

Deposit Guarantee Fund

Annual Report and Accounts

2002

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 2002, within the prescribed period (31 March 2003), 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 354/03/MEF, of 10.04.03, of the Minister of State and 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

(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.

After the approval of the Report and Accounts of the Fund by Her Excellency the Minister State and Finance, we have learnt of the passing away of Mr. Rui Martins dos Santos.

On behalf of the Management Committee of the Deposit Guarantee Fund and of all the structures and people that co-operated with him, I wish to offer our sympathy and to express our deepest regret for this painful loss and to utter our high appreciation and gratitude for the commitment and enthusiasm of Mr. Rui Martins dos Santos in his co-operation with the Fund, and for his immeasurable personal devotion that, from scratch and over 8 years, has contributed to the building-up of this institution that plays a major role in the Portuguese banking system.

Chairman of the Management Committee

António Pereira Marta

Deposit Guarantee Fund

Board of Auditors of the Banco de Portugal

António José Vieira Águas ⁽³⁾

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

2002

Annual Report 2002

Summary of activities of the Deposit Guarantee Fund

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 (hereinafter FGD or the Fund) started to operate. 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 2002 of each member credit institution to the Fund, based on the average amount of monthly credit balances of deposits covered by the guarantee in 2001;
- 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 financial investment operations, and within the scope of the guidelines and management regulations established in the investment plan agreed between the Fund and the Banco de Portugal, 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);

^(*) Pursuant to 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 2003 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 In the calculation of periodical (annual) contributions for the year 2002, a base rate of 0.1%, weighted by solvency indicator of each member institution^(*), continued to be applicable to the amount of the deposits covered by the guarantee, 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 held by Euronext Lisboa – *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

The periodical contributions of banks in 2002 were subject to the minimum limit of € 17,500^(**).

3 Table 1 shows that in 2002 total contributions from member credit institutions reached € 97,808,000, compared with € 95,063,000 in 2001.

^(*) 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

^(**) According to Decision of the Management Committee of 22 March 2002.

Table I Means of payment used in contributions in 2002

EUR thousands

Contributions paid to the Fund in 2002	Means of payment used		Irrevocable payment commitments (*)	Total
	Certificates of deposit Series B	Cash		
Initial contributions	-	50	-	50
Annual contributions	22,114	4,148	71,496	97,758
Total	22,114	4,198	71,496	97,808

(*) 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

Source: FGD.

4 Table II presents the breakdown of total contributions in 2002 by type of member credit institution. Banks, savings banks, and Mutual Agricultural Credit Banks members of the Fund (not belonging to the Integrated Mutual Agricultural Credit Scheme) account for € 91,596,000, € 5,805,000 and € 407,000 respectively.

Table II Contributions paid in 2002 by type of credit institution

EUR thousands

Contributions paid in 2002	Banks	Savings banks	Mutual Agricultural Credit Banks(*)	Total
Initial contributions	50	-	-	50
Annual contributions	91,546	5,805	407	97,758
Total	91,596	5,805	407	97,808

(*) 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.

Source: FGD.

5 In the year under review, irrevocable payment commitments attained approximately € 71 million, a value close to the maximum authorised of € 73 million, i.e., the sum of the amounts corresponding to 75% of the contribution calculated in 2002 for each member credit institution.

Total accumulated irrevocable payment commitments relative to all members attained € 306 million at the end of April 2002, compared with € 235 million, year-on-year.

6 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), to an overall amount of € 67 million.

Portuguese government debt securities delivered for the purpose of the above pledge accounted for an overall amount of approximately € 5 million in nominal value. The FGD continued to systematically monitor the development of the respective market value, with a view to ensuring compliance with the corresponding guarantee margin.

7 Turning to periodical contributions in 2002, it should be noted that, as in previous years, a significant number of members (31 credit institutions, from a total of 54), 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 weights mentioned in 2. In turn, for 5 members with average solvency ratios 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”, defined as a ratio between total contributions including irrevocable commitments and guaranteed deposits at the end of the year, stood at 0.088% for member institutions as a whole.

8 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.

^(*) 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.

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 with 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 e 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%

(*) 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.

Source: FGD.

As in 2001, the “Effective contributory rate in cash and CD” was left unchanged at 0.025%.

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 types of guaranteed deposits, since that component of annual contributions continues to be barely representative, as can be seen in Table IV. In 2002, reduced rate contributions accounted for 1.4% of total contributions, against 1.5% in 2001.

The so-called “weighted rate”, in turn, fluctuated between 0.02% and 0.03% in 2002, similarly to 2001; the same will happen in 2003, 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		
	2000	2001	2002
Base rate 0.1%	84,573.6	93,404.1	96,439.7
Reduced rate 0.01%	1,191.0	1,409.6	1,318.5
TOTAL	85,764.6	94,813.7	97,758.2

Source: FGD.

9 Table V reflects the development of the deposit structure, from the point of view of their guarantee. On 31 December 2001, the ratio defined by the quotient between the amount of guaranteed deposits and the amount of total deposits showed a small decrease, after having decreased slightly from end 1999.

Table V Trend of the guaranteed/total deposits ratio

EUR millions

Deposits	As at 31.12.99	As at 31.12.00	As at 31.12.01
Covered by the Fund's guarantee (A)	96,530.9	102,049.0	110,567.4
Not covered by the Fund's guarantee	75,883.7	85,143.0	91,408.8
Total deposits (B) (*)	172,414.6	187,192.0	201,976.2
Ratio (A) : (B)	56.0%	54.5%	54.7%

(*) 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.

Source: FGD.

Deposits held by bodies of the administrative public sector, credit institutions and financial companies and insurance corporations continue to have a relevant position in the aggregate of deposits excluded from guarantee by the FGD, according to Article 165 of the Legal Framework of Credit Institutions and Financial Companies.

Member Credit Institutions

10 Credit institutions authorised to take deposits shall compulsorily be members of the Fund, in compliance with Article 156 of the Legal Framework of Credit Institutions and Financial Companies; the only exceptions are the mutual agricultural credit banks belonging to the Integrated Mutual Agricultural Credit Scheme, which are subject to a particular system of deposit guarantee.

Table VI shows the increase from 53 to 54 in the number of member credit institutions in the year under review.

A list of the 54 member credit institutions, as at 31 December 2002, is included in an annex to this Report and Accounts.

Table VI Universe of member credit institutions

Member credit institutions	As at 31.12.2001	Changes in 2002		As at 31.12.2002
		New members	Exclusions	
Banks	43	+1 ^(*)	-	44
Savings banks	6	-	-	6
Mutual Agricultural Credit Banks	4		-	4
Total	53	+1	-	54

(*) *Banco Postal* (Post office bank).

Source: FGD.

11 In 2002, 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. Likewise, in 2002, the FGD did not receive from member credit institutions any request for access to the “complementary cover”, as regards the deposits taken in their branches established in other EU Member States.

12 In July 2002, 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 well as the Accounts for the year 2001, with a view to the dissemination to the general public of the financial situation of the Fund^(*).

Financial resources of the Fund

13 The own funds and profits and losses of the Fund, as at 31 December 2002, totalled € 928 million, compared with € 813 million on the same date of 2001, as shown in Table VII. As in previous years, the increase in own funds and profits and losses in the year under review (+€ 115 million) was due, to a large extent, to periodical contributions of member credit institutions, including the irrevocable payment commitments then assumed by those institutions and, to a smaller extent, to the results of the investments made by the Fund.

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

EUR thousands

Nature of the resources	Balance as at 31.12.2001	Balance as at 31.12.2002	Changes in balances
OWN FUNDS			
(contributions paid to the Fun			
• Single initial contribution paid by the Banco de Portugal	97,823.2	97,823.2	-
• Contribuições iniciais entregues pelas instituições participantes	97,950.7	98,000.7	50.0
• Periodical (annual) contributions (*)	527,795.0	625,553.1	97,758.1
Sum of the contributions	723,568.9	821,377.0	97,808.1
RESERVES	70,607.5	89,929.3	19,321.8
PROFITS AND LOSSES			
• Profit or loss brought forward	-	-	-
• Net income for the year	19,321.7	17,004.3	-2,317.4
TOTAL OWN FUNDS AND PROFITS AND LOSSES	813,498.1	928,310.6	114,812.5

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

Source: FGD.

(*) 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.

14 The ratio of FGD's total resources to total guaranteed deposits rose from 0.69% to 0.74% between 31 December 2000 and 2001.

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

EUR millions

		As at 31.12.1999	As at 31.12.2000	As at 31.12.2001
Fund's resources (*)	(A)	598.2	699.1	813.5
Guaranteed deposits (**)	(B)	96,530.9	102,049.0	110,567.4
Total guaranteed and non guaranteed deposits	(C)	172,414.6	187,192.0	201,976.2
Ratios				
	(A) : (B)	0.62%	0.69%	0.74%
	(A) : (C)	0.35%	0.37%	0.40%

(*) 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), as well as 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).

Financial management of the Fund

15 The year 2002 saw a broadly based decrease in Treasury bond yields across most maturities. This decrease was sharper in the short-term end, dependent on the performance of the ECB that decided to cut the reference rate by 0.5 percentage point on 5 December. That trend, however, was also observed in longer maturities, albeit to a smaller extent, reflecting less positive prospects for economic activity.

Table IX Interest rate trend

	Dec. 2001	Dec. 2002	Change (percentage points)
ECB intervention rate	3.25%	2.75%	-0.50
Treasury bond yields (*)			
2 years	3.65%	2.66%	-0.99
10 years	5.00%	4.18%	-0.82
30 years	5.41%	4.84%	-0.57

(*) Euro area *Benchmark*: German government debt securities.

Source: REUTERS

16 The investment strategy of the financial resources of the Fund continued to be subject to worries of liquidity and safety. There was a marked preference for investments in highly liquid sovereign risk instruments, exclusively denominated in euro, with relatively short maturity and duration.

This prudent stance has led the Fund to benefit from the trend of the yield curve, albeit naturally to a lower degree than as would result from an investment policy more exposed to longer maturities, incurring higher interest rate risks.

17 Table X highlights the portfolio composition of the major items of the Fund's assets. Stress should be laid on:

- (a) an increase in “irrevocable commitments” assumed by member financial institutions and payable to the Fund at any moment, in full or in part;
- (b) a decrease in the certificates of deposit issued by the Banco de Portugal, due to the repayment occurred in November 2002;
- (c) a rise in the share invested in euro area public debt, whose weight in total portfolio increased as a result of the replacement of certificates of deposit by Treasury bills.

Table X Financial asset portfolio

EUR thousands

	As at 31.12.2001		As at 31.12.2002		Change	
	amount	%	amount	%	amount	%
Liquidity	98	0.0	150	0.0	+52	0.0
Certificates of deposit issued by the Banco de Portugal	181,904	22.4	145,054	15.6	-36,850	-6.8
Public debt	389,361	48.1	472,852	51.0	+83,491	+2.9
Sundry debt (“corporate”)	4,116	0.5	3,111	0.4	-1,005	-0.1
Debits of member institutions (irrevocable commitments)	234,618	29.0	306,088	33.0	+71,470	-4.0
Total	810,097	100.0	927,255	100.0	117,158	

18 The management of the Fund's financial resources has been carried out on an "absolute return" basis, and is not anchored in "benchmarks".

The analysis below relates to other financial assets portfolio, which corresponds to the actively managed Fund's share. The major factors behind profitability in this portfolio are:

- (a) active management of financial spreads in the government debt securities portfolio;
- (b) management of the duration and tactical positioning over the yield curve, always with a high incidence at the short end (at the end of 2002, 99.8% of the portfolio had been invested in maturities of less than 3 years).

Table XI Geographical breakdown of the government debt securities portfolio

EUR millions

Countries	As at 31.12.2001		As at 31.12.2002		Change	
	amount	%	amount	%	amount	p.p.
Portugal	0	0.0	0	0.0	0	0
Spain	76,014	19.5	241,677	51.1	+165,663	+31.6
Germany	64,738	16.6	152,529	32.3	+87,791	+15.7
Italy	108,759	27.9	48,619	10.3	-60,140	-17.6
France	0	0.0	30,027	6.3	+30,027	+6.3
The Netherlands	129,896	33.4	0	0.0	-129,896	-33.4
Ireland	9,954	2.6	0	0.0	-9,954	-2.6
Total	389,361	100.0	472,852	100.0	+83,491	

19 In the course of 2002, the public debt portfolio was managed under the perspective of an euro area integrated market, thus attempting at taking advantage of the opportunities offered by a comparative analysis of the securities issued by the governments of the different countries. Against this background, some changes were introduced in the geographical breakdown of the euro area public debt portfolio. A comparison of the composition of the portfolio at the end of 2001 and 2002 shows a replacement of government securities issued in the Netherlands, Italy, and Ireland by public debt issued in France, Germany and chiefly Spain.

Risk management translated into a slight decrease in the share invested in “corporate” debt and a decline in the interest rate risk exposure. In the course of the year, modified duration was gradually reduced from 0.7 to 0.4 years.

For the year as a whole, the profitability of the other financial assets portfolio reached 3.24%.

Table XII Profitability and Duration

EUR millions

	Profitability (Annual yield)	Modified Duration (in years)	
		As at 31.12.2001	As at 31.12.2002
Liquidity	2.67%	0.0	0.0
Certificates of deposit issued by Banco de Portugal	2.70%	0.1	0.1
Public debt	3.46%	1.0	0.5
Sundry debt (“corporate”)	4.48%	3.3	1.7
Total	3.24%	0.7	0.4

Tax system

20 In the course of 2002, the tax system applicable to the Deposit Guarantee Fund underwent no changes. It continued to be exempt from corporate income tax, except for capital income. This system is applicable to capital income received from 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%).

Legal rules and regulations published in 2002 related with the guarantee of deposits

21 The following legal rules and regulations were approved and published in 2002:

Decree-Law no. 201/2002, of 26 September 2002, published in the Official Gazette, Series 1-A, of 26 September 2001, introducing changes in the Legal Framework of Credit Institutions and Financial Companies. This Decree-Law, inter alia, widened the purpose of the Deposit Guarantee Fund and envisages that the Fund can co-operate, on a temporary basis, in initiatives intended to restore the solvency and liquidity conditions of

the member credit institutions, within the framework of the intervention programme laid down in Article 42 of the above Legal Framework.

Instruction no. 27/2002, published in the October 2002 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 2003.

Instruction no. 26/2002, 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

22 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 2002 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 2001, in particular the respective Report and Accounts, after approval by the Minister of State and Finance, in a Decision of the Ministry of State and Finance no. 77/02 of 13 May.

External Audit

23 In 2002, as in previous years, Ernst & Young audited the accounts and the management of the financial resources of the Fund, as well as the resulting tax obligations. In addition, this 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 2002 will be included below.

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

24 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 2002 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, Payments 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

25 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 2002, supplying or requesting information on subjects related with the respective activities and operation.

In a meeting held in Vienna, on 11 October 2002, a European Forum of Deposit Insurers was set up, gathering all deposit guarantee schemes of both EU Member States and Eastern Europe candidate countries to the European Union. The said Forum, with no

legal status, and with no financial charges for the participants, is intended to develop co-operation relationships among European guarantee funds and to contribute to the debate of issues related with the guarantee of deposits and its role as financial system stabiliser.

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

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 € 145,053,532, valued at cost price. The reduction vis-à-vis the amount held at the end of 2001 is due to a repayment of € 36,850,282.

The item “**Periodical Contributions – commitments assumed**” to the amount of € 306,088,190 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 2002, it increased by € 71,469,738.

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	2,038,760
Bonds of the Agence Française	1,071,820
<i>Subtotal</i>	3,110,580
Euro Area Government Debt Securities	472,851,732
<i>Subtotal</i>	472,851,732
TOTAL	475,962,312

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

	(euro)
Banco de Portugal	17,285
BCP – Rede Atlântico	118
Banco Totta & Açores	1,186
Banco Espírito Santo	140
Caixa Geral de Depósitos	133
Banco Comercial Português	130,320
Banco Santander	199
ABN AMRO Bank	148
Total	149,529

The item “**Accrued Income**” to the amount of € 11,660,168 registers income in the current year pertaining to investment income.

The item “**Deferred Costs**”, amounting to € 716, corresponds to the payment of the contributions for January 2003.

OWN FUNDS AND LIABILITIES

The item “**Initial Contributions**” registers an increase of € 50,000 from 2001, corresponding to contributions due to the start of activity of the Banco Postal, SA.

The items “**Periodical Contributions – Paid**” and “**Periodical Contributions – Commitments**”, that register the annual contributions made by member credit institutions, present for 2001 increases of € 26,288,472 and € 71,469,738 respectively.

Net profit and loss for the year in 2002 amounted to € 17,004,275.

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 € 7,924,270, registers potential gains from the daily revaluation of the security portfolio value.

The item “**Accrued Costs**”, to the amount of € 148,366, registers costs related to income tax on capital investments considered in the present year.

CONTINGENT LIABILITIES

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

(in euro)

CODE OF THE ACCOUNTS		FISCAL YEARS			
		2002		2001	
	COSTS AND LOSSES				
62	Supply of external services	107,793.11		83,052.85	
	Staff costs				
641	Remuneration of the Management Committee	41,898.96		41,898.96	
66	Depreciation of Tangible and Intangible Fixed Assets	864.04		212.30	
63	Taxes	1,271,628.65	1,422,184.76	3,085,822.94	3,210,987.05
	(A)		1,422,184.76		3,210,987.05
	Financial Costs and Losses				
684	Provisions for Financial Investments	0,00		62,750.00	
687	Losses from the sale of Financial Investments	0,00		24,999.86	
688	Other	485,64	485,64	592,71	88,342.57
	(C)		1,422,670.40		3,299,329.62
69	Extraordinary Costs and Losses	1,20	1,20	6,97	6,97
	(E)		1,422,671.60		3,299,336.59
	TOTAL COSTS AND LOSSES		1,422,671.60		3,299,336.59
86	Income Tax for the year		2,536,094.96		1,452,982.33
	(G)				
88	Net profit and loss for the year		17,004,275.03		19,321,747.77
			20,963,041.59		24,074,066.69
	INCOME AND GAINS				
	Financial Income and Gains				
781	Interest received	19,038,618.25		22,617,805.43	
787	Gains from the sale of Financial Investments	1,801,393.26		1,105,894.59	
788	Other Financial income and gains	123,029.08	20,963,040.59	286,268.58	24,009,968.60
	(D)		20,963,040.59		24,009,968.60
79	Extraordinary income and gains				
7962	Deduction from provisions	0,00		64,090.52	
7989	Rounding	1,00	1,00	7,57	64,098.09
	(F)		20,963,041.59		24,074,066.69
	TOTAL INCOME AND GAINS		20,963,041.59		24,074,066.69

SUMMARY

Operational profit or loss: - (A)	=	-1,422,184.76
Financial profit or loss: (D) - (C) - (A)	=	20,962,554.95
Current profit or loss: (D) - (C)	=	19,540,370.19
Profits before taxes : (F) - (E)	=	19,540,369.99
Net profit and loss for the year : (F) - (E) - (G)	=	17,004,275.03

The Head of the Control and Accounting Department

Vitor Pimenta e Silva

The Management Committee

*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:

	(euro)
Books and technical documentation	87
Office equipment	125
Rentals and leases	9,622
Communication	378
Travelling and accommodation expenses	3,255
Fees	54,164
Wages	25,718
Legal issues and Notary Public	1,172
Maintenance and Repairs	272
Advertisement	5,595
Specialised Work	7,307
Other Supplies and Services	98
Total	107,793

The aggregate “**Taxes**” registers income tax on capital investments.

INCOME AND GAINS

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

	(euro)
Deposits with credit institutions	45,272
Bonds and Equity	190,877
Government securities	12 489,598
Other Financial Investments	6,312,871
Total	19,038,618

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

PROPOSAL FOR THE APPROPRIATION OF PROFITS

The FGD presents the following proposal for the appropriation of profits for the year 2002: to Free Reserves – € 17,004,275.03.

Lisboa, 10 March 2003

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

**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) 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 2002.

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 changes now introduced in the Legal Framework by Decree-Law no. 201/2002, of 26 September, have granted new tasks to the Fund in the field of initiatives intended to restore the solvency and liquidity conditions of the member credit institutions, within the framework of the intervention programmes laid down in Article 142 (2) of the Legal Framework.

As at 31 December 2002, all credit institutions which are members of the Fund (totalling 54) consisted in 44 banks, 6 savings banks and 4 mutual agricultural credit banks not belonging to the Integrated Mutual Agricultural Credit Scheme.

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.

In the calculation of the annual contributions for the year 2002, the base rate of 0.1%, weighted by the solvency indicator of each member institution, continued to be applicable to the amount of the deposits covered by the guarantee, 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 opened with offshore branches in the free areas of

Madeira and Santa Maria Island was also kept unchanged, as well as the rate deposits held by *Euronext Lisboa – Sociedade Gestora de Mercados Regulamentados, S.A.* (Lisbon and Oporto Stock Exchanges – Regulated Markets Management Company, S.A.).

Deposit covered by the guarantee of the Fund represented, as at the end of 2001, 54.7% of total deposits taken by credit institutions members of the Fund. The aggregate deposits excluded from the guarantee of the Fund, pursuant to Article 165 of the Legal Framework, continue to include deposits collateralised by the general government, by credit institutions and financial corporations and by insurance corporations.

Total contributions of member credit institutions reached approximately € 97.8 million, compared with € 94.8 million in 2001. The “average contributory rate”, defined as the relationship between total contributions including irrevocable commitments and guaranteed deposits at the end of the year, stood at a level of 0.088% (0.106% in 2001) for member credit institutions as a whole.

In the year under review, irrevocable payment commitments attained approximately € 71.5 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 2002, i.e., € 73.4 million.

Total accumulated irrevocable payment commitments relative to member credit institutions as a whole reached € 306.1 million, representing 37% of initial and periodical contributions paid since the establishment of the Fund (€ 821.4 million).

As mentioned in the opinion regarding the year 2001, the accounting registration of irrevocable payment commitments celebrated between the Fund and member credit institutions, different criteria were used by these entities.

The own funds and profits and losses of the Fund, as at 31 December 2002, totalled € 928.3 million. The change from the previous fiscal year (+ € 114.8 million) was largely due (85%) 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 (Article 159 of the Legal Framework, with the changes introduced by Decree-Law no. 201/2002, of 26 September) 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 163 of the Legal Framework.

Such management is carried out on an “absolute return” basis, with no indexing to benchmarks. 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 euro area government debt securities portfolio;

- the management of the length (length was gradually narrowed during the year from 0.7 to 0.4 years) and the tactical positioning over the short end of the yield curve.

The profit or loss for the year attained € 17,004,275.03. 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 on the asset management and accounts of the Fund 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 2002, or to the recommendation for the allocation of resources presented by the Management Committee.

Lisbon, 25 March 2003

THE BOARD OF AUDITORS

Emílio Rui da Veiga Peixoto Vilar

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 2002, 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 2002, 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 2003

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 (*)

As at 31.12.2002

BANKS

Caixa Geral de Depósitos, SA
 Banco ActivoBank (Portugal), SA
 Banco Alves Ribeiro, SA
 Banco Bilbao Vizcaya Argentaria (Portugal), SA
 Banco BAI Europa, SA
 BankBoston Latino Americano, 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 dos Açores, 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 Postal, SA
 Banco Privado Português, SA
 Banco Rural Europa, SA
 Banco Santander Portugal, SA
 Banco Totta & Açores, SA

*) Situation as at 31 December 2002, 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

Banif – Banco de Investimento, SA
Banif - Banco Internacional do Funchal, SA
Best – Banco Electrónico de Serviço Total, 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 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 December
 Decree-Law no. 246/95, of 14 September
 Decree-Law no. 222/99, of 22 June
 Decree-Law no. 201/2002, of 26 September
 Executive Order no. 285-B/95, of 19 September
 Notice no. 11/94, of 29 December
 Notice no. 9/95, of 19 September
 Notice no. 3/96, of 15 July
 Notice no. 4/96, of 20 September
 Notice no. 7/2001, of 6 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
 Instruction no. 17/99
 Instruction no. 18/99
 Instruction no. 25/2000
 Instruction no. 26/2000
 Instruction no. 23/2001
 Instruction no. 24/2001
 Instruction no. 26/2002
 Instruction no. 27/2002

^(*) 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.

Box 1 - Co-operation of the Deposit Guarantee fund in the reorganisation of credit institutions

The changes introduced in the Legal Framework of Credit Institutions and Financial Companies (Legal Framework) by Decree-Law no. 201/2002, of 26 September 2002, have granted new tasks to the Deposit Guarantee Fund (the Fund) in the field of initiatives intended to restore the solvency and liquidity conditions of the member credit institutions, within the framework of intervention programmes. The major relevant provisions of the Legal Framework in this field are:

Article 141 (Extraordinary reorganisation measures)

When a credit institution is in a financially unbalanced position, involving, namely, a reduction of its own funds to a level below the legal minimum or the non-compliance with the solvency or liquidity ratios, Banco de Portugal may require that, within a period which it shall set, any or all of the following financial reorganisation measures be taken:

- a) Presentation by the institution in question of a financial reorganisation plan, under the terms of Article 142;*
- b) Restrictions on the exercise of specified types of activity;*
- c) Restrictions on the granting of credit and the investment of funds in specific types of assets, especially in relation to transactions with subsidiaries, with any entity which is the parent undertaking of the institution or with subsidiaries of the parent undertaking.*
- d) Restrictions on the taking of deposits, according to their types and remuneration;*
- e) Compulsory building-up of special provisions;*
- f) Prohibition or limitation of the distribution of dividends;*
- g) Submission of certain transactions or activities to the prior approval of Banco de Portugal.*

Article 142 (Financial reorganisation plan)

- 1. In any of the situations referred to in the foregoing Article, Banco de Portugal may require the institution in question to prepare a financial reorganisation plan, to be submitted to the Bank for approval within a period set by the latter.*
- 2. Banco de Portugal may lay down the conditions it deems fit for the acceptance of the financial reorganisation plan, in particular a capital increase or reduction, the disposal of shareholdings and other assets.*
- 3. If the measures envisaged in the foregoing paragraphs are not approved by the shareholders or involve such large amounts that their implementation may be jeopardised, and if a serious risk exists that the institution may not be able to fulfil its commitments, especially regarding the security of the funds entrusted to it, the Banco de Portugal may present an intervention programme. This programme may, inter alia, define the necessary capital*

increase and, should it be the case, determine that it should be preceded by the absorption of losses of the institution by the relevant positive items of its own funds.

- 4. The measures envisaged within the framework of the intervention programme shall include the financial reorganisation plan envisaged in paragraph 1, under the conditions set forth by the Banco de Portugal, as well as the time frame of such intervention and a reshuffle of the respective corporate bodies, if deemed adequate.*

- 5. Within the framework of the intervention programme envisaged in the foregoing paragraph, Banco de Portugal may invite the Deposit Guarantee Fund or other institutions to co-operate in the reorganisation process, in particular, through the granting of adequate monetary or financial support, or of their participation in the capital increase defined in paragraph 3 above, being incumbent upon the Bank to direct and define this co-operation in terms of time frame.*

- 6. In the course of the reorganisation process, Banco de Portugal may, at any time, call a general meeting of stockholders, at which it may present proposals.*

- 7. Should the conditions set by Banco de Portugal or the proposals, which it presents, not be accepted, authorisation for the exercise of the institution's activity may be withdrawn.*

Box 2 – Purpose of the Deposit Guarantee Fund and limits of the guarantee

With the changes introduced in the Legal Framework by Decree-Law no. 201/2002, of 26 September, the purpose of the Fund was widened, gaining a more active role in the recovery of member credit institutions. The limits of the guarantee have been maintained. The major relevant provisions in this field are:

Article 155 (Purpose)

1. *The purpose of the Fund is to guarantee the repayment of deposits with credit institutions which are members thereof.*
2. *The Fund can also co-operate, on a temporary basis, in actions intended to restore the solvency and liquidity conditions of the said institutions, within the framework of the intervention programme envisaged in Article 142 (see Box 1).*
3. *For the purposes of this title deposit shall mean any credit balance which a credit institution must repay under the legal and contractual conditions applicable and which is constituted by available monetary funds left in an account or resulting from temporary situations deriving from normal banking transactions.*
4. *The provisions of the foregoing paragraph cover funds represented by certificates of deposit issued by the credit institution, but not those represented by other debt securities issued by the same institution nor liabilities arising out of own acceptances nor promissory notes in circulation.*

Article 166 (Limits of the guarantee)

1. *The Fund covers in full the value of the cash credit balances of each depositor, whenever that value does not exceed € 25,000.*
2. *For the purposes of the foregoing paragraph, the credit balances to be considered shall be those existing on the date on which the deposits became unavailable.*
3. *In determining the value referred to in paragraph 1, the following criteria shall be observed:*
 - a) *Account shall be taken of all the deposits held by the party concerned with the institution in question, regardless of their type;*
 - b) *Interest due and payable up to the date mentioned in paragraph 3 above shall be included in the credit balances of deposits;*

- c) *The credit balances of deposits denominated in foreign currency shall be converted into euros;*
- d) *Except where otherwise provided for, the credit balances of joint accounts, whether jointly or jointly and solidarily held, shall be considered as belonging in equal parts to the holders;*
- e) *Where the holder of the account is not entitled to the sums held in an account, the person who is absolutely entitled shall be covered by the guarantee, provided that that person has been identified or is identifiable before the date on which the competent authorities make the determination that deposits became unavailable;*
- f) *If there are several persons who are entitled, pursuant to the provisions of subparagraph d) above, the share of each shall be taken into account when the limits provided for in paragraph 1 of this article are calculated;*
- g) *Deposits in an account to which two or more persons are entitled as members of an association or a special committee, without legal personality, shall be aggregated and treated as if made by a single depositor and shall not be taken into account for the purpose of calculating the limits applicable to each of these persons and provided for in paragraph 1 of this article;*

Box 3 – Financial resources of the Deposit Guarantee Fund

The changes introduced by Decree-Law no. 201/202 of 26 September in the Legal Framework of Credit Institutions and Financial Companies envisage the possibility that the Banco de Portugal can grant temporarily the Fund, under exceptional circumstances, the financial resources required to meet its immediate needs. The major relevant provisions in this field are:

Article 159 (Financial resources)

1. *The Fund shall have the following financial resources:*
 - a) *Initial contributions from participating credit institutions;*
 - b) *Periodical and special contributions from participating credit institutions;*
 - c) *Borrowed funds;*
 - d) *Income from investment of resources;*
 - e) *Endowments;*
 - f) *Proceeds of fines exacted from credit institutions.*

2. *In an urgent situation, namely if systemic stability aspects are at stake, the Banco de Portugal can, under the conditions laid down in its Organic Law, grant temporarily to the Fund the financial resources required to meet its immediate needs.*