



Annual Report and Accounts | 2004



Deposit Guarantee Fund



Deposit Guarantee Fund

Annual Report and Accounts

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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 submitted the Annual Report and Accounts for the year 2004, within the prescribed period (31 March 2005), 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 235/05/SETF, of 27.05.05, of State Secretary of the Treasury 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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Fundo de Garantia de Depósitos

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

João Maurício Fernandes Salgueiro ⁽²⁾

António Amaro de Matos ⁽³⁾

Secretary General

António José Vieira Águas ⁽⁴⁾

⁽¹⁾ Appointed on 30 June 1994 and 29 February 2000, by the Board of Directors of the Banco de Portugal. .

⁽²⁾ Appointed on 18 July 2003, by the Associação Portuguesa de Bancos (Portuguese Banking Association).

⁽³⁾ Appointed on 20 May 2004, by Decision no. 10 983/2004 (series II) of the Minister of State and Finance.

⁽⁴⁾ Appointed by the Management Committee of the Fund, and performing his duties since 1 January 2001.



Fundo de Garantia de Depósitos

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 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. 9.968/2004 (Series II) of the Minister of Finance of 6 May 2004.

⁽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. 9.968/2004 (Series II) of the Minister of Finance of 6 May 2004.

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

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

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Deposit Guarantee Fund

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Summary of activities of the Deposit Guarantee Fund

1. During the year under analysis, no situation of unavailability of deposits^(*) was recorded. Also, it has not cooperated in any action intended to re-establish solvency and liquidity conditions in any member credit institution^(**). The Fund has developed the regular activities of the 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:
 - calculation of the annual contribution for 2004 of each member credit institution to the Fund, based on the reported monthly credit balances of deposits covered by the guarantee in 2003;;
 - 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.

^(**) Pursuant to Article 142 (5) of the Legal Framework of Credit Institutions and Financial Companies, Banco de Portugal, within the scope of an intervention programme, may invite the Deposit Guarantee Fund or other institutions, under certain conditions, to cooperate in the reorganisation process of credit institutions that are facing a situation of financial distress, by ensuring appropriate monetary or financial support or by participating in a capital increase.

^(***) 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. On 4 November 2004 Banco de Portugal repaid the remaining certificates of deposit that were still falling due.

- reshaping of the Fund’s Financial Resources Investment Plan, which took effect on 2 November 2004;
- preparation of rules and Instructions of the Banco de Portugal establishing the level of the contributory rate applicable in the calculation of regular contributions in 2004 and the limit for irrevocable payment commitments to be complied with in that year; and
- 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 contributions for the year 2004, a base rate of 0.05%, weighted by the solvency indicator of each member institution^(*), was applied to the amount of deposits covered by the guarantee. 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 remained unchanged. The minimum contribution was set at €17,500^(**).

3. Table 1 shows that in 2004 total contributions from member credit institutions reached the amount of €52,921,000, of which 51% were paid in cash and certificates of deposit of the Banco de Portugal and the remainder were satisfied through the assumption of irrevocable payment commitments.

Table I - Means of payment used in contributions in 2004^(*)**

EUR thousands

Contributions paid to the Fund in 2004	Means of payment		Irrevocable payment commitments	Total
	Certificates of deposit Series B	Cash		
Annual contributions	2,699	24,304	25,918	52,921

Source: FGD

^(*) 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. The positioning of the average solvency ratio of each member in the five classes established in the grid published in no. 5 of Notice no. 11/94 corresponds to the respective multiplying or weighting factor applicable to the base rate.

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

^(***) Two credit institutions voluntarily settled irrevocable payment commitments amounting to €97,000, not included in annual contributions in 2004.

4. Table II presents the breakdown of total contributions in 2004 by type of member credit institution. Banks, savings banks and mutual agricultural credit banks accounted for 93.2%, 6.3% and 0.5% respectively.

Table II - Contributions in 2004 by type of credit institution

EUR thousands

Contributions in 2004	Banks	Savings banks	Mutual Agricultural Credit Banks ^(*)	Total
Annual Contributions	49,302	3,355	264	52,921

^(*) 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 Decree-Law no. 345/98, of 9 November. Executive Order no. 1340/98, of 12 December, fixed the level of the guarantee at €25,000.

Source: FGD

5. During the year under review, irrevocable payment commitments amounted to €26 million, accounting for around 49% of total contributions, which is close to the percentage defined by law (50%). Pursuant to Notice of the Banco de Portugal no.11/2003, the base contributory rate for 2004 stood at 0.05%, which is half the rate set for 2003, and the limit for irrevocable payment commitments was reduced from 75% to 50% of total contributions. The decrease in the contributory rate in 2004 (from 0.1% to 0.05%), associated with the lowering of the maximum limit for irrevocable payment commitments accepted as means of replacing the payment of contributions (from 75% to 50%), made it possible to maintain the level of tax collection represented in cash or equivalent values.

Total accumulated irrevocable payment commitments relative to all member credit institutions attained €407 million at the end of December 2004, compared with €381 million year on year.

6. The pledges collateralising irrevocable payment commitments assumed by member credit institutions continued to be composed, albeit to a lesser extent, of certificates of deposit issued by the Banco de Portugal, maturing on 4 November 2004 to an overall amount of €14 million. The certificates of deposit of the Banco de Portugal, which had been delivered as market pledge to the Fund to collateralise irrevocable payment commitments, were replaced on their maturity date by other eligible securities (Portuguese Treasury bonds or bonds collateralised by the Portuguese Government and Portuguese Treasury bills).

Portuguese government debt securities delivered for the purpose of the above pledge accounted for an overall amount of approximately €15 million in nominal value, of which €10 million were Treasury Bonds and €5 million were Treasury Bills.

7. Turning to periodical contributions in 2004, it should be noted that 17 credit institutions, from a total of 56, benefited from the effect of solvency weightings, with “adjusted base rates”^(*) of 0.04% and 0.045% - levels below the 0.05% base rate while for 11 credit institutions the effect of solvency weightings resulted in adjusted base rates of 0.055% and 0.06%.

The value of the lower annual contribution fixed by the Management Committee was applied to 22 member credit institutions, while 3 very small savings banks were subject to contributions below the lower limit, corresponding to the amounts actually paid.

Table III - Breakdown of weightings used in the estimation of annual contributions

Weighting factors of the base contributory rate, minimum contribution and reduced rate	Member credit institutions			
	Banks	Savings Banks	Mutual Agricultural Credit Banks	Total
1,2 weighting	5	-	-	5
1,1 weighting	5	1	-	6
1 weighting	5	1	-	6
0,9 weighting	3	-	-	3
0,8 weighting	6	3	5	14
Lower contribution	22	-	-	22
	46	5	5	56

Source: FGD

Reduced rate contributions (0.01%) continue to have virtually no bearing on total annual contributions, as can be seen from Table IV.

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

EUR thousands

Contributory rates	Annual contributions		
	2002	2003	2004
Base rate (0.1% in 2002 and 2003 and 0.05% in 2004)	96,440	101,859	51,695
Reduced rate (0.01%)	1,318	1,106	1,226
TOTAL	97,758	102,965	52,921
Of which:			
- Paid in cash and CD	26,262	27,645	27,003
- Commitments	71,496	75,320	25,918

Source: FGD

8. In the evaluation of the financial contributory effort, in cash and certificates of deposit (CD) issued by the Banco de Portugal, actually required every year from member credit institutions, account should be taken of the effect of the solvency weighting of each institution and of the maximum authorised degree of utilisation of irrevocable payment commitments.

Table V - Effective, in cash and weighted contributory rates in 2004

Maximum level of 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) (5)	Weighting multiplying factor (5)	Weighted rate (6)=(4)x(5)
50%	50%	0.05%	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%

(*) ASR (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.

Source: FGD

As in 2003, the “effective contributory rate in cash and CD” remained at 0.025% (50% in cash x 0.05%). The weighted rate ranged between 0.02% and 0.03%.

9. Table VI reflects developments in the deposit structure, from the perspective of their guarantee. On 31 December 2003, the ratio defined by the quotient between the amount of deposits covered by the guarantee and the amount of total deposits (deposits covered and not covered by the guarantee) showed a decline, as in 2002.

Table VI - Developments in the ratio of guaranteed deposits to total deposits

EUR millions

Deposits	As at 31 December 2001	As at 31 December 2002	As at 31 December 2003
Covered by the Fund's guarantee (A)	110,567	109,939	111,270
Not covered by the Fund's guarantee	91,409	97,775	115,204
Total deposits (B) ^(*)	201,976	207,714	226,474
Ratio (A)/(B)	55%	53%	49%

^(*) 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 transitory 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) do not include deposits taken by branches operating in Portugal of banks having their head office in another EU Member State.

Source: FGD

Deposits held by bodies of the administrative public sector, credit institutions, financial companies and insurance corporations continue to have a relevant position in the aggregate of deposits not covered by the Funds guarantee, 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 mutual agricultural credit banks belonging to the Integrated Mutual Agricultural Credit Scheme, which are subject to a particular system of deposit guarantee.

Throughout 2004, due to mergers, 7 banks ceased to take part in the Fund, three of which have given rise to a new credit institution.

A list of the 50 member credit institutions, as at 31 December 2004, is included in an annex to this Report and Accounts.

Table VII - Fund's member credit institutions

Member credit institutions	As at 31 December 2003	Changes in 2004		As at 31 December 2004
		New members	Exclusions	
Banks	46	1	7	40
Savings banks	5	-	-	5
Mutual Agricultural Credit Banks	5	-	-	5
Total	56	1	7	50

Source: FGD

11. In 2004, as in previous years, no membership request was submitted to the Fund by any credit institution having its head office in another EU Member State, for the purpose of benefiting from the so-called “topping up” of the home country system, as regards deposits taken by branches established in Portugal^(*) Likewise, the FGD did not receive from member credit institutions any request for access to the “topping up”, as regards deposits taken in their branches established in other EU Member States.

12. In July 2004, 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 2003, with a view to the dissemination to the general public of the activities and the financial situation of the Fund^(**).

Financial resources of the Fund

13. As at 31 December 2004 the own funds of the Fund totalled €1,118 million, compared with €1,047 million year on year, as shown in Table VIII. As in previous years, the increase in own funds and profits and losses in the year under review (+€71 million) was, to a large extent, due 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 investments made by the Fund.

^(*) Pursuant to Article 156 (2) of the Legal Framework of Credit Institutions and Financial Companies, in order to supplement the home country guarantee scheme, credit institutions having their head office in other EC Member States may also be members of the Fund, in relation to deposits taken by their branches in Portugal, if the level or scope of that guarantee is lower than the one offered by the Fund.

^(**) 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 of the organisation and operation of the FGD, a list of member credit institutions and the annual financial statements can be found on the Funds website (<http://www.fgd.bportugal.pt>).

Table VIII - Developments in the Fund's own funds and profits and losses

EUR thousands

Nature of the resources	Balance as at 31 December 2003	Balance as at 31 December 2004 2004	Changes in balances
OWN FUNDS (contributions paid to the Fund)			
- Single initial contribution paid by Banco de Portugal	97,823	97,823	-
- Inicial contributions paid by member credit institutios	98,100	98,100	-
- Periodical (annual) contributions ^(*)	728,518	781,438	52,920
Sum of contributions	924,441	977,361	52,920
RESERVES	106,934	123,006	16,072
PROFITS AND LOSSES			
- Profit or loss brought forward	-	-	-
- Net income for the year	16,072	18,050	1,978
TOTAL OWN FUNDS AND PROFIT AND LOSSES	1,047,447	1,118,417	70,970

^(*) Includes contributions paid in cash and certificates of deposits of the Banco de Portugal and the share of irrevocable payment commitments.

source: FGD

14. The ratio of the Funds resources to guaranteed deposits rose from 0.84% to 0.94% between 31 December 2002 and 31 December 2003, due to higher growth in the Funds resources, compared with growth in deposits covered by the guarantee.

Table IX - Degree of coverage of deposits guaranteed by the Fund's resources

EUR millions

		As at 31 December 2001	As at 31 December 2002	As at 31 December 2003
Fund's resources ^(*)	(A)	814	928	1,047
Deposits covered by the Fund's guarantee ^(**)	(B)	110,567	109,939	111,270
Total deposits covered and not covered by the Fund's guarantee	(C)	201,976	207,714	226,474
Ratios				
	(A) / (B)	0.74%	0.84%	0.94%
	(A) / (C)	0.40%	0.45%	0.46%

(*) 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

Macroeconomic environment

15. In 2004 economic growth in the euro area was estimated at 2%, up from 0.5% in 2003. The growth rate in consumer prices stood at 2.1% in 2004, broadly unchanged from 2003.

According to the latest evidence available, the Portuguese economy has grown by 1.1%, below the euro area average for the third consecutive year. In turn, the harmonised inflation rate stood at 2.5%, above the euro area average.

Over 2004 euro area governments experienced difficulties in controlling their fiscal deficits. The reference value of 3% of GDP for the fiscal deficit defined by the Stability and Growth Pact was breached by major euro area Member States, while other Member States, among which Portugal, showed difficulties in maintaining the fiscal deficit below the reference value.

Table X - Economic growth rates and inflation rates

	2000	2001	2002	2003	2004p	2005p	2006p
	Euro area						
Gross Domestic Product (GDP)	3.5	1.6	0.9	0.5	2.0	2.0	2.2
Consumer prices (%)	2.1	2.3	2.3	2.1	2.1	2.0	1.7
	Portugal						
Gross Domestic Product (GDP)	3.7	1.8	0.5	-1.3	1.1	1.6	2.0
Consumer prices (%)	2.8	4.4	3.7	3.3	2.5	2.1	2.0

Source: Banco de Portugal, European Central Bank, Eurostat e OECD.

The European Central Bank (ECB) left its key interest rates unchanged in 2004, which contributed to the relative stability of interest rates with maturities of up to 2 years.

By contrast, long term interest rates declined considerably, which may have been associated with expectations of weak economic growth in Europe, moderate inflation and appreciation of the euro.

Indeed, throughout 2004 the euro appreciated by approximately 8% against the US dollar and by 3% against the yen.

Table XI - Developments in main euro area interest rates

	Change (percentage points)	December 2004
ECB intervention rate		
Main refinancing operation rate	0.00	2.00
Money market yields ^(*)		
3 months	0.03	2.16
1 year	0.05	2.36
Treasury bond yields ^(**)		
2 year	-0.01	2.48
10 years	-0.61	3.69
30 years	-0.65	4.29

^(*) Euro area benchmark: Euribor rates

^(**) Euro area benchmark: German government debt securities

Source: REUTERS.

In the year under review there was a rise in major stock markets. In the United States the S&P500 index increased by 9%, in Europe the DJ Stoxx 50E index increased by 6.9% and in Japan the Nikkei 225 index increased by 7.6%.

In 2004 oil prices rose sharply, by around 33%, to 40.4 dollars/barrel, while the impact on consumer price index in major world economies was moderate.

Outlook for 2005

16. According to the OECD, the economic growth in 2005 and 2006 in the euro area is expected to stand at 2% and 2.2% respectively and, according to the Eurostat, the inflation rate is likely to reach 2% and 1.7% respectively.

Forecasts for 2005 point to rising interest rates across the maturity spectrum, fostered by the brisker pace of the euro area economic growth and the rise in key ECB interest rates anticipated for end 2005.

The euro is expected to remain strong vis à vis the US dollar, while there is no clear evidence that the US fiscal deficit and current account deficit are growing more moderately than in 2004. However, the higher economic growth expected for the US against the euro area may restrain the gains of the European currency.

Developments in oil prices still deserve careful attention in 2005, considering the possible impact on consumer price indices.

Portfolio structure and risk control

17. The investment policy is governed by the "Fund's Financial Resources Investment Plan", which was revised in 2004, but kept its prudent profile.

Thus, the portfolio showed a rather conservative risk profile in terms of duration, which stood at 0.5 years on average in the course of 2004, and of the credit risk profile, showing a concentration of investments in government securities issued by euro area Member States.

As at 31 December 2004 the portfolio structure of the Fund's financial assets by type of instrument was almost exclusively composed of government securities, namely Treasury bills and bonds, accounting for 81.2% and 18.6% of the total, respectively. Compared with the previous year, reference should be made to the discontinuance of certificates of deposit, which matured in November 2004, the redeemed amounts having been reinvested in Treasury bills.

Breakdown by type of instrument

Chart 1 – 31 Dec. 2003

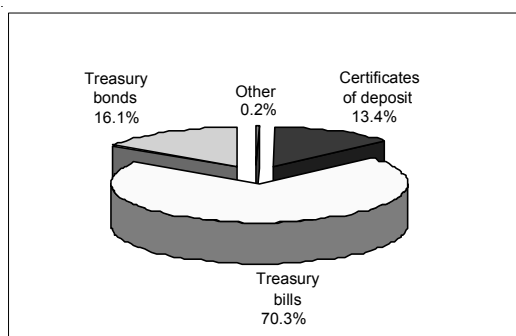
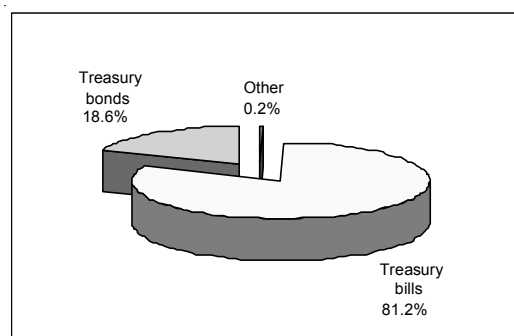


Chart 2 – 31 Dec. 2004



The credit risk assessment of the different types of issuers and counterparties of the financial asset portfolio shows that the exposure of the Fund is now almost exclusive to governments (99.8%). The risk against financial institutions is negligible, due to the discontinuance of the exposure to the Banco de Portugal (BP) through certificates of deposit.

The active management of spreads among government debt issued in the different euro area countries determined a few changes in the country risk assessment over 2004. Although the

geographical breakdown of the portfolio continues to be broadly balanced across some euro area countries, compared with the previous year, there was a strengthening of the relative positions of Belgium, France and Portugal, to the detriment of those of Germany, Spain, Netherlands and Italy.

Table XII - Geographical breakdown

EUR thousands

Countries	As at 31 December 2004		As at 31 December 2003		Change	
	amount	%	amount	%	amount	p.p. ^(*)
Germany	93,007	13.1	129,266	22.2	-36,259	-9.1
Belgium	157,135	22.1	72,612	12.5	84,523	9.7
Spain	0	0.0	32,887	5.6	-32,887	-5.6
France	184,988	26.1	106,131	18.2	78,857	7.8
Netherlands	94,542	13.3	132,397	22.7	-37,855	-9.4
Italy	53,444	7.5	93,207	16.0	-39,763	-8.5
Portugal	126,506,	17.8	15,811	2.7	110,695	15.1

^(*) Change in percentage points in the geographical breakdown structure.

18. Interest rate risk management by means of the modified duration of the portfolio, i.e. the measure of the sensitiveness of the respective value to changes in its rate of return up to maturity, was translated into an increase compared with the level observed at the end of the previous year, from 0.53 to 0.62 years. This increase resulted mostly from the reinvestment of the redeemed amounts of matured certificates of deposit in one year Treasury bills.

In the portfolio breakdown by segments of residual maturity, there was a strengthening of the concentration of investments in the segment 6 months to 1 year, whose relative weight increased from 43.0% to 54.4% of the portfolio in the course of 2004.

Table XIII - Modified duration

Maturity segments	As at 31 December 2004		AS at 31 December 2003	
	Weight (%)	MDuration (years)	Weight (%)	MDuration (years)
Up to 1 month	9.6%	0.06	6.0%	0.04
1 to 3 months	11.4%	0.19	23.7%	0.12
3 to 6 months	14.3%	0.47	14.6%	0.25
6 months to 1 year	54.4%	0.71	43.0%	0.54
1 to 3 years	10.0%	1.30	12.4%	1.76
Over 3 years	0.3%	3.62	0.3%	4.56
Total	100.0%	0.62	100.0%	0.53

19. As at 31 December 2004, the market risk of the financial asset portfolio, as measured by the Value-at-Risk (VaR) over a one-month time horizon and with a level of confidence of 99% stood at €884.6 thousands, i.e. 0.12% of its value, representing a slight decrease from 0.15% recorded at the end of the previous year.

Profitability

20. Over 2004 the profitability of the Funds financial asset portfolio was conditioned by developments in short term interest rates (up to 1 year), which showed a steady behaviour. Total gross return on the fixedrate securities portfolio reached 2.2%, above the return on riskfree assets (2%). As a result, the Sharpe index¹ of this portfolio was positive, standing at 0.2.

Gross profitability of the fixed rate portfolio grew according to the maturity segment, reflecting the flattening of the yield curve associated with the significant downward trend in medium - and long term interest rates.

Taxes had an impact of 0.5 p.p. on the profitability of the fixed rate portfolio, which reached a net rate of 1.7% in 2004.

The variable rate security portfolio recorded a net return of 1.9%, and the Funds total asset portfolio reached a net profitability of 1.8%.

¹ The Sharpe index is a riskweighted measure of profitability, which measures to what extent the portfolio profitability was above the profitability of risk-free assets per risk unit of the portfolio.

Table XIV - Yields by maturity segment¹

	TWRR	Standard deviation	Sharpe Index ²
Fixed-rate portfolio (gross-of-tax return)			
1 to 3 months	2.1%	0.5%	0.3
3 to 6 months	2.0%	0.9%	0.0
6 months to 1 year	2.3%	1.3%	0.2
1 to 3 years	3.3%	5.1%	0.2
Over 3 years	6.3%	14.3%	0.3
Total fixed-rate portfolio (gross-of-tax return)	2.2%	1.3%	0.2
Tax impact	-0.5%	-	-
Total net fixed-rate portfolio	1.7%	1.4%	0.1
Variable-rate portfolio	1.9%	1.3%	0.2
Total	1.8%	1.3%	0.1

Yields by asset class showed a high correlation with the level of risk, as reflected by the rather homogeneous levels of Sharpe indices. Treasury bills, with lower exposure to the interest rate risk, recorded the lowest return (1.7%). In parallel, the most expressive return was reached by sundry debt, in which securities with higher interest rate risk are concentrated. The best risk/return ratio was recorded by certificates of deposit.

Table XV - Yields by asset class¹

	TWRR	Standart deviation	Sharpe Index ²	Weight as at 31 December
Treasury bonds	1.9%	4.2%	0.1	18.6%
Treasury bills	1.7%	0.8%	0.1	81.2%
Sundry debt	2.8%	12.3%	0.1	0.1%
Certificates of deposit	1.9%	1.7%	0.2	0.0%
Other	-	-	-	0.1%
Total	1.8%	1.3%	0.1	100.0%

The bulk of the Funds financial profit or loss is attributable to Treasury bills and Treasury bonds, due to their prominent weight in the portfolio.

¹ Time weighted rate of return (TWRR); all yields presented are net of tax, unless otherwise indicated.

² The Sharpe Index was estimated considering a net riskfree interest rate of 1.6%, except when grosssoftax yields are presented, in which a riskfree interest rate of 2% was considered.

In the period under review, securities issued by the Spanish Government recorded the highest return rate (3.6%), to which was also associated the highest standard deviation, and securities issued by the Dutch Government recorded the best Sharpe Index.

Table XVI - Yields by issuing country¹

	Annualised TWRR	Standart deviation	Sharpe Index ²	Weight as at 31 December
Germany	2.1%	1.9%	0.1	13.1%
Belgium	2.1%	0.9%	0.1	22.1%
Spain ⁽³⁾	3.6%	10.2%	0.2	0.0%
France	2.2%	1.3%	0.1	26.2%
Netherlands	2.6%	1.6%	0.4	13.3%
Italy	2.3%	1.4%	0.2	7.5%
Portugal	2.7%	5.7%	0.2	17.8%
Total	1.8%	1.3%	0.1	100.0%

Information systems supporting financial management

21. In the course of 2004 a new Information System entered into operation to support the financial management aggregating under the same application the following functions: portfolio management, risk control, performance measurement and back office activities. The introduction of this system allowed for a significant increase in efficiency and a pronounced decrease in the operational risk, due to the prevailing integration across the different business modules and areas.

Legal rules and regulations published in 2004 related with the guarantee of deposits

22. The following legal rules and regulations were approved and published in 2004:

Notice of the Banco de Portugal no. 5/2004, published in the Official Gazette, Series I-B, of 7 October 2004, which amended Notice no. 11/94 of the Banco de Portugal, published in the Official Gazette, Series II, of 29 December 1994, setting at 0.0375% the base contributory rate for 2005.

¹ and ² See previous footnotes.

³ Figures referring to Spanish securities can be explained by the annualised profitability effect corresponding to a short period (3 months) during which they remained in the Funds portfolio.

Notice of the Banco de Portugal no. 6/2004, published in the Official Gazette, Series I-B, of 30 December 2004, which amended Notice no. 11/94 of the Banco de Portugal, on the collateralisation of irrevocable payment commitments assumed by the Funds member credit institution.

Instruction n° 21/2004, published in the Official Bulletin of Banco de Portugal no. 10, of 15 October 2004, which sets at 33% the limit for irrevocable payment commitments applicable to the estimation of annual contributions for 2005.

Auditing of the Fund

23. The Board of Auditors 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 2004 is included in annex.

The Court of Audit, that ensures the regular supervision of the Fund's activities, pursuant to the legal provisions in force, received all the necessary information regarding the year 2003, in particular the Report and Accounts, after approval by the Minister of State and Finance, in Decision no. 677/04 of the Secretary of State and Finance, of 13 May 2004.

External Audit

24. In 2004, as in previous years, Ernst & Young audited the accounts and management of the financial resources of the Fund, as well as the resulting tax 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 governing the financial investments of the Fund, laid down in the Protocol signed with the Banco de Portugal and with the risk management regulations established by the Fund's Management Committee.

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

25. 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 2004 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, reference should be made to the Support Unit to the Deposit Guarantee Fund, the Control and Accounting Department, the Payment Systems Department, the Market and Reserve Management Department, the International Relations Department, the Legal Services Department, the Administrative Services Department and the Banking Supervision Department.

The Management Committee also wishes to express its appreciation to member Credit Institutions and the *Associação Portuguesa de Bancos* for the smooth co-operation in their relationships with the Fund.

The Management Committee

Chairman

António Manuel Martins Pereira Marta

Member

João Maurício Fernandes Salgueiro

Member

António Amaro de Matos



Deposit Guarantee Fund

**Balance Sheet and Accounts
for the year 2004**

Balance-sheet as at 31 December 2004

(in euro)

CODE OF THE ACCOUNTS	ASSETS	Notes	FISCAL YEARS				CODE OF THE ACCOUNTS	OWN FUNDS AND LIABILITIES	Notes	FISCAL YEARS	
			2004		2003					2004	2003
			GROSS ASSETS	DEPR. AND PROV.	NET ASSETS	NET ASSETS					
	CURRENT ASSETS						LIABILITIES				
	CURRENT LIABILITIES						CURRENT LIABILITIES				
24	Debts of third parties	2				24	Debts to third parties	6			
	Government and other public entities		1,277.32		1,277.32		Government and other public entities		3,112,693.41	1,522,832.16	
252	Periodical contributions - Commitments assumed		407,202,405.20		407,202,405.20	26	Other debtors and creditors		1,436.54	0.00	
			407,203,682.52		407,203,682.52				3,114,129.95	1,522,832.16	
	Marketable securities	3					Accrued and deferred costs	5			
			1,048,699.99		1,048,699.99	273	Accrued costs		0.00	57,435.79	
152	Bonds and equity		711,103,512.99		711,103,512.99						
153	Government securities		0.00		0.00						
159	Other securities		712,152,212.98		712,152,212.98						
	Bank deposits and cash					26911	PREPAYMENT AND ACCRUED INCOME	7			
12+13+14	Bank deposits	4	309,814.10		309,814.10		Non-realised valuation in securities		0.00	0.00	
11	Cash		374.10		374.10						
			310,186.20		310,186.20		Total liabilities		3,114,129.95	1,580,267.95	
	Accrued and deferred income	5					OWN FUNDS	8			
271	Accrued income		1,863,289.33		1,863,289.33	511	Initial contributions		195,923,880.45	195,923,880.45	
272	Deferred costs		770.48		770.48	512	Periodical contributions - Paid		374,235,887.74	347,136,641.62	
			1,864,059.81		1,864,059.81	513	Periodical contributions - Commitments		407,202,406.20	381,381,079.84	
	NON-CURRENT ASSETS								977,362,173.39	924,441,601.91	
	Fixed assets						Reserves				
426	Tangible fixed assets		7,154.55	5,319.01	1,835.54	574	Free reserves		123,005,815.85	106,933,566.29	
	Office equipment					59	Profit and loss brought forward		0.00	0.00	
						88	Net profit or loss for the year	9	18,049,859.86	22,324,826.62	
	Total depreciations		7,154.55	5,319.01	1,835.54		Total own funds and profit and loss		1,118,417,849.10	1,053,699,994.82	
	Total provisions			0.00			Total liabilities, own funds and profit and loss		1,121,531,979.05	1,055,280,262.77	
	Total assets		1,121,537,298.08	5,319.07	1,121,531,979.05						
	CONTINGENT LIABILITIES										
	<i>Collateral received</i>	12								431,247,740.91	

The Head of the Control and Accounting Department
Vitor Pimenta e Silva

The Management Committee
António Manuel Martins Pereira Marta - Chairman
João Maurício Fernandes Salgueiro - Member
António Amaro de Matos - Member

Profit and Loss Account as at 31 December 2004

(in euro)

CODE OF THE ACCOUNTS		Notes	FISCAL YEARS			
			2004		2003	
COSTS AND LOSSES						
62	Supplies and external services	10	115,666.58		106,706.32	
64	Staff costs					
641	Remuneration of the Management Committee		32,059.14		28,431.41	
68	Depreciation of tangible and intangible fixed assets		807.69		933.34	
63	Taxes					
6321	Income Tax withheld at source				762,027.64	
6322	Income Tax not withheld at source		378,192.09		1,522,585.82	
			3,112,291.24	3,639,016.74		2,420,684.53
		(A)		3,639,016.74		2,420,684.53
68	Financial costs and losses					
6871	Realised losses in marketable securities	11	9,300.01			
6872	Potential losses in marketable securities		94,675.00		4,675.00	
688			379.30	104,354.31	430.53	5,105.53
		(C)		3,743,371.05		2,425,790.06
69	Extraordinary costs and losses					
697	Adjustments from previous fiscal years		15.22			
6989	Rounding		0.01	15.23	1.14	1.14
		(E)		3,743,386.28		2,425,791.20
TOTAL COSTS AND LOSSES				3,743,386.28		2,425,791.20
88	Net profit and loss for the year			18,049,859.86		22,324,826.62
TOTAL COSTS AND LOSSES + NET PROFIT AND LOSS FOR THE YEAR				21,793,246.14		24,750,617.82
INCOME AND GAINS						
78	Financial income and gains					
781	Interest received	11	5,241,401.44		11,345,484.73	
7871	Realised gains in marketable securities		13,803,237.50		7,103,530.42	
7872	Potential gains in marketable securities		2,737,051.74		6,252,577.06	
788	Other financial income and gains		11,555.46	21,793,246.14	47,636.08	24,749,228.29
		(D)		21,793,246.14		24,749,228.29
79	Extraordinary income and gains					
7981	Deduction from provisions				1,387.48	
7989	Rounding			0.00	2.05	1,389.53
		(F)		21,793,246.14		24,750,617.82
TOTAL INCOME AND GAINS				21,793,246.14		24,750,617.82

SUMMARY

Operational profit or loss: - (A)	=	-3,639,016.74
Financial profit or loss: (D) - (C - A)	=	21,688,891.83
Current profit or loss: (D) - (C)	=	18,049,875.09
Extraordinary profit or loss: (F) - (E)	=	18,049,859.86
Net profit and loss for the year: (F) - (E)	=	18,049,859.86

The Head of the Control and Accounting Department

Vitor Pimenta e Silva

The Management Committee

António Manuel Martins Pereira Marta - Chairman

João Maurício Fernandes Salgueiro - Member

António Amaro de Matos - Member

Cash Flow Statement as at 31 December 2004

(euro)

	Fiscal years	
	2004	2003
Operating activities:		
Receipts from member institutions	27,099,246.12	27,771,661.91
Payments to suppliers	115,666.58	106,706.32
Payments to staff	30,622.60	28,431.41
Flow generated by operations	26,952,956.94	27,636,524.18
Tax payment	1,958,057.87	3,389,133.97
Other receipts regarding operational activities	113,664,909.11	78,738,346.76
Other payments regarding operational activities	138,528,174.63	102,958,458.69
Flows generated before extraordinary items	131,633.55	27,278.28
Receipts relating to extraordinary items	0.00	1,389.53
Payments relating to extraordinary items	15.23	1.14
Cash Flow from operating activities [1]	131,618.32	28,666.67
Investing activities:		
<i>Receipts from:</i>		
Tangible fixed assets	0.00	
<i>Payments regarding:</i>		
Tangible fixed assets	0.00	
Cash Flow from investing activities [2]	0.00	0.00
Financing activities:		
<i>Receipts from:</i>		
Loans obtained	0.00	
<i>Payments regarding:</i>		
Loans obtained	0.00	
Interest and similar costs	0.00	
Cash Flow from financing activities [3]	0.00	0.00
Cash change and equivalents [4]=(1)+(2)+(3)	131,618.32	28,666.67
Effect of exchange rate differences	0.00	
Cash and equivalents at the start of the period	178,569.88	149,903.21
Cash and equivalents at the end of the period	310,188.20	178,569.88
Listing of cash components and equivalents		
Cash	374.10	374.10
Bank deposits	309,814.10	178,195.78

The Head of the Control and Accounting Department

Vitor Pimenta e Silva

The Management Committee

António Manuel Martins Pereira Marta - Chairman

João Maurício Fernandes Salgueiro - Member

António Amaro de Matos - Member

Notes on the Financial Statements

Note 1 – Basis for presentation and major accounting principles

1.1 Basis for presentation

Financial statements of the Deposit Guarantee Fund (the Fund) were prepared in compliance with the chart of accounts of the Fund.

In the course of 2004, the chart of accounts was revised, namely as regards the classification of assets and respective valuation criteria. The Fund's securities portfolio was transformed into a trading book, totally registered under the item Marketable securities, following the valuation rules set out in 1.2 a). In this context, the item Financial investments ceases to register investments in securities. In addition, changes were introduced to the income tax accounting scheme, since the Fund is a legal person exempt from Corporate Income Tax, excluding capital income, as defined for Personal Income Tax purposes.

1.2 Major accounting principles

a) Marketable securities

Marketable securities are (i) registered at overall acquisition cost, including direct transaction costs and (ii) subject to a daily revaluation based on the market price. Revaluation differences are registered in the profit and loss account, namely losses under the item Potential losses in marketable securities and gains under the item Potential gains in marketable securities. It should be noted that before the revision of the chart of accounts in 2004, only potential losses were recognised in profit and loss, but as Provisions for financial investments, given that potential gains were registered in the balance sheet under the item Non-realised valuation in securities.

b) Tangible fixed assets

Tangible Fixed Assets are registered at acquisition cost.

c) Accrual basis of accounting

The Fund follows the accruals principle of accounting, namely with regard to interest on lending and deposit operations, which is recognised in the accounting period in which it is earned and not according to the period in which it is received.

Comparative data in Financial Statements and subsequent Notes for the fiscal year 2003 were changed so as to reflect the accounting principles underlying the preparation of financial statements. As a consequence, the net profit and loss for 2003 reflected in the 2004 Financial Statements does not correspond to the profit and loss shown in the Fund's Annual Report and Accounts for the previous year (see Note 9).

Note 2 – Debts of third parties

The item “**Government and other public entities**” registers under Assets 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; and under Liabilities, it registers income taxes on government securities that are not withheld at source.

The item “**Periodical contributions – Commitments assumed**” to the amount of €407,202,405 corresponds to irrevocable payment commitments between the Deposit Guarantee Fund and member credit institutions. In 2004 there was an increase of €25,821,325 on account of commitments assumed when annual contributions were paid.

Note 3 – Marketable securities

The aggregate “**Marketable securities**” essentially corresponds to government securities of euro area countries. The value of the sub-item Other securities for 2003 refers to certificates of deposit of Banco de Portugal – Series B – that matured in November 2004. Prior to the changes introduced in the accounting principles, as described in Note 1, these certificates were registered under Financial investments.

Note 4 – Bank deposits

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

	31 Dec 2004	31 Dec 2003
		(euros)
Banco de Portugal	671	71
Millennium BCP	308	106
Banco Espírito Santo	173	84
Caixa Geral de Depósitos	235	83
Total	309	178

Note 5 – Accrued and deferred income

The item “**Accrued income**” registers interest receivable from coupon marketable securities held in portfolio as at 31 December 2004.

The item “**Deferred costs**” registers the payment of the rent of premises regarding January 2005 and the payment of the annuity of the sub-domain registration of Portugal Telecom to the National Scientific Computer Foundation also referring to 2005.

The item “**Accrued costs**”, which in 2003 registered costs related to income tax on capital investments shows a nil value in 2004.

Note 6 – Debts to third parties

The value relating to Government and other public entities is explained in Note 2.

The item “**Other debtors and creditors**” registers the value of the 2004 holiday allowance payable to the members of the Fund’s Management Committee.

Note 7 – Prepayment and accrued income

The item “**Non-realised valuation in securities**”, which in previous years showed potential capital gains in securities, now registers a nil value. As from 2004 potential gains are registered in financial income and gains. (see Note 1) – As a result of the change in accounting principles, the value of potential gains registered in the balance sheet of the annual report and accounts for 2003, was taken to the profit and loss account, in the context of the necessary adjustments to financial statements for comparison purposes (see Note 9).

Note 8 - Own funds

The items “**Periodical contributions – Paid**” and “**Periodical contributions – Commitments**”, that register annual contributions made by member credit institutions, show for 2003 increases of 27,099,246 and 25,821,325 respectively.

Note 9 – Net profit and loss

Net profit and loss for 2004 amounts to €18,049,860. As referred to in Note 1, for comparison purposes financial statements for 2003 were changed so as to reflect the accounting principles underlying the preparation of the Balance Sheet and of the Profit and Loss Account for 2004. As a consequence, the net profit and loss shown in the Annual Report and Accounts for 2003 (€16,072,250) was adjusted by €6,252,577, which corresponds to the potential gains that in 2003 were registered in the balance sheet under the securities fluctuation account.

Note 10 – Supplies and external services

The aggregate “Supplies and external services” covers the following items in euro:

	(euros)	
	<u>31 Dec 2004</u>	<u>31 Dec 2003</u>
Books and technical documentation	98	51
Office equipment	22	6
Rentals and leases	10,244	10,034
Representation expenses	41	-
Communication	1,145	699
Travelling and accommodation expenses	3,141	17
Fees	64,355	53,740
Wages	23,102	22,413
Maintenance and Repairs	994	457
Advertisement	6,487	6,446
Specialised works	5,979	12,840
Other supplies and services	59	3
Total	<u><u>115,667</u></u>	<u><u>106,706</u></u>

Note 11 – Financial profit or loss

Financial profit or loss is broken down as follows:

	(euros)	
	<u>31 Dec 2004</u>	<u>31 Dec 2003</u>
Interest received	5,241,401	11,345,485
Realised profit or loss in marketable securities	13,793,937	7,103,530
Potential profit or loss in marketable securities	2,642,377	6,247,902
Other financial profit or loss	11,176	47,206
Total	<u><u>21,688,892</u></u>	<u><u>24,744,123</u></u>

The reduction in the value of interest received in 2004, compared to 2003, results from the investment policy in 2004 focusing more on zero coupon securities.

Note 12 – Collateral received

The off-balance-sheet item “Collateral received” registers the market pledge collateralising the irrevocable payment commitment of member credit institutions of the Deposit Guarantee Fund.

PROPOSAL FOR THE APPROPRIATION OF PROFITS

The Deposit Guarantee Fund presents the following proposal for the appropriation of profits for the year 2004: to Free Reserves – €18,049,859.86.

Lisbon, 10 March 2005

The Management Committee

Chairman

António Manuel Martins Pereira Marta

Member

João Maurício Fernandes Salgueiro

António Amaro de Matos



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

Pursuant to 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, the Board of Auditors of Banco de Portugal issued its opinion on the Deposit Guarantee Fund for the year 2004.

The financial statements of the Fund were prepared taking into account the chart of accounts established in Article 170 of the above mentioned Legal Framework on the drawing up of the Fund's chart of accounts. It is based on the official accounting chart, with the necessary adjustments to the specific nature of the Fund's activities.

The major purpose of the Fund is to guarantee, within the established limits, 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 member credit institutions, within the scope of the intervention programmes laid down in Article 142 (2) of the Legal Framework.

As at 31 December 2004, all credit institutions which are members of the Fund (totalling 50) consisted in 40 banks, 4 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, as has been the case since the start of operation of the Fund in 1994, no situation of unavailability of deposits was recorded by member credit institutions and the Fund was not asked to co-operate in any action intended to re-establish solvency and liquidity conditions in any member credit institutions.

In the calculation of annual contributions for the year 2004, the base rate of 0.05% (in 2003 the base rate was 0.1%), weighted by the solvency indicator of each member institution, was applied to the amount of the deposits covered by the guarantee. 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 kept unchanged.

Deposit covered by the guarantee of the Fund represented, as at the end of 2003, 49% of total deposits taken by member credit institutions. The aggregate deposits excluded from the guarantee of the Fund, pursuant to Article 165 of the Legal Framework, continue to include

deposits held by the general government, by credit institutions, financial corporations and insurance corporations.

Total contributions of member credit institutions reached approximately €52.9 million, compared with €103.1 million in 2003. The degree of coverage of deposits guaranteed by the Fund's resources, defined as the relationship between the Fund's resources (contributions delivered to FGD plus accumulated results) and deposits covered by the Fund's guarantee, reached 0.94% in 2003 (0.84% in 2002).

In the year under review, irrevocable payment commitments attained approximately €25.9 million, revealing a high degree of utilisation of this facility, given that the limit of this utilisation corresponds to 50% (in 2003 the limit was 75%) of the value of the contribution of each member credit institution in 2004, i.e., €26.5 million.

Total accumulated irrevocable payment commitments relative to member credit institutions as a whole reached €407.2 million, representing 42% of initial and periodical annual contributions paid by member credit institutions since the establishment of the Fund (€977.4 million).

As mentioned in opinions regarding previous years, the accounting registration of irrevocable payment commitments celebrated between the Fund and member credit institutions, different criteria were used.

Own funds of the Fund as at 31 December 2004 totalled €1,118.4 million. The change from the previous fiscal year (+ €71 million) was largely due (75%) to annual periodical contributions (certificates of deposit of Banco de Portugal, cash and irrevocable payment commitments) of member credit institutions.

The management of the financial resources of the Fund (Article 159 of the Legal Framework) 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 "Fund's Financial Resources Investment Plan" agreed between the Fund and Banco de Portugal, in compliance with the provisions laid down in Article 163 of the Legal Framework.

The Fund's portfolio showed a rather conservative risk profile, both in terms of duration (0.5 years on average in the course of 2004) and as regards the credit risk profile (concentration of investments in government securities issued by euro area Member States).

Within the scope of the profit and loss account, with the revision of the Fund's chart of accounts in 2004, changes were introduced to the accounting policies related to marketable securities, whereby (positive or negative) revaluation differences started to be entered in the profit and loss account (previously, potential capital losses were entered in the profit and loss account and potential capital gains were entered in the balance sheet under the item "Non-realised valuation in securities").

The net profit or loss for the year attained €18,049,859.86. The Management Committee recommends that such resources should be allocated to Free Reserves.

On the basis of the analysis carried out, and in view of the above considerations, the Opinion on the Asset Management and Accounts of the Fund issued by the external Auditor and the report prepared by the Audit Department of Banco de Portugal, the Board of Audit raises no objection to the approval of the Report and Accounts of the Fund for the year 2004, or to the recommendation for the allocation of resources presented by the Management Committee.

Lisbon, 21 de March 2005

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 Auditors on the Asset Management and Accounts of the Deposit Guarantee Fund

Ernst & Young

To The Management Committee of the Deposit Guarantee Fund

Introduction

1. We have audited the financial statements of the Asset Management of the Deposit Guarantee Fund (the Fund), covering assets as at 31 December 2004 (evidencing a total of investments and value of the Fund of €712,091,098, including a net profit of €18.134.054), the Profit and Loss Account for that year and the corresponding Annex.

As referred to in Note 2 to the Annex, these financial statements were prepared as an integral part of the Fund's accounts and do not convey an exact and complete overview of its assets, although they reflect a substantial part of these assets and its income and expenditure, showing contributions of member credit institutions, financial assets representative of these deliveries to the Fund and the profit, loss and income generated by these assets.

Responsibilities

2. In compliance with a Protocol established between the Management Committee of the Fund and Banco de Portugal, the Bank, via its Support Unit with powers to manage the Fund's assets, is responsible for the preparation of the accounts, which will be an integral part of the Fund's financial statements. These present a true and fair view of the financial situation of the Fund's asset management, the result of its operations, as well as the adoption of appropriate accounting policies and criteria, and the maintenance of an appropriate internal control system.

3. It is our responsibility to express our professional and independent opinion on such financial statements, based on our audit.

Scope

4. We concluded our audit in accordance with the Technical Standards and Revision/Auditing Guidelines of the Chartered Accountants Association and also with the International Standards on Auditing. Those standards require that the audit is planned and performed with a view to

obtaining reasonable assurance on whether the financial statements are free of material misstatements. For this purpose, the exam included:

- checking, on a sampling basis, the facts underlying the amounts and the continuing publication of financial statements, and evaluating the estimates used in their preparation, based on judgments and criteria defined by the Management Committee;
- appreciating whether the accounting policies adopted and their publication are adequate, taking into account the prevailing circumstances;
- checking the applicability of the continuity principle; and
- appreciating whether, in overall terms, the presentation of the financial statements is appropriate.

5. We believe that our audit provides a reasonable basis for our opinion.

Opinion

6. In our opinion, the above financial statements give, in all material respects, a true and fair view of the financial situation of the asset management of the Deposit Guarantee Fund as at 31 December 2004, and of the results of its operations for the year then ended, in accordance with the accounting principles generally accepted in Portugal, with the changes mentioned in Note 3 to the Annex on the Financial Situation and Profit and Loss Account.

Emphasis

7. Without prejudice to the opinion expressed in 6 above and as described in Note 3, it should be noted that the Fund's chart of accounts was subject to a revision in 2004, and therefore the accounting principles for the revaluation of the financial asset portfolio have been changed accordingly.

Lisbon, 11 de March 2005

ERNST & YOUNG AUDIT & ASSOCIADOS, SROC, S.A.
Sociedade de Revisores Oficiais de Contas n.º 178

Represented by:

João Carlos Miguel Alves (Chartered Accountant No 896)

Ana Salcedas



Deposit Guarantee Fund

Annexes

List of Member Credit Institutions
as at December 2004

Legal and Regulatory Provisions
on the deposit guarantee scheme in Portugal

List of Member Credit Institutions ^(*)

As at 31.12.2004

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 Cetelem, 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 Finantia, SA
 Banco Itaú Europa, SA
 Banco Internacional de Crédito, SA
 Banco de Investimento Imobiliário, SA
 Banco de Investimento Global, SA
 Banco Madesant Sociedade Unipessoal, SA
 Banco Mais, SA
 Banco Português de Gestão, SA
 Banco Português de Investimento, SA
 Banco Privado Português, SA
 Banco Rural Europa, SA

^(*) Situation as at 31 December 2004, 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.

Reference should be made to the following changes in the course of 2004:

- Banco Expresso Atlântico, SA and Crédibanco – Banco de Crédito Pessoal, SA were incorporated into Banco Comercial Português;
- Banco Postal was incorporated into Caixa Geral de Depósitos;
- Banco Santander Portugal, SA and Banco Totta & Açores, SA were incorporated into Crédito Predial Português, whose denomination was changed to Banco Santander Totta, SA, and Central – Banco de Investimento, SA was incorporated into NCO Dealer.

Banco Santander Totta, SA
Banif Banco de Investimento, SA
Banif - Banco Internacional do Funchal, SA
Best Banco Electrónico de Serviço Total, SA
BNC - Banco Nacional de Crédito, SA
BPN - Banco Português de Negócios, SA
BSN - Banco Santander de Negócios Portugal, SA
Caixa Banco de Investimento, SA
BCP Investimento Banco Comercial Português de Investimento, SA
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 Mafra, 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
Executive Order no. 530/2003 (Series II), of 14 April
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
Notice no. 11/2003, of 19 September (Rectification no. 12/2003, of 29 September)
Notice no. 5/2004, of 22 September
Notice no. 6/2004, of 20 December

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

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

Instruction no. 25/2000
Instruction no. 26/2000
Instruction no. 23/2001
Instruction no. 24/2001
Instruction no. 26/2002
Instruction no. 27/2002
Instruction no. 23/2003
Instruction no. 21/2004