved by the Board of Directors at its meeting on 26 February 2013.

### Report

1. The Board of Auditors, in use of the powers conferred on it has monitored the operation of the Bank, through the participation, without voting rights, of its members in the meetings of the Board of Directors and through the analysis of the documentation produced, namely by the Accounting Department and the Audit Department.

The analysis of the monthly accounting data has also enabled the Board of Auditors to monitor the Bank's economic and financial situation.

The existing assets and valuables held by the various areas of the Bank continued to be checked by the officials in charge and by the Audit Department, within a prior programming schedule. The Board of Auditors has monitored the year-end inspection of valuables carried out at the Bank's head office and at the Carregado Complex.

The Board of Auditors at its meetings appraised reports and data submitted to it, preparing working documents and issuing opinions or making recommendations, whenever necessary, as described in the respective minutes.

In accordance with the Organic Law of Banco de Portugal, the Board of Auditors assessed and issued opinions on the Bank's Operating Budget for 2013.

In addition to the tasks entrusted to it by the Organic Law of Banco de Portugal and by the Board of Auditors Charter, the Board of Auditors, pursuant to the provisions of specific legislation, continued to monitor the operation of the Deposit Guarantee Fund, Mutual Agricultural Credit Guarantee Fund and Mutual Counterguarantee Fund, and to issue its opinion on the annual report and accounts of these funds.

Decree-Law No 31-A/2012 of 10 February established the Resolution Fund, and it was also incumbent upon the Board of Auditors to monitor this Fund's activity and compliance with the laws and regulations and to issue its opinion on the Fund's annual accounts.

2. The Bank's activities are explained in the Annual Report of the Board of Directors, which also contains comprehensive information on its economic and financial situation for the fiscal year ended on 31 December 2012.

The Notes on the Financial Statements include detailed information on both the financial statements and the main accounting policies and valuation criteria. With the entry into force on 1 January 2012 of the new Chart of Accounts of Banco de Portugal (*Plano de Contas do Banco de Portugal – PCBP*), two new items were added to the balance sheet: Revaluation differences, formerly recorded under Liabilities, and General risk provision, which is different from the other provisions, as it is equivalent to a reserve. The new PCBP also introduced the concept of Non-distributable retained earnings.

The main changes in the financial statements by comparison with 2011 are highlighted below:

#### Assets

- increase of €545 million in Gold, solely due to positive developments in the price of gold; therefore, in volume terms, the gold reserve remained virtually unchanged at 382.5 tonnes;
- decrease of €996 million in Foreign reserves and euro assets (net), of which €1,273 million correspond to a decrease in the trading and investment portfolios denominated in euro and €277 million to an increase in the trading portfolio denominated in foreign currency;
- increase of €6,498 million in Claims related to monetary policy operations, reflecting a rise of €6,782 million in Lending to credit institutions and a decrease of €285 million in Securities held for monetary policy purposes;
- increase of €3,328 million in Intra-Eurosystem claims, essentially resulting from the combined effect of the rise in circulation in the Eurosystem and the widening of the positive difference between banknotes withdrawn from circulation and banknotes put into circulation by the Bank.

#### Liabilities

- increase of €552 million in Banknotes in circulation, reflecting the increase in total circulation at Eurosystem level and the share allocated to Banco de Portugal;
- increase of €2,444 million in Liabilities to euro area credit institutions related to monetary policy operations denominated in euro, chiefly resulting from current accounts and from the deposit facility;
- increase of €614 million in Liabilities to other entities, chiefly resulting from the value of the current accounts of the Portuguese Treasury and Government Debt Agency (IGCP) relating to the funds received under the economic and financial assistance programme to Portugal; in accordance with the principle of neutrality, the Bank will have no profit or loss resulting from these funds;
- increase of €5,062 million in Intra-Eurosystem liabilities, essentially arising from TARGET accounts (net);

#### Own funds

At the end of 2012 the Own funds of Banco de Portugal (revaluation differences, general risk provision, equity and net profit for the year) reached €17,454 million, corresponding to an increase of approximately €1,160 million in the period under review. This increase was due to: (i) €596 million in revaluation differences; (ii) €418 million in net profit for the year; (iii) €268 million in general risk provisions; and (iv) €-122 million in equity, resulting from the recognition of liabilities to retired employees and pensioners related to post-employment benefits, which until 2011 were recognised in staff costs when they were paid, as well as the recognition of actuarial losses of 2012.

#### Profit and Loss Account

- increase of €74 million in Interest margin, chiefly due to the fact that the reduction in interest expense was higher than the decline in interest income;
- increase of €160 million in Realised gains/losses arising from financial operations, chiefly resulting from gains in portfolio management operations denominated in euro and foreign exchange transactions; besides losses on interest rate futures reached nearly €42 million;
- increase of €122 million in Net result of pooling of monetary income;
- net increase of €268 million in provisions chiefly the General risk provision;
- increase of €3 million in Administrative expenses, chiefly resulting from: (i) a reduction in Staff costs of approximately 3% (€-4 million); (ii) an increase of 11% in Supplies and services from third

parties, chiefly reflecting the effect of expenses within the scope of the Economic and Financial Assistance Programme to Portugal; and (iii) an increase of 13% in Depreciation and amortisation due to the end in 2012 of large-value investments;

- increase of €418 million in Profit for the year, chiefly due to an increase in the interest margin, in realised gains/losses arising from financial operations and in net result of pooling of monetary income, as well as from the reduction in the increase in the general risk provision.

3. In 2012 Banco de Portugal recorded a profit of €449,154,398.96. The Board of Directors, in accordance with Article 53 (2) of the Organic Law of Banco de Portugal, will submit to the Minister of State and Finance the following proposal for the distribution of profit:

|  |                  |
|--|------------------|
| - 10 % to the legal reserve  | € 44,915,439.90  |
| - 10 % to other reserves   | € 44,915,439.90  |
| - pursuant to subparagraph (c),<br>the remainder to the State as dividends | € 359,323,519.16 |

4. The External Auditors issued their report without any qualification or emphasis.

### Opinion

In view of the data shown and on the basis of analyses carried out and information obtained, the Board of Auditors raises no objection to the approval of the 2012 Financial Statements of Banco de Portugal, nor to the proposal for the distribution of profit mentioned above.

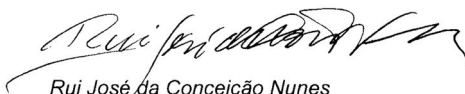
The Board of Auditors wishes to express to the Governor, the Board of Directors and the entire staff of the Bank its appreciation for their cooperation.

Lisbon, 21 March 2013

THE BOARD OF AUDITORS



Emílio Rui da Veiga Peixoto Vilar



Rui José da Conceição Nunes



Amável Alberto Freixo Calhau