



# REPORT AND ACCOUNTS | 2007

Lisbon, 2008





**REPORT AND ACCOUNTS 2007** 

Lisbon, March 2008

## Deposit Guarantee Fund

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## **REPORT AND ACCOUNTS 2007**

1. Within the scope of its powers, as provided for in subparagraph m) of article 22 of the Regulation of the Deposit Guarantee Fund, approved by Ordinance No. 285-B/95 (2nd Series), of 19 September, the Executive submitted, within the legal deadline (up to 31 March 2008), to the Minister of Finance, for approval, the Fund's Annual Report and Accounts for the year 2007, together with the opinion of the Audit Board of Banco de Portugal ( supervisory body).

**2.** The aforementioned Report and Accounts of the Fund were approved by Order No. 323/08/SETF, of 21/04/08, of the Secretary of State for the Treasury and Finance, in accordance with the provisions of article 172 of the Decree- Law No. 298/92, of 31 December (General Regime for Credit Institutions and Financial Companies).



## DIRECTIVE COMMITTEE

Established in accordance with the provisions of Article 158 of Decree-Law no. 298/92, of 31 December (General Regime for Credit Institutions and Financial Companies).

#### president

Pedro Miguel de Seabra Duarte Neves (1)

#### Vowels

Joao Maurício Fernandes Salgueiro (2)

António Amaro de Matos (3)

#### General secretary

António José Vieira Águas (4)

- (1) Appointed, on 20 June 2006, by the Board of Directors of the Bank of Portugal.
- (2) Appointed on 18 July 2003 by the Portuguese Banking Association.
- (3) Appointed, on 20 May 2004, by Order No. 10 983/2004 (2nd series), of the Minister of State and Finance.
- (4) Appointed by the Fund's Steering Committee, and in office since 1 January 2001.



## AUDIT BOARD OF BANCO DE PORTUGAL

Pursuant to Article 171 of Decree-Law no. 298/92, of 31.12, on the Supervision of the Fund, the Audit Board of Banco de Portugal monitors the respective activity, ensures compliance with the laws and issues an opinion on the annual accounts .

#### president

Emílio Rui da Veiga Peixoto Vilar (1)

### Vowels

Rui José da Conceição Nunes (2)

Sérgio António Gonçalves Nunes (3)

Amável Alberto Freixo Calhau (4)

- (1) Appointed member of the Audit Board, exercising the functions of Chairman, by Order No. 97/96-XIII, of 6 March, of the Minister of Finance. The mandate was renewed by Order No. 9968/2004 (2nd series), of the Minister of State and Finance, of 6 May 2004.
- (2) Appointed member of the Audit Board, by Order No. 7/93-XII, of 26 February, of the Minister of Finance. The mandate was renewed by Order No. 9968/2004 (2nd series), of the Minister of State and Finance, of 6 May 2004.
- (3) Appointed by the employees as a member of the Audit Board, pursuant to Declaration No. 82/2006 (2nd series), of 2 May, from the Office of the Minister of State and Finance.
- (4) Appointed member of the Audit Board, as statutory auditor, by Order no. 12 230/2006 (2nd series), of 11 May, of the Minister of State and Finance.

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## **2007 ANNUAL REPORT**

#### Summary of the Activities of the Deposit Guarantee Fund (FGD)

1. In 2007, there was no situation of unavailability of deposits in credit institutions participating in the Fund, nor was their cooperation requested in any action aimed at restoring the solvency and liquidity conditions of any of these institutions.

Since the Fund was created in 1992, there has not been any situation of unavailability of deposits or collaboration in financial support actions, within the scope of intervention programs provided for by law.

At the end of the year, the Fund's own resources amounted to €1,283 million, of which €430 million represented irrevocable payment commitments contractually assumed by participating credit institutions and secured by public debt securities.

The evolution that has been observed in own resources, compared to the volume of deposits covered by the guarantee, has allowed a growing improvement in the Fund's financial capacity indicators.

The current activities of the operation of a deposit guarantee system with the characteristics of the FGD (ex-ante contributory system) were carried out, among which highlight:

- the calculation of the amount of the annual contribution of each institution participating in the Fund, for 2007, based on the declarations of balances of deposits covered by the guarantee at the end of the months of 2006;
- the collection, at the end of April, of annual contributions and the conclusion with the participating institutions of contracts relating to the assumption of payment commitments, irrevocable and guaranteed by pledge of securities, on the part of contributions not paid in cash;
- the management of the Fund's resources, in compliance with the criteria set by the Steering Committee for financial investments, within the scope of the guidelines and management rules established in the plan agreed between the Fund and the Bank of Portugal, in accordance with the provisions in art. 163 of Decree Law no. 298/92, of 31 December (General Regime for Credit Institutions and Financial Companies);
- the preparation of Bank of Portugal rules and Instructions that established the level of the basic contribution rate to be applied in the calculation of periodic contributions for 2007 and the limit of irrevocable payment commitments to be observed in that same year; and
- cooperation with other deposit guarantee schemes, particularly in European Union countries and within the framework of the European Forum of Deposit Insurers (EFDI), an organization of which the Fund is a founding member.

In addition to these activities, various initiatives were developed and technical studies were prepared relating to the functioning of the Fund and its role as an instrument for protecting depositors and an element that can contribute to the stability of the banking system.

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## Contributions from participants to the Fund

**2.** In determining the periodic contributions for 2007, the base rate of 0.03% (three basis points), weighted by the solvency indicator of each participating institution, was applied to the amount of deposits covered by the guarantee. In the same period, the reduced rate of 0.01% was maintained on deposits made at the external financial branches of the free zones of Madeira and Santa Maria Island. By decision of the Steering Committee, the amount of

minimum contribution amount.

**3.** As can be seen from Table I, in 2007, the total contributions of the participating credit institutions reached the amount of 34,042 thousand euros, of which 85% was paid in cash and the remaining part met through the assumption of commitments irrevocable payment.

#### Table I. Contributions in 2007

#### Methods of payment and payment substitution used

			thousands of e
Contributions delivered to the Fund in 2007	Cash	commitments irrevocable payment	Total
annual contributions	29 033	5 009	34 042
Source: FGD			

In addition to the annual contributions paid to the Fund by the participating credit institutions, 150 thousand euros were also collected from the payment of initial contributions from three new credit institutions that joined the Fund (a bank, a branch of a bank based in a country of the EU and a branch of a bank based in

an EU member state that

requested a supplementary guarantee).

**4.** Distribution of total contributions for 2007 by type of participating credit institutions in the Fund is shown in Table II, with banks, savings banks and mutual agricultural credit, 93.7%, 5.7% and 0.6%, respectively.

### Table II. Contributions in 2007 by Type of Credit Institutions

contributions in 2007	banks	boxes economic	Credit Boxes Mutual Agricultural(*)	Total
annual contributions	31 900	1 947	195	34 042

thousands of euros

Source: FGD

(\*) Not belonging to the Integrated Agricultural Mutual Credit System (SICAM). The guarantee of deposits taken by mutual agricultural credit banks belonging to SICAM is governed by Decree-Law no. 345/98 of 9 November and is guaranteed by the Mutual Agricultural Credit Guarantee Fund. Ordinance No. 1340/98, of 12 December, fixed the level of the guarantee at 25,000 euros per depositor.

**5.** In the year under analysis, irrevocable payment commitments amounted to 5 million euros, an amount corresponding to approximately 15% of total contributions, a percentage that coincides with the maximum legally allowed.

6. In 2007, the establishment of the commercial pledge that guarantees the assumption of irrevocable payment commitments was fully satisfied with Portuguese public debt bonds.

In cumulative terms, the irrevocable payment commitments assumed by the participating credit institutions are exclusively guaranteed by Treasury Bonds and Treasury Bills, issued by the Portuguese State.

7. Regarding periodic contributions for the year, 10 credit institutions, out of a total of 49, benefited from the effect of weighting the solvency ratio (80% and 90%), with adjusted base rates(1) of 0.024% and 0.027 %, levels below the base rate of 0.03%, while for 9 credit institutions the effect of weighting solvency (110% and 120%) resulted in adjusted base rates of 0.033% and 0.036%, higher levels at the base rate of 0.03%.

A base contribution rate of 0.03% was applied to 9 credit institutions, as they present a capital adequacy ratio corresponding to a weight of 100% in determining the adjusted base rate, and to one credit institution, as it only presented deposits taken from off-shore branches, a rate of 0.01% was applied, a contribution rate that is not weighted according to the solvency ratio. The value of the minimum annual contribution of € 17,500 fixed by the Directive Commission was applied to 20 participating institutions, with the exception of 3 very small savings banks from which contributions corresponding to the amounts actually calculated were collected, although below the amount of the minimum annual contribution .

Contribution rate weights	Number of participating institutions				
base and minimum contribution	banks	Savings Banks	CCAM'S	Total	
Weight of 1.2	two	-	-	two	
Weighting of 1.1	7	-	-	7	
weight of 1	7	two	-	9	
Weight of 0.9	1	-	-	1	
Weight of 0.8	3	3	3	9	
minimum contribution	18		bec.	20	
	38	5	5	48(*)	

#### Table III. Distribution of weights used in the calculation of annual contributions

(\*) For a credit institution that only presented deposits on the off-shore of Madeira, the rate weighting regime was not applied contribution by the solvency ratio Source: FGD

Contributions calculated at the reduced rate of 0.01%, applicable to deposits made in the external financial branches of the free zones of Madeira and Santa Maria Island, continue to have a residual expression in the total annual contributions, as can be seen in the Table IV.

(1) The "adjusted base rate" is obtained by applying to the base contribution rate of 0.03% a multiplicative factor corresponding to the positioning of the average solvency ratio on an individual basis for each participant in the five classes of the weighting grid contained in no. 5 of Notice no. 11/94.

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#### Table IV. Annual contributions by type of contribution rate

			thousands of euro		
Contribution rates	annual contributions				
Contribution rates	2005	2006	2007		
Base rate (0.05% in 2004,					
0.0375% in 2005 and 0.03% in	39 997	32 209	33 128		
2006)					
Reduced rate (0.01%)	1 087	947	914		
TOTALS	41 084	33 156	34 042		
Of which:					
- Paid in cash	27 815	28 335	29 033		
- Appointments	13 269	4 821	5 009		
Source: FGD					

**8.** In assessing the contributory financial effort, in cash, actually requested in each financial year from the participating institutions, the effect of weighting the solvency of each institution and the maximum permitted level of use of irrevocable payment commitments must be taken into account.

#### Table V. Contribution Rates, Effective in Cash and Weighted, in 2007

Maximum level of commitments	part paid in cash	Rate in base	contribution rate effective in cash	classes of RMS(*) (solv	Weighting E <b>NGW</b> iplicative factor	weighted rate
(1)	(two)	(3)	(4)=(2)x(3)		(5)	(6) = (4)x(5)
				< 8	1.2	0.0306%
				[8; 10 [	1.1	0.0280%
15%	85%	0.03%	0.0255%	[10 ; 12[	1.0	0.0255%
				[12 ; 14[	0.9	0.0229%
				- > 14	0.8	0.0204%

Source: FGD

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

As in 2006, the effective cash contribution rate varied between 0.0204% and 0.0306%.

**9.** Table VI reflects the evolution of the structure of deposits covered by the guarantee(2). As at 31 December 2006, the ratio defined by the quotient between the amount of deposits covered by the guarantee and the amount of total deposits (deposits covered by the guarantee and

(2) The deposits covered by the guarantee correspond to the deposits that form the basis of the annual contribution to the Fund, not taking into account the guarantee limit of €25,000 per depositor established by law, in the event of unavailability of deposits. It is estimated that guaranteed deposits, within the scope of that limit, correspond to an amount between 55% and 60% of the deposits covered by the guarantee. excluded from the guarantee) shows a slight decrease resulting from a greater growth of deposits not covered by the guarantee in relation to deposits covered by the guarantee of the Bottom.

#### Table VI. Evolution of the covered deposits/total deposits ratio

			Millions of e
deposits	On 12.31.04	On 12.31.05	On 12.31.06
Covered by the Fund's guarantee (A)	115 279	119 630	123 478
Not covered by the Fund's guarantee	125 343	122 742	140 068
Total deposits (B)(*)	240 622	242 372	263 546
Ratio (A) / (B)	48%	49%	47%

Source: FGD

(\*) This total, calculated from the perspective of the Fund and covering deposits taken only by the credit institutions that participate in it, does not correspond to the aggregate of deposits contained in the monetary and financial statistics published by the Bank of Portugal.

The balances of interbank deposits were not offset against each other, and, along with the deposit accounts, other accounts representing transitory customer funds were included (captive accounts, surety, subscription, etc.), pursuant to article 2 of the Regulation. of the Fund, approved by Ordinance 285-B/95, of 19 September. Aggregates (B) also contain deposits made at branches of Portuguese banks in other EU and non-EU countries. In aggregates (A) and (B) deposits made at branches of banks headquartered in another Member State, operating in Portugal, are not considered.

In the aggregate of deposits excluded from the FGD guarantee, based on article 165 of the General Regime for Credit Institutions and Financial Companies, deposits held by the general government sector, credit institutions, financial companies and insurance.

## Participating Credit Institutions

**10.** The participation in the FGD of credit institutions authorized to take deposits is mandatory, in accordance with the provisions of article 156 of the General Regime for Credit Institutions and Financial Companies, with the exception of only agricultural banks belonging to the Integrated System of Caixas de Crédito Agrícola Mútuo, to which a specific deposit guarantee system applies.

During 2007, three new credit institutions (Banco Credibom, SA, the AS ParitatBanka branch and the Banque Privée Espírito Santo, SA branch) joined the Fund, one of them under the complementary guarantee scheme *(topping up )*. In the same year, the Fund was not informed, by any participant, of its intention to adhere to the complementary guarantee *(topping up)*, if any, of deposits made in branches established in other Member States, whose guarantee systems provide for a broader scope of guarantee and /or higher per-depositor guarantee limit than those provided by the Deposit Guarantee Fund.

Attached to this Annual Report is the list of the 52 institutions participating in the Fund in December 31, 2007.

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#### Table VII. Credit institutions participating in the Fund

Participating Institutions On 12.31.2006		Movement in 2007		On 12.31.2007
articipating institutions on 12.31.2006		Appetizer	outputs	
banks	39	3	-	42
savings banks	5	-	-	5
Mutual agricultural credit boxes	5 5			
Total	49	3	-	52

Source: FGD

**11.** In July and August 2007, it was published in the daily press (two large-print newspapers and a newspaper specializing in economic and financial information), in compliance with the provisions of Article 19, paragraph c) of the FGD Regulation, approved by Ordinance no. 285-B/95, of 19 September, the list of credit institutions participating in the Fund, as well as the Accounts

for the 2006 financial year, with a view to publicizing the Fund's activity and financial situation to the general public(3).

## Fund's Financial Resources

**12.** As at 31 December 2007, the Fund's own resources totaled 1 283 million euros, 62 million euros more than at the end of 2006, as shown in Table VIII. Such as in previous years, the increase in own resources in the year under analysis was caused by the periodic contributions from participating institutions, including irrevocable commitments of payment assumed by the same institutions and the results of investments in the Bottom.

(3) The Fund's Annual Report and Accounts are sent to Banco de Portugal, to participating credit institutions, to other interested parties and to whomever requests it. The Fund's website (http://www.fgd.bportugal.pt) describes the main characteristics of the FGD's structure and functioning, the participating credit institutions and the annual financial statements.

## Table VIII. Evolution of Own Resources and Fund Results

			thousands of euros
Nature of Resources	balance in 12.31.2006	balance in 12.31.2007	Change in balances
Own Resources (contributions delivered to the Fund)			
<ul> <li>Single initial contribution</li> <li>delivered by Banco de Portugal</li> </ul>	97 824	97 824	-
<ul> <li>Initial contributions delivered</li> <li>by participating institutions</li> </ul>	98 150	98 300	150
- Periodic contributions (annual) (*)	855 679	889 721	34 042
Sum of contributions	1 051 653	1 085 845	34 192
Reservations (**)	152 397	168 991	16 594
Results		-	
- Net income for the year	16 594	27 813	11 219
Total Own Resources and Results	1 220 644	1 282 649	62 005

Source: FGD

(\*) Includes the part made in cash and the part corresponding to the irrevocable payment commitments assumed by the institutions participating credit.

(\*\*) The reserves are constituted by the accumulation of the annual results obtained by the Fund.

**13.** The relationship between the Fund's resources and the deposits covered by the guarantee has evolved favorably over the last few years, both in terms of the Fund's total resources, which include irrevocable payment commitments, and in terms of financial resources directly managed by the Fund.

## Table IX. Degree of coverage of deposits covered by the guarantee

				Millions of euros
		On 12.31.2004	On 12.31.2005	On 12.31.2006
Fund Resour	rces			
Including	appointments (THE)	1 118	1 171	1 221
Deleting	appointments (B)	711	751	796
Deposits cov	vered by the guarantee (*) (C)	115 279	119 630	123 478
ratios	(A) / (C)	0.97%	0.98%	0.99%
	(B) / (C)	0.62%	0.63%	0.64%

(\*) In addition to the balances of deposit accounts covered by the Fund's guarantee, customers' cash and cash equivalents resulting from transitory situations arising from normal banking operations recorded in other accounts (article 155 of the RGIC) and deposits captured by branches of Portuguese banks established in other member states (Article 164 of the GBER). For deposits included in this item, the guarantee limit of 25,000 Euros per depositor is not taken into account.

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#### Fund Financial Management

## **Macroeconomic Framework and Evolution of Financial Markets**

**14.** During 2007 there were some disturbances in the more developed economies, which had their origin in the crisis in the real estate market in the United States. The crisis arose in mid-August with the news of successive defaults on

low-quality mortgages (so-called subprime) and affected financial markets considerably. Many of the financial institutions saw their asset portfolios devalue significantly and their liquidity needs caused sharp rises in interest rates in the money markets. As a result of this crisis, volatility increased considerably in the financial markets, with significant devaluations in the asset classes of

#### greater risk.

In this context, the main world central banks announced joint measures to provide the necessary liquidity to the banking system and, thus, contribute to the reduction of interest rates practiced in the money markets, trying to normalize the situation and prevent the financial crisis from spreading to the economy. real.

Economic growth slowed down in most developed economies in 2007, estimated at 2.6% in the euro area, slightly below the figure recorded in 2006 (2.7%). In turn, the harmonized consumer price index in the euro area grew by 3.1% in 2007, as a result of the rise in oil prices and in most raw materials.

#### -cousins.

In the Portuguese economy, economic growth of 1.8% is estimated during 2007, which represents a slight increase compared to 2006, despite remaining below the European average. Inflation was lower than that observed in the euro area, with growth of 2.4% in the harmonized consumer price index for Portugal.

#### Table X. Economic growth and inflation rates

	2003	2004	2005	2006	2007p
		e	euro area		
Gross Domestic Product (GDP)	0.6	2.1	1.5	2.7	2.2
Consumer Prices (%)	2.1	2.4	2.2	1.9	3.1
			Portugal		
Gross Domestic Product (GDP)	-1.2	1.2	0.4	1.7	1.8
Consumer Prices (%)	3.3	2.5	2.1	3.1	2.4

Source: Banco de Portugal, Eurostat and OECD (Economic Outlook

82) (p): forecast data.

The ECB continued the cycle of interest rate hikes during the first half of the year, which was followed by a pause in the second half of the year, due to the enormous nervousness evident in the financial markets and despite the inflationary pressures that persisted in the Eurozone. During the year, the rate

benchmark for refinancing operations was increased by 0.50 percentage point, standing at 4% at the end of 2007.

The interest rate curve based on the quotations of bonds and treasury bonds for the

The Euro registered an increase, more pronounced in the shorter maturities, a fact to which the excess demand for funds associated with the anomalous conditions of the money market also contributed, particularly during the month of December.

#### Table XI. Evolution of the main interest rates in the euro area

	Variation (percentage points)	December 2007
ECB intervention rate		
Rate of main refinancing operations	0.5	4.00%
Money Market Yield Rates (*)		
to 3 months	0.96	4.68%
to 6 months	0.85	4.71%
to 1 year	0.72	4.75%
Treasury bond yields (**)		
to 2 years	0.14	4.02%
to 5 years	0.21	4.14%
to 10 years	0.40	4.35%

Source: REUTERS.

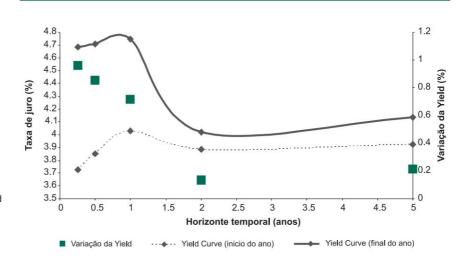
(\*) Euro area *benchmark* : euribor rates.

(\*\*) Euro area *benchmark* : German government bonds.

In the private debt market, and as a consequence of the real estate market crisis, there was a strong widening of spreads during 2007, which reflects the reassessment of risk by investors in this financial asset segment.

As an example, the 5-year Itraxx EUR index, which reflects the cost of purchasing protection against the risk of default on commitments made by 5year bond issuers, doubled from around 25 to 50 basis points between the final of 2006 and 2007.





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As regards the foreign exchange market, the appreciation of the euro continued, which appreciated by around 11% against the dollar in 2007. This movement can be explained by the divergence of action between the ECB, which maintained the cycle of rising interest rates, and the Federal Reserve, which began its downward cycle, associated with the progressive replacement of dollars by euros in the reserves of world central banks and the better economic performance of the euro area

#### relative to the US economy.

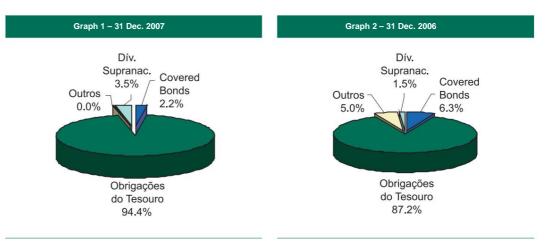
Despite the financial crisis, which became evident from the second half of 2007 onwards, and the increase in risk aversion on the part of most investors, the main equity markets had a positive year on the whole, with the exception of the Japanese market. The European DJ Eurostoxx 50 index rose by around 6.8%, the American S&P 500 index rose by 3.5% and the Japanese Nikkei 225 index fell by 11.0%. The Portuguese PSI-20 index registered an appreciation of 16.3%.

The price of oil registered a considerable appreciation during 2007. The barrel of *Brent*, traded in London, rose from 61 to 94 dollars per barrel, which represents a percentage change of around 54%.

#### Portfolio structure and risk control

**15.** During 2007, the conservative nature of the investment policy was maintained, framed by the "Plan for the Application of Financial Resources of the Deposit Guarantee Fund" and guided by a reference portfolio selected by the Investment Committee on a quarterly basis *(benchmark)*. The investment strategy took into account the objective of limiting the portfolio's exposure to market and credit risks. In a context of financial market instability, there was an increase in the concentration of investments in euro area public debt securities.

As at 31 December 2007, the Deposit Guarantee Fund's asset portfolio was composed mostly of treasury bonds (94.4%).



### Composition by instrument type

The portfolio structure maintained a significant degree of geographic diversifi cation, with some relevant changes induced by the fiscal optimization and spread management objectives.

parents". In 2007, there was a strengthening of the relative positions of investment in debt securities from Holland, Italy and Greece, to the detriment of German and French bonds.

#### Table XII. Geographical breakdown

						thousands of	
countries	12.31.2	2007	12.31.2	006	Variation		
	amount	%	amount	%	amount	pp(*)	
Germany	18 637	2.2	344 558	43.3	-325 922	-41.1	
France	111 837	13.1	308 828	38.6	-196 991	-25.8	
Greece	108 381	12.7	0	0.0	108 381	12.7	
Netherlands	381 243	44.4	70 805	8.9	310 439	35.6	
Italy	206 204	24.1	61 236	7.7	144 968	16.4	
Portugal	0	0.0	342	0.0	-342	0.0	
supranational	29 696	3.5	12 110	1.5	17 586	1.9	

(\*) variation, in percentage points, of the weight in the portfolio structure.

The analysis is carried out from a transaction perspective, excluding taxes and other outstanding cash flows.

The structure of the non-sovereign component of the portfolio at the end of 2007 consisted of a "Supranational" class consisting exclusively of securities issued by the European Investment Bank and a "Credits" class entirely made up of *covered bonds*.

The analysis of the evolution of credit spreads reveals a recovery, at the end of the year, of most securities in the portfolio, although they remain at levels significantly higher than those recorded at the beginning of the mortgage credit crisis.

### Table XIII. Analysis of Other Debt by issuance in the portfolio

			Spre	ead (*)	
	Weight Rating Maturity	method of Valuation (**)	spread 31/Dec.	Variation from July 15th	
Portfolio:					
Issuer:					
European Investment Bank	2008-03-17 0.4% AAA Mar	2008-03-17 0.4% AAA Market prices 0.96%			
European Investment Bank	06-15-2008 0.7% AAA Fair	06-15-2008 0.7% AAA Fair value			
European Investment Bank	2010-06-15 2.3% AAA Fair	2010-06-15 2.3% AAA Fair value			
Total Supranationals	3.5%		0.48%		
Hypothekenbank in Essen AG	2008-03-11 0.2% AAA Market	prices 0.53%		at	
Bayerische Landesbank	01-08-2008 0.7% AAA Fair	value	0.42%	0.25%	
Hypothekenbank in Essen AG	2009-09-25 0.4% AAA Market	prices 0.16%		0.10%	
Eurohypo AG	11-18-2009 0.5% AAA Fair	value	0.42%	0.25%	
Total Private Debt	1.8%		0.37%		
Total Other Debt	5.2%		0.45%		

(\*) Average weekly spread against French government bonds.

(\*\*) In cases where market liquidity is not sufficient to ensure the asset's price quality, the valuation method based on the Discounted Cash Flow is used to obtain the fair value.

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The interest rate risk was managed according to the prospects for the evolution of the yield curve, with the modified duration of the portfolio fluctuating, throughout the year, in the interval [0.32; 0.50]. At the end of December, the modified duration of the portfolio was 0.39. The portfolio's sensitivity to a variation of one basis point in the level of interest rates was, on that date, around 34 thousand euros.

## Table XIV. Modified duration

	12.31.	2007	12.31.2006			
Maturity Segments	Weight (%)	Duration modified each	Weight (%)	Duration modified each		
		(years old)		(years old)		
up to 1 month	44.8%	0.04	8.2%	0.04		
1 to 3 months	27.9%	0.13	50.9%	0.19		
3 to 6 months	15.2%	0.46	26.4%	0.43		
6 months to 1 year	0.7%	0.57	2.4%	0.59		
1 to 3 years	11.4%	2.30	11.4%	1.18		
more than 3 years	-	-	0.7%	3.25		
Total	100.0%	0.39	100.0%	0.39		

During the year, there was a change in the distribution of investments by the different segments of residual maturity, characterized by a greater concentration in the segment "Up to 1 month".

As at 31 December 2007, the market risk of the financial assets portfolio, measured by the *Value-at-Risk* (VaR) for a time horizon of 1 month and with a confidence level of 99%, was 1, 3 million euros, which corresponded to 0.2% of the portfolio's value.

#### Results

**16.** In 2007, the profitability of the Deposit Guarantee Fund portfolio was conditioned by the shift in the euro area yield curve, with different amplitudes in the various relevant maturity segments. The non-parallel rise observed in the yield curve during 2007 materialized in rates of return by segment of maturity decreasing in the range of 1 to 3 months, increasing in the segment that includes maturities between 3 months and 1 year and decreasing again in the longer segment.

## Table XV. Rates of return by maturity segment(4)

	2007	Duration modified each	Duration modified each
	Rate (Twrr)	12.31.2007	12.31.2007
Gross return on the securities portfolio			
up to 1 month	3.96%	0.04	15.0%
1 to 3 months	3.56%	0.13	37.0%
3 to 6 months	3.90%	0.46	17.4%
6 months to 1 year	3.94%	0.57	20.5%
1 to 3 years	3.91%	2.30	8.5%
more than 3 years	-028%	-	1.7%
Total	3.92%	0.39	100.0%
Impact of management costs	-0.03%	-	-
Impact of taxation	-0.45%	-	-
Net total of the FGD portfolio	3.42%	-	-

With regard to the profitability of the asset classes, it should be noted that the policy of maintaining the securities in the portfolio until their maturity contributed to sustaining the profitability of the so-called "Other Debt", which, despite the particularly adverse environment, reached, in 2007, a level equal to the Public Debt.

#### Table XVI. Rates of return by asset class

asset classes	Rate (Twrr)	Duration I modified each average (years old)	weight in 12.31.2007
Teasure obligations	3.48%	0.3	94.4%
Public debt	3.48%	0.3	94.4%
credits	3.24%	0.6	2.2%
Supranationals and Paragov.	3.44%	1.8	3.5%
Other Debt	3.48%	1.1	5.6%
Total securities portfolio	3.45%	0.4	100.0%
Impact of Management Costs	-0.03%	-	-
Total	3.42%	-	-

The high credit quality of the Deposit Guarantee Fund's portfolio, the concentration of investments in segments with shorter maturities and the fiscal optimization of the portfolio made it possible to obtain, in a year marked by a rise in sovereign risk interest rates and by the extension of credit spreads, a rate of return, net of taxes and management costs of 3.42%, significantly higher than the minimum risk asset rate (3.04%).

(4) Time weighted rate of return (Twrr); all rates of return shown are net of taxes, except for the cases where the contrary is expressly stated.

#### Table XVII. Net return on the portfolio compared to the Minimum Risk Asset(5)

	FGD	Minimum risk asset	Profitability differential
Year 2007	3.42%	3.04%	0.38%

#### Legal and regulatory rules published in 2007, related to the guarantee of deposits

17. In 2007, the following regulatory standards were approved and published:

Instruction No. 24/2007, published in the Official Bulletin of the Bank of Portugal No. 10, of October 15, 2007, which set the base contribution rate for the calculation of annual contributions for 2008 at 0.03%. and the reduced contribution rate of 0.01% for deposits made in branches external financial services in the free zones of Madeira and the island of Santa Maria

Instruction No. 25/2007, published in the Official Bulletin of Banco de Portugal No. 10, of October 15, 2007, which set the irrevocable payment commitment limit to be applied to annual contributions for the year of 2008

For 2008, by decision of the Directive Commission, of 7 November 2007, the amount of the contribution minimum was kept at 17,500 euros.

#### Inspection of the Deposit Guarantee Fund

**18.** The Audit Board of Banco de Portugal is the supervisor of the Fund's activity, in accordance with the provisions of Article 171 of Decree-Law no. 298/92 (General Regime for Credit Institutions and Financial Companies), of 31 December, and article 25 of the Fund's Regulations approved by Ordinance No. 285-C/95, of 19 September.

The opinion of the Audit Board of Banco de Portugal on the Fund's Annual Report and Accounts for 2007 is included in the annex.

The Court of Auditors, which ensures the successive inspection of the Fund's activity, in accordance with the legal provisions in force, was sent all the required documentation for the 2006 financial year, namely the report and accounts, after approval by Order no. 491/07/SETF, of 24 May 2007, of the Secretary of State for the Treasury and Finance.

#### External audit

On 17 December 2007, a service agreement was signed with the statutory auditors firm Ernst & Young Audit & Associados, under which this firm was responsible for auditing the Financial Statements as of 31 December 2007. December 2007.

In previous years, the external audit carried out by that company was limited to the management of the Fund's assets.

(5) The net return on the minimum risk asset is considered to be that resulting from investment in 1-month public debt securities, as this is the shortest term for which acceptable levels of liquidity still exist. For purposes of calculating taxation, it is assumed that the coupon rate of 1-month government bonds is equal to their *yield to maturity*.

#### Support from Banco de Portugal and collaboration of participating institutions

**20.** The Executive Committee expresses its recognition to all the structures of Banco de Portugal which, within the framework of the collaboration provided for in the Protocol signed in January 1995, provided their technical and administrative support in 2007 for the proper functioning of the Fund, ensuring, namely, the accounting processing of operations and the preparation of annual financial statements, the management of financial resources, and participation in the procedures for collecting annual contributions to the Fund from participating credit institutions.

These structures include, in particular, the Deposit Guarantee Fund Support Unit, the Accounting and Control Department, the Payment Systems Department, the Markets and Reserves Management Department, the International Relations Department , the Legal Services Department, the Support Services Department and the Banking Supervision Department.

The Steering Committee also expresses its appreciation for the good collaboration always shown by the Credit Institutions participating in the Fund and by the Portuguese Banking Association, in their relationship with the Fund.

#### **Steering Committee**

president

Pedro Miguel de Seabra Duarte Neves

Vowel

Joao Mauricio Fernandes Salgueiro

Vowel

Antonio Amaro de Matos



## ANNUAL ACCOUNTS

2007 fiscal year

(em euros)	EXERCICIOS	2006				371 2 486 277 375 3 037 435	446 5 523 712	23 174 6 613	5 530 325			880 195 973 880 168 430 475 845 921 425 203 530 869 1 051 653 255		960 152 397 158		571 16 593 802	300 1 220 644 216	220 1 226 174 541	
Ē	EX	2007				3 907 371 3 637 075	7 544 446	23	7 567 620			196 123 880 459 508 168 430 212 921 1 085 844 969		168 990 960		27 812 671	1 282 648 600	1 290 216 220	
		3	Notas			9		ŝ			7						Ň	s	
		PASSIVO, RECURSOS PRÓPRIOS E RESULTADOS		PASSIVO	CORRENTE	Dividas a Terceiros Estado e Outros Entes Públicos Consultores, Assessores e Intermediários Financeiros		Acréscimos de Custos	Total do nassivo		RECURSOS PRÓPRIOS	Contribuições Iniciais Contribuições Periódicas Realizadas Contribuições Periódicas - Compromissos		Reservas Reservas Livres	Resultados Transitados	Resultado Líquido do Exercício	Total dos recursos próprios e resultados	Total do passivo, recursos próprios e resultados	
- U	CODIGO	DAS	CONTAS			24 267		273				511 512 513		57 574	59	88			
		2006	<b>CTIVO LÍQUIDO</b>			199 800 425 203 530 35	425 403 365	101 315 647 686 847 954	788 163 601	341 984 374	342 358	12 264 123 874 12 264 997	100 102 71		220		220	1 226 174 541	
300	CIOS		AMORTE AJUST ACTIVO LIQUIDO ACTIVO LIQUIDO CONTAS			199 800 430 212 921	430 412 721	48 089 677 796 606 960	844 696 638	383 098 374	383 472	14 721 989 83 14 722 872	710 771 11		518		518	1 290 216 220	
EVEDU	EXERCICIOS	2007	MORTE AJUST.												7 284	180	7 464 7 464	7 464	
			ACTIVO BRUTO			199 800 430 212 921	430 412 721	48 089 677 796 606 960	844 696 638	383 098 374	383 472	14 721 989 83 14 772 872	710 771 11		7 802	180	7 982	1 290 223 684	454 593 013
			Notas			2		ъ		4		ى م	1						10
		ACTIVO			CORRENTE	Dividas de Terceiros Estado e Outros Entes Públicos Contibuições Periódicas - Compromissos Assumidos Devodrores Diversos		Títulos Negociáveis Dorigações de Empresas e Títulos de Participação Títulos da Dívida Dívida Dívida Dívida		Depósitos Bancários e Caixa Depósitos Bancários Caixa		Acréscimos e Diferimentos Acréscimos de Proveitos Custos Diferidos	NÃO CORRENTE	mobilizado	Imobilizações Corporeas Equipamento Administrativo	Outras Imobilizações Corporeas	Total de amortizações	Total de ajustamentos Total do activo	CONTAS DE ORDEM Garantias Recebidas
2	CODIGO	DAS	CONTAS		U	24 252 252	-	152	2	12+13+14		271	Z	. 5	426	671			00

## **Income Statement**

							(em euros)
CÓDIGO DAS					EXERC	cicios	
CONTAS		Notas		20	)7	20	06
	CUSTOS E PERDAS						
62	Fornecimentos e Serviços Externos	8		155 089		158 525	
<b>64</b> 641	Custos com o Pessoal Remuneração da Comissão Directiva			41 899		41 899	
65	Outros Custos e Perdas Operacionais			850			
66	Amortizações do Imobilizado Corpóreo e Incorpóreo			530		808	
<b>63</b> 6317 6321 6322	Impostos Taxas IRC - Imposto sobre Capitais Retido na Fonte IRC - Imposto sobre Capitais Não Retido na Fonte		(A)	32 687 5 420 <u>3 906 988</u>	4 143 463 <b>4 143 463</b>	465 122 3 198 698	3 865 052 <b>3 865 052</b>
68 6819 6871 6872 688	Custos e Perdas Financeiros Outros Juros Perdas Realizadas em Títulos Negociáveis Perdas Potenciais em Títulos Negociáveis Outros	9	(C)	865 44 256 488	45 609 4 189 071	407 277 19 084 640	427 001 <b>4 292 053</b>
<b>69</b> 695 6988 6989	<b>Custos e Perdas Extraordinários</b> Multas e Penalidades Arredondamentos Outros Custos e Perdas			3	3	100 0 1 277	1 378
	TOTAL DOS CUSTOS E PERDAS		(E)		4 189 075		4 293 431
					4 189 075		4 293 431
88	Resultado Líquido do Exercício				27 812 671		16 593 802
	TOTAL DOS CUSTOS E PERDAS + RLE				32 001 746		20 887 233
	PROVEITOS E GANHOS						
<b>78</b> 781 7871 7872 788	Proveitos e Ganhos Financeiros Juros Obtidos Ganhos Realizados em Títulos Negociáveis Ganhos Potenciais em Títulos Negociáveis Outros Proveitos e Ganhos Financeiros	9	(D)	19 562 043 6 807 756 5 631 078 865	32 001 742 32 001 742	10 989 801 8 274 621 1 622 738	20 887 159 20 887 159
<b>79</b> 791 797 7988	Proveitos e Ganhos Extraordinários Receitas de Contra-Ordenações Correcções Relativas a Exercícios Anteriores Arredondamentos		(	4	4	72	74
			(F)		32 001 746		20 887 233
	TOTAL DOS PROVEITOS E GANHOS				32 001 746		20 887 233

#### RESUMO

Resultados Operacionais (A)	=	-4 143 463
Resultados Financeiros: (D) - (C - A)	=	31 956 133
Resultados Correntes: (D) - (C)	=	27 812 670
Resultado Líquido do Exercício: (F) - (E)	=	27 812 671

The Director of the Accounting and Control Department

Victor Pimenta e Silva

The Steering Committee

Pedro Miguel de Seabra Duarte Neves - President

João Maurício Fernandes Salgueiro - Member

António Amaro de Matos - Member

## **Statement of Cash Flows**

				(em euros)		
	Exercícios					
	20	07	2006			
Actividades Operacionais:						
Recebimentos de instituições participantes	29 182 322		28 428 759			
Pagamentos a fornecedores	154 874		151 912			
Pagamentos ao pessoal	41 899		41 899			
Fluxo gerado pelas operações	28 985 549		28 234 948			
Pagamento de impostos	28 985 549	1	3 652 507			
Outros recebimentos relativos à activ.operacional	23 912 833		11 194 931			
Outros pagamentos relativos à activ.operacional	50 348 778	9	35 900 252			
Fluxos gerados antes das rubricas extraordinárias	41 941		-122 881			
Recebimentos relacionados com rubricas extraordinárias	4		74			
Pagamentos relacionados com rubricas extraordinárias	3		1 378			
Fluxo das actividades operacionais [1]		41 942		-124 18		
Actividades de Investimento: Recebimentos provenientes de: Imobilizações corpóreas Pagamentos respeitantes a: Imobilizações corpóreas Fluxo das actividades de investimento [2] Actividades de Financiamento: Recebimentos provenientes de: Empréstimos obtidos Pagamentos respeitantes a: Empréstimos obtidos	- 827 - -	-827	-	-		
Juros e custos similares			-			
Fluxo das actividades de financiamento [3]		-		-		
Variação de caixa e seus equivalentes (4)=(1)+(2)+(3) Efeito das diferenças de câmbio Caixa e seus equivalentes no início do período Caixa e seus equivalentes no fim do período	41 114 - 342 358	383 472	-124 184 - 466 542	342 35		
Caixa e seus equivalentes no fim do período		303 472		342 33		
<b>Discriminação dos componentes de caixa e s/ equivalentes:</b> Numerário Depósitos Bancários		374 383 098		37 341 98		

The Director of the Accounting and Control Department

The Steering Committee

Victor Pimenta e Silva

João Maurício Fernandes Salgueiro - Member

Pedro Miguel de Seabra Duarte Neves - President

António Amaro de Matos - Member

# **Notes to the Financial Statements**

# Note 1. Basis of presentation and main accounting policies

# 1.1 Basis of presentation

The financial statements of the Deposit Guarantee Fund (Fund) were prepared in accordance with the Fund's Chart of Accounts, which is based on the Official Accounting Plan, adapted to the specific nature of the Fund's activity.

In accordance with Decree – Law no. 35/2005, of 17 February, changes were introduced in 2005 in the Chart of Accounts relating to the classification of provisions and the renaming of provisions for amortization for the year.

### 1.2 Summary of the main accounting policies

The main accounting policies and valuation criteria used in the preparation of the financial statements for the year 2007 are as follows:

# a) Periodic contributions

Participating institutions make a contribution to the Fund, on an annual basis, the amount of which is determined in accordance with contribution brackets fixed by the Bank of Portugal, based on the average balance of deposits from the previous year.

Participating institutions may make this contribution in cash or be exempted from making the respective payment, up to a limit of 75% (for the 2007 financial year, the limit of 15% was fixed by Bank of Portugal Instruction No. 12/2006), provided that they undertake, irrevocably and guaranteed by a pledge of securities, to pay the Fund, at any time when it so requests, of all or part of the amount of the contribution that has not been paid in cash.

In accordance with the Fund's Regulations(1), periodic contributions are, in their entirety, an integral part of its Own Resources, and the portion corresponding to irrevocable commitments is recognized against the active item "Periodic Contributions - Commitments assumed", included in the aggregate of "Third-Party Debts".

### b) Negotiable Securities

The marketable securities portfolio is valued at market prices, for quoted securities. Upon acquisition, the securities in the portfolio are carried at their total acquisition value, including direct transaction costs. These securities are revalued daily based on the market price, with revaluation differences recorded in the

results.

Securities for which there is no market quotation are valued at "fair value", based on the amount calculated by discounting future financial flows, using interest rates that suit the time structure of the flows and the issuers risk.

(1) Approved by Ordinance No. 285 - B/95 (2nd Series), of 19 September, with the changes introduced by Ordinance No. 530/2003, of 14 April.

### c) Tangible Fixed Assets

Tangible Fixed Assets are recorded at acquisition value. Depreciation is calculated on an annual basis, according to the straight-line method, applying to the historical cost the maximum annual rates allowed for tax purposes, which reflect the life periods of the assets.

### d) Specialization of exercises

The Fund follows the accounting principle of accruals accounting, namely with regard to interest on asset and liability operations that are recorded as they are generated, irrespective of the time of payment or collection.

# e) Tax on profits

The Fund is a legal person governed by public law that benefits from the IRC exemption, enshrined in article 9 of the IRC Code, and this exemption does not include income from capital as defined for IRS purposes.

Regarding income from capital earned abroad, which is not subject to withholding in Portugal, the Fund is subject to taxation by means of a declaration to the Portuguese Tax Administration. In the event that there is no taxation of these capital income in the country of origin, a 20% release tax applies. In the event of withholding in the country of origin, the amount subject to taxation corresponds to the difference between the tax rate applied in Portugal and the withholding rate applied abroad.

### Note 2. Third-Party Debts

The heading **"State and Other Public Entities"** records the withholding tax made by the Spanish State on income from Spanish government bonds for which reimbursement is in progress.

The amount recorded under "**Periodic Contributions – Commitments Assumed**" refers to the irrevocable payment commitments assumed by the participating Credit Institutions before the Fund. The increase of 5,009,391 euros verified in the current financial year is justified by the commitments assumed during the annual contributions, made in April 2007.

#### Note 3. Negotiable Securities

The aggregate "Tradable Securities" records debt securities acquired by the Fund within the scope of its investment policy

		(euros)
	12-31-2007	12-31-2006
Company Obligations	48 089 677	101 315 47
Public Debt Securities		
Obligations	796 606 960	686 847 954
Total Tradable Securities	844 696 638	788 163 601

All issuers of government bonds that are part of the Fund's portfolio are eurozone countries. With regard to private debt, the securities in the portfolio are, in their entirety, mortgage debt securities issued by highly rated European Credit Institutions.

### Note 4. Bank Deposits

The item "**Bank Deposits**" includes demand deposits with Banco de Portugal and various financial institutions, in the total amount of 383,098 euros (2006: 341,984 euros).

# Note 5. Additions and Deferrals

The item "Accrued Income" records the interest receivable from negotiable securities with coupon that are in the portfolio as at 31 December 2007.

The heading "**Deferred Costs**" records the payment, in December 2007, of the rent for the premises referring to the month of January 2008 and the payment, made in May 2006, of the renewal of registration with the Fundação de Computação Científi c Nacional, referring to the period from 2007 to 2011.

The item "Accrued Costs" records the fees payable for the audit of the Fund's financial accounts, relating to part of the work carried out in 2007 (6,838 euros) and the fees payable to the Court of Auditors for the appraisal of the accounts of 2006 (16,338 euros).

## Note 6. Debts to Third Parties

The amount recorded in the liability item "State and Other Public Entities" essentially refers to the tax payable, not withheld at source, on income from Public Debt Securities (see Note 1.2.e).

The heading **"Financial Consultants, Advisors and Intermediaries"** records the value of securities purchase operations carried out with brokers UBS (2,728,480 euros) and JPMorgan Chase (908,595 euros), not yet settled as at 31 December 2007. The balances recognized here were settled on the settlement dates of the operations in question, ie January 2 and 3, 2008, respectively.

# Note 7. Own Resources

The item "Initial Contributions" includes the amount of contributions for the start of activity, made by the participating Credit Institutions. The increase of 150,000 euros verified in this item refers to the entry, in the year under analysis, of the following participating institutions: AS Paritate Banka, CREDIBOM – Financial Institution of Credit, SA and Banque Privée Espírito Santo, SA.

The item "**Periodic Contributions – Made**" shows the amount of contributions made by the participating Credit Institutions.

The item **"Periodic Contributions – Commitments"** refers to the part of the contributions whose payment, under the terms of the law, was replaced by the assumption, by the Credit Institutions participating in the Fund, of irrevocable payment commitments, guaranteed by a commercial pledge of securities eligible for this purpose (see Notes 2 and 10).

The increases verified, in 2007, in these last two headings, are due to the annual contributions made by the participating Credit Institutions, for the respective amounts of 29,032,323 euros and 5,009,391 euros.

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# Note 8. External Supplies and Services

The aggregate "External Supplies and Services" comprises the following items:

		(euros)
	12-31-2007	12-31-2006
Books and Technical Documentation	27	24
office supplies	8	27
Incomes and rents	11 041	10 778
Representation Expenses	-	106
Communication	1 270	1 091
Travel and Stays	2 018	2 967
commissions	95 855	100 436
Fees	24 924	24 352
Litigation and Notary	12	-
Conservation and Repair	539	16
publicity	5 929	5 687
Specialized jobs	13 465	13 041
Other Supplies and Services	1	-
Total	155 089	158 525

# Note 9. Financial Results

The "Financial Results" of the Fund are broken down as follows:

		(euros)
	12-31-2007	12-31-2006
interest margin	19 561 179	10 989 801
Realized Results in Negotiable Securities	6 763 500	7 867 344
Potential Results in Marketable Securities	5 631 078	1 603 654
Other Financial Results	377	-640
Total	31 956 133	20 460 158

# Note 10. Guarantees Received

# **PROPOSAL FOR APPLICATION OF RESULTS**

The off-balance sheet item "**Guarantees Received**" records the commercial pledge received as guarantee of the irrevocable payment commitment by the Credit Institutions to the Deposit Guarantee Fund, in the global amount of 454,593,013 euros (see Notes 2 and 7).

# PROPOSAL FOR APPLICATION OF RESULTS

It is proposed that the result for the year 2007, in the amount of 27,812,671.10 euros, be allocated to Free Reservations.

Lisbon, February 21, 2008

The Steering Committee

president

Pedro Miguel de Seabra Duarte Neves

Vowel

Joao Mauricio Fernandes Salgueiro

Vowel

Antonio Amaro de Matos



OPINION OF THE AUDIT BOARD FROM BANCO DE PORTUGAL

### OPINION OF THE AUDIT BOARD OF BANCO DE PORTUGAL

In accordance with article 171 of the General Regime for Credit Institutions and Companies (RGICSF) and with the provisions of subparagraph d) of article 25 of the Regulation of the Guarantee of Deposits (FGD), the Audit Board of Banco de Portugal issues its opinion on the FGD's Report and Accounts for the year 2007.

The FGD's financial statements were prepared taking into account the provisions of article 170 of the RGICSF on the organization of the FGD's chart of accounts. This is based on the Official Accounting Plan with the implicit adjustments to the specific nature of the Fund's activity.

The purpose of the FGD is to guarantee, within the fixed limits, the reimbursement of deposits made in the Credit Institutions (IC) that participate in it, under the conditions and in accordance with the limits established in the RGICSF and respective regulatory diplomas. The FGD may also collaborate, on a provisional basis, in actions aimed at restoring the solvency and liquidity conditions of participating credit institutions, within the scope of intervention programs, foreseen

in article 142 of the RGICSF.

As at 31 December 2007, the universe of institutions participating in the FGD (52 in total) consisted of 42 Banks, 5 Savings Banks and 5 Mutual Agricultural Credit Banks not belonging to the Integrated System of Mutual Agricultural Credit.

The Audit Board, within the scope of the powers assigned to it, systematically monitored the FGD's activity through the analysis of documentation periodically sent by the Management Committee, complemented with additional information and clarifications requested.

As has been the case since the beginning of the FGD's operations in 1994, during the year there was no situation of unavailability of deposits on the part of the participating CIs, nor was the Fund called upon to collaborate in any action aimed at restoring the solvency conditions and liquidity of any such CI.

In determining the periodic contributions for 2007, the base rate of 0.03% (same as in 2006), weighted by the solvency indicator of each participating institution, was applied to the amount of deposits covered by the guarantee. In the same period, the reduced rate of 0.01% was maintained on deposits made at the external financial branches of the free zones of Madeira and Santa Maria Island. The minimum contribution was also maintained at €17,500.

The deposits covered by the Fund's guarantee represented, at the end of 2006, 47% of the total deposits taken by the CIs participating in the Fund. In the aggregate of deposits excluded from the FGD guarantee, based on article 165 of the RGICSF, deposits held by the general government sector, credit institutions, financial companies and insurance companies continue to have a relevant position.

Total contributions from participating CIs reached around 34 million euros, compared to 33.2 million euros in 2006. The degree of coverage of deposits guaranteed by FGD resources, defined as the ratio between FGD resources ( contributions delivered to the Fund, including irrevocable payment commitments, plus retained earnings) and deposits covered by the Fund's guarantee, amounts to 0.99% in 2006 (0.98% in 2005).

In the year under review, irrevocable payment commitments amounted to around 5 million of euros.

The cumulative total of irrevocable payment commitments for all participating CIs amounted to 430.2 million euros, representing 39.6% of the initial contributions

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and annual periodicals carried out by the participating institutions since the creation of the Fund (1,085.8 million euros).

As mentioned in previous opinions, in the accounting disclosure of irrevocable payment commitments, entered into between the FGD and the participating CIs, there are different criteria for the recording of said commitments.

The Fund's own resources, as at 31 December 2007, totaled 1,282.6 million euros. The variation compared to the previous year (+ 62 million euros) was caused by the periodic contributions of the participating institutions, including irrevocable commitments (34.2 million) and by the Fund's results (27.8 million).

The management of the FGD's financial resources (art. FGD".

The FGD portfolio maintained a conservative risk profile, both in terms of maturity and in terms of the credit risk profile (concentration of investments in treasury bonds issued by Eurozone States, around 94.4%).

Pursuing the portfolio's profitability was guided by the objectives of safeguarding solvency and preserving the value of assets, as well as a high degree of liquidity of same.

The return on the Fund's portfolio was higher than the return on minimal risk assets, and therefore proved to be adequate.

As of this year, the FGD's financial statements have been verified by an external auditor; previously this audit was limited to the assessment of asset management.

The net income for the year amounted to €27,812,671.10, an amount that the Executive Committee proposes to be allocated to Free Reserves.

Based on the analysis carried out, bearing in mind the above considerations, the Certification of Accounts issued by the External Auditor, and the report of the Audit Department of Banco de Portugal, the Audit Board has nothing to object to the approval of the Report and Accounts of the FGD referring to the 2007 financial year, as well as the proposal for the application of results, presented by the Executive Committee.

Lisbon, March 25, 2008

# The Audit Board

Emilio Rui da Veiga Peixoto Vilar Rui Jose da Conceicao Nunes

Sergio Antonio Goncalves Nunes

Amiable Alberto Freixo Calhau



**OPINION OF THE EXTERNAL AUDITOR** 

# ERNST & YOUNG

Ernst & Young Audit & Associados-SROC, S.A. Tel.: (351) 217 912 000 Edifício República Avenida da República, 90 - 6.º 1600-206 Lisboa Portugal

Fax: (351) 217 957 586

### **CERTIFICAÇÃO DAS CONTAS**

# INTRODUÇÃO

Examinámos as demonstrações financeiras anexas do Fundo de Garantia de Depósitos 1. (Fundo), as quais compreendem o Balanço em 31 de Dezembro de 2007 (que evidencia um total de 1.290.216.220 Euros e um total de recursos próprios de 1.282.648.600 Euros, incluindo um resultado líquido de 27.812.671 Euros), as Demonstrações dos Resultados por Natureza e a Demonstração dos Fluxos de Caixa do exercício findo naquela data, e o correspondente Anexo.

# RESPONSABILIDADES

- 2. É da responsabilidade da Comissão Directiva a preparação de demonstrações financeiras que apresentem de forma verdadeira e apropriada a posição financeira do Fundo, o resultado das suas operações e os fluxos de caixa, bem como a adopção de políticas e critérios contabilísticos adequados e a manutenção de um sistema de controlo interno apropriado.
- 3. A nossa responsabilidade consiste em expressar uma opinião profissional e independente, baseada no nosso exame daquelas demonstrações financeiras.

### ÂMBITO

- O exame a que procedemos foi efectuado de acordo com as Normas Técnicas e Directrizes 4 de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas, as quais exigem que o mesmo seja planeado e executado com o objectivo de obter um grau de segurança accitável sobre se as demonstrações financeiras estão isentas de distorções materialmente relevantes. Para tanto o referido exame incluiu:
  - a verificação, numa base de amostragem, do suporte das quantias e divulgações constantes das demonstrações financeiras e a avaliação das estimativas, baseadas em juízos e critérios definidos pela Comissão Directiva, utilizadas na sua preparação;

Suciedade Anónima, C. R. Comercial de Lisboa – matricula n.º 11337 Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas Inscrição n.º 9011 na Comisão do Mercado de Valores Mobiliários Contribuinte 305.988 283 - Capital Social 750.000 euros

# ERNST & YOUNG

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

- a apreciação sobre se são adequadas as políticas contabilísticas adoptadas e a sua divulgação, tendo em conta as circunstâncias;
- a verificação da aplicabilidade do princípio da continuidade; e
- a apreciação sobre se é adequada, em termos globais, a apresentação das demonstrações financeiras.
- O nosso exame abrangeu também a verificação da concordância da informação financeira constante do relatório de gestão com as demonstrações financeiras.
- Entendemos que o exame efectuado proporciona uma base aceitável para a expressão da nossa opinião.

### OPINIÃO

7. Em nossa opinião, as demonstrações financeiras referidas apresentam de forma verdadeira e apropriada, em todos os aspectos materialmente relevantes, a posição financeira do Fundo de Garantia de Depósitos em 31 de Dezembro de 2007, o resultado das suas operações e os fluxos de caixa no exercício findo naquela data, em conformidade com os princípios contabilísticos geralmente aceites em Portugal, com as adaptações referidas na Nota 1 do Anexo às Demonstrações Financeiras.

Lisboa, 7 de Março de 2008

ERNST & YOUNG AUDIT & ASSOCIADOS – SROC, S.A. Sociedade de Revisores Oficiais de Contas (nº 178) Representada por:

Ina Salcedal

Ana Rosa Ribeiro Salcedas Montes Pinto (ROC n.º 1230)



# ANNEXES

List of Credit Institutions Participating in the Deposit Guarantee Fund as at 31 December 2007

Legal and Regulatory Provisions on the Deposit Guarantee System

# LIST OF CI PARTICIPANTS IN THE FGD(1)

## banks

Caixa Geral de Depósitos, SA Banco ActivoBank (Portugal), SA Banco Bilbao Vizcaya Argentaria (Portugal), SA BAI Europa, SA Bank 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 Efi sa, SA Banco Espírito Santo, SA Banco Espírito Santo dos Azores, SA Banco Espírito Santo de Investimento, SA Banque Privée Espírito Santo, SA (branch) Banco Finantia, SA Banco Invest, SA Banco Itau Europa, SA Banco de Investimento Imobiliário, SA Banco de Investimento Global, SA Banco Madesant - Sociedade Unipessoal, SA Banco Mais, SA

Banco Millennium BCP Investimento, SA

(1) Situation as at 31 December 2007 in accordance with the special registration with the Bank of Portugal, referred to in Article 65 of the General Regime of Credit Institutions and Financial Companies, approved by Decree-Law no. 298/92, of 31 December.

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Banco Popular Portugal, SA

Banco Português de Gestão, SA

Banco Português de Investimento, SA

Banco Privado Português, SA

Banco Primus, SA

Rural Bank of Europe, SA

Banco Santander Consumer Portugal, SA

Banco Santander Totta, SA

Banif - Banco de Investimento, SA

Banif - Banco Internacional do Funchal, SA

Best - Banco Eletrônico de Serviço Total, SA

BPN - Banco Português de Negócios, SA

BSN - Banco Santander de Negócios Portugal, SA

Caixa - Banco de Investimento, SA

Credifi n - Consumer Credit Bank, SA

Deutsche Bank (Portugal), SA

Finibanco, SA

AS "PrivatBank" (branch)

Sanpaolo IMI Bank (International), SA

### Savings Banks

Caixa Económica Montepio Geral

Savings Bank of the Association of Mutual Aid for Employees in Commerce of Lisbon

Angra do Heroísmo Mercy Savings Bank

Porto Savings Bank

Social Savings Bank

### Mutual Agricultural Credit Boxes(2)

Caixa de Crédito Agrícola do Bombarral, CRL Chamusca Mutual Agricultural Credit Bank, CRL Leiria Mutual Agricultural Credit Bank, CRL Mafra Mutual Agricultural Credit Bank, CRL Caixa de Crédito Agrícola de Torres Vedras, CRL

Decree-Law No. 298/92, of 31 December

# Legal and regulatory provisions on the deposit guarantee system in Portugal

#### diplomas

Decree-Law No. 246/95, of 14 September Decree-Law No. 222/99, of 22 June Decree-Law No. 201/2002, of 26 September Ordinance No. 285-B/95, of 19 September Ordinance No. 530/2003 (2nd Series), of 14 April Notice No. 11/94, of December 29 Notice No. 11/94, of December 29 Notice No. 3/96, of July 15 Notice No. 4/96, of 20 September Notice No. 7/2001, of 6 June Notice No. 11/2003, of 19 September (Declaration of Rectification No. 12/2003, of 29 September) Notice No. 5/2004, of September 22, 2004

Notice No. 7/2005, of June 6, 2005

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

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## Instructions from Banco de Portugal(3)

Instructions No. 105, 106 and 107/96 Instructions No. 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

<sup>(3)</sup> Instructions concerning, fundamentally, the fixing, in each year, of the contribution rates to be applied in the calculation of the participants' annual contributions to the FGD. These Instructions are published in the Official Bulletin of Banco de Portugal (BO), on a monthly basis, distributed to Credit Institutions.

# Some provisions governing the activity of the Deposit Guarantee Fund (1)

### nature and object

**1.** The Deposit Guarantee Fund is a legal person governed by public law, endowed with administrative and financial autonomy, has its head office in Lisbon and works with the Bank of Portugal, which is responsible for providing the technical and administrative services essential to its proper functioning.

**2.** The purpose of the Fund is to guarantee the reimbursement of deposits made in the credit institutions that participate in it, and may also collaborate, on a transitional basis, in actions aimed at restoring the solvency and liquidity conditions of the same institutions, within the scope of extraordinary measures of reorganization, under the terms established by the Bank of Portugal.

### Guaranteed deposits and guarantee limit

- 1. The Fund guarantees, up to 25,000 euros, per depositor and per credit institution, the refund (2) (2):
  - From deposits taken in Portugal or in other member states of the European Union by credit institutions based in Portugal;
  - Deposits taken in Portugal by branches of credit institutions headquartered in countries that are not members of the European Union;
  - Deposits taken in Portugal by branches of credit institutions based in other European Union member states that voluntarily participate in the Fund, in the part that exceeds the guarantee provided for in the system of the country of origin.
- **2.** For the purposes of determining the limit value of the guarantee (25 000 euros), the following criteria are observed:
  - The set of deposit accounts held by the interested party in the institution in question, irrespective of its modality;
  - Interest will be included in the balances of deposits, up to the date on that deposits are not available;
  - All deposit balances will be converted into euros, at the exchange rate on the same date. expressed in foreign currency;
  - In the absence of a provision to the contrary, it will be assumed that the balances of collective, joint or solidary accounts belong in equal parts to the holders;

<sup>(1)</sup> Legal provisions provided for in the General Regime for Credit Institutions and Financial Companies, approved by Decree-Law 298/92, of 31 December.

<sup>(2)</sup> Pursuant to Directive No. 94/19/EC of the European Parliament and of the Council, of 30 May 1994, on security guarantee systems deposits, the harmonized EU minimum guarantee amount was fixed at €20,000 per depositor and per credit institution.

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- If the account holder is not the holder of the right to the amounts deposited and he has been identified or is identifiable before checking the unavailability of deposits, the guarantee covers the holder of the right;
- If the right has several holders, the part attributable to each of them will be taken into account. consideration in calculating the guarantee limit;
- Deposits in an account to which several persons have access as members of an association or a special committee without legal personality are aggregated as if they had been made by a single depositor and do not count for the purposes of calculating the applicable guarantee limit to each of these people.