

ANNUAL REPORT
AND ACCOUNTS | 2008

Lisbon, 2009



Fundo de Garantia de Depósitos



ANNUAL REPORT AND ACCOUNTS 2008

Lisbon, March 2009

Deposit Guarantee Fund

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ANNUAL REPORT AND ACCOUNTS 2008

1. 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 1995, the Management Committee in fulfilment of its duties, has submitted, within the legal deadline (31 March 2008), to the Minister of Finance, for approval, the Annual Report and Accounts of the Deposit Guarantee Fund for the year 2008, together with the Opinion of the Board of Auditors of Banco de Portugal.

2. The Annual Report and Accounts of the Fund have been approved by Decision No 574/09/SETF of June 25, 2009 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 1992 (Legal Framework of Credit Institutions and Financial Companies).



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

Pedro Miguel de Seabra Duarte Neves ⁽¹⁾

Members

João Maurício Fernandes Salgueiro ⁽²⁾

Carlos Manuel Durães da Conceição ⁽³⁾

Secretary-General

António José Vieira Águas ⁽⁴⁾

(1) Appointed on 20 June 2006 by the Board of Directors of Banco de Portugal.

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

(3) Appointed on 28 April 2008 by Decision No 13084/2008 (Series II) of the Secretary of State for the Treasury and Finance.

(4) Appointed by the Fund's Management Committee; in office since 1 January 2001.



BOARD OF AUDITORS OF BANCO DE PORTUGAL

In compliance with Article 171 of Decree-Law No 298/92 of 31 December, on the auditing of the Deposit Guarantee Fund, the Board of Auditors of 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⁾

Sérgio António Gonçalves Nunes ⁽³⁾

Amável Alberto Freixo Calhau ⁽⁴⁾

(1) Appointed member of the Board of Auditors, performing his duties as Chairman, by Decision No 22 729/2007 of the Minister of State and Finance of 12 September.

(2) Appointed member of the Board of Auditors by Decision No 22 640/2007 of the Minister of State and Finance of 12 September.

(3) Elected employees' representative to the Board of Auditors, in compliance with Statement No 82/2006 (Series II) of the Minister of State and Finance of 2 May.

(4) Appointed member of the Board of Auditors, performing his duties as official accountant, by Decision No 12230/2006 (Series II) of the Minister of State and Finance of 11 May.

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ANNUAL REPORT 2008

Summary of activities of the Deposit Guarantee Fund

1. In 2008 own funds totalled €1,357 million, of which €434 million were represented by irrevocable payment commitments contractually assumed by member credit institutions and collateralised by government debt securities. Developments in own funds, when compared with the volume of collateralised deposits, have contributed to the increasing improvement of the financial capacity indicators of the *Fundo de Garantia de Depósitos* – FGD (Deposit Guarantee Fund – hereinafter referred to as the “Fund”).

The Fund has carried on the regular activities typical of a deposit guarantee fund with its characteristics (*ex-ante* contributory system), the most relevant of which are listed below:

- Calculation of the annual contribution for 2008 of each member credit institution, based on the reported end-of-month credit balances of deposits covered by the guarantee in 2007;
- Collection of annual contributions at the end of April, and signing of contracts with member credit institutions relating to irrevocable and collateralised payment commitments, as regards the share of contributions not paid in cash;
- Management of the Fund’s financial resources, in compliance with the criteria established by the Management Committee for financial investment operations, and within the scope of guidelines and management regulations established in the investment plan agreed between the Fund and 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);
- Preparation of rules and instructions of Banco de Portugal establishing the level of the contributory rate applicable to the calculation of regular contributions in 2008 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 (EU) countries and within the framework of the European Forum of Deposit Insurers (EFDI), of which the Fund is a founder member.

In addition to these activities, several initiatives and technical studies have been developed on the operation of the Fund and its role as a protection instrument for depositors and a possible contributor to the stability of the banking system.

Contributions of member credit institutions to the Fund

2. In the calculation of periodical contributions for 2008, a base rate of 0.03% (three basis points), 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 trade zones of Madeira and Santa Maria Island remained unchanged. The Management Committee set the minimum contribution at €17,500.

3. Table I shows that in 2008 total contributions from member credit institutions amounted to €36,719,000, 90% of which corresponding to payments in cash and the remainder to the assumption of irrevocable payment commitments.

Table I. Means of payment and payment commitments used in contributions in 2008

EUR thousands

Contributions paid to the Fund in 2008	Cash	Irrevocable payment commitments	Total
Annual contributions	33,167	3,552	36,719

Source: FGD

In addition to annual contributions paid to the Fund by member credit institutions, the Fund has received €150,000 for the payment of initial contributions by three new credit institutions that joined the Fund (two banks and one branch of a bank having its head office outside the EU).

4. Table II presents the breakdown of total contributions in 2008 by type of member credit institution. Banks, savings banks and mutual agricultural credit banks account for 93.5%, 5.9% and 0.6% respectively.

Table II. Contributions in 2008 by type of credit institution

EUR thousands

Contributions in 2008	Banks	Saving banks	Mutual agricultural credit banks ^(*)	Total
Annual contributions	34,371	2,149	199	36,719

Source: FGD

(*) 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 and falls within the scope of the Mutual Agricultural Credit Guarantee Fund. Executive Order No 1340/98 of 12 December set the level of the guarantee at €25,000 per depositor.

5. During the year under review, irrevocable payment commitments amounted to €3,5 million, accounting for approximately 10% of total contributions, which is the maximum percentage defined by law for 2008.

6. In 2008 collateral pledged as security for irrevocable payment commitments was fully met through Portuguese government debt securities.

In cumulative terms, irrevocable payment commitments assumed by member credit institutions are exclusively collateralised by Treasury bonds and bills issued by the Portuguese government and by other euro area Member States.

7. Turning to periodical contributions, 12 credit institutions, from a total of 51, benefited from the effect of solvency ratio weightings (80% and 90%), with adjusted base rates⁽¹⁾ of 0.024%

(1) The "adjusted base rate" is obtained by applying to the 0.03% base contributory rate a multiplying factor corresponding to the positioning of the individual average solvency ratio of each member in the five categories listed in the table in paragraph 5 of Notice No 11/94.

and 0.027% – i.e. lower than the 0.03% base rate – while for 13 credit institutions solvency weightings (110% and 120%) resulted in adjusted base rates of 0.033% and 0.036% – i.e. higher than the 0.03% base rate. 22 institutions paid the minimum annual contribution set by the Management Committee, i.e. €17,500.

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

Weighting factors of the base contributory rate and minimum contribution	Member credit institutions			
	Banks	Saving banks	Mutual agricultural credit banks	Total
1.2 weighting	1	-	-	1
1.1 weighting	11	1	-	12
1 weighting	4	-	-	4
0.9 weighting	1	1	-	2
0.8 weighting	4	3	3	10
Minimum contribution	20		2	22
	41	5	5	51(*)

(*) One credit institution that paid the initial contribution in December 2007 did not have its annual contributions processed.
Source: FGD

Contributions calculated at the reduced rate of 0.01%, which is applicable to deposits with offshore branches in the free trade zones of Madeira and Santa Maria Island, continue to have a residual weight on total annual contributions, as shown in Table IV.

Table IV. Annual contributions by type of contributory rate

EUR thousands

Contributory rates	Annual contributions		
	2006	2007	2008
Base rate	32,209	33,128	35,838
Reduced rate	947	914	881
TOTAL	33,156	34,042	36,719
Of which:			
- Paid in cash	28,335	29,033	33,167
- Commitments	4,821	5,009	3,552

Source: FGD

8. In the evaluation of the financial contributory effort, in cash, actually required every year from member credit institutions, account shall be taken of the effect of the solvency weighting of each institution and the maximum authorised level of utilisation of irrevocable payment commitments.

Table V. Effective contributory rates in 2008: in cash and weighted

Maximum level of commitments	Share paid in cash	Base rate	Effective contributory rate in cash	ASR brackets(*) (solvency)	Weighting multiplying factor	Weighted rate
(1)	(2)	(3)	(4)=(2)x(3)		(5)	(6) = (4)x(5)
				< 8	1,2	0.0324%
				[8 ; 10 [1,1	0.0279%
10%	90%	0.03%	0.027%	[10 ; 12[1,0	0.027%
				[12 ; 14[0,9	0.0243%
				≥ 14	0,8	0.0216%

Source: FGD

(*) ASR (average solvency ratio): average of solvency ratios, calculated on an individual basis, as at 30 June and 31 December of the previous year.

In 2008 the effective contributory rate in cash ranged between 0.0216% and 0.0324%, i.e. slightly above the rate seen in 2007, which ranged between 0.0204% and 0.0306%.

9. Table VI reflects developments in the structure of deposits covered by the guarantee.⁽²⁾ On 31 December 2007 the ratio of the amount of deposits covered by the guarantee to the amount of total deposits (deposits covered and not covered by the guarantee) posts a slight decrease resulting from higher growth in deposits not covered by the guarantee vis-à-vis deposits covered by the Fund's guarantee.

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

<i>EUR millions</i>			
Deposits	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007
Covered by the Fund's guarantee (A)	119,630	123,478	130,120
Not covered by the Fund's guarantee	122,742	140,068	145,409
Total deposits (B) ⁽¹⁾	242,372	263,546	275,529
Ratio (A) / (B)	49%	47%	47%

Source: FGD

(*) This total, assessed from the Fund's perspective and covering deposits taken only by the respective member credit institutions, does not correspond to the deposit aggregate included in the monetary and financial statistics published by Banco de Portugal. Balances of interbank deposits did not offset one another and, in addition to deposit accounts, other accounts were included, representing customers' transitory liabilities (blocked accounts, pledge, subscription, etc.), pursuant to Article 2 of the Fund's Regulations, approved by Executive Order No 285-B/95 of 19 September. Aggregate (B) also contains deposits taken by branches of Portuguese banks in other EU and non-EU countries. Aggregates (A) and (B) do not include deposits taken by branches in Portugal of banks having their head office in another EU Member State.

(2) Deposits covered by the guarantee correspond to deposits that form the incidence basis of the annual contribution to the Fund, not taking into account the €25,000 guarantee limit per depositor established by law, in the event of deposit unavailability. Within the scope of such limit, guaranteed deposits are estimated to reach between 55% and 60% of deposits covered by the guarantee.

Deposits held by general government bodies, credit institutions, financial corporations and insurance companies continue to have a relevant position in the aggregate of deposits not covered by the Fund's guarantee, in compliance with 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 deposit guarantee scheme.

Three new credit institutions (i.e. Banco BIC Português, SA, Banco L. J. Carregosa, SA and the branch of Hyposwiss Private Bank Genève, SA) joined the Fund in 2008. In addition, one branch established in Portugal of a bank having its head office in Latvia (AS PrivatBank) ceased to benefit from the so-called "topping up" scheme, which was in force while Latvia's guarantee level was €20,000 and Portugal's was €25,000. In the year under review, the FGD did not receive from member credit institutions any request for access to the "topping up" scheme, as regards deposits taken in branches set up in other EU Member States, if the level or scope of that guarantee is higher or broader than the one offered by the Fund.

A list of the 54 member credit institutions as at 31 December 2008 is included in an annex to this Annual Report and Accounts.

Table VII. Member credit institutions of the Deposit Guarantee Fund

Member credit institutions	As at 31 December 2007	Changes in 2008		As at 31 December 2008
		New members	Exclusions	
Banks	42	3	1	44
Savings banks	5		-	5
Mutual agricultural credit banks	5		-	5
Total	52		-	54

Source: FGD

11. In July and August 2008 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 Fund's Regulations, 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 2007, in order to make available to the general public information about the activities and the financial situation of the Fund⁽³⁾.

(3) The Fund's Annual Report and Accounts are sent to Banco de Portugal, member credit institutions and other interested parties, or upon request. The list of member credit institutions and the Fund's financial statements are published on the Fund's website (<http://www.fgd.bportugal.pt>).

Financial resources of the Fund

12. As at 31 December 2008, own funds totalled €1,357 million, i.e. €74 million more than at the end of 2007, as shown in Table VIII. As in previous years, the increase in own funds in the year under review has been due to both periodical contributions of member credit institutions, including irrevocable payment commitments assumed by those institutions, and the results of investments made by the Fund.

Table VIII. Developments in own funds and profit and loss

EUR thousands

Nature of the resources	Balance as at 31 December 2007	Balance as at 31 December 2008	Changes in balances
Own Funds (contributions paid to the Fund)			
– Single initial contribution paid by Banco de Portugal	97,824	97,824	-
– Initial contributions paid by member credit institutions	98,300	98,450	150
– Periodical (annual) contributions (*)	889,721	926,440	36,719
Sum of contributions	1,085,845	1,122,714	36,869
RESERVES (**)	168,991	196,804	27,813
Profit and Loss			
– Profit and loss brought forward	-	-	-
– Net profit and loss for the year	27,813	37,089	9,276
Total Own Funds and Profit and Loss	1,282,649	1,356,607	73,958

Source: FGD

(*) Includes contributions paid in cash and the share corresponding to irrevocable payment commitments assumed by member credit institutions.

(**) Reserves are formed by the accumulation of annual profits obtained by the Fund.

13. The ratio of the Fund's resources to guaranteed deposits has shown a favourable performance in the past few years, both in terms of the Fund's total resources, which include irrevocable payment commitments, and the financial resources directly managed by the Fund.

Table IX. Degree of coverage of guaranteed deposits

EUR millions

		As at 31 December 2005	As at 31 December 2006	As at 31 December 2007
Fund's resources				
Including commitments	(A)	1,171	1,221	1,283
Excluding commitments	(B)	751	796	853
Guaranteed deposits (*)	(C)	119,630	123,478	130,120
Ratios	(A) / (C)	0.98%	0.99%	0.99%
	(B) / (C)	0.63%	0.64%	0.66%

(*) Balances of deposit accounts covered by the Fund's guarantee include liabilities held by customers, resulting from transitory situations due to regular banking operations entered 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 set up in other EU Member States (Article 164 of the Legal Framework of Credit Institutions and Financial Companies). Deposits included in this item do not take into account the €25,000 guarantee limit per depositor.

Financial management of the Fund

Macroeconomic environment and financial market developments

14. 2008 was marked by a global financial market crisis, originating in the deterioration of the real estate market crisis in the United States, already being felt since the mid-2007. On an early stage disturbances had an impact on financial systems, and subsequently on the remaining sectors of economies worldwide.

World economic growth slowed down strongly. Although there were still positive annual growth rates (0.7% estimate in the euro area), a number of countries experienced a contraction, particularly in the last quarter of the year. The harmonised index of consumer prices grew by 3.3% in 2008, although decelerating sharply later in the year.

Table X. Economic growth rates and inflation rates

	2005	2006	2007 ^p	2008 ^p
Euro area				
Gross Domestic Product (GDP)	1.7	2.9	2.6	0.7 ^(e)
Consumer prices (%)	2.2	2.2	2.1	3.3
Portugal				
Gross Domestic Product (GDP)	0.9	1.4	2.0	0.0 ^(e)
Consumer prices (%)	2.1	3.0	2.4	2.7

Sources: Eurostat and INE.

(e) Estimate

This juncture had an impact on the Portuguese economy, and according to the latest data, growth is estimated to have been nil in 2008, given the contraction in economic activity seen in the second half of the year, especially in the last quarter.

The confidence crisis resulted in a great reluctance of financial institutions to grant interbank credit, which led to an unprecedented widening in spreads between interbank market rates and yields on Treasury bills. In the euro area the spread between the 3-month Euribor and 3-month German Treasury bills reached a peak of 330 basis points in October.

The consequent liquidity crisis showed weaknesses in several institutions worldwide, namely in terms of the quality of assets held, the leveraging of balance sheets and the ability to raise funds. A number of institutions went into financial liquidation, while others were purchased.

Central bank and government interventions grew in both variety and amount. Stress should be laid on the dramatic cuts in key policy rates, liquidity injections in financial systems, capital increases in financial institutions – in some cases culminating in nationalisation – and explicit guarantees given to bond issues by financial institutions.

The ECB left the minimum bid rate on the main refinancing operations unchanged at 4% until June 2008, raising it to 4.25% in July. This policy was abruptly reversed with the worsening of the financial crisis, and there were successive cuts from October onwards, down to 2.5% at end-2008.

Interest rates on government debt securities declined considerably, particularly during the second half the year, due to the joint effect of the slowdown in economic activity, the unwinding of inflationary pressures and the strong credit risk aversion and preference for sovereign debt.

Table XI. Developments in key euro area interest rates

	Change (in percentage points)	December 2008
ECB intervention rate		
Minimum bid rate on the main refinancing operations	-1.5	2.50%
Money market yields^(*)		
3 months	-2.22	1.74%
6 months	-2.21	1.79%
1 year	-2.19	1.82%
Treasury bond yields^(**)		
2 years	-2.26	1.76%
5 years	-1.82	2.31%
10 years	-1.41	2.94%

Source: Reuters.

(*) Euro area benchmark: French treasury bills.

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

In the private debt market the widening of spreads, which had started in the previous year, sharpened considerably. The iTraxx Europe 5-year Index, which reflects the cost of buying protection against default on 5-year bonds in euro, increased from around 50 basis points at end-2007, to approximately 175 basis points at the end of 2008.

Turning to the foreign exchange market, there was an appreciation of the euro against the US dollar, up to a maximum of 1.60 in April and July, followed by a 1.25 devaluation in November. In late 2008 there was a slight recovery of the euro against the US dollar, to levels not far from those recorded early in the year.

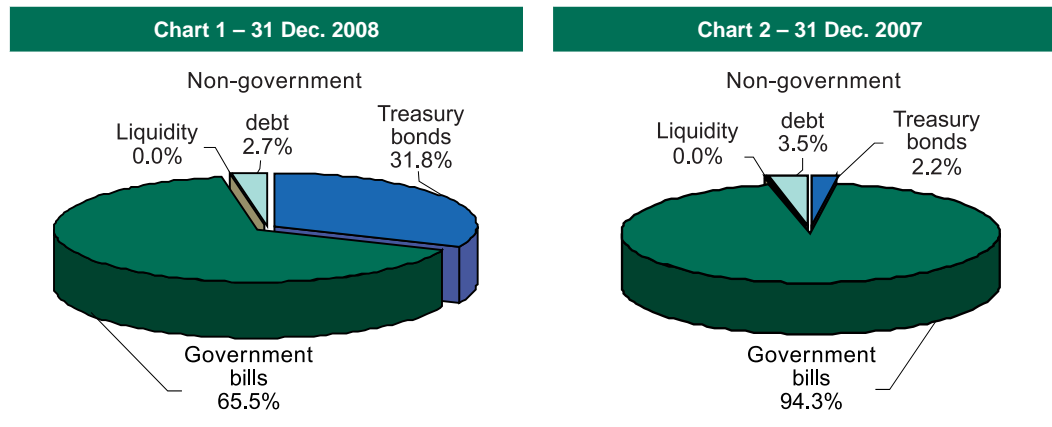
Against this background, global stock markets as a whole underwent strong devaluations. The European index DJ Eurostoxx 50 declined by around 44.3%, the American index S&P 500 declined by 38.5%, the Japanese index Nikkei 225 fell by 42.1%, and the Portuguese index PSI-20 recorded a 51.3% loss.

Market behaviour in 2008 was also characterised by sharp volatility in oil prices. These appreciated significantly until mid-July, reaching USD 145 per barrel, and declined to a considerable extent in the second half of the year. In late 2008 Brent stood at USD 35 per barrel, i.e. falling by 62% from the end of the year.

Portfolio structure and risk control

15. In 2008 the investment policy stance remained conservative, outlined in the “Plan for the investment of the financial resources of the Deposit Guarantee Fund” and oriented towards a benchmark portfolio selected by the Investment Committee on a quarterly basis. The investment strategy was targeted at limiting portfolio exposure to market and credit risks. In a context of financial market instability, investments have been concentrated on euro area government debt securities.

Breakdown by type of instrument



The Fund's asset portfolio, whose value after taxes reached €923.0 million on 31 December 2008, was almost fully composed of government debt broken down into Treasury bonds (65.5%) and bills (31.8%).

The portfolio structure continued to show considerably high geographical diversification, albeit limited to euro area sovereign risk.

Table XII. Geographical breakdown

EUR thousands

Countries	As at 31 December 2008		As at 31 December 2007		Change	
	Amount	%	Amount	%	Amount	%
Germany	4,292	0.5	18,637	2.2	-14,345	-1.7
Belgium	30,527	3.3	0	0.0	30,527	3.3
Spain	19,931	2.1	0	0.0	19,931	2.1
France	71,814	7.7	111,837	13.1	-40,023	-5.3
Greece	138,258	14.9	108,381	12.7	29,877	2.2
Netherlands	134,201	14.5	381,243	44.5	-247,042	-30.1
Ireland	197,869	21.3	0	0.0	197,869	21.3
Italy	228,085	24.6	206,204	24.1	21,880	0.5
Portugal	81,798	8.8	0	0.0	81,798	8.8
Supranational debt	20,985	2.3	29,696	3.5	-8,711	-1.2

(*) Change in percentage points of the weight in the portfolio structure.

The analysis is made from a transactions perspective, excluding taxes and other outstanding cash-flows

The portfolio's non-sovereign risk component at the end of 2008 accounted for only 2.7% of the Fund's value and was fully comprised of securities issued by supranational institutions.

Interest rate risk was managed according to prospects for yield curve developments. The portfolio modified duration has moved in a [0.3 and 0.7] range throughout the year. At the end of December it stood at 0.34.

Table XIII. Modified duration

Maturity segments	As at 31 December 2008		As at 31 December 2007	
	Weight (%)	Modified duration	Weight (%)	Modified duration
Up to 1 month	17.7%	0.05	44.8%	0.04
1 to 3 months	29.2%	0.10	27.9%	0.13
3 to 6 months	42.6%	0.37	15.2%	0.46
6 months to 1 year	-	-	0.7%	0.57
1 to 3 years	10.5%	1.40	11.4%	2.30
Over 3 years	-	-	-	-
Total	100.0%	0.34	100.0%	0.39

During the year the distribution of investments over different residual maturity segments changed, with a greater concentration in the "3 to 6 months" segment to the detriment of the "up to 1 month" segment.

On 31 December 2008 the market risk of the financial assets portfolio, as measured by the Value-at-Risk (VaR) over a one-month time horizon and with a level of confidence of 95%, stood at €1.9 million, i.e. 0.21% of the portfolio value.

Profit and loss

16. In 2008 the profitability of the Fund's portfolio was affected by the downward slope of the euro area yield curve, which led to higher yields for longer maturities. Overall, the Fund's management led to 4.84% gross profitability, i.e. 4.24% in net terms.

Table XIV. Yields by maturity segment ⁽⁴⁾

	2008	Average Modified duration	Average weight
	TWRR	2008	2008
Gross profitability of the securities portfolio			
Up to 1 month	4.05%	0.05	16.4%
1 to 3 months	3.10%	0.20	24.0%
3 to 6 months	4.88%	0.38	29.6%
6 months to 1 year	4.45%	0.58	19.6%
1 to 3 years	6.57%	1.80	10.4%
Over 3 years	-	-	-
Total	4.84%	0.48	100.0%
Impact of management costs	-0.02%	-	-
Tax impact	-0.55%	-	-
Total net profitability of the Fund's portfolio	4.24%	-	-

An analysis by asset class shows that yields on non-government debt were higher than those on government debt, which is accounted for by differences in the time structure of both portfolios, in a context of interest rate decline. This was a key factor that overrode the effect of the considerable widening of credit spreads.

Table XV. Net yields broken down by asset class

Asset classes	TWRR	Average modified duration (years)	Weight as at 31 December 2008
Treasury bonds	4.28%	0.46	91.8%
Treasury bills	0.41%	0.17	4.5%
Government debt	4.20%	0.45	96.4%
Credit	2.45%	0.56	0.6%
Supranational and paragonmental	6.08%	1.45	3.0%
Non-government debt	6.12%	1.29	3.6%
Total securities portfolio	4.26%	0.48	100.0%
Impact of management costs	-0.02%	-	-
Total	4.24%	-	-

(4) Time-weighted rate of return (TWRR); all yields presented are net of taxes, unless otherwise indicated.

laking as reference yields on a “minimum risk asset”, defined as a one-month government debt security, the Fund’s yields net of taxes and management costs were significantly higher, which was due to the decline in sovereign risk interest rates at longer maturities.

Table XVI. Ratio of net profitability of the Fund’s portfolio to the minimum risk asset ⁽⁵⁾

	Deposit Guarantee Fund	Minimum risk asset	Profitability ratio
2008	4.24%	2.98%	1.26%

Legal rules and regulations published in 2008 related to the guarantee of deposits

17. In 2008, given the international market environment and as a result of the commitment assumed at European level, the Fund’s coverage ceiling was transitionally reinforced from €25,000 to €100,00, and deadlines for repayment were considerably narrowed. Hence, pursuant to Article 12 of Decree-Law No 211-A/2008 of 3 November, published in the Supplement to the Official Gazette, Series I, of 3 November 2008, the limit of the guarantee increased from €25,000 to €100,000 up to 31 December 2011. At the same time, in accordance with the rewording of Article 167 of the Legal Framework of Credit Institutions and Financial Companies, repayment should take place within a maximum period of seven days for a share of up to €10,000 and the remainder within a maximum period of one month. In exceptional circumstances and on a case-by-case basis there might be a maximum of three further extensions of the time limit. Up to 31 December 2011 Treasury transfers or loans may also be added to the Fund’s resources, under the provisions of Article 12 (2) of the above Decree-Law.

The following instructions regarding annual contributions for 2009 were also approved and published by Banco de Portugal.

Instruction No 14/2008, published in the Official Bulletin of Banco de Portugal No 10 of 15 October 2008, which set at 0.03% the base contributory rate used to calculate annual contributions in 2009, and at 0.01% the reduced contributory rate applicable to deposits with offshore branches in the Madeira and Santa Maria Island free trade zones.

Instruction No 15/2008, published in the Official Bulletin of Banco de Portugal No 10 of 15 October 2008, which set at 10% the limit for irrevocable payment commitments applicable to annual contributions in 2009.

In accordance with a Decision of the Management Committee of 19 November 2008 the minimum contribution was maintained at €17,500 in 2009.

Auditing of the Fund

18. The Board of Auditors of Banco de Portugal is the entity responsible for monitoring the Fund’s activity, 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 in Article 25 of the Fund’s Regulations, approved by Executive Order No 285-C/95 of 19 September.

(5) The net profitability of the minimum risk asset results from investment in one-month government debt securities, the shortest maturity for which liquidity levels continue to be acceptable. For the purpose of calculating taxes, the coupon rate on one-month government debt securities corresponds to its yield to maturity.

The opinion of the Board of Auditors of Banco de Portugal on the Annual Report and Accounts of the Fund for the year 2008 is included in an annex.

As in 2007, the Fund's financial statements for 2008 were subject to an external audit conducted by the auditing firm Ernst & Young.

The Court of Auditors, which is responsible for the auditing of the Fund's activities, pursuant to the legal provisions in force, received all the necessary information regarding the year 2007, in particular the Annual Report and Accounts, after approval by Decision No 323/08 - SETF of the Secretary of State for the Treasury and Finance of 21 April 2008.

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

19. The Management Committee expresses its appreciation and thanks to all units of Banco de Portugal that, within the scope of the co-operation envisaged in the Protocol signed in January 1995, contributed in 2008 with their technical and administrative support to the smooth operation of the Fund, ensuring in particular the accounting treatment of operations and the preparation of annual financial statements, the management of financial resources and participation in procedures for the collection of annual contributions of member credit institutions to the Fund.

Among these units, special reference should be made to the Support Unit of 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 the member credit institutions and the Associação Portuguesa de Bancos (Portuguese Banking Association) for the excellent co-operation with the Fund.

Management Committee

Chairman

Pedro Miguel de Seabra Duarte Neves

Member

João Maurício Fernandes Salgueiro

Member

Carlos Manuel Durães da Conceição



BALANCE SHEET AND ACCOUNTS

for the year 2008

Balance sheet as at 31 December 2008

(euro)

CODE OF THE ACCOUNTS	ASSETS	Notes	FISCAL YEARS				CODE OF THE ACCOUNTS	LIABILITIES, OWN FUNDS AND PROFIT LOSS	Notes	FISCAL YEARS	
			2008		2007					2008	2007
			GROSS ASSETS	DEPR.AND PROV.	NET ASSETS	NET ASSETS					
	CURRENT ASSETS						LIABILITIES				
	Debts of third parties	2					CURRENT LIABILITIES				
24	Government and other public entities		199,800		199,800	199,800	24	Debts to third parties	7		
252	Periodical contributions - Commitments assumed		433,764,652		433,764,652	430,212,921	267	Government and other public entities		5,155,080	
2681	Sundry debtors		634		634	-		Consultants, advisors and financial intermediaries		-	
			433,965,086		433,965,086	430,412,721				5,155,080	
	Marketable securities	3					273	Accrued expenses	5	14,100	
152	Bonds and equity		25,171,240		25,171,240	48,089,677				23,174	
153	Government debt securities		892,319,540		892,319,540	796,606,960					
			917,490,780		917,490,780	844,696,638					
	Bank deposits and cash										
12+13+14	Bank deposits and cash	4	315,028		315,028	383,098					
11	Cash		374		374	374					
			315,402		315,402	383,472					
	Accruals and prepaid expenses	5									
271	Accrue income		10,001,976		10,001,976	14,721,989	511	Initial contributions		196,273,880	
272	Prepaid expenses		868		868	883	512	Periodical contributions - Paid		492,675,363	
			10,002,844		10,002,844	14,722,872	513	Periodical contributions - Commitments		433,764,652	
										430,212,921	
	NON-CURRENT ASSETS									1,122,713,895	
	Fixed assets	6					57	Reserves			
	Tangible fixed assets						574	Free reserves		196,803,632	
426	Office equipment		5,397	3,702	1,695	518	59	Profit and loss brought forward			
429	Other tangible fixed assets		180	180	-	-	88	Net profit and loss for the year		37,089,100	
			5,577	3,882	1,695	518				27,812,671	
	Total depreciations			3,882							
	Total provisions			3,882							
	Total assets		1,361,779,688	3,882	1,361,775,807	1,290,216,220		Total own funds and profit and loss		1,356,606,627	
										1,282,648,600	
								Total liabilities, own funds and profit and loss		1,361,775,807	
										1,290,216,220	
	CONTINGENT LIABILITIES										
	Collateral received	11	465,992,070								

Head of the Control and Accounting Department

Vitor Pimenta e Silva

Management Committee

Pedro Miguel de Seabra Duarte Neves - Chairman

João Maurício Fernandes Salgueiro - Member

Carlos Manuel Durães da Conceição - Member

Profit and Loss Account as at 31 December 2008

(euro)

CODE OF THE ACCOUNTS		Notes	FISCAL YEARS	
			2008	2007
COSTS AND LOSSES				
62	Supplies and services of third parties	9	168,667	155,089
64	Staff costs			
641	Remuneration of the Management Committee		29,413	41,899
65	Other operating costs and losses		850	850
66	Depreciation of tangible and intangible fixed assets		456	530
63	Taxes			
6317	Fees		-	32,687
6321	Corporate income tax withheld at source		88,886	5,420
6322	Corporate income tax not withheld at source		5,074,067	3,906,988
		(A)	5,362,339	4,143,463
68	Financial costs and losses	10		
6819	Other interest		-	865
6871	Realise losses on marketable securities		155,921	44,256
6872	Potential losses on marketable securities		12,506	-
688	Other costs and losses		489	488
		(C)	168,916	45,609
			5,531,255	4,189,071
69	Extraordinary costs and losses			
697	Prior year adjustments		99	
6988	Rounding		1	3
6989	Other costs and losses		-	100
		(E)	100	3
			5,531,355	4,189,075
	TOTAL COSTS AND LOSSES		5,531,355	4,189,075
88	Net profit and loss for the year		37,089,100	27,812,671
	TOTAL COSTS AND LOSSES+ NET PROFIT AND LOSS FOR THE YEAR		42,620,454	32,001,746
INCOME AND GAINS				
78		10		
781	Interest received		24,660,189	19,562,043
7871	Realised gains on marketable securities		8,013,172	6,807,756
7872	Potential gains on marketable securities		9,947,092	5,631,078
788	Other financial income and gains		-	865
		(D)	42,620,453	32,001,742
			42,620,453	32,001,742
79	Extraordinary income and gains			
791	Income from breaches of regulations		-	4
797	Prior year adjustments		-	
7988	Rounding		1	4
		(F)	1	4
			42,620,454	32,001,746
	TOTAL INCOME AND GAINS		42,620,454	32,001,746

SUMMARY

Operating profit and loss:- (A)	=	-5,362,339
Financial profit and loss: (D) - (C-A)	=	42,451,537
Current profit and loss: (D) - (C)	=	37,089,198
Net profit and loss for the year: (F) - (E)	=	37,089,100

Head of the Control and Accounting Department

Vitor Pimenta e Silva

Management Committee

Pedro Miguel de Seabra Duarte Neves - Chairman
 João Maurício Fernandes Salgueiro - Member
 Carlos Manuel Durães da Conceição - Member

Cash Flows as at 31 December 2008

(euro)

	Fiscal years			
	2008		2007	
Operating activities:				
Receipts from member institutions	33,317,196		29,182,322	
Payments to suppliers	161,388		154,874	
Payments to staff	29,413		41,899	
Flow generated from operations	33,126,394		28,985,549	
Tax payment	3,931,581		2,507,663	
Other receipts regarding operating activities	37,393,374		23,912,833	
Other payments regarding operating activities	66,654,525		50,348,778	
Flows generated before extraordinary items	-66,338		41,941	
Receipts relating to extraordinary items	1		4	
Payments relating to extraordinary items	100		3	
Cash flow from operating activities [1]		-66,437		41,942
Investment activities:				
<i>Receipts from:</i>				
Tangible fixed assets	-		-	
<i>Payments regarding:</i>				
Tangible fixed assets	1,634		827	
Cash flow from investment activities [2]		-1,634		-827
Financing activities:				
<i>Receipts from:</i>				
Loans obtained	-		-	
<i>Payments regarding:</i>				
Loans obtained	-		-	
Interest and similar costs	-		-	
Cash flow from financing activities [3]		-		-
Change in cash and cash equivalent operations (4)=(1)+(2)+(3)	-68,070		41,114	
Effects of exchange rate differences	-		-	
Cash and cash equivalent operations at the start of the period	383,472		342,358	
Cash and cash equivalent operations at the end of the period		315,402		383,472
Breakdown of cash components and equivalent operations:				
Cash		374		374
Bank deposits		315,028		383,098

Head of the Control and Accounting Department

Vitor Pimenta e Silva

Management Committee

Pedro Miguel de Seabra Duarte Neves - Chairman

João Mauricio Fernandes Salgueiro - Member

Carlos Manuel Durães da Conceição - Member

Notes on the Financial Statements

Note 1. Basis for presentation and main accounting policies

1.1 Basis for presentation

The financial statements of the Deposit Guarantee Fund (hereinafter the "Fund") were prepared in compliance with the Fund's Chart of Accounts, which is based on the Official Chart of Accounts, adjusted to the specific nature of the Fund's activities.

In 2005, pursuant to Decree-Law No 35/2005 of 17 February, changes were introduced in the Chart of Accounts as regards the classification of provisions and the renaming of appropriations for depreciation relating to the fiscal year.

1.2 Summary of the main accounting policies and valuation criteria

The main accounting policies and valuation criteria used in the preparation of financial statements for the year 2008 were the following:

a) Periodical contributions

Member credit institutions pay an annual contribution to the Fund, the value of which is determined according to brackets established by Banco de Portugal, based on the average balance of deposits over the previous year.

Up to a limit of 75% (for the year 2008 Banco de Portugal set a limit of 10% in Instruction No 25/2007) of the annual contribution member credit institutions may pay in cash or be exempt from making the respective payment, provided they commit themselves irrevocably and through the collateralisation of transferable securities to pay to the Fund, at any time as required by the latter, in full or in part, the amount of the contribution that was not paid in cash.

In accordance with the Fund's Regulations, periodical contributions are fully included in own funds. The share that corresponds to irrevocable payment commitments is entered as a counterpart to the asset item "Periodical contributions – Commitments assumed", which is included in the "Debts of third parties" aggregate.

b) Marketable securities

The marketable securities portfolio is marked to market in the case of quoted securities. When acquired, securities held in portfolio are entered in the books at the overall purchase cost, including direct transaction costs. These securities are subject to a daily revaluation based on the market price. Revaluation differences are entered in the profit and loss account.

Securities for which there is no market price are measured at "fair value", based on the total amount of the discounted future cash flows. Interest rates shall be those appropriate to the flow time structure and issuer risk.

(1) Approved by Executive Order No 285 – B/95 (Series II) of 19 September, as amended by Executive Order No 530/2003 of 14 April.

c) Tangible fixed assets

Tangible fixed assets are entered at purchase cost. Depreciation is calculated on an annual basis, according to the straight-line method, by applying to the historical cost the maximum annual rates allowed for tax purposes, which reflect the lifetime of the Fund's assets.

d) Accrual basis of accounting

The Fund follows the accrual 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 or paid, regardless of the actual date of payment or collection.

e) Income tax

The Fund is a legal person exempt from the corporate income tax, in accordance with Article 9 of Corporate Income Tax Code, except for capital income as defined for personal income tax purposes.

As regards capital income earned abroad, which is not subject to tax withholding in Portugal, the Fund submits an income tax statement to the Portuguese Tax Administration. Where the capital income in question is not subject to tax withholding in the home country, a 20% rate shall apply. Where it is subject to tax withholding in the home country, the taxable amount shall correspond to the difference between the tax rate applicable in Portugal and the withholding rate applicable abroad.

Note 2. Debts of Third Parties

The item **"Government and other public entities"** registers the tax withheld at source by the Spanish State relating to income from Spanish government bonds with an outstanding redemption request.

The value entered under the item **"Periodical contributions – Commitments assumed"** corresponds to irrevocable payment commitments of member credit institutions to the Fund. The increase of €3,551,731 posted in 2008 is accounted for by commitments assumed when annual contributions were paid in April 2008.

Note 3. Marketable Securities

The aggregate **"Marketable securities"** corresponds to securities acquired by the Fund within the scope of its investment policy.

	(euro)	
	31.12.2008	31.12.2007
Corporate bonds	25,171,240	48,089,677
Government securities		
Treasury bonds	597,052,913	796,606,960
Treasury bills	295,266,627	-
Total Marketable securities	917,490,780	844,696,637

All issuers of government debt securities held in the Fund's portfolio are euro area countries. As regards private debt, all securities held in portfolio are mortgage-backed securities issued by highly rated European credit institutions.

Note 4. Bank deposits

The item "**Bank deposits**" includes demand deposits with Banco de Portugal and with a number of financial institutions, to the amount of €315,028 (2007: €383,098).

Note 5. Accrued and prepaid income and expenses

The item "**Accrued income**" reflects interest receivable from coupon marketable securities held in portfolio as at 31 December 2008.

The item "**Prepaid expenses**" mainly registers the payment made in December 2008 of the rent of premises regarding January 2009.

The value shown in the item "**Accrued expenses**" corresponds to fees to be paid relating to the audit of the Fund's financial accounts for the year 2008 (€14,100).

Note 6. Fixed assets

The "**Fixed assets**" aggregate is broken down as follows:

	(euro)		
	Office equipment	Other tangible fixed assets	Total
Gross assets			
Initial balance	7,802	180	7,982
Increase	1,634	-	1,634
Write-offs	4,038	-	4,038
Final balance	5,397	180	5,577
Accumulated depreciation			
Initial balance	7,284	180	7,464
Depreciation for the year	456	-	456
Write-offs	4,038	-	4,038
Final balance	3,702	180	3,882
Net assets	1,695	-	1,695

Note 7. Debits to third parties

The value entered under "**Government and other public entities**" registers mainly tax payable not withheld at source, relating to income from government debt securities (see Note 1.2. e).

Note 8. Own Funds

The item “**Initial contributions**” registers contributions made by member credit institutions upon the commencement of activity. The €150,000 increase in this item relates to the entry in 2008 of the following new members: Hyposwiss Private Bank Genève, SA (branch in Portugal), Banco BIC Português, SA and Banco L. J. Carregosa, SA.

The item “**Periodical contributions – Paid**” registers contributions made by member credit institutions.

The item “**Periodical contributions – Commitments**” refers to the share of contributions that, pursuant to the law, were replaced by the assumption by member credit institutions of irrevocable payment commitments, collateralised by securities eligible for that purpose (see Notes 2 and 11).

In 2008 the increase in the last two items refers to annual contributions made by member credit institutions, to the amounts of €33,167,196 and €3,551,731 respectively.

Note 9. Supplies and services of third parties

The aggregate “**Supplies and services of third parties**” covers the following items:

	(euro)	
	31.12.2008	31.12. 2007
Books and technical documentation	25	27
Office equipment	62	8
Rentals and leases	11,358	11,041
Communications	1,152	1,270
Travelling and accommodation expenses	1,010	2,018
Fees	104,148	95,855
Wages	24,823	24,924
Legal disputes and notarial services	-	12
Maintenance and repairs	566	539
Advertisement	4,562	5,929
Specialised works	20,952	13,465
Other supplies and services	7	1
Total	168,667	155,089

The values shown in the “**Fees**” item reflect expenses paid to the securities settlement system, within the scope of the Fund’s operating activities.

Note 10. Financial profit and loss for the year

“Financial profit and loss” is broken down as follows:

	(euro)	
	31.12.2008	31.12.2007
Interest margin	24,660,189	19,561,179
Realised profit or loss in marketable securities	7,857,251	6,763,500
Potential profit or loss in marketable securities	9,934,586	5,631,078
Other financial profit or loss	-489	377
Total	42,451,537	31,956,133

Financial profit and loss benefited from a flight to quality movement which characterised financial markets in 2008. The worsening of the financial crisis led investors to seek refuge in short-term government debt instruments, which thus recorded high yields. The intrinsically conservative financial management of the Fund reaped the benefits from this trend.

Note 11. Collateral received

The off-balance-sheet item “**Collateral received**” posts the collateralisation of irrevocable payment commitments of member credit institutions to the Fund, to the overall amount of €465,992,070 (see Notes 2 and 8).

PROPOSAL FOR THE APPROPRIATION OF PROFIT

The Fund submits the following proposal for the appropriation of profit for the year 2008:

- to Free Reserves – €37,089,099.67

Lisbon, 4 March 2009

The Management Committee

Chairman

Pedro Miguel de Seabra Duarte Neves

Member

João Maurício Fernandes Salgueiro

Member

Carlos Manuel Durães da Conceição



**OPINION OF THE BOARD OF AUDITORS
OF BANCO DE PORTUGAL**

OPINION OF THE BOARD OF AUDITORS OF BANCO DE PORTUGAL

In accordance with Article 171 of the Legal Framework of Credit Institutions and Financial Companies (Legal Framework) and with the provisions laid down in Article 25 (d) of the Regulations governing the Deposit Guarantee Fund (the Fund), the Board of Auditors of Banco de Portugal issued its opinion on the annual report and accounts of the Fund for the year 2008.

The financial statements of the Fund were prepared taking into account the provisions laid down in Article 170 of the Legal Framework on the drawing up of the Fund's chart of accounts. The latter is based on the Official Chart of Accounts, with the required adjustments to the specific nature of the Fund's activities.

The major purpose of the Fund is to guarantee, within the established limits (the previous €25,000 limit was set at €100,000 up to 31 December 2011 by Decree-Law No 211-A/2008 of 3 November), the repayment of deposits with member credit institutions, under the conditions and in compliance with the provisions of the Legal Framework and respective regulatory ordinances. The Fund may also co-operate, on a temporary basis, in initiatives intended to restore solvency and liquidity conditions of member credit institutions, within the framework of the intervention programmes, as envisaged in Article 142 of the Legal Framework.

During the year 2008 the Fund was not asked to cooperate in any action intended to restore solvency and liquidity conditions in any member credit institution.

As at 31 December 2008 the Fund had the following member credit institutions (totalling 54): 44 banks, 5 savings banks and 5 mutual agricultural credit banks not belonging to the Integrated Mutual Agricultural Credit Scheme.

The Board of Auditors, within its field of competence, systematically monitored the Fund's activities, analysing documents regularly sent to it by the Management Committee, supplemented by the requested data and additional information.

In the calculation of periodical contributions for the year 2008, a base rate of 0.03% (unchanged from 2007), 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 trade zones of Madeira and Santa Maria Island remained unchanged. The minimum contribution was also kept unchanged at €17,500.

Deposit covered by the Fund's guarantee represented, at the end of 2007, 47% of total deposits taken by member credit institutions. The aggregate deposits excluded from the Fund's guarantee, pursuant to Article 165 of the Legal Framework, continue to include deposits held by general government bodies, credit institutions, financial companies and insurance companies.

Total contributions of member credit institutions reached approximately €36.7 million, compared with €34 million in 2007. The degree of coverage of deposits guaranteed by the Fund's resources, defined as the relationship between the Fund's resources (delivered contributions, including irrevocable payment commitments, plus accumulated results) and deposits covered by the Fund's guarantee, reached 0.99% in 2007, similarly to 2006.

In the year under review, irrevocable payment commitments attained approximately €3.6 million.

Total accumulated irrevocable payment commitments relative to member credit institutions as a whole reached around €433.8 million on 21 December 2008, accounting for 38.6% of own funds.

As mentioned in opinions regarding previous years, in the accounting registration of irrevocable payment commitments entered into by the Fund with member credit institutions, different criteria were used for the registration of the above commitments by the Fund and by the institutions. While in the Fund these commitments are registered as debts of third parties, in credit institutions they are treated as contingent liabilities disclosed in the notes annexed to the annual accounts.

Own funds as at 31 December 2008 totalled €1,356.6 million. The change from the previous fiscal year (+ €74.0 million) was due to initial and periodical contributions of member credit institutions, including irrevocable payment commitments (€36.9 million) and the results of the Fund's investments (€37.1 million).

The management of the Fund's financial resources (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 "Plan for the investment of the financial resources of the Deposit Guarantee Fund".

The Fund's portfolio maintained a conservative risk profile, in terms of maturities and credit risk profile (concentration of investments – around 96.4% – in Treasury bonds issued by euro area Member States).

The pursuit of portfolio profitability was targeted at safeguarding solvency and preserving the value of assets, as well as their high degree of liquidity.

The Fund's portfolio profitability (4.24%) was higher than that of minimum risk assets (2.98%), and therefore was considered to be adequate.

The net profit and loss for the year attained €37,089,099.67. The Management Committee recommends that such resources be allocated to Free Reserves.

On the basis of the analysis carried out, and taking into account the above considerations, as well as the certification of the Fund's financial statements by the external auditor, and the report prepared by the Audit Department of Banco de Portugal, the Board of Auditors raises no objection to the approval of the Report and Annual Accounts of the Fund for the year 2008, or to the recommendation for the allocation of resources presented by the Management Committee.

Lisbon, 24 March 2009

The Board of Auditors

Emílio Rui da Veiga Peixoto Vilar

Rui José da Conceição Nunes

Sérgio António Gonçalves Nunes

Amável Alberto Freixo Calhau



OPINION OF THE EXTERNAL AUDITOR



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 1600-206 Lisboa
 Portugal

CERTIFICATION OF FINANCIAL STATEMENTS

Introduction

1. We have audited the financial statements of the Deposit Guarantee Fund (the Fund), which comprise the Balance Sheet as at 31 December 2008 (totalling €1,361,775,807, with total own funds amounting to €1,356,606,627, including a net profit of €37,089,100), the Profit and Loss Account by Nature, and the Cash Flow Statement for the year then ended and the corresponding Notes.

Responsibilities

2. The Management Committee is responsible for the preparation of financial statements, which present a true and fair view of the financial situation of the Fund, the result of its operations and cash flows, as well as the adoption of appropriate accounting policies and criteria, and the maintenance of an appropriate internal control system.
3. Our responsibility is to express our professional and independent opinion based on our audit to those financial statements.

Basis of audit opinion

4. We conducted our audit in accordance with the Technical Standards and Revision/Auditing Guidelines of the *Ordem dos Revisores Oficiais de Contas* (Portuguese Statutory Auditor Institute). Those standards require that the audit is planned and performed with a view to obtaining reasonable assurance that the financial statements are free of material misstatements. For this purpose, the audit included:
 - examining, on a sampling basis, evidence supporting the amounts and disclosures in the financial statements, and an assessment of estimates used in their preparation, which were based on judgments and criteria defined by the Management Committee;

■ Sociedade Anónima, C. R. Comercial de Lisboa - matrícula n.º 11337
 Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas
 Inscrição n.º 9011 na Comissão do Mercado de Valores Mobiliários
 Contribuinte 505 988 283 - Capital Social 750.000 euros



■ Ernst & Young Audit & Associados-SROC, S.A.

- assessing whether the accounting policies adopted and their disclosure are appropriate to the circumstances;
 - assessing whether the continuity principle is applied; and
 - evaluating the overall adequacy of the presentation of the financial statements.
5. Our audit also included the examination of the consistency of financial information presented in the management report with the financial statements.
6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the financial statements give in all material respects a true and fair view of the financial position of the Deposit Guarantee Fund as at 31 December 2008, and of the results of its operations and cash flows for the year then ended, in accordance with the accounting principles generally accepted in Portugal, with the changes mentioned in Note 1 to the Financial Statements.

Lisbon, 27 February 2009

ERNST & YOUNG AUDIT & ASSOCIADOS - SROC, S.A.
Sociedade de Revisores Oficiais de Contas, No 178

Represented by:

Ana Rosa Ribeiro Salcedas Montes Pinto (Statutory Auditor No 1230)



ANNEXES

List of Member Credit Institutions as at 31 December 2008

Legal and Regulatory Provisions on the deposit guarantee scheme in Portugal

LIST OF MEMBER CREDIT INSTITUTIONS⁽¹⁾**Banks**

Caixa Geral de Depósitos, SA

Banco ActivoBank (Portugal), SA

Banco Bilbao Vizcaya Argentaria (Portugal), SA

Banco BAI Europa, SA

Banco BIC Português, SA

Banco BPI, SA

Banco do Brasil, SA (branch)

Banco Cetelem, SA

Banco Banif e Comercial dos Açores, SA

Banco Comercial Português, SA

Banco Credibom, SA

Banco Efisa, SA

Banco Espírito Santo, SA

Banco Espírito Santo dos Açores, SA

Banco Espírito Santo de Investimento, SA

Banque Privée Espírito Santo, SA (branch)

Banco Finantia, SA

Banco Invest, SA

Banco Itaú Europa, SA

Banco de Investimento Imobiliário, SA

Banco de Investimento Global, SA

Banco L. J. Carregosa, SA

Banco Madasant - Sociedade Unipessoal, SA

(1) Situation as at 31 December 2008, according to the special registration with Banco de Portugal, as referred to in Article 65 of the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December.

Banco Mais, SA

Banco Millennium BCP Investimento, SA

Banco Popular Portugal, SA

Banco Português de Gestão, SA

Banco Português de Investimento, SA

Banco Privado Português, SA

Banco Primus, SA

Banco Rural Europa, SA

Banco Santander Consumer Portugal, SA

Banco Santander Totta, SA

Banif - Banco de Investimento, SA

Banif - Banco Internacional do Funchal, SA

Best - Banco Electrónico de Serviço Total, SA

BPN - Banco Português de Negócios, SA

BSN - Banco Santander de Negócios Portugal, SA

Caixa - Banco de Investimento, SA

Credifin - Banco de Crédito ao Consumo, SA

Deutsche Bank (Portugal), SA

Finibanco, SA

Hyposwiss Private Bank Genève, SA (branch)

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⁽²⁾

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

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

Decree-Law No 211-A/2009 of 3 November

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 2004

Notice No 6/2004 of 20 December 2004

Notice No 7/2005 of 6 June 2005

⁽²⁾ Not belonging to the Integrated Mutual Agricultural Credit Scheme.

Instructions of Banco de Portugal⁽³⁾

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

Instruction No 23/2003

Instruction No 21/2004

Instruction No 27/2005

Instruction No 28/2005

Instruction No 11/2006

Instruction No 12/2006

Instruction No 24/2007

Instruction No 25/2007

Instruction No 14/2008

Instruction No 15/2008

(3) Instructions relating particularly to the setting, every year, of contributory rates applicable to the calculation of annual contributions of member credit institutions to the Fund. These Instructions are published in the monthly Official Bulletin of Banco de Portugal distributed to credit institutions.

Selected provisions governing the activities of the Deposit Guarantee Fund ⁽¹⁾

Nature and purpose

1. The Deposit Guarantee Fund (hereinafter referred to as the “Fund”) is a public-law legal person, with administrative and financial autonomy. The Fund has its head office in Lisbon, on the premises of the Banco de Portugal, which is responsible for ensuring the technical and administrative services required for the Fund's smooth operation.
2. The purpose of the Fund is to guarantee the repayment of deposits with credit institutions which are its members. It can also co-operate, on a temporary basis, in actions intended to restore solvency and liquidity conditions of the said institutions, within the framework of an intervention programme set out by Banco de Portugal.

Deposits covered by the guarantee and limits of the guarantee

1. Up to 31 December 2011 the Fund ensures the repayment of deposits covered by the guarantee, up to €100,000 per depositor and per credit institution:
 - Deposits taken in Portugal or in other EU Member States by credit institutions having their head office in Portugal;
 - Deposits taken in Portugal by branches of credit institutions having their head office in non-EU countries;
 - Deposits taken in Portugal by branches of credit institutions having their head office in other EU Member States that voluntarily participate in the Fund, in the part that exceeds the guarantee offered by the home country scheme.
2. In the calculation of the value of the guarantee, the following criteria shall be observed:
 - Account shall be taken of all deposit accounts held by the party concerned with the institution in question, regardless of their type;
 - Interest due up to the date on which deposits become unavailable shall be included in the credit balances of deposits;
 - Credit balances of deposits shall be converted into euro, at the exchange rate prevailing on the same date;
 - Unless otherwise indicated, credit balances of joint accounts, whether jointly or solidarily held, shall be considered as belonging in equal parts to the holders;
 - Where the holder of the account is not entitled to the amounts held in an account and that person has been identified or is identifiable before the date on which deposits become unavailable, the guarantee covers the person entitled;

(1) These legal provisions are laid down in the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December 1992 and in Decree-Law No 211-A/2008 of 3 November.

(2) In accordance with the provisions of Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes, the harmonised minimum level of the guarantee was set at €20,000 per depositor and per credit institution.

- If there are several persons entitled, the share of each shall be taken into account when the limit of the guarantee is calculated;
- 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 of the guarantee applicable to each of these persons.

Time limit for repayment

1. In case of non-availability, the repayment of deposits covered by the guarantee shall take place within the following time limits:
 - A share of up to €10,000, within a maximum period of seven days;
 - The remainder up to €100,000, within a maximum period of one month.
2. The time limit mentioned in the foregoing paragraph shall be counted as of the date on which deposits become unavailable, and the Fund, in exceptional circumstances and on a case-by-case basis, may apply to Banco de Portugal for a maximum of three further extensions of the time limit, neither of which shall exceed a maximum period of one month.