

Deposit Guarantee Fund

Annual Report and Accounts 2001

1. Within its field of competence, in accordance with the provisions laid down in Article 22, m) of the Regulations Governing the Deposit Guarantee Fund, approved by Executive Order no. 285-B/95 (Series II), of 19 September, the Management Committee submits the Annual Report and Accounts for the year 2001, within the prescribed period (31 March 2002), for approval by the Minister of Finance, together with the opinion of the Board of Auditors of the Banco de Portugal (supervisory entity).
2. The Annual Report and Accounts of the Fund were approved by Decision 77/02-MEF, of 13.05.02, of the Minister of Finance, in accordance with the provisions laid down in Article 172 of Decree-Law no. 298/92, of 31 December (Legal Framework of Credit Institutions and Financial Companies).

Deposit Guarantee Fund

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Deposit Guarantee Fund

Management Committee

In compliance with the provisions laid down in Article 158 of Decree-Law no. 298/92, of 31 December (Legal Framework of Credit Institutions and Financial Companies), the Management Committee is composed as follows:

Chairman: *António Manuel Martins Pereira Marta* ⁽¹⁾

Members: *José Manuel Trindade Neves Adelino* ⁽²⁾

Rui Jorge Martins dos Santos ⁽²⁾

SECRETARY GENERAL

António José Vieira Águas ⁽³⁾

(1) Appointed, on 29 February 2000, by the Board of Directors of the Banco de Portugal.

(2) Appointed, on 21 February 1994, by Decision no. 22/94-XII, of the same date, of the Minister of Finance.

(3) Appointed by the Management Committee of the Fund, and performing his duties since 1 January 2001.

Deposit Guarantee Fund

Board of Auditors of the Banco de Portugal

In compliance with Article 171 of Decree-Law no. 298/92, of 31 December, on the Auditing of the Fund, the Board of Auditors of the Banco de Portugal shall monitor the Fund's activities and the observance of the applicable laws and regulations and shall issue its opinion on the annual accounts.

Chairman: Emílio Rui da Veiga Peixoto Vilar ⁽¹⁾

Members: Rui José da Conceição Nunes ⁽²⁾
 Modesto Teixeira Alves ⁽³⁾
 José Vieira dos Reis ⁽⁴⁾

(1) Appointed member of the Board of Auditors, performing his duties as Chairman, by Decision no. 97/96-XIII, of 6 March, of the Minister of Finance. His term of office was renewed by Decision no. 8.057/99 (Series II) of the Minister of Finance of 8 April 1999.

(2) Appointed member of the Board of Auditors by Decision no. 7/93-XII, of 26 February, of the Minister of Finance. His term of office was renewed by Decision no. 8 057/99 (Series II) of the Minister of Finance of 8 April 1999.

(3) Elected employees' representative to the Board of Auditors, in compliance with the Statement of 17 May 1996 of the Office of the Minister of Finance.

(4) Appointed member of the Board of Auditors, performing his duties as official accountant, by Decision no. 21 070/2001 (Series II) of 17 September of the Minister of Finance.

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Deposit Guarantee Fund

ANNUAL REPORT
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1 In the course of the year under analysis, no situation of unavailability of deposits^(*) was recorded. This has been the case since the Deposit Guarantee Fund (Portuguese acronym: FGD) started to operate, in 1994. Therefore, in 2001, the Fund has developed the activities pertaining to the regular operation of a deposit guarantee fund with such characteristics as the FGD (ex-ante mixed contributory system), the most relevant of which are listed below:

- estimation of the annual contribution for 2001 of each member credit institution to the Fund, based on the accounting reports of the end-of-month balances of deposits covered by the guarantee in 2000;
- collection of the annual contributions at the end of April, and contracts concluded with member credit institutions relating to irrevocable and collateralised payment commitments, as regards the share of those contributions that is not paid in cash or certificates of deposit^(**) issued by the Banco de Portugal;
- management of the financial resources of the Fund, in compliance with the criteria established by the Management Committee for the investment operations of those resources and within the scope of the guidelines and management regulations established in the investment plan agreed between the Fund and the Banco de Portugal on this subject, pursuant to the provisions laid down in Article 163 of Decree-Law no. 298/92, of 31 December (Legal Framework of Credit Institutions and Financial Companies). On 4 November 2001, the Banco de Portugal carried out the repayment of the certificates of deposit, Series B, Class 7, matured on that date, held in the Fund's portfolio, amounting to • 178 million;

(*) Under Article 167 (4) of the Legal Framework of Credit Institutions and Financial Companies, repayment by the Fund to the depositors of the member credit institution in question shall be subject to the guarantee limit in force (EUR 25,000) and, in general, shall take place within three months of the date on which the deposits become unavailable.

(**) Certificates issued by the Banco de Portugal at the end of 1994 intended to absorb the liquidity derived from a reduction of the reserve ratio from 17% to 2%. Two series of certificates of deposit were created: Series A, non-remunerated with a 3-year maturity, and Series B, remunerated, with a 4-10 year maturity. Their rate is quarterly fixed by the Banco de Portugal, based on the conditions prevailing on the market. As from 4 November 1999, that interest rate was linked to the rate of remuneration of minimum reserves of the European System of Central Banks, fixed by the European Central Bank. Certificates are not negotiable with the public but can be traded by institutions subject to reserve requirements and with the Banco de Portugal, as well as with the Deposit Guarantee Fund. The Banco de Portugal may carry out an advance repayment of the above certificates, particularly in situations of unavailability of deposits. As from 10 May 1999, the nominal value of the certificates of deposit was changed from PTE 1,000,000 to 1 cent of the euro.

- preparation of the Instructions of the Banco de Portugal establishing the level of the contributory rate applicable in the calculation of regular contributions in 2002 and the ceiling for the irrevocable payment commitments to be complied with in that year;
- co-operation with other deposit-guarantee schemes, in particular of European Union countries.

Contributions of Member Credit Institutions to the Fund

2 Periodical (annual) contributions for the year 2001, based on the deposits covered by the guarantee, continued to be subject to a base rate of 0.1%, corresponding to the minimum value of the spread in force, between 0.1% and 0.2%. In the same period, the reduced rate of 0.01% on deposits with offshore branches in the free areas of Madeira and Santa Maria Island was also kept unchanged, as well as the rate on deposits collateralised by the *BVLP – Sociedade Gestora de Mercados Regulamentados, S.A.* (Lisbon and Oporto Stock Exchanges – Regulated Markets Management Company, S.A.), built-up from resources obtained from guarantees:

- supplied by its clearing members, within the scope of the market managed by that Company, and
- associated with reporting operations, within the scope of the integrated registration, settlement and clearing services supplied by the same company.

3 The base rate, as in most deposit-guarantee schemes in other countries, is a flat rate. However, in the Portuguese case, it is weighted by the adequacy level of the own funds of each member credit institution. In effect, according to the regulations in force, a contributory rate of 0.1%, weighted by the average ratio indicating the solvency situation^(*), on an individual basis, as at 30 June and 31 December, was applied to the average amount, also in 2000, of the monthly credit balances of the deposits covered by the Fund's guarantee that is the object of incidence of such contributory rate.

In turn, the component of the annual contribution relative to the reduced contributory rate was the result of the simple application of this rate to the average amount, in 2000, of the monthly credit balances of the corresponding deposits that are the object of the Fund's guarantee.

The periodical contributions of banks in 2001 continued to be subject to the minimum limit of • 14,964^(**), a procedure already adopted in previous years.

(*) Pursuant to Instruction no. 51/97, published in the January 1998 issue of the Regulations and Instructions Bulletin of the Banco de Portugal, the ratio utilised is that corresponding to item 5.1 of the RF01 supervision return, annexed to Instruction no. 25/97, published in the May 1997 issue of the above Bulletin. The positioning of the average solvency ratio of each participant in the five classes established in the grid published in Notice no. 11/94 (5) corresponds to the respective multiplying or weighting factor applicable to the base rate.

(**) The Management Committee of the Fund fixed the value for the minimum annual contribution at • 14,964.

4 Table 1 shows that in 2001 total contributions from member credit institutions reached approximately • 95,063,000, compared with • 85,815,000 in 2000.

This development reflects a significant increase in the pace of growth of that total (+ 10.8% in 2001, vis-à-vis + 5% in 2000), as a result of the combination of the behaviour of the basis of incidence of the contributory rate, that rose around 8%, and the net effect on the respective contributions of the weighting of solvency situations of the members.

Table I Means of payment used in contributions in 2001

EUR thousands

Contribution paid to the Fund in 2001	Means of payment used		Irrevocable payment commitments	Total
	Certificates of deposit Series B	Cash		
Initial contributions	-	249.5	-	249.5
Annual contributions	24,310.5	1,121.2	69,382.0	94,813.7
Total	24,310.5	1,370.7	69,382.0	95,063.2

Source: FGD.

The initial contribution, amounting to •50,000 fixed by Notice no. 7/2001, of 6 June 2001^(*), is paid to the Fund in cash, within 30 days as of registration with the Banco de Portugal of the start of activity in Portugal of the new member credit institution or, in the case of Mutual Agricultural Credit Banks, of the date on which they cease to belong to the Integrated Mutual Agricultural Credit Scheme.

The initial contributions of three credit institutions that joined the Fund in December 2000 were paid in January 2001.

As regards the trend of the payment structure of annual contributions, the following aspects should be highlighted:

- further strengthening of the relative position of the component “commitments”^(**), as a result of the limit to the amount of commitments being fixed at the level of the maximum rate envisaged in applicable legislation and, also, of the significant adhesion to this modality (30 institutions joined in 2001, as in the previous year);

(*) Notice no. 7/2001 revoked Notice no. 8/95, of 15 September.

(**) From 1 July 1995, the members of the Fund may, up to a given limit of the annual contribution, replace the respective payment by an irrevocable payment commitment to the corresponding amount, against collateral of specific securities, at any time the Fund may require it, in particular in situations of unavailability of deposits. The contributory system in force is therefore of a mixed nature, but with a growing relevance of the component “commitments”. The above-mentioned limit was set at 25% in 1996 and 1997, at 40% in 1998, at 60% in 1999 and at 75% in 2000 and 2001.

- 6% decrease to 1.2% of the weight of the share paid in cash, revealing a preference for the utilisation of “certificates of deposit” as means of payment;
- increase in the share of contributions paid with delivery to the FGD of “certificates of deposit”, Series B (remunerated), issued by the Banco de Portugal (25.6% in 2001, compared with 20% in 2000), as a counterpart of the decreasing utilisation of payments in cash.

5 Table II presents the breakdown of total contributions in 2001 by type of member credit institution. Banks, savings banks, and three Mutual Agricultural Credit Banks members of the Fund (not belonging to the Integrated Mutual Agricultural Credit Scheme) account for • 89,840 thousands, • 4,707 thousands and • 517 thousands, respectively.

In 2001, as expected, the institutional item “banks” continued to show a relevant position in contributions to the FDG, and a marked concentration of the same contributions in a relatively reduced number of credit institutions with a larger portfolio of deposits guaranteed by the Fund.

Table II Contributions paid in 2001 by type of credit institution

<i>EUR thousands</i>				
Contributions paid in 2001	Banks ^(*)	Savings Banks	Mutual Agricultural Credit Banks ^(**)	Total
Initial contributions	149.8	-	99.7	249.5
Annual contributions	89,689.7	4,706.5	417.5	94,813.7
Total	89,839.5	4,706.5	517.2	95,063.2

Source: FGD

6 In the year under review, irrevocable payment commitments attained approximately • 69 million, a value close to the maximum authorised of • 71 million, i.e., the sum of the amounts corresponding to 75% of the contribution paid in 2001 by each member credit institution.

Recourse to this facility by members continued to be high, standing at approximately the same level observed the year before (73.2% in 2001, compared with 74% in 2000).

(*) Including *Caixa Geral de Depósitos* (national savings bank).

(**) Not belonging to the Integrated Mutual Agricultural Credit Scheme (SICAM). The guarantee of deposits taken by mutual agricultural credit banks belonging to the SICAM is governed by a specific law (Article 156 (6), of Decree-Law no. 298/92, of 31 December). More recently, Decree-Law no. 345/98, of 9 November, stipulates that the Guarantee Fund of Mutual Agricultural Credit envisages in particular the repayment of deposits taken by the Central Agricultural Credit Bank and the associated mutual agricultural savings banks; Executive-Order no. 1340/98, of 12 December, fixed the level of the guarantee at • 25,000.

Therefore, total accumulated irrevocable payment commitments relative to all members, since and including 1996, the year when those payments were started, attained • 235 million at the end of April 2001, compared with • 165 million, year-on-year.

7 The pledges collateralising irrevocable payment commitments assumed by member credit institutions continued to be mostly composed of “certificates of deposit” issued by the Banco de Portugal, chiefly with longer maturities (classes 9 and 10, maturing on 4 November 2003 and 2004, respectively). In due time, some credit institutions replaced class 7 “certificates of deposit”, maturing on 2 November 2001, by “certificates of deposit” with longer maturities.

2001, in turn, saw a higher recourse to Treasury bonds for the purpose of the above pledge. The FGD continued to systematically monitor the development of the value of pledges composed of securities listed on the market, with a view to ensuring compliance with the corresponding guarantee margin.

The “degree of participation” of a credit institution in the FGD, at a given moment, according to the applicable provisions, is determined by the respective relative position of the latest annual contribution calculated vis-à-vis the corresponding annual contributions of member credit institutions as a whole. That “degree of participation” will be the basis for determining the responsibility of each member credit institution in the granting of possible loans and guarantees to the Fund.

8 Turning to periodical contributions in 2001, it should be noted that, as in previous years, a significant number of members (29 credit institutions, from a total of 56), benefited from the effect of solvency weights, with “adjusted base rates”^(*) of 0.09% and 0.08% – levels below the 0.1% base rate –, depending on whether the respective average solvency ratios, on an individual basis, stood between 12 and 14% or above 14%, respectively, in the above-mentioned weights. In turn, for 5 members with average solvency ratios (ASR) between 10 and 12%, the effect of the weights in question was neutral, since they were subject to an adjusted base rate of 0.1%, that corresponds to the base rate.

In turn, the “average contributory rate” (ratio between total contributions including irrevocable commitments, on the one hand, and total guaranteed deposits, on the other hand), an indicator usually also mentioned in this type of analysis, stood in 2001 at 0.106% for all members, as a result of the effect of the weighting of the multiplying factor resulting from the solvency indicator.

(*) The “adjusted base rate” is obtained by applying to the 0.1% base rate a multiplying factor corresponding to the positioning of the individual average solvency ratio of each member in the five brackets listed in no. 5 of Notice no. 11/94. Note that for banking supervision purposes, solvency ratios on an individual basis are indicative.

9 The evaluation of the contributory effort, in cash and “certificates of deposit” (CD), actually required every year from member credit institutions is not appropriately reflected either by the 0.1% base rate or by the “average contributory rate”. Account should be taken of the effect of the solvency weighting and of the degree of utilisation of irrevocable payment commitments.

Therefore, the “effective contributory rate in cash and CD” and the “weighted rate” presented in Table III, are the indicators better adjusted to the mixed nature of the Portuguese contributory system and, also, to the fact that the latter covers the solvency/risk situation of member credit institutions.

In the comparative analysis of deposit-guarantee schemes of other countries, account should also be taken of the fact that the incidence basis of the contributory rate, in the Portuguese case, is composed of “total guaranteed deposits”, instead of “total guaranteed and non-guaranteed deposits”, as happens in some other systems.

Table III **Effective in cash and weighted contributory rates in 1999, 2000, 2001 and 2002**

Years	Maximum level of the commitments (1)	Share paid in cash and "CD" (2)	Base rate (3)	Effective contributory rate in cash and "CD" (4)=(2)X(3)	ASR brackets(*) (solvency)	Weighting multiplying factor (5)	Weighted rate (6)=(4)X(5)
1999	60%	40%	0,1%	0,04%	< 8	1,2	0,048%
					[8 ; 10 [	1,1	0,044%
					[10 ; 12[	1,0	0,04%
					[12 ; 14[	0,9	0,036%
					\$ 14	0,8	0,032%
2000, 2001 and 2002(**)	75%	25%	0,1%	0,025%	< 8	1,2	0,03%
					[8 ; 10 [	1,1	0,0275%
					[10 ; 12[	1,0	0,025%
					[12 ; 14[	0,9	0,0225%
					\$ 14	0,8	0,02%

Source: FGD

As in 2000, the “Effective contributory rate in cash and CD” was left unchanged at 0.025%.

(*) Average solvency ratio: average of the solvency ratios, calculated on an individual basis, with reference to 30 June and 31 December of the previous year.

(**) In September, the Board of Directors of the Banco de Portugal, under proposal of the Fund’s Management Committee, after hearing the Portuguese Banking Association, approved the base rate (0.1%) and the maximum limit (75%) of the irrevocable payment commitments applicable to the calculation and settlement of periodical contributions in 2002.

As usually, in Table III, no account was taken of the favourable effect, from the point of view of contributions from member credit institutions, of the incidence of the reduced rate of 0.01% on certain items of guaranteed deposits, since that component of annual contributions continues to be barely representative, as described in Table IV; in 2001, reduced rate contributions accounted for 1.5% of total contributions, against 1.4% in 2000.

The “weighted rate”, in turn, fluctuated between 0.02% and 0.03% in 2001, similarly to 2000 (between 0.032% and 0.048% in 1999); the same will happen in 2002, since the level of commitments will be maintained at 75%.

Both the “effective contributory rate in cash and CD” and the “weighted rate” are therefore at levels significantly below the 0.1% base rate.

Table IV Annual contributions to the FGD by type of contributory rate

EUR thousands

Contributory rates	Annual Contributions		
	1999	2000	2001
Base rate 0,1%	80,257.5	84,573.6	93,404.1
Reduced rate 0,01%	1,091.8	1,191.0	1,409.6
TOTAL	81,349.3	85,764.6	94,813.7

Source: FGD

10 Table V reflects the development of the deposit structure, from the point of view of their guarantee. On 31 December 2000, the ratio of the amount of guaranteed deposits to the amount of total deposits shows a decrease, in contrast with the slight increase observed in 1999.

Table V Trend of the guaranteed/total deposits ratio

EUR millions

Deposits	As at 31.12.98	As at 31.12.99	As at 31.12.00
Covered by the Fund's guarantee (A)	89,244.4	96,530.9	102,049.0
Not covered by the Fund's guarantee	70,411.3	75,883.7	85,143.0
Total deposits (B) (*)	159,655.7	172,414.6	187,192.0
Ratio (A) : (B)	55,9%	56,0%	54,5%

Source: FGD

(*) This total, assessed from the Fund's perspective, and covering the deposits taken only by the respective member credit institutions, has no corresponding item in the deposit aggregate included in monetary and financial statistics published by the Banco de Portugal. The balances of the interbank deposits did not offset one another and, in addition to deposit accounts, other accounts were included, representative of temporary liabilities of the customers (captive accounts, pledge, subscription, etc.), pursuant to Article 2 of the Fund's Regulation, approved by Executive Order 285-B/95, of 19 September. Aggregate (B) also contains deposits taken by branches of Portuguese banks in other EU and non-EU Member States. Aggregates (A) and (B) are not considered deposits taken by branches operating in Portugal of banks having their head office in the EU.

It should be noted that the deposits owned by the general government, by credit institutions and financial companies and by insurance companies continue to have a relevant position in the aggregate of deposits excluded from guarantee by the FGD, according to Community Directive 94/19/CE (Article 7 (2) and the list of exclusions in Annex I).

11 The minimum guarantee level in force in Portugal was fixed in June 1999 at • 25,000, slightly above the harmonised minimum level of • 20,000 laid down in Community Directive 94/19/EC on this subject. As it is generally known, moderate levels of deposit guarantee do not contribute to the deterioration of the risk of a possible outbreak of moral hazard effects, at the level of both depositors and credit institutions themselves.

Member Credit Institutions

12 Membership of the FGD is compulsory for credit institutions authorised to take deposits, in compliance with the applicable provisions of national law, and in line with Community Directive 94/19/EEC; the only exceptions are the mutual agricultural credit banks belonging to the Integrated Mutual Agricultural Credit Scheme (SICAM), which are subject to a particular system of deposit guarantee.

Table VI shows the reduction from 56 to 53 in the number of member credit institutions in the year under review. It should be noted that, in the same period, there were four mergers by incorporation and the exclusion of one mutual agricultural credit bank, while two new banks joined the Fund.

A list of the 53 member credit institutions, as at 31 December 2001, is included in an annex to this Report and Accounts.

Table VI Universe of member credit institutions

Member credit institutions	As at 31.12.2000	Changes in 2001		As at 31.12.2001
		New members	Exclusions	
BanKs	45	+2(*)	-4(**)	43
Savings banks	6	-	-	6
Mutual Agricultural Credit Banks	5		-1(***)	4
Total	56	+2	-5	53

(*) Banif – Banco de Investimento, SA, and Best – Banco Electrónico de Serviço Total, SA.

(**) This change corresponds to the merger by incorporation of ex-banks Mello Imobiliário and Pinto & Sotto Mayor in Banco Comercial Português, of Banco Nacional Ultramarino in Caixa Geral de Depósitos and of Crédit Lyonnais Portugal in Banco Bilbao Vizcaya Argentaria (Portugal).

(***) One Mutual Agricultural Credit Bank that joined the SICAM and, therefore, is covered by the Guarantee Fund of the Mutual Agricultural Credit Scheme.

Source: FGD

13 In 2001, as in previous years, no membership request was submitted to the Deposit Guarantee Fund by any credit institution having its head office in a European Union country, for the purpose of benefiting from the so-called “complementary cover” of the home country system, as regards deposits taken by branches established in Portugal.

It is known that such membership can only be justified in the case of credit institutions of countries where the deposit-guarantee scheme is less favourable than the Portuguese scheme, in terms of level and scope of the deposit guarantee.

Likewise, in 2001, the FGD did not receive from Portuguese banks any request for access to the “complementary cover”, as regards the deposits taken in the host community countries of their branches, particularly in France, where the current guarantee ceiling is • 70,000.

14 In July 2001, the daily press (two of the most widely read newspapers and one newspaper specialising in economic and financial information), in compliance with the provisions laid down in Article 19 (c) of the Regulation of the FGD, approved by Executive Order no. 285-B/95, of 19 September, published a list of member credit institutions as at 31 December 1999, as well as the Accounts for the year 2000, with a view to the dissemination to the general public of the financial situation of the Fund^(*).

Financial resources of the fund

15 The own funds and profits and losses of the Fund, as at 31 December 2001, totalled • 813 million, compared with • 699 million on the same date of 2000, as shown in Table VII. As in previous years, the increase in own funds and profits and losses in the year under review (• 114 million) was largely due to periodical contributions of member credit institutions for April 2001, including the irrevocable payment commitments then assumed by those institutions.

(*) The Annual Report and Accounts of the Fund is sent to the Banco de Portugal, member credit institutions and other interested parties that may require it. The major characteristics or the organisation and operation of the FGD can be found on the Banco de Portugal's website (<http://www.bpportugal.pt>).

TABLE VII Developments of the own funds and profits and losses of the Fund

EUR thousands

Nature of the resources	Balance as at 31.12.2000	Balance as at 31.12.01	Changes in Balances
OWN FUNDS			
(contributions paid to the Fund)			
● Single initial contribution paid by the Banco de Portugal	97,823.2	97,823.2	-
● Initial contributions paid by member credit institutions	97,701.1	97,950.8	249.7
● Periodical (annual) contributions ^(*)	432,981.2	527,795.0	94,813.8
Sum of the contributions	628,505.5	723,569.0	95,063.5
RESERVES	55,531.2	70,608.0	15,076.8
PROFITS AND LOSSES			
● Profit or loss brought forward	-	-	-
● Net income for the year	15,076.4	19,321.7	4,245.3
TOTAL OWN FUNDS AND PROFITS AND LOSSES	699,113.1	813,498.7	114,385.6

(*) Includes contributions paid in certificates of deposits and cash as well as irrevocable payment commitments.

Source: FGD

16 The ratio between FGD's total resources, on the one hand, and total guaranteed deposits, on the other hand, rose from 0.62% to 0.69% between 31 December 1999 and 2000.

TABLE VIII Degree of coverage of deposits guaranteed by Fund's resources

EUR millions

		As at 31.12.98	As at 31.12.99	As at 31.12.2000
Fund's resources (*)	(A)	506.3	598.2	699.1
Guaranteed deposits (**)	(B)	89,244.4	96,530.9	102,049.0
Total guaranteed and non guaranteed deposits	(C)	159,655.7	172,414.6	187,192.0
Ratios	(A) : (B)	0.57%	0.62%	0.69%
	(A) : (C)	0.32%	0.35%	0.37%

(*) Contributions paid to the Fund, plus accumulated income.

(**) The balances of the deposit accounts covered by the Fund's guarantee include the liabilities held by the customers, resulting from transitory situations due to normal banking operations recorded in other accounts (Article 155 of the Legal Framework of Credit Institutions and Financial Companies and Article 1 of Community Directive 94/19/CE), as well as, on 31 December 1996, deposits taken by branches of Portuguese banks established in other EU Member States (Article 164 of the Legal Framework of Credit Institutions and Financial Companies).

Source: FGD

Financial management of the Fund

17 The deceleration of global economic activity started in the second half of 2000 continued in 2001. In the USA, after nine years of strong economic growth, GDP grew by only 1.0% (compared with 4.1% in the previous year). In the euro area, the slowdown was also significant, with GDP growth rate falling by 1.9 p.p. to 1.5%. The German economy was one of those most affected by the international environment. Japan fell again in recession, with GDP recording a negative growth of 0.4%. The economic environment was aggravated by the financial crises in Turkey and Argentina, despite their limited impact on global financial indicators. In the particular case of Argentina, the deterioration of difficulties led to a political crisis, to the announcement of the external debt default and to the pending discontinuance of the exchange-rate peg to the North-American dollar.

Late in the year, the deceleration of world economy has intensified, to a large extent as a result of the terrorist attacks of 11 September. The deterioration of the situation, that significantly affected the major economies of industrialised countries, exceeded expectations, leading the IMF, the OECD and the European Commission to revise downwards their projections of economic growth, on different occasions.

Economic growth and inflation

	Gross Domestic Product (%)			Consumer prices (%)		
	1995-1999	2000	2001	1995-1999	2000	2001
World	3.6	4.7	2.4	-	-	-
Industrialised countries	3.0	3.9	1.1	2.0	2.3	2.3
USA	3.8	4.1	1.0	2.3	3.4	2.9
Euro Area	2.3	3.4	1.5	1.8	2.4	2.7
Portugal	3.6	3.5	1.5 - 2.0	2.7	2.8	4.4
Japan	1.3	2.2	-0.4	0.5	-0.8	-0.7
United Kingdom	2.8	2.9	2.3	2.7	2.1	2.3

Source: IMF, *World Economic Outlook*, December 2001 and Banco de Portugal.

As a result of the decreasing demand, the international prices of commodities, that had remained relatively stable up to September, suffered a considerable reduction during the last quarter of 2001. In the specific case of the oil market, OPEC has decided to lower production on three occasions, with a view to stabilising the price per barrel between 22 and 28 dollars. This, however, did not occur.

Taking advantage of a reduction in crude quotation on the international markets and of the decrease in the level of capacity utilisation, consumer prices in the economies of industrialised countries recorded more moderate increases. In the euro area, the decline in commodity prices was rather positively reflected in the trend of inflation that, in June, started a convergence trend towards the objective laid down by the ECB. Nonetheless, it exceeded the 2000 level. In Portugal, average inflation reached 4.4%, compared with 2.8% in 2000.

Turning to the exchange rate, the North American currency recorded a broadly based appreciation vis-à-vis major currencies, particularly significant vis-à-vis the Japanese currency. In terms of end-of-period figures, the euro depreciated vis-à-vis the dollar (5.6%), the Swiss franc (2.7%) and the pound sterling (2.6%), and appreciated vis-à-vis the iene (7.3%).

The deceleration of economic activity, in parallel with decreasing inflationary pressures, particularly felt in the second half of 2001, led central banks to lower their official interest rates, to varying degrees, according to the respective statutory objectives. In the USA, the *FED* successively adjusted downwards its target for the federal funds rate, lowering it from 6.5% early in the year, to 1.75% in December – the lowest level of the past 40 years. The ECB moved in line with the decrease in the euro area inflation rate and lowered its key rates. The rate on the main refinancing operations was changed on four occasions during the year, decreasing by 1.5 p.p. to 3.25%.

Central Bank intervention rates and Treasury bond yields

		Change 2001 (p.p)	December 2001 (%)
Central Bank intervention rates			
USA	Reference rate for federal funds	-4.75	1.75
Euro area	Rate on main refinancing operations	-1.50	3.25
Japan	Discount rate	-0.40	0.10
United Kingdom	Repo rate	-2.00	4.00
Two-year yield			
USA		-2.09	3.08
Euro area		-0.75	3.65
Japan		-0.37	0.12
United Kingdom		-0.53	4.80
Ten-year yield			
USA		-0.08	5.09
Euro area		0.16	5.00
Japan		-0.28	1.37
United Kingdom		0.19	5.12
Thirty-year yield			
USA		0.02	5.54
Euro area		0.04	5.41
Japan		-0.14	2.50
United Kingdom		0.38	4.75

Source: REUTERS.

Limited by the performance of central banks, Treasury bond yields decreased sharply in shorter maturities both in Europe and in the USA. The more aggressive intervention of the Federal Reserve determined that, as of April, the North-American two-year interest rates would stand below the corresponding German rates.

Long-term Treasury bond yields reflected prospects of economic deceleration. Reflecting a particularly strong deterioration of the situation in the USA, the differential between North-American and German securities interest rates narrowed from 0.33 p.p. at the start of the year to 0.09 p.p. in December 2001. Nonetheless, excluding September and October, North-American rates stood always above German rates. The decreasing trend of ten-year interest rates was also discontinued in the two last months of the year, due to the emergence of prospects of economic recovery, particularly in the USA, where interest rates increased to levels practically identical to those in force early in the year. In turn, *Bund* yields recovered also towards the end of 2001, thus exceeding the levels attained in December 2000.

Turning to the stock markets, the strong depreciation experienced in 2000, induced by the deterioration of companies' profits and losses, maintained its trend.

18 The investment strategy – *Asset Allocation* - of the financial resources of the Fund is the major variable explaining the income obtained, and has been subject to worries of liquidity and safety, taking into account the nature of the Fund.

The management of the financial resources of the Fund pursued in 2001 was chiefly channelled to restrain interest rate risks. It was decided to favour the short end of the yield curve vis-à-vis longer maturities, although profitability has been higher in this segment, but subject to significantly higher risks.

Another aspect characterising the management of the asset portfolio was the final repayment of Certificates of Deposit, Series B – Class 7, the amount of which was reinvested in government securities with very short maturities.

Stress should be laid on some of the guidelines behind investment policy:

- (1) intervention restricted to fixed-income assets of the euro area;
- (2) investment in government, corporate and like securities with high investment grade rating;
- (3) acquisition of securities with a transaction volume high enough to ensure liquidity and guarantee a “market price”; and
- (4) reduction of the immediate liquidity component.

Table IX highlights the composition and development of the major items of the Fund’s assets over the last three years.

TABLE IX Development of the major items of the Fund's assets

EUR thousands

Items	As at 31.12.99		As at 31.12.2000		As at 31.12.2001		Change in 2001/2002	
	Amount	%	Amount	%	Amount	%	Amount	%
Certificates of deposit issued by the Banco de Portugal	325,126	54.43	334,918	48.20	181,904	22.45	-153,014	-45.69
Entries to the debit of member credit institutions (irrevocable commitments)	102,308	17.13	165,237	23.78	234,618	28.96	69,382	41.99
Other financial assets	169,896	28.44	194,696	28.02	393,575	48.58	198,879	102.15
Public debt	123,951		123 837		389,361		265,525	
Corporate assets	2,494		6,479		4,116		-2,364	
Immediate liquidity	43,450		64,380		98		-64,282	
Total	597,330	100.00	694,850	100.00	810,098	100.00	115,247	16.59

The following aspects of the composition and development observed should be taken into account:

(1) “Irrevocable commitments”

The entries do the debit of member credit institutions – concerning irrevocable commitments payable to the Fund at any moment, in full or in part – recorded, in the period under analysis, a significant positive change, to the amount of • 69.382 million, corresponding to +41.99%, albeit lower than the change observed in the 1999-2000 period.

This is explained by the fact that the ceiling for the utilisation of irrevocable commitments was not revised in 2001, and was maintained at 75%.

(2) “Certificates of Deposit”

Certificates of deposit issued by the Banco de Portugal decreased in the period under review by • 153.014 million, due to the final repayment of Series B – Class 7.

(3) “Other financial assets”

Over the same period, this item recorded a positive change, to the amount of • 198.879 million, corresponding to +102.15%.

This increase results, on the one hand, from the effect of capitalisation of the respective portfolio, composed of public and private debt securities and, on the other hand, from the significant rise in the government debt securities portfolio.

The settlement of annual contributions in cash was residual, amounting to • 1.121 million.

19 Table X presents a set of financial ratios illustrating the developments and the performance observed in the period under analysis:

- (1)** The item “Fixed assets”, which includes “Certificates of Deposit“ and “Irrevocable commitments“, declined in the Fund’s financial resources as a whole. In effect, the “Fixed assets / total assets “ ratio declined to 51.42% in 2001, against 71.98% in the previous year.

The developments observed in the item “Irrevocable commitments” led to a higher weight of this item in “Total assets“. The respective ratio for the 1999-2001 period presents a change of 5.18%, reflecting an increase from 23.78% in 2000 to 28.96% in 2001.

- (2)** The item “Other financial assets”, including public and private debt securities and liquidity, recorded a contrasting trend in “Total assets”.

Indeed, in the 2000-2001 period, there was a divergent movement, with the respective ratio recording a change of +20.56%, which corresponds to an increase of 28.02% in 2000 and 48.58% in 2001.

- (3) Turning to the trend of the item “Total assets“, the 2000-2001 period saw an increase from • 694.850 million to • 810.098 million, corresponding to a change of 16.59%.
- (4) The “Net profit or loss for the year”/ “Total assets” ratio recorded a positive development in the 2000-2001 period from 2.17% to 2.39%.

TABLE X Financial Ratios

EUR thousands

		31.12.99	31.12.2000	31.12.2001
Total asset(*)	①	597,330	694,850	810,098
Fixed asset(**)	②	427,435	500,155	416,522
Irrevocable commitments	③	102,308	165,237	234,618
Other financial assets(***)	④	169,896	194,696	393,575
Net profit or loss for the year	⑤	10,355	15,079	19,322
Ratio ② / ①		71.56%	71.98%	51.42%
Ratio ③ / ①		17.13%	23.78%	28.96%
Ratio ④ / ①		28.44%	28.02%	48.58%
Ratio ⑤ / ①		1.73%	2.17%	2.39%

(*) Includes “Certificates of Deposit” and “Irrevocable commitments”.

(**) Value of “Certificates of Deposit” and “Irrevocable commitments”

(***) Value of public debt, other debt and immediate liquidity.

The item “Irrevocable commitments”, as previously mentioned, as been assuming a growing weight in the structure of financial resources.

The persistence of this movement associated with the investment strategy adopted will naturally lead to less capitalisation of the Fund, either through the decreasing volume of capital allocated to “Other financial assets”, or through the generation of income.

20 The management of the Fund’s financial resources has been carried out on an “absolute return” basis, in contrast to an indexed management, anchored at benchmarks, either at market or strategic level. The analysis and reading of the financial results obtained, as far as the item “Other financial assets” is concerned, since this is the segment of intervention of investment policy, will reflect the management style adopted.

Management on an “absolute return” basis was buoyant, as shown by the turnover of • 1,104 billion reached in 2001, i.e., approximately threefold the average capital allocated to the class “Other financial assets”.

The factors positively contributing for the formation of “Net profit or loss for the year” are identified as follows:

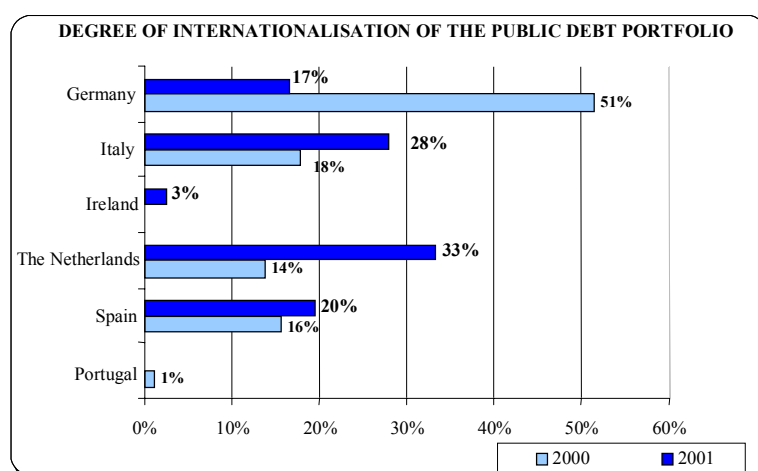
- (1) active management of financial spreads - *Stock Picking* - of the government debt securities portfolio;
- (2) broader range of the government debt securities portfolio, and
- (3) tactical positioning over the short end of the yield curve.

The data below illustrate the more detailed breakdown of the government debt securities portfolio:

TABLE XI Geographical breakdown of the government debt securities portfolio

EUR thousands

Países	As at 31.12.2000		As at 31.12.2001		Change in 2001/2002	
	Amount	%	Amount	%	Amount	%
Portugal	1,444	1.17	0	0.00	-1,444	-100.00
Spain	19,386	15.65	76,014	19.52	56,628	292.11
The Netherlands	17,201	13.89	129,896	33.36	112,695	655.18
Ireland	0	0.0	9,954	2.56	9,954	
Italy	22,099	17.85	108,759	27.93	86,661	392.16
Germany	63,705	51.44	64,738	16.63	1,033	1.62
Total	123,834	100.00	389,361	100.0	265,527	214.42



In effect, Portuguese public debt securities underwent some disinvestment, with financial assets by non-residents (of the euro area) accounting for 48.06% of “Total assets” and 98.93% of “Other financial assets” at the end of the year.

Interest rate risk management translated into a modified duration that ranged, regarding the item “Other financial assets“, between 0.63 and 1.93 years, over the year under review. At the end of the year, this indicator reflected an increase vis-à-vis the value recorded in 2000, with a change of 0.39 years.

In terms of profitability, the assets in question – “Other financial assets” – registered in 2001 an annual net effective rate of 4.99%.

Profitability and modified duration of the Fund’s assets assumed in 2001 the following values:

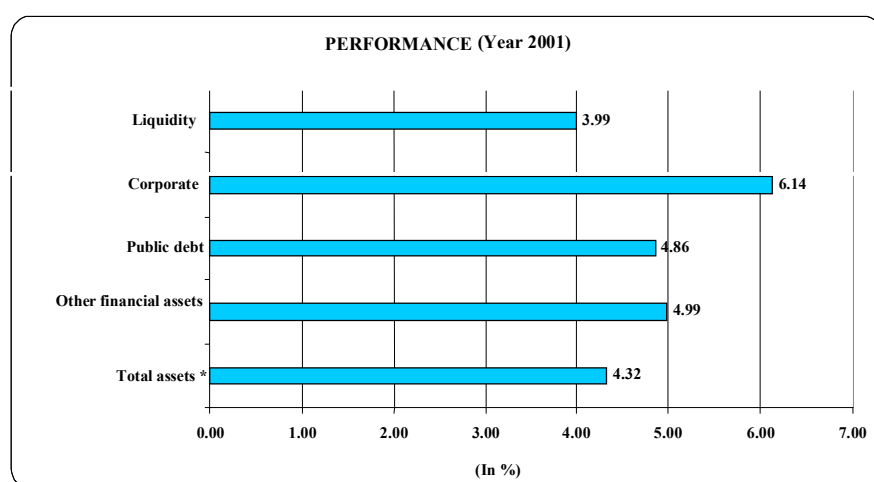
TABLE XII Financial performance

EUR thousands

	<i>Perormance (**)</i> (in %)	<i>Average Capital</i>	<i>Modified Duration</i> (in years)	
			31.12.2000	31.12.2001
			Total assets(*)	4.32	567,045	0.28	0.73
Other financial assets	4.99	240,508	0.63	1.02
Public debt	4.86	229,727	0.82	1.00
<i>Corporate</i>	6.14	6,305	2.84	3.33
Liquidity	3.99	4,477	0.02	0.00

(*) Not including “Irrevocable commitments”

(**) Net annual effective rate (measured by the internal yield)



The risk/return performance, measured by the Sharpe index, of the public debt portfolio stood in 2001 at 1.20%, while the benchmark measured by the Reuters Index, and considering every maturity segment, stood, over the same period, at 0.26%.

Given that the public debt portfolio under management, throughout the year, was classified in the short end of the maturities, the comparison of the risk/return performance will be carried out taking into account the same maturity segment. In this specific segment, the Reuters index recorded a Sharpe index of 0.57%. Therefore, comparing the results of the portfolio with the above benchmark, the risk-adjusted performance of this portfolio exceeded that of the market by 0.63% (1.20% - 0.57%).

21 The composition of “Net profit/loss for the year” is presented in Table XIII. The following aspects should be highlighted:

- (1) The item “Income and gains” attained • 24.074 million in 2001, corresponding to a change of • -2.092 million from the previous year, i.e., a decrease of 8.00%;
- (2) The item “Costs and losses” recorded • 0.118 million in 2001, corresponding to a change of • -6.86 million from the previous year, i.e., a decline of 98.31%;
- (3) The net differential between the item “Extraordinary gains” (decline in provisions) and “Losses in the Sale of Financial Investment” (capital losses) attained • 39 thousand.
- (4) The item “Direct taxes” accounts for 20% of the item “Interest Received”, corresponding to the withholding tax in force, applicable to capital income generated by debt, both domestic and external.

TABLE XIII Profit/loss for the year

Items	As at 31.12.99	As at 31.12.2000	As at 31.12.2001	Change in 2001/2000	
	Amount	Amount	Amount	Amount	%
Net profit or loss for the year	10,355	15,079	19,322	4,243	28.14
Profits and losses	13,658	20,231	29,229	8,999	44.48
Financial income and gains	19,848	26,166	24,074	-2,092	-8.00
Interest received	16,387	19,977	22,618	2,641	
Gains in the sale of financial investments (capital gains)	2,868	0	1,106	1,106	
Other financial income	316	316	286	-30	
Extraordinary gains (decline in provisions)	278	5,873	64	-5,809	
Financial costs and losses	6,190	6,978	118	-6,860	-98.31
Provisions for financial investments	5,401	751	63	-688	
Losses from the sale of financial investments (capital losses)	783	6,216	25	-6,191	
Commissions	6	11	30		
Direct taxes (Corporate income tax on capital investment)	3,277	4,009	4,524	515	12.84
Non-realised valuation in securities (capital gains/losses)	0	1,043	5,273	4,231	

From the date of establishment of the Fund to last year, the periodical and annual contributions received amounted to • 488.95 million. During the same period, for capitalisation purposes, the income obtained totalled • 89.929 million.

In 2001, the amount of contributions increased by only 10.55%, when compared with the trend observed in the item “irrevocable commitments”, that rose by 41.99%.

22 It is important to supply information on some regulations of accounting and prudential nature, laid down by the Management Committee, with a financial impact:

- (1) Financial assets are valued by the “*marked - to - market*” criterion, and capital gains are calculated by the difference between their acquisition cost and their market value;
- (2) Potential capital gains, registered in the balance-sheet, do not contribute to the assessment of “Net profit/loss for the year“, while potential capital losses, reflected in the profit and loss account, contribute to that Result through a building up of provisions of an identical value;
- (3) Price discounts (difference between the acquisition value and the nominal value) in the acquisition of certificates of deposit, assuming that they are held in the portfolio up to their maturity date, are entered on a monthly basis and registered in the income account up to that date; and
- (4) The income tax, calculated from interest received, is subject to the specialisation principle, including interest received abroad.

Taxation

23 The Fund, public-law legal person, pursuant to Article 8 (1) of the Corporate Income Tax Code, is exempt from corporate income tax, except for capital income, as defined for personal income tax purposes.

Income classified under item E for Personal Income Tax purposes, subject to the withholding tax in force, are considered as capital income subject to outright withholding at source.

This system is applicable to capital income received abroad, which is not subject to any form of withholding in Portugal. Their taxation is based on the respective information returns to Tax Authorities, and the corresponding subsequent settlement is calculated from the difference between taxes withheld at source in the home country of the income and the withholding tax in force in Portugal (20%).

Payable taxes calculated from the Fund’s financial accounts are entered under the item “Income Taxes for the year” because they are future liabilities.

Regulations published in 2001

24 The following regulations were approved and published in 2001 by the Banco de Portugal:

Notice of the Banco de Portugal no. 7/2001, of 28 May 2001, published in the Official Gazette, Series 1-B, of 6 June, that fixed at • 50,000 the value of the initial contribution envisaged in Article 160 (1) of the Legal Framework of Credit institutions and Financial Companies (Decree Law no. 298/92, of 31 December), revoked by Notice no. 8/95, of 15 September.

Instruction no. 23/2001, published in the October 2001 issue of the Instruction Bulletin of the Banco de Portugal, that fixed at 0.1% the base rate applicable to the calculation of the annual contributions relating to 2002.

Instruction no. 24/2001, published in the Instruction Bulletin of the Banco de Portugal, that fixed at 75% the ceiling on irrevocable payment commitments for the calculation of the annual contributions for the same year.

Auditing of the Deposit Guarantee Fund

25 The Auditing Board of the Banco de Portugal is the entity monitoring the Fund's activities, pursuant to the provisions laid down in Article 171 of Decree-Law no. 298/92 (Legal Framework of Credit Institutions and Financial Companies), of 31 December, and Article 25 of the Fund's Regulations, approved by Executive Order no. 285-C/95, of 19 September.

In the year under review, as in previous years, the Fund continued to submit the accounting documents and other relevant information on its financial management and situation to the Board of Auditors of the Banco de Portugal.

The opinion of the Board of Auditors of the Banco de Portugal on the Report and Accounts of the Fund for the year 2001 is included in annex.

In turn, the Court of Audit, that ensures the continuing supervision of the Fund's activities, pursuant to the legal provisions in force, received all the necessary information regarding the year 2000, in particular the respective Report and Accounts, after approval of the Minister of Finance, by Decision no. 1285/01 of 10 April.

External Audit

26 In 2001, as in previous years, Ernst & Young audited the accounts and the management of the financial resources of the Fund, as well as the resulting fiscal obligations. In addition, the External Auditor continued to be responsible, inter alia, for the audit of internal control procedures, including the data processing system, within the scope of asset

management, as well as for checking compliance with the guidelines on the financial investments of the Fund, laid down in the Protocol signed with the Banco de Portugal in January 1995 and with the risk management regulations established by the Fund's Management Committee.

The opinion of the External Auditor on the Fund's asset management accounts in 2001 will be included below. .

Support by the Banco de Portugal and co-operation of member credit institutions

27 The Management Committee expresses its appreciation and thanks to all units of the Banco de Portugal that, within the scope of the co-operation envisaged in the Protocol signed in January 1995, contributed in 2001 with their technical and administrative support to the good operation of the Fund, ensuring, in particular, the accounting processing of operations and the preparation of the balance sheet and accounts, the management of financial resources, and the participation in procedures for the collection of the annual contributions of member credit institutions to the Fund.

Among these units, stress should be particularly laid on the Pension Fund, the Control and Accounting Department, the Market and Reserve Management Department, the Legal Services Department and the Banking Supervision Department.

The Management Committee also wishes to express its appreciation to member Credit Institutions for their regular co-operation, on an individual basis, as well as to the *Associação Portuguesa de Bancos* (Portuguese Banking Association) for its relationship with the Fund.

Co-operation with other deposit-guarantee schemes

28 Within the scope of international co-operation and of the exchange of information, the Fund maintained close contacts with other deposit-guarantee schemes in the course of 2001, supplying or requesting information on subjects related with the respective operation.

On 18 October 2001, the European Commission published a report [COM(2001) 595 final] on the implementation of the topping up provisions envisaged in the Directive on deposit-guarantee schemes (94/19/CE). In its conclusions, the above report mentions the modest utilisation within the EU of the topping up provisions, although considering that the situation may change within the framework of some financial instability as result of the repayment of deposits.

The report also deems possible that the topping up clause may play a useful role during the transition stage of the EU's enlargement, since the new accession countries applying to deposit-guarantee schemes, in general, supply guarantees below those envisaged in the Community Directive (• 20,000). Against this background, the branches of credit institutions authorised in those countries, established in the territory of present EU

Member States, may offer guarantee levels identical to those offered by credit institutions in the host countries. For this reason, the European Commission believes it is too early to consider the elimination of the clause in question.

At the initiative of the Italian deposit-guarantee fund (*Fondo Interbancario di Tutela dei Depositi*), a conference on deposit insurance was held in Rome in July 2001, which introduced the “*Report on Deposit Insurance: an International Outlook*”. The Deposit Guarantee Fund, together with 29 deposit-guarantee schemes from other countries, contributed to such report, supplying information and data, in reply to a survey sent to all guarantee schemes covered by the report.

In the wake of the setting up, in March 2000, of a Working Group on deposit guarantee, within the scope of the Financial Stability Forum, the report *Guidance for Developing Effective Deposit Insurance Systems* was issued in September 2001, with the chief purpose of supporting the setting up of deposit-guarantee schemes in countries that do not have any specific deposit-guarantee scheme, or restructuring existing guarantee schemes.

The Management Committee

<i>António Manuel Martins Pereira Marta</i>	- Chairman
<i>José Manuel Trindade Neves Adelino</i>	- Member
<i>Rui Jorge Martins dos Santos</i>	- Member

Deposit Guarantee Fund

Financial Information

Balance-sheet as at 31 December 2001

CODE OF THE ACCOUNTS	ASSETS	FISCAL YEARS				CODE OF THE ACCOUNTS	OWN FUNDS AND LIABILITIES		FISCAL YEARS	
		2001		2000			2001	2000	(in euro)	
		GROSS ASSETS	DEPR. AND PROV.	NET ASSETS	NET ASSETS		2001	2000		
426	FIXED ASSETS Tangible fixed assets Office equipment	6.859,96	6.608,74	251,22	376,86	511	Own funds	195,773,880,45	195,524,361,29	
415	Financial investments Other financial investments	181,903,813,81	181,904,065,03	181,903,813,81	334,918,590,35	512	Initial contributions	293,176,508,46	287,743,758,71	
		181,910,673,77	6,608,74	181,904,065,03	334,919,367,21	513	Periodical Contributions - Paid	234,618,452,31	165,237,479,32	
	FLOATING ASSETS						Periodical Contributions - Commitments	723,568,841,22	628,505,599,32	
						57	RESERVES			
							Free Reserves	70,607,543,49	55,531,174,16	
						59	Profit and loss brought forward	0,00	0,00	
252	DEBTS TO THIRD PARTIES	234,618,452,31	234,618,452,31	234,618,452,31	185,237,179,32	88	Net profit or loss for the year	19,321,747,77	45,076,369,33	
24	Periodical Contributions - Commitments Assumed Government and other Public Entities	1,277,32	1,277,32	1,277,32	1,277,32					
		234,619,729,63		234,619,729,63	185,238,756,64		Total own funds and profits and losses	813,496,132,48	699,113,142,81	
152	MARKETABLE SECURITIES						LIABILITIES			
153	Bonds and equity Government securities	4,115,619,99		4,115,619,99	6,478,595,50		DEBTS TO THIRD PARTIES			
		389,361,494,99		389,361,494,99	123,834,249,95	24	Government and other Public Entities	1,453,239,24	398,620,25	
		393,477,114,98		393,477,114,98	130,312,845,45					
12+13	BANK DEPOSITS AND CASH									
11	Bank Deposits	97,755,21		97,755,21	64,377,969,38					
	Cash	374,10		374,10	374,11					
		98,129,31		98,129,31	64,378,343,49	26911	PREPAYMENTS AND ACCRUED INCOME	5,273,193,16	1,042,684,72	
271	Accrued income	10,342,305,35		10,342,305,35	6,236,975,18		Non-realised valuation in securities			
272	Deferred costs	686,18		686,18	671,41					
		10,342,991,53		10,342,991,53	6,237,646,59	273	ACCRUED AND DEFERRED COSTS	217,465,60	532,511,60	
			6,608,74				Accrued costs			
	Total depreciations									
	Total provisions									
	Total assets	820,448,639,22	820,442,030,48	820,442,030,48	701,086,959,38		Total liabilities	56,943,898,00	1,973,816,57	
			0,00				Total own funds and liabilities	820,442,030,48	701,086,959,38	
			6,608,74							
04	CONTINGENT LIABILITIES									
	Guarantees received	235,124,451,43								

The Head of the Control and Accounting Department

Américo Sequeira

The Management Committee

António Manuel Martins Pereira Maria - Presidente
José Manuel Trindade Neves Adelino - Vogal
Rui Jorge Martins dos Santos - Vogal

Explanatory Notes on the Balance Sheet

ASSETS

The item “**Other Financial Investments**” of **Fixed assets** includes Certificates of Deposit – Series B issued by the Banco de Portugal to the amount of • 181,903,814, valued at cost price. The reduction vis-à-vis the amount held at the end of 2000 is due to a repayment of • 153,015,176.

The item “**Periodical Contributions – commitments assumed**” to the amount of • 234,618,452 reveals irrevocable payment commitments between the Deposit Guarantee Fund and member credit institutions, pursuant to the provisions laid down in the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law no. 298/92, of 31 December, with the changes introduced by Decree-Law no. 246/95, of 14 September, and Notices no. 11/94, of 21 December and no. 9/95, of 15 September. On 30 April 2001, it increased by • 69,380,973.

The item “**Government and Other Public Entities**”, accounting for • 1,277, shows the current account of the State, pursuant to the provisions laid down in the system regulating Corporate Income Tax withheld at source, published in Decree-Law no. 263/92, of 24 November.

The aggregate “**Marketable Securities**” shows the following investments at market price:

	(euro)
Bonds of the Landwirtschaft Rentenbank	2,049,000
Bonds of the Agence Française	1,030,820
Bonds of the General Electric Corp.	1,035,800
<i>Subtotal</i>	4,115,620
Euro Area Government Debt Securities	389,361,495
<i>Subtotal</i>	389,361,495
Total	393,477,115

The item “**Bank deposits**” only considers demand deposits in the following institutions:

	(euro)
Banco de Portugal	518
Banco Português do Atlântico	118
Banco Totta & Açores	1,318
Banco Espírito Santo	116
Caixa Geral de Depósitos	137
Banco Comercial Português	95,160
Banco Santander	144
ABN AMRO Bank	148
Barclays Bank	96
Total	97,755

The item “**Accrued Income**” to the amount of • 10,342,305 registers income in the current year pertaining to investment income.

The item “**Deferred Costs**”, amounting to • 686, corresponds to the payment of the contributions for January 2002.

OWN FUNDS AND LIABILITIES

The item “**Initial Contributions**” registers an increase of • 249,519 from 2000, corresponding to contributions due to the start of activity of the following credit institutions:

Banco Português de Gestão, SA
BANIF – Banco de Investimento, SA
BEST – Banco Electrónico de Serviços Total, SA
Caixa de Crédito Agrícola Mútuo de Leiria
Caixa de Crédito Agrícola Mútuo de Torres Vedras

The items “**Periodical Contributions – Paid**” and “**Periodical Contributions – Commitments**”, that register the annual contributions made by member credit institutions, present for 2000 increases of • 25,432,749 and • 69,380,973, respectively.

Net profit and loss for the year in 2001 amounted to • 19,321,748.

LIABILITIES

The item “**Government and Other Public Entities**” chiefly registers income taxes on Euro Area Government Securities that are not withheld at source.

The item “**Non-realised valuation in securities**”, amounting to • 5,273,193, registers potential gains from the daily revaluation of the security portfolio value.

The item “**Accrued Costs**”, to the amount of • 217,466, registers costs related to income tax on capital investments considered in the present year and the scheduling of payments of audit services.

CONTINGENT LIABILITIES

The item “**Irrevocable Commitments**” registers the market pledge collateralising irrevocable payment commitments by credit institutions to the Deposit Guarantee Fund.

Profit and Loss Account as at 31 December 2001

(in euro)

CODE OF THE ACCOUNTS		FISCAL YEARS			
		2001		2000	
	COSTS AND LOSSES				
62	Supply of external services	83,052.85		55,757.79	
641	Staff costs Remuneration of the Management Committee	41,898.96		41,898.98	
66	Depreciation of Tangible and Intangible Fixed Assets	212.3		1,279.32	
63	Taxes	3,085,822.94	3,210,987.05	3,625,003.75	3,723,939.84
	(A)		3,210,987.05		3,723,939.84
	Financial Costs and Losses				
684	Provisions for Financial Investments	62,750.00		750,836.70	
687	Losses from the sale of Financial Investments	24,999.86		6,215,913.60	
688	Other	592.71	88,342.57	712.78	6,967,463.08
	(C)		3,299,329.62		10,691,402.92
69	Extraordinary Costs and Losses	6.97	6.97	0.79	0.79
	(E)		3,299,336.59		10,691,402.71
	TOTAL COSTS AND LOSSES		3,299,336.59		10,691,402.71
86	Income Tax for the year		1,452,982.33		398,401.69
88	Net profit and loss for the year		19,321,747.77		15,076,369.33
			24,074,066.69		26,166,174.73
	INCOME AND GAINS				
	Financial Income and Gains				
781	Interest received	22,617,805.43		19,977,258.04	
787	Gains from the sale of Financial Investments	1,105,894.59		0.00	
788	Other Financial income and gains	286,268.58	24,009,968.60	316,172.76	20,293,430.80
	(D)		24,009,968.60		20,293,430.80
79	Extraordinary income and gains				
7962	Deduction from provisions	64,090.52		5,872,743.49	
7989	Rounding	7.57	64,098.09	0.44	5,872,743.93
	(F)		24,074,066.69		26,166,174.73
	TOTAL INCOME AND GAINS		24,074,066.69		26,166,174.73

SUMMARY

Operational profit or loss: - (A)	=	-3,210,987.05
Financial profit or loss: (D) - (C - A)	=	23,921,626.03
Current profit or loss: (D) - ©	=	20,710,638.98
Profits before taxes : (F) - (E)	=	20,774,730.10
Net profit and loss for the year : (F) - (E) - (G)	=	19,321,747.77

The Head of the Control and Accounting Department

The Management Committee

Américo Sequeira

António Manuel Martins Pereira Marta - Presidente

José Manuel Trindade Neves Adelino - Vogal

Rui Jorge Martins dos Santos - Vogal

Explanatory Notes on the Profit and Loss Account

COSTS AND LOSSES

The aggregate “**Supply of external services**” covers:

	(euros)
Books and technical documentation	156
Office equipment	177
Rentals and leases	9,424
Communication	222
Travelling and accommodation expenses	1,203
Fees	30,107
Wages	21,151
Legal issues and Notary Public	239
Maintenance and Repairs	469
Advertisement	5,378
Specialised Work	14,426
Other Supplies and Services	101
Total	83,053

The aggregate “**Taxes**” registers the fees paid to the Court of Accounts and the income tax on capital investments, amounting to • 15,213 and • 3,070,610, respectively.

INCOME AND GAINS

The item “**Interest received**” covers interest received from financial investments, in particular:

	(euros)
Deposits with credit institutions	295,838
Bonds and Equity	323,507
Government securities	7,047,435
Other Financial Investments	14,951,025
Total	22,617,805

The item “**Gains from the sale of Financial Investments**” registers the results from the sale of corporate bonds and government-issued securities.

PROPOSAL FOR THE APPROPRIATION OF PROFITS

The FGD presents the following proposal for the appropriation of profits for the year 2001:
to Free Reserves – • 19,321,747.77.

Lisbon, 6 March 2002

The Management Committee

António Manuel Martins Pereira Marta - Chairman

José Manuel Trindade Neves Adelino - Member

Rui Jorge Martins dos Santos - Member

Deposit Guarantee Fund

**Opinion of the Board of Auditors
of the Banco de Portugal**

Opinion of the Board of Auditors of the Banco de Portugal

In accordance with the applicable provisions of the Legal Framework of Credit Institutions and Financial Companies (Legal Framework) (Article 171 of Decree-Law no. 298/92, of 31 December, with the changes introduced by Decree-Law no. 246/95, of 14 September) and with the provisions laid down in Article 25 of the Regulations Governing the Deposit Guarantee Fund (attached to Executive Order no. 285-B/95, Series II, of 19 September 1995) the Board of Auditors of the Banco de Portugal issued its opinion on the Deposit Guarantee Fund (the Fund) for the year 2001.

The financial statements of the Fund were prepared taking into account the chart of accounts established in Article 170 of the abovementioned Legal Framework on the drawing up of the Fund's chart of accounts. It is based on the official accounting chart (Decree-Law no. 410/89, of 21 November), with the necessary adjustments to the specific nature of the Fund's activities.

The major purpose of the Fund is to guarantee the repayment of deposits with member credit institutions, under the conditions and in compliance with the ceilings established in the legal Framework and respective regulatory documents.

The Board of Auditors, within its field of competence, monitored the Fund's activities, analysing the documents regularly sent by the Management Committee, together with the data and additional information deemed necessary to the smooth performance of its tasks.

During the year, no situation of unavailability of deposits was recorded by member credit institutions, as has been the case since the start of operation of the Fund in 1994.

Total contributions of member credit institutions reached approximately • 95 million, compared with • 85.8 million in 2000. This development is a result of the combined behaviour of the basis of incidence of the contributory rate, that rose around 8%, and of the net effect on contributions of the weighting of solvency situations of member institutions.

As regards the payment structure of annual contributions, the following aspects should be highlighted:

- further strengthening of the relative position of the component “irrevocable payment commitments” resulting from the fixing of the ceiling on the amount of commitments at the upper limit envisaged in applicable legislation, and, also, from the significant adhesion to this modality;
- 6% decrease to 1,2% of the weight of the share paid in cash, revealing a preference for the utilisation of “Certificates of deposit” as a means of payment; and
- increase in the share of contributions paid with the delivery to the Fund of “Certificates of deposit”, Series B, issued by the Banco de Portugal.

In the year under review, irrevocable payment commitments attained approximately • 69.3 million, revealing a high degree of utilisation of this facility, since the limit of this utilisation corresponds to 75% of the value of the contribution of each member credit institution in 2001, i.e., • 71.3 million.

Total accumulated irrevocable payment commitments relative to member credit institutions as a whole reached • 234.6 million, representing 32% of initial and periodical contributions paid since the establishment of the Fund (• 723.6 million).

As regards the accounting registration of irrevocable payment commitments celebrated between the Fund and member credit institutions, different criteria were used by these entities, a situation that must be better explained.

The own funds and profits and losses of the Fund, as at 31 December 2001, totalled • 813.5 million. The change from the previous fiscal year (+ • 114.4 million) was largely due (83%) to annual periodical contributions (Certificates of deposit, cash and irrevocable payment commitments) of member credit institutions.

The management of the financial resources of the Fund takes into account the criteria established by the Management Committee for the investment of such resources, within the scope of the guidelines and regulations established in the chart of accounts agreed between the Fund and the Banco de Portugal, in compliance with the provisions laid down in Article 167 of the Legal Framework.

Such management is carried out on an “absolute return” basis, with no indexing to benchmarks, either at market or strategic level. Within this scope, the following situations have positively contributed to the formation of the net profit or loss for the year:

- active management of the financial *spreads* of the government debt securities portfolio;
- broader range of the government debt securities portfolio; and
- tactical positioning over the short end of the yield curve.

The profit or loss for the year attained • 19,321,747.77. The Management Committee recommends that such resources should be allocated to Free Reserves.

On the basis of the analysis carried out, taking into account the corresponding opinions of the external Auditor and of the Audit Department of the Banco de Portugal, and in view of the above considerations, the Board of Audit raises no objection to the approval of the Report and Accounts of the Fund for the year 2001, or to the recommendation for the allocation of resources presented by the Management Committee.

Oporto, 27 March 2002

THE BOARD OF AUDITORS

President: *Emílio Rui da Veiga Peixoto Vilar*

Members: *Rui José da Conceição Nunes*

Modesto Teixeira Alves

José Vieira dos Reis

Deposit Guarantee Fund

Opinion of the External Auditor

Opinion of the External Auditor

Ernst & Young

TO THE MANAGEMENT COMMITTEE OF THE DEPOSIT GUARANTEE FUND

Opinion of the Auditors on the asset management and accounts of the Deposit Guarantee Fund

We have audited the asset management situation of the Deposit Guarantee Fund (the Fund) as at 31 December 2001, the corresponding Profit or Loss Account for that year and the respective notes on the Profit or Loss Account. These financial statements reflect a substantial share of the Fund's assets, its income and expenditure, showing the contributions of the members, the representative financial assets and the profit or loss and income generated by such assets.

In compliance with a Protocol established between the Management Committee and the Banco de Portugal, the Bank, via its Support Unit with powers to manage the Fund's assets, is responsible for the preparation of the present financial statements, which will be an integrating part of the Fund's accounts. It is our responsibility to express our opinion on such financial statements, based on our audit.

We concluded our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit in order to obtain reasonable assurance on whether the financial statements are free of material misstatements. An audit includes examinations, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the accounting principles and valuation criteria adopted, as well as of the overall presentation of the data appearing in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above financial statements give, in all material respects, and for the indicated purposes, a true and fair view of the Financial Position of the Asset Management of the Deposit Guarantee Fund as at 31 December 2001, as well as of the results of its operations for the year then ended, in accordance with the accounting principles generally accepted in Portugal.

Lisbon, 15 February 2002

ERNST & YOUNG

Deposit Guarantee Fund

Annexes

List of Member Credit Institutions

Legal and Regulatory Provisions
on the deposit-guarantee scheme in Portugal

List of Member Credit Institutions (*)

BANKS

Caixa Geral de Depósitos, SA

Banco ActivoBank (Portugal), SA ¹(**)

Banco Alves Ribeiro, SA

Banco Bilbao Vizcaya Argentaria (Portugal), SA

BankBoston Latino Americano (Sociedade Unipessoal), SA

Banco do Brasil, SA

Banco BPI, SA

Banco Comercial dos Açores, SA

Banco Comercial Português, SA

Banco Efisa, SA

Banco Espírito Santo, SA

Banco Espírito Santo de Investimento, SA

Banco Expresso Atlântico, SA

Banco Finantia, SA

Banco Itaú Europa, SA

Banco Internacional de Crédito, SA

Banco de Investimento Imobiliário, SA

Banco de Investimento Global, SA

Banco Madasant – Sociedade Unipessoal, SA

Banco Mais, SA

Banco Português de Gestão, SA

Banco Português de Investimento, SA

Banco Privado Português, SA

Banco Rural Europa, SA

Banco Santander Portugal, SA

Banco Totta & Açores, SA

BAI – Banco Africano de Investimentos, SARL (Sucursal em Portugal)

Banif – Banco de Investimento, SA

Banif - Banco Internacional do Funchal, SA

Best – Banco Electrónico de Serviço Total, SA

(*) Situation as at 31 December 2001, according to the special register with the Banco de Portugal, mentioned in Article 65 of the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law no. 298/92, of 31 December.

(**) Former Banco Mello de Investimentos, SA.

BNC - Banco Nacional de Crédito Imobiliário, SA
BPN - Banco Português de Negócios, SA
BSN - Banco Santander de Negócios Portugal, SA
Caixa – Banco de Investimento, SA
Central – Banco de Investimento, SA
BCP Investimento – Banco Comercial Português de Investimento, SA
Crédito Predial Português, SA
Credibanco - Banco de Crédito Pessoal, S.A.
Credifin – Banco de Crédito ao Consumo, SA
Deutsche Bank (Portugal), SA
Finibanco, SA
Interbanco, S.A.
Sanpaolo IMI Bank (International), SA

SAVINGS BANKS

Caixa Económica Montepio Geral
Caixa Económica da Associação de Socorros Mútuos de Empregados no Comércio de Lisboa
Caixa Económica da Misericórdia de Angra do Heroísmo
Caixa Económica da Misericórdia de Ponta Delgada
Caixa Económica do Porto
Caixa Económica Social

MUTUAL AGRICULTURAL CREDIT BANKS (*)

Caixa de Crédito Agrícola Mútuo do Bombarral, CRL
Caixa de Crédito Agrícola Mútuo da Chamusca, CRL
Caixa de Crédito Agrícola Mútuo de Leiria, CRL
Caixa de Crédito Agrícola Mútuo de Torres Vedras, CRL

(*) Not belonging to the Integrated Mutual Agricultural Credit Scheme.

**Legal and regulatory provisions
on the deposit-guarantee scheme in Portugal**

Legal documents

Decree-Law no. 298/92, of 31 de December
Decree-Law no. 246/95, of 14 de September
Decree-Law no. 222/99, of 22 de June
Executive Order no. 285-B/95, of 19 de September
Notice no. 11/94, of 29 de December
Notice no. 9/95, of 19 de September
Notice no. 3/96, of 15 de July
Notice no. 4/96, of 20 de September
Notice no. 7/2001, of 6 de June

Instructions of the Banco de Portugal^(*)

Instructions nos. 105, 106 and 107/96
Instructions nos. 117, 119 and 127/96
Instruction no. 122/96
Instruction no. 123/96
Instruction no. 124/96
Instruction no. 28/97
Instruction no. 40/97
Instruction no. 41/97
Instruction no. 48/97
Instruction no. 51/97
Instruction no. 18/98
Instruction no. 19/98
Instruction no. 11/99

(*) Instructions relating particularly to the setting, every year, of contributory rates applicable to the calculation of the annual contributions of member credit institutions to the FDG. These Instructions are published in the Regulation and Information Bulletin of the Banco de Portugal, monthly published and distributed to Credit Institutions.