



BANCO DE PORTUGAL
EUROSYSTEM

ANNUAL REPORT

Activities and Financial Statements 2014



ANNUAL REPORT

Activities and Financial
Statements 2014



**BANCO DE
PORTUGAL**
EUROSYSTEM

Lisbon, 2015 • www.bportugal.pt

ANNUAL REPORT | Activities and Financial Statements 2014 • Banco de Portugal Av. Almirante Reis, 71 | 1150-012 Lisboa

- www.bportugal.pt • Edition Office of the Governor | Accounting Department • Design, printing and distribution Administrative Services Department | Editing and Publishing Unit • Number of copies 80 • ISBN 978-989-678-339-6 (print)
- ISBN 978-989-678-340-2 (online) • ISSN 2182-6072 (print) • ISSN 2182-6080 (online) • Legal Deposit no. 343415/12

Cover photo 'Curtains' 2012 • Art intervention at the former São Julião Church • Fernanda Fragateiro • Hand-painted on silk

- Various sizes

Contents

Mission and values of Banco de Portugal | 5

Message from the Governor | 9

Management of the Bank | 11

Strategic Plan for 2014-16 | 19

I ACTIVITIES IN 2014

Executive summary | 23

Box 1 | The 2011-14 Economic and Financial Assistance Programme | 27

Box 2 | Single Supervisory Mechanism
– implications for Banco de Portugal's activities | 29

Box 3 | The resolution of Banco Espírito Santo, S. A. in the context
of Banco de Portugal's activities in 2014 | 32

1. Financial stability within the European context | 34

1.1. Macro-prudential supervision and regulatory framework | 34

1.2. Prudential supervision | 35

1.3. Banking conduct supervision | 38

1.4. Legal enforcement | 39

1.5. Resolution function | 41

1.6. Deposit guarantee and resolution funds | 41

1.7. Payment systems oversight | 41

2. Functions as monetary authority | 43

2.1. Economic research and advice | 43

2.2. Monetary policy implementation | 44

2.3. Asset management | 45

2.4. Statistics | 46

2.5. Payment systems | 47

2.6. Currency issuance | 49

2.7. International relations and cooperation | 50

3. Organisation and resource management | 53

3.1. Governance and risk management model | 53

3.2. Information and communication systems | 55

3.3. Human resource management | 55

3.4. Budget and building management | 57

- 4. Openness to society | **59**
 - 4.1. Communication | **59**
 - 4.2. Provision of services | **64**
 - 4.3. Social responsibility | **67**

II FINANCIAL STATEMENTS

- 1. Presentation | **71**
 - 1.1. Developments in the balance sheet | **71**
 - 1.1.1. Claims and liabilities related to monetary policy operations | **73**
 - 1.1.2. Gold, foreign reserves and euro assets (net) | **75**
 - 1.1.3. Other balance sheet assets | **77**
 - 1.1.4. Banknotes in circulation | **79**
 - 1.1.5. Intra-Eurosystem liabilities | **79**
 - 1.1.6. Other liabilities | **79**
 - 1.1.7. Own funds | **80**
 - 1.2. Developments in the Profit and Loss Account | **81**
- 2. Financial Statements | **86**
- 3. Notes on the Financial Statements | **90**
 - 1.1. Bases of presentation | **90**
 - 1.2. Synopsis of the main accounting policies | **91**
- 4. Report of the external auditors | **127**
- 5. Report and opinion of the board of auditors | **129**



MISSION AND VALUES OF BANCO DE PORTUGAL



Mission

As the central bank of the Portuguese Republic and an integral part of the Eurosystem and the European System of Central Banks, Banco de Portugal's mission is to:

- Maintain price stability; and
- Foster and safeguard financial system stability.

Values

The values of Banco de Portugal are:

- **Integrity** – The Bank's staff place society and public interest at the centre of their activities and uphold high ethical standards.
- **Competence, effectiveness, efficiency** – Banco de Portugal employs highly qualified staff in its business areas. Its governance model, internal organisation and processes use best practices as a benchmark.
- **Independence** – Banco de Portugal is independent in functional, institutional, personal and financial terms. This principle is legally established and a prerequisite for the Bank's compliance with its mission. Independence requires a clear mandate, the impossibility to seek or take instructions from third parties, the protection of the status of members of decision-making bodies and financial independence.
- **Transparency and accountability** – In compliance with its tasks in the context of the Eurosystem, Banco de Portugal reports to the Portuguese Parliament, the government and society on its activities, underlying reasons and methods. Transparency on the Bank's governance model and activities and accountability for its results are essential complements to the principle of independence.
- **Team spirit** – Banco de Portugal staff act in accordance with the principles of mutual aid, knowledge sharing, loyalty and transparency.
- **Social and environmental responsibility** – Banco de Portugal acts in a socially and environmentally responsible manner, operating as a social actor and advocate of corporate ethics.



Carlos da Silva Costa

Message from the Governor

Given all its challenges, events, changes and the staff's response capacity, 2014 will always be an important year in Banco de Portugal's history.

In the first half of the year, the implementation of the Economic and Financial Assistance Programme (EFAP) was successfully concluded, having marked the country's and the Bank's existence over the past three years. The EFAP warranted the Bank's substantial commitment, chiefly as regards safeguarding the stability of the national financial system. In the scope of EFAP, the Bank further developed its strategy to strengthen the resilience of Portuguese banks, by adopting a more intrusive and more risk-based supervisory model, with a clear cross-cutting and forward-looking focus. Banco de Portugal also continued to work closely with the European Central Bank in the definition and implementation of monetary policy, which is key to safeguarding the national banking system's liquidity.

The summer of 2014 was marked by the resolution of Banco Espírito Santo (BES), a time critical measure due to the imminent risk that

it would suspend payments leading to serious consequences for the Portuguese economy. Banco de Portugal had to set up a new institution (Novo Banco) and, in articulation with the government, the European Central Bank, the European Commission and the Resolution Fund, guarantee that the new institution would be in place to proceed with BES' activity.

The resolution of BES, the third largest Portuguese bank, was a major challenge for the Bank's teams. The lack of prior experience and the technical and legal complexity of the resolution measure warranted a cross-sectional mobilisation of staff. The response capacity of the Bank's teams was remarkable. In spite of all its inherent difficulties, the resolution measure prevented disruptions to financial system confidence, thus ensuring the protection of depositors and taxpayers, and safeguarding a continued funding to the economy.

In the second half of the year, the Bank experienced a structural change, when the Single Supervisory Mechanism (SSM) went live. At the European level, a new institutional and

operational framework has been established for the supervision of financial institutions, one of the pillars of the European Banking Union which is being built.

The importance of the Banking Union to the euro area as a whole, and the Portuguese economy in particular, should not be downplayed. Mutual contagion risks between funding conditions for the banking system and the State, which have characterised the euro area crisis since 2010, will be eliminated. Households and firms will benefit from a more level playing field in the single currency area and sovereign entities will be immune from banking system accidents, thus fostering public finance sustainability and the protection of taxpayers. The confidence of depositors and European financial system stability will be strengthened by the harmonisation of supervisory rules, procedures and practices on the basis of stringent standards. By advancing financial integration, the Banking Union will have a stabilising effect on the European economy.

Portuguese banks have started on this path following a broad and in-depth evaluation of their balance sheets, which culminated in the comprehensive assessment exercise conducted by the ECB. Banco de Portugal has also been preparing for the new framework. Prudential supervision (at micro and macro level) has been reinforced over the past few years and now follows a governance and organisational model and uses resources and instruments inspired by the best practice at Eurosystem level.

In my confirmation speech in 2010, I stressed that 'the international financial crisis has reminded us how important central bank functions are for the fostering of sustained development.' Events in the past few years have confirmed this view. We now have a more capitalised, less leveraged and more transparent banking system, which can ensure a smooth funding for productive firms. Our strategy prevented greater costs to the taxpayers, namely by overloading public debt, as was the case of other European countries.

There is always room for improvement. The Board of Directors and the Bank's staff certainly aspire to that. A number of changes must be made in the future so as to turn Banco de Portugal into a more modern and efficient institution, one which is also open to society. Financial stability will continue to be key for the sustainable development of the country. Banco de Portugal must focus even further on its mission and remain an influential and respected partner at European level, with the ability to foresee and adapt to legal and institutional changes, namely within the scope of the Banking Union.

In turn, some objectives will never be truly fulfilled. Making the Bank more efficient is an ongoing process, which, in the coming years, will require stronger links between teams and mission areas. Openness to and integration in society are also strategic objectives about which much remains to be done. Banco de Portugal must be in a position to explain its measures so that the community can duly understand and assess its actions to safeguard price and financial stability and, consequently, the country's development.

Let me end with a passage from my confirmation speech, which I deem to be more relevant than ever: 'Banco de Portugal is now facing a number of challenges that will test the capacity of both its Board of Directors and staff, but I firmly believe that these challenges will continue to be successfully met'.





MANAGEMENT OF THE BANK



Governor

Carlos da Silva Costa

Board of Directors*



Vice-Governor

Pedro Miguel de Seabra
Duarte Neves



Vice-Governor

José Joaquim Berberan
e Santos Ramalho



Director

João José
Amaral Tomaz



Director

António Carlos Custódio
de Moraes Varela**



Director

Hélder Manuel
Sebastião Rosalino**

* As at 31 December 2014. Up to 8 September 2014 José António da Silveira Godinho held the position of Director.

** Appointed by Resolution of the Council of Ministers No. 23-A/2014 of 4 September 2014, published in the Official Gazette No. 171, Series II, of 5 September 2014.

Board of Auditors*

Chairman

João Costa Pinto

Members

Ana Paula Serra

António Gonçalves Monteiro

* As at 31 December 2014.

Up to 30 April 2014 Emílio Rui da Veiga Peixoto Vilar held the position of Chairman.

Up to 30 September 2014 Rui José da Conceição Nunes and Amável Alberto Freixo Calhau held the position of Members.



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

João Costa Pinto

Emílio Rui da Veiga Peixoto Vilar

José Morais Cabral

Valentim Xavier Pintado

Fernando Faria de Oliveira

João Moreira Rato**

Cristina Casalinho

Roberto de Sousa Rocha Amaral

Rui Manuel Teixeira Gonçalves

* Up to 14 July 2014.

** Up to 12 July 2014.



Secretary to the Boards

Vasco Manuel da Silva Pereira

Heads of department, regional delegations and district agencies*

Office of the Governor (*GAB*)

Marta Sofia Fonseca Carvalho David Abreu

Audit Department (*DAU*)

Francisco Martins da Rocha

Legal Enforcement Department (*DAS*)

José Manuel Bracinha Vieira

Accounting Department (*DCC*)

José Pedro Pinheiro Silva Ferreira

Issue and Treasury Department (*DET*)

António Manuel Marques Garcia

Financial Stability Department (*DES*)

Maria Adelaide Morais Cavaleiro Joaquim

Statistics Department (*DDE*)

João António Cadete de Matos

Economics and Research Department (*DEE*)

Maria Isabel Sanches Rio de Carvalho

Human Resources Department (*DRH*)

Manuel Carlos Afonso Cordeiro

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 Serôdio Nunes Marques

International Relations Department (*DRI*)

Nuno Homem Leal de Faria

Administrative Services Department (*DSA*)

Eugénio Fernandes Gaspar

Legal Services Department (*DJU*)

José Gabriel Cortez Rodrigues Queiró

Payment Systems Department (*DPG*)

Jorge Manuel Egrejas Francisco

Banking Conduct Supervision Department (*DSC*)

Maria Lúcia de Almeida Leitão

Banking Prudential Supervision
Department (*DSP*)

Carlos Torroaes Albuquerque

Porto Branch

Ana Olívia de Morais Pinto Pereira

Regional Delegations

Regional Delegation of the Azores

Ibéria Maria de Medeiros Cabral Serpa

Regional Delegation of Madeira

Rui António da Silva Santa Rajado

* As at 31 December 2014.

District Agencies

Braga

Domingos Marques de Oliveira

Évora

Paulo Ruben Alvernaz Rodrigues

Castelo Branco

Maria Teresa Gomes Sameiro Macedo

Faro

Fernanda da Conceição Barros

Coimbra

Maria João Botelho Raposo de Sousa

Viseu

Gentil Pedrinho Amado

Specialised committees for interdepartmental coordination

Budget Monitoring Committee (CAO)

Chairman

José Joaquim Berberan e Santos Ramalho

Specialised Committee for Financial Supervision and Stability (CESEF)

Chairman

Carlos da Silva Costa

Committee for Risk and Internal Control (CRCI)

Chairman

Carlos da Silva Costa

Specialised Committee for Information Systems and Technologies Management (CEGIT)

Chairman

Hélder Manuel Sebastião Rosalino

Strategic plan for 2014-16

Banco de Portugal's Strategic Plan for 2014-16, which was approved by the Board of Directors in January 2014, lays down the goals and main actions to be implemented in the course of the three-year period.

The Plan establishes four Broad Strategic Guidelines and nine strategic goals to ensure

that Banco de Portugal continues to be a leading entity in the safeguarding of financial stability, a respected partner within the Eurosystem and an independent institution with considerable influence on the Portuguese economic debate.

Strategic Plan for 2014-16

Broad Strategic Guidelines

Strategic goals

Financial stability within the European context

Assert microprudential supervision in the framework of the Single Supervisory Mechanism;

Foster financial stability by deepening the scope and the analytical and regulatory framework of macroprudential supervision, in conjunction with microprudential and banking conduct supervision;

Strengthen the Bank's institutional capacity and expertise as national resolution authority, including in the context of the establishment of a European Single Supervisory Mechanism.

Effective and fully-fledged contribution to the exercise of its tasks as monetary authority within the framework of the Eurosystem

Ensure an influential participation in the Eurosystem and other fora where the Bank intervenes and excel in the implementation of monetary policy decisions;

Safeguard and reinforce the Bank's financial independence within the framework of the Eurosystem.

Organisation and efficient management of resources

Strengthen corporate culture and match human resources to the Bank's functions;

Channel supporting departments towards greater efficiency and in-house satisfaction levels.

Fostering an open institution, respected by society

Contribute to a more informed society regarding the country's economic and financial situation and the Bank's activities;

Reduce context costs in the Bank's areas of activity.





I ACTIVITIES IN 2014

1. Financial stability within the European context
2. Functions as monetary authority
3. Organisation and resource management
4. Openness to society

Executive summary

Banco de Portugal aims to be a leading institution in the safeguarding of financial stability, an influent partner within the Eurosystem and Portuguese society and an efficient and accountable organisation, with a management model inspired by international best practice.

The Strategic Plan for 2014-16, approved by the Board of Directors in January 2014, lays down four Broad Strategic Guidelines for the three-year period:

- Financial stability within the European context;
- Effective and fully-fledged contribution to the exercise of its tasks as monetary authority within the framework of the Eurosystem;
- Organisation and efficient management of resources;
- Fostering an open Bank, respected by society.

These Broad Strategic Guidelines steered the Bank's activities in 2014, which continued to be carried out in a particularly challenging national and international environment.

The Economic and Financial Assistance Programme (EFAP), agreed in 2011 between the Portuguese authorities, the European Union and the International Monetary Fund to restore international financial market confidence and foster competitiveness and sustainable economic growth, was concluded in June 2014. Banco de Portugal took on several responsibilities in the implementation of the EFAP, both associated with its mandate to safeguard financial system stability and as regards the provision of economic and financial advice to the government, statistical reporting and the processing of loan and interest payments on financial assistance (Box 1).

2014 was also marked by the transition to a new banking supervisory model, in the context of the Banking Union. The bank participated in the creation and implementation of the Single Supervisory Mechanism (SSM), which, as of 4 November 2014, is responsible for the

supervision of all euro area credit institutions (Box 2).

Banco de Portugal worked on the consolidation of the new powers as the national resolution and macro-prudential authority. The Bank's application of a resolution measure to Banco Espírito Santo, S. A. (BES), following unexpected and exceptional losses announced by BES on 30 July, relied on the efforts made since 2012 to implement the resolution function. The application of this measure put the Bank's structures and teams to the test, which worked in a highly complex and demanding environment, without the benefit of prior experience, to safeguard the stability of the national financial system (Box 3).

Financial stability within the European context

In 2014, Banco de Portugal participated in the comprehensive assessment exercise of major euro area banks that preceded the start of the SSM, as well as in the creation and implementation of the new supervisory model. The transition to the SSM benefited from the Bank's intense adaptation work since 2011, which among other things led to fundamental changes to its organic structure, teams, information systems, procedures and instruments.

In the normative field, the Bank participated in the implementation of the regulatory and institutional framework of the Banking Union and its transposition to national law. The Legal Framework of Credit Institutions and Financial Companies underwent a major revision, adapting it to the new European regulations and clarifying the normative framework.

To identify and mitigate any risks to the stability of the national financial system, Banco de Portugal analysed the Funding and Capital Plans of Portuguese banks, set out intermediate objectives and instruments for macro-prudential

policy, worked in the identification of advanced indicators of financial stability risks and monitored the financial situation of households and non-financial corporations, making use of its microeconomic databases. The Bank assessed the prudential situation of the main financial institutions, within the scope of the EFAP, and concluded the cycle of cross-sectional inspections that had started in 2011, with the business plan analysis carried out on the banking system's main clients (*ETRICC2* in Portuguese).

With the purpose of ensuring a more balanced relationship between financial institutions and their customers, Banco de Portugal: (i) established a number of good practices to simplify and standardise demand deposit accounts, including the provision of a 'basic bank account', and (ii) regulated information that must be provided by institutions in consumer credit agreements and the wording of bank statements. Banco de Portugal, being aware of the importance of banking activity to households, continued to foster minimum banking services and assessed and monitored the implementation of credit agreement default schemes. It also continued to promote financial information and education of bank customers, namely in the context of the National Plan for Financial Education.

Enforcement activity continued to cover a diversified range of infractions and defendant types. The number of cases of non-compliance with reporting requirements to prevent money laundering and terrorist financing declined substantially, as well as the number of administrative proceedings initiated and settled on this matter. This reduction was also reflected in a decrease in the total number of administrative proceedings initiated and settled by the Bank.

Banco de Portugal continued its capacity-building as resolution authority, by pressing on with its work on resolution plans, developing a contingency plan to intervene where necessary and taking a closer look at the operation of institutions in matters pertinent to this function.

Functions as monetary authority

To support a more influential intervention at Eurosystem level, in Portuguese society and in academia, the Bank drafted and published research in a wide spectrum of areas with relevant analytical content, with the purpose of contributing to greater knowledge of the Portuguese and euro area economy. 29 articles were published or accepted for publication in highly ranked international scientific journals. Against a background of increased importance placed on microeconomic data, the Bank has started to set up a microdata research laboratory (*Laboratório de Investigação em Microdados*) at the Porto Branch.

The ECB Governing Council adopted new standard and non-standard measures to restore the functioning of the monetary policy transmission mechanism and support the financing of the real economy, taking into account the primary objective of maintaining price stability. Banco de Portugal participated in the preparation and implementation of these non-standard measures – eight targeted longer-term refinancing operations and two securities purchase programmes – which, due to their being innovations, warranted new rules and procedures. The Bank also participated in preparatory works for the public sector purchase programme, announced by the ECB in 2015. Banco de Portugal managed a US dollar-denominated portfolio of the ECB and its own investment asset portfolio, which, as at 31 December, totalled €1,433 million and €33,792 million respectively.

The Bank concluded a major methodological revision of the compilation and production of statistics, by incorporating changes due to new international standards, with an impact on national financial accounts and balance of payments and international investment position statistics.

Banco de Portugal promoted the smooth operation of gross and retail payment systems and continued its work to connect to TARGET2-Securities, the future European

platform for the settlement of securities in central bank money. As regards retail payments, migration to the Single Euro Payments Area (SEPA) was successfully concluded, as a result of the combined efforts of Banco de Portugal, payment service providers, firms and government bodies. The Bank also participated in the development of the second series of euro banknotes: it prepared the launch of the €10 banknote in the Europa series in Portugal, produced a share of the new €20 banknote and participated in the pilot project to produce the €50 banknote. Measures were also adopted to streamline the cash life cycle.

In 2014, as in previous years, the mission and the tasks entrusted to Banco de Portugal involved an intense international activity. The Bank is represented in over 350 international organisations, more notably in the scope of the Eurosystem/ESCB. Cooperation links with central banks from emerging and developing countries, particularly Portuguese-speaking countries, were also strengthened.

Organisation and resource management

In 2014 the Bank strengthened its governance and organisational model in accordance with the best practice and the new institutional framework related to the start of the SSM. Risk management and internal audit functions were further reinforced, while the IT governance model was revised. Following a comprehensive reorganisation in previous years, the Bank altered the criteria used in the distribution of Board members' remits, to break down responsibilities into price/financial stability functions and supervisory functions and, in addition, to promote synergies in areas associated with payment means and systems and internal governance. As a follow-up to recommendations by an independent evaluation commission, an area on financial intermediation and a new functional framework for economic research have been incorporated in the Economics and Research Department.

The number of employees increased further to accommodate the tasks assumed in the resolution and supervisory areas, in the context of the Banking Union. At the same time, the number of seconded staff/staff on unpaid leave nearly doubled from the previous year, following the transfer of staff to SSM teams. At the end of 2014, the number of staff employed by the Bank was 1,776. Despite an increase in the number of employees, staff costs declined, as a result of an administrative cost-containment policy adopted as of 2010, due to compensation policy rationalisation measures and the new social protection scheme applicable to staff employed since March 2009.

Openness to society

In 2014, with the conclusion of EFAP, the resolution of BES and the implementation of the SSM, Banco de Portugal had to make substantial communication efforts, so as to safeguard and strengthen confidence in the national financial system. Through its Bank Customer Website, the Bank also provided a wide range of information on legal and regulatory changes associated with the provision of financial products and services, warnings and relevant quantitative information on the operation of retail banking markets.

To further knowledge on the Portuguese economy and its activities, Banco de Portugal released, in addition to its regular publications, new research on the non-financial corporate sector and launched a new series of Financial Stability Papers. It also introduced new content and ways to disseminate statistical information. As a result of the joint work of Banco de Portugal, Statistics Portugal and the Ministry of Finance, Portugal has joined the IMF's new statistical communication system (SDDS Plus), as part of a group of only nine pioneer countries.

The Bank continued to invest in services to the public, the financial community and firms,

which were once again in great demand in 2014.

Reflecting its commitment to the protection and promotion of our heritage and the urban regeneration in the Lisbon area of Baixa/Chiado, the Bank opened to the public its Interpretation Centre for King Dinis' Wall, which exhibits the only known remains of

that defensive structure, classified as National Monument.

Banco de Portugal also increased its social responsibility and volunteering initiatives, particularly those aimed at fighting educational underachievement and providing meals, via its cafeteria concession, to households in need that live near the Bank's various buildings.

BOX 1 | The 2011-14 economic and financial assistance programme

The Economic and Financial Assistance Programme (EFAP) was agreed in May 2011 between the Portuguese authorities, the European Union and the International Monetary Fund (IMF). On the basis of a strategy aimed at restoring international financial market confidence in the Portuguese economy and fostering competitiveness and sustainable economic growth, the Programme rested on three major pillars: fiscal consolidation, safeguarding of financial system stability and structural transformation of the Portuguese economy.

The total amount of financial assistance for the 2011-14 period was set at €78 billion, of which €52 billion corresponded to funding through the European mechanisms (European Financial Stabilisation Mechanism and European Financial Stability Facility) and €26 billion to assistance from the IMF, under an Extended Fund Facility. Of this total amount, €12 billion was allocated to the Bank Solvency Support Facility. Overall, eleven disbursements were made, which corresponded to approximately 97 per cent of the agreed package. The Programme expired on 30 June 2014.

Banco de Portugal took on several responsibilities in the implementation of the EFAP, chiefly within the framework of its mandate to ensure the stability of the Portuguese financial system. The Bank also contributed (directly or indirectly) to other initiatives within the scope of the Programme: it provided economic and financial advice to the government, was responsible for statistical reporting and participated in a number of initiatives organised by Portuguese authorities. Banco de Portugal was also responsible for processing loan and interest payments on financial assistance, as an intermediary between creditors and the Portuguese Treasury and Debt Management Agency.

The Bank's strategy to ensure the stability and strengthen the resilience of the Portuguese financial system was incorporated into and

further developed within the scope of the EFAP. This strategy was built on four main goals: (1) to strengthen banks' solvency; (2) to protect the system's liquidity; (3) to reinforce the monitoring and supervision of the banking system; and (4) to improve the regulatory framework.

Measures aimed at strengthening the **banking system's solvency levels** included recommending the sale of assets, imposing capital increases, limiting the distribution of dividends and setting more stringent capital requirements. Other requirements were added following the European comprehensive assessment exercise in preparation for the Single Supervisory Mechanism (Box 2).

Turning to **liquidity protection**, Banco de Portugal fostered an orderly deleveraging of the Portuguese banking system so as to facilitate the transition to more stable and sustainable funding models, and developed initiatives to promote the operation of the interbank money market in Portugal. The Eurosystem played a crucial role in helping to restore the monetary policy transmission mechanism, namely through the adoption of several standard and non-standard monetary policy measures, which included the suspension of the credit quality assessment requirement applicable to marketable assets issued or guaranteed by the Portuguese state.

Banco de Portugal adopted a **new approach to its supervisory and financial stability functions**, which entailed a reorganisation of such functions with the purpose of improving the efficiency and effectiveness of supervision, adapting its structure to its new powers as macro-prudential and resolution authority and preparing for the new European Banking Union framework. This made it necessary to substantially reinforce human resources allocated to supervision and financial stability, both in terms of number of persons hired and skills, as well as an investment in training on relevant financial stability domains.

The internal reorganisation of supervisory functions included the separation of banking prudential supervision, banking conduct supervision and legal enforcement into three departments and the establishment of a Financial Stability Department. To coordinate the various supervisory and financial stability domains the Specialised Committee for Financial Supervision and Stability (*Comissão Especializada para a Supervisão e Estabilidade Financeira*) was established, which also monitored financial stability measures under EPAF.

This new approach entailed stronger supervisory methodologies and instruments, which are now based on a broader and more forward-looking analysis and a more intrusive, risk-oriented model. In the course of its regular supervisory activities, Banco de Portugal carried out cross-sectional inspections, adopted new solvency and liquidity assessment mechanisms applicable to major banking groups, based on funding and capital plans, and carried out quarterly stress tests to gauge the banking system's ability to deal with adverse scenarios.

The strategy adopted under EFAP also aimed at reinforcing the banking sector's **legal and regulatory framework**, whereby Banco de Portugal participated in the preparation of relevant legislation and regulations. Contributions were made to the preparation or revision of legislation on the recapitalisation of credit institutions, the identification and earmarking of restructured credit due to customers' financial difficulties, the preventive, corrective and resolution regime of supervised institutions, the prevention and management of arrears in loans to households and the rules on the functioning of the Central Credit Register.

Banco de Portugal followed up on the implementation of regulations on the prevention and management of arrears in loans to households, namely by monitoring credit institutions' practices and procedures and by assessing their impact. The outcomes of such reviews were published on a regular basis in reports on banking conduct supervision.¹

The monitoring of EFAP's implementation also resulted in the development of new statistical data, on the basis of the Bank's microdata base, and the creation of methodologies that allowed for earlier data releases. This new information – most notably, monthly data on the non-financial sector's indebtedness and loans granted by the financial sector to exporting firms – is now also available to the general public.

On its institutional website, Banco de Portugal published information under EFAP,² in Portuguese and English, including a quarterly assessment of the banking system – on the basis of indicators on balance sheet structures, asset quality, liquidity and financing, profitability, solvency and leveraging of institutions – together with compiled measures adopted in Portugal and the EU with an impact on the banking system. Due to its importance, this information continues to be released on a regular basis, even after the end of EFAP. In a dedicated area of its institutional website on EFAP, the Bank now provides information on the post-programme monitoring stage.

BOX 2 | Single supervisory mechanism – implications for Banco de Portugal's activities

On 4 November 2014 the Single Supervisory Mechanism (SSM), one of the pillars of the Banking Union, went live.³ The SSM is responsible for the prudential supervision of all credit institutions in participating countries and aims at contributing to a stronger and more integrated banking system.⁴

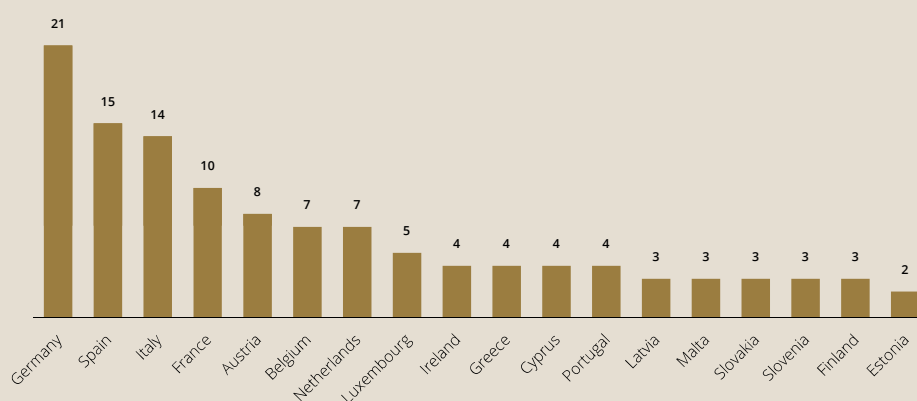
The SSM comprises the ECB and the national supervisory authorities of participating countries, with the ECB being entrusted with its effective and consistent functioning. Participating countries are all euro area countries and those Member States whose currency is not the euro but which have chosen to participate in the SSM under a regime of close cooperation with the ECB. As the Portuguese supervisory authority within the euro area, Banco de Portugal is a member of the SSM and participates in its teams and structures, including its Supervisory Board. In 2014 no non-euro area Member State participated in the SSM.

The supervisory model adopted by the SSM breaks down credit institutions into significant institutions and less significant institutions. This distinction is made on the basis of quantitative and qualitative criteria related to the institution's size, its importance for the national economy

and significance of cross-border activities. As of 4 November, significant institutions are under direct supervision of the ECB for all areas set out in the SSM Regulation (e.g. as regards the granting of authorisations to take up business, assessment of qualifying holdings, regular supervision of institutions, on-site inspections, validation of models and imposition of sanctions). National competent authorities (NCAs) will continue to be responsible for directly supervising less significant institutions, in cooperation with and reporting to the ECB, which sets out rules, issues guidelines or general instructions to NCAs, according to which they perform their tasks and adopt supervisory decisions. The ECB may also take upon itself to directly supervise such entities.

The ECB publishes a regularly updated list of all significant and less significant entities. At the date of entry into operation of the SSM, the total number of significant institutions was 120, half of which from Germany, Spain, Italy and France (Figure 1). In Portugal, the four banks subject to the ECB's direct supervision are Banco BPI, Banco Comercial Português, Caixa Geral de Depósitos and Novo Banco.

Chart 1 • Number of significant institutions by country of origin



Source: ECB.

Establishing the SSM was highly demanding on the ECB and the euro area supervisory authorities while setting out and implementing all the requirements of the new supervisory model. To prepare for the challenges of the Banking Union and, most notably, the SSM, over the past few years Banco de Portugal has carried out intense preparatory work to successfully adapt to expected changes, namely by implementing fundamental changes in its organic structure. This included the separation of the supervision and financial stability safeguarding functions, which is more consistent with the SSM model, the adjustment of procedures and methodologies to the new requirements and the development of internal tools and systems adapted to the new framework.

The Bank's human resources allocated to supervision and the safeguarding of financial stability were also significantly strengthened both in number and expertise. In 2014 the number of staff allocated to this activity increased further, as well as the share of younger staff and staff with higher education (91.5 per cent of the total), most notably Law graduates (Table 1).

Table 1 • Supervision and financial stability
| Permanent staff by age and education

		2013	2014
Total		352	378
Age group	<=25	19	27
	[26;30]	98	102
	[31;35]	80	94
	[36;40]	42	43
	[41;45]	40	32
	[46;50]	20	21
	[51;55]	25	19
	[56;60]	24	34
	[61;65]	3	5
Level of education	>=66	1	1
	PhD	8	8
	Master's degree*	87	111
	Graduation*	227	227
	Other	30	32
Course	Management	97	97
	Law	84	97
	Economy	69	74
	Finance	32	31
	Other	70	79

Source: Banco de Portugal.

* Including pre-Bologna and Bologna.

In turn, the exit of Banco de Portugal's staff to be part of SSM teams resulted in a marked increase in the number of seconded staff/staff on unpaid leave (Chapter 3).

In addition to contributing to the operational arm of the SSM, Banco de Portugal participated in the 2014 comprehensive assessment of major euro area banks. This exercise was the first major cross-cutting assessment of the European banking system and was instrumental so that, when undertaking its tasks in the SSM, the ECB could have an up-to-date picture of banks' situation. The comprehensive assessment consisted of an asset quality review (AQR) and stress tests on the participating banks. The AQR was a point-in-time detailed assessment of the accuracy of the carrying value of assets – as well as collateral and related impairments – on participating banks' balance sheets as at 31 December 2013, thus enhancing transparency on banks' exposures. The stress tests made it possible to examine the resilience of banks against a baseline and an adverse scenario.

In order to explain the fundamentals of this exercise and ensure a proper interpretation of Portuguese banks' outcomes, Banco de Portugal decided to supplement the communication efforts led by the Eurosystem. Individual outcomes for Portuguese banks that participated in this exercise were, on the one hand, contextualised in terms of nature, purpose and methodology of the exercise and, on the other hand, analysed taking into account the cross-sectional inspections carried out by the Bank since 2011. The outcomes made it possible to ascertain these banks' resilience and showed that they had adequate capitalisation levels.⁵

With the start of the SSM, Banco de Portugal's staff joined Joint Supervisory Teams (JSTs), which conduct the regular supervision of significant institutions in accordance with the ECB's guidelines. Furthermore, there is a greater alignment between the Bank's inspection-related tasks and the SSM's centralised on-site inspections. In practice, this model implies that supervision is carried out by joint teams featuring

ECB and NCA staff, which poses a considerable challenge in terms of inter-team linkages and the adoption of new methodologies, procedures and tools. With regard to less significant banks in Portugal, supervision will continue to be carried out by Banco de Portugal, in close consultation with the ECB.

In the macro-prudential field, Banco de Portugal was appointed as national macro-prudential supervisory authority in 2013. However, also at this level, there is a strong interaction between NCAs and the ECB. The Bank contributed to the development of a framework to assess risks to financial stability and to implement the SSM's macro-prudential policy. Furthermore, the ECB may apply more stringent macro-prudential requirements or stricter measures than national authorities, regarding harmonised regulations across the EU, with the reciprocal obligation of issuing ex-ante notifications on any planned measures.

Also as regards legal enforcement, the need for close synchronisation between Banco de

Portugal and the ECB increased with the SSM. Over the past few years, efforts have focused on the establishment of communication channels and coordinated procedures that allow for close and efficient cooperation between both institutions. The need for coordination is particularly clear in those cases where the Bank acts on the ECB's request, but will also be frequent in other situations, most notably if the ECB decides to directly exercise its supervisory powers in national territory.

Given that the SSM has only been recently established, it is to be expected that several obstacles and challenges will arise in the course of its development and consolidation process, namely as regards its ability to ensure cooperation and coordination against a diverse background. Banco de Portugal will continue to adapt its systems, models and procedures and to carry out its tasks, with the purpose of contributing to improve the efficiency and the effectiveness of the new European supervisory model.

BOX 3 | The resolution of Banco Espírito Santo, S. A. in the context of Banco de Portugal's activities in 2014

Banco de Portugal's activities in 2014 were inevitably marked by the application of a resolution measure, on 3 August, to Banco Espírito Santo, S. A. (BES), consisting of the transfer of most of its business and property to a bridge bank, the so-called Novo Banco, S. A., specifically set up for this purpose.

Resolution measures were enacted into national law in 2012 and are applicable when the deterioration in the financial and prudential situation of an institution has the potential to jeopardise the stability of the national financial system. Such measures were also enshrined in EU law, in 2014, with a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive – BRRD).⁶

In accordance with its Organic Law, Banco de Portugal is responsible for performing the functions of national resolution authority, including, among other powers, those of drawing up resolution plans, applying resolution measures and determining the removal of potential obstacles to the application of such measures. As of 2012 the Bank has further worked on the implementation of these functions and the then established Resolution Fund, which led to the reorganisation of the internal supervisory structure and the development of new procedures and methodologies to monitor and analyse banks.

This resolution measure was applied to BES due to the imminent risk that it would suspend payments and the serious consequences it would have for the Portuguese economy. In a very short period of time, following unexpectedly large and exceptional losses announced by BES on 30 July and given the absence of alternative solutions, an imperative and very urgent intervention by Banco de Portugal was prompted.

In early August, Banco de Portugal had to set up a new institution (Novo Banco, S. A.), establish its balance sheet perimeter, prepare its by-laws and appoint its corporate bodies and, in close cooperation with the government, the ECB, the European Commission and the Resolution Fund, guarantee that the new institution would be in place to proceed with BES' activity. This measure made it possible to prevent disruptions in confidence in and stability of the national financial system, thereby ensuring the protection of depositors and public funds and safeguarding the continuity of key financial services.

The lack of practical experience and any case-law coupled with the technical and legal complexity underlying the design and application of the resolution measure – amplified by the absolute and relative size and level of cross-border activities of BES – warranted a cross-cutting mobilisation of the Bank's resources and the implementation of an unprecedented logistical support plan.

In the second half of 2014, activities related to BES' resolution proceedings put the Bank's structures and teams to the test, which had to work without the benefit of prior experience from past cases, making use of previous efforts to implement the resolution function. Virtually all departments and structures in Banco de Portugal were called upon to intervene, within the range of their competence, by means of a direct and regular participation in the application of the measure, the performance of support functions or via indirect effects on their business areas.

The preparation and application of the resolution measure warranted, in particular, the aggregation of resources specialised in resolution matters and with specific and detailed knowledge of BES' situation. Developments in the liquidity position of BES – and, at a later stage, Novo Banco – were monitored in the context of monetary policy implementation

(to ensure the regular and uninterrupted conduct of its banking business), and administrative proceedings were initiated, within the scope of the Bank's legal enforcement function. All actions were undertaken with the support of the Bank's legal services department.

On the Bank's institutional website, a section was established on the resolution measure, featuring relevant documents and information, both in Portuguese and in English, aimed at BES' customers, other creditors, staff, suppliers and shareholders as well as the general public. In order to answer the public's requests of clarification, Banco de Portugal established a helpline and an e-mail address (the 'infobes' box). By the end of December, the Bank had received 2,184 phone calls from bank customers regarding the application of the resolution measure to BES, totalling 8,906 minutes conversation. In the 'infobes' box, which was

shut down on 1 November 2014, 3,768 e-mails were received and processed.

The work of the Parliamentary Committee of Inquiry into the management of BES and GES, which was established in the last quarter of the year, also warranted increased efforts to compile and analyse information and resulted in the Bank sending an extensive package of documentation to the Committee (21 letters and over 370 documents).

The resolution measure applied to BES, which will culminate in the sale of Novo Banco, will continue to pose considerable challenges to the various business areas of Banco de Portugal. The experience gathered in this process will also make it possible to draw lessons for the ongoing work on the implementation of the resolution function, both at the domestic and the EU level, most notably as regards the Banking Union's resolution pillar.

1. Financial stability within the European context

A key task of Banco de Portugal is to safeguard the stability of the Portuguese financial system, as expressly envisaged in its Organic Law. To fulfil this task, the Bank has broad powers in the areas of macro-prudential supervision, prudential and banking conduct regulation and supervision, legal enforcement, resolution of credit institutions, and oversight of payment systems. Moreover, the Bank cooperates with national and international entities with responsibilities in these areas.

This Chapter describes Banco de Portugal's action in 2014 in the field of financial stability, the first of the Bank's Broad Strategic Guidelines for 2014-2016. In a particularly demanding national and international framework, this action was especially marked by the conclusion of the Economic and Financial Assistance Programme (Box 1), the preparation of and subsequent participation in the Single Supervisory Mechanism (Box 2) and the decision regarding the resolution of Banco Espírito Santo (Box 3).

1.1. Macro-prudential supervision and regulatory framework

Banco de Portugal monitors the financial sector, with the purpose of identifying and assessing vulnerabilities and systemic risk sources that may pose a threat to financial stability, and develops and implements measures to mitigate identified risks.

With the entry into operation of the SSM on 4 November, the supervision of euro area credit institutions is now directly undertaken by the European Central Bank (ECB) for a range of entities deemed significant, and by national supervisory authorities, by delegation from the ECB, in the case of the other institutions (Box 2).

The preparation of and subsequent participation in this key segment of Banking Union were markedly reflected in the Bank's activities. In

the context of creation of the SSM, and in line with the exercises it conducted since 2011, the Bank has cooperated in the development of stress tests on the three Portuguese banking institutions involved in the comprehensive assessment to the 130 largest banks in the euro area.⁷ This exercise was based on a common macroeconomic scenario defined by the European Systemic Risk Board (ESRB) to assess the European banking system's capacity to face adverse shocks.

Banco de Portugal has conducted detailed analyses of the Funding and Capital Plans submitted by Portuguese banks. These plans are an important tool to evaluate the banks' situation in a medium-term horizon, as they make it possible to verify whether the respective financial projections, in individual and aggregate terms, are in line with a macroeconomic scenario.

The Bank has started to define the operational framework of macro-prudential policy by determining intermediate objectives and selecting appropriate tools to prevent risks and vulnerabilities that may pose a threat to the stability of the financial system, thereby complying with the ESRB recommendation on this subject (ESRB/2013/1). In the wake of the recommendation on funding of credit institutions (ESRB/2012/2), the Bank defined risk-management principles and minimum disclosure requirements regarding asset encumbrance. With the setting up of the SSM, the bank started to actively participate in the development of the respective framework for the analysis of risks to financial stability and the operationalisation of macro-prudential policy and to monitor the macro-prudential measures adopted in other EU countries.

The Bank has continued to work in the identification of leading indicators that may signal risks and vulnerabilities for financial stability,

linking indicators, intermediate objectives and macro-prudential instruments. Inter alia, the Bank has sought to identify indicators to assist in the decision-making process regarding the maintenance, reduction and freeing-up of capital resources. At the end of the year, taking into account the main sources of systemic risk for the national financial system, the Bank selected the macro-prudential instruments most appropriate for its prevention. These instruments are available within the scope of Community or national legislation. They may be applied to general or specific risk categories and cover either the whole financial system or only certain subsectors.

The assessment made by the Bank of financial stability risks is complemented by the publication of quarterly reviews on the banking system and the (six-monthly) Financial Stability Report. In the first case, reviews are based on a set of relevant indicators for banking activity (solvency, liquidity and funding, profitability and asset quality). The Financial Stability Report also covered macroeconomic and financial market developments and the financial situation of resident non-financial sectors and the non-bank financial sector, in order to detect possible systemic risks.

With a view to strengthening instruments to assess the financial situation of households and non-financial corporations – the main financial sector counterparts in intermediation activity – a deeper analysis was made of the use of microdata available in the Bank's statistical databases.

In the regulatory field, the Bank has participated in the work on the implementation of the regulatory and institutional framework in the context of Banking Union and the respective transposition into national law. Among these is the issue of regulations associated with the legislative package that implements the Basel III Agreement in the EU (CRDIV/ CRR) and the transposition of new European directives on capital requirements (CRDIV)

and on bank recovery and resolution (BRRD). The Bank has also been involved in the finalisation and transposition of the directive on deposit guarantee schemes (DGSD) and in the work on the SSM Regulation and the Single Resolution Fund and the Intergovernmental Agreement on the transfer and mutualisation of contributions to that Fund. The Bank has also participated in the preparation of legal acts on the contributions to national resolution funds and the single resolution fund and in the work of the European Banking Authority on resolution and deposit guarantee funds. The Legal Framework of Credit Institutions and Financial Companies (RGICSF) has undergone a significant revision, which adjusted the Decree-Law to the new European regulations and clarified the regulatory framework. Work has been launched to deepen the legal framework on the tasks and characteristics of the action by the macro-prudential authority.

The Bank has pursued intense activity in the different national and international fora related to financial stability, with stress on the National Council of Financial Supervisors, the ESRB, the ECB and the European Banking Authority.

1.2. Prudential supervision

The effective and timely adjustment to the SSM, the strengthening of the information systems supporting supervision, and the enhancing of the effectiveness and efficiency of supervision were key concerns in the micro-prudential field.

In 2014, the Bank pursued and consolidated the reorganisation of its internal structure and the revision of supervisory methodologies and processes, developed its interlinking with the SSM structures and adapted the information systems to the new European context.

Work developed within the context of the comprehensive assessment preceding the entry into operation of the SSM was also relevant (Box 2). The assessment was based on two main pillars: an asset quality review, which sought to evaluate capital adequacy regarding the quality

of assets of the entities under review, and a range of stress tests against a base scenario and an adverse scenario. The comprehensive assessment was the first large cross-sectional inspection to the European banking system, involving the analysis of a number of portfolios, debtors and exposures exceeding any previous exercise. As regards Portuguese banks, the exercise quality was ensured by the main participating entities, namely the European Central Bank, Banco de Portugal and the audit teams involved.

Action in the context of the Economic and Financial Assistance Programme (EFAP) and the monitoring of exceptional situations of some national entities also had a marked impact on the Bank's prudential activity, especially as regards the process culminating in the decision on the resolution of Banco Espírito Santo S. A. (Box 3). Mention should also be made to the conclusion of the cross-sectional analysis of the business plans of relevant customers of the banking system (ETRICC2) which took place from October 2013 to February 2014 and whose results were disclosed in March.

The Bank developed its regular monitoring of financial institutions, based on the supervision model implemented as of 2011, more intrusive, more focused on risk, and more cross-sectional and forward looking. Micro-prudential supervision was implemented alongside with the macro-prudential arm, notably in the analysis of the Funding and Capital Plans. The Bank has also ensured the authorisation and validation procedures related to the use of methodologies based on Internal Rating Based (IRB) models in the calculation of own funds requirements. As a result of its supervisory activities, the Bank has issued specific recommendations and defined plans for the implementation of corrective action, which it regularly monitors.

The Bank has evaluated the rules of access to activity, and in particular, good reputation and professional qualification requirements of members of the management and auditing

boards of institutions and the good reputation of shareholders. The number of credit institutions, financial companies and payment institutions registered in Portugal decreased from 386 at the end of 2013 to 375 at the end of 2014, continuing the decline observed in recent years (Table 1.1).

Table 1.1 • Institutions registered in Portugal

	Institutions registered		Registrations		Cancellations	
	Number of institutions		Number of institutions		Number of institutions	
	2013	2014	2013	2014	2013	2014
Credit institutions	193	189	3	2	7	6
- Banks, including ⁽¹⁾	58	58	2	2	3	2
Branches of banks in other EU Member States	22	20	2		1	2
Branches of banks in non-EU Member States	2	2				
- Savings banks ⁽²⁾	6	5			1	1
- Central and mutual agricultural credit banks	89	88			2	1
- Credit financial institutions ⁽³⁾	18	16			1	2
- Investment companies ⁽⁴⁾	3	3				
- Financial leasing companies	1	1				
- Factoring companies	3	3				
- Mutual guarantee companies	4	4				
- Branches of other foreign credit institutions	10	11	1			
Financial companies	100	93	0	0	4	7
- Dealers ⁽⁵⁾	3	3				1
- Brokers ⁽⁶⁾	7	6				
- Foreign exchange or money market mediating companies ⁽⁷⁾	1	1				
- Investment fund management companies ⁽⁸⁾	50	46				4
- Wealth management companies ⁽⁹⁾	14	14				
- Group purchase management companies ⁽¹⁰⁾	6	5				1
- Exchange offices ⁽¹¹⁾	14	13			3	1
- Credit securitisation fund management companies	3	3			1	
- Other companies ⁽¹²⁾	2	2				
Payment institutions	28	35	6	8	2	1
Including other EU Member State institutions						
- operating through branches	5	6		2	2	1
- operating through agents	11	15	3	4		
Electronic money institutions		1		1		
Including other EU Member State institutions						
- operating through branches						
- operating through agents		1		1		
Representative offices of credit institutions and financial companies having their head office abroad	21	20	2	1	4	2
Holding companies	44	37	1		3	7
Total	386	375	12	12	20	23
Credit institutions having their head office in an EEA ^(*) country, providing cross-border services	488	496	14	21	13	13
Payment institutions having their head office in an EEA ^(*) country, providing cross-border services	165	203	55	43	2	5
Electronic money institutions having their head office in an EEA ^(*) country, providing cross-border services ⁽¹³⁾	23	37	13	14		

(1) Of which, on 31 December 2014, one was undergoing winding-up proceedings.

(2) Of which, on 31 December 2014, one was undergoing winding-up proceedings.

(3) Of which, on 31 December 2014, one was undergoing winding-up proceedings.

(4) Of which, on 31 December 2014, one was undergoing winding-up proceedings.

(5) Of which, on 31 December 2014, one was undergoing winding-up proceedings.

(6)) Of which, on 31 December 2014, one was undergoing winding-up proceedings.

(7) Which, on 31 December 2014, was undergoing winding-up proceedings.

(8) Of which, on 31 December 2014, one was undergoing winding-up proceedings.

(9) Of which, on 31 December 2014, three were undergoing winding-up proceedings.

(10) Of which, on 31 December 2014, three were undergoing winding-up proceedings.

(11) Of which, on 31 December 2014, three were undergoing winding-up proceedings.

(12) Of which, on 31 December 2014, one was undergoing winding-up proceedings.

(*) European Economic Area.

1.3. Banking conduct supervision

In 2014, as regards demand deposit accounts, Banco de Portugal defined in a Circular Letter⁸ the best practice to be observed by credit institutions, with a view to simplifying and standardising this type of accounts. Amongst other recommendations, the Bank advised the provision of a 'base account', including in the maintenance fee a pre-defined set of payment instruments associated with its operation. Also in this field, the Bank has recommended the provision of minimum banking services accounts to a wide range of institutions, raising from six to eight the institutions that offer such accounts,⁹ ensuring a wide coverage of the national territory.

As regards housing credit, the Bank has evaluated the impact of arrears regimes. In this context, legislative amendments were introduced in the extraordinary regime making the respective access conditions more flexible. As regards consumer credit, the Bank has regulated information to be provided by institutions for the duration of credit contracts and standardised the terms and expressions used in bank statements, especially for credit cards, consumer credit and car credit.¹⁰ Institutions must also provide to their customers information on default situations, or when there are early repayments.

Inspections focused on (regular and extraordinary) default regimes and minimum banking services, and also covered the implementation of other legal and regulatory changes, including those relating to the arrears regime in credit operations and the consumer credit regime.

The Bank has also monitored advertising, price lists, maximum rates on consumer credit and pre-contractual information of indexed and dual deposits. The monitoring of the respective prospectus and advertising campaigns followed the strong growth in the number of deposits (up by 38 per cent from 2013).

Banco de Portugal has also monitored the performance of institutions through complaint

analysis. 14,157 complaints were received from bank customers on issues related to the Bank's tasks within banking conduct supervision, 21 per cent less than in 2013, in a context of consolidation of the regulatory framework and lower production volume of housing credit.

In order to correct the irregularities detected from complaint analysis or information reported and inspections, 849 recommendations and specific orders were issued, mostly covering compliance with legal and regulatory rules governing consumer credit and housing credit, including issues related to default management (Table 1.2). Administrative proceedings were also initiated (Section 1.4).

Table 1.2 • Warnings and specific orders

	Number
Advertising	67
Price lists	186
Deposits	63
Housing credit and other mortgage credit	199
Consumer credit and other credit	254
Payment services	68
Complaints book	12
Total	849
<i>Memo item</i>	
Regimes for prevention and settlement of arrears on credit agreements with household customers	249
Legal framework of minimum banking services	19
Arrears regime	56

Source: Banco de Portugal

Note: Warnings and specific orders fall within the scope of the legal framework applicable to each of the regimes identified.

The Bank has continued to promote the financial information and education of bank customers. With that purpose, new services have been introduced and the contents of the Bank Customer Website further developed. In

cooperation with the Directorate General for consumer protection, the Bank has organised training sessions addressed at employees of the entities integrating the Assistance Network for Indebted Consumers and other specific targeted audiences. In the context of the implementation of the National Plan for Financial Education, it has developed various initiatives, working closely with other financial supervisors and the Ministry of Education and Science, with stress on training workshops for teachers on the Core Competencies for Financial Education. The Plan has also incorporated a new line of action to support entrepreneurship, especially among the young. Acknowledging financial education work developed in schools, Child and Youth Finance International awarded Portugal the 2014 Country Award for Europe.

1.4. Legal enforcement

Banco de Portugal may take preventive, corrective and resolution measures with a view to preventing and containing irregularities by the supervised financial entities and other entities carrying out financial activities. It is responsible, *inter alia*, for verifying the facts which are liable to indicate the exercise of financial activities by entities that are not authorised for the purpose or that go beyond the scope of the authorisation granted, and identifying and proposing sanctions (administrative proceedings) or other measures (issue of specific orders and press releases, notification to the police and judicial authorities and other supervisory authorities).

In 2014, in this field, the Bank carried out a number of off-site investigations, 11 on-site inspections at the premises of the entities under investigation (in order to check the possible exercise of illicit activities and obtain evidence) and issued five warnings to the public. During the year, 67 inquiries to non-authorised activity were started and 58 were closed. At the end of December, 152 proceedings were under way. The Bank cooperated with the police and judicial authorities, participating in (off-site

and on-site) investigations and exchanging common interest information.

The Bank reviewed ten proceedings regarding the possible withdrawal of authorisation granted to credit institutions and financial companies and 12 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. These proceedings, in some cases, led to the cancellation of the respective registration with Banco de Portugal for the exercise of the functions in question, or to renouncing the exercise of such functions, on the initiative of those concerned. It was also decided to start a procedure to provide for the suspension of voting rights. The Bank also monitored 17 winding-up proceedings of credit institutions and financial corporations, under the responsibility of State commissioners, judicial liquidators or liquidation committees appointed for the purpose. Four of these proceedings were closed in 2014.

There was a significant decline in cases of non-compliance with the reporting requirements regarding the prevention of money laundering and terrorist financing and a resulting decrease in the number of administrative proceedings initiated and concluded in this field. This decrease was reflected in a decline in the total number of administrative proceedings initiated and concluded by the Bank. The number of judicial challenges of sanctions decided declined also from 2013 (by 9). Enforcement activity by the Bank covered again a wide range of infractions and types of defendant (Table 1.3).

Table 1.3 • Administrative proceedings

Overall indicators	2011	2012	2013	2014	Δ 2014-2013
Proceedings carried forward from the previous year	78	91	85	134	49
Proceedings initiated	49	76	183	128	-55
Proceedings settled	36	82	134	99	-35
Proceedings pending at the end of the year	91	85	134	163	29

Proceedings initiated in 2014 | 128

Infractions	<p>Illegitimate disobedience of Banco de Portugal decisions</p> <p>Unauthorised financial activity</p> <p>False accounting</p> <p>Non-compliance with information requirements</p> <p>Non-compliance with reporting requirements</p> <p>Non-compliance with registration rules</p> <p>Non-compliance with accounting rules and procedures</p> <p>Non-compliance with rules to prevent money laundering and terrorist financing</p> <p>Non-compliance with rules relating to the opening of deposits</p> <p>Non-compliance with rules relating to owning property</p> <p>Non-compliance with rules relating to the recirculation of euro banknotes</p> <p>Non-compliance with rules relating to the legal framework of the central credit register</p> <p>Non-compliance with rules relating to the legal framework of mutual agricultural credit</p> <p>Non-compliance with rules relating to the use of cheques</p> <p>Non-compliance with rules relating to the internal control system</p> <p>Non-compliance with principles and rules on the prevention and settlement of arrears on credit agreements</p> <p>Non-compliance with rules of conduct</p> <p>Non-observance of prudential relations and limits</p> <p>Failure to send original sheets of the Complaints Book to Banco de Portugal</p> <p>Failure to provide the required information and communication to Banco de Portugal</p> <p>Acts of wrongful management</p> <p>Unauthorised payment operations</p>
-------------	--

Proceedings settled in 2014 | 99

Infractions	<p>Unauthorised financial activity</p> <p>False accounting</p> <p>Non-compliance with information requirements</p> <p>Non-compliance with reporting requirements</p> <p>Non-compliance with registration rules</p> <p>Non-compliance with accounting rules and procedures</p> <p>Non-compliance with rules to prevent money laundering and terrorist financing</p> <p>Non-compliance with rules relating to the opening of deposits</p> <p>Non-compliance with rules relating to the recirculation of euro banknotes</p> <p>Non-compliance with rules relating to the use of payment instruments</p> <p>Non-compliance with rules relating to the use of cheques</p> <p>Non-compliance with principles and rules relating to the prevention and settlement of arrears on credit agreements</p> <p>Non-compliance with rules of conduct</p> <p>Non-observance of prudential relations and limits</p> <p>Non-advertisement of Complaints Book/Failure to send original sheets of the Complaints Book to Banco de Portugal</p> <p>Supply of false information to Banco de Portugal</p> <p>Unauthorised payment operations</p>
Defendants	<p>45 credit institutions</p> <p>5 payment institutions</p> <p>10 financial companies</p> <p>2 holding companies</p> <p>19 holders of positions and functions in institutions</p>
Appeals	<p>10 sanctions decided by Banco de Portugal in breach of regulations proceedings in 2014 were appealed</p>

Source: Banco de Portugal.

In order to prevent money laundering and terrorist financing, the Bank carried out a number of on-site inspections (to assess the strength of the control systems in force in the institutions under supervision and check compliance with the duties set out in legislation),¹¹ five general inspections and five prior evaluations of the adequacy of systems and procedures of the entities wishing to commence financial activities under its supervision. The activity of the relevant entities was also monitored through the analysis of mandatory reporting to Banco de Portugal (*RPB – Relatório de Prevenção do Branqueamento and QAA – Questionário de Autoavaliação*), sectoral analysis, and interaction with the supervised entities and the competent police and judicial authorities. Changes were also introduced in two important regulatory instruments on the prevention of money laundering and terrorist financing.¹² The Bank disseminated relevant information throughout the financial system, namely on the application of sanctions and other restrictive measures by international entities. The number of external requests addressed to Banco de Portugal in this field also increased, including information requests from the general public on several aspects of the prevention of money laundering and terrorist financing (approximately 120 requests in 2014).

1.5. Resolution function

In 2014 the operation and capacity building of Banco de Portugal as resolution authority continued. Work relating to the resolution plans was further deepened and a contingency plan was developed for intervention if needed. This planning made it possible to strengthen the operational capacity of the Bank and identify any necessary revision of the regulatory framework in force. On-site observation work that had been started at the end of 2013 at credit institutions was also continued, to improve knowledge and understanding of their individual action and operation in the fields and with the level of detail deemed most relevant for resolution.

The exercise of the resolution function was particularly marked by the implementation of a resolution measure to Banco Espírito Santo, S. A. in August (Box 3). The application of this measure occurred approximately one year after the adjustment of Banco de Portugal's structure to the new resolution powers, with the assignment of these functions to the Financial Stability Department, in which a special resolution area was created.

1.6. Deposit guarantee and resolution funds

In 2014 the Bank continued to provide the technical and administrative services required for the smooth operation of the Deposit Guarantee Fund, the Mutual Agricultural Credit Guarantee Fund and the Resolution Fund. The Bank provides, in particular, the means and human resources to ensure the activity of the Funds, including secretariat, accounting processing of the operations and preparation of the financial statements, as well as legal support, where necessary. Support by the Bank also continued to include financial resource management and participation in the collection of annual contributions.¹³

In the regulatory field, the Bank introduced changes in the contribution framework of each fund¹⁴ and set the relevant parameters for the purpose of calculating the contributions payable by member institutions.¹⁵

1.7. Payment Systems Oversight

Banco de Portugal regulates, oversees and promotes the operational safety and efficiency of payment systems and financial market infrastructures, contributing to the stability of the financial system.

In 2014, following the entry into force of the ECB Regulation on oversight requirements for systemically important payment systems,¹⁶ the Bank adopted the Principles for Financial Market Infrastructures with a view to strengthening

its oversight function. In this field, the bank reviewed the operational performance of the Interbank Clearing System (SICOI) in 2013, and concluded that, overall, the system operated steadily, and that any incidents occurred did not affect its reliability and safety. The Bank

cooperated in the authorisation process of OMIClear C.C. S. A. in the European Union – under the European Market Infrastructure Regulation (EMIR) – and in the preparation of the third report on fraud with payment cards.¹⁷

2. Functions as monetary authority

As monetary authority, Banco de Portugal's activity covers several tasks shared by the Eurosystem/ESCB, namely: (i) economic research and advice; (ii) monetary policy implementation; (iii) asset management; (iv) statistics; (v) payment systems; (vi) currency issuance; and (vii) international relations. The following sections present the main developments in each of these areas in 2014.

2.1. Economic research and advice

Impartial and high-quality economic analysis is key to the pursuit of Banco de Portugal's mission. In 2014 the Bank continued to invest in the development and publication of research in a wide range of subjects, which is essential to an influential intervention in the Eurosystem, the Portuguese society and the academic milieu. This investment resulted in publications with more analytical content, including texts with analyses and projections for the Portuguese economy and articles signed by economists of the Bank.

In 2014 the EFAP was completed (Box 1) and strong challenges remained for the Portuguese economy, specifically a need to deepen the structural adjustment process. In the euro area, the year was characterised by weak economic growth and persistent financial fragmentation, associated, *inter alia*, with the interaction between weaknesses in the financial economy and the real economy. Research by Banco de Portugal's economists has contributed to improve knowledge of these dynamics, supporting the economic advice provided by the Bank. This research continued to rely on a growing integration of micro and macroeconomic dimensions, a joint analysis of real and financial dimensions and structural studies on market and corporate functioning, as well as an analysis of the focus of fiscal policy and efficiency in the use of public resources. In a context of growing importance of microeconomic data, the Bank started working

on the setting up of the Microdata Research Laboratory (BPLim) at its Branch in Porto.

Research published in the *Economic Bulletin* builds on these key aspects, in particular: research on theoretical models to assess capital regulation; the role of financial frictions in economic shock transmission; the factors underlying the emergence of sovereign debt crises; the construction of early warning indicators of banking crises in Europe; the relative dynamics of house prices in Portugal and Spain; the macroeconomic impact of structural reforms in the euro area; household income mobility in Portugal and the European Union; the relationship between the micro allocation of resources and growth in Portugal; forecasting GDP in Portugal using factor models; the cyclicity of the Portuguese labour market; wage adjustments in Portugal in the recent past; the performance of Portuguese exports in global value chains; the determinants of school dropout in Portugal; or the functioning of the pharmaceutical market in Portugal. In addition, the *Annual Report – The Portuguese economy* included an in-depth analysis of the ongoing adjustment process in the Portuguese economy.

The Bank also published five new *Central Balance-Sheet Studies* on developments in non-financial corporations from 2009 to 2014, the construction, information and communication and tourism sectors and the recently created long time series of the sector tables.

The Bank continued to invest in high-quality research as an essential part of its strategy, with 29 articles published or accepted for publication in scientific journals that are highly reputed internationally.¹⁸ At the level of fundamental and applied research, biennial conferences were held in econometrics and Portuguese economic developments, as well as 31 seminars open to the public. The Bank continued to actively participate in Eurosystem research networks, in particular those relating to macroprudential issues and business competitiveness, and organised related

workshops with the participation of members of the international scientific community.

The Economics and Research Department was subject to an external evaluation in 2014. The evaluation commission concluded that the department's performance over the period under assessment (2000-13) was overall positive and submitted a series of recommendations, which are currently under implementation.¹⁹

2.2. Monetary policy implementation

In 2014 the Governing Council of the ECB adopted new standard and non-standard measures aimed at restoring the functioning of the monetary policy transmission mechanism and promoting economic recovery, taking into account the monetary policy objective of price stability.

As regards the standard measures, Eurosystem key interest rates were reduced twice (in June and September). The interest rate on the main refinancing operations was lowered by 20 basis points to 0.05 per cent, the interest rate on the marginal lending facility by 45 basis points to 0.30 per cent and the interest rate on the deposit facility by 20 basis points to -0.20 per cent. In June, the interest rate on the deposit facility therefore moved for the first time into negative territory and now also applies to excess reserves held by credit institutions with the Eurosystem.

Against weak bank lending to the euro area private sector, which has been dropping since mid-2011, the Governing Council of the ECB adopted non-standard measures targeted at promoting lending to the real economy. The Governing Council therefore decided to conduct a series of eight targeted longer-term refinancing operations (TLTROs), on a quarterly basis between September 2014 and June 2016, all maturing in September 2018. The amounts are borrowed by credit institutions depending on the lending behaviour of each institution to the private sector. In September, the Governing Council also decided to implement

two securities purchase programmes: an asset-backed securities purchase programme (ABSPP) and a covered bond purchase programme (CBPP3), both with a time horizon of at least two years. The Bank participated in the implementation of these non-standard measures, which, given their innovative nature, meant the adoption of new rules and procedures. Regarding the TLTROs, and the negative rate on the deposit facility, Banco de Portugal made changes to several internal IT systems and adjusted protocols related to deposit accounts held by a number of entities with the Bank. Banco de Portugal actively participated in preparing and implementing these programmes and in the preparatory work on the Public Sector Purchase Programme (PSPP), which was subsequently announced by the ECB in 2015.

Given the decentralised implementation of monetary policy, the Bank continued to conduct monetary policy operations with credit institutions established in Portugal, manage collateral for these operations, produce the daily forecast of the liquidity needs of the banking system and monitor compliance with reserve requirements.

Although Eurosystem open market operations decreased by 14 per cent (39 less than in 2013), mainly as a result of the suspension of the weekly liquidity-absorbing operations associated with the Securities Markets Programme (SMP) from June onwards, the number of operations with the participation of institutions established in Portugal increased by 18 per cent (Table 2.1). The frequency with which these institutions participated in the standing facilities declined further compared with the previous year (by 29 per cent), solely owing to a decrease in recourse to the marginal lending facility. Even though these institutions participated in the two TLTROs conducted in 2014, early repayment of the three-year refinancing operations continued and was not fully replaced by other refinancing operations, resulting in a considerable decrease in the average balance of monetary policy

operations. Given that the purchase of securities under the new programmes – CBPP3 and ABSPP – only began in the last quarter of the year, the average balance of monetary policy

portfolios decreased between 2013 and 2014, as the securities in the CBPP1, CBPP2 and SMP portfolios matured.

Table 2.1 • Monetary policy operations – main indicators

	2011	2012	2013	2014	Δ 2014-2013 (%)
Number of Eurosystem open market operations	198	194	288	249	-14
Number of open market operations in which resident institutions participated	96	79	102	120	18
Number of uses of standing facilities by resident institutions	855	1,424	260	185	-29
Average balance of monetary policy operations (resident institutions, EUR million)	44,730	53,771	49,698	39,455	-21
Average balance collateral pools (resident institutions, EUR millions)	61,201	77,605	80,303	68,596	-15
Average balance of monetary policy portfolio (EUR millions)	5,052	7,194	6,612	5,506	-17

Source: Banco de Portugal.

Note: The average balance of monetary policy operations corresponds to the average balance of liquidity-providing operations less the average balance of liquidity-absorbing operations.

As regards the list of Eurosystem eligible assets, Banco de Portugal is responsible for securities traded in the official quotation market of Euronext Lisbon and the Special Market for Public Debt. In 2014 the Bank included 84 new securities in the list of Eurosystem eligible assets and made 1,633 changes. Up to the end of 2014, Banco de Portugal had contributed to the eligibility of 170 securities (a total of 36,650).

As the international markets progressively reopened to resident banks, particularly through secured money market operations, and the system's liquidity needs gradually declined, as a result to a large extent of the deleveraging process observed since 2011, the number of transactions and average daily balance in the platform of the unsecured Interbank Money Market decreased markedly. As the secured Interbank Money Market did not record any transactions for the second year in a row, the Board of Directors of Banco de Portugal decided to deactivate this platform with effect from 1 September 2014. In addition, the Board of Directors decided that it would close the platform of the unsecured Interbank Money Market with effect from

1 July 2015, having communicated its decision to participating institutions.

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.

ECB foreign reserve management

The management of the ECB's foreign reserves is decentralised, under an agency agreement signed with the national central banks (NCBs) of the Eurosystem, in compliance with rules, procedures and guidelines defined by the ECB. Within the scope of a currency specialisation model, Banco de Portugal has been responsible for managing a portfolio denominated in US dollars (USD) since the start of 2012. As at 31 December 2014, this portfolio was valued at USD 1,740 million, equivalent to €1,433 million.

Management of the Bank's own investment assets

The Bank's own investment asset portfolio is composed of assets denominated in euro, foreign currency and gold. The assets in the trading portfolio denominated in foreign currency and a large share of the assets denominated in euro are actively managed and valued at market prices. The assets in the medium-term investment portfolio are held to maturity and valued at amortised

cost.²⁰ Although valued at market prices, assets in gold are passively managed.

As at 31 December 2014, the Bank's own investment asset portfolio was valued at €33,792 million, increasing by 30.9 per cent from the previous year. This was the result, to a large extent, of a decision to raise the amount of financial assets and a significant increase in the price of gold (Table 2.2).

Table 2.2 • Own investment asset portfolio

EUR millions

	2011	2012	2013	2014	Change 2014-2013
Trading portfolio	10,024	9,364	9,873	16,276	6,403
Medium-term investment portfolio	6,185	5,854	5,222	5,369	147
Gold portfolio	14,964	15,509	10,714	12,147	1,433
Total	31,173	30,727	25,809	33,792	7,983

Source: Banco de Portugal.

The valuation used in this table differs from that used for accounting purposes. The valuation methodology of the integrated system for the management of reserves and assets of Banco de Portugal takes into account the updated value as at 31 December 2014 of all agreed positions and all flows needed for the medium-term investment portfolio with the incorporation of income generated.

The trading portfolio at market prices and year-end exchange rates was valued at €16,276 million, of which 80.8 per cent related to securities denominated in euro. The medium-term investment portfolio reached €5,369 million, 2.8 per cent more than at the end of 2013, due to the incorporation of income generated. Similarly to previous years, the quantity of gold held by Banco de Portugal remained unchanged at 382.5 tons. It was valued at €12,147 million, 13.4 per cent more than at the end of 2013. This change was the result of a sharp increase in the price of gold in US dollars and an appreciation of this currency against the euro.

2.4. Statistics

Banco de Portugal compiles and produces monetary, financial, foreign exchange and balance of payment statistics, namely within the ESCB tasks. In October, the Bank concluded an in-depth change in the compilation methodology of these statistics, as a result of

the implementation of the new international standards on national accounts (European System of National and Regional Accounts – ESA 2010) and on the balance of payments and the international investment position (the sixth edition of the IMF's Balance of Payments and International Investment Position Manual – BPM6). In addition, the Bank published an Instruction on new reporting requirements for the compilation of balance-sheet and interest rate statistics on monetary financial institutions.²¹

The Bank has continued to exploit the information in microdata databases (the Central Balance-Sheet Database, the Central Credit Register and the Securities Statistics Integrated System) in an integrated manner. The increased use of this information supports the preparation of studies and analyses on the Portuguese economy and contributes to improving the quality, detail and consistency of statistics compiled by the Bank. The Bank was the chair of the European Committee of Central

Balance-Sheet Data Offices (ECCBSO) for the first of a three-year mandate and continued to be the chair of the Working Group on Bank for Accounts of Companies Harmonised (BACH), under the aegis of ECCBSO, and co-chair of the ESCB's Joint Task Force on Analytical Credit Databases (AnaCredit).

The Bank formally joined the Legal Entity Identifier (LEI) project, with the aim of supporting the development in Portugal of a single and universal identifier of entities participating in international financial transactions. In cooperation with Statistics Portugal, the Bank participated in the treatment of information collected via the Household Finance Survey conducted in 2013, under the Eurosystem's harmonised survey. This strong cooperation both with Portuguese and international institutions has resulted in several cooperation

and technical assistance initiatives (27) and presentations (78) in seminars and conferences.

2.5. Payment systems

Gross payment systems

In 2014 the real-time gross settlement system for euro payments operated by Banco de Portugal (TARGET2-PT) remained fully available, with processed payments increasing both in terms of volume and value compared with the previous year (by 10.1 and 6.1 per cent respectively). An increase of 21.1 per cent in amounts settled at the cross-border level contributed to this growth, in particular transactions between institutions, which reversed the downward trend observed since 2008 (Table 2.3).

Table 2.3 • Overall transactions through TARGET2-PT

Volume in thousands and value in EUR billions

	2013		2014		Change (%)	
	Volume	Value	Volume	Value	Volume	Value
Total transactions settled	1,663	3,485	1,831	3,700	10.1	6.1
Domestic transactions	677	2,071	766	1,987	13.2	-4.1
Inter-institutional transaction	362	1,503	392	1,499	8.4	-0.2
Securities settlement systems ^(a)	96	145	111	180	15.8	24.4
Other settlement systems ^(b)	219	423	262	307	19.9	-27.4
Cross-border transactions	986	1,415	1,066	1,713	8.0	21.1
Inter-institutional transaction	711	1,255	720	1,500	1.2	19.5
Securities settlement systems ^(c)	237	76	303	118	27.6	55.3
Other settlement systems ^(d)	38	83	43	95	13.3	14.0

Source: Banco de Portugal.

(a) Including the following systems: Interbolsa and OMIClear.

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

(c) Including the following systems: CC&G, Clearstream Banking Luxembourg, Eurex Clearing AG, Euronext Paris S.A., European Commodity Clearing AG, Interbolsa, LCH Clearnet, S.A. and OMIClear.

(d) Including the following systems: EURO1, Interbank Clearing System (SICOI) and STEP2.

In 2014 significant steps were taken in the TARGET2-Securities (T2S) project to build the future European platform for the settlement of securities in central bank money.

At the Eurosystem level, testing and preparations began for migration to the new platform, in particular through acceptance testing of the

platform by NCBs (between April and November), user testing (in October) and a migration rehearsal. In turn, Banco de Portugal continued its work connecting to the T2S platform (as the owner of TARGET2-PT) during the first migration wave, scheduled to take place on 22 June 2015. It successfully conducted both the connectivity

tests with the platform and the interoperability tests with internal applications, and, in December, obtained the certification allowing the Bank to go on to the next testing stages.

Retail payment systems

The Interbank Clearing System (SICOI) processes transactions carried out with retail payment

instruments in Portugal. This system grew both in terms of volume (4.3 per cent) and value (5.1 per cent) in 2014, mostly as a result of an increase in the use of electronic payment instruments, in detriment of paper-based ones. In particular, the number of direct debits grew markedly (by 16.3 per cent) and cheques declined considerably (by 12.8 per cent) (Table 2.4). The use of cheques has been decreasing for 14 consecutive years.

Table 2.4 • Total transactions in SICOI

Volume in millions and value in EUR billions

	2013		2014		Change (%)	
	Volume	Value	Volume	Value	Volume	Value
Total	2,017.7	322.5	2,104.2	338.9	4.3	5.1
Cheques	56.4	74.3	49.2	68.5	-12.8	-7.9
Bills of exchange ^(a)	0.1	1.0	0.1	0.9	-9.7	-6.8
Credit transfers ^(b)	114.3	140.0	118.1	153.8	3.3	9.8
Direct debits ^(c)	141.2	18.4	164.2	21.2	16.3	15.3
Multibanco	1,706	89	1,773	95	3.9	6.4

Source: Banco de Portugal.

(a) Including transactions to a value equal to or above €100,000.

(b) Including transfers processed through SEPA, the legacy scheme (up to July 2014) and non-SEPA scheme (from August 2014) in the credit transfer subsystem.

(c) Direct Debit Instructions (DDI) processed through the legacy scheme of the direct debit subsystem (up to July 2014) and SEPA CORE and SEPA B2B (from November 2010). Including debit instructions submitted and not cancelled by the creditor's bank before financial settlement. Including transactions to a value equal to or above €100,000.

As regards retail payments, the process of harmonisation with European rules on credit transfers and direct debit in the Single Euro Payments Area (SEPA) was concluded on 1 August 2014. Banco de Portugal promoted a series of initiatives to ensure a smooth completion of the migration process. This was the result of a joint effort on the part of all stakeholders involved (payment service providers, businesses and public administrations).

Restrictions on the use of cheques

Banco de Portugal manages and publishes a List of Cheque Defaulters throughout the whole banking system. In 2014 16,019 entities were added to the list, while 32,270 were removed, upon expiry of the legal period or following a decision of Banco de Portugal. As at 31 December 2014, the list included 30,391 entities (35 per cent less than the previous year).

2.6. Currency issuance

Banco de Portugal issues euro banknotes, which are legal tender and have discharging power, and puts metal coins into circulation, including commemorative and collector coins. The European Central Bank continues to have the exclusive right to authorise their issue. In 2014 the €10 banknote of the Europa series was put in circulation in September and measures were adopted to optimise the cash life cycle.

The Bank revised the instructions regulating deposit and cash withdrawal operations in its cash offices, making it possible, inter alia, to receive banknotes that have not been previously sorted by series and to significantly reduce the volume of metal coins processed. In addition, the Bank prepared a preliminary analysis of the viability of implementing a NHTO (Notes-held-to-order)²² scheme in Portugal as is already the case in a number of Eurosystem countries.

Production of euro banknotes

Production of euro banknotes is decentralised within the ESCB. Each NCB is responsible for the annual production of one or more denominations, to meet its own needs and to distribute among other NCBs.

In 2014, as in previous years, the production tender for Portugal was awarded to Valora S. A., a printing works fully owned by Banco de Portugal. Valora produced 211.6 million €20 banknotes: 195 million for the first series and 16.6 million for the Europa series. In compliance with the delivery schedule among NCBs, Banco de Portugal sent 293.4 million banknotes of the €10, €20, €50, €100 and €200 denominations to several Eurosystem central banks.

In 2014 steps were taken to improve banknote production procedures with the approval of an Eurosystem banknote production and procurement system by the Governing Council of the ECB providing for the coexistence of NCB and private printing works. This new system entered into force at the start of 2015.

In 2014 the Bank actively participated in the project to develop the second series of euro banknotes (Europa series). The plan to gradually introduce the new banknotes in ascending order continued, as the new €10 banknote was put into circulation in September 2014. During the same period, the Eurosystem started the production process of the €20 banknote, which is scheduled to begin circulating on 25 November 2015. The Bank was responsible for part of the

production of the new €20 banknotes through Valora S. A. and began participating in the pilot production of the new €50 banknote.

Banknote sorting

All banknotes deposited with Banco de Portugal are counted and checked one by one for authenticity and fitness. The Bank thus ensures that all recycled cash is genuine and meets minimum quality requirements. In 2014 the Bank processed 760 million banknotes, of which 228 million were deemed unfit for recycling and were destroyed.

Detection of counterfeit banknotes and coins

In 2014, 9,250 counterfeit banknotes were withdrawn from circulation in Portugal, *i.e.* 1,978 banknotes less than in the previous year (Table 2.5). Total banknotes withdrawn in Portugal corresponded to 1.1 per cent of total banknotes seized in the euro area. €20 and €50 were the denominations seized the most, with the latter increasing the most from the previous year.

During the same period, 4,353 counterfeit euro coins were withdrawn from circulation, *i.e.* 1,183 less coins than in the previous year. Total coins seized in Portugal account for 2.5 per cent of coins detected in the euro area. The €2 coins were seized the most, as was the case in the Eurosystem as a whole.

Table 2.5 • Counterfeit banknotes seized in Portugal | 2011-2014

Denomination (€)	Volume of banknotes				
	2011	2012	2013	2014	Change 2014-2013
500	21	38	651	26	-625
200	82	98	171	83	-88
100	805	534	650	477	-173
50	8,666	5,855	5,897	2,888	-3,009
20	5,597	4,229	3,331	4,755	1,424
10	540	571	459	946	487
5	130	115	69	75	6
Total	15,841	11,440	11,228	9,250	-1,978

Source: Banco de Portugal.

2.7. International relations and cooperation

The regular exercise of the tasks entrusted to Banco de Portugal involves an intense and crosscutting international activity in its various areas of operation. This activity focuses to a large extent on the Bank's participation in the Eurosystem/ESCB and other European Union institutions and has increased considerably in the past decade, in response to the transformations taking place in the European governance and institutional architecture (Figure 2.1 and Chart 2.1). The Bank also participates in other international economic and financial organisations, such as the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD). The Bank participates in more than 350 groups in the context of its international representation, which involves more than 250 members of staff and has seen an increase in the past decade.

The conclusion of the EFAP at the end of the first half of 2014 should be highlighted (Box 1). Portugal has since then entered a post-programme monitoring phase, as established in the rules of the EU and the IMF (the first half-year mission took place between 28 October and 4 November). The Bank continues to participate in this new phase, under the remit of its tasks and responsibilities.

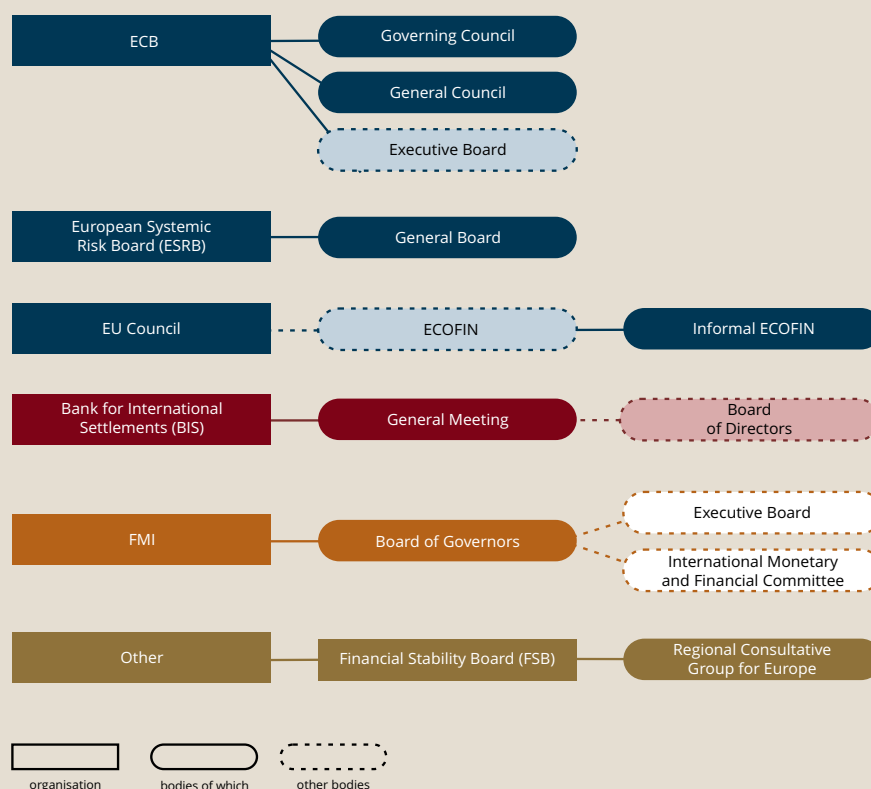
Eurosystem/ESCB

The Governor of Banco de Portugal is a member of the Governing Council and the General Council of the ECB. The preparation, technical monitoring and implementation of the decisions taken by these bodies involve a number of structures, in particular the Eurosystem/ESCB Committees, where the Bank is represented.

The Bank accompanied and actively participated in the Eurosystem and ESCB's decision-making process. In 2014, in addition to monetary policy decisions, the ECB's agenda focused on the preparation, establishment and launch

Figure 2.1 •
International
representation of
the Governor
– main institutions

Source: Banco de Portugal.



of the Single Supervisory Mechanism (Box 2). The Governing Council of the ECB also took operational decisions for the entry into force of rotating voting rights on 1 January 2015, following the adoption of the euro in Lithuania.

bilateral and multilateral supervision and issues related to the implementation of the 2010 reform of members' quotas and governance.

International Monetary Fund (IMF)

Banco de Portugal and the Governor are entrusted with responsibilities under the framework of the relationship with the IMF, including financial responsibilities and others related to the Fund's agenda and decision-making process. In 2014 the IMF's agenda focused on a continued financial support to its members, the revision and strengthening of

Cooperation

The Bank strengthened its traditional cooperation with its counterparts from emerging and developing countries, in particular Portuguese-speaking countries. Developed in accordance with national priorities on external policy, these relationships are an essential part of the Bank's international activities and significantly contribute to the institution's importance at the national, European and global levels.

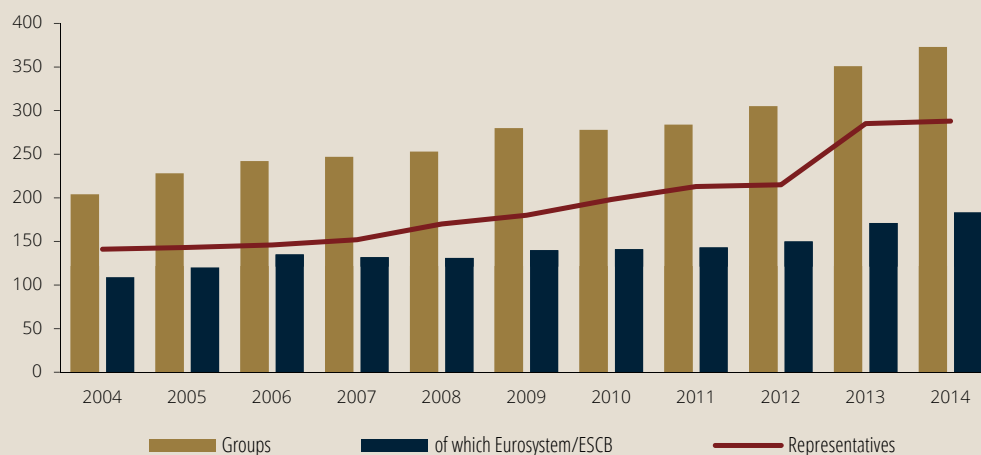


Chart 2.1 •
Developments
in the international
institutional
representation
of Banco
de Portugal
| 2004-2014

Source: Banco de Portugal.

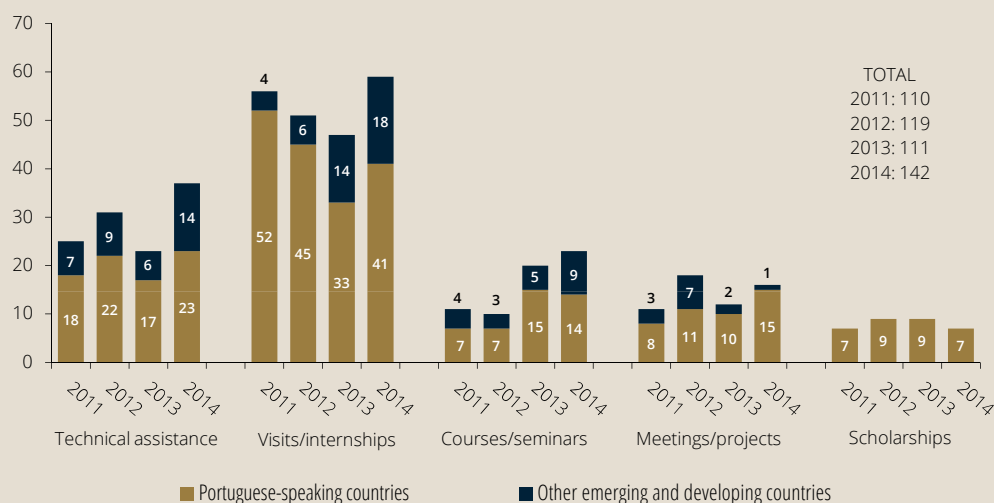


Chart 2.2 •
Cooperation
plan: number
of initiatives
| 2011-2014

Source: Banco de Portugal.

The first component of the cooperation activities established by the Bank covers technical assistance, multilateral projects, internships, work visits, seminars, conferences and scholarships. In 2014 the number of initiatives carried out by the Bank grew by 28 per cent from 2013 (Chart 2.2), resulting in an increase of human resources allocated. These developments were broadly-based across types and geographical locations, focusing, in particular, on technical assistance and common projects developed by Portuguese-speaking countries (in payment systems, banking supervision and macroeconomic statistics). Among the initiatives carried out by the Bank, the following were particularly relevant: the 24th Lisbon Meeting among Portuguese-speaking central banks – presenting the most recent developments and discussing the social and economic challenges for Portuguese-speaking countries – and an agreement with Banco Central do Brasil on a bilateral cooperation

framework, similar to those already established with other Portuguese-speaking countries.

The second component of the cooperation activities corresponds to macroeconomic monitoring and advice. The Bank continued to actively cooperate with the bodies 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 promote macroeconomic stability and enhance the economic and financial relations between these countries and Portugal. In its publications on cooperation – dealing with the economies of emerging and developing countries (Table 4.2), the Bank introduced new issues on financial systems and exchange rate regimes. The Bank also promoted improvements in the design and contents of the Portuguese-speaking central banks website (www.bcplp.org).

3. Organisation and resource management

3.1. Governance and risk management model

Governance model

Over the past four years, Banco de Portugal has introduced changes in its governance model, taking as reference the best practice followed by other similar institutions. In 2014 a new distribution model of Board members' remits was implemented, which is now geared towards the main functions of the Bank, with the purpose of, on the one hand, breaking down responsibilities into price and financial stability functions and those related to the supervision of institutions and, on the other hand, increasing synergies both in terms of mission functions and support functions (Figure 3.1).

As regards internal organisation, changes were made to the Economics and Research Department, in response to recommendations

by an independent committee that assessed this department's strategic repositioning. This led to the establishment of a new research area on financial intermediation (which, inter alia, looks into the banking sector as the primary source of financing for the various sectors of the economy) and the definition of a new functional framework for economic research activities.

The Bank's prudential supervision function was further reorganised, as part of the preparation for the SSM, which went live on 4 November 2014 (Box 2).

Risk management

The risk management function integrates financial and operational risks and is operated by the Risk Management Department, in articulation with the Committee for Risk and Internal Control and the other departments at the Bank.

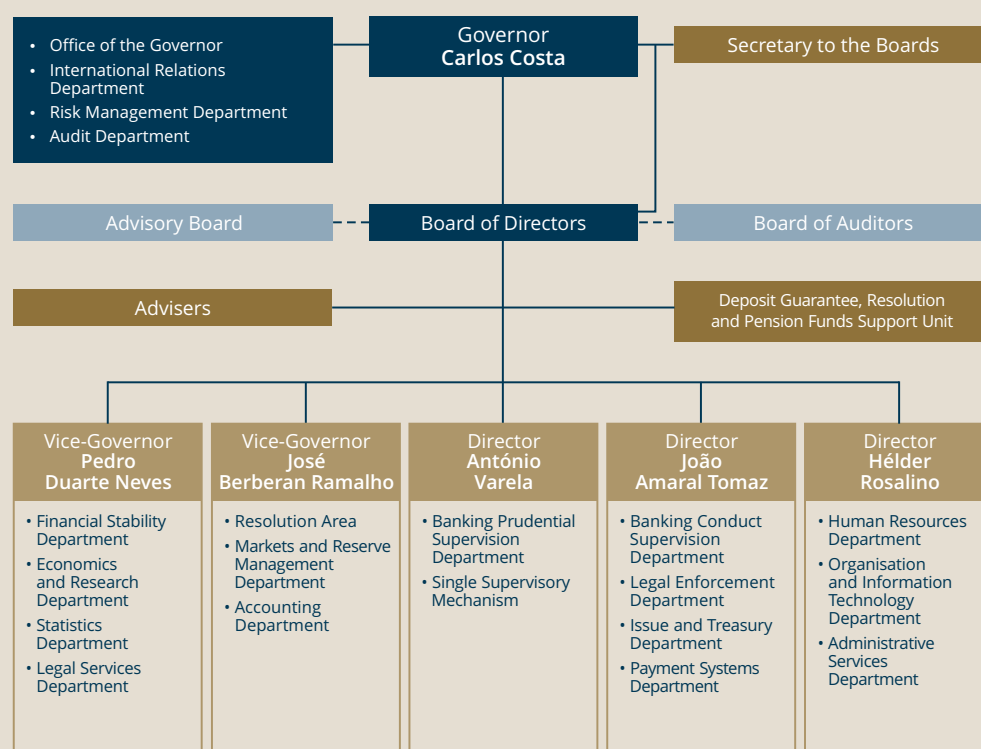


Figure 3.1 • Distribution of remits in Banco de Portugal as at 31 December 2014

Financial risk management, namely as regards market and credit risks, which are associated with asset management operations and the implementation of the Eurosystem's monetary policy, is carried out by applying eligibility criteria and maximum exposure limits approved by the Board of Directors (for asset management) and set out within the Eurosystem (for monetary policy operations).

In 2014 financial risk developments were monitored through the calculation of various indicators (e.g. value at risk and expected shortfall) and the regular analysis of risk coverage by the so-called financial buffers (provisions, reserves and profits) that are part of the Bank's balance sheet. This analysis was also supplemented by a forward-looking view of medium-term projections, including the simulation of various stress scenarios. Following the measures adopted in 2013, the Eurosystem strengthened the risk control framework of monetary policy operations, by using more comprehensive data on loans in securitisation operations, which makes it possible to draft specific analyses and monitor for compliance, according to the implied risk. Requirements were also set for additional credit claim portfolios, which, together with standard operations, are an integral part of monetary policy. Banco de

Portugal participated in the revision of the methodology used to monitor and assess the performance of credit risk assessment sources accepted by the Eurosystem.

With regard to operational risk, the procedure to record incidents was improved and extended to all staff members. Following an analysis of these incidents, and in close cooperation with the departments involved, risk factor mitigation measures were identified and implemented. A review of the business continuity strategy was started, with the purpose of widening the range of contingency scenarios and adapting current procedures to the organisational and technological changes observed or foreseeable for the next few years.

Internal audit

In 2014, 39 audits were carried out, 30 of which were exclusively internal and nine related to systems and procedures that are common or shared with the ESCB/Eurosystem (Table 3.1). A follow-up was launched on recommendations issued in the course of an external assessment to the audit function quality, conducted in 2013 by KPMG, and action plans were developed for its implementation, which resulted in changes to internal procedures and controls.

Table 3.1 • Audits

	Internal	ESCB	Total
Autonomous funds (supporting the Board of Auditors)	4	-	4
Monetary policy and reserve management	3	3	6
Payment systems and means	8	2	10
Economic research, statistics and public service databases	-	1	1
Banking supervision	3	-	3
Support functions and activities	11	3	14
Third parties	1	-	1
Total	30	9	39

Source: Banco de Portugal.

3.2. Information and communication systems

In 2014 the IT governance model was revised, with the expansion of the responsibilities of the Specialised Committee on Information and Technologies Management (CEGIT), and cooperation with the ESCB was reinforced, namely in the scope of SSM-related projects.

The Bank continued to work on IT solutions of structural importance for its mission, most notably two projects associated with supervision: the integrated management of supervisory procedures (*Gestão Integrada de Processos de Supervisão – GPS*) and the treatment of new data reported for financial supervisory purposes. In the context of monetary policy implementation, the Bank continued to develop an information system to manage monetary policy operations (*Gestão de Operações de Política Monetária – GOPM*), which fulfilled a number of new requirements established by the Eurosystem. With regard to payment systems, Banco de Portugal's project to connect to the T2S platform was further developed. Turning to statistics, several relevant projects were concluded: the new solution for statistical data reporting, balance sheet statistics of Banco de Portugal, the new national financial account system and the integrated system for the Central Balance-Sheet Database.

In terms of back-office applications, a new Business Intelligence (BI) architecture was designed, which will be phased in up to late 2015 – including self-service BI solutions with the purpose of facilitating the access, analysis and exploitation of information – and further investments were made in the deployment of solutions that provide access to internal information in mobility scenarios.

3.3. Human resource management

Staff developments

As at 31 December 2014, the number of employees of Banco de Portugal amounted to 1,776, *i.e.* a 2.5 per cent increase (43 employees) from the previous year (Chart 3.1). In 2014, 59 members of staff left the Bank, and 102 were recruited. The increase in the number of employees over the past years has mainly been a result of the new tasks in the regulation and financial supervision areas.

The composition of staff by gender is balanced, as 49 per cent of the Bank's permanent staff were female and 51 per cent were male. Broken down by age group, it becomes clear that the Bank has been rejuvenated (Table 3.2), although a muted impact in terms of average age persists (44.5 years in 2014).

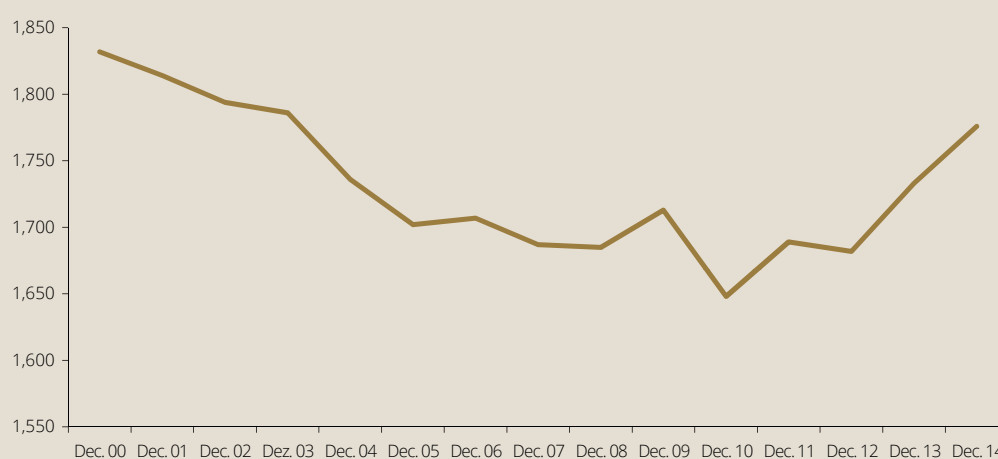


Chart 3.1 • Staff developments

Source: Banco de Portugal.

Table 3.2 • Staff developments: broken down by gender, movements and age group

		2011	2012	2013	2014	Δ 2014-2013
Developments	Staff	1,689	1,682	1,733	1,776	2.5%
Gender	Male	879	878	894	910	1.8%
	Female	810	804	839	866	3.2%
Movements	Recruitments	94	50	126	102	-19.0%
	Retirements	47	51	69	46	-33.3%
Age group	<=25	77	55	64	64	0.0%
	[26;30]	208	217	246	264	7.3%
	[31;35]	165	183	223	252	13.0%
	[36;40]	139	145	154	166	7.8%
	[41;45]	128	136	139	142	2.2%
	[46;50]	157	128	122	131	7.4%
	[51;55]	462	429	362	263	-27.3%
	[56;60]	260	294	337	396	17.5%
	[61;65]	90	87	81	95	17.3%
	>=66	3	8	5	3	-40.0%

Source: Banco de Portugal.

The number of seconded staff/staff on unpaid leave nearly doubled from 2013, chiefly following

the transfer of Banco de Portugal's staff to SSM teams (Table 3.3).

Table 3.3 • Staff: broken down by function in 2014

	Male	Female	Total	%
Senior management	32	15	47	3
Middle management	132	99	231	13
Senior professional/professional staff	386	459	845	48
Technical-administrative staff and support services	312	247	559	31
Seconded/unpaid leave	48	46	94	5
Total	910	866	1,776	100

Source: Banco de Portugal.

Compensation policy

Over the past four years, Banco de Portugal has developed a compensation policy characterised by staff cost containment measures (Financial Statements). Pay scales were not updated, while a number of staff cost reduction measures were applied to nearly all staff. Furthermore, as of 2009 no new staff members have been integrated in the Pension Fund; instead, new staff members are fully integrated in the general social security scheme. This change in

the social insurance scheme has substantially contributed to a broad reduction in staff costs.

In 2014 cost containment efforts proceeded and mechanisms differentiating staff to promote merit and the quality of the Bank's employees' work were strengthened.

Recruitment and training

Banco de Portugal has taken a number of initiatives to improve senior managerial skills. In 2014 this included the internal and external

recruitment of senior management, with recourse to specific methodologies to assess managerial, behavioural and technical skills, together with an evaluation by a jury comprising heads of department and other members appointed by the Board. The Bank also headhunted candidates for senior management positions, with the support of specialised firms.

Management and leadership training was also reinforced, including classroom training, personalised coaching methodologies and departmental teambuilding, with the purpose of boosting team spirit and organisational communication.

A total of 937 training courses were held on several domains (Table 3.4).

Table 3.4 • Training

	2009	2010	2011	2012	2013	2014	Δ 2014-2013
Participants	1,528	1,598	1,447	1,349	1,685	1,708	1.4%
Hours	48,415	66,223	51,750	45,269	57,799	61,706	6.8%
Participation rate	89.2%	97.0%	85.7%	80.2%	97.2%	96.2%	-1.1%

* The participation rate corresponds to the share of staff that participated in at least one training course.

3.4. Budget and building management

Pension funds

Also noteworthy, within Banco de Portugal's social welfare system, are 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).

Investment policies of both funds comply with prudential rules and criteria approved by the Board of Directors of Banco de Portugal, which limit management risks.

In 2014 the Defined Benefit Pension Fund, a closed-end pension fund that acts as a funding vehicle for the Pension Plan covering staff who started working in the banking sector before March 2009, turned also into the funding vehicle for the Bank's Health Benefits Plan, which covers all staff. Some pensioners liabilities until then directly paid by the Bank were also integrated in this plan. The management of this fund continued to pursue two main goals: to maintain a high level of solvency in the fund and to safeguard the benefits of the employees covered by the pension and health plans. As at 31 December 2014 this fund's assets amounted

to €1,637.8 million invested in euro area bonds and liquidity (85 per cent), equity (7.3 per cent) and real estate (5.8 per cent), and the remaining 2 per cent concerned net claims on third parties. On the same date, the overall funding level of the Defined Benefit Pension Fund was 103.9 per cent, *i.e.* above the minimum level established in Notice of Banco de Portugal No. 12/2001 (98.02 per cent).

The management of the Defined Contribution Pension Fund, a supplementary pension plan that is voluntary for staff who started to work in the banking sector after March 2009, mainly seeks to promote this fund as the second pillar of protection for staff that are fully covered by the general social security scheme. In 2014 participants continued to be given the choice between a portfolio comprising only interest rate instruments and a portfolio comprising interest rate instruments and equity. As at 31 December these portfolios amounted to €2.7 million and €2.6 million respectively. Equity accounted for 20 per cent of the total value of the interest rate instruments and equity portfolio. At the end of 2014 the Defined Contribution Pension Fund had 486 participants, as the majority of new staff members have opted for this fund.

Budget management

Banco de Portugal continued to work on the projection of financial statements for the 2014-16 period and the assessment of balance sheet financial risks, together with the other Eurosystem central banks. The Bank also helped to develop the methodology for calculating expenditure related to the SSM and the pricing model applicable to supervised entities.

The Bank continued its efforts to reduce administrative costs, both by implementing further cost-saving and efficiency-enhancing measures introduced in previous years and by adopting new measures. This was reflected in an actual reduction in staff costs as well as in the item 'Supplies and services from third parties', which, excluding the effect of specific and extraordinary situations (implementation of the SSM, the resolution measure applied to BES, and the EFAP), amounted to €36 million, similarly to what has been seen since 2011 (Financial Statements). Excluding expenditure related to Eurosystem projects, which does not depend exclusively on the Bank's management, this item declined by 2 per cent from 2013. This was also due to the new printing/copying policy (-29 per cent) and the renegotiation of general consumption contracts (-18 per cent).

Furthermore, adjustments were made to the accounting system to accommodate: (i) the new monetary policy operations set up by the ECB (Chapter 2); (ii) the new reporting requirements for autonomous funds (integration in the State budget); and (iii) new tax reporting requirements.

Building management

In 2014 the refurbishment of the Rua Castilho building continued and the structural diagnosis of the Portugal Building was concluded, which is a crucial stage for the streamlining of areas and buildings.

The Bank proceeded with its policy to reduce consumption and expenditure associated with the management and maintenance of equipment and facilities, namely through a greater rationalisation

of equipments and systems and the revision/ aggregation of maintenance contracts. As a result of consumption-reducing measures in the Bank's buildings, the consumption of electricity and water dropped in 2014, by 2 per cent and 6 per cent respectively.

4. Openness to society

Banco de Portugal aims to establish itself as a transparent and open bank, accountable and responsible for the results achieved. The Bank is committed to consolidating society's confidence, which is essential for the successful performance of the mission and functions entrusted to it.

In order to achieve this strategic guideline of greater openness to society, the Bank has strengthened its performance in the fields of communication, provision of services and social responsibility. This Chapter presents the main developments in each of these areas in 2014.

4.1. Communication

The conclusion of the Economic and Financial Assistance Programme to Portugal, the application of a resolution measure to Banco Espírito Santo, S. A. and the transition to the SSM have mobilised a substantial share of Banco de Portugal's communication effort in 2014, given its relevance for preserving public confidence in the national financial system and for financial stability (Boxes 1 to 3).

Also noteworthy were public clarifications provided by the Bank with regard to several issues that have marked the agenda in 2014, such as the limitation period for imposing administrative offence proceedings relating to infringements in the financial sector. In this regard, the Bank was heard before the Committee on Budget, Finance and Public Administration of the Parliament, where it identified a range of changes that could increase the efficiency and credibility of the sanction procedure, without prejudice to the essential rights of the defence of anyone who has been charged. In addition to the Governor's regular annual hearing on the Annual Report and Financial Statements, the Bank was also heard before this Committee regarding the evaluation of the extraordinary regime for protection of housing loan borrowers

in a very difficult economic situation, the draft law on the special regime applicable to deferred tax assets and the setting up of *Banco Postal* (post office bank).

The Bank has also adopted a new corporate identity and a new graphic line that are more up-to-date and easier to recognise. The new identity and new graphic line were developed by the Bank's services and are the result of a reinterpretation of the original Banco de Portugal seal, adopted in 1846.

Information for the bank customer

In 2014, Banco de Portugal improved the information provided to bank customers through the Bank Customer Website, following a number of legal and regulatory amendments. The Bank added depth to its content on the opening of bank accounts, the prevention and management of household over-indebtedness, information to be provided to customers within the scope of consumer credit agreements, the housing credit regime for disabled persons, the payment model of the Single Euro Payments Area (SEPA), and electronic money.

The Bank has started to publish on its website quantitative information relevant for monitoring retail bank markets: maintenance fees related to minimum banking services accounts charged by member credit institutions, the development of minimum banking services accounts and information on the number and amount of consumer credit agreements concluded every month.

Warnings have also been published on the utilisation of virtual currencies and on non-authorised financial activity.

In 2014, there were, on average, 9,259 visits per day to the Bank Customer Website, *i.e.* 11 per cent more than in 2013 (Table 4.1). The most viewed area was again banking products, with 2,583 visits per day, *i.e.* a 20 per cent increase from the previous year.

Table 4.1 • Visits to the Bank Customer Website

		2011	2012	2013	2014	Daily average Δ 2014-2013 (%)
Total number of visits		4,427	6,336	8,377	9,259	10.5
Visits to the webpage by area	Banking products	934	1,525	2,151	2,583	20.1
	Customer rights	419	475	969	931	-3.9
	Interest rates	491	787	882	888	0.7
	Complaints	488	566	788	743	-5.7
	Publications	536	633	759	866	14.1
	Credit liabilities	253	448	574	723	25.9
	Banknotes and coins	282	323	454	544	19.7
	Prohibition of the use of cheques	115	170	186	187	0.3
	Institutions	106	134	176	237	34.4
Accounts of deceased holders		79	100	139	133	-4.7

Source: Banco de Portugal.

Reflecting the Broad Strategic Guideline of greater openness to society, the Bank launched two public consultations on the framework of retail banking markets: in May, on information requirements regarding consumer credit agreements in force, and in December, on the evaluation of the general framework governing the prevention and out-of-court redress of arrears on credit agreements with private bank customers.²³

However, for legal reasons, Banco de Portugal was forced to suspend the dissemination of information on the EURIBOR and EONIA rates, after the *European Banking Federation* had decided that free access to such information, in real time, would no longer be allowed as of 3 March 2014.

Promoting public knowledge on the Portuguese economy and the Bank's activity

Banco de Portugal regularly publishes a range of publications covering its different operating areas and contributing to improve public knowledge on the Portuguese economy (Table 4.2). In 2014, in addition to the usual regular analysis and projections for the Portuguese economy in the *Economic Bulletin*, the bank published an essay on the ongoing adjustment process in its *Annual Report – The Portuguese Economy* (Chapter 2). In addition, five new Central Balance-Sheet Studies were

published on the following subjects: non-financial corporations in Portugal 2009-2014, the construction sector, the information and communication sector, the tourism sector and the recently created sector tables long time series. In November, the Bank started the publication of a new series of Financial Stability Papers,²⁴ covering subjects related to the financial sector and, in particular, to financial stability.

Table 4.2 • Regular publications in 2014

Publication	Purpose	Frequency	Language*
<i>Official Bulletin</i>	Comprises all legal acts produced by the Bank in its regulatory capacity	Monthly	PT
<i>Annual Report – Activities and Financial Statements</i>	Describes the Bank's activities and financial statements	Annual	PT and EN
<i>Annual Report – The Portuguese Economy</i>	Provides a detailed analysis of developments in the Portuguese economy over the year	Annual Note: Discontinued in 2015. The analysis of developments in the Portuguese economy in the previous year will be published in the May issue of the <i>Economic Bulletin</i> .	PT and EN
<i>Financial Stability Review</i>	Assesses emerging risks in the Portuguese markets and financial system	Semi-annual	PT and EN
<i>Economic Bulletin</i>	Provides a detailed analysis of the Portuguese economy, publishes macroeconomic projections, and includes research articles produced by the Bank's staff	Quarterly Note: From 2015 onwards, the <i>Economic Bulletin</i> will cease to include articles produced by the Bank's staff. The articles will be published in a new publication entitled <i>Review of Economic Studies</i> , which will be quarterly.	PT and EN
<i>Statistical Bulletin</i>	Presents Banco de Portugal's statistics	Monthly	PT and EN
<i>Monthly Economic Indicators</i>	Presents relevant indicators on the Portuguese economy, the euro area and international economy	Monthly Note: In 2015, <i>Monthly Economic Indicators</i> were replaced by <i>Coincident Indicators</i> .	PT and EN
<i>Bank Lending Survey</i>	Presents detailed results for Portugal taken from the Eurosystem's survey	Quarterly	PT and EN
<i>Newsletter Spillovers</i>	Publishes research, economic analysis and economic events promoted by the Bank	Semi-annual	EN
<i>Report on Payment Systems</i>	Presents the most relevant facts on the operation of payment systems	Annual	PT and EN
<i>Banking Conduct Supervision Report</i>	Provides information on the regulation and audit of retail banking markets, as well as on the Bank's initiatives in terms of financial information and training	Annual	PT Note: English version of the executive summary only.
<i>Summary Report on Banking Conduct Supervision</i>	Provides summary information on retail banking markets supervision. Published mid-term between issues of the Banking Conduct Supervision Reports	Annual Note: Substitutes for the <i>Interim Summary Report on Banking Conduct Supervision</i> .	PT
<i>Retail Banking Markets Monitoring Report</i>	Presents developments in markets for simple term deposits, structured deposits, mortgage credit and consumer credit	Annual	PT
<i>Bulletin on Banknotes and Coins</i>	Discusses cash-related topics	Semi-annual	PT
<i>Economic Developments in Portuguese-speaking African Countries and Timor-Leste</i>	Provides an analysis of the economic environment in Portuguese-speaking African countries and Timor-Leste and their economic and financial relations with Portugal	Annual	PT and EN
<i>#Lusofonia</i>	Presents individual and aggregate indicators on the economies of the eight Portuguese-speaking countries	Annual	PT and EN
<i>Cooperation Journals</i>	Presents macroeconomic indicators for the Portuguese-speaking African countries and Timor-Leste, an overview of cooperation initiatives undertaken between Banco de Portugal and counterpart institutions, and articles on international economic topics	Semi-annual	PT

* PT – Portuguese; EN – English.

In order to ensure transparency in the implementation of macro-prudential policy, the Bank has published for the first time its intermediate objectives for preserving financial stability and the instruments selected to prevent possible risks and vulnerabilities. A dedicated area on financial stability has been created in the institutional website.

Average daily visits to the Bank's website declined from 2013, but remained significantly above those registered in previous years (Table 4.3). The number of visits to 'Payment systems' and 'Services to the public' grew the most, in relative terms. In turn, visits to the 'Corporate Area' had the most pronounced decline in average daily terms.

Table 4.3 • Daily average Visits to Banco de Portugal's institutional website Daily average

		2011	2012	2013	2014	Δ 2014-2013 (%)
Total number of visits		37,217	56,309	102,338	98,923	-3.3
Visits to the webpage by area	Statistics	14,343	17,588	24,508	24,069	-1.8
	Banco de Portugal and the Eurosystem	7,248	7,335	9,044	8,287	-8.4
	Services to the public	1,092	5,134	14,133	16,572	17.3
	Economic research	2,720	3,092	4,891	4,025	-17.7
	Supervision	1,427	1,492	2,555	2,404	-5.9
	Financial stability	-	-	-	419	-
	Publications and interventions	1,118	1,158	1,687	1,704	1.0
	Legislation and regulations	669	846	1,258	1,297	3.1
	Monetary policy	964	840	883	682	-22.8
	Banknotes and coins	850	832	1,221	1,194	-2.2
	Payment systems	408	474	566	1,454	156.9
	Corporate area	-	5,013	12,051	8,214	-31.8

Source: Banco de Portugal.

In 2014, the Bank released more than 9,000 series in its *Statistical Bulletin* (approximately 3,000 series more than in 2013) and more than 300,000 series in BPstat | Statistics online, according to the calendar previously announced in the institutional website. The Bank reported more than 795,000 statistical series to international organisations – including the ECB, EUROSTAT, IMF, OECD and BIS – accounting for an increase of 39 per cent from the previous year.

Statistical dissemination through BPstat | Statistics online was again significantly amplified by BPstat mobile – the version for mobile devices in the statistical information platform of Banco de Portugal – totalling 1.1 million visits in 2014 (Chart 4.1). Statistics was in fact the most visited area of the Bank's institutional website (Table 4.3).

As in previous years, the Bank improved statistical information on non-financial corporations in Portugal. After starting the publication of new annual and quarterly statistics in 2013, extrapolated for the population of non-financial corporations, the Bank launched a new statistical product in 2014: the Sector Table Long Series. The Long Series includes a narrower set of indicators by economic activity and size class, which ensure the comparability of annual information since 1995.

It should be recalled that, through its institutional website, *Statistical Bulletin* and BPstat, Banco de Portugal produces and disseminates a wide range of information on the non-financial corporations sector based on data from the Central Balance-Sheet Database and other information systems. In 2014, the Bank published

in the Sector Tables and Enterprise and Sector Tables the individual results of the sector and size class of more than 360,000 enterprises in 2013, covering more than 90 per cent of the population of non-financial corporations in Portugal (in terms of number of enterprises, turnover and number of employees). In addition to the above-mentioned Central Balance-Sheet Studies, 12 statistical press releases were published on the new series along with the main statistical results.

The Bank organised, in Funchal and in Lisbon, the *4th Conference of the Central Balance-Sheet Database on the internationalisation of Portuguese enterprises in the tourism and*

services sectors. In this conference, the Bank shared with the enterprises the usefulness of the information it produces for their respective internationalisation decisions.

The year was also marked by Portugal's membership – as part of a small group of nine pioneer countries – of the IMF's new statistical reporting system, SDDS (Special Data Dissemination Standard) Plus, which will make it possible to disseminate at international level high-quality, detailed and comparable statistical information. Membership of SDDS Plus strengthens the credibility of Portuguese statistics and is the result of work developed jointly by Banco de Portugal, Statistics Portugal and the Ministry of Finance.

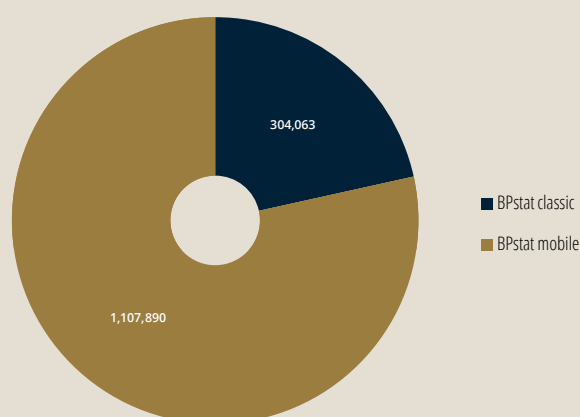


Chart 4.1 •
Number of visits
to BPstat classic
and BPstat mobile
in 2014

Source: Banco de Portugal.

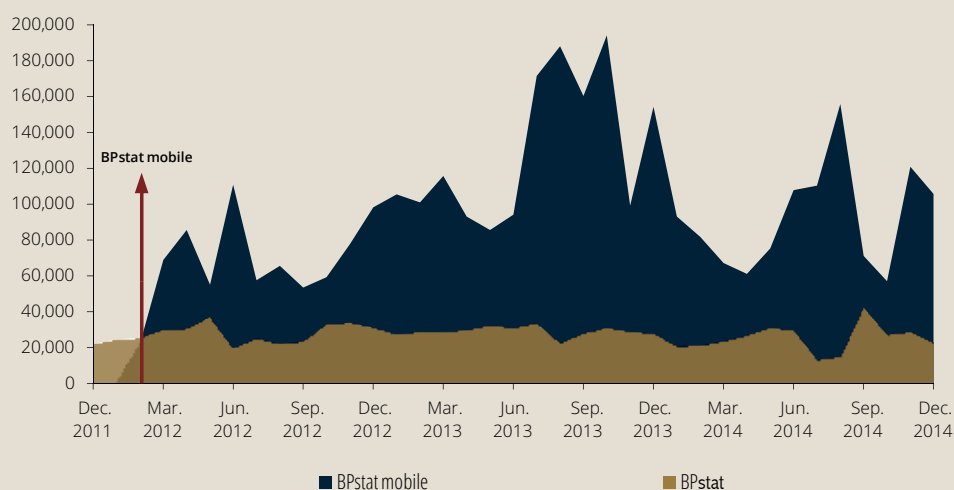


Chart 4.2 •
Developments
in the number
of visits to BPstat
classic and BPstat
mobile

Source: Banco de Portugal.

With a view to encouraging a reflection on the challenges posed to the country's economic development, the Bank organised in Lisbon the 7th *Conference on the Portuguese Economic Development in the European Union*, and continued to receive representatives of certain sectors of the Portuguese economy – moulds, metal and mechanical industries – for a dialogue with the professional staff, who benefited from the practical viewpoint of the agents involved in successful cases. Banco de Portugal has repeated its cooperation with Calouste Gulbenkian Foundation and the Portuguese Public Fiscal Council, promoting nine seminars of the cycle *Reform Fridays*, launched in 2013 to stimulate the debate on the need for a comprehensive reform of the public sector.

Communication initiatives within the Eurosystem

In 2014 the ECB, in cooperation with the Eurosystem's national central banks, launched an information campaign to prepare the entry into circulation of the Europa series €10 banknote.

Adopting a community-oriented communication approach, Banco de Portugal, supplementing ECB action, has led a national campaign intended to disseminate information to the public on the new banknote and therefore prevent possible situations of embezzlement or fraud. Particular attention was paid to the more vulnerable segments of the population, especially the elderly. The Bank has produced an advertisement on the new banknote, broadcast on the major TV channels (168 opportunities to see), participated in morning or afternoon shows on RTP1, RTP2, SIC and TVI (average audiences of 211,000, 4,000, 251,000 and 471,000 viewers), disseminated an add in the Portuguese daily newspaper with the highest circulation (170,000 opportunities to see), organised a press conference on the banknote launch, agreed with the Interbank Services Company (SIBS) the dissemination of information on the

new banknote via ATMs, distributed information materials and provided support to National Republican Guard (GNR), Public Security Police (PSP) and banking institutions.

In order to prepare equipment to accept the new €10 banknote, the Bank has organised two seminars for manufacturers, suppliers and holders of such equipment, and has closely monitored the adjustment process, chiefly by large retailers.

Face-to-face training courses have been organised on euro banknotes and coins for professional cash handlers, as well as information sessions for security forces, schools, retailers and the general public. In 2014, 8,232 people participated in these initiatives. 14,612 professionals have acquired, through e-learning platforms, the ability to check the authenticity and quality of euro banknotes (recycling activities).

Aware of the importance of communicating on monetary policy and the single currency, the Bank has again joined the Generation Euro Students' Award initiative promoted by the ECB and national central banks, addressed at students in secondary education. 427 students and 39 schools from the whole country have participated in this 3rd edition.

The Bank has also supported the ECB in the organisation of the first *ECB Forum on Central Banking*, which took place from 25 to 27 May in Sintra. A group of the highest-level decision makers, financial executives, academics and specialist journalists from all over the world met at the ECB forum to analyse the role of monetary policy in a changing financial context.

4.2. Provision of services

At its offices open to the public, through the institutional website and the Bank Customer Website, Banco de Portugal provides a range of services to the public, that are related to its mission and tasks (Table 4.4).

In 2014, information on financial assets of deceased account holders started to be provided

to the respective heirs, through consultation of the Account Database. This database may be consulted online since 12 January 2015 through Banco de Portugal's institutional website.

Table 4.4 • Services provided by Banco de Portugal

Services	Description	Indicators 2014
Account Database	Bank customers may receive information on the registers in their name in this database, regarding deposit accounts, payment accounts, credit accounts and financial instruments. Heirs may consult information on the financial assets of deceased holders.	Notes: Online consultation of this database has been available since 12 January 2015.
Central Credit Register	Banks customers may receive information from Banco de Portugal on their own credits. They may consult the respective credit liabilities via the institutional website or resorting to the services, in person or in writing.	1.3 million charts issued, based on online consultations. 290,000 customers 45,000 requests answered in person or in writing 5.6 million consultations by member institutions
Prohibition of the use of cheques	The Bank provides bank customers any registrations in their name in the List of Cheque Defaulters.	6,523 consultations of the List of Cheque Defaulters 8,088 visits to customer services
Information on personal identification documents	The Bank disseminates across the banking system information on personal identification documents, in case of loss, larceny, theft, forgery, counterfeiting or illegal use.	508 requests
Other information requests	The public may ask questions via the Bank's call centre, the info@bportugal.pt e-mail address, or the Bank Customer Website	32,263 telephone calls received 89,435 conversation minutes 4,878 messages, 2,352 of which from bank customers received via info@bportugal.pt 2,437 requests received via the Bank Customer Website
Complaints on financial institutions	The Bank analyses customers' complaints on credit institutions and financial corporations	14,157 complaints received 5,501 of which via the Bank Customer Website
Cash office	Exchange of banknotes, exchange of damaged or mutilated banknotes and coins and sale of commemorative and collector coins	130,000 visits to customer services
Library	Supports research on economics, finance and law. It has around 80,000 books	5,869 bibliographical consultations
Historical archive	It provides access to a vast collection of documents from the 19 th and 20 th centuries	404 documents consulted

Provision of services to the financial community

In 2014, the Bank widened further the range of services provided to the financial community. At the end of the year, BPnet – Banco de Portugal's extranet for operational communication with the financial community – provided 97 services,

seven more than in 2013, relating to 14 business areas of the Bank (Table 4.5).

Banco de Portugal's BPnet is being redesigned, in order to adjust the service model to the business needs of the participating institutions, and the integration of the Web channels and to improve the system's efficiency.

Table 4.5 • BPnet indicators

	2011	2012	2013	2014	Δ 2014-2013 (%)
Available services	79	84	90	97	7.8
Number of users	4,400	4,152	4,211	4,217	0.1
Participating financial institutions	332	335	331	324	-2.1
Number of times services were accessed	602,705	373,628	353,452	352,290	-0.3
Help desk	5,849	6,027	5,668	5,915	4.4

Source: Banco de Portugal.

Corporate services

Banco de Portugal provides firms with information services that are relevant to their activity, as well as electronic reporting services, on the institutional website's Corporate Area (*Área de Empresa*). In 2014, the services for reporting information to the new balance of payments statistical system were those most commonly used by firms, with a monthly average of 30,000 visits and 23,000 files sent to the bank. Information on credit liabilities was also among the most used services, with a monthly average of 22,000 accesses. Information regarding the List of Cheque Defaulters was the object of 490 monthly consultations, on average.

Future Money Museum

In 2014, Banco de Portugal reconfirmed its commitment to protecting and valuing cultural assets and to revitalising the Baixa/Chiado zone, in Lisbon's historical centre.

Two years after conclusion of the rehabilitation of its head office building, the Bank inaugurated in April the Interpretation Centre for King Dinis' Wall, which will be part of the future Money Museum.

Located in the crypt of the former Church of S. Julião, the Interpretation Centre provides visitors the opportunity to visit the only known remains of King Dinis' Wall, a national monument. Its archaeological discoveries bear witness to the 1000-year history of Lisbon's riverside, from the defensive structure to day-to-day life.

Contributing to promoting cultural activities in the Pombaline Downtown area in the seasons

when the tourist activity is highest, Banco de Portugal has also established a partnership with the European Investment Bank (EIB). From May to September, the Bank received in the former church the contemporary art exhibition *Within/Beyond Borders*, that brought to Portugal a selection of the most notable works of the EIB's collection.

In October 2014, the former S. Julião Church integrated the *Lisboa Open House*, an initiative of the Lisbon Architecture Triennale. Its purpose is to show the decisive role of architecture in the daily life of citizens and advertise the value of the built heritage.

Since the inauguration of the Interpretation Centre for King Dinis' Wall, the exhibitions have welcomed 21,604 visitors. Guided tours to the former church (centred on the history, architecture, rehabilitation and heritage) and activities for households, schools, young people and adults of the cultural and educational programmes of the Interpretation Centre for King Dinis' Wall and the *Within/Beyond Borders* exhibition had a total of 5,297 participants.

The venue of the former church has also been made available for various conferences related to the Bank's mission and tasks.

In 2014, the permanent and temporary exhibitions at the Museum of Banco de Portugal in Lisbon (which was closed in January 2015, to enable the selection and preparation of the items to be displayed at the Money Museum), the Porto branch and the Regional Delegation in Ponta Delgada had 27,351 visitors.

4.3. Social responsibility

In recent years, Banco de Portugal has been engaged in building a social responsibility and structured volunteering project, with a view to promoting social inclusion and, in particular, fighting educational underachievement.

Mirroring these concerns, the Bank organised the *1st volunteering meeting* in 2014, to debate the role of the enterprises in promoting social responsibility, citizenship and volunteering.

In partnership with EPIS – Empresários pela Inclusão Social (Entrepreneurs for Social Inclusion), the Bank started the *Vocações + Português* programme. Similarly to the *Vocações + Matemática* programme, developed since 2012, the *Vocações + Português* programme is intended to help students in the 7th to 9th year of basic education, who are tutored by volunteers from the Bank.

In 2014, the Bank also continued the *Ler + Histórias* programme, together with Ajudaris, which, on a weekly basis, takes a team of volunteers from the Bank to the Dona Estefânia

Hospital in Lisbon with the purpose of telling stories to hospitalised children. As a result of this joint effort, the Bank has also joined Ajudaris in the production of a special edition of the book *Histórias da Ajudaris*, with stories exclusively written by the children, grandchildren, nephews and nieces of the Bank's employees.

Within the scope of the *Zero Desperdício* (zero waste) project, 7,858 meals were donated by Banco de Portugal. The Bank's cafeterias concessions donated 2,746 more meals. These meals were given to the Arroios parish, which delivered them to 54 households, and to the social centre of Carregado, which in turn distributed them to 20 disadvantaged young people.

In addition to other one-off initiatives to fight poverty and social exclusion, the Bank donated IT equipment, furniture and other office supplies to private charitable institutions and schools.

The Bank implemented a policy of integrated management of waste in its office buildings, similar to that existing in the Carregado Complex.

Notes

1. <http://cliente.bancario.bportugal.pt/pt-PT/Publicacoes/RSC/Paginas/RSC.aspx>.
2. <http://www.bportugal.pt/en-US/EstabilidadeFinanceira/AEstabilidadeFinanceiraPAEF/Pages/inicio.aspx>.
3. Established by Council Regulation (EU) No. 1024/2013 of 15 October 2013.
4. For more details, see *Guide to banking supervision*, November 2014 <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmguidetobankingsupervision201411.en.pdf>.
5. <http://www.bportugal.pt/en-US/OBancoeoEurosistema/ComunicadoseNotasdeInformacao/Pages/comb20141026.aspx>.
6. Directive 2014/59/EU of 15 May 2014.
7. In this respect, see the November 2014 issue of the *Financial Stability Report*, at <http://www.bportugal.pt/en-US/EstabilidadeFinanceira/Publicacoes/RelatoriodeEstabilidadeFinanceira/Publicacoes/FSR%20November%202014.pdf>.
8. Circular Letter of Banco de Portugal No. 24/2014/DSC of 10 March 2014.
9. Banco BIC Português, Banco BPI, Banco Comercial Português, Banco Santander Totta, Crédito Agrícola, Caixa Económica Montepio Geral, Caixa Geral de Depósitos and Novo Banco.
10. Notice of Banco de Portugal No. 10/2014 of 3 December 2014.
11. Law No. 25/2008 of 5 June and Notice No. 5/2013 of 18 December.
12. Notice No. 5/2013 of 18 December (amended by Notice No. 1/2014 of 28 February) and Notice No. 9/2012 of 29 May (amended by Notice No. 2/2014 of 22 May).
13. For further information on the activities of the three funds in 2014, please visit the following websites: www.fgd.pt; www.fgcam.pt; www.fundoderesolucao.pt.
14. Notices No. 12/2014 (FGD), No. 13/2014 (FCAM) and No. 14/2014 (FR) and Instruction No. 34/2014 (FR).
15. Instructions No. 31/2014 and No. 32/2014 (FGD); Instruction No. 30/2014 (FGCAM) and Instruction No. 33/2014 (FR).
16. EU Regulation No. 795/2014 of 3 July 2014.
17. Available at <http://www.ecb.europa.eu/pub/pdf/other/cardfraudreport201402en.pdf>.
18. For a list of the most recent publications and a description of other economic research activities, see <http://www.bportugal.pt/en-US/EstudosEconomicos/Publicacoes/Spillovers/Pages/default.aspx>.
19. For the Evaluation report on the activities of the Economics and Research Department of Banco de Portugal, see <https://www.bportugal.pt/en-US/EstudosEconomicos/Publicacoes/outras/Tumbnails%20List%20Template/Evaluation%20Report%20DEE.pdf>.
20. Interest accrued plus the amortisation of premia/discounts paid/received in the purchase of securities.
21. Instruction of Banco de Portugal No. 25/2014.
22. A scheme consisting of individual contractual arrangements between an NCB and one or more NHTO entities in the NCB's participating Member State, whereby the NCB supplies the NHTO entities with euro banknotes which they hold in custody for the purpose of putting them into circulation.
23. <https://www.bportugal.pt/pt-PT/OBancoeoEurosistema/ConsultasPublicas/Paginas/default.aspx> (only in Portuguese).
24. Available at <http://www.bportugal.pt/en-US/EstabilidadeFinanceira/Publicacoes/Pages/Artigos.aspx>.



II 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 2014¹ (Sections 2. and 3.), which have been prepared according to the Chart of Accounts of Banco de Portugal (*Plano de Contas do Banco de Portugal – PCBP*), currently in force.

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 (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 (Section 5.). The Advisory Board issued its opinion on the Bank's accounts.

1.1. Developments in 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 2010-2014 period:

Table 1

	2010	2011	2012	2013	2014	Δ 2014/2013
	EUR millions					
ASSETS	99,750	109,768	119,406	111,592	105,608	(5,984)
Gold	12,979	14,964	15,509	10,714	12,147	1,433
IMF (net)	298	306	301	288	272	(16)
Foreign reserves and euro assets (net)	19,183	16,011	15,015	14,883	21,410	6,526
Foreign currency	2,053	594	871	1,168	3,114	1,946
Euro	17,130	15,417	14,144	13,715	18,296	4,580
Trading portfolio	11,259	9,351	8,402	8,593	13,025	4,432
Medium-term investment portfolio	5,870	6,067	5,742	5,122	5,271	149
Claims related to monetary policy operations	45,060	53,270	59,768	53,895	36,462	(17,432)
Lending to credit institutions	40,899	46,002	52,784	47,864	31,191	(16,673)
Securities held for monetary policy purposes	4,161	7,269	6,984	6,031	5,272	(760)
Intra-Eurosystem claims	20,195	23,019	26,347	29,471	33,172	3,701
Participating interest and transfer of foreign reserve assets to the ECB	1,152	1,181	1,210	1,235	1,214	(21)
Other intra-Eurosystem claims	19,043	21,838	25,136	28,236	31,958	3,722
Other claims	1,101	1,241	1,526	1,439	1,184	(255)
LIABILITIES AND OWN FUNDS	99,750	109,768	119,406	111,592	105,608	(5,984)
Banknotes in circulation	19,376	20,452	21,003	22,303	23,299	996
Banknotes put into circulation (net)	333	(1,369)	(4,022)	(5,895)	(8,621)	(2,727)
Adjustments to circulation	19,043	21,821	25,025	28,198	31,920	3,723
Liabilities to credit institutions related to monetary policy operations	4,921	5,691	8,136	8,218	3,589	(4,629)
Liabilities to other entities denominated in euro	1	4,869	5,484	7,629	7,989	360
Intra-Eurosystem liabilities	59,921	60,964	66,026	59,565	54,638	(4,926)
Other liabilities	444	516	356	386	342	(44)
Provisions*	54	23	8	-	-	-
Own funds	14,098	16,295	17,454	12,589	14,789	2,200
Revaluation accounts	10,055	12,061	12,657	7,758	9,637	1,879
General risk provision*	2,464	2,924	3,192	3,322	3,567	245
Capital and reserves	1,381	1,420	1,474	1,483	1,534	51
Retained earnings	-	(142)	(318)	(227)	(252)	(25)
Profit for the year	198	31	449	253	304	51

* The items Provisions and General risk provision were adjusted in accordance with the rules of the PCBP in force since 2012 for all years shown.

Balances of the main items disclosed in the balance sheet of Banco de Portugal as at 31 December 2014, as well as their changes from

end-2013, are presented below. The logic followed in the order of these items is the same as that of the analyses made in this Report:

Table 2

	2013	2014	EUR millions Δ 2014/2013
1.1.1 Claims and liabilities related to monetary policy operations	45,676	32,873	(12,803)
Claims related to monetary policy operations	53,895	36,462	(17,432)
Liabilities to credit institutions related to monetary policy operations	(8,218)	(3,589)	4,629
1.1.2 Gold, foreign reserves and euro assets (net)	25,597	33,556	7,960
Gold	10,714	12,147	1,433
Foreign reserves and euro assets (net)	14,883	21,410	6,526
1.1.3 Other balance sheet assets	31,198	34,628	3,429
IMF (net)	288	272	(16)
Intra-Eurosystem claims	29,471	33,172	3,701
Other assets	1,439	1,184	(255)
1.1.4 Banknotes in circulation	22,303	23,299	996
Banknotes put into circulation (net)	(5,895)	(8,621)	(2,727)
Adjustments to circulation	28,198	31,920	3,723
1.1.5 Intra-Eurosystem liabilities	59,565	54,638	(4,926)
1.1.6 Other liabilities	8,015	8,331	316
Liabilities to other entities	7,629	7,989	360
Other liabilities	386	342	(44)
Provisions	-	-	-
1.1.7 Own funds	12,589	14,789	2,200
Revaluation accounts	7,758	9,637	1,879
General risk provision	3,322	3,567	245
Capital and reserves	1,483	1,534	51
Retained earnings	(227)	(252)	(25)
Profit for the year	253	304	51

1.1.1. 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 a rather steep reduction in 2014 compared with 2013 (by €-12,803 million to €32,873 million), in line with the trend decline already seen in the previous year (Chart 1).

The key driver of this decline was the reduction in the amount outstanding of the longer-term refinancing operations (LTROs), resulting from the deleveraging process of national credit institutions' balance sheets. This process translated chiefly into the early repayment of the three-year LTROs (conducted in late 2011 and early 2012) (Chart 4), in particular of operations that are close to maturity, which were partly replaced with main refinancing operations (MROs), as they allow more flexible liquidity management.

Contrary to this reduction, it is important to note the contribution made by the new targeted longer-term refinancing operations (TLTROs) with a four-year maturity, approved by the Governing Council of the European Central Bank (ECB) in September 2014. These operations are intended to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy.

The reduction in the net total amount outstanding of the monetary policy operations also resulted from maturing securities held for monetary policy purposes, within the scope of the securities market stabilisation programmes – securities markets programme – SMP – and – covered bond purchase programmes – CBPP and CBPP2), which are closed to new purchases (Charts 2 and 5). This reduction was slightly offset in the last quarter of 2014 by the purchase of covered bonds under the new covered bond purchase programme (CBPP3) announced by the ECB in September 2014.

Worth noticing is also the launch, in December 2014, of a new non-standard monetary policy programme, the asset-backed securities purchase programme (ABSPP), whose operations are centralised on the ECB's balance sheet, although income and risk are shared by the national central banks (NCBs) of the Eurosystem. In 2014 Banco de Portugal received income from these operations through the interim distribution of the ECB's dividends.

The intra-annual analysis presented below shows that refinancing to credit institutions decreased gradually until the last quarter of 2014, chiefly due to the early repayment of LTROs, resulting from the above-mentioned credit institutions' decision (Charts 3 and 4). In the last quarter of 2014, this trend was chiefly

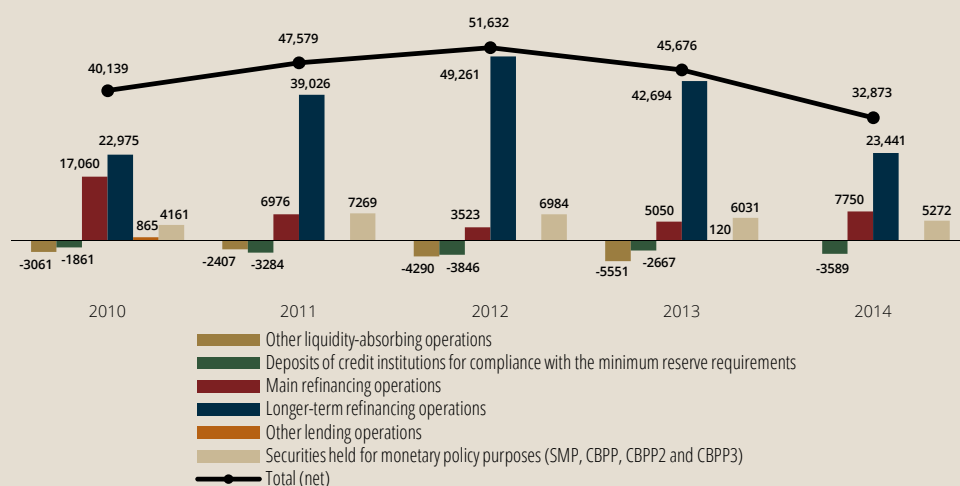


Chart 1 •
Claims and liabilities related to monetary policy operations

EUR millions

Chart 2 •
Aggregates of
monetary policy
operations

EUR millions

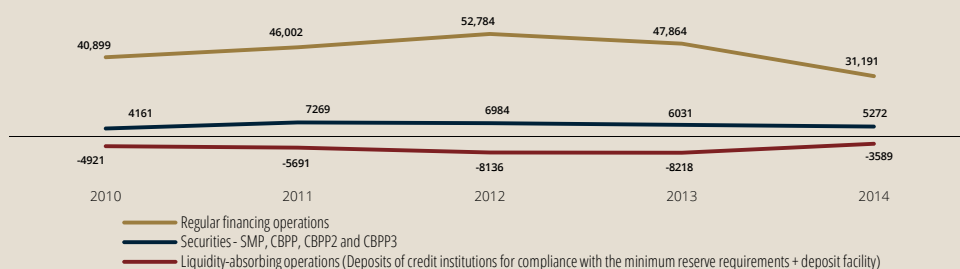


Chart 3 • Daily
balances in
aggregates of
regular monetary
policy operations

EUR millions

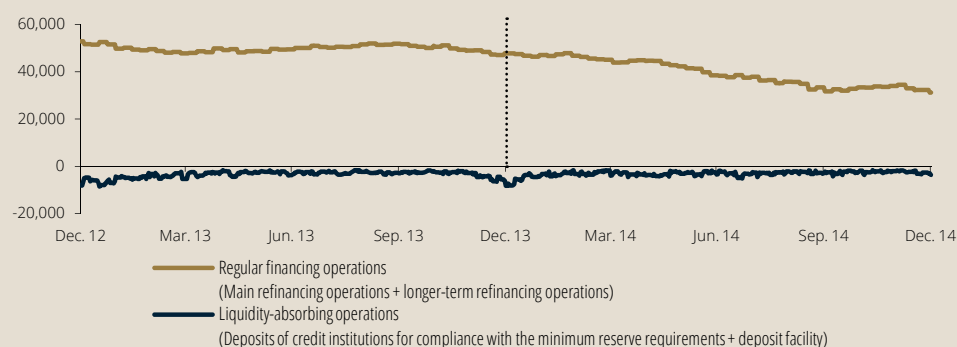


Chart 4 • Daily
balances in
regular monetary
policy operations

EUR millions

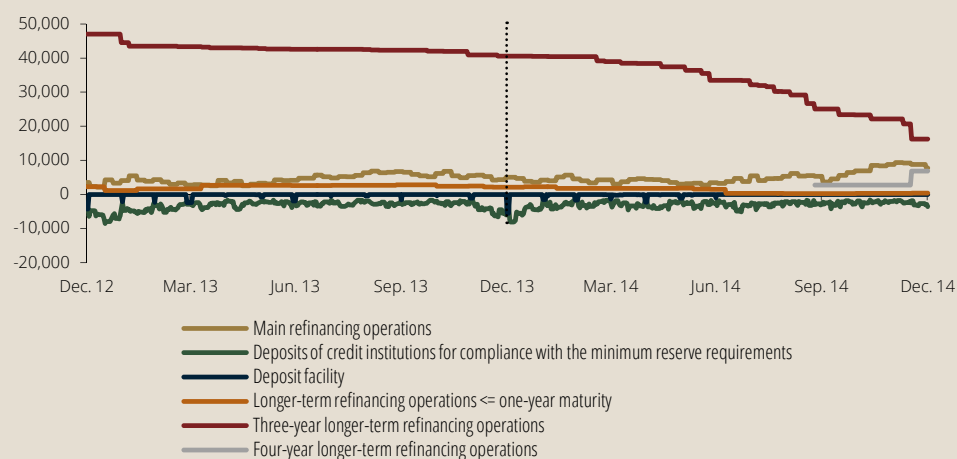
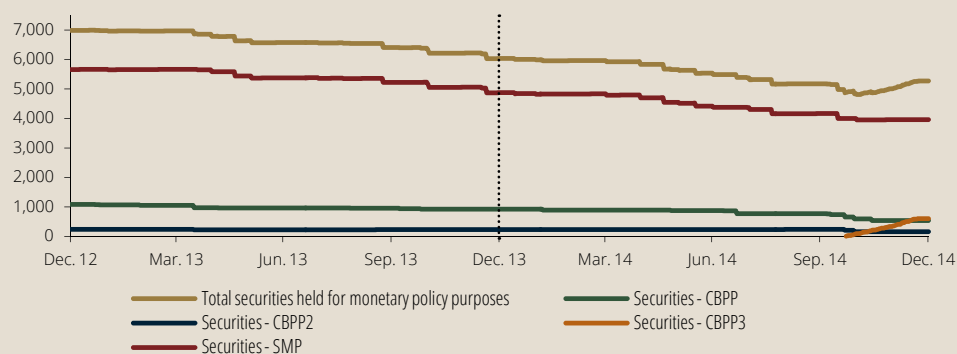


Chart 5 • Daily
balances in the
portfolios of
securities held for
monetary policy
purposes

EUR millions



countered by the new TLTROs (with a four-year maturity), mentioned above, and by the volume of the MROs. The liquidity-absorbing operations remained at fairly stable levels in the period under review.

Turning to the 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 these securities declined by €-760 million from end-2013 (standing at €5,272 million), mainly as a result of the decrease in the securities markets programme (SMP) portfolio. In the course of 2014 no purchases were made for any of the portfolios that were outstanding in 2013 (all programmes are already terminated). Purchases were only made for the new CBPP3 portfolio. All these portfolios are valued at amortised cost, less potential impairment losses.

Overall, the total number of securities held for monetary policy purposes has been declining since the termination of the previous programmes, although at the end of 2014 a reversal of this trend could already be seen with the launch of the new monetary policy programmes – CBPP3 and ABSPP, which will become more apparent in 2015, with the new quantitative easing programme.

1.1.2. Gold, foreign reserves and euro assets (net)

• Gold

The gold reserve of Banco de Portugal remained unchanged from 2013, in volume terms (remaining at 382.5 tons). Therefore, the increase in the value of the gold reserve from December 2013 (by €+1,433 million to €12,147 million), was due to positive developments in the price of gold, being offset by a change of an equivalent amount in the item Revaluation accounts.

The rise in the price of gold in euro is due to the appreciation of the US dollar in 2014, as the price of the ounce in US dollars declined from December 2013 (Charts 6 and 7).

• Foreign reserves and euro assets (net)

Foreign reserves and euro assets of Banco de Portugal increased significantly in 2014 compared with 2013 (by €+6,526 million to €21,410 million).

This rise was mostly due to the increase in the trading portfolio denominated in euro and in foreign currency (with rises of €+4,432 million and €+1,946 million respectively). This rise reflects the Bank's investment decision for 2014, within the flexibility allowed by the agreements established at Eurosystem level, and the trade-off between risk and profitability,

Chart 6 • Price of gold (Per fine ounce of gold)

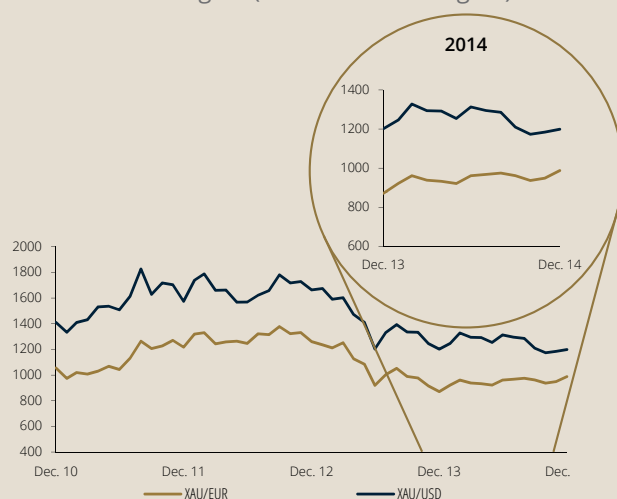
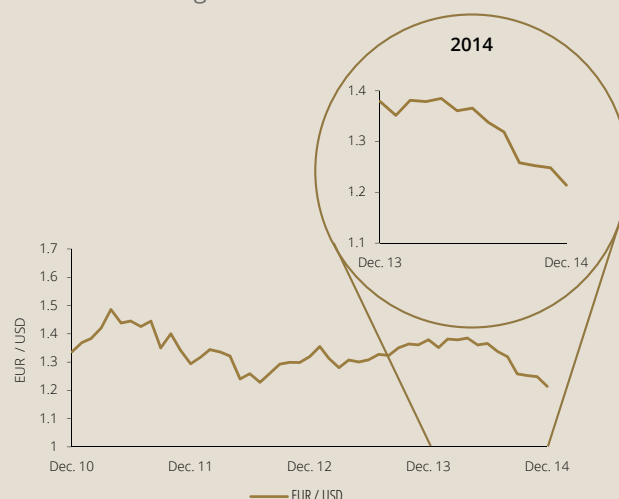


Chart 7 • Exchange rate EUR/USD



given the present economic and financial situation.

The overall portfolio structure remains unchanged from the past few years, favouring in particular investment in euro-denominated assets (Chart 8).

- Trading portfolio (denominated in foreign currency and euro)

As regards the composition by instrument, the trading portfolios denominated in foreign currency and in euro continue to be mainly composed of securities, in line with the pattern seen in previous years (Charts 9 and 10). Securities in this portfolio are value at market price.

In terms of the composition by currency, the trading portfolio denominated in foreign currency continued to be mainly composed of US dollars (around 90% of total investment in foreign currency in 2014 compared with 91% in 2013 and 80% in 2012).

The trading portfolio denominated in euro totalled €13,025 million in December 2014 and 99.5% of its value corresponded to securities. The largest share of this portfolio corresponds to securities issued by euro area residents (€12,612 million). By type of issuer, this portfolio is mainly composed of government debt bonds (€11,695 million) and paragonovernmental and supranational bonds (€1,175 million).

Chart 8 •
Foreign reserves
and euro assets
(net)

EUR millions

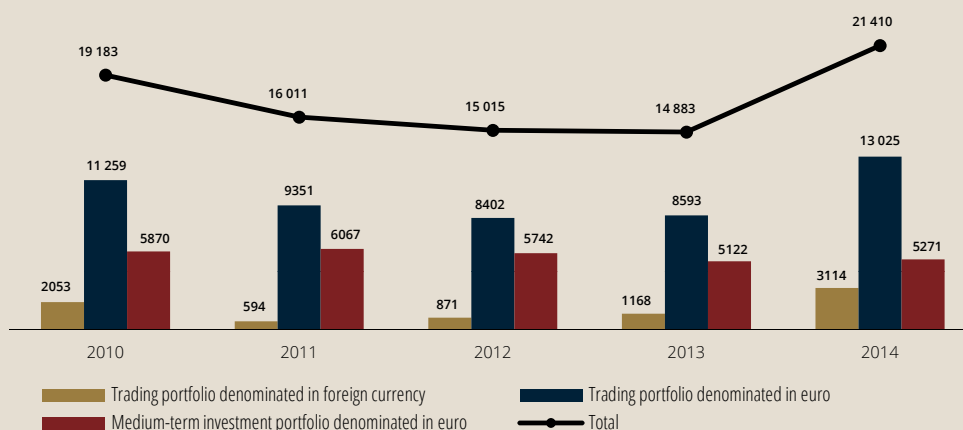
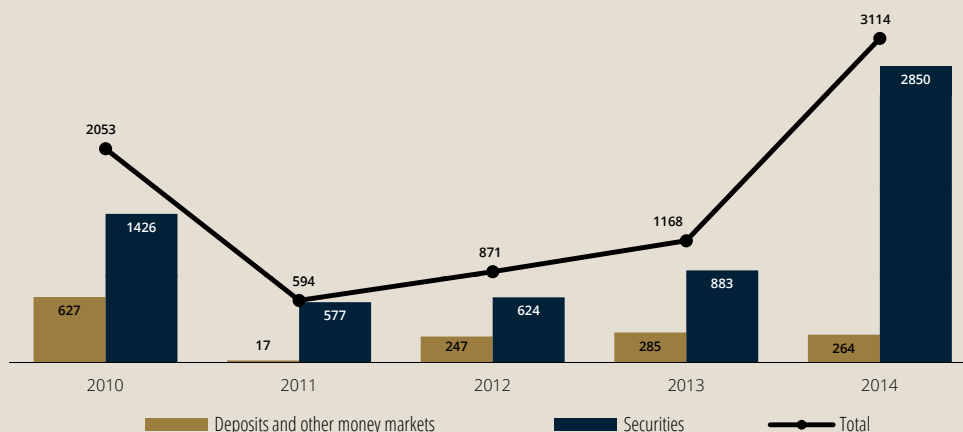


Chart 9 •
Composition
of the trading
portfolio
denominated in
foreign currency

EUR millions



As to the benchmarks applied to the management of Banco de Portugal's portfolios, in 2014, the main monetary authorities continued to pursue accommodative monetary policies, which translate into rather low key ECB rates.

In this context, the interest rate on the ECB's MROs was lowered on two occasions in 2014 – June and September – remaining unchanged until 31 December 2014 at 0.05%, its historical minimum. These declines reflect the monetary policy decisions taken by the ECB, in response to the inflation situation and to prospects of inflation being below the objective defined for price stability in the euro area, amid weak economic growth. Thus, overall, money market interest rates remained relatively stable in the course of 2014, at historically low levels.

The euro area sovereign debt markets, where most financial investments of the Bank are concentrated, recorded a broadly based reduction in short-term interest rates, moving to negative figures in the German and French markets, among others. Developments in the medium and long-term interest rates continued to differ across countries, but there was greater convergence amid generally declining yields. In turn, this background added to the valuation of the portfolios composed of fixed-rate debt securities, with a positive impact on asset management, which however continued

to require high accuracy and efficiency (Charts 11, 12, 13 and 14).

– Medium-term investment portfolio

The medium-term investment portfolio (Chart 15), fully denominated in euro, valued at amortised cost less potential impairment losses and held to maturity, on 31 December 2014 was exclusively composed of securities. Compared with 2013, this portfolio increased slightly by €149 million to €5,271 million, chiefly as a result of the decision to reinvest in this portfolio the entirety of the principal resulting from maturing securities and the respective income.

1.1.3. Other balance sheet assets

Among the other asset items in the balance sheet of Banco de Portugal (€+3,429 million, corresponding to a rise from €31,198 million to €34,628 million), 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 2014 these adjustments totalled €31,920 million (€+3,723 million than in December 2013). Like in previous years, the increase in this asset position reflects

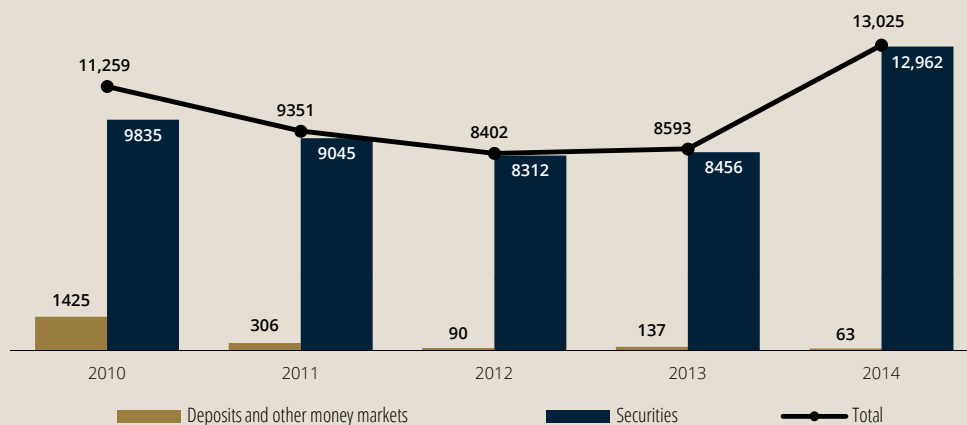


Chart 10 •
Composition of the
trading portfolio
denominated in
euro

EUR millions

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).

It should also be noted that there was a slight reduction in Banco de Portugal's contribution to the ECB's subscribed capital, as well as in the position referring to transferred foreign reserves, which resulted from the reduction

Chart 11 • Money market interest rates

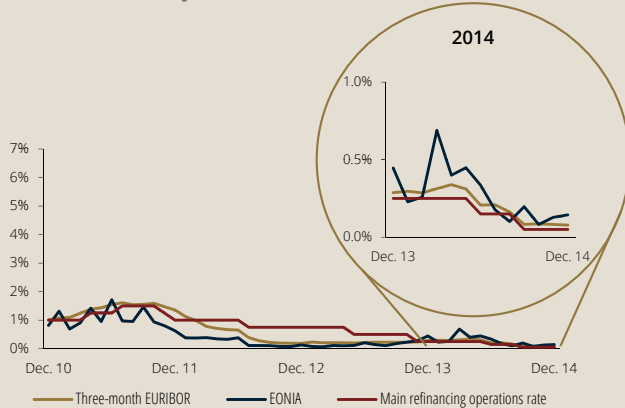


Chart 12 • Three-month interest rates

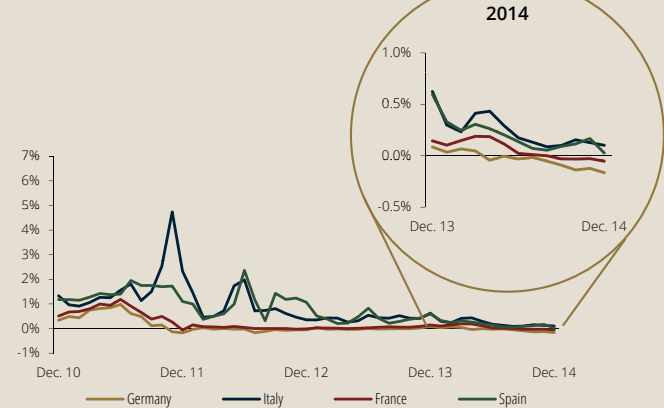


Chart 13 • Two-year interest rates

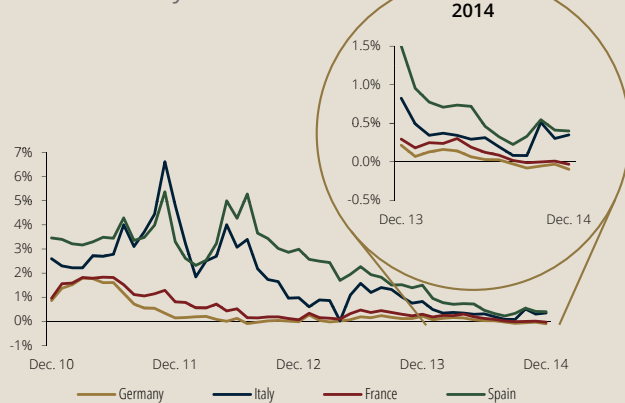


Chart 14 • Ten-year interest rates

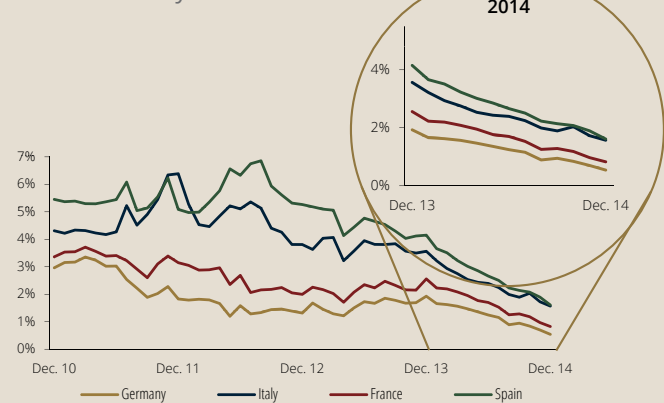
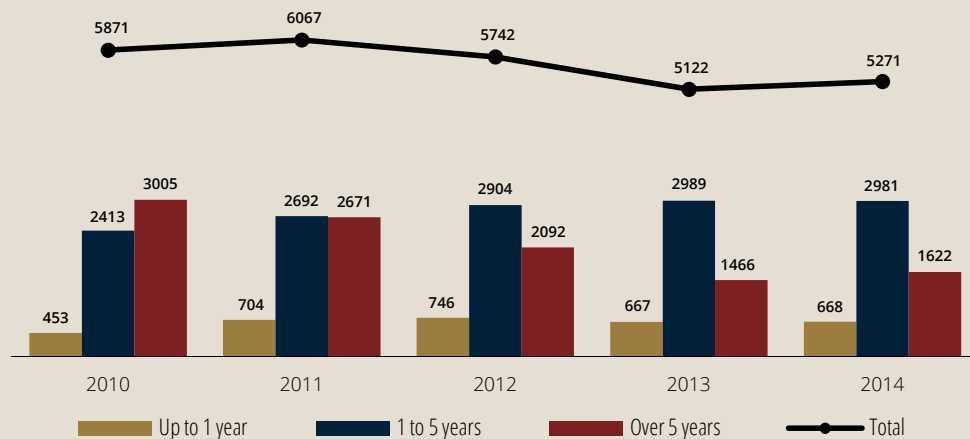


Chart 15 •
Composition of
the medium-term
investment
portfolio by
maturity

EUR millions



in the Bank's share from 1.7636% to 1.7434%. This reduction in the share resulted from the quinquennial capital key adjustment made pursuant to the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the 'Statute of the ESCB'), based on the statistical data for the 2006-2011 period. In addition, mention should be made of the accession to the euro area of Latvia on 1 January 2014 and Lithuania on 1 January 2015, with no impact on the Bank's share, but impacting on the adjusted capital key and on the banknote allocation key.

1.1.4. 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 in the Eurosystem (Chart 16). This aggregate continued to be on a steady growth path, since the euro entered into circulation, reflecting a rise in circulation at Eurosystem level (increasing by €+996 million to €23,299 million).

1.1.5. Intra-Eurosystem liabilities

In December 2014 the value of Intra-Eurosystem liabilities (mostly liabilities arising from TARGET accounts) decreased from 2013 (€-4,926 million to €54,638 million). This decrease reflects chiefly the

marked fall in lending to credit institutions, whose effect is partly offset by the reduction in liabilities to credit institutions resulting from monetary policy operations, by an increase in the positive difference between banknotes withdrawn from circulation and banknotes put into circulation by Banco de Portugal and also by the settlement of operations that led to the above-mentioned rises in the trading portfolios (Chart 17).

1.1.6. Other liabilities

The change in the aggregate Other liabilities (€+316 million to €8,331 million) includes the item Liabilities to other euro area entities denominated in euro, which relates almost exclusively to balances of the general government current accounts. These accounts are mainly held by the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – briefly called IGCP) and relate 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*).

Although the change in these liabilities was rather reduced compared with December 2013, this slight change results from the combined effect of several factors of significant amount occurred in 2014, of which the most

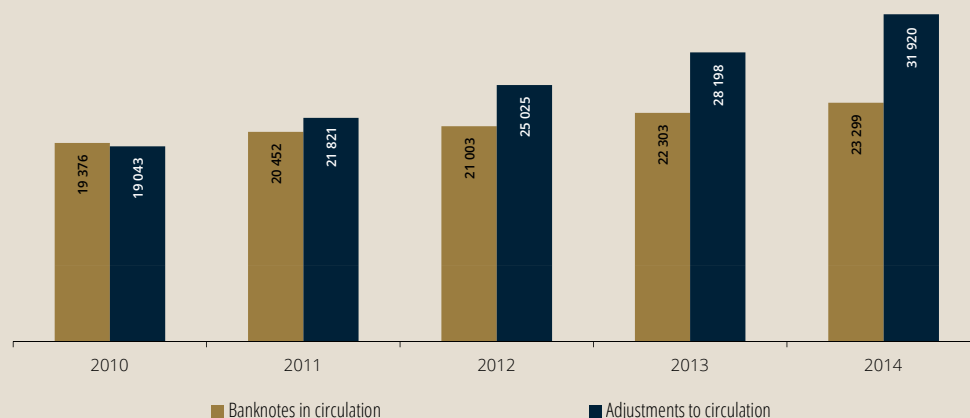


Chart 16 •
Banknotes in
circulation and
adjustments to
circulation

EUR millions

important were: (i) receipt of five tranches under the PAEF (to the total amount of €5,184 million); (ii) refund of the funds granted by the State under the recapitalisation line of banks (contingent convertible bonds – CoCos), which were deposited in these accounts; and (iii) the loan granted by the State to the Resolution Fund to finance the resolution measure applied to Banco Espírito Santo, S.A. (€3,900 million).

1.1.7. Own funds

In 2014 Banco de Portugal's own funds (revaluation accounts, general risk provision, equity and net profit for the year) presented a significant increase by €2,200 million to €14,789 million, largely due to an increase in the positive

gold revaluation account, in foreign exchange reserves and in the price of securities (€+1,433 million, €+231 million and €+215 million respectively) (Chart 18).

Excluding revaluation accounts, the change in this aggregate was of €+321 million from 2013, resulting from the combined effect of (i) the increase in December 2014 of the general risk provision (€+245 million); (ii) the recognition of net profit for 2014 (€+304 million); and (iii) the impact of the distribution of €202 million of dividends to the State resulting from the net profit for 2013. In addition, there was a recognition in retained earnings of actuarial losses in 2014, relating to the Pension Fund – Defined-benefit plan (totalling €-15 million) and of the annual reversal of taxed assets relating to

Chart 17 •
Intra-Eurosystem
liabilities and
main offsetting
balance sheet
items
EUR millions

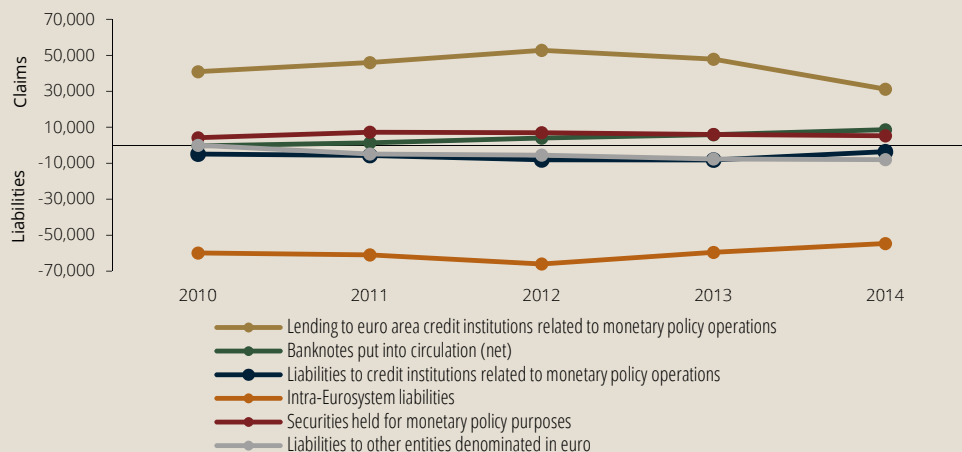
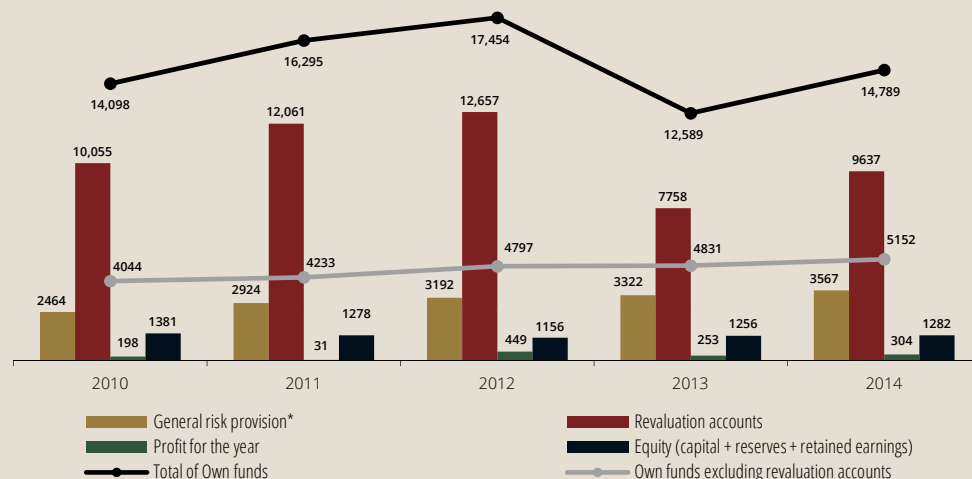


Chart 18 •
Own funds
EUR millions



the tax benefit granted in the State Budget for 2012, referring to the change in the accounting policy governing the recognition of actuarial gains and losses of the pension plans (€-10 million).

The general risk 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. In December 2014 it amounted to €3,567 million. Among other factors, this value takes into account the assessment of risks for the

period under review, against a background of strengthened own funds and the maintenance of financial autonomy levels suited to the Bank's mission, enabling it, at any time, to cover potential losses, including those resulting from risk sharing with the Eurosystem.

1.2. Developments in the Profit and Loss Account

The main components of the Profit and Loss Account from 2010 to 2014 are shown in the table below:

Table 3

EUR millions

	2010	2011	2012	2013	2014	Δ 2014/2013
Interest margin	607	729	803	727	649	-78
Interest income	1,149	1,614	1,513	1,156	766	-390
Interest expense	-542	-885	-710	-429	-117	312
Realised gains/losses arising from financial operations	156	-70	91	-5	218	223
Unrealised losses on financial assets and positions	-222	-18	-2	-114	-1	113
Transfer from/to risk provisions	-163	-460	-268	-130	-245	-115
Income from equity shares and participating interests	45	25	20	54	25	-30
Net result of pooling of monetary income	35	-9	113	11	-30	-41
Total administrative expenses	175	165	168	176	172	-4
Staff costs	121	111	108	123	115	-9
Related to supervision	16	16	17	22	23	2
Excluding those related to supervision	104	95	91	102	91	-11
Supplies and services from third parties	40	37	41	38	42	5
Related to PAEF	-	1	5	1	-	-1
Related to SSM	-	-	-	-	4	4
Related to resolution measures	-	-	-	-	2	2
Excluding those related to PAEF, SSM and resolution measures	40	36	36	36	36	-
Other administrative expenses	1	1	1	1	1	-
Depreciation and amortisation for the year	14	16	18	14	14	-
Costs with banknote production	13	12	15	13	13	-
Other net profit/loss	12	16	41	4	4	-
Income before taxes	283	37	614	358	433	75
Income tax – current	-80	-201	-	-75	-128	-53
Income tax – deferred	-4	195	-165	-31	-1	29
Net profit for the year	198	31	449	253	304	51

Net profit for the year 2014 stood at €304 million, in line with the average of the past few years, but increasing by €51 million from 2013.

The rise recorded from 2013 was chiefly due to an increase in realised gains/losses arising from financial operations and to a reduction in unrealised losses on financial assets and positions. These positive contributions were largely offset by an increase in the general risk provision (due to the various factors behind the movement of this item), by a decrease in the interest margin and by a decrease in pooling of monetary income. The increase in income before taxes was matched by an increase in the amount of the income tax.

In 2014 the interest margin, which is the main component of the Profit and Loss Account of Banco de Portugal, decreased by €-78 million (-11%) in net terms from 2013 (Chart 19). This decrease results from the fact that the reduction in interest income was higher than the reduction in interest expense.

The reductions in both interest income and interest expense resulted from the broadly based decline in annual average interest rates (in particular, the fall in the Eurosystem-related interest rates, with the rate on the MROs reaching its historical minimum in 2014), as well as from a reduction in the average balances of some of the major assets and liabilities items, most notably, due to their material

nature, lending to credit institutions and the liabilities arising from TARGET accounts. Albeit with no material impact on the Bank's profit, in 2014, following the decision of the ECB of 5 June 2014 (ECB/2014/23), the deposit facility rate became negative for credit institutions' account holdings in excess of minimum reserve requirements, as well as, generically, for deposits not subject to compliance with minimum reserve requirements.

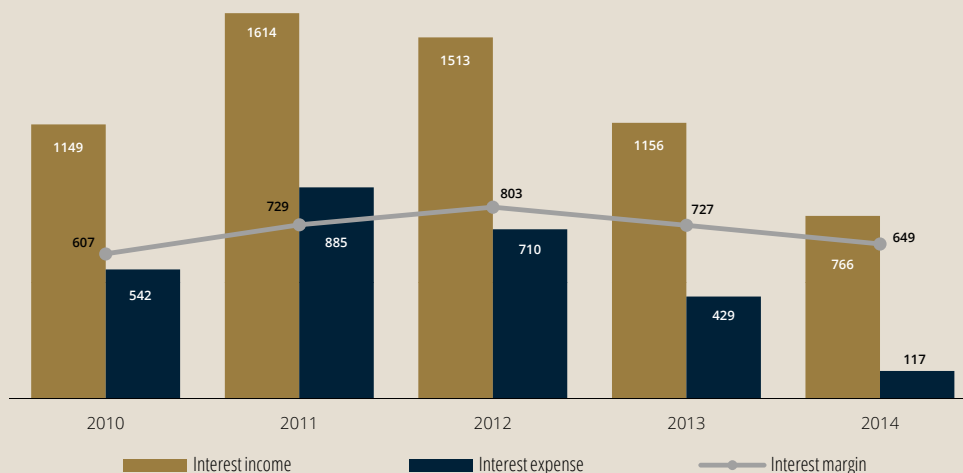
Worth mentioning is also the reduction in the interest rate on adjustments to circulation recorded on the assets side of the balance sheet. The sharp decline in yields was higher than the significant positive impact of their annual average amount outstanding.

In addition, there was a reduction in income associated with the medium-term investment portfolios. Although they earn far higher yields than the other interest-generating assets held in portfolio, they recorded a slight decline in 2014.

In 2014 realised gains/losses arising from financial operations recorded an accumulated positive amount of €218 million, chiefly reflecting positive realised gains arising from operations with financial instruments held in the trading portfolios denominated in euros (chiefly gains arising from securities sales). The accumulated positive result in 2014 translates

Chart 19 • Interest margin

EUR millions



into a significant increase by €+223 million from 2013 (Chart 20).

Changes in unrealised losses on financial operations in 2014 were rather reduced (€1 million), translating into a rather positive change from 2013 (€+113 million). The potential losses as at 31 December 2014 relate only to securities price devaluation. In accordance with the harmonised accounting rules of the Eurosystem, unrealised losses are recognised as expenses for the period as at 31 December, while unrealised gains continue to be recognised in the balance sheet in the respective revaluation differences items.

At the end of the year the general risk provision was increased by €245 million (Chart 21). This increase took into consideration the above-mentioned principle of prudence 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 2014 the item Net result of pooling of monetary income includes the result of the method of pooling monetary income for 2014 (totalling €-47 million), as well as adjustments of previous years by the Eurosystem and additional income associated with insolvency proceedings of Eurosystem's counterparties (€17 million). The significant drop recorded in the result of sharing the monetary income (from €3 million in 2013 to



Chart 20 •
Net result of
financial operations
and unrealised
losses

EUR millions

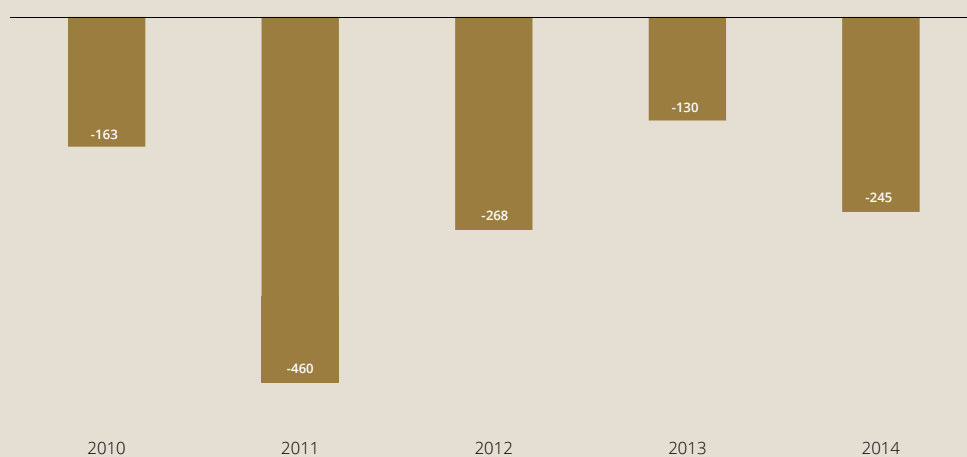


Chart 21 •
Transfer from/to
risk provisions

EUR millions

€-47 million in 2014) arises from the fact that the weight of net contributions of Banco de Portugal in total contributions of the Eurosystem in 2014 was higher than its share in the capital key of the ECB (2.5%), which was not the case in the preceding period.

In 2014 administrative expenses declined by 2% from 2013 (€-4 million), standing at €172 million (Chart 22). This change was due to a reduction in the main component of these expenses, i.e., staff costs (€-9 million), combined with an increase in supplies and services from third parties (€+5 million).

The sharp reduction in staff costs in 2014 (-7% compared with 2013) is largely due to the fact that in 2013 not only the holiday subsidy and respective compulsory social charges relating to 2013 were recognised (paid in 2014), but also the holiday subsidy and respective compulsory

social charges relating to 2012 (whose accrual was annulled in 2013 in view of the foreseen suspension of its payment, initially written into the State Budget Law for 2013, but which was subsequently deemed unconstitutional by the ruling of the Constitutional Court of Portugal No 187/2013). As shown in Table 4, making an adjustment, for the purpose of reporting, for the financial periods to which correspond the amounts recognised in Staff costs relating to the 2012 holiday subsidy and respective charges, it can be seen that in 2014 staff costs would have decreased by €3 million (-2%) from 2013. In general terms, the continued staff cost reduction policy adopted in the last five years (2010-2014) resulted in a 5% fall in expenses in the said period, despite an increase of 8% in total staff numbers in the same period.

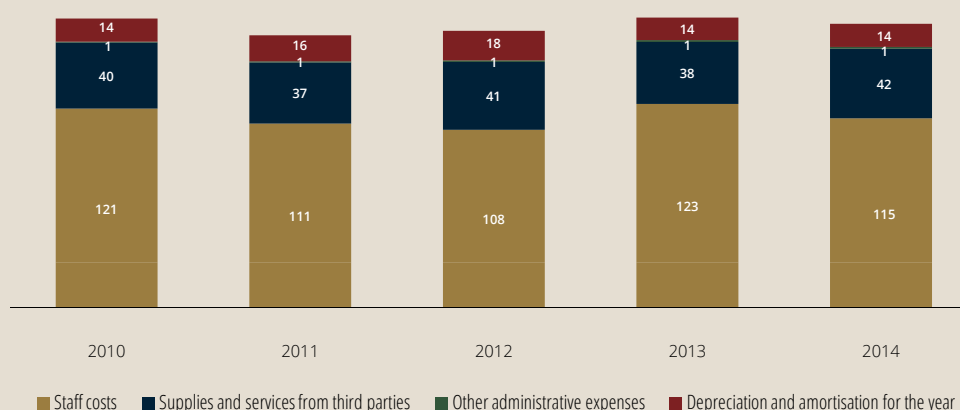
Table 4

EUR millions

	2010	2011	2012	2013	2014	Δ 2014/2013
Staff costs	121	111	108	123	115	-9
Adjustment relating to the holiday subsidy and respective compulsory social charges			6	-6		
Staff costs on a comparable basis	121	111	114	117	115	-3
Relating to supervision	16	16	18	21	23	2
Excluding those relating to supervision	104	95	96	97	91	-6

Chart 22 •
Administrative expenses

EUR millions



The actual reduction in staff costs in 2014 (on a comparable basis) was chiefly due to a decrease in the value recognised under voluntary social charges (Note 32 of the Notes on the financial statements).

The fall in costs, as shown in Table 4, was partly countered by the continued rise in Banco de Portugal's professional staff, to address the increased responsibilities entrusted to the Bank, in particular in the financial regulation and banking supervision functions.

The item Supplies and services from third parties (accounting for around 25% of total administrative expenses) amounted to €42 million in 2014, increasing by 12% from 2013 (€+5 million). This increase translates chiefly the effect of extraordinary factors, namely consultancy expenses to support the implementation of the Single Supervisory Mechanism (SSM) (€+4 million)

and legal advice expenses related to the resolution measure applied to Banco Espírito Santo, S.A. (€+2 million), which had no match in 2013. These increases were partly offset by a reduction of expenses related to the PAEF (€-1 million), having been residual in 2014. Excluding these effects, supplies and services from third parties have remained virtually unchanged since 2011, reflecting the persistent expenditure containment efforts and efficient resource management. The main declines have been a reduction in general consumption, namely electricity (€-0,6 million), resulting in part from the revision of procurement policies and the end in 2014 of rental contracts related to buildings used temporarily due to the refurbishment of the Rua do Comércio building (€-0,6 million). Conversely, there was an increase in expenses related to IT systems' maintenance (€+1 million), of which 60% correspond to systems shared with the Eurosystem.

Lisboa, 24 February 2015

BOARD OF DIRECTORS

Governor

Carlos da Silva Costa

Vice-Governors

Pedro Miguel de Seabra Duarte Neves
José Joaquim Berberan e Santos Ramalho

Directors

João José Amaral Tomaz
António Varela
Hélder Rosalino

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 2014, to the amount of €304.14 million, was distributed as follows:

10% to the legal reserve	€30,413,862.16
10% to other reserves	€30,413,862.16

and, pursuant to subparagraph (c),

80% to the State, as dividends	€243,310,897.29
--------------------------------------	-----------------

pursuant to Decision No 73/15 of 10 April 2015 of the Minister of State and Finance.

2. Financial Statements

Balance sheet of banco de portugal

Assets	Note number	31 Dec. 2014			31 Dec. 2013
		Gross assets	Depreciation, amortisation and impairment	Net Assets	Net Assets
1. Gold and gold receivables	2	12,146,754	-	12,146,754	10,713,666
2. Claims on non-euro area residents denominated in foreign currency		3,996,893	-	3,996,893	2,013,481
2.1. Receivables from the IMF	3	1,233,671	-	1,233,671	1,190,335
2.2. Balances with banks and security investments, external loans and other external assets	4	2,763,222	-	2,763,222	823,147
3. Claims on euro area residents denominated in foreign currency	4	350,801	-	350,801	344,866
4. Claims on non-euro area residents denominated in euro	5	354,338	-	354,338	561,678
4.1. Balances with banks, security investments and loans		354,338	-	354,338	561,678
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	31,190,840	-	31,190,840	47,863,510
5.1. Main refinancing operations		7,750,000	-	7,750,000	5,050,000
5.2. Longer-term refinancing operations		23,440,840	-	23,440,840	42,694,010
5.3. Fine-tuning reverse operations		-	-	-	-
5.4. Structural reverse operations		-	-	-	-
5.5. Marginal lending facility		-	-	-	119,500
5.6. Credits related to margin calls		-	-	-	-
6. Other claims on euro area credit institutions denominated in euro	5	58,708	-	58,708	43,608
7. Securities of euro area residents denominated in euro		17,883,329	-	17,883,329	14,018,808
7.1. Securities held for monetary policy purposes	7	5,271,566	-	5,271,566	6,031,073
7.2. Other securities	5	12,611,763	-	12,611,763	7,987,736
9. Intra-Eurosystem claims	8	33,172,001	-	33,172,001	29,470,899
9.1. Participating interest in the ECB		203,700	-	203,700	212,990
9.2. Claims equivalent to the transfer of foreign reserves to the ECB		1,010,318	-	1,010,318	1,022,025
9.3. Net claims arising from balances of TARGET accounts		-	-	-	-
9.4. Net claims related to the allocation of euro banknotes within the Eurosystem		31,920,350	-	31,920,350	28,197,550
9.5. Other intra-Eurosystem claims		37,632	-	37,632	38,335
10. Items in the course of settlement		6	-	6	3,018
11. Other assets		6,750,766	296,273	6,454,494	6,558,226
11.1. Coins of the euro area		34,919	-	34,919	44,970
11.2. Tangible fixed assets and intangible assets	9	345,698	226,130	119,568	122,013
11.3. Other financial assets	10	5,349,242	-	5,349,242	5,198,743
11.4. Off-balance-sheet instruments revaluation differences		0	-	0	-
11.5. Accruals and prepaid expenses	11	667,278	-	667,278	1,009,425
11.6. Sundry	12/19	353,629	70,143	283,486	183,075
Total depreciation and amortisation		-	226,130	-	-
Total impairment	19	-	70,143	-	-
Total assets		105,904,437	296,273	105,608,164	111,591,760

Liabilities, revaluation accounts, general risk provision and equity EUR thousands

	Note number	31 Dec. 2014	31 Dec. 2013
1. Banknotes in circulation	13	23,299,051	22,303,015
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	3,589,088	8,218,427
2.1. Current accounts of credit institutions for compliance with minimum reserve requirements		3,589,088	2,667,427
2.2. Deposit facility			5,535,000
2.3. Fixed-term deposits			
2.4. Fine-tuning reverse operations			
2.5. Deposits related to margin calls			16,000
3. Other liabilities to euro area credit institutions denominated in euro			
5. Liabilities to other euro area residents denominated in euro	15	7,989,193	7,629,461
5.1. General government		7,830,113	7,629,417
5.2. Other liabilities		159,080	43
6. Liabilities to non-euro area residents denominated in euro	16	416	426
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	961,643	901,883
10. Intra-Eurosystem liabilities		54,638,058	59,564,538
10.1. Liabilities related to the issuance of ECB debt certificates			
10.2. Net liabilities arising from balances of TARGET accounts	8	54,591,105	59,564,536
10.3. Net liabilities related to the allocation of euro banknotes within the Eurosystem			
10.4. Other net liabilities within the Eurosystem	8	46,954	3
11. Other liabilities		341,411	385,168
11.1. Off-balance-sheet instruments revaluation differences			
11.2. Accruals and income collected in advance	17	21,681	34,536
11.3. Sundry	18	319,730	350,631
12. Provisions	19		
13. Revaluation accounts	20	9,636,837	7,758,201
14. General risk provision	19	3,566,622	3,321,622
15. Equity	21	1,281,706	1,256,006
15.1. Capital		1,000	1,000
15.2. Reserves and retained earnings		1,280,706	1,255,006
16. Profit for the year		304,139	253,013
Total liabilities, revaluation accounts, general risk provision and equity		105,608,164	111,591,760

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

EUR thousands

Items	Note number	31 Dec. 2014	31 Dec. 2013
1. Interest income		765,766	1,155,795
2. Interest expense		117,069	428,789
3. Net interest income	22	648,697	727,006
4. Realised gains / losses arising from financial operations	23	217,740	(5,227)
5. Unrealised losses on financial assets and positions	24	1,414	114,246
6. Transfer from / to risk provisions	19	(245,000)	(130,000)
7. Net result of financial operations, unrealised losses and risk provisions		(28,674)	(249,473)
8. Fees and commissions income		5,565	6,536
9. Fees and commissions expense		5,655	5,285
10. Net income from fees and commissions		(90)	1,252
11. Income from equity shares and participating interest	25	24,564	54,215
12. Net result of pooling of monetary income	26	(30,267)	11,227
13. Other income	27	6,577	17,407
14. Total net income		620,806	561,633
15. Staff costs	28	114,687	123,363
16. Supplies and services from third parties		42,101	37,552
17. Other administrative expenses		1,126	1,113
18. Depreciation and amortisation for the year	9	13,990	13,691
19. Total administrative expenses		171,904	175,719
20. Costs with banknote production		13,082	12,972
21. Other expenses	27	2,680	18,415
22. Losses for impairment of assets (losses / reversals)	29	(77)	(3,689)
23. Transfer to the reserve relating to capital gains on gold sales			
24. Totals costs and losses (net)		187,590	203,417
25. Income before taxes		433,217	358,217
26. Income tax		129,078	105,203
26.1. Income tax – current	30	127,736	74,624
26.2. Income tax – deferred	30	1,342	30,580
27. Profit for the year		304,139	253,013

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

EUR thousands

Description	Note number	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 2012 (1)		1,000	227,981	1,245,039	(80,857)	(237,007)	449,155	1,605,311
2012 profit distribution								
Dividends distribution to shareholders	21	-	-	-	-	-	(359,324)	(359,324)
Other operations	21	-	44,915	(35,942)	80,857	-	(89,831)	-
Sub-total of 2012 profit distribution (2)		-	44,915	(35,942)	80,857	-	(449,154)	(359,324)
Changes in 2013								
Actuarial gains / losses of the Pension Fund	32	-	-	-	-	4,858	-	4,858
Actuarial gains / losses of other post-employment benefits	32	-	-	-	-	12,285	-	12,285
Adjustments on account of deferred taxes	30	-	-	-	-	(7,125)	-	(7,125)
Sub-total of changes in 2013 (3)		-	-	-	-	10,019	-	10,019
Net profit for 2013 (4)		-	-	-	-	-	253,013	253,013
Comprehensive income for 2013 (5) = (3) + (4)		-	-	-	-	10,019	253,013	263,032
Position as at 31 December 2013 (6) = (1) + (2) + (5)		1,000	272,896	1,209,098	-	(226,988)	253,014	1,509,019
Position as at 31 December 2013 (7)		1,000	272,896	1,209,098	-	(226,988)	253,014	1,509,019
2013 profit distribution								
Dividends distribution to shareholders	21	-	-	-	-	-	(202,411)	(202,411)
Other operations	21	-	25,301	25,301	-	-	(50,603)	-
Sub-total of 2013 profit distribution (8)		-	25,301	25,301	-	-	(253,013)	(202,411)
Changes in 2014								
Actuarial gains / losses of the Pension Fund	32	-	-	-	-	(15,303)	-	(15,303)
Adjustments on account of deferred taxes	30	-	-	-	-	(9,599)	-	(9,599)
Sub-total of changes in 2014 (9)		-	-	-	-	(24,902)	-	(24,902)
Net profit for 2014 (10)		-	-	-	-	-	304,139	304,139
Comprehensive income for 2014 (11) = (9) + (10)		-	-	-	-	(24,902)	304,139	279,237
Position as at 31 December 2014 (12) = (7) + (8) + (11)		1000	298,197	1,234,399	-	(251,890)	304,139	1,585,845

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, save as otherwise stated)

Note 1 • Bases of presentation and main accounting policies

1.1 Bases of presentation

The financial statements of Banco de Portugal have been prepared in accordance with the Chart of Accounts of Banco de Portugal (Plano de Contas do Banco de Portugal – PCBP), approved by the member of Government responsible for Finance, in accordance with the provisions laid down in Article 63 (1) of the Organic Law of Banco de Portugal, and entered into force on 1 January 2012. The PCBP is a regulation specifically and appropriately designed for the central bank activity.

The bases for preparation of the financial statements, envisaged in the PCBP in force, rely on two major regulations: (i) Accounting Guideline of the European Central Bank² (ECB), which adopts – taking into account the provisions laid down in Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the ‘Statute of the ESCB’) – 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 cumulative conditions laid down in PCBP are met.

The PCBP defined two single balance sheet items: (i) Revaluation accounts, representing potential gains that are not recognised in Profit / loss (Section 1.2 (d) and (p) of this note); and (ii) the General risk provision, which unlike the other provisions, is equivalent to a reserve, although its increases and reductions are directly made against Profit / loss (Section 1.2 (q) of this note). These two items are recorded in the balance sheet between Liabilities and Equity.

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

Participating interests in subsidiaries and associated companies have a long-standing nature and their maintenance is connected with the Bank’s activity. However, given the immaterial nature of the results of a possible consolidation process, the Bank does not prepare consolidated financial statements.

With regard to the disclosures of positions relating to the participation in the operation of the European System of Central Banks (ESCB), the Bank follows the harmonised procedures laid down by the ECB. As to the other business areas, the disclosures are on the information defined by the IFRS, whenever it does not collide with (i) the day-to-day activity of the markets and market players; (ii) the purposes of the operations conducted by Banco de Portugal; and (iii) the objective of Banco de Portugal as the central bank.

The Bank, as an integral part of the ESCB, is subject to the provisions laid down in Article 27 (1) of 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. For the purpose of ensuring the independence of the external auditors, the Bank follows the good practice defined by the Eurosystem to this end.

1.2 Synopsis of the main accounting policies

The main accounting policies and valuation criteria used in the preparation of the financial statements of Banco de Portugal for the year 2014 are the following:

a) Accounting assumptions and qualitative characteristics of the financial statements

The financial statements of Banco de Portugal reflect the economic reality of its assets and liabilities and are prepared in accordance with the following accounting assumptions: accrual basis of accounting principle (in relation to most financial statement items, namely with regard to interest income and interest expense, which 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) and continuity. The qualitative characteristics of the financial statements are understandability, relevance, reliability and comparability.

b) Recognition of assets and liabilities

Assets are resources controlled by the Bank on an individual basis, or by the Eurosystem on a collective basis (pooling), resulting from past events and which are expected to generate future economic benefit. Liabilities are commitments resulting from past events and their settlement is expected to result in an outflow of funds or investment of resources representing economic benefit.

c) Recognition date

Assets and liabilities in general are recognised on the settlement date rather than on the trade date. When the year ends between the settlement date and the trade date, transactions are recognised in off-balance-sheet accounts on the trade date.

Foreign exchange forward transactions are recognised in the balance sheet not on the

settlement date, but on the trade date, having an influence on the average cost of the foreign currency position as from that date.

The spot leg of foreign exchange swaps is recognised on the spot settlement date. The forward leg is recognised on the settlement date of the spot leg by the same amount, the difference between the two legs being treated as interest (Section 1.2 (g) of this note).

d) Recognition of gains and losses

The Bank applies an asymmetric valuation approach to unrealised gains in accordance with the ECB Accounting Guideline. Thus, in the course of the period, revaluation differences (difference between the market value and the weighted average cost) are recognised in the balance sheet, in specific revaluation accounts for each type of asset and currency. At the end of the fiscal year, negative revaluation differences are recognised in the Profit and Loss Account as unrealised losses. There shall be no netting of revaluation differences in any one security (ISIN code), or in any currency.

Realised gains/losses arising from financial operations, determined by the difference between the transaction value and the weighted average cost, are recognised in the Profit and Loss Account on the settlement date, except in the situations envisaged in the 'economic approach' alternative method, described in the ECB Accounting Guideline, namely operations traded in one year but whose settlement only occurs in the subsequent year, where gains and losses arising from financial operations are immediately recognised on the trade date.

e) Balance sheet valuation rules

Gold, foreign exchange transactions and securities in the trading portfolio are valued at the end of the fiscal year at the exchange rates and market price prevailing on the reporting date. The securities classified as held-to-maturity and securities held for monetary policy purposes regarding the programmes currently implemented are valued at amortised cost less potential impairment losses.

Foreign currency revaluation is made on a currency-by-currency basis and no distinction is made between spot and forward currency positions. Positions denominated in Special Drawing Rights (SDRs), including currency holdings underlying the SDR basket, are treated as one holding. Securities price revaluation is made on a securities-by-securities base (ISIN code) by category.

No distinction is made between the gold price revaluation and the foreign currency revaluation. A single revaluation shall be made based on the price in euro per defined unit of weight of gold.

The accounting treatment of gold and foreign currencies is similar, with the average cost of the gold stock being only changed when the amount purchased on a given day is higher than the amount sold.

Participating interests in subsidiaries and associated companies, recorded under Other financial assets, are valued in accordance with the recommendations of the ECB Accounting Guideline, through the Net Asset Value valuation method.⁴ The remaining participating interests are recognised according to the acquisition cost criterion, subject to potential impairment losses.

Tangible fixed assets and intangible 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 recorded in twelfths, according to the straight-line method, by applying annual depreciation and amortisation rates according to the estimated useful life:

	Number of years
Tangible fixed assets	
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
Intangible assets	3

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

Accounts receivable, payable and deposits with third parties and held by third parties with the Bank, as well as the remaining balance sheet positions denominated in euro not previously mentioned in this item, are recognised at nominal value.

f) Securities

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

Premiums or discounts arising on securities are calculated and presented as part of interest income and shall be amortised over the remaining life of the securities, either according to the straight-line method, in the case of coupon securities, or the internal rate of return (IRR) method, in the case of zero coupon securities.

• Securities held for monetary policy purposes

The item Securities held for monetary policy purposes includes securities related to non-standard monetary policy operations, namely: the covered bond purchase programmes – CBPP, CBPP2 and CBPP3, the securities markets programme – SMP, within the framework of the Eurosystem, the outright monetary transactions – OMT programme, currently closed, and the asset-backed securities purchase programme – ABSPP, currently centralised on the balance sheet of the ECB.

In 2014 the Governing Council of the ECB decided that the securities currently held for monetary policy purposes, previously classified as held-to-maturity, shall be valued at amortised cost, being subject to impairment tests conducted at Eurosystem level, regardless

of the holding intention. The new valuation category does not result in any adjustment to the accounts for comparability purposes, as these securities were already subject to this valuation in 2013.

- Securities for other than monetary policy purposes

Securities for other than monetary policy purposes include the following portfolios:

- 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 amortised cost of the 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 correspond to the difference between the amortised cost of the security and the respective market value, and are treated as referred to in section 1.2 (d) of this note.

- Medium-term investment portfolio

The portfolio of held-to-maturity securities, is valued at amortised cost, calculated in a totally independent manner from the remaining securities classified as trading securities, and is subject to impairment tests according to the model defined at Eurosystem level. The accounting treatment of interest and premiums and discounts of securities held in this portfolio is similar to that of the portfolio of marketable securities.

g) Derivative financial instruments

Foreign exchange forward transactions and forward legs of foreign exchange swaps are recognised in on-balance-sheet and off-balance-sheet accounts. In the case of foreign exchange forward transactions, the difference between the market exchange rate of the trade date and the agreed exchange rate is recognised as interest and recorded on a straight-line basis during the lifetime of the transaction. In the case of foreign exchange swaps, this interest is determined by the difference between the agreed currency spot rate and the agreed forward rate of exchange.

Interest rate swaps and interest rate futures are recorded in the balance sheet and revalued on a case-by-case basis. As to interest rate swaps, the revaluation gain / loss is treated as described in (d) of this note. In the case of interest rate futures, the result of the daily revaluation is recognised in Profit / loss for the year, in line with the financial flows resulting from the change in the respective margin account.

h) Intra-ESCB balances

Pursuant to the Statute of the ESCB, the NCBs of the ESCB are the sole subscribers to and holders of the capital of the ECB (Article 28). The subscription of capital is made according to the key established in Article 29. Thus, Banco de Portugal's share in the capital of the ECB and claims allocated by the ECB relating to the transfer of foreign reserve assets as envisaged in Article 30 result from applying the weightings referred to in Article 29. Banco de Portugal's share in the capital of the ECB is recorded in the balance sheet in Assets under Participating interest in the ECB.

Intra-Eurosystem balances, recognised under Claims / liabilities arising from balances of TARGET accounts, result from cross-border payments in the EU that are settled in euro. These transactions are for the most part initiated by private entities and are initially settled in TARGET2 – 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.

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 related to the allocation of euro banknotes within the Eurosystem (Section 1.2 (i) of this note).

i) Banknotes in circulation

The ECB and the NCBs of the euro area, which together comprise the Eurosystem, put euro banknotes in circulation.⁵ The ECB and 12 of these NCBs have issued euro banknotes since 1 January 2002; the central bank of Slovenia adopted the euro on 1 January 2007; the central banks of Cyprus and Malta adopted the euro on 1 January 2008; the central bank of Slovakia adopted the euro on 1 January 2009; the central bank of Estonia adopted the euro on 1 January 2011; and the central bank of Latvia adopted the euro on 1 January 2014. 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'.⁶

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, are disclosed under the sub-items Net claims / liabilities related to the allocation of euro banknotes within the Eurosystem.

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.

j) Distribution of ECB's income

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as income from the securities purchased by the ECB under the SMP, CBPP3 and ABSPP portfolios, shall be due to the NCBs in the same period it accrues and distributed on the last working day of January of the following financial year in the form of an interim distribution of profit.⁸ 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 the above-mentioned securities

purchase programmes 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.

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

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

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

The recognition of costs and liabilities related to retirement pensions is made in accordance with IAS 19, incorporating the latest amendments endorsed by the European Union. According to the provisions laid down therein, the amount recorded in staff costs refers to the current service cost and to net interest cost, which is calculated by applying a single interest rate to the Fund's assets and liabilities. Actuarial gains/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 recognised under Retained earnings.

Upon a decision of the Board of Directors of Banco de Portugal, in 2014, the Bank's liabilities related to other post-employment benefits, until then directly assumed by Banco de Portugal, were transferred to the Pension Fund – Defined-benefit plan. These

post-employment benefits are related to (i) the allocation of retirement and survivors pensions to retired employees and pensioners who were 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) the contribution to retired employees and pensioners' healthcare and funeral expenses. Simultaneously with this transfer of liabilities, the Pension Fund – Defined-benefit plan contract was amended to include the existing two benefit plans – the Pension Plan and the Healthcare Plan, as detailed in note 32.

Contributions made for the Pension Plan and the Healthcare Plan within the Fund aim to ensure its solvency. The minimum funding ratio required is 100% for the pensioners liabilities, and 95% for the past service liabilities of active members.

l) Pension Fund – Defined-contribution plan

The employees who have started working at the Bank after 3 March 2009, pursuant to Decree-Law No 54/2009 of 2 March, 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.

m) Seniority Bonuses

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

The SGFPBP calculates the current value of benefits with seniority bonuses on an annual basis, on the cut-off date for the accounts, using the Projected Unit Credit Method. The main actuarial assumptions (financial and

demographic) used in the calculation of the present value of these benefits are presented in note 32.

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.

n) 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 and are recognised in Profit/loss, except when they are related to items directly recognised in equity, in which case they are also recorded against equity.

o) Impairment and provisions

Impairment of assets is recognised in the balance sheet 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 best estimate of future financial flows.

Provisions are recognised when: (i) the Bank has a present, legal or constructive obligation, (ii) their payment will likely be required and (iii) a reliable estimate can be made of the value of that payment obligation. In this scope, provisions are recognised in liabilities through the best estimate of the payment amount,

as at the date of preparation of the financial statements.

PCBP provides for the setting up of provisions resulting from risk shared with all other euro area NCBs, according to decisions and within the limits set by the Governing Council of the ECB. These provisions are deductible for tax purposes. For other provisions or impairment, the Bank follows the regime defined in the Corporate Income Tax Code.

p) Revaluation accounts

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

It should be noted that at the end of the year, in accordance with the principle of prudence, when the revaluation differences are negative they are transferred to the Profit and Loss Account (to the item Unrealised losses), contributing to the calculation of net profit/loss for the year.

q) 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 different from the other provisions, as its nature is equivalent to that of a reserve, although its increases and reductions are directly made against the Profit and Loss Account.

The definition of the amount of the general risk provision, among other factors, takes into account the assessment of risks for the

period under review, against a background of strengthened own funds and the maintenance of financial autonomy levels suited to the Bank's mission, enabling it, at any time, to cover potential losses, including those resulting from risk sharing with the Eurosystem. 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 (Section 1.1 of this note).

r) 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. 2014		31 Dec. 2013	
	Fine, ounces, (*)	EUR, thousands	Fine, ounces, (*)	EUR, thousands
Gold stored at the Bank	5,549,245	5,481,372	5,549,398	4,834,746
Gold sight accounts	6,747,916	6,665,383	6,747,916	5,878,920
Gold reserve	12,297,161	12,146,754	12,297,314	10,713,666

(*) Ounce of fine gold.

As at 31 December 2014 the value of gold increased by €1,433,088 thousand compared with the 2013 end balance. This increase was solely due to positive developments in the price of gold denominated in euro. The slight reduction in 2014 of the amount of gold stored at the Bank is due to the transfer of coins held in the reserve to the Bank's museum collection.

On 31 December 2014 the Bank's gold reserve was valued at the market price of €987.77 per ounce of fine gold, which corresponds to a 13% price rise, from €871.22 on 31 December 2013. The increase in this price was due to the appreciation of the US dollar against the euro (14%) between these two dates, as there was a fall in the price of the ounce of fine gold

denominated in US dollars, from USD 1,201.5 on 31 December 2013 to USD 1,199.25 on 31 December 2014.

Revaluation differences associated with the gold reserve are calculated taking as a basis the price of the ounce of fine gold denominated in euro, and no distinction is made between the gold price revaluation and the foreign currency revaluation. Unrealised gains resulting from this asset (€9,116,374.74 thousand on 31 December 2014) are recognised as positive revaluation differences according to the accounting policy described in sections 1.2 (e) and (p) of note 1 (Note 20).

The location of gold reserves is as follows:

Location	31 Dec. 2014		31 Dec. 2013	
	Fine ounces	EUR thousands	Fine ounces	EUR thousands
In Portugal	5,549,245	5,481,372	5,549,398	4,834,746
Abroad				
Bank of England	5,988,932	5,915,681	5,988,932	5,217,677
Bank for International Settlements (BIS)	640,658	632,822	640,658	558,154
Federal Reserve Bank – United States	118,327	116,879	118,327	103,089
Total	12,297,161	12,146,754	12,297,314	10,713,666

Note 3 • Lending and deposit operations with the International Monetary Fund (FMI)

	31 Dec. 2014		31 Dec. 2013	
	SDR thousands	EUR thousands	SDR thousands	EUR thousands
IMF quota	1,029,700	1,227,814	1,029,700	1,151,514
IMF's holdings	(821,876)	(980,004)	(821,922)	(919,155)
Reserve tranche position in the IMF	207,824	247,810	207,778	232,359
SDR holdings	792,787	945,319	792,636	886,405
Other claims on the IMF	34,000	40,542	64,000	71,571
Claims on the IMF	1,034,612	1,233,671	1,064,414	1,190,335
Counterpart of special drawing rights allocated by the IMF	(806,477)	(961,643)	(806,477)	(901,883)
Liabilities to the IMF	(806,477)	(961,643)	(806,477)	(901,883)

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

The reserve tranche position in the IMF reflects the equivalent in euro, on 31 December 2014, of Portugal's quota in the IMF, corresponding to the initial participation and subsequent payments, to the total value of €1,227,814 thousand (SDR 1,029,700 thousand) less €980,004 thousand (SDR 821,876 thousand) of the IMF's holdings with Banco de Portugal. It should be noted that in 2014 Portugal's quota in the IMF remained unchanged and the change in its value denominated in euro resulted exclusively from changes in the SDR quotation compared with December 2013.

In December 2014 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 945,319 thousand (SDR 792,787 thousand); and (ii) Other claims on the IMF, which includes Portugal's participation in the loans under the New Arrangements to Borrow (NAB), to the amount of €40,542 thousand (SDR 34,000 thousand, with a negative change by SDR 30,000 thousand from December 2013, due to the maturity of the first tranche of these loans). NAB are financial agreements between the IMF and some of its member countries with financial capacity to help the international monetary system, which enable the IMF to obtain resources under pre-established terms and conditions in order to act when needed. These arrangements correspond to credit lines, approved by each member country. The maximum amount of Banco de Portugal's participation in NAB is SDR 1,542,130 thousand (Note 31).

The liability position corresponds to the item Counterpart of special drawing rights allocated by the IMF, which showed a €961,643 thousand (SDR 806,477 thousand) liability to the IMF on 31 December 2014.

The changes in the different claim and liability items also include the effect of the SDR depreciation against the euro compared with 31 December 2013 (-6.2%).

Note 4 • Balances with banks and security investments, loans and other assets denominated in foreign currency

	31 Dec. 2014	31 Dec. 2013		31 Dec. 2014	31 Dec. 2013
Claims on non-euro area residents denominated in foreign currency			Securities of non-euro area residents denominated in foreign currency		
Securities	2,750,124	721,673	Securities of non-euro area residents denominated in foreign currency	2,628,804	621,853
Balances with banks, deposits and other money markets	13,098	101,473	Paragovernmental and supranational	121,320	99,820
	2,763,222	823,147		2,750,124	721,673
Claims on euro area residents denominated in foreign currency			Securities of euro area residents denominated in foreign currency		
Securities of euro area residents denominated in foreign currency	99,585	161,174	Government debt	99,585	36,134
Balances with banks, deposits and other money markets	251,216	183,692	Paragovernmental and supranational	-	125,040
	350,801	344,866		99,585	161,174
Total security investments denominated in foreign currency	2,849,709	882,847		2,849,709	882,847
Total balances with banks, deposits and other money markets in foreign currency	264,314	285,166			
	3,114,023	1,168,012			

In 2014 there was an increase in the trading portfolio of claims denominated in foreign currency arising from strategic investment options of the Bank. The rise resulted mainly from an increase in securities held in portfolio, valued at market prices, which on 31 December 2014 accounted for 92% of total claims denominated in foreign currency (2013: 76%), broken down as follows:

In terms of the composition by currency, as at 31 December 2014 the portfolio denominated in foreign currency was mainly composed of US dollars (around 90% of total foreign currency) as it was already the case in 2013 (91% of total foreign currency corresponded to US dollars).

Note 5 • Balances with banks and security investments, loans and other assets denominated in euro

	31 Dec. 2014	31 Dec. 2013
Claims on non-euro area residents denominated in euro		
Securities	349,817	468,421
Balances with banks, deposits and other money markets	4,521	93,257
	354,338	561,678
Claims on euro area residents denominated in euro		
Securities	12,611,763	7,987,736
Balances with banks, deposits and other money markets	58,708	43,608
	12,670,471	8,031,344
Total security investments denominated in euro	12,961,580	8,456,157
Total balances with banks, deposits and other money markets denominated in euro	63,230	136,865
	13,024,809	8,593,022

The volume of the trading portfolio denominated in euro recorded a marked increase compared with December 2013, as a result of the Bank's strategic options, but its structure is identical

at the level of the composition by financial instrument and residence. According to the Bank's strategic options, the domestic securities component continues to account for the largest share in this portfolio (97% of total claims in 2014 and 93% in 2013).

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

	31 Dec. 2014	31 Dec. 2013
Securities of non-euro area residents denominated in euro		
Paragovernmental and supranational	317,696	441,412
Companies / financial institutions	32,120	27,010
	349,817	468,421
Securities of euro area residents denominated in euro		
Government debt	11,695,354	6,479,220
Paragovernmental and supranational	857,341	1,455,825
Companies / financial institutions	59,068	52,691
	12,611,763	7,987,736
	12,961,580	8,456,157

Note 6 • Lending to euro area credit institutions related to monetary policy operations denominated in euro

On 31 December 2014 the value of the refinancing operations to euro area credit institutions related to monetary policy operations denominated in euro at Eurosystem level stood at €630,342 million (2013: €752,438 million), of which Banco de Portugal held €31,191 million (2013: €47,864 million).

The main refinancing operations (MROs) are liquidity-providing reverse transactions with a weekly frequency and a maturity of one week. Since October 2008 these operations have been conducted as fixed rate tender procedures with full allotment. On 31 December 2014 the total

amount placed by Banco de Portugal amounted to €7,750,000 thousand (2013: €5,050,000 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, conducted as part of the regular monetary policy measures of the Eurosystem, with a maturity of three, six, twelve, thirty-six and forty-eight months. On 31 December 2014 the balance

outstanding of the amount placed by Banco de Portugal stood at €23,440,840 thousand (2013: €42,694,010 thousand), with a fixed or floating rate, with reference to the prevailing MRO rates. On this date only the operations with a maturity of three, thirty-six and forty-eight months were outstanding.

The first LTRO with a maturity of thirty months was settled on 22 December 2011 and the second on 1 March 2012, with the counterparties making use of the total or partial early repayment option from 30 January 2013. In the course of 2013 and 2014, a number of credit institutions made use of the said early repayment option, repaying part of the amounts they had been allotted in these operations.

On 5 June 2014 the Governing Council of the ECB approved the conduct of targeted longer-term refinancing operations with a maximum maturity of 48 months, to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy. In 2014

two operations of this type were conducted, one in September and the other in December.

In addition, the Eurosystem makes available the marginal lending facility, corresponding to overnight loans at the pre-specified rate for these operations. On 31 December 2014 recourse to this facility by Banco de Portugal was nil (2013: €119,500 thousand).

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

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

Note 7 • Securities held for monetary policy purposes

	31 Dec. 2014		31 Dec. 2013	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes				
Eurosystem's securities markets programme (SMP)	3,959,867	4,494,913	4,872,542	5,161,868
Covered bond purchase programme (CBPP)	543,714	567,805	925,916	944,022
Covered bond purchase programme 2 (CBPP2)	161,511	182,119	232,615	256,018
Covered bond purchase programme 3 (CBPP3)	606,473	605,927	-	-
	5,271,566	5,850,765	6,031,073	6,361,907

On 31 December 2014 the portfolio of securities held for monetary policy purposes was composed of public debt securities acquired by Banco de Portugal under the securities markets programme (SMP) and the covered bond purchase programmes (CBPP, CBPP2 and CBPP3) respectively (Section 1.2 (f) of note 1).

Under the Eurosystem's SMP, the ECB and the NCBs purchased securities in order to address

the malfunctioning in certain segments of the euro area debt securities markets and restore the proper functioning of the monetary policy transmission mechanism. The Governing Council of the ECB decided on 6 September 2012 to terminate this programme for new purchases. Therefore, in 2013 and 2014 no purchases were made for this portfolio. The reduction in this item, in 2014, was solely due to securities that matured.

Under the covered bond purchase programmes (CBPP and CBPP2), the ECB and the NCBs purchased covered bonds of euro area residents denominated in euro with the objective of easing funding conditions for credit institutions and enterprises as well as encouraging credit institutions to maintain or expand lending to their customers. Purchases under these programmes were fully implemented by 30 June 2011 (CBPP) and by 31 October 2013 (CBPP2). The reduction in these items in 2014 was due to bonds that matured. On 2 October 2014, the Governing Council of the ECB announced the technical details of the third covered bond purchase programme (CBPP3), through which the ECB and the NCBs started to purchase covered bonds of euro area residents denominated in euro with the same purpose as CBPP and CBPP2. Securities purchased under this programme will last at least two years. Under the asset-backed securities purchase programme (ABSPP),¹¹ the ECB and the NCBs may purchase senior and guaranteed mezzanine tranches of asset-backed securities in both primary and secondary markets, to facilitate credit provision to the euro area economy. Initial purchases of these securities are being made by the ECB and this programme will last for two years.

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities purchased under the SMP, the CBPPs and the ABSPP. Within the Eurosystem, in the context of the programmes of shared risk and pooling of income, the total Eurosystem NCB's holding of securities amounts to €134,162,443 thousand in the SMP portfolio (2013: €165,845,509 thousand), of which Banco de Portugal holds €3,959,867 thousand, and €27,333,190 thousand in the CBPP3 portfolio, of which Banco de Portugal

holds €606,473 thousand. In accordance with Article 32.4 of the Statute of the ESCB, any losses arising from holdings of SMP securities, if they materialise, they will be shared by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

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 2014.

With regard to the impairment test conducted at the end of 2014 on securities purchased under the SMP, the Governing Council of the ECB decided that all estimated future cash flows on these securities are expected to be received.

As to the impairment test conducted at the end of 2014 on covered bonds held in the CBPP, CBPP2 and CBPP3 portfolios, the Governing Council of the ECB identified one impairment indicator, relating to holdings of securities of Banco Espírito Santo, S.A., which occurred in the course of 2014. This was due to the resolution measure that led to the creation of a bridge bank, the Novo Banco, S.A. The Governing Council of the ECB considered that the occurrence of this indicator does not warrant impairment losses in respect of the NCBs' holdings since, on the basis of the information available as at 31 December 2014, there was no evidence of changes in the estimated future cash flows. No impairment loss was therefore recorded at the year-end on the holdings of these securities.

Furthermore, there was no evidence of impairment in respect of the other covered bonds purchased under the CBPP, CBPP2 and CBPP3 programmes.

Note 8 • Intra-eurosystem claims and liabilities

- Participating interest in the ECB

Pursuant to Article 28 of the Statute of the ESCB, the NCBs of the ESCB 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, 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.¹²

As a result of the most recent quinquennial capital key adjustment, in force since 1 January 2014, the ECB's capital key was adjusted as follows:

NCB	Country	Key for subscription of the ECB's capital	
		From 1 Jan. 2014	Until at 31 Dec. 2013
Nationale Bank van België / Banque Nationale de Belgique	Belgium	2.4778 %	2.4176 %
Deutsche Bundesbank	Germany	17.9973 %	18.7603 %
Eesti Pank	Estonia	0.1928 %	0.1780 %
Central Bank of Ireland	Ireland	1.1607 %	1.1111 %
Bank of Greece	Greece	2.0332 %	1.9483 %
Banco de España	Spain	8.8409 %	8.2533 %
Banque de France	France	14.1792 %	14.1342 %
Banca d'Italia	Italy	12.3108 %	12.4570 %
Central Bank of Cyprus	Cyprus	0.1513 %	0.1333 %
Latvijas Banka	Latvia	0.2821 %	-
Banque centrale du Luxembourg	Luxembourg	0.2030 %	0.1739 %
Central Bank of Malta	Malta	0.0648 %	0.0635 %
De Nederlandsche Bank	Netherlands	4.0035 %	3.9663 %
Oesterreichische Nationalbank	Austria	1.9631 %	1.9370 %
Banco de Portugal	Portugal	1.7434 %	1.7636 %
Banka Slovenije	Slovenia	0.3455 %	0.3270 %
Národná banka Slovenska	Slovakia	0.7725 %	0.6881 %
Suomen Pankki – Finlands Bank	Finland	1.2564 %	1.2456 %
Euro area NCBs		69.9783 %	69.5581 %
Българска народна банка (Bulgarian National Bank)	Bulgaria	0.8590 %	0.8644 %
Česká národní banka	Czech Republic	1.6075 %	1.4539 %
Danmarks Nationalbank	Denmark	1.4873 %	1.4754 %
Hrvatska narodna banka	Croatia	0.6023 %	0.5945 %
Latvijas Banka	Latvia	-	0.2742 %
Lietuvos bankas	Lithuania	0.4132 %	0.4093 %
Magyar Nemzeti Bank	Hungary	1.3798 %	1.3740 %
Narodowy Bank Polski	Poland	5.1230 %	4.8581 %
Banca Națională a României	Romania	2.6024 %	2.4449 %
Sveriges Riksbank	Sweden	2.2729 %	2.2612 %
Bank of England	United Kingdom	13.6743 %	14.4320 %
Non-euro area NCBs		30.0217 %	30.4419 %
		100.0000 %	100.0000 %

Following the adjustment of the reference statistical data to be used in the calculation of the ECB's capital key, which occurred on the occasion of the 2014 quinquennial adjustment, Banco de Portugal's share in the subscribed capital of the ECB decreased from 1.7636% to 1.7434%, and the value of the Bank's share, including supplementary payments due to the adjustment of accumulated reserves decreased

from €212,990 thousand on 31 December 2013 to €203,700 thousand on 31 December 2014.

The share of Banco de Portugal in the ECB's capital, subscribed and paid up by the NCBs of the Eurosystem, decreased from 2.5354% on 31 December 2013 to 2.4913% on 31 December 2014.

- Claims equivalent to the transfer of foreign reserves

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

As a result of the adjustments in the share that NCBs hold in the subscribed capital of the ECB and due to the entry 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.

The adjustment of the ECB's capital keys on 1 January 2014 also implied an adjustment in claims equivalent to the transfer of foreign reserves from Banco de Portugal to the ECB. To reflect the decrease in the capital key share, this position declined from €1,022,025 thousand on 31 December 2013 to €1,010,318 thousand on 31 December 2014.

- 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 Banco de Portugal's claims related to the allocation of euro banknotes within the Eurosystem (Sections 1.2 (i) and 1.2 (j) of note 1). As a result of the adjustment of the ECB's capital key, described above, Banco de Portugal's share in the banknote allocation key declined from 2.3325% on 31 December 2013 to 2.2920% on 31 December 2014.

The increase in this asset position compared with December 2013 (from €28,197,550 thousand to €31,920,350 thousand) is due to the combination of a rise in overall circulation in the Eurosystem (6% up from 2013) 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 (Note 13). The asset position of the adjustment to circulation is remunerated at the marginal interest rate used by the Eurosystem for MROs.

- Other intra-Eurosystem claims / liabilities

On 31 December 2014 the balance of the item Other intra-Eurosystem claims, to the amount of €37,632 thousand) referred to: (i) Eurosystem adjustments relating to previous years to the calculation method of the monetary income and, to additional income associated with insolvency proceedings of Eurosystem counterparties to the total amount of €16,687 thousand, settled on 30 January 2015 (Note 26); and (ii) an amount receivable of €20,945 thousand in respect of part of the early distribution of 2014 seigniorage income relating to euro banknotes issued by the ECB and of the securities acquired by the ECB under the SMP, CBPP3 and ABSPP portfolios also settled on 30 January 2015, following a decision of the Governing Council of the ECB (Note 25).

On 31 December 2014, the balance of the item Other intra-Eurosystem liabilities, to the amount of €46,954 thousand referred to the calculation method of the monetary income of 2014, settled on 30 January 2015 (Note 26).

- Net liabilities arising from balances of TARGET accounts

On 31 December 2014 Net liabilities arising from balances of TARGET accounts (Section 1.2 (j) of note 1) showed a credit position of €54,591,105 thousand (on 31 December 2013: €59,564,536 thousand). This position is remunerated at the marginal interest rate used by the Eurosystem for MROs.

Note 9 • tangible fixed assets and intangible assets

	31 Dec. 2014	31 Dec. 2013
Tangible fixed assets		
Land	8,888	8,888
Buildings and other constructions	108,185	107,208
Facilities	80,411	80,463
Equipment	85,297	82,008
Museum and art collections	9,082	8,939
	291,862	287,506
Intangible assets		
Computer software	42,524	41,195
Tangible fixed assets and intangible assets under construction	11,312	10,292
Total gross tangible fixed assets and intangible assets	345,698	338,993
Accumulated depreciation and amortisation		
Depreciation of tangible fixed assets	(185,937)	(179,300)
Amortisation of intangible assets	(40,192)	(37,680)
	(226,130)	(216,980)
Total net tangible fixed assets and intangible assets	119,568	122,013

In 2013 and 2014 movements in this item were as follows:

	31 Dec. 2012 Net balance	Additions	Disposals	Depreciation and amortisation for the year	31 Dec. 2013 Net Balance
Tangible fixed assets					
Land	8,895	-	8	-	8,888
Buildings and other constructions	37,697	25,024	10	2,595	60,116
Facilities	9,442	15,973	13	2,992	22,410
Equipment	8,641	3,675	363	4,099	7,854
Museum and art collections	8,814	150	24	-	8,939
	73,490	44,821	419	9,687	108,206
Intangible assets					
Computer software	5,442	2,077	-	4,004	3,515
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	48,090	5,048	42,999	-	10,138
Advances	162	155	164	-	154
	48,251	5,203	43,162	-	10,292
	127,184	52,101	43,581	13,691	122,013

	31 Dec. 2013 Net balance	Additions	Disposals	Depreciation and amortisation for the year	31 Dec. 2014 Net Balance
Tangible fixed assets					
Land	8,888	-	-	-	8,888
Buildings and other constructions	60,116	978	-	3,106	57,988
Facilities	22,410	2,933	13	3,575	21,755
Equipment	7,854	5,235	187	4,689	8,213
Museum and art collections	8,939	160	18	-	9,082
	108,206	9,306	218	11,370	105,925
Intangible assets					
Computer software	3,515	1,438	-	2,621	2,332
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	10,138	7,343	6,320	-	11,162
Advances	154	59	63	-	150
	10,292	7,402	6,382	-	11,312
	122,013	18,146	6,600	13,990	119,568

The item Tangible fixed assets and intangible assets under construction on 31 December 2014 refers chiefly to projects under way related to IT systems.

Note 10 • Other financial assets

	31 Dec. 2014	31 Dec. 2013
Participating interest in non-euro area resident entities	21,650	21,650
Participating interest in euro area resident entities	56,730	54,912
Medium-term investment portfolio	5,270,838	5,122,180
Other assets	24	2
	5,349,242	5,198,743

The item Other financial assets records mainly participating interests of Banco de Portugal and the medium-term investment portfolio.

The Bank's participating interest is broken down as follows:

	31 Dec. 2014		31 Dec. 2013	
	% Share	Value	% Share	Value
Participating interest in non-euro area resident entities				
In the Bank for International Settlements (BIS)	1.57 %	21,650	1.57 %	21,650
Participating interest in euro area resident entities				
In Finangeste, S.A.	44.44 %	27,297	44.44 %	27,800
In SGFPBP, S.A.	97.82 %	3,077	97.81 %	2,921
In Valora, S.A.	100.00 %	26,355	100.00 %	24,191
In Swift	0.01 %	1	0.01 %	1
		56,730		54,912

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 (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 (e) of note 1.

Within the scope of the Banco de Portugal's own fund management, the medium-term investment portfolio, given its characteristics, is included in Other financial assets. This portfolio is exclusively composed of securities denominated in euro and is valued at amortised cost less potential impairment losses. This portfolio increased by €148,658 thousand comparing December 2014 with December

2013, due to the reinvestment of the value of securities that matured in the course of the year and the value of coupon interest on securities held in this portfolio. As mentioned above, 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. 2014	31 Dec. 2013
Medium-term investment portfolio		
Government debt	5,114,574	4,739,258
Paragovernmental and supranational	156,264	232,965
Companies / financial institutions	-	149,957
	5,270,838	5,122,180

Note 11 • Accruals and prepaid expenses

	31 Dec. 2014	31 Dec. 2013
Accruals		
Interest and other income receivable from central bank operations	498,694	887,241
Other accruals	1,063	6,896
	499,757	894,136
Prepaid expenses		
Prepaid expenses from central bank operations	84,236	19,827
Other prepaid expenses	15,267	16,467
Deferred tax assets	68,018	78,994
	167,521	115,289
	667,278	1,009,425

On 31 December 2014 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 in foreign currency and of the medium-term investment portfolio denominated in euro;

and (iv) net claims/liabilities related to the allocation of euro banknotes, as referred to in section 1.2 (i) of note 1. The sharp decrease recorded from 2013 is largely related to the reduction in the amount of accrued interest receivable on lending related to monetary policy operations (€243,873 thousand on 31 December 2014 up from €553,637 thousand on 31 December 2013). In addition, there were also decreases in the amount of accrued income on trading portfolios denominated in euro, claims on the Eurosystem (mainly interest on adjustments to banknote circulation), portfolios of securities held for monetary policy purposes and medium-term investment portfolios.

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-term investment portfolio, and portfolio of securities held for monetary policy purposes) of outstanding interest paid to the counterparty at acquisition and which will be received by the Bank on the maturity date of the respective coupon or upon the sale of the securities.

The amount registered in Other prepaid expenses on 31 December 2014 includes, inter alia, €12,242 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 (Note 12).

Note 30 presents a more detailed description of the amount of deferred tax assets in 2013 and 2014.

Note 12 • Other assets – sundry

	31 Dec. 2014	31 Dec. 2013
Lending to employees	141,016	135,228
Special credit situations	70,136	70,219
Pension Fund – Defined-benefit plan	60,898	38,345
Pension Fund – Defined-contribution plan – Reserve account	4,188	4,501
Sundry debtors	1,004	1,104
Corporate Income Tax – Payments on account and additional payment on account	72,084	-
Other reduced value accounts	4,303	3,898
	353,629	253,295
Impairment of recoverable amounts	(70,143)	(70,220)
	283,486	183,075

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 €69,697 thousand (2013: €69,780 thousand).

An impairment for the value of this asset is recognised (Note 29). The slight reduction recorded in 2014 relates to the nominal amount of claims recovered by this entity, transferred to the Bank through the calculation of the annual instalment, under the above arrangement.

The nil amount recorded in 2013 in payments on account under Corporate Income Tax results from the fact that in 2012 the Bank had recorded a tax loss. In 2014 the amounts paid as payments on account under Corporate Income Tax comply with the provisions of Articles 104 and 104-A of the Corporate Income Tax Code).

The item Pension Fund – Defined-benefit plan relates to this Fund's surplus on 31 December 2014, resulting from the fact that this Fund on that date had a funding ratio above 100% (Note 32).

The position concerning the Pension Fund – Defined-contribution plan – Reserve account reflects the value of the participation units of this Fund earmarked for the Banco de Portugal on 31 December 2014, valued at market price, on that date (Note 32).

Note 13 • Banknotes in circulation

Euro banknotes in circulation on 31 December 2014 consist of the Banco de Portugal's share in total euro banknotes in circulation in the Eurosystem (Section 1.2 (i) of note 1).

	31 Dec. 2014	31 Dec. 2013
Banknotes in circulation		
Banknotes put into circulation (net)	(8,621,299)	(5,894,535)
Adjustments to circulation in the Eurosystem	31,920,350	28,197,550
	23,299,051	22,303,015

In 2014 the total value of euro banknotes in circulation in the Eurosystem increased by 6%. In accordance with the banknote allocation key, on 31 December 2014 Banco de Portugal recorded an aggregate value of banknotes in circulation of €23,299,051 thousand, compared with €22,303,015 thousand on 31 December 2013. In turn, the difference between

banknotes put into circulation and banknotes withdrawn from circulation recorded again on 31 December 2014 a debtor balance, rising from 2013. 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 (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, amounting to €3,589,088 thousand, on 31 December 2014 reflects chiefly the current accounts of credit institutions with Banco de Portugal (2013: €2,667,427 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 interest rate used by the Eurosystem for MROs.

In December 2013 this item also included the balance on deposit facility operations outstanding on this date (€5,535,000 thousand). These operations correspond to the overnight deposits of domestic credit institutions with Banco de Portugal, used as a means to access the liquidity-absorbing operations of the Eurosystem at the pre-specified rates for these operations.

Note 15 • Liabilities to other euro area residents denominated in euro

Since 2011, the General government sub-item recorded mainly recourses resulting from the Economic and Financial Assistance Programme to Portugal (Programa de Assistência Económica e Financeira a Portugal – PAEF). Therefore, on 31 December 2014 this item included the value of the current accounts relating to available loan disbursements from the EU, totalling €7,830,113 thousand (on 31 December 2013: €7,628,384

thousand) referred to the European Financial Stabilisation Mechanism (EFSM), to the Bank Solvency Support Facility (BSSF) and to the European Financial Stability Facility (EFSF).

The sub-item Other liabilities includes the balances on current accounts with the Banco de Portugal 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 2014 corresponds to the balances of

current accounts of several central banks and of international organisations (excluding the IMF).

Note 17 • Accruals and income collected in advance

	31 Dec. 2014	31 Dec. 2013
Income collected in advance		
Other income collected in advance	3	1
Deferred tax liabilities	348	383
	351	384
Accruals		
Accruals from central bank operations	2,818	16,141
Other accruals	18,512	18,011
	21,330	34,152
	21,681	34,536

The amount recorded in Accruals from central bank operations decreased compared with December 2013, chiefly as a result of a decline in the accrued remuneration of the December 2014 balance relating to TARGET (€2,366 thousand in

2014 compared with €13,110 thousand in 2013). This item also includes: (i) the accrued interest to be paid, regarding the remuneration of the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – briefly called IGCP) current accounts, arising from the operationalisation of the PAEF (as described in note 15), which also recorded a marked decrease from 2013 (€31 thousand in 2014 compared with €2,195 thousand in 2013); and (ii) the accrued interest on the remuneration of minimum reserves, to the amount of €82 thousand (2013: €423 thousand).

Other accruals reflects essentially the above-mentioned accrued interest on staff costs.

Note 18 • Other liabilities – sundry

	31 Dec. 2014	31 Dec. 2013
Banknotes withdrawn from circulation	156,930	158,201
Third parties	21,310	15,827
Liabilities relating to the payment of other post-employment benefits	-	89,289
Liabilities relating to the payment to employees of seniority bonuses	12,814	12,013
Estimate for income taxes	127,736	74,624
Other accounts of reduced individual value	940	679
	319,730	350,631

The item Banknotes withdrawn from circulation represents the Bank's liability to the holders of banknotes denominated in Portuguese escudos (legacy currency), for as long as these can be exchanged. No banknote exchange period expired in 2014, therefore the reduction recorded in this item was exclusively due to the delivery to the Bank of banknotes denominated in escudos still within the exchange period.

In December 2013 the item Liabilities with other post-employment benefits reflects the

value of post-employment benefits, computed in an actuarial valuation carried out by SGFPBP. In 2014, following a decision of the Board of Directors of Banco de Portugal, these liabilities were transferred to the Pension Fund – Defined Benefit Plan, in accordance with the accounting policy described in section 1.2 (k) of note 1 and in note 32).

The item Liabilities relating to the payment to employees of seniority bonuses as at 31 December 2014 reflects the value of liabilities for years of service, computed in an actuarial valuation carried out by SGFPBP. Actuarial gains/losses associated with these liabilities, calculated at the end of the period under review, are recorded in Profit/loss, as described in section 1.2 (m) of note 1. In 2014 actuarial gains/losses were negative and were recognised under Other expenses (Notes 27 and 32).

The estimate for the income tax is detailed in note 30.

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 2014 can be summarised as follows:

	Balance as at 31 Dec. 2013	2013			Balance as at 31 Dec. 2014
		Increase	Decrease	Net value	
Impairment of assets					
Impairment of debts receivable	70,220	6	83	(77)	70,143
General risk provision	3,321,622	245,000	-	245,000	3,566,622

With respect to impairment of assets, the value recorded relates mainly to the total adjustment of the value entered in Special credit situations concerning receivables from Finangeste under the Banco de Portugal / Finangeste Arrangement of 9 January 1995, to the amount of €69,697 thousand (2013: €69,780 thousand) (Note 12).

The general risk provision was increased by €245,000 thousand in 2014. Among other factors,

this value takes into account the assessment of risks for the period under analysis, against a background of strengthened own funds and the maintenance of financial autonomy levels suited to the Bank's mission, enabling it, at any time, to cover potential losses, including those resulting from risk sharing with the Eurosystem.

Note 20 • Revaluation accounts

	31 Dec. 2014	31 Dec. 2013
Gold revaluation differences	9,116,375	7,683,249
Foreign currency revaluation differences	234,749	3,835
Securities revaluation differences	285,713	71,117
Revaluation accounts	9,636,837	7,758,201

With regard to gold, there was an increase of €1,433,126 thousand concerning unrealised gains resulting from the appreciation of the gold price in euro (Note 2).

Positive revaluation differences of foreign currency are mostly due to investments denominated in US dollars (€193,900 thousand).

The increase in unrealised gains resulting from fluctuations in the price of securities, which relates mainly to securities denominated in euro (€263,924 thousand in 2014 compared with €65,793 thousand in 2013). Unrealised gains resulting from fluctuations in the price of securities denominated in US dollars also stand out considering their significant increase (€14,402 thousand in 2014 up from €5,323 thousand in 2013).

Note 21 • Equity

Movements in Equity for the 2013 and 2014 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 of State and 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, 10% to other reserves to be decided by the Board of Directors and

the remainder to the State, as dividends, or to other reserves, as approved by the Minister of State and Finance, on a proposal of the Board of Directors.

Net profit for the year 2013 was allocated in accordance with Decision No 81/14 of 30 April 2014 of the Minister of State and Finance by allocating the amount of €25,301 thousand to the Legal reserve and an equal amount to

Other reserves and by paying to the State, as dividends, the amount of €202,411 thousand.

Movements in 2014 in non-distributable retained earnings, recorded in the Statement of Changes in Equity, refer to actuarial gains / losses of the liabilities related to the Pension Fund, as well as to deferred taxes, recognised on 31 December 2014 (Notes 30 and 32).

Note 22 • Net interest income

	31 Dec. 2014	31 Dec. 2013
Interest income		
Securities	138,784	145,755
Denominated in foreign currency	17,578	8,734
Denominated in euro	121,206	137,021
Deposits and other assets	13,366	4,335
Denominated in foreign currency	2,905	3,073
Denominated in euro	10,461	1,262
International Monetary Fund	996	944
Lending to euro area credit institutions	71,239	279,810
Securities held for monetary policy purposes	306,997	373,572
Intra-ESCB claims	49,256	149,861
Financial fixed assets	183,299	199,996
Off-balance-sheet instruments	97	39
Other claims	1,733	1,484
	765,766	1,155,795
Interest expense		
Liabilities to euro area credit institutions	3,000	10,421
Liabilities to euro area residents denominated in euro	16,720	52,475
International Monetary Fund	778	740
Intra-Eurosystem liabilities	95,816	364,787
Off-balance-sheet instruments	249	367
Other liabilities	506	0
	117,069	428,789
Net interest income	648,697	727,006

In net interest income, there was a decrease in the main interest income and expense components, chiefly as a result of the broadly based decline in yields, in particular a reduction in Eurosystem-related interest rates. This impact was reinforced by a significant reduction in the average balances of some of the main interest income and interest expense items, namely lending to credit institutions and intra-Eurosystem liabilities. Offsetting the reductions

in interest income, stress should be laid on the rise in the average balance of adjustments in banknotes in circulation (including intra-ESCB claims), although the latter was not sufficient to overcome the impact of the reduction in yields.

The item Interest income also includes interest earned on emergency lending to domestic credit institutions. On 31 December 2014 no operation of this nature was recognised in the balance sheet.

As to interest expense, the decline in interest related to the remuneration of general government deposits (included in liabilities to euro area residents denominated in euro) was due until June 2014, to the significant reduction of the rate on the MROs, and from that date to the ECB's decision to change the remuneration

of these accounts (associated with PAEF), which are now remunerated at the EONIA rate or 0% rate (the higher). In addition, negative interest rates were introduced for credit institutions' account holdings in excess of minimum reserve requirements, impacting on the reduction of interest associated with these liabilities.

Note 23 • Realised gains / losses arising from financial operations

	31 Dec. 2014	31 Dec. 2013
Foreign exchange transactions	37,155	(22,983)
Other financial operations in foreign currency	1,784	1,901
Financial operations in euro	566,032	9,076
Off-balance-sheet instruments	(387,232)	6,406
Transactions with the portfolio for monetary policy purposes	-	373
	217,740	(5,227)

In 2014 Realised gains/losses arising from financial operations were positive mainly due to Realised gains arising from operations with securities in the trading portfolio denominated in euro. These gains were partly offset by losses on interest rate futures, whose results for management purposes are analysed together with those of the related assets.

Compared with 2013, gains/losses on foreign exchange operations, reflected in the item Foreign exchange transactions moved to positive territory.

Note 24 • Unrealised losses on financial assets and positions

	31 Dec. 2014	31 Dec. 2013
Unrealised exchange rate losses	53	54,499
Unrealised losses on investments in foreign currency	1,259	8,605
Unrealised losses on euro operations	101	51,142
	1,414	114,246

All unrealised losses components recorded a marked decrease from 2013, but the most important, due to their impact, were those relating to foreign exchange transactions and financial operations denominated in euro, the latter concerning the trading portfolio denominated in this currency.

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 SMP, CBPP3 and ABSPP. 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 €20,945 thousand relating to this income in 2014 (2013: €34,728 thousand).

In 2014 this item also included dividends received for the 2013 participating interest of Banco de Portugal chiefly: (i) in the ECB, to the amount of €1,536 thousand (2013: €10,592 thousand); and (ii) in the Bank for International Settlements (BIS), to the amount of €2,083 thousand (2013: €3,118 thousand).

Note 26 • Net result of pooling of monetary income

This item contains: (i) net result of pooling of monetary income, amounting to €-30,267 thousand¹³ (2013: €3,605 thousand¹⁴). In 2013 this item also included income relating to the share of Banco de Portugal in the reduction, by its total value, of the provision for risks shared with the Eurosystem in monetary policy operations, to the amount of €7,622 thousand.

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the so-called earmarkable assets less interest accrued or paid by the NCBs in respect of the 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 arising 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 arising from TARGET accounts, and net intra-Eurosystem liabilities related to the allocation of euro banknotes.

Gold is considered to generate no income, and the covered bonds purchased by Banco de Portugal under the CBPP and CBPP2 are considered to generate income at the latest available marginal interest rate used by the Eurosystem for MROs. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset, being calculated at the latest available interest rate used by the Eurosystem for MROs.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed ECB's capital key (Note 8). The difference between the monetary income pooled by Banco de Portugal, amounting to €294,761 thousand, and reallocated to Banco de Portugal, to the amount of €264,495 thousand, is the net result arising from the pooling of monetary income (€-30,267 thousand).

Note 27 • Other income and expenses

	31 Dec. 2014	31 Dec. 2013
Other income		
Capital gains on tangible and intangible fixed assets	133	205
Previous fiscal years income	233	339
Sales and supply of services to third parties	3,206	3,022
Sundry income	3,005	13,841
	6,577	17,407
Other expenses		
Capital losses on tangible and intangible fixed assets	105	138
Previous fiscal years expenses	1,114	356
Sundry expenses	1,461	17,921
	2,680	18,415
	3,896	(1,008)

Sundry income includes, in particular, profit resulting from the adjustment of the value of

participating interests in Valora and SGFPBP, due to the implementation of the Net Asset Value valuation method, as explained in section 1.2 (e) of note 1 (€2,164 thousand and €156 thousand respectively).

Sundry expenses includes in 2014: (i) €840 thousand relating to negative actuarial deviations resulting from the year-end assessment of seniority bonuses (Note 32) and (ii) €503 thousand relating to costs and other expenses resulting from the adjustment of the value of the Bank's participating interest in Finangeeste, due to the implementation of the Net Asset Value valuation method, as explained in section 1.2 (e) of note 1.

Note 28 • Staff costs

	31 Dec. 2014	31 Dec. 2013
Remuneration of the members of the Board of Directors and Board of Auditors	1,097	1,066
Employees' salaries	78,726	83,418
Compulsory social charges	28,379	29,592
Voluntary social charges	4,294	7,072
Other staff costs	2,192	2,214
	114,687	123,363

The salary containment measures approved by the Board of Directors of Banco de Portugal were maintained in 2014. These transitional measures adopted in previous years focused on remuneration components and other staff costs that are not legally and contractually binding and were implemented to join the effort made by the Portuguese society in the present economic and financial context.

The marked fall in staff costs and respective compulsory social charges is chiefly due to the simultaneous recognition in 2013 of costs regarding the holiday subsidy and respective compulsory social charges relating to 2013 and paid in 2014 plus the holiday subsidy and respective compulsory social charges relating to 2012 (whose registration was annulled in

2013 in view of the decision to suspend this subsidy's payment, based on the application of the State Budget Law for 2013, which was subsequently deemed unconstitutional by the ruling of the Constitutional Court of Portugal No 187/2013), to the approximate amount of €6 million. Moreover, making a reporting adjustment, for the financial periods to which they correspond, the amounts recognised in staff costs relating to the 2012 holiday subsidy and respective charges, staff costs would have decreased by 2%.

On a comparable basis, the actual reduction in staff costs is chiefly associated with the decrease in voluntary social charges, which resulted from the reduction in charges with post-employment benefits (as detailed in note 32 – Liabilities related to retirement pensions and other benefits).

This fall in costs was partly offset the continued rise in Banco de Portugal's professional staff to address the increased responsibilities entrusted to the Bank in the present economic and financial environment, in particular in the banking supervision field.

Note 29 • Impairment of assets (losses / reversals)

In 2014 and 2013 this item records essentially the reduction of the adjustment made to Lending to other entities under the contract for

the assignment of debts signed with Finangeste, to the amount of €83 thousand (2013: €3,786 thousand) (Notes 12 and 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 payments regarding previous financial periods.

On 31 December 2014 and 2013 the income tax item was broken down as follows:

	31 Dec. 2014	31 Dec. 2013
Current tax	127,736	74,624
Deferred tax	1,342	30,580
	129,078	105,203
Effective tax rate	29.8 %	29.4 %

In 2013 the current tax included the full deduction of the tax loss calculated in 2012.

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

	31 Dec. 2014	31 Dec. 2013
Calculation of current income tax		
Profit / loss before taxes	433,217	358,217
Negative balance sheet variations not reflected in profit or loss	(21,319)	(21,319)
Non-deductible provisions	(1,123)	(3,742)
Pension Fund and seniority bonuses	(1,818)	4,312,
Cancellation of the Net Asset Value effect	(83)	(3,786)
Reversal of the adjustment of taxed assets	-	(5,777)
Cancellation of economic double taxation of distributed profit	(2,357)	(2,322)
Tax benefits	(37)	(67)
Accounting capital gains	69	26,
Tax gains	1,114	356
Charges not fully documented	118	156
Depreciation and amortisation not deductible as costs	116	87
Other	86	452
Taxable income / (tax loss)	407,983	326,593
Deductible tax loss	-	(108,977)
Tax base	407,983	217,616
Collection (1)	93,836	54,404
Extraordinary tax incentive on amounts invested (2)	-	(990)
Municipal corporate tax (3)	6,079	4,866,
State surtax (4)	27,664	16,135
Autonomous taxation (5)	157	208
Current income tax	127,736	74,624
Reconciliation between current tax-related losses for the year and the balance sheet balance		
Recognition as current losses for the year (1) + (2) + (3) + (4) + (5)	127,736	74,624
Less: payments on account and additional payments on account	72,084	-
Less: withholdings at source	6	4
Current balance (recoverable) / payable	55,645	74,619

On 31 December 2013 and 2014 the balances on deferred tax assets and liabilities can be broken down as follows:

Computation of deferred taxes	Assets and liabilities				Profit / loss	
	31 Dec. 2013		31 Dec. 2012		31 Dec. 2013	
	Assets	Liabilities	Assets	Liabilities	Profit / loss	Retained earnings
Provision for credit risks	53,315	-	60,439	-	-	7,125
Pension Fund (assets)	21,918	-	23,279	-	1,361	-
Credit impairment	3,755	-	4,122	-	366	-
Seniority bonuses	7	-	5	-	(1)	-
Interest rate subsidies	-	(383)	-	(397)	(14)	-
Excess amortisation	-	-	28,868	-	28,868	-
	78,994	(383)	116,713	(397)	30,580	7,125

Computation of deferred taxes	Assets and liabilities				Profit / loss	
	31 Dec. 2014		31 Dec. 2013		31 Dec. 2014	
	Assets	Liabilities	Assets	Liabilities	Profit / loss	Retained earnings
Pension Fund – Defined-benefit plan	43,715	-	53,315	-	-	9,599
Credit impairment	20,544	-	21,918	-	1,374	-
Seniority bonuses	3,754	-	3,755	-	1	-
Interest rate subsidies	5	-	7	-	2	-
Excess amortisation	-	(348)	-	(383)	(35)	-
	68,018	(348)	78,994	(383)	1,342	9,599

With respect to deferred taxes, it should be noted that temporary 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. 2014	31 Dec. 2013
Collateral given	487,632	487,632
Collateral received	70,625,790	85,472,283
Items held in custody	53,218,190	48,904,659
Irrevocable credit lines	4,977,106	3,785,641

Collateral given includes the promissory note signed by the Bank in favour of the IMF.

Collateral received includes collateral related to the monetary policy operations of the Eurosystem (€70,621,265 thousand on 31 December 2014), including collateral used via the Correspondent Central Banking Model (CCBM).

The Items held in custody include mainly: (i) securities owned by the Portuguese State (€14,927,251 thousand); (ii) securities held in custody by the Bank as collateral in monetary policy operations with other NCBs, under the CCBM (€10,115,731 thousand); and (iii) the value of the promissory note in favour of the IMF issued by the Portuguese Republic, under the Extended Fund Facility, to the amount of €27,356,041 thousand (Note 15).

The item Irrevocable credit lines includes intraday credit lines of the Portuguese financial system to the amount of €3,138,270 thousand and a credit line granted to the IMF to the amount of SDR 1,542 million under the New Arrangements to Borrow (NAB) (€1,838,836 thousand) (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 instruments. On 31 December 2014 the only outstanding positions relating to derivative financial instruments concerned interest rate futures, with an overall amount of sale contracts of €3,099,662 thousand).

- Legal proceedings

Within the scope of its day-to-day activity, the Bank may be subject to legal proceedings initiated by third parties. On 31 December 2014, the Bank was denounced in various lawsuits, of which some result from the application on 3 August 2014 of a resolution measure.

The above-mentioned lawsuits will be assessed by the competent judicial bodies. Developments in these proceedings are accompanied by the Board of Directors of Banco de Portugal, by the

Legal Services Department and in some situations by external lawyers. Following the assessment made on this date, the Bank believes that there will be no material charges for the Bank.

Note 32 • Liabilities related to retirement pensions and other benefits

Pension Fund of Banco de Portugal – Defined-benefit plan

• Overview

Until 31 December 2010 Banco de Portugal was the sole entity responsible for the payment of the retirement and survivors pensions of staff (and their dependents) hired by the Bank before 3 March 2009, who 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)¹⁵ 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 (statutory retirement).

Thus, the Pension Fund – Defined-benefit plan in terms of the old-age pensions maintained under its responsibility the payment of past-service liabilities until 31 December 2010 and after 1 January 2011 the Pension Fund only covers the payment of the supplement intended to make up for the difference between the benefits calculated under the general social security scheme and the benefits defined in the respective pension plans, based on the applicable labour agreements for the banking sector and on the Bank's internal regulations. The payment of disability and death grants also remained under the Fund's responsibility.

From 4 February 2014 onwards, the Pension Fund – Defined-benefit plan is also the funding vehicle of the retirement and survivors pensions

of former employees (who up to this date had not been covered by the Pension Fund) and of the extraordinary subsidies granted to the Bank's employees who retired on or before 31 December 1993, also co-funding retired employees and pensioners' healthcare and funeral expenses. Until 4 February 2014 this liability was directly assumed by the Bank.

With this transfer of liabilities from Banco de Portugal to the Pension Fund in 2014, the Pension Fund – Defined-benefit plan contract was amended to include the existing two benefit plans: the Pension Plan, operating three benefit schemes (resulting from the restructuring of the former seven) and the Healthcare Plan, operating only one benefit scheme for the co-funding healthcare and funeral expenses for the retired employees and pensioners. This benefit scheme is open to all employees of Banco de Portugal. The three schemes of the Pension Plan are closed to staff that started working in the banking sector after 2 March 2009 (Decree-Law No 54/2009 of 2 March).

The benefits associated with the above-mentioned schemes of the Pension Fund include retirement pensions of employees who have reached the statutory age limit (as a supplement to those paid by the social security), are disabled or have negotiated early retirement, survivors pensions, including the payment of supplementary benefits and death grants, as well as the settlement of the sponsor's charges, including charges to SAMS (social health assistance service for banking sector employees) related to pensions in payment.

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

Sub-risk category	Risk definition
Longevity risk	Potential risk attached to increasing life expectancy of the population, compared with that assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Disability risk	Risk attached to potential deviation in the disability rate, compared with that assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Health risk	Risk of claims amount being higher than assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Risk of regulatory changes to the general social security scheme	Risk attached to the occurrence of regulatory changes to the general social security scheme, impacting on the Pension Fund – Defined benefit plan.
Medical services inflation risk	Risk of an increase in medical services costs and higher inflation than assumed in actuarial valuations, resulting in an increase of liabilities of the Pension Fund – Defined benefit plan.
Risk of inflation implied in assumed wages and pensions growth rates	Risk of a reduction in the funding ratio arising from the materialisation of adverse movements in historical and / or expected inflation rates.
Interest rate risk	Risk of reduction of the funding ratio arising from adverse interest rate movements.

- Pension Fund Plans

- Pension plan

- a. Participants

The number of participants covered by the pension plan is shown in the table below:

Number of participants	31 Dec. 2014	31 Dec. 2013 (*)
Active members	1,291	1,343
Retired members	1,915	1,921
Pensioners	561	547
	3,767	3,811

(*) The number of retired members and pensioners includes respectively 8 and 4 participants whose liabilities were recognised in the balance sheet of Banco de Portugal and which were included in the Fund in 2014.

Sociedade Gestora dos Fundos de Pensões do Banco de Portugal – SGFPBP, using the Projected Unit Credit Method, in accordance with the principles laid down in IAS 19.

The main actuarial and financial assumptions, pursuant to IAS 19 are the following:

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

Average life expectancy (years)	31 Dec. 2014	31 Dec. 2013
Active members	33	33
Retired members	14	14
Pensioners	11	11

- b. Methodology, assumptions and accounting policy

Liabilities arising from the Pension Plan funded through the Pension Fund – Defined-benefit plan were calculated on an actuarial basis by

	Actuarial and financial assumptions used			
	31 Dec. 2014	1 Jan. 2014 (*)	31 Dec. 2013	1 Jan. 2013
Discount rate	2.339 %	4.055 %	4.055 %	3.788 %
Expected return rate on the Fund's assets	n/a	4.055 %	n/a	3.788 %
Wage growth rate				
1st year	1.000 %	1.000 %	1.000 %	1.000 %
Subsequent years	2.439 %	3.166 %	3.166 %	3.393 %
Pensions growth rate				
1st year	0.000 %	0.000 %	0.000 %	0.000 %
Subsequent years	1.439 %	2.166 %	2.166 %	2.393 %
Tables used				
- Mortality		TV 88/90		
- Disability		1978-S.O.A. Trans. Male (US)		
- Turnover		T-1 Crocker Sarason (US)		
Statutory retirement age under the Pension Fund – Defined-benefit plan	65 years of age		65 years of age	
Statutory retirement age under the general social security scheme	66 years of age		66 years of age	
Percentage of married members	80%		80%	
Age difference between spouses	3 years		3 years	

(*) After the date of integration of the new liabilities the following rates have been changed: discount rate – 3.986%; wage growth rate – 3.157%; and pensions growth rate – 2.157%.

The discount rate calculated by SGFPBP is based on the yield of a basket comprised of high-quality euro area sovereign bonds whose liquidity, denomination and maturity are adequate to the term structure of the Pension Fund's liabilities.

– Healthcare plan

a. Participants

The number of participants covered by the Healthcare Plan is broken down as follows:

Number of participants	31 Dec. 2014	31 Dec. 2013 (*)
Active members	1,771	1,733
Retired members and pensioners	2,448	2,440
	4,219	4,173

(*) The liabilities of these participants were recognised in the balance sheet of Banco de Portugal and were transferred to the Fund in 2014.

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

Average life expectancy (years)	31 Dec. 2014	31 Dec. 2013 (*)
Active members	38	38
Retired members	14	14
Pensioners	11	11

b. Methodology, assumptions and accounting policy

The actuarial and financial assumptions used in the calculation of these liabilities are established according to IAS 19. The most important are the following:

	Actuarial and financial assumptions used	
	31 Dec. 2014	
Discount rate	2.339 %	
Expected return rate on the Pension Fund's assets	n.a.	
Growth rate of the average / annual expenses		
Disability pensions	5.232 %	
Other	3.795 %	
Tables used		
- Mortality	TV 88/90	
- Disability	1978-S.O.A. Trans. Male (US)	
- Turnover	T-1 Crocker Sarason (US)	
Statutory retirement age under the Pension Fund – Defined-benefit plan	65 years of age	
Statutory retirement age under the general social security scheme	66 years of age	
Percentage of married members	80%	
Age difference between spouses	3 years	

- Changes in assets and liabilities of the Pension Fund

	31 Dec. 2014			31 Dec. 2013		
	Retired members and pensioners	Active members	Total	Retired members and pensioners	Active members	Total
Total past service liabilities in the Pension Fund						
Retirement and survivors benefits	839,785	588,514	1,428,298	756,177	483,306	1,239,484
Pensions' inherent charges to SAMS	48,339	30,381	78,720	44,655	24,428	69,082
Death grants	1,787	648	2,434	1,567	500	2,068
Healthcare	45,414	22,031	67,445	-	-	-
	935,324	641,574	1,576,898	802,399	508,234	1,310,633
Liabilities related to other post-employment benefits recognised in the balance sheet of Banco de Portugal				66,600	22,688	89,289
Total past-service liabilities	935,324	641,574	1,576,898	868,999	530,922	1,399,922

	31 Dec. 2014	31 Dec. 2013
Past-service liabilities in the Pension Fund	1,576,898	1,310,633
Fair value of plan assets	1,637,797	1,348,979
Surplus / (deficit) (Notes 12 and 18)	60,900	38,346
Funding ratio	103.9 %	102.9 %

The table below presents developments in past service liabilities in the Pension Fund in 2014.

Past-service liabilities	2014	2013		
	Fund	Fund	Other post-employment benefits	Total
Value at the beginning of the year	1,310,633	1,404,712	101,692	1,506,404
Integration of liabilities with other post-employment benefits (*)	89,289	-	-	-
Current service cost	11,267	10,300	1,227	11,527
Pensions payable (expected value)	(67,575)	(61,230)	(3,734)	(64,964)
Interest cost	55,708	53,216	2385	55,601
Actuarial gains/losses	177,575	(96,365)	(12,281)	(108,646)
Value at the end of the year	1,576,898	1,310,633	89,289	1,399,922

(*) Value of liabilities in the balance sheet of Banco de Portugal as at 31 December 2013.

Among the various assumptions adopted for assessing the Fund's liabilities, those relating to longevity and to the differentials between the discount rate and the growth rates of pensions / healthcare expenses stand out due to their impact.

The table below shows sensitivity analyses for scenarios of reduction of the above-mentioned differentials by 10 basis points (b.p.) and of an increase of one year in life expectancy.

Sensitivity analyses as at 31 December 2014	10 b.p. reduction in pensions / healthcare differential	One-year increase in life expectancy
Impact on the Pension Fund's assets	1.3 %	0.0 %
Impact on the Pension Fund's liabilities	1.5 %	4.1 %
Impact on the Pension Fund's funding ratio	-0.2 %	-4.1 %

Market risk inherent to the investment policy is monitored through the Value-at-risk (VaR) calculated for a time horizon of one year with a 95% confidence level from an asset-liability perspective.

On 31 December 2014 the modified duration of liabilities stood at 14.8 years and the difference between the modified duration of the bond portfolio and the modified duration of liabilities, adjusted so as to incorporate the size differences between these two aggregates, stood at -1.7 years.

The value of the Pension Fund's assets in 2013 and 2014 was as follows:

Fund's assets	2014	2013
Value at the beginning of the year	1,348,979	1,430,811
Current contributions paid to the Fund	11,846	11,646
Contributions paid on account of early retirements	3,127	5,059
Contributions paid on account of other post-employment benefits	91,740	-
Extraordinary contributions paid to the Fund	30,000	-
Pensions paid	(73,540)	(61,427)
Net income of the Fund	225,645	(37,110)
Value at the end of the year	1,637,797	1,348,979

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

Fund's investments	31 Dec. 2014	31 Dec. 2013
Real estate	60,540	60,053
Variable income securities	154,305	165,165
Fixed income securities	1,338,250	1,039,108
Cash and bank deposits	28,608	45,978
Other	56,092	38,674
	1,637,796	1,348,979

Securities portfolio of the Fund	31 Dec. 2014	31 Dec. 2013
Variable income securities		
Participation units – Investment funds	154,305	165,165
Fixed income securities		
Government debt	1,300,185	1,021,564
Supranational	38,065	17,051
Other	-	493
	1,338,250	1,039,108

At the end of 2014 the funding ratio of the Pension Fund stood at 103.9%, i.e. higher than at the end of 2013 (102.9%). The rise in the funding ratio was mainly induced by positive yields in asset / liability management.

Actuarial gains and losses in 2014 and 2013 can be broken down as follows:

	31 Dec. 2014	31 Dec. 2013
Actuarial gains / losses		
Population movements	(18,540)	(15,367)
Technical gains and losses	7,179	4,162
Wage growth	2,593	(6,501)
Increase in pensions	(353)	1,421
Change in average healthcare expenses	725	-
Adjustments to the model	-	(6,963)
Other gains and losses	(1,728)	(5,435)
Indexation of assumptions:		
Wage growth	79,352	37,830
Increase in pensions	69,627	37,542
Discount rate	(316,429)	49,677
	(177,575)	96,365
Financial gains and losses		
Gains and losses in paid pensions	(6,218)	(197)
Gains and losses in expected income of the Fund	168,490	(91,309)
	162,272	(91,507)
	(15,303)	4,858

The value recorded in past service costs results from the integration of the new liabilities in the Pension Fund.

The item Other gains and losses recognises mainly the value of actuarial losses resulting from the increase in the Minimum Guaranteed Monthly Remuneration and from the increase in the sustainability factor used in the general social security scheme, as a result of the average life expectancy being 65 years, as measured in 2014.

Values recognised in staff costs, relating to the Pension Fund – Defined-benefit plan, which already include the amounts related to

other post-employment benefits transferred to the Fund, can be summarised as follows:

	2014	2013		
	Fund	Fund	Other post-employment benefits	Total
Staff costs				
Current service cost (*)	8,862	7,778	1,227	9,005
Interest cost	55 708	53,216	2,385	55,601
Expected return on the Fund's assets	(57 155)	(54,199)	-	(54,199)
	7,415	6,795	3,612	10,407

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

- (iv) Impact of the transfer of the liability related to other post-employment benefits from Banco de Portugal to the Pension Fund on 4 February 2014

On 4 February 2014 the liability recognised in the balance sheet of Banco de Portugal related to other post-employment benefits was transferred to the Pension Fund – Defined-benefit plan. As a consequence, the Bank paid to the Pension Fund – Defined benefit plan the amount of €91,740 thousand, corresponding to the estimated amount of past-service liabilities, calculated for the transfer of every single post-employment benefit under review, as shown in the table below:

	4 Feb. 2014
Retirement and survivors pensions	1,204
Extraordinary subsidies	19,189
Healthcare and funeral expenses co-funding (Healthcare Plan)	71,348
	91,740

The value of this liability in the balance sheet of Banco de Portugal as at 31 December 2013 amounted to €89,289 thousand. The difference between this value and the amount paid to the Pension Fund – Defined-benefit plan in 2014 results mainly from the different actuarial assumptions used in the calculation.

Seniority bonuses

The table below shows the most relevant risks:

Risk sub-category	Risk definition
Interest rate risk	Risk of adverse interest rate movements, resulting in an increase of the liabilities arising from these benefits.
Risk of undervaluation of wage growth rate	Risk of career progress and inflation being higher than assumed in actuarial valuations, resulting in an increase of the liabilities arising from these benefits.

Changes in past service liabilities were as follows:

Past-service liabilities	2014	2013
Value at the beginning of the year	12,013	13,084
Seniority bonuses paid	(1,276)	(1,734)
Current service cost	835	852
Interest cost	403	370
Actuarial gains / losses	840	(559)
Value at the end of the year	12,814	12,013

On 31 December 2014 the modified duration of liabilities stood at 8.7 years.

The value of actuarial gains / losses referring to these liabilities was recognised directly under Profit / loss (Note 27).

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

	Actuarial and financial assumptions used			
	31 Dec. 2014	1 Jan. 2014	31 Dec. 2013	1 Jan. 2013
Discount rate	1.785 %	3.334 %	3.334 %	2.819 %
Expected wage growth rate				
1st year	1.000 %	1.000 %	1.000 %	1.000 %
Subsequent years	2.068 %	2.836 %	2.836 %	2.959 %
Tables used				
- Mortality		TV 88/90		
- Disability		1978 – S.O.A. Trans. Male (US)		
- Turnover		T-1 Crocker Sarason (US)		
Statutory retirement age under the Pension Fund of Banco de Portugal	65 years of age		65 years of age	
Statutory retirement age under the general social security scheme	66 years of age		66 years of age	

The population considered for the calculation of these liabilities in December 2014 is 1,771 participants (2013: 1,733).

Pension Fund of Banco de Portugal – Defined-contribution plan

The changes introduced into Banco de Portugal's company-level agreements (Acordos 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 by contributions from the Bank and its staff, as regards Banco de Portugal staff who started working in the banking sector after 3 March 2009 and are covered by the general social security scheme by virtue of Decree-Law No 54/2009 of 2 March (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 contributory with vested rights, is voluntary for the members and compulsory for the sponsor whenever the participant adheres to this pension plan.

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

can join this Fund or another of a similar nature and are also responsible for choosing an investment profile for their contributions. The funding vehicle can be changed annually on the employees' initiative.

At the end of 2014 the supplementary pension plan funded through this Pension Fund covered 486 members (2013: 391).

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, called Reserve account. Participation units of this reserve account will be transferred monthly to the individual accounts of its members by the amounts corresponding to:

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

As at 31 December 2014 the assets of the Fund amounted to €5,246 thousand, broken down as follows:

Participation units (in value) 31 Dec. 2014 31 Dec. 2013		
Reserve account (Note 12)	4,188	4,501
Members' individual accounts	1,058	681
	5,246	5,183

Note 33 • Risk management

Risk management in Banco de Portugal aims at guaranteeing the sustainability and profitability of the Bank itself, safeguarding its independence and ensuring its effective participation in the Eurosystem. Therefore, Banco de Portugal has defined and pursues a strict and prudent risk management policy, taking into account the risk profile and degree of tolerance defined by the Board of Directors of Banco de Portugal.

The integrated management of the financial and operational risks is the responsibility of the Risk Management Department in articulation

with the Committee for Risk and Internal Control and the Bank's other departments, being monitored by the Board of Directors of Banco de Portugal.

• 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.

Market risk is associated with losses arising from fluctuations of prices and market rates, comprising interest rate risk, foreign exchange rate risk and gold price risk. 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 these risks is made namely through Value at Risk (VaR)/expected shortfall indicators, which are produced and released on a daily basis, as well as through regular stress testing exercises.

The management of the Bank's own investment assets is made by the Markets and Reserve Management Department based on a strategic benchmark, reflecting the preferences of the Board of Directors of Banco de Portugal in terms of risk-profitability. This benchmark, which is the main reference for asset management and is approved by the Board of Directors, on a proposal of the Committee for Risk and Internal Control, reflects the discussion of scenarios and forecasts for the main economic and financial variables and the carrying out of a number of optimisation exercises for determining efficient portfolios. The benchmark – which remains in force for the period of one year and may be reviewed at mid-term – plays an important role in guiding asset management and serves as a basis in setting the allowed asset management deviation margin.

The control of risk in asset management operations is based on the imposition of a number of eligibility criteria and limits which are set out in the Guidelines 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/expected shortfall and Credit Value at Risk (CVaR)/expected shortfall, use is 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 rules and procedures defined at Eurosystem level. Follow-up and monitoring is made through a series of aggregate risk indicators produced by the ECB, supplemented by internal measures for the intervention portfolios, created within the framework of the non-standard monetary policy measures. Compliance with the relevant restrictions and limits is checked through a number of application systems developed internally by Banco de Portugal.

Banco de Portugal runs a projection exercise of the financial statements and balance-sheet risk for a three-year horizon, which enables not only the monitoring of these risks against expected developments in assets and liabilities, but also the constant assessment of the risk coverage levels by the Bank's financial buffers. Account is also taken of this exercise in assessing annual movements in the General risk provision (Note 19).

- 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 follow the framework for operational risk management endorsed at Eurosystem / ESCB level, adjusted for the specific aspects of the Bank, and take into account the international standards and the policies and practices followed by the community of central banks.

Notes

1. 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.
2. Guideline of the European Central Bank of 11 November 2010 on the legal framework, with its subsequent amendments, for accounting and financial reporting in the European System of Central Banks (ECB/2010/20) – Available from www.ecb.eu.
3. IFRS: International Financial Reporting Standards, as adopted in the European Union.
4. 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.
5. 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.
6. '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.
7. 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).
8. 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).
9. Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5).
10. Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16) and Decision of the ECB of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17) and Decision of the ECB of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40).
11. Decision of the ECB of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45).
12. The capital key is also adjusted as a result of the accession of new Member States to the EU.
13. Includes the proceeds of the calculation of monetary income for 2014, to the amount of €-46,954 thousand and adjustments of previous years relating to insolvency proceedings of Eurosystem counterparties, to the total amount of €+16,687 thousand (see note 8).
14. Includes the proceeds of the calculation of monetary income for 2013, to the amount of €+3,269 thousand and adjustments of previous years, amounting to €+336 thousand (see note 8).
15. Dissolved by this Decree-Law.

4. Report of the external auditors



REPORT OF THE EXTERNAL AUDITORS

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 2014, the profit and loss account, the statement of changes in equity for the year then ended, as well as a summary of the main 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.

.....
PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.

Sede: Palácio Sottomayor – Rua Sousa Martins, 1 - 3.º, 1069-316 Lisboa, Portugal

Tel +351 213 599 000, Fax +351 213 599 999, www.pwc.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 n.º 183 e na CMVM sob o n.º 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 autónoma e independente

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2014, 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.

13 March 2015

PricewaterhouseCoopers & Associados
– Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Manuel Henriques Bernardo, R.O.C.

5. Report and opinion of the board of auditors

OPINION OF THE BOARD OF AUDITORS

2014

In accordance with the provisions laid down in Article 43 of the Organic Law of Banco de Portugal, the Board of Auditors monitors the business of the Bank and the observance of the laws and regulations applicable thereto and, among other functions, issues its opinion on the Financial Statements presented by the Board of Directors.

Since taking up its duties on 1 October 2014, the Board of Auditors has monitored the activity of the Bank in use of the above-mentioned powers, through its members' participation, without voting rights, in the meetings of the Board of Directors and through the analysis of the minutes of the Executive Committee for administrative and staff-related issues and of several reports produced by the Accounting Department, the Risk Management Department and the Audit Department.

The Board of Auditors also monitored compliance with the accounting policies and practices adopted, focusing in particular on the financial information preparation and disclosure process and on the evaluation of the internal control systems' effectiveness.

The Board of Auditors also examined the financial information contained in the Financial Statements of the fiscal year ended on 31 December 2014 – approved in the meeting of the Board of Directors held on 24 February 2015 – and discussed the conclusions of the external audit work carried out by PricewaterhouseCoopers & Associados, Sroc, Lda., which issued its opinion without any qualification or emphasis.

In addition, the Board of Auditors analysed the proposal for the distribution of profit for 2014, to the amount of €304.14 million. 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	€30,413,862.16
- 10% to other reserves	€30,413,862.16
- Dividends to the State	€243,310,897.29

In light of the above, the Board of Auditors raises no objection to the approval of the 2014 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, 24 March 2015

The Board of Auditors

João Costa Pinto

António Monteiro

Ana Paula Serra

