RELATÓRIO E CONTAS 2010

LISBOA, 2011

Fundo de Garantia de Depósitos

REPORT AND ACCOUNTS

2010

Lisbon, 2011

Fundo de Garantia de Depósitos

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INDEX

ACTIVITY REPORT

AND ACCOUNTS FOR THE YEAR 2010

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 of September, the Executive Committee presented, within the legal deadline (until 31 March 2011), to the Minister of State and Finance, for approval, the annual report and accounts of the Fund for the year 2010, accompanied by the opinion of the Audit Board of Banco de Portugal (supervisory body).

2. The aforementioned report and accounts of the Fund were approved by the Dispatch 459/11/SETF, of 2 April 2011, issued by the Secretary of State for the Treasury and Finance, in accordance with the provisions of article 172 of 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

João Maurício Fernandes Salgueiro[2]

Carlos Manuel Durães da Conceição[3]

GENERAL SECRETARY

João Filipe Soares da Silva Freitas[4]

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

2 Appointed, on 18 July 2003, by the Portuguese Banking Association.

3 Appointed, on 28 April 2008, by Order No. 13084/2008, of the Secretary of State of the Treasury and Finance.

4 Appointed by the Fund's Steering Committee and in office since 21 October of 2010.

AUDIT BOARD
FROM BANCO DE PORTUGAL

Pursuant to Art. and applicable regulations and issues an opinion on the annual accounts.

PRESIDENT

Emílio Rui da Veiga Peixoto Vilar1

VOWELS

Rui José da Conceição Nunes2

Amiable Alberto Freixo Calhau3

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. 22 729/2007, DR (2nd series) no. 189, of the Minister of State and Finance, of 1 October 2007.

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. 22 640/2007, DR (2nd series) no. 188, of the Minister of State and Finance, of 28 September 2007.

3 Appointed member of the Audit Board, in the capacity of statutory auditor, by Order no. 12 230/2006 (2nd series), of 11 May, of the Minister of State and Finance. The mandate was renewed by Order no. 15 410/2009, DR (2nd series) no. 130, of the Minister of State and Finance, of 8 July 2009.

ACTIVITY REPORT

I

1. SUMMARY OF ACTIVITIES
DEPOSIT GUARANTEE FUND (FGD)

In 2010 there was a situation of activation of the Deposit Guarantee Fund, which occurred for the first time since the constitution of the Fund. In fact, following the revocation, by the Bank of Portugal, of the authorization to exercise the activity of Banco Privado Português, SA (BPP), which is currently in liquidation, it was verified, under the terms of subparagraph b) of no. of Article 167 of the General Regime for Credit Institutions and Financial Companies (General Regime), a situation of unavailability of deposits, which results in the activation of the guarantee provided by the Deposit Guarantee Fund.
The Fund's activity during 2010 was necessarily infl uenced by this event which, for that reason, is covered in greater detail in a separate chapter.

Throughout 2010, and similarly to previous years, the current activities that are inherent to the operation of a deposit guarantee system with the characteristics of the FGD (ex-ante contributory system), among which the following stand out:

- The calculation of the amount of the annual contribution of each institution participating in the Fund, for 2010, based on the declarations of the balances of the deposits covered by the guarantee at the end of each of the months of 2009;
- 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 means of a pledge of securities, on the part of contributions not paid in cash;
- 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 Banco de Portugal, in accordance with the provisions in Art. 163 of the General Regime.

In addition to those activities, the FGD participated in the work being carried out, at Community level, for the revision of the Directive on Deposit Guarantee Schemes and continued to participate in cooperation initiatives with other Deposit Guarantee Schemes, in particular in the United States. Members of the European Union, namely within the scope of the European Forum of Deposit Insurers (EFDI), a body of which the Fund is a founding member.

Various initiatives were also developed and technical studies prepared relating to the Fund's operation and activity and its role as an instrument for protecting depositors and an element that can contribute to the stability of the national banking system.

As described in more detail in chapter 4, at the end of 2010, the Fund's own resources reached the amount of 1,354 million euros, of which 441 million represented by irrevocable payment commitments contractually assumed by the participating credit institutions and predominantly guaranteed by public debt securities. In the past year, there was a slight deterioration in the Fund's financial capacity indicators (a 3.8% decrease in own resources), contradicting the trend towards strengthening that capacity, which had been successively registered in previous years . The evolution observed in 2010 is justified by the reimbursement of deposits made with BPP, SA, as explained below.

2. REIMBURSEMENT OF DEPOSITS MADE WITH BANCO PRIVADO PORTUGUÊS, SA, IN LIQUIDATION

On 16 April 2010, Banco de Portugal made public the decision to revoke the authorization for the activity of Banco Privado Português, SA, which is currently in liquidation, thus giving rise to the activation of the Deposit Guarantee Fund, pursuant to the Article 167, no. 5, subparagraph b) of the General Regime for Credit Institutions and Financial Companies.

Pursuant to paragraph 7 of the aforementioned Article 167 of the General Regime, the reimbursement of deposits is based on a complete list that the depositary institution must provide to the Deposit Guarantee Fund, regardless of the information and analyzes that it lacks to meet its commitments. Pursuant to that provision, the list of BPP depositors' credits was communicated to the FGD, by that bank, on 22 April.

It should be noted that, with the aim of testing the operational procedures that supported the preparation of the list of eligible credits of depositors and verifying the correction thereof, an audit was requested from Deloitte & Associados, SROC, SA, whose report was delivered to the FGD on the 20th of April.

In this context, on 22 April 2010, the Fund's Management Committee determined the immediate payment, up to ten thousand euros, of the reimbursement of credits from depositors not covered by exclusion situations or situations that raised doubts as to the existence of the right to reimbursement and whose payment, for that reason, has been suspended.

It is recalled that, as stipulated in paragraph 1 of Article 167 of the General Regime, the reimbursement of deposits by the FGD must take place within a maximum period of seven days, for a portion of up to ten thousand euros of the deposits covered, the remaining balance, up to the legal limit of one hundred thousand euros, must be reimbursed within a maximum period of twenty working days.

Following the deliberation of 22 April, deposits totaling 22.7 million euros were actually paid at that time, covering, as mentioned, all depositors not covered by situations of exclusion or situations of doubt, and in for which the FGD had the NIB of the account to which the depositor intended to see the funds transferred.

The Directive Commission also determined the establishment of investigation procedures aimed at clarifying doubts regarding the existence of the right to reimbursement on the part of a group of depositors, and also the notification of depositors in relation to which the exclusion of the right to reimbursement, as identified in the list of depositor credits that BPP communicated to the FGD.

On May 12, 2010, the FGD was notified of the court order issued in a precautionary proceeding requested by twelve credit institutions[1], by which the Fund was provisionally ordered to "refrain from making any payments, within the scope of the Fund's operation and due to the unavailability of deposits made with the BPP", to the holders of deposits covered by various types of situations that described in the said order.

Additionally, on 17 May, Banco Comercial Português, SA, and two other related credit institutions submitted a new injunction request in absolutely similar terms to the previous one.

1 Banco Espírito Santo, SA, Banco BPI, SA, Banco Santander Totta, SA, BANIF – Banco Internacional do Funchal, SA, BPI – Banco Português de Investimento, SA, Banco Espírito Santo de Investimento, SA, Banco Espírito Santo dos Açores, SA, BEST – Banco Electrônico de Serviço Total, SA, BANIF Banco de Investimento, SA, Caixa Económica Montepio Geral, Banco de Investimento Global, SA and Banco BIC Português, SA

Despite the fact that the FGD had opportunely requested the lifting of the provisional measure decreed by the Court and the due opposition to the precautionary requests was presented, that provisional decree forced the suspension of the reimbursement process initiated with the determination of 22 April.

The Administrative Court of the Lisbon Circle would later reject both precautionary requests, namely by decisions of 26 July and 20 September 2010. After analyzing the consequences of those denials, especially in light of the last sentence, the FGD considered that the provisional decree of the measures definitively ceased to be in force, given the merely devolutive effect of the eventual appeal to the Central Administrative Court. Thus, on 1 October 2010, the Fund's Management Committee decided to resume the process of refunding deposits, paying the amounts due, up to the legal limit of the guarantee.

As an immediate consequence of this decision, the FGD made additional payments in the amount of 46.4 million euros.

Since then, the FGD has made additional payments, as a result, essentially, of making available to it the NIB of depositors who, not being covered by any cause of exclusion or for any reason of doubt, had not been reimbursed previously for the simple fact that the Fund does not have that essential element for the transfer of funds; clarification of the doubts that had motivated the suspension of the reimbursement; and, although to a much lesser degree, of rectification
tions to the initial list of depositors, communicated by the BPP Liquidation Committee and subject to verification by the FGD.

Considering all developments throughout 2010, the FGD made deposit payments in the total amount of 89.2 million euros. Taking into account the cases of holders who, on December 31, 2010, had not been reimbursed for the sole reason that the Fund does not have the NIB of the account to which the funds must be transferred, as well as a very small set of In cases where the transfers ordered by the Fund did not materialize for operational reasons beyond the control of the Fund, the total value of deposits covered by the Fund's guarantee of the holders to whom the right to reimbursement was effectively recognised, amounted, at the end of the year, to 90 .7 million euros.

The FGD continues to make efforts to clarify the doubts that did not allow the reimbursement of a set of deposits, in strict compliance with the legal framework to which it is bound.

Since, under the terms of paragraph 9 of Article 167 of the General Regime, the FGD is subrogated to the rights of depositors to the extent of the reimbursements that it has made, the Fund proceeded, in the context of the judicial process of liquidation of the BPP , to the claim of the credits that, in this way, are attributed to the bank, having these credits been recognized by the BPP Liquidation Commission, with the publication of the list referred to in paragraph 1 of Article 129 of the Code of Insolvency and Corporate Recovery.

3. PARTICIPATING CREDIT INSTITUTIONS

The participation in the FGD by credit institutions authorized to take deposits is mandatory, in accordance with the provisions of Article 156 of the General Regime, with the exception of only agricultural funds belonging to the Integrated System of Mutual Agricultural Credit Banks (SICAM), to which a specific deposit guarantee scheme is applied (Fund for Guaranteed Credit Agrícola Mútuo – FGCAM).

At the end of 2010, 49 credit institutions participated in the Fund, of which 39 banks, 5 savings banks and 5 mutual agricultural credit banks not belonging to SICAM, from which it follows that, during that year, three credit institutions ceased to be participants in the Fund. In addition to Banco Privado Português, SA, as a result of the revocation of the respective authorization by Banco de Portugal, Banco Santander de Negócios Portugal ceased to participate in the Fund, as it was incorporated into Banco Santander Totta, SA, Credifin, for having been merged into Banco BNP Paribas Personal Finance, SA and Sanpaolo IMI Bank (International), SA, for having been canceled with the Bank of Portugal following the dissolution of the institution by resolution of its sole shareholder.

Table I

CREDIT INSTITUTIONS PARTICIPATING IN THE FUND				
Participating Institutions	On 12-31-2009	Changes in 2010		On 12-31-2010
		Appetizer	outputs	
banks	43	-	4	39
savings banks	5		-	5
Mutual agricultural credit boxes	5		-	5
Total	53	-	4	49

Source: FGD

In compliance with the provisions of Article 22, paragraph c) of the Fund's Regulation, approved by Ordinance No. 285-B/95, of 19 September, the list of credit institutions participating in the Fund was published in the press (two large-print newspapers and a newspaper specializing in economic and financial information), in September 2010. On that occasion, the Accounts for the year 2009 were also published, with a view to disseminating them to the general public. , activity and financial situation of the Fund.

Attached to this Annual Report is the list of the 49 institutions participating in the Fund, with reference to December 31, 2010.

4. FINANCIAL RESOURCES OF THE FUND

As at 31 December 2010, the Fund's own resources[1] totaled 1354.1 million euros, which means a reduction of 53.5 million euros (3.8%) compared to the end of 2009, as shown in the Table II.

1 The Fund's “own resources” comprise initial contributions from Banco de Portugal, initial and periodic contributions from participating credit institutions and income from the application of the Fund's cash.

This variation contradicts the growth trend in own resources, which had been observed as a natural consequence of the process of accumulating contributions paid by the participating credit institutions.

The decrease recorded in 2010 is justified by the reimbursement of deposits made with BPP, SA, which consumed resources in the total amount of 90.7 million euros, as explained in the chapter dedicated to that reimbursement operation, and which also implied the constitution of provisions in the amount of 5.6 million euros, for reimbursements not yet made, but referring to deposits whose right to reimbursement has already been recognised. The use of own resources in the reimbursement of BPP's deposits therefore amounted to a total of 96.3 million euros in 2010.

On the other hand, the increase in own resources generated by contributions from the participating institutions amounted to 39.0 million euros, including the increase resulting from the net income for the year, in the amount of 3.8 million euros.

With regard to the results for the year, it should be noted that, as usual, the main contributions result from interest earned on investments made by the Fund and gains from sales and valuations of securities. Compared to 2009, there was a decrease of 65.5%, which, as detailed in chapter 6, was due to (1) the fact that the public debt interest rates of the issuers most represented in the portfolio of the Fund registered, in 2010, levels below those observed in 2009; and (2) increased exposure to countries with higher credit quality and lower interest rate levels.

Table II

EVOLUTION OF OWN RESOURCES AND RESULTS OF THE FUND			thousands of euros
Nature of resources	**balance in 12-31-2009**	**balance in 12-31-2010**	**Variation of balances**
Contributions delivered to the FGD			
One-time initial contribution delivered by BdP	97 824	97 824	-
Initial contributions delivered by the participating institutions	98 500	98 500	-
Periodic contributions (annual)*	966 253	1 005 263	39 010
Sum of contributions	1 162 577	1 201 587	39 010
Activation of the deposit guarantee	-	- 96 274	- 96 274
Reservations**	233 893	244 935	11 042
Results			
Retained earnings ---			
Net income for the year	11 042	3809	- 7 233
Total own resources and results	1 407 512	1 354 056	- 53 456

Source: FGD

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

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

The ratio between the Fund's own resources and the deposits covered by the guarantee1 showed a slight improvement in 2009 compared to the end of 2008. However, in 2010 there was a contraction of that ratio, to 0.88%. This reduction resulted from the combination of two effects: on the one hand, the decrease in own resources, for the reasons explained above; on the other hand, the increase in the value of deposits covered by the guarantee, reinforcing the trend observed in recent years.

Table III

DEGREE OF COVERAGE OF DEPOSITS COVERED BY THE WARRANTY			thousands of euros
	On 12/31/2008	On 12/31/2009	On 12/31/2010
Fund's own resources			
Including appointments (A)	1 356 607	1 407 512	1 354 056
Deleting appointments (B)	922 842	969 899	912 662
Deposits covered by the guarantee (C)	144 679 918	146 987 453	154 130 704
Ratio (A) / (C)	0.94%	0.96%	0.88%

Source: FGD

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 credit institutions, financial companies, insurance companies and at administrative public sector.

Considering only the value of deposits covered by the Fund's guarantee2, the coverage ratio for the Fund's own resources was 1.42% as at 30 June 2010, the last date on which that information is available.

1 The deposits covered by the guarantee correspond to the deposits that constitute the basis for the annual contribution to the Fund, not taking into account the guarantee limit of €100,000 per depositor established by law, in case of unavailability of deposits.

2 Covered deposits: refundable deposits in the event of unavailability, corresponding to deposits covered by the guarantee, up to a limit of 100,000 euros.

5. PARTICIPANTS' CONTRIBUTIONS TO THE FUND

In determining the periodic contributions for 2010, the base rate of 0.03% was applied to the amount of deposits covered by the guarantee, adjusted by the respective weighting factor, depending on the capital adequacy ratio of each participating institution. In the same period, the reduced rate of 0.01% was maintained on deposits made in the external financial branches of the free zones of Madeira and Santa Maria Island. By decision of the Steering Committee it was the amount of the minimum contribution is fixed at EUR 17 500.

As can be seen from Table IV, in 2010, the total of contributions from participating credit institutions reached the amount of 39 million euros, of which 90.3% was paid in cash and the remaining part met through the assumption of irrevocable commitments. of payment.

Therefore, irrevocable payment commitments in the year under analysis amounted to 3.8 million euros, an amount corresponding to approximately 9.7% of total contributions, a percentage close to the maximum legally allowed for 2010 (10 %).

Table IV

CONTRIBUTIONS IN 2010	thousands of euros
PAYMENT METHODS AND PAYMENT REPLACEMENT USED	
Contributions delivered to the Fund in 2010	
Cash	35 228
Irrevocable payment commitments	3782
Total	39 010

Source: FGD

The distribution of total contributions in 2010 by type of credit institutions participating in the Fund is shown in Table V, where it can be seen that contributions paid by banks correspond to 94.5% of total contributions. The proportion of contributions from savings banks and mutual agricultural credit banks is 5% and 0.5%, respectively.

Table V

CONTRIBUTIONS IN 2010 BY TYPE OF CREDIT INSTITUTION	thousands of euros
Contributions in 2010	
banks	36 886
Savings Banks	1910
Mutual Agricultural Credit Boxes*	214
Total	39 010

Source: FGD

* Not belonging to the Integrated System of Mutual Agricultural Credit (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.

In 2010, the constitution of the commercial pledge that guarantees the assumption of irrevocable payment commitments was almost entirely satisfied with Portuguese public debt bonds.

In cumulative terms, the irrevocable payment commitments assumed by the participating credit institutions are fundamentally guaranteed by Treasury Bonds and Treasury Bills, issued by the Portuguese State and by other euro area States.

Regarding the distribution of periodic contributions for the year, 14 credit institutions obtained a benefit due to the weighting effect according to the own funds adequacy ratio (weighting factors of 80% and 90%, due to having ratios equal to or greater than 12 %). In these cases, the adjusted base rates[1] were 0.024% and 0.027%.

On the other hand, for 6 credit institutions the weighting effect resulted in adjusted base rates of 0.033% and 0.036%, levels above the base rate of 0.03% (application of factors of 110% and 120%).

The minimum contribution, set at 17,500 euros by the Directive Commission, applied to 24 institutions credit.

Table VI

DISTRIBUTION OF WEIGHTING USED IN THE CALCULATION OF ANNUAL CONTRIBUTIONS				thousands of euros
Basic contribution rate weights and minimum contribution	**Number of participating institutions**			
	banks	**boxes economic**	**CCAM's**	**Total**
Weight of 1.2	21 -3			
Weighting of 1.1	3	- -3		
weight of 1	71 -8			
Weight of 0.9	31 -4			
Weight of 0.8	5	two	3	10
minimum contribution	22	-	two	24
	42	5	5	52

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 VII.

1 The "adjusted base rate" is obtained by applying to the base contributory rate a multiplicative factor corresponding to the positioning of the average capital adequacy ratio on an individual basis for each participant in the five classes of the weighting grid set out in paragraph 1. 5 of the Notice of the Bank of Portugal No. 11/94.

Table VII

ANNUAL CONTRIBUTIONS TO THE FGD BY TYPE OF CONTRIBUTION RATE	thousands of euros		
	annual contributions		
Contribution rates	2008	2009	2010
base rate	35 838	39 024	38 300
reduced rate	881	789	710
totals	36 719	39 813	39 010
Of which:			
. Paid in cash	33 167	35 965	35 228
. commitments	3552	3848	3782

Source: FGD

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, as shown in the next frame.

Table VIII

CONTRIBUTIVE RATES, EFFECTIVE IN CASH AND WEIGHTED, IN 2010

Maximum level of commitments	Part paid in cash	base rate	contribution rate effective in cash	classes of RMS(*)	Factor weight multiplicative	Rate weighted
(1)	(two)	(3)	(4)=(2)x(3)	(solvency)	(5)	(6) = (4)x(5)
				< 8	1.2	0.0324%
				[8; 10 [	1.1	0.0297%
10%	90%	0.03%	0.027%	[10 ; 12[	1.0	0.027%
				[12 ; 14[	0.9	0.0243%
				ÿ 14	0.8	0.0216%

Source: FGD

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

As in 2008 and 2009, the effective cash contribution rate varied between 0.0216% and 0.0324% of the total deposits covered by the Fund's guarantee.

6. FINANCIAL MANAGEMENT OF THE FUND

6.1. MACROECONOMIC FRAMEWORK AND EVOLUTION OF FINANCIAL MARKETS

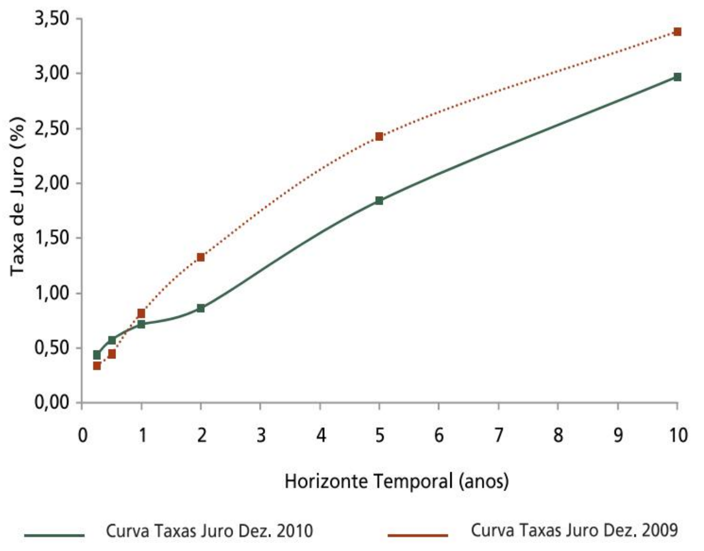
The Euro Area registered a growth of 1.8%1 in 2010, partially recovering from the contraction of -4.1%, registered in 2009. The annual average infl ation rose to 1.6%, after the value of 0.3 % observed in 2009.

It is estimated that the Portuguese economy recorded growth of 1.3% and an average infl ation of 1.4% during 2010, after a contraction of -2.5% and a negative infl ation of -0 .9% in 2009.

In a context marked by the sovereign debt crisis, the actions of the European Central Bank (ECB) and the European System of Central Banks were guided by measures to support the financial system and the economy. The ECB's refinancing rate remained at 1% throughout the year and some exceptional measures, initiated in 2009, were maintained, including the long-term refinancing operations of an unlimited amount and the program for the purchase of mortgage bonds. A program to purchase debt from Euro Area countries was also implemented.

Graph I

EVOLUTION OF INTEREST RATE CURVES IN THE EURO AREA DURING 2010



Source: Thomson Reuters and UAFGD

The expectation that the ECB's refinancing rate will remain at historically low levels contributed to the medium and long-term interest rates on the Euro Area's benchmark public debt securities recording declines of between 10 and 64 basis points. At the end of 2010, the 10-year interest rate stood at 2.97%2 .

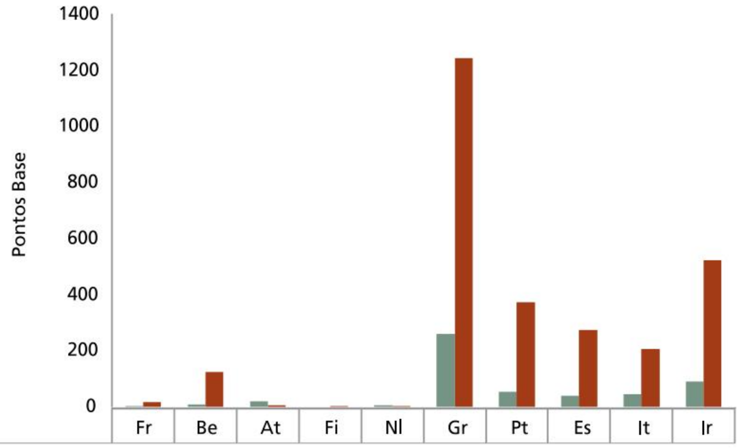
1 The figures presented for the evolution of economic activity and for the annual inflation of the Euro Area and Portugal were published by Eurostat.

2 Euro Area *Benchmark :* German government bonds.

This evolution was not felt by a large number of euro area countries, whose public debt financing interest rates increased relative to German rates, in some cases very sharply. Indeed, from mid-April 2010 onwards, there was an increase in the dispersion of long-term interest rates among European countries, with the most significant differential being observed in the debt of Greece and, to a lesser extent, in Ireland, Portugal, Spain, Italy and Belgium (Chart II),

Graph II

INTEREST RATE DIFFERENTIAL BETWEEN EUROPEAN AND GERMAN PUBLIC DEBT (2-year term)



	Fr	Be	At	Fi	Nl	Gr	Pt	Es	It	Ir
31-12-2009	3	8	20	0	5	259	52	40	43	90
31-12-2010	15	124	5	2	3	1243	372	272	204	523

Source: Thomson Reuters and UAFGD

Note: Given the lack of securities within the relevant terms for the analysis, and taking into account that, for the 2-year term, differences of a few months have a material impact, we chose to present the graph based on linear interpolations between real securities of the countries under analysis.

6.2. PORTFOLIO STRUCTURE AND RISK CONTROL

The investment policy of the Deposit Guarantee Fund maintained the guidelines established in the “Plan for the Application of Financial Resources of the Deposit Guarantee Fund” and reflected in the structure of the reference portfolio *(benchmark)* selected quarterly by the Investment Committee. Priority continued to be given to the objective of limiting the portfolio's exposure to credit, market and liquidity risks.

The market value of the Deposit Guarantee Fund's asset portfolio, as at 31 December 2010, was 919.5 million euros, which represents a decrease of around 50.2 million euros compared to 31 December 2009. The mobilization of 89.2 million euros for payments to BPP depositors contributed to this result.

The Deposit Guarantee Fund's portfolio is made up exclusively of treasury bills from euro area countries.

Table IX

GEOGRAPHIC BREAKDOWN						
countries	12-31-2010		12-31-2009		Variation	
	amount	%	amount	%	amount	pp *
Germany	31 314	3.4	40 393	4.2	-9 079	-0.8
Belgium	180 746	19.6	88 260	9,1	92 486	10.5
Spain	151 431	16.5	173 634	17.9	-22 203	-1.4
France	144 769	15.7	65 175	6,7	79 594	9.0
Greece	0	0.0	9932	1.0	-9932	-1.0
Netherlands	115 920	12.6	87 340	9,0	28 580	3.6
Ireland	0	0.0	70 948	7.3	-70 948	-7.3
Italy	160 107	17.4	208 493	21.5	-48 386	-4.1
Portugal	136 098	14.8	204 748	21.1	-68 650	-6.3
supranational	0.0	0.0	20 985	2.3	-20 985	-2.3

* 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 decrease in the average modified duration of the portfolio in relation to the previous year (from 0.36 to 0.25) reflects the expectation of an increase in interest rates in the relevant terms for the Deposit Guarantee Fund, given the historically low levels in which they are found. As at 31 December 2010, the modified duration of the portfolio was 0.25.

Expectations of rising interest rates were also reflected in the change in the distribution of investments by the different maturity segments, with greater weight given to the shorter segments of the yield curve.

X frame

MODIFIED DURATION				
segments of maturity	2010		2009	
	Average weight (%)	Modified duration Average (years)	Average weight (%)	Modified duration Average (years)
up to 1 month	26.7%	0.06	16.7%	0.05
1 to 3 months	37.2%	0.16	26.8%	0.17
3 to 6 months	24.9%	0.36	28.7%	0.36
6 months to 1 year	11.1%	0.70	26.0%	0.69
1 to 3 years	-	-	1.8%	0.79
Total	100%	0.25	100%	0.36

During 2010, 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 95%, hovered around an average of 0, 16% of the portfolio value. As at 31 December 2010, the *VaR* was 1.2 million euros, which corresponded to 0.13% of the portfolio's value.

6.3. RESULTS

The predominance of a strategy of holding investments until their maturity date implied, in an annual time horizon, that the main determinant of the portfolio's return was the rate of return to maturity of the securities in the portfolio at the time of their acquisition, and not the variation of your quote. In this context, there were increasing returns with the maturities of the securities, despite the upward shift of the yield curve in the euro area.

Table XI1

PROFITABILITY RATES BY MATURITY SEGMENT 1			
Gross returns from the Securities Portfolio	2010	Modified duration Average	Average weight
	Rate (Twrr)	2010	2010
up to 1 month	0.5%	0.1	26.7%
1 to 3 months	0.5%	0.2	37.2%
3 to 6 months	0.8%	0.4	24.9%
6 months to 1 year	0.9%	0.7	11.1%
1 to 3 years	-0.6%	-	0.0%
Total	0.5%	0.3	100.0%
Impact of management costs	0.0%		
Impact of taxation	-0.1%		
Net total of the FGD portfolio	0.4%		

The conservative nature of the investment policy, favoring short-term investments in issuers with low credit risk, conditioned the profitability of the portfolio.

Thus, the Fund's management in 2010 provided an overall gross return of 0.5%, which corresponds to 0.4% in net terms.

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

Table XII

Performance by public debt issuer

PERFORMANCE BY PUBLIC DEBT ISSUER | 2010	
countries	Profitability
Germany	0.1%
Belgium	0.5%
Spain	0.7%
France	0.4%
Greece	0.7%
Netherlands	0.4%
Ireland	0.3%
Italy	0.7%
Portugal	0.8%
supranational	0.5%

As a strategy of maintaining the investments until their maturity date was followed, the differences recorded in the returns by country reflect, in most cases, the differences in the short-term interest rates associated with the sovereign debts of the different countries, the respective terms of the investment by the Fund and also the different moments in which it was carried out.

Taking as a reference the rate of return on a "minimum risk" asset, defined as a 1-month public debt security, it is verified that the rate of return of the Deposit Guarantee Fund, net of taxes and management costs were higher, which was due to the strategy of maintaining investments until their maturity date, as well as the geographical dispersion of the investment portfolio.

Table XIII1

NET PROFITABILITY OF THE PORTFOLIO AS A MINIMUM RISK ASSET1			
	FGD	Minimum risk asset	Excess profitability
year 2010	0.4%	0.3%	0.1%

1 The net return on the minimum risk asset is considered to be that resulting from investment in 1-month French 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*.

7. REGULATORY CHANGES

Regarding the contributory regime for the Fund to which the participating institutions are subject, Instructions no. 22/2010 and 23/2010, which set the base contributory rate and the limit of the irrevocable payment commitment for the year 2011 at 0.03% and 10%, respectively, rates identical to those set for the previous year.

In addition, Banco de Portugal published Notice no. 4/2010, of 5 November, which entitles that authority to fix, by Instruction, a minimum annual contribution to the Deposit Guarantee Fund.

For 2011, by decision of the Directive Commission, of 15 September, the amount of the minimum contribution had already been fixed at 17,500 euros, as in previous years.

8. SUPERVISION OF THE DEPOSIT GUARANTEE FUND

The Audit Board of Banco de Portugal is the supervisor of the Fund's activity, in accordance with the provisions of Article 171 of the General Regime and Article 25 of the Fund's Regulations.

The opinion of the Audit Board of Banco de Portugal on the Fund's Annual Report and Accounts for 2010 is included in the annex.

The Fund's financial statements for the year 2010 were also subject to an external audit carried out by the firm of statutory auditors Ernst & Young.

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 2009 financial year, namely the report and accounts, after approval by Order no. 779/10/SETF4/09 - SETF, of 21 May 2010, of the Secretary of State for the Treasury and Finance.

9. SUPPORT FROM BANCO DE PORTUGAL AND COLLABORATION OF PARTICIPATING INSTITUTIONS

The Steering 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, and updated in 2010, provided their technical and administrative support 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 Reserve Management Department, the Relations Department International, the Department of Legal Services, the Department of Support Services, the Department of Prudential Supervision and the Department of Behavioral Supervision.

In 2010, in particular, and given the operation of reimbursement of deposits made with Banco Privado Português, SA, the Management Committee is grateful for the special collaboration provided to the Fund by the Department of Legal Services and the Department of Prudential Supervision.

The Steering Committee also notes the good cooperation shown by the participating credit institutions and the Portuguese Banking Association, within the scope of its current relationship with the FGD, namely with regard to the application of the current contributory regime.

Steering Committee

president

Pedro Miguel de Seabra Duarte Neves

Vowel

Joao Mauricio Fernandes Salgueiro

Vowel

Carlos Manuel Durães da Conceição

FINANCIAL STATEMENTS

II

AND NOTES TO ACCOUNTS

10. FINANCIAL STATEMENTS

SWING			thousands of euros
	Grades	12-31-2010	12-31-2009
Active			
current asset			
Financial investments			
Financial assets held for trading	3	920 385.6	970 457.9
Cash and bank deposits	4	60.6	153.0
State and other public entities	5	199.8	199.8
Other accounts receivable	6	38.8	0.9
		920 684.8	970 811.5
non-current asset			
Participating Institutions			
Contributions - Contr. irrevocable commitment	7	441 356.5	437 612.2
Tangible fixed assets	8	4.7	1.2
		441 361.2	437 613.5
total assets		1 362 046.0	1 408 425.0
Own resources	9	1 354 056.0	1 407 511.5
Passive			
Current liabilities			
Creditors for refundable deposits	10	1482.7	-
State and other public entities	5	628.0	485.7
Other bills to pay	11	8.3	8.7
		2119.0	494.4
non-current liabilities			
provisions	12	5575.4	-
Deferred tax liabilities	15	295.6	419.1
		5871.0	419.1
Total liabilities		7990.0	913.5
Total own resources and liabilities		1 362 046.0	1 408 425.0

RESULTS REPORT	Grades	12-31-2010	2009-12-31
thousands of euros			
Result of interest and similar income and expenses	13	143.2	1908.2
Gains/losses in financial applications	14	5083.3	11,774.5
Income tax	15	1088.5	2478.3
Result of the application of available resources		4137.9	11 204.4
Staff expenses	16	33.3	20.9
Supplies and external services	17	283.3	172.0
Other income and earnings	18	-	32.5
Other expenses and losses	18	11.6	1.5
Result before provisions, impairment, depreciation and amortization		3 809.9	11 042.5
Depreciation and amortization expenses/reversals	8	1.2	0.5
net income		3808.7	11 042.0

CASH FLOW STATEMENT	thousands of euros	
	12-31-2010	12-31-2009
Cash flows from operating activities		
Receipts of contributions	35 228.0	36 015.3
Refund of deposits under guarantee	- 89 216.3	-
Payment of income tax	- 1072.7	- 6728.4
Other receipts/payments	- 330.1	- 166.7
Cash flows from operating activities [1]	- 55 391.1	29 120.1
Cash flows from investing activities		
Payments relating to:		
Financial investments	-3 545 132.9	-2 994 940.7
Receipts from:		
Financial investments	3 600 276.5	2 962 048.7
Interest and similar income	156.1	3609.5
Cash flows from investing activities [2]	55 299.7	- 29 282.5
Cash flows from financing activities		
Payments relating to:		
Other financing operations	- 1.0	-
Cash flows from financing activities [3]	- 1.0	-
Cash variation and its equivalents [4]=[1]+[2]+[3]	- 92.4	- 162.4
Cash and cash equivalents at the beginning of the period	153.0	315.4
Cash and its equivalents at the end of the period	60.6	153.0

11. EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of euros, unless otherwise indicated)

NOTE 1 FGD ACTIVITY

The Deposit Guarantee Fund (FGD or Fundo) is a legal person governed by public law, endowed with administrative and financial autonomy, whose purpose is to guarantee the reimbursement of the total value of the cash balances of each depositor, up to a limit of 100 thousands of euros, in accordance with certain conditions, as long as the deposits of the respective credit institution become unavailable. The Fund may also intervene on a preventive basis, collaborating, on a transitional basis, in actions aimed at restoring the solvency and liquidity conditions of participating credit institutions, within the scope of recovery and reorganization plans conducted by the Bank of Portugal.

The FGD was created by the General Regime for Credit Institutions and Financial Companies (RGICSF), approved by Decree-Law no. , which is responsible for ensuring the technical and administrative services essential for its proper functioning.

NOTE 2 BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

2.1. presentation bases

In view of the provisions of Article 170 of the RGICSF, the accounting principles that guide the preparation of the Fund's financial statements are established in its own Chart of Accounts. Therefore, the FGD's financial statements as at 31 December 2010 were prepared in accordance with its new Chart of Accounts, which came into effect on 1 January 20101 . The new Chart of Accounts is based on the International Accounting Standards (NIC), approved in the European Union regulation 1606/2002/CE, with the updates made to the standards until January 1, 2010, over which the specific provisions prevail. defined in that Plan, which aim at an appropriate framework for the legal and operational nature of the Fund. In this context, the recognition and measurement criteria established in the applicable IAS were adopted, unless there are specific provisions defined in the Plan.

The FGD Chart of Accounts defines the models of the financial statements and the minimum content of disclosures in the explanatory notes. The financial statements were prepared in accordance with the historical cost principle, with the exception of assets recorded at fair value, namely financial assets held for trading. In order to allow the comparability of the financial information presented, the comparative values for 2009 comprise the reclassification of financial items in accordance with the 2010 presentation, as described in Note 21.

2.2. Main accounting policies

The main accounting policies and valuation criteria used in the preparation of the financial statements for the year 2010 are as follows:

1 Up to December 31, 2009, the FGD's financial statements were prepared in accordance with the Chart of Accounts in force until that date, which was based on the Official Accounting Plan – POC (Decree-Law no. 410/89).

a) Own Resources: Contributions and irrevocable commitment contracts

Contributions made in favor of the Fund constitute a component of its Own Resources, in addition to reserves arising from the application of results from previous periods, and are recognized as such on the dates set out in Article 161 of the RGICSF.

Participating institutions make a contribution to the Fund for the registration of their start of activity and, subsequently, a contribution, on an annual basis, the value of which is determined in accordance with contribution scales fixed by the Bank of Portugal, according to 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% (fixed annually by the Bank of Portugal), provided that they assume the commitment, irrevocable and guaranteed by a pledge of securities, of the payment to the Fund, at any time when it so requests, of all or part of the contribution amount that has not been paid in cash. In accordance with the Fund's Regulations, periodic contributions are, in their entirety, an integral part of the Fund's Own Resources.

The portion corresponding to irrevocable commitments is recognized against an asset. This asset is measured at cost less impairment losses.

In exceptional cases, the participating institutions make special contributions, provided for in Article 162 of the RGICSF.

b) Financial assets held for trading

Financial assets are classified as held for trading at the time of their acquisition, when they are acquired with the main objective of being traded in the short term.

Acquisitions and disposals of financial assets held for trading are recognized on the *trade date,* reflecting the moment in which the Fund commits to acquire or dispose of the asset. These financial assets are initially recognized at fair value[1], being the costs of transaction directly recognized in profit or loss. After their initial recognition, changes in fair value are recognized in profit or loss.

c) Intervention Programs and Loans granted to the Indemnity System to the Investor (SII)

The FGD may collaborate, on a transitional basis, in financial support actions, through (i) loans granted to the SII, as provided for in paragraph b) of paragraph 2 of article 155 of the RGICSF and under the terms of n. 6 of Article 167-A, and (ii) intervention programs in participating institutions, at the invitation of the Bank of Portugal, with the aim of restoring the solvency and liquidity conditions of these institutions, in accordance with paragraph a) of paragraph 2 of Article 155 of the RGICSF.

These assets are measured at cost (nominal value) less impairment losses.

d) Reimbursement of deposits under guarantee

Within the scope of its activity, the Fund may be called upon to reimburse deposits made with a participating institution. In this situation, a liability is recognized against a deduction

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1 Fair value corresponds, in most cases, to its current purchase *price (bid price).*

of the Fund's Own Resources. The carrying amount relating to that liability is measured at the nominal value of the amount to be reimbursed and is reduced to the extent that depositors receive the respective reimbursement. In the event that there are amounts not claimed by depositors, the remainder of the liability is canceled against the corresponding increase in Own Resources.

In the event that the Fund is reimbursed for the reimbursement of deposits under guarantee, an asset is recognized against an increase in Own Resources, only when the Fund has the legal guarantee of recovery and is aware of the amount to be recorded. This asset is measured at cost (nominal value) less impairment losses.

e) Provision for deposits under guarantee and contingent liabilities

The activation of the deposit guarantee may involve situations that give rise to legal doubts as to its eligibility for reimbursement. These situations are subject to an assessment that seeks to determine whether (i) there is a present legal obligation arising from a past event, (ii) it is probable that an outflow of resources will occur to settle that obligation, and (iii) it is possible to make an estimate reliable. If these conditions are cumulatively met, a provision for deposits under guarantee is set up, in exchange for a reduction in the Fund's Own Resources, similar to the accounting policy described in subparagraph d).

If it is considered that, in relation to the second condition mentioned, the outflow of resources to settle that obligation is possible (and not probable), a contingent liability is recognized to the detriment of the constitution of a provision.

f) Cash and cash equivalents

For the purposes of the Cash Flow Statement, the aggregate "Cash and cash equivalents" includes the amounts recorded in the balance sheet with an initial maturity of less than three months, which includes cash and bank deposits.

g) Income tax

The FGD, as a legal person governed by public law, is exempt from Corporate Income Tax (IRC), under the terms of Article 9 of the Corporate Income Tax Code (CIRC), with the exception of income from capital as defined for the purposes of Personal Income Tax (IRS) in Article 5 of the Personal Income Tax Code (CIRS) – Category E.

Capital income earned in Portugal is subject to withholding tax at the rate in force. Capital income obtained abroad is not subject to withholding in Portugal, so the Fund is subject to taxation by way of declaration to the Portuguese Tax Administration. In the event that there is no taxation of capital income in the country of origin of the income, the tax release in force in Portugal 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.

The income tax recognized in the Fund's results comprises current taxes and deferred taxes that arise from (i) the future recovery of the carrying amount of assets recognized in the balance sheet or (ii) from transactions and other events in the current period that are recognized in the financial statements of the Fund.

NOTE 3 FINANCIAL ASSETS HELD FOR TRADING

The item “Financial assets held for trading” includes debt securities acquired by the Fund within the scope of its investment policy.

FINANCIAL ASSETS HELD FOR TRADING		thousands of euros
	12-31-2010	12-31-2009
Obligations of supranational entities	-	21 534.1
Public debt securities		
Treasury Bonds (Zero Coupon)	-	22 500.0
Treasury Tickets	920 385.6	926 423.7
	920 385.6	970 457.9

As at 31 December 2010, the securities portfolio consists of treasury bills issued in Eurozone countries. Its accounting treatment is described in Note 2.2, paragraph b). The Fund's management report details the portfolio structure and risk control.

NOTE 4 CASH AND BANK DEPOSITS

The item “Bank Deposits” includes the amount in cash and demand deposits at the Bank of Portugal and at various financial institutions.

CASH AND BANK DEPOSITS		thousands of euros
	12-31-2010	12-31-2009
Cashier	0.4	0.4
Bank deposits	60.2	152.6
	60.6	153.0

NOTE 5 STATE AND OTHER PUBLIC BODIES

The heading “State and other public entities” records as assets the withholding tax made by the State Spanish relating to yields on Spanish treasury bonds and whose reimbursement request is in progress.

The item “State and other public entities” presented in liabilities corresponds, essentially, to the tax payable on income from public debt securities not withheld at source and, residually, to withholding at source from income from self-employment and property to be delivered to the State. within the legal deadlines.

NOTE 6 OTHER ACCOUNTS RECEIVABLE

The item “Other accounts receivable” records (i) the nominal amount of securities pledged to the FGD by BPP, representing the portion of contributions from previous years made through irrevocable payment commitments (38 thousand euros), and (ii) payment of rent, referring to the month of January 2011, of the facilities where the Fund operates.

NOTE 7 CONTRIBUTIONS - IRREVOCABLE COMMITMENT AGREEMENTS

The item “Contributions - Irrevocable Commitment Contr.”, presented in the Fund's assets, records the nominal value of the irrevocable payment commitments assumed by the participating credit institutions to the Fund, within the scope of annual periodic contributions, in accordance with the accounting policy described in Note 2.2, paragraph a). In chapter 5 of the FGD's management report, details about the contributions for the year are disclosed.

NOTE 8 TANGIBLE FIXED ASSETS

This item breaks down as follows:

TANGIBLE FIXED ASSETS			thousands of euros
	Equipment administrative	Other assets tangible	Total
gross assets			
Position on December 31, 2009	5.4	0.2	5.6
increases	4.7	-	4.7
Position on December 31, 2010	10.1	0.2	10.2
Accumulated amortizations			
Position on December 31, 2009	4.2	0.2	4.3
Depreciation and amortization expenses of the period	1.2	-	1.2
Position on December 31, 2010	5.3	0.2	5.5
	4.7	-	4.7

Depreciation of tangible fixed assets is calculated using the straight-line method, applying the depreciation rates defined in tax terms, which are understood to reflect the expected useful life of the assets.

NOTE 9 OWN RESOURCES

The Fund's "Own Resources" comprise initial contributions from Banco de Portugal, initial and periodic contributions from participating credit institutions and income from the application of the Fund's resources. The composition and variation of this item are presented in the Statement of Changes in Own Resources.

Annual periodic contributions for 2010 amount to 39,010 thousand euros, referring to (i) contributions made in cash and (ii) contributions whose payment was, under the terms of the law, replaced by the contractualization of irrevocable payment commitments by the institutions credit institutions[1] , which are guaranteed by a commercial pledge of securities eligible for this purpose (see Notes 7 and 19), in accordance with the accounting policy described in Note 2.2, paragraph a).

In April 2010, the Bank of Portugal revoked the authorization for the activity of Banco Privado Português, SA (BPP). In view of the unavailability of deposits verified on that date, the FGD activated the guarantee on the deposits of that credit institution, under the legal terms, having effectively recognized the right to reimbursement in the amount of 90,699 thousand euros by 31

December 2010. This amount was included in the credit claim submitted to the BPP Liquidation Committee, referred to in Note 19. The amounts not yet settled are recorded under the heading "Creditors for deposits to be reimbursed" (see Note 10).

The FGD also recognizes the right to reimbursement in relation to deposits that, not being covered by any other reason of exclusion or doubt, are committed, namely for the benefit of BPP, to guarantee financing contracted with that bank. The right to reimbursement was also recognized in relation to other situations of a specific nature, which were initially suspended due to doubts as to the existence of the right to reimbursement, but in relation to which the declarative requirement on the part of depositors has meanwhile been satisfied, with the payment was made in 2011. For these situations, a provision in the amount of 5575 thousand euros was constituted (see Note 12).

The amounts for which the right to reimbursement was recognized translate into a reduction of the caption "Own Resources" in the amount of 96,274 thousand euros, in accordance with the accounting policies described in Note 2.2, points d) and e).

NOTE 10 CREDITORS FOR DEPOSITS TO REFUND

This heading presents the amounts related to credits to BPP depositors whose right to reimbursement was recognized by the Fund (see Note 9) but whose respective settlement was not successful for operational reasons related to the unavailability of essential data for the correct execution of the transfer of funds.

NOTE 11 OTHER ACCOUNTS PAYABLE

The amount shown under the heading "Other accounts payable" corresponds to 50% of the fees payable for the audit of the Fund's financial accounts for the year 2010.

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1 Banco de Portugal set at 10% the limit of the irrevocable payment commitment to be applied in periodic contributions annuals for 2010.

NOTE 12 PROVISIONS

Within the scope of the reimbursement process for depositors at BPP, referred to in Note 9, all amounts listed in the list of deposits covered by the Fund's guarantee delivered by BPP were not reimbursed, as legal doubts persist as to their eligibility .

As at 31 December 2010, the future payment of the deposits on which a pledge was made and which are not covered by any other reason of exclusion or doubt, in relation to which the reimbursement in 2010 has not taken place, is considered probable. because there are doubts only as to the holder of the right to reimbursement by the FGD. It is also considered probable the payment of other situations of a one-off nature, which were initially suspended due to doubts as to the existence of the right to reimbursement, but in relation to which the declarative requirement on the part of depositors has in the meantime been satisfied, with reimbursement in This was completed in 2011. A provision for deposits under guarantee was set up in the amount of 5,575 thousand euros, in accordance with the accounting policy described in Note 2.2, subparagraph e), in order to cover the specific liabilities referred to herein .

NOTE 13 RESULTS FROM INTEREST AND SIMILAR INCOME AND EXPENSES

The value of the item "Income from interest and similar income and expenses" comprises:

INTEREST RESULTS FROM INCOME AND SIMILAR EXPENSES		thousands of euros
	12-31-2010	12-31-2009
Interest earned		
Obligations of Ent. paragovernmental/supranational	122.4	309.4
Teasure obligations	-	1596.5
Demand deposits	21.7	1.6
Other bank deposits	-	0.7
Total interest earned	144.2	1908.2
Total interest borne	1.0	-
	143.2	1908.2

The item “Gains/losses on financial investments” consists of the reflection in results of changes in the fair value of financial assets held for trading, in accordance with the accounting policy described in Note 2.2, paragraph b). The value of this item comprises:

GAINS/LOSSES ON FINANCIAL INVESTMENTS						thousands of euros
	12-31-2010			12-31-2009		
	Total Losses	Gains		Gains	Losses	**Total**
Obligations of Ent. paragovernmental / supranational	-	22.2	- 22.2	553.7	2.7	550.9
Public debt securities						
Teasure obligations	-	-	-	934.7	132.1	802.5
Treasury Bonds (Zero Coupon)	75.0	-	75.0	680.3	-	680.3
Treasury Tickets	5183.3	152.8	5030.5	9802.9	62.2	9740.8
	5258.3	175.0	5083.3	11 971.6	197.0	11 774.5

The amount of income tax recognized in profit or loss during the years 2010 and 2009 has the following origin:

INCOME TAX		thousands of euros
	12-31-2010	12-31-2009
current tax		
Demand deposits	4.2	0.5
Financial assets held for trading	1207.8	2058.7
	1212.0	2059.2
deferred tax		
Financial assets held for trading	- 123.5	419.1
	- 123.5	419.1
	1088.5	2478.3

The item “Deferred tax liabilities”, presented in liabilities, reflects taxation on income already recognized in the Fund's accounts, relating to financial assets held for trading, but whose tax will only be due in later periods, in accordance with accounting policy described in Note 2.2, item g).

NOTE 14 GAINS/LOSSES ON FINANCIAL INVESTMENTS

NOTE 15 INCOME TAX

NOTE 16 PERSONNEL EXPENSES

The heading “Staff costs” includes the payment of the salary of the paid members of the Executive Committee, as well as the respective charges of the Fund towards Social Security.

The increase compared to the same period of the previous year is justified by the payment of the salary to one more remunerated member of the Management Committee, following the change in the conditions that kept that payment in suspension, with effect from May 2010. This effect is mitigated by the 5% reduction in the base salary decided by the members of the Fund's Management Committee, with effect from June 2010, inclusive.

NOTE 17 EXTERNAL SUPPLIES AND SERVICES

The composition of this item is as follows:

SUPPLIES AND EXTERNAL SERVICES		thousands of euros
	12-31-2010	12-31-2009
Specialized services	268.1	155.1
materials	-	0.2
Travel, accommodation and transport	1.3	3.8
various services	13.9	12.8
	283.3	172.0

The item “Specialized services” essentially comprises commissions paid to the securities settlement system, within the scope of the Fund's operational activity, and consultancy and legal support work related to the activation of guarantees on BPP's deposits. The item “Miscellaneous services” essentially refers to expenses with leasing the premises where the Fund operates and expenses with communications.

NOTE 18 OTHER RESULTS

The item “Other income and gains” records, as at 31 December 2009, the fines in favor of the Fund, imposed by Banco de Portugal in the exercise of its banking supervision functions to an institution participating in the Fund.

The caption “Other expenses and losses” essentially reflects, as at 31 December 2010, the payment of banking services related to transfers made to depositors reimbursed within the scope of the activation of the guarantee on deposits with BPP, referred to in Note 9 .

NOTE 19 CONTINGENT ASSETS

As at 31 December 2010, the Fund has the following contingent assets:

- Securities delivered as a commercial pledge, received as a guarantee of the irrevocable payment commitment by the institutions participating in the Fund (see Notes 7 and 9), as well as by BPP, whose market value amounts to 462,254 thousand of euros;
- Rights on deposits that the Fund reimburses within the scope of the activation of the guarantee on deposits made with BPP. Pursuant to paragraph 9 of Article 167 of the RGICSF, the FGD is subrogated to the rights of depositors to the extent of the reimbursements it has made. These rights are included in the claim made to the liquidation committee of that institution, in the amount of 90,699 thousand euros (as mentioned in Note 9). Only when the Fund has the legal guarantee that it will be reimbursed for the reimbursement of deposits and knowing the final amount to be received will the corresponding asset be recognized in the balance sheet against Own Resources, on the understanding that, given the uncertainty As of December 31, 2010, as to the amount and timing of recovery of the amounts reimbursed, the referred amount represents a contingent asset and is not recorded in the balance sheet.

NOTE 20 CONTINGENT LIABILITIES

Within the scope of the BPP depositors reimbursement process, referred to in Note 9, not all amounts were reimbursed which, in the depositors' credit list, communicated by BPP to the FGD, under the legal terms, were indicated as being covered by the guarantee of the Fund, as doubts persist as to its eligibility.

As at 31 December 2010, the amount of 17,255 thousand euros corresponds to a contingent liability, as it is considered possible to verify contingencies associated with deposits with the following characteristics, which are being analyzed on a case-by-case basis:

- Owner(s) in relation to whom there are well-founded doubts as to the verification of the causes of exclusion the guarantee provided for by law;
- Amounts for which there are reasonable doubts as to whether they fall within the scope of coverage by the FGD;
- Holder(s) with debts, overdue and payable, before BPP, in the amount corresponding to the respective overdue and payable debts, or in the total amount of the deposit, in case that debt is greater than the deposit or greater than the guarantee limit ;
- Deposits in accounts opened with BPP, SA after the date on which BPP made public its inability to meet its obligations, and on which Banco de Portugal adopted extraordinary reorganization measures;
- Addition of co-holders after the date on which BPP made public its inability to meet obligations, and on which Banco de Portugal adopted extraordinary measures of sanitation.

NOTE 21 TRANSITION ADJUSTMENTS TO THE NEW PLAN OF ACCOUNTS

As a result of the application of the principles and standards set out in the Chart of Accounts in force for 2010 (as indicated in Note 2.1), the amounts presented in the income statement with reference to 2009 were reorganized for reasons of comparability, with no room for a breakdown of items as there is a direct correspondence between the items presented according to the previous Chart of Accounts (POC) and the items defined in the Chart of Accounts in force.
As at 31 December 2009, the income statement by nature includes the following adjustments:

RECONCILIATION OF THE INCOME STATEMENT			thousands of euros
	12-31-2009 Plan Previous	Transition adjustments to the new Plan	12-31-2009 New Plan
Result of interest and similar income and expenses	1908.2	-	1,908.2
Gains/losses in financial applications	11,774.5	-	11,774.5
Income tax	2059.2	419.1	2478.3
Result of the application of available resources	11 623.5	-419.1	11 204.4
Staff expenses	20.9	-	20.9
Supplies and external services	172.0	-	172.0
Other income and earnings	32.5	-	32.5
Other expenses and losses	1.5	-	1.5
Income before provisions, impairment, depreciation and amortization	11 461.6	-419.1	11 042.5
Depreciation and amortization expenses/reversals	0.5	-	0.5
net income	11 461.1	-419.1	11 042.0

The adjustment in the amount of 419 thousand euros in the Net Income results from the *pro forma* recognition of deferred tax expenses, determined by the taxation of gains from the increase in the fair value of financial assets held for trading, recognized in 2009, but whose tax only will be due in later periods.

The Fund's balance sheet as at 31 December 2009 is reconciled as follows:

BALANCE SHEET RECONCILIATION				thousands of euros
	12-31-09 Previous Plan	reclassifications	Transition adjustments to the new Plan	12-31-2009 New Plan
Active				
current asset				
Financial investments				
Financial assets held for trading	970 445.9	11.9	-	970 457.9
Cash and bank deposits	153.0	-	-	153.0
State and other public entities	199.8	-	-	199.8
Other accounts receivable	12.8	-11.9	-	0.9
non-current asset				
Participating Institutions				
Contributions - Contr. irrevocable commitment	437 612.2	-	-	437 612.2
Tangible fixed assets	1.2	-	-	1.2
total assets	1 408 425.0	-	-	1 408 425.0
Own resources	1 407 930.6	-	-419.1	1 407 511.5
Passive				
Current liabilities				
State and other public entities	485.7	-	-	485.7
Other bills to pay	8.7	-	-	8.7
non-current liabilities				
Deferred tax liabilities	-	-	419.1	419.1
Total liabilities	494.4	-	419.1	913.5
Total own resources and liabilities	1 408 425.0	-	-	1 408 425.0

The balance sheet as at 31 December 2009 comprises (i) the aforementioned adjustment, with an impact on net income and (ii) the reclassification of the specialized amount relating to interest on financial assets held for trading.

12. PROPOSAL FOR APPLICATION OF RESULTS

It is proposed that the Net Profit for the year 2010, in the amount of 3,808,680 euros, be allocated to Reservations.

Lisbon, March 2011

The Steering Committee

president

Pedro Miguel de Seabra Duarte Neves

Vowel

Joao Mauricio Fernandes Salgueiro

Vowel

Carlos Manuel Durães da Conceição

OPINION OF

AUDIT BOARD

FROM BANCO DE PORTUGAL

2010 YEAR

OPINION OF THE AUDIT BOARD

FROM BANCO DE PORTUGAL

In accordance with article 171 of the General Regime for Credit Institutions and Financial Companies (RGICSF) and with the provisions of paragraph d) of article 25 of the Regulation of the Deposit Guarantee Fund (FGD), the Audit Board of Banco de Portugal issues its opinion on the Report and Accounts of the Fund for the 2010 financial year.

The FGD's financial statements were prepared taking into account the stipulations of article 170 of the RGICSF on the organization of the FGD's own chart of accounts, which came into force on January 1, 2010. This is based on International Standards of Accounting, approved by regulation of the European Union (EU), with the implicit adjustments to the specific nature of the FGD's activity.

The purpose of the FGD is to guarantee, within the fixed limits (this limit, which was 25,000 euros, was fixed, by DL no. 12/2011), the reimbursement of deposits made in the Credit Institutions (IC) that participate in it, under the conditions and in accordance with the provisions of the RGICSF and the respective regulatory documents. The FGD may also collaborate, on a transitional basis, in actions aimed at restoring the solvency and liquidity conditions of participating credit institutions.

As at 31 December 2010, the universe of institutions participating in the FGD (49 in total) consisted of 39 Banks, 5 Savings Banks and 5 Mutual Agricultural Credit Banks that do not belong to the Integrated Agricultural Mutual Credit System.

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.

In determining the periodic contributions for 2010, the base rate of 0.03% (same as in 2009), 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.

In the aggregate of deposits excluded from the FGD guarantee, based on article 165 of the RGICSF, deposits held by the general government, credit institutions, financial companies and insurance companies continue to have a relevant position.

The total contributions of the participating CIs reached around 39 million euros, an amount practically identical to the contributions of 2009.

The degree of coverage of deposits guaranteed by FGD resources, defined as the ratio between FGD resources (contributions delivered, including irrevocable payment commitments, plus accrued earnings) and deposits covered by the FGD guarantee, fixed or up by 1.42% on June 30, 2010, the latest date on which that information is available.

In the year under review, irrevocable payment commitments amounted to around 3.8 million euros, corresponding to 9.7% of total contributions.

The cumulative total of irrevocable payment commitments, relative to the group of participating CIs, amounted, on 12/31/2010, to approximately 441.4 million euros.

As mentioned in previous opinions, in the accounting record of irrevocable payment commitments, entered into between the Fund and the participating CIs, there are different criteria for the recording of said commitments. While in the FGD these commitments are recorded as debts of third parties, in the CI they are treated as contingent liabilities with disclosure in the notes annexed to the annual accounts.

The Fund's own resources, as at 31 December 2010, totaled 1,354.1 million euros. The variation compared to the previous year (-53.5 million euros) was caused by the initial and periodic contributions of the participating institutions, including irrevocable commitments, 39 million, by the results of the Fund, 3.8 million, and by the reimbursement of depositors of the Banco Privado Português (BPP), - 96.3 million.

During this year, the Fund was called upon to reimburse BPP's depositors in the total amount of 90.7 million euros, of which, as at 31 December 2010, for various operational reasons, 1.5 million , duly recognized in the Liabilities of the FGD; it also recognized additional reimbursements of 5.6 million euros, for which it constituted a provision. The FGD thus used a total of EUR 96.3 million of its own resources to reimburse BPP depositors.

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

The net return on the Fund's portfolio was 0.4% as a result of the conservative nature of the investment policy, favoring short-term investments to issuers with low credit risk.

The net income for the year amounted to 3,808,680 euros, an amount that the Executive Committee proposes to be allocated to 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 2010 financial year, as well as the proposal for the application of results, presented by the Executive Committee.

Lisbon, March 29, 2011

THE AUDIT BOARD

Emilio Rui da Veiga Peixoto Vilar

Rui Jose da Conceicao Nunes

Amiable Alberto Freixo Calhau

OPINION OF EXTERNAL AUDITOR

IV

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Certificação das Contas

Introdução

1. Examinámos as demonstrações financeiras anexas do Fundo de Garantia de Depósitos ("FGD"), as quais compreendem o Balanço em 31 de Dezembro de 2010 (que evidencia um total de 1.362.046 milhares de Euros e um total de recursos próprios de 1.354.056 milhares de Euros, incluindo um resultado líquido de 3.808,7 milhares de Euros), a Demonstração dos Resultados por Natureza, a Demonstração de Alterações nos Recursos Próprios e a Demonstração de Fluxos de Caixa do exercício findo naquela data, e as correspondentes Notas Explicativas.

Responsabilidades

2. É da responsabilidade da Comissão Directiva a preparação de demonstrações financeiras que apresentem de forma verdadeira e apropriada a posição financeira do FGD, o resultado das suas operações, alterações nos recursos próprios 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

4. O exame a que procedemos foi efectuado de acordo com as Normas Técnicas e Directrizes 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 aceitável 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;
   - 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.

5. Entendemos que o exame efectuado proporciona uma base aceitável para a expressão da nossa opinião.

Opinião

6. 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 2010, o resultado das suas operações, as alterações nos Recursos Próprios e os seus fluxos de caixa no exercício findo naquela data, em conformidade com os princípios contabilísticos adoptados no Plano de Contas do FGD (Nota 2 às Demonstrações Financeiras)

Lisboa, 15 de Março de 2011

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas (nº 178)
Representada por:

Ana Salcedas

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

ANEXOS

V

LIST OF CI PARTICIPANTS IN THE FGD*

BANKS

Caixa Geral de Depósitos, SA
Banco ActivoBank (Portugal), SA
Banco Bilbao Vizcaya Argentaria (Portugal), SA
BAI Europa, SA Bank
Banco BIC Português, SA
Banco BPI, 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
Bank LJ Carregosa, SA
Banco Madesant – Sociedade Unipessoal, SA
Banco Mais, SA
Banco BNP Paribas Personal Finance, SA
Banco Popular Portugal, SA
Banco Português de Gestão, SA
Banco Português de Investimento, SA
Banco Primus, SA
Banco Privado Atlântico – Europa, SA
Rural Bank of Europe, SA
Banco Santander Consumer Portugal, SA
Banco Santander Totta, SA
AS “PrivatBank” (branch) **
Banif – Banco de Investimento, SA
Banif - Banco Internacional do Funchal, SA
Best – Banco Eletrônico de Serviço Total, SA
BPN - Banco Português de Negócios, SA
Caixa – Banco de Investimento, SA
Deutsche Bank (Portugal), SA
Finibanco, SA
Hyposwiss Privat Bank (Genève), SA (branch)

SAVINGS

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***

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

* Situation at 31 December 2010 in accordance with the special registration at the Bank of Portugal, referred to in Article 65 of the General Regime for Credit Institutions and Financial Companies, approved by Decree-Law no. /92, of 31 December.

** As at 31 December 2010, it participated in the Fund for the purposes of a complementary guarantee.

*** Not belonging to the Integrated Agricultural Mutual Credit System.

Note: In 2010, the following are no longer FGD participants: (1) BPP, SA; (2) Banco Santander de Negócios Portugal (merged with Banco Santander Totta); (3) Credifi n, merged into Banco BNP Paribas Personal Finance, SA (formerly Banco Cetelem); and (4) Sanpaolo IMI Bank (International), SA, upon deliberate dissolution by the sole shareholder.