



BANCO CENTRAL DO BRASIL
Administration Management
Financial Administration Department

Financial Statements

December 31, 2005

BANCO CENTRAL DO BRASIL
BALANCE SHEET (As at December 31)
(In thousands of Reais)

A S S E T S		Notes	2005	2004 (Restated)	L I A B I L I T I E S		Notes	2005	2004 (Restated)
ASSETS IN FOREIGN CURRENCY			<u>140,474,794</u>	<u>164,469,460</u>	LIABILITIES IN FOREIGN CURRENCIES			<u>16,687,362</u>	<u>93,298,624</u>
Cash			514,057	169,885	Itens in the Course of Collection	15	1,161,717	5,058,335	
Commitments under Agreements to Resell Assets	5		2,869,024	4,942,769	Commitments under Agreements to Repurchase Assets	5	2,856,494	4,902,441	
Time Deposits with Financial Institutions	6.1		33,028,862	66,984,868	Loans Payable	16	2,153,575	69,349,093	
Gold	7		1,341,149	1,268,674	Deposits	17	10,436,845	13,911,951	
Debt Securities	9.1		92,386,198	78,384,445	Other	22	78,731	76,804	
Receivables			95,101	143,103	LIABILITIES IN LOCAL CURRENCIES			<u>388,166,898</u>	<u>332,815,654</u>
Investments in International Financial Agencies	12		10,238,727	12,574,406	Deposits of Financial Institutions	18	104,545,368	92,871,755	
Other			1,676	1,310	Itens in the Course of Collection	15	216,645	-	
ASSETS IN LOCAL CURRENCY			<u>343,217,073</u>	<u>333,775,603</u>	Commitments under Agreements to Repurchase Assets	5	63,109,520	63,050,118	
Commitments under Agreements to Resell Assets	5		25,941,192	4,157,898	Payables to Government	10, 39.1	210,676,399	158,818,382	
Deposits	6.2		596,873	580,328	Derivatives	8.2	143,798	75,600	
Derivatives	8.2		177,372	395,869	Own Issue Debt Securities	19	6,815,600	13,568,662	
Federal Government Debt Securities	9.2		281,393,821	306,047,865	Actuarial Liabilities	20	1,081,940	1,021,243	
Receivables from Government	10, 39.1		13,187,222	1,897,577	Provisions	21	1,017,055	2,809,530	
Receivables	11		21,036,295	19,827,997	Other	22	560,573	600,364	
Property, Plant and Equipment	13		769,398	759,091	CURRENCY IN CIRCULATION			<u>70,033,641</u>	<u>61,935,635</u>
Other	14		114,900	108,978	NET EQUITY			<u>8,803,966</u>	<u>10,195,150</u>
					Income Reserve		4,662,369	4,327,548	
					Revaluation Reserve		491,849	498,134	
					Gains/Losses not taken to Profit and Loss		(832,625)	2,620,852	
					Effects of Changes in Accounting Policies		1,906,017	-	
					Retained Earnings		2,576,356	2,748,616	
TOTAL			<u>483,691,867</u>	<u>498,245,063</u>	TOTAL		<u>483,691,867</u>	<u>498,245,063</u>	

The Explanatory Notes are an integral part of the Financial Statements

INCOME STATEMENT
In thousands of Reais

	Notes	2005	2004 (Restated)
FOREIGN CURRENCY OPERATIONS		<u>(11,592,419)</u>	<u>(3,405,423)</u>
Interest income		4,391,549	3,449,527
Interest expenses		(3,034,172)	(3,521,876)
(=) Net interest income	25	1,357,377	(72,349)
Gains/Losses with assets held for trading purposes	26	(1,193,037)	(838,775)
Gains/Losses with assets held for investment purposes	27	110	-
Gains/Losses with foreign currency operations	28	(11,756,869)	(2,494,299)
LOCAL CURRENCY OPERATIONS		<u>2,164,175</u>	<u>5,283,277</u>
Interest income		52,672,937	46,130,416
Interest expenses		(50,427,346)	(40,335,970)
(=) Net interest income	25	2,245,591	5,794,446
Gains/Losses with assets held for trading purposes	26	2,967,149	2,833,038
Gains/Losses with assets held for investment purposes	27	(624,368)	-
Gains/Losses with foreign currency-linked operations	28	(2,424,197)	(3,344,207)
NET PROVISIONS	29	(22,414)	1,767,511
OTHER INCOME	30	976,915	1,279,889
OTHER EXPENSES	30	(1,980,933)	(2,215,565)
NET INCOME	31	<u>(10,454,676)</u>	<u>2,709,689</u>

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STATEMENT OF CHANGES IN NET EQUITY (note 24)
In thousands of Reais

	INCOME RESERVES	REVALUATION RESERVE	GAINS/LOSSES NOT TAKEN TO PROFIT AND LOSS	EFFECTS OF CHANGES IN ACCOUNTING POLICIES	RETAINED EARNINGS	NET INCOME
Balance as at Dec 31, 2004	4,327,548	498,134	2,620,852	-	2,748,616	10,195,150
Changes in Accounting Policies and Correction of Errors	-	-	-	1,906,017	-	1,906,017
Balance as at Dec 31, 2004 (Adjusted)	4,327,548	498,134	2,620,852	1,906,017	2,748,616	12,101,167
Revaluation of Assets / Realization	-	(6,285)	-	-	6,285	-
Available-for-Sale Assets						
- Gains / Losses taken to Equity	-	-	(4,077,735)	-	-	(4,077,735)
- Gains / Losses transferred to Income Statement upon selling	-	-	624,258	-	-	624,258
Net Result of the period charged directly to Equity	-	(6,285)	(3,453,477)	-	6,285	(3,453,477)
Result for the 1st half-year	-	-	-	-	(11,616,553)	(11,616,553)
Result for the 2nd half-year	-	-	-	-	1,161,877	1,161,877
Result for the period	-	-	-	-	(10,454,676)	(10,454,676)
Total Income and Expenses recognized during the financial year	-	(6,285)	(3,453,477)	-	(10,448,391)	(13,908,153)
Constitution of Income Reserves	334,821	-	-	-	(334,821)	-
Result to be transferred to the National Treasury - 2nd half-year	-	-	-	-	(1,004,461)	(1,004,461)
Result to be covered by the National Treasury - 1st half-year	-	-	-	-	11,615,413	11,615,413
Distribution of result	334,821	-	-	-	10,276,131	10,610,952
Balance as at Dec 31, 2005	4,662,369	491,849	(832,625)	1,906,017	2,576,356	8,803,966
Balance as at Dec 31, 2003	3,978,086	489,660	-	-	2,576,356	7,044,102
Revaluation of Assets / Realization	-	8,474	-	-	13,041	21,515
Available-for-Sale Assets						
- Gains / Losses taken to Equity	-	-	2,620,852	-	-	2,620,852
- Gains / Losses transferred to Income Statement upon selling	-	-	-	-	-	-
Net Result of the period charged directly to Equity	-	8,474	2,620,852	-	13,041	2,642,367
Result for the 1st half-year	-	-	-	-	2,795,700	2,795,700
Result for the 2nd half-year	-	-	-	-	(86,011)	(86,011)
Result for the year	-	-	-	-	2,709,689	2,709,689
Total Income and Expenses recognized during the financial year	-	8,474	2,620,852	-	2,722,730	5,352,056
Constitution of Income Reserves	349,462	-	-	-	(349,462)	-
Result to be transferred to the National Treasury - 1st half-year	-	-	-	-	(2,456,104)	(2,456,104)
Result to be covered by the National Treasury - 2nd half-year	-	-	-	-	255,096	255,096
Distribution of result	349,462	-	-	-	(2,550,470)	(2,201,008)
Balance as at Dec 31, 2004	4,327,548	498,134	2,620,852	-	2,748,616	10,195,150

The Explanatory Notes are an integral part of the Financial Statements

Statement of Cash Flow - January to December 2005
In thousands of Reais

	Notes	2005	2004
OPERATING ACTIVITIES		55,140,803	527,659
Interest received		2,670,825	3,347,883
Interest paid		(2,714,368)	(3,607,712)
Purchase/sales of securities		(46,246,741)	(10,552,529)
Purchase/sales of foreign currencies		71,044,750	741,459
Placements of term deposits		17,658,720	6,018,993
Redemption of liability deposits		(73,006)	214,646
Payments/Receipts on the behalf of the National Treasury		13,014,646	4,529,744
Receivables		(29,356)	98,102
Other payments/receipts		(184,667)	(262,927)
FINANCING ACTIVITIES		(55,227,712)	(392,071)
Payments of loan principals		(55,227,712)	(392,071)
INVESTING ACTIVITIES		-	-
TOTAL CASH FLOW		(86,909)	135,588
VARIATION IN CASH AND CASH EQUIVALENTS	33	(86,909)	135,588
Opening Balance		7,926,115	8,356,872
Closing Balance		6,208,472	7,926,115
Exchange Rate Effects		(1,630,734)	(566,345)

The Explanatory Notes are an integral part of the Financial Statements

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

1 - BANCO CENTRAL DO BRASIL (THE BANK) AND ITS DUTIES

Banco Central do Brasil (the Bank hereinafter), a federal government agency that is part of the National Financial System, was established on December 31, 1964 under Law 4,595, and has the mission of ensuring the stability of the purchasing power of the Brazilian currency and the soundness of the National Financial System.

The head office of the Bank is located in Brasília, DF, at *Setor Bancário Sul, Quadra 3, Bloco B* and has representative offices situated in another nine states.

As determined by Law 4595/1964, the National Monetary Council (CMN) approved the present set of the Bank's financial statements on February 23, 2006. The statements are available on the Bank's website on the Internet (www.bcb.gov.br).

2 - PRESENTATION

The Bank's financial statements were prepared in accordance with the accounting practices defined by the National Monetary Council (CMN), which has determined the adoption by the Bank of the international standards issued by the International Accounting Standards Board – IASB.

Those rules are consistently applied with the exception of the items mentioned in **note 3.15**.

3 - ACCOUNTING POLICIES

3.1 - Result

The yearly result is recognized on an accrual basis and is subject to transfer to the National Treasury in the event of a positive result, or otherwise covered by the entity (**note 39.1b**).

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

3.2 - Valuation basis

The historical cost is the basis for valuing assets and liabilities, with the exception of financial assets classified as Available-for-sale or Fair Value through Profit and Loss, which are assessed at their fair values.

The fair value is the market value as published by the principal depository trust companies (custodians) or economic information providers. For those financial instruments with no active market, the fair value is calculated using pricing models, which include the prices of the most recent trades and the discounted cash flow methodology.

3.3 - Assets and liabilities denominated in foreign currencies

The functional currency of the Bank's financial statements is the Real. Foreign currency operations are translated into the Real at the exchange rate ruling at the trade date. The exchange rate variations in monetary assets and liabilities are charged to the profit or loss account as a gain or an expense. The following table presents the exchange rates at the balance sheet date.

	Dec 31, 2005	Dec 31, 2004
U.S.Dollar	2.3403	2.6540
Euro	2.7680	3.6158
SDR	3.3449	4.1080
Yen	0.0198	0.0259

The Special Drawing Right (SDR) is an accounting unit used by the International Monetary Fund (IMF) whose rate is indexed to a basket of currencies that are freely used in international transactions, currently, the euro (EUR), the Japanese yen (JPY), the pound sterling (GBP), and the United States dollar (USD).

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

3.4 – Derivatives

The derivatives are recognized, since trade date, at their fair values, which are obtained through active market quotations, recent trades or via pricing models.

The derivatives are shown as assets when their fair values are positive or as liabilities when their fair values are negative. All gains and losses are taken through the profit and loss account **(note 8)**.

3.5 – Recognition of income and expenses

Interest income and expenses are recognized by using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts of a financial asset or financial liability to its carrying amount. The calculation considers all relevant amounts paid or received between the parties involved, such as fees, commissions, discounts or premiums.

Income and expenses arising from changes in estimates are taken through the profit and loss account in the financial year of their occurrence, while changes in accounting policies are recognized in equity.

3.6 – Financial assets

The Bank's financial assets are recognized at their fair values at the time they are traded, i.e., on the date the entity firmly commits itself to the sale or purchase of the instrument. At that time, these assets are classified into one of the following categories: Fair Value through Profit and Loss, Available-for-sale, Held-to-maturity or Loans and Receivables. After initial recognition, assets are valued in accordance with the chosen category:

- a) Fair Value through Profit and Loss

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

A financial asset is classified in this category and gains and losses resulting from its mark-to-market adjustments are taken to the profit and loss account at the moment they occur in the event of one of the following situations:

- When it is management's intention to trade it in the short-term;
- If the financial instrument is a derivative;
- By management's decision, when the financial instrument is better represented by classifying in this category.

The Bank holds all derivatives (note 8), securities acquired abroad (note 9.1), and the credits against institutions under liquidation (note 11.1) in this category.

b) Available-for-sale

This category includes the financial assets that the Bank's Management does not expect to sell in a foreseeable term. These assets are marked-to-market and gains and losses in relation to their market variations are taken to an equity account. The variations will only be taken to profit and loss when assets are realized (sold). However, interest expenses and income, which are calculated via the internal rate of return method, shall be taken to the profit and loss account on an accrual basis. The Bank classifies (i) the inventory of gold held as an international reserve **(note 7)**, (ii) the Brazilian federal government debt securities acquired for the purpose of carrying out the monetary policy **(note 9.2)**, and (iii) investments in international financial organizations in this category **(note 12)**.

c) Held-to-maturity

This category includes non-derivative financial assets for which the Bank has the intent and the ability to hold until maturity. These assets are valued at amortized cost. The Bank classifies the Brazilian federal government debt securities that are non-negotiable in this category **(note 9.2)**.

d) Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

assets are valued at amortized cost. In this category the Bank classifies its judicial deposits (**note 6.2**) and the credits against Centrus (**note 11.2**).

3.7 – The offsetting of asset and liability balances

Financial assets and liabilities are shown in the financial statements at their net value when there are both the intention and the legal possibility of offsetting positive and negative balances in the execution of receipts and payments.

3.8 – Commitments under agreements

Commitments under agreements are contractual transactions that may be performed with securities or currencies. (**note 5**).

In transactions with securities, assets sold under a commitment to repurchase are reclassified as "Securities Committed to Repurchase Agreements" (**note 9**), and concomitantly a liability is recognized for the obligation to repurchase the asset. In reverse repo transactions a right to receive an amount equal to the settlement price is recognized while the securities are recorded in off-balance sheet accounts.

The securities of the Bank's own portfolio delivered to counterparties under securities lending agreements are accounted for in the same manner as for "repurchase agreements".

As for the transactions with foreign currencies, assets sold under a commitment to repurchase are derecognized from assets, and foreign currencies purchased with a commitment to resell are recognized as cash-equivalent assets.

The difference between sale and repurchase prices or the difference between purchase and resale prices is recognized as interest income on an accrual basis.

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

3.9 – Impairment to financial assets

The Bank assesses, at least half-yearly, if there is evidence of impairment of any of its financial assets.

The Bank only considers objective evidence of impairment for events occurring after the initial recognition of financial assets that have an impact on the estimated future cash flows and provided that this impact can be reliably estimated. The Bank considers the following events:

- a) Financial difficulties of the issuer or obligor;
- b) The occurrence of default in any payments, whether related to principal or interest;
- c) Legal determination for a renegotiation, discounting procedure or partial loss;
- d) Extrajudicial liquidation, bankruptcy or any type of financial reorganization;
- e) The disappearance of an active market for the specific asset under assessment.

In the existence of objective evidence of impairment losses in assets carried at amortized cost, the amount of the loss is measured as the difference between the carrying amount and the expected realization value of the asset. The carrying amount is reduced through the use of an allowance account and the amount of the loss is recognized in profit and loss.

In the event that an asset is considered uncollectible, its value is written-off directly against the respective allowance account. Occasionally, if any portion of the asset is collected, the respective amount is recognized as a gain.

If a change in the receiving conditions of the asset occurs in a subsequent period, which leads to a reversal of a provision previously recorded, the amount of the reversal is recognized as a gain.

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

3.10 – Property, plant and equipment

This account records land, buildings and equipment acquired for use in operations and which are recorded at their historical cost less accumulated depreciation **(note 13)**. The historical cost includes all expenses directly attributable to the acquisition or construction of the asset. Further expenditures are included in the cost only if an additional measurable financial flow is likely to occur in relation to that asset. Maintenance and repair expenses related to the asset are charged to an expense account.

The land and the works of art held by the Bank are not subject to depreciation. All other assets are depreciated on a straight-line basis considering the following useful lives of assets in years:

- a) Buildings: 62.5 years;
- b) Equipment and furniture:
 - i. Computer equipment and vehicles: 5 years;
 - ii. Other equipment and furniture: 10 years.

3.11 – Provisions

The Bank recognizes a provision in relation to lawsuits whenever it is likely that an outflow of economic resources will be necessary to settle the obligation and a reliable estimate of this amount can be made. Whenever it is possible but not probable that an outflow of economic resources will be necessary to settle the obligation, this gives rise to a contingent liability, and thus no provision is recognized **(note 21)**. This provision is adjusted to present value with the application of interest rates of operations that are similar in characteristics and tenure.

3.12 – Employee benefits

a) Post-retirement and pension benefits

The Bank's employees are subject to Law 8112, a federal law that regulates the relationship between the State and its civil servants. On account of the

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

aforementioned law and complementary legal provisions there are two types of post-employment benefits offered by the Bank to its employees.

The benefits granted until December 31, 1990 are defined benefits paid by *Centrus – Fundação Banco Central de Previdência Privada* (the Bank's pension plan) which are funded with contributions by the Bank and by the beneficiaries. The contribution is based upon actuarial calculations and the Bank is held responsible for any actuarial deficits.

The benefits of employees retired after December 31, 1990 are paid directly by the Bank and are charged to an expense account, with no intermediation of the pension plan.

Thus the value shown as actuarial liability refers to the Bank's share of responsibility in the benefits granted until December 31, 1990 **(notes 20 and 39.3)**.

b) Healthcare benefits

The Bank provides healthcare benefits, which cover medical fees, dental and psychological care expenses, for its current and retired staff, and their dependents.

The funding of these costs is done partly by the Bank and partly by its employees. The Bank's contributions are charged to an expense account each month.

3.13 – Loans Payable and Debt Securities

Loans and debt securities are recognized at their fair value, i.e., the amount received less transaction costs. Subsequently, they are measured at amortized cost using the internal rate of return methodology. If the Bank decides to repay or redeem its liabilities in advance, they would no longer figure in the financial statements.

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

3.14 – Tax immunity

According to the Brazilian Federal Constitution, the Bank is entitled to tax immunity in relation to its property and income, in the exercise of its normal activities, but is otherwise obliged to withhold tax from services rendered by third parties and is subject to paying taxes of other natures.

3.15 – Impact arising from changes in accounting procedures

The main changes that occurred in 2004 were:

- a) Revision of the classification of financial assets according to their characteristics and management's intention on acquisition. The resulting classification for the main items recognized in assets is the following:

Asset	Category
Foreign Currency Debt Securities	Fair Value through Profit and Loss
Foreign Currency Deposits	Loans and Receivables
Shares and quotas of International Financial Organizations	Available-for-sale
Gold	Available-for-sale
Loans and other Receivables	Loans and Receivables
Brazilian National Treasury Debt Securities	Available-for-sale / Held-to-maturity
Derivatives	Fair Value through Profit and Loss

- b) The Bank began using trade date accounting for every transaction. As regards assets carried at fair value, adjustments are recognized since the trade date of the purchase transaction until the trade date of the sale transaction.
- c) Use of the closing exchange rate for all operations for which there is no specific contractual determination to the contrary.
- d) Financial assets and liabilities are shown in the balance sheet at their net value as long as there are both the intention to offset and the legal possibility of offsetting positive and negative balances.

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

- e) The Bank started to recognize its buildings using the amortized acquisition cost methodology, but with respect to buildings already in the Bank's portfolio the amortized cost is the value resulting from the last revaluation of assets.

During 2005, the Bank also put into practice other changes in its accounting procedures, charging the results to equity accounts, as follows **(note 24.4)**:

- a) The methodology for the calculation of provisions in relation to lawsuits has been altered to consider present value adjustments and recording only whenever the possibility of an outflow of economic resources for the settlement of a legal dispute is more than likely to occur **(note 21)**.
- b) The simultaneous selling and purchasing of currencies started to be recorded as a commitment under agreements with currencies (FX swaps) **(note 5)**.
- c) The credits against institutions under liquidation started to be recorded in the category fair value through profit and loss.

4 – ACCOUNTING RECLASSIFICATION

Accounting reclassifications were made in the balances as of December, 2004, so as to achieve a better comparability between financial statements. The following table presents the values originally published and the changes made.

	Originally Published Value	Restated Value	Balances as of Financial Statements
Assets in local currency			
Deposit (note 6.2)	-	580,328	580,328
Credits against the Federal Government (note 10)	1,892,000	5,577	1,897,577
Credits Receivable (note 11)	19,833,574	(5,577)	19,827,997
Liabilities in local currency			
Provisions (note 21)	2,627,169	182,361	2,809,530
Other (note 22)	376,663	223,701	600,364

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

5 – COMMITMENTS UNDER AGREEMENTS

Sales of assets under repurchase agreements (repo) are normally short-term trades where the Bank sells financial instruments and agrees to repurchase those assets on a future date, at a price which corresponds to the proceeds received upon settlement plus interest accrued on principal.

In reverse transactions (reverse repo) the Bank purchases financial instruments and assumes the obligation to resell them on a future date **(note 3.8)**.

6 – DEPOSITS

6.1 – In Foreign Currency

This item consists of the portion of the international reserves that the Bank keeps in financial institutions as demand deposits, short-term deposits and fixed-term deposits, in accordance with its risk administration policy, as described in **notes 34 to 38**.

6.2 – In Local Currency

These deposits are linked to issues under litigation in courts of law, for which either a provision has been recognized or a court-ordered payment has been issued **(note 22.2)**. They are updated by the TR (referential rate) and, due to their nature, are entailed until a court decision is issued on the subject under litigation.

Until 2004, the Bank recorded these types of deposits via a contra-account related to the recognized liability, since it was understood that the deposits would be released by the court of law for the settlement of the debt, in the event of a decision not favorable to the Bank, or, in the event of a favorable decision, the deposits would revert to the Bank, which would derecognize the liability.

However, empirical experience showed that the connection between the deposits and the payment of the debts, in the event of unfavorable decisions, was not stringent, i.e., in some cases the court would release the deposit to the Bank, even

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

when the decision was not favorable to the Bank. Hence in view of that a new understanding was reached, and these amounts began to be recognized as assets, having the balances related to the previous financial statements been restated for comparison purposes.

7 – GOLD

The Bank keeps a certain amount of gold defined by the Board of Directors as part of Brazil's international reserves, which amounted to 1,080,068.65 fine troy ounces, as of December 31, 2005, (1,080,070.47 fine troy ounces, as of December 31, 2004). This gold is considered a financial monetary asset, since it is part of Brazil's international reserves, and in view of the fact that there is no intention of profiting in the short-run, the asset is classified as Available-for-sale **(note 3.6)**. Due to this classification, those assets are measured at their market value in dollars and the resulting adjustments are taken to an equity account **(note 24)**. On the other hand, exchange variations effects are taken to profit and loss accounts.

	Dec 31, 2005	Dec 31, 2004
Cost	759,716	811,106
Mark-to-market Adjustments	581,433	457,568
Carrying Amount	1,341,149	1,268,674

8 – DERIVATIVES

8.1 – Derivatives in foreign currency

To manage the international reserves the Bank uses currency forwards **(note 3.4)**, which are derivative instruments characterized by a contract to trade currencies (purchase and sale) at a predetermined price on a future date. These operations are over-the-counter (OTC) (dealt directly with financial institutions) and are subject to the risk management policy described in **notes 34 to 38**. At the balance sheet date, there were no balances referring to this type of operation.

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(Unless otherwise stated all amounts are expressed in thousands of Reais)

8.2 – Derivatives in local currency

As an instrument of its monetary and foreign exchange policies the Bank carries out swap operations **(note 3.4)** indexed to interest rates and foreign exchange variations in order to provide foreign exchange hedging for financial institutions and other economic agents **(notes 34 to 38)**.

These operations are open contracts in the Futures and Commodities Exchange (BM&F), where in long positions the Bank is on the asset side with respect to interest rates, represented by the Interbank Deposits (DI) rate, and on the liability side with respect to exchange rate variation plus interest rate, represented by an exchange rate coupon. Conversely, in positions where the Bank is short, it is on the asset side in exchange rate variations plus the exchange rate coupon, and on the liability side in interest rates (DI).

The Bank trades three kinds of contracts:

- SCC, with daily financial adjustments and a contractual value of US\$50 thousand;
- SC2, with a settlement date financial adjustment and a contractual value of US\$1 thousand;
- SC3, with daily financial adjustments and a contractual value of US\$1 thousand.

The following tables show the notional and fair values of those trades by type of operation and by maturity.

Notes to the financial statements – December 31, 2005
(Unless otherwise stated all amounts are expressed in thousands of Reais)

As at Dec 31, 2005			
	Notional Value	Fair Value	
		Asset	Liability
Derivatives denominated in local currency			
- SWAP operations - Adjustments at maturity	(803,953)	158,380	-
Long position in dollars	(803,953)	158,380	-
1 month	-	-	-
1 to 6 months	(38,603)	10,626	-
6 to 12 months	(765,350)	147,754	-
1 to 5 years	-	-	-
Short position in dollars	-	-	-
1 month	-	-	-
1 to 6 months	-	-	-
6 to 12 months	-	-	-
1 to 5 years	-	-	-
- SWAP operations - Daily adjustments	18,076,056	18,992	143,798
Long position in dollars	(2,293,184)	18,992	-
1 month	(58,518)	59	-
1 to 6 months	(290,680)	2,241	-
6 to 12 months	(545,418)	3,915	-
1 to 5 years	(1,398,568)	12,777	-
Short position in dollars	20,369,240	-	143,798
1 month	-	-	-
1 to 6 months	3,031,207	-	23,552
6 to 12 months	16,636,525	-	118,176
1 to 5 years	701,508	-	2,070
TOTAL	17,272,103	177,372	143,798

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(Unless otherwise stated all amounts are expressed in thousands of Reais)

As at Dec 31, 2004

	Notional Value	Fair Value	
		Asset	Liability
Derivatives denominated in local currency			
- SWAP operations - Adjustments at maturity	(2,309,596)	110,840	75,600
Long position in dollars	(2,309,596)	110,840	75,600
1 month	(131,577)	-	497
1 to 6 months	(121,787)	14,260	262
6 to 12 months	(1,144,670)	95,830	812
1 to 5 years	(911,562)	750	74,029
Short position in dollars	-	-	-
1 month	-	-	-
1 to 6 months	-	-	-
6 to 12 months	-	-	-
1 to 5 years	-	-	-
- SWAP operations - Daily adjustments	(38,169,220)	285,029	-
Long position in dollars	(38,169,220)	285,029	-
1 month	(9,103,175)	70,844	-
1 to 6 months	(5,284,353)	41,969	-
6 to 12 months	(11,433,161)	53,293	-
1 to 5 years	(12,348,531)	118,923	-
Short position in dollars	-	-	-
1 month	-	-	-
1 to 6 months	-	-	-
6 to 12 months	-	-	-
1 to 5 years	-	-	-
TOTAL	(40,478,816)	395,869	75,600

9 – DEBT SECURITIES

9.1 – Securities denominated in foreign currencies

	Dec 31, 2005	Dec 31, 2004
Uncommitted securities	92,386,198	78,384,445
1 month	671,877	1,060,903
1 to 6 months	525,707	529,751
6 to 12 months	2,960,351	2,299,822
1 to 5 years	87,219,672	74,493,969
More than 5 years	1,008,591	-
TOTAL	92,386,198	78,384,445

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The table above refers to prefixed rate debt securities issued by both sovereign national treasuries and governmental agencies that are purchased under a policy of diversification **(notes 34 to 38)**. The portfolio is part of the Brazil's international reserves and its management aims (i) to diversify investments and risks, (ii) to enhance profitability and (iii) to keep different levels of liquidity. These securities are classified in the "Fair Value through profit and Loss" category **(note 3.6)**. The table below shows the cost value and the carrying amount of these assets, after mark-to-market adjustments.

	Dec 31, 2005	Dec 31, 2004
Cost	92,915,332	78,173,220
Mark-to-market Adjustments	(529,134)	211,225
Carrying Amount	92,386,198	78,384,445

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(Unless otherwise stated all amounts are expressed in thousands of Reais)

9.2 – Federal government debt securities

As at December 31, 2005

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Uncommitted Securities	639,980	55,059,026	70,538,316	88,934,063	579,387	215,750,772
LTN	-	2,776,562	27,314,187	42,579,629	-	72,670,378
LFT	545,874	46,660,637	30,732,682	24,515,425	-	102,454,618
LFT-B	78,462	65,808	96,660	11,948	-	252,878
NTN-B	-	-	7,721,223	1,376,407	-	9,097,630
NTN-D	-	5,462,155	4,579,700	16,780,869	-	26,822,724
NTN-F	-	-	-	2,724,689	-	2,724,689
NTN-P	-	-	-	6,453	64	6,517
CVS	15,644	93,864	93,864	938,643	579,323	1,721,338
Securities linked to Lending Programs	-	-	-	34,690	-	34,690
LTN	-	-	-	34,690	-	34,690
Committed Securities	-	4,220,677	19,654,142	39,809,191	-	63,684,010
LTN	-	4,049,449	14,379,675	29,415,062	-	47,844,186
LFT	-	171,228	5,274,467	10,394,129	-	15,839,824
Securities granted as collateral	-	1,924,349	-	-	-	1,924,349
LFT	-	1,924,349	-	-	-	1,924,349
TOTAL	639,980	61,204,052	90,192,458	128,777,944	579,387	281,393,821

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

As at December 31, 2004

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Uncommitted Securities	38,586,901	28,938,929	64,681,040	103,908,263	498,966	236,614,099
LTN	33,079,654	11,002,366	30,957,737	10,903,036	-	85,942,793
LFT	-	10,818,888	25,937,236	49,314,141	-	86,070,265
LFT-B	352,742	807,729	40,120	221,867	-	1,422,458
NTN-B	-	-	-	8,617,897	-	8,617,897
NTN-D	5,145,160	6,253,876	7,689,877	32,501,818	-	51,590,731
NTN-F	-	-	-	1,788,804	-	1,788,804
NTN-P	-	-	-	-	5,970	5,970
CVS	9,345	56,070	56,070	560,700	492,996	1,175,181
Committed Securities	-	14,345,998	7,589,312	41,276,612	-	63,211,922
LTN	-	14,301,018	7,589,312	17,587,106	-	39,477,436
LFT	-	44,980	-	23,689,506	-	23,734,486
Securities granted as collateral	-	2,309,258	231,745	3,680,841	-	6,221,844
LFT	-	2,309,258	231,745	3,680,841	-	6,221,844
TOTAL	38,586,901	45,594,185	72,502,097	148,865,716	498,966	306,047,865

The securities issued by the Brazilian National Treasury and kept in the Bank's portfolio are:

- a.** National Treasury Bills - LTN: prefixed yield defined by a discount to the face value;
- b.** Financial Treasury Bills – LFT and Financial Treasury Bills Series B - LFT-B: variable yield defined by the adjusted average rate of daily financing in the Special System of Clearance and Custody - SELIC (SELIC rate);
- c.** National Treasury Notes Series B - NTN-B: variable yield defined by the Amplified National Consumer Price Index - IPCA, with interest paid half-yearly;
- d.** National Treasury Notes Series D - NTN-D: adjusted by the selling rate of the United States dollar plus interest, which is payable half-yearly;
- e.** National Treasury Notes Series F - NTN-F: yield defined by a discount to the face value, and interest paid half-yearly;
- f.** National Treasury Notes Series P - NTN-P: registered non-negotiable securities, updated by the Referential Rate (TR) plus 6% interest p.a. payable upon redemption;
- g.** Securitized Credits - CVS: divided into CVSA, CVSB, CVSC and CVSD; where CVSA and CVSC are adjusted by TR plus 6.17% p.a., and CVSB and CVSD are adjusted by TR + 3.12% p.a., capitalized on a monthly basis, with interest paid on a monthly basis

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as from January 1, 2005. Amortization will begin, on a monthly basis, on January 1, 2009, with final maturity on January 1, 2027.

The above securities are classified as Available-for-sale with the exception of the NTN-P portfolio, which is classified as Held-to-maturity **(note 3.6)**. The following table shows the cost and the carrying amount of the assets, after mark-to-market adjustments.

	Dec 31, 2005			Dec 31, 2004		
	Cost	Mark to market	Carrying Amount	Cost	Mark to Market	Carrying Amount
Available-for-sale	<u>279,103,421</u>	<u>2,283,883</u>	<u>281,387,304</u>	<u>301,731,328</u>	<u>4,310,565</u>	<u>306,041,895</u>
LTN	119,177,989	1,371,265	120,549,254	126,146,890	(726,662)	125,420,229
LFT	119,586,384	632,408	120,218,792	115,052,823	973,771	116,026,595
LFT-B	250,507	2,370	252,877	1,407,134	15,324	1,422,458
NTN-B	9,230,921	(133,291)	9,097,630	8,398,618	219,279	8,617,897
NTN-D	24,888,390	1,934,334	26,822,724	46,894,515	4,696,216	51,590,731
NTN-F	2,707,081	17,608	2,724,689	1,831,615	(42,811)	1,788,804
CVS	3,262,149	(1,540,811)	1,721,338	1,999,733	(824,552)	1,175,181
Held-to-maturity	<u>6,517</u>	<u>-</u>	<u>6,517</u>	<u>5,970</u>	<u>-</u>	<u>5,970</u>
NTN-P	6,517	-	6,517	5,970	-	5,970

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

10 – OPERATIONS WITH THE FEDERAL GOVERNMENT

	Assets	
	Dec 31, 2005	Dec 31, 2004
Fund for Compensation of Variations in Salaries (FCVS)	85,814	1,145,423
Result to be covered by the National Treasury (note 39.1)	12,904,701	255,096
National Treasury Operating Account - Remuneration to be Transferred (note 39.1)	19,356	213,189
Settlement of accounts under Provisional Measure 45	170,065	278,285
Other	7,286	5,584
Total	13,187,222	1,897,577

	Liabilities	
	Dec 31, 2005	Dec 31, 2004
National Treasury Operating Account - (note 39.1)	208,476,268	158,231,716
Result to be Transferred (note 39.1)	1,004,461	-
National Treasury Operating Account - Remuneration to be Transferred (note 39.1)	1,154,213	546,621
Other	41,457	40,045
Total	210,676,399	158,818,382

In view of constitutional and legal provisions, the Bank has a financial relationship with the National Treasury, which is detailed in **note 39.1**. As at December 31, 2005, the main operations existing between the entities were.

- a. The Fund for Compensation of Variations in Salaries (FCVS) was created with the purpose of guaranteeing coverage of possible outstanding residual balances of real estate financing contracts, whose payment is the responsibility of the National Treasury. These credits are settled by novation via the issuing of Brazilian National Treasury debt securities (CVS), whose characteristics are described in **note 9.2**. In view of the characteristics of the current credit and of the securities to be received in the novation process, these assets are classified as Available-for-sale (**note 3.6**). The variation in the account refers to the novation of these credits during the first-half of 2005.
- b. Result to be covered – note 39.b;
- c. The balance shown as "Settlement of accounts under Provisional Measure 45" refers to amounts to be received by the Bank, which were due from the settlement of accounts between the Federal Government, the Bank and its civil servants, as a result of the transfer of the Bank's employees to the Single Legal

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Regime (RJU). The change in regime eventually led to a review of payments and contributions between the parties involved.

d. National Treasury Operating Account – **note 39.1a**.

11 – RECEIVABLES

As at Dec 31, 2005

	Cost	Allowance for bad debt	Mark to market	Carrying Amount
Fair Value through Profit and Loss	22,552,018	-	(3,542,412)	19,009,606
Banco Nacional - Extrajudicial liquidation	13,526,370	-	(3,272,478)	10,253,892
Banco Econômico - Extrajudicial liquidation	5,480,790	-	-	5,480,790
Banco Mercantil - Extrajudicial liquidation	204,319	-	-	204,319
Banco Banorte - Extrajudicial liquidation	621,224	-	(215,724)	405,500
Banco Bamerindus - Extrajudicial liquidation	2,719,315	-	(54,210)	2,665,105
Loans and Receivables	2,090,207	(63,518)	-	2,026,689
Centrus	2,007,942	-	-	2,007,942
Other	82,265	(63,518)	-	18,747
Total	24,642,225	(63,518)	(3,542,412)	21,036,295

As at Dec 31, 2004

	Cost	Allowance for bad debt	Carrying Amount
Banco Nacional - Extrajudicial liquidation	13,153,642	(3,316,961)	9,836,681
Banco Econômico - Extrajudicial liquidation	5,329,763	-	5,329,763
Banco Mercantil - Extrajudicial liquidation	198,689	-	198,689
Banco Banorte - Extrajudicial liquidation	604,105	(259,501)	344,604
Banco Bamerindus - Extrajudicial liquidation	2,644,383	(535,370)	2,109,013
Banco Pontual - Extrajudicial liquidation	613,380	(613,380)	-
Other institutions under extrajudicial liquidation	26,737	(26,737)	-
Centrus	1,990,689	-	1,990,689
Other	264,687	(246,129)	18,558
Total	24,826,075	(4,998,078)	19,827,997

11.1 – Receivables from financial institutions under liquidation

The receivables from institutions under extrajudicial liquidation stem either from financial assistance given to banks, or from negative account balances (overdrafts) in the reserve account or from advances given to institutions during the extrajudicial liquidation process. From the liquidation date onwards, the loans, which originally bore specific contractual interest rates, are indexed by the Referential Rate (TR).

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As from January 1, 2005, the Bank classifies these credits in the category "Fair Value through Profit and Loss", since it is understood that the category best represents the characteristics of the operations. Hence, these credits are assessed at fair value, and mark-to-market effects are taken to the profit and loss account (**note 3.6**).

In the assessment of the fair value referred to above, the Bank considers the cash flow estimates of collateral and the seniority according to legislation of one creditor over another (priority of lien), as follows:

- 1st – administrative costs incurred by the debtor during the liquidation process;
- 2nd – wage claims;
- 3rd – tax claims;
- 4th – claims having priority under federal law, e.g. the Bank's claims;
- 5th – general claims (unprivileged creditors).

The classification of these credits in the category "Fair Value through Profit and Loss" had no impact on the Bank's equity.

11.2 – Receivables from Centrus

This amount results from contributions to *Fundação Banco Central de Previdência Privada (Centrus)* made by the Bank until December 31, 1990 with respect to those employees that were included in RJU (**note 39.3**). The funds are adjusted by the average yield rate of the assets of Centrus, which during 2005 was 19.40% (30.64% in 2004) and are being repaid to the Bank in monthly installments, each of which is equal to the amount of expenses incurred by the Bank with retired employees under RJU.

12 - INVESTMENTS IN INTERNATIONAL FINANCIAL ORGANIZATIONS

The Bank's participation in international financial organizations comprises quotas of the International Monetary Fund – IMF (1.5% of the Fund's total quotas) and equity shares of the Bank for International Settlements – BIS (0.72% of the entity's capital). Neither one of the participations in these investees falls under the definition of "control" or the

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definition of “significant influence in the administration or in the financial and operating policy decisions”.

	Dec 31, 2005	Dec 31, 2004
International Monetary Fund - IMF	10,155,512	12,472,208
Bank for International Settlements - BIS	83,215	102,198
Total	10,238,727	12,574,406

Those assets are classified as “Available-for-sale” (**note 3.6**) and their market value is given by the amount in Reais of Brazil’s participation in these entities.

13 – PROPERTY, PLANT AND EQUIPMENT (Note 3.10)

As at December 31, 2005

	Property	Equipment	Works of art and museum pieces	Total
Balance as December 31 2004	643,512	85,483	30,096	759,091
Cost	656,587	179,189	30,096	865,872
Accumulated Depreciation	(13,075)	(93,706)	-	(106,781)
Changes during 2005	5,126	5,179	2	10,307
Acquisitions/Constructions	14,690	26,732	2	41,424
Sales/Derecognitions	-	(124)	-	(124)
Depreciation	(9,564)	(21,429)	-	(30,993)
Balance as at December 31 2005	648,638	90,662	30,098	769,398

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As at December 31, 2004

	Property	Equipment	Works of art and museum pieces	Total
Balance as December 31 2003	656,127	68,154	30,090	754,371
Cost	681,383	146,217	30,090	857,690
Accumulated Depreciation	(9,076)	(78,063)	-	(87,139)
Allowance for losses	(16,180)	-	-	(16,180)
Changes during 2004	(12,615)	17,329	6	4,720
Acquisitions/Constructions	7,509	34,656	6	42,171
Sales/Derecognitions	-	(2,485)	-	(2,485)
Transfers	(50,731)	-	-	(50,731)
Depreciation	(3,949)	(16,219)	-	(20,168)
Revaluation	34,556	1,377	-	35,933
Balance as at December 31 2004	643,512	85,483	30,096	759,091

14 – OTHER ASSETS

	Dec 31, 2005	Dec 31, 2004
Assets in local currency		
Gold and other metals in various forms	38,482	38,482
Investment Property	52,702	52,974
Salary Advances	8,548	7,213
Other	15,168	10,309
Total	114,900	108,978

15 – ITEMS IN THE COURSE OF COLLECTION

This amount refers to balances of spot transactions still to be settled as at the report date, the settlement of which will occur in two or three days, e.g. purchase and sale of securities, and placements and withdrawals of deposits.

16 – LOAN PAYABLES

The balances shown in "Loan Payables" comprise the following:

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	Dec 31, 2005	Dec 31, 2004
Financial Assistance Program of IMF	238,845	66,711,233
Paris Club / Brazilian Financing Program	663,687	1,104,896
SDR Allocations	1,204,813	1,477,703
Other	46,230	55,261
TOTAL	2,153,575	69,349,093

In December 2005, the Bank repaid all the outstanding principal amounts related to the IMF Financial Assistance Program. The outstanding balances shown in Loan Payables refer to interest regarding the last quarter of 2005, which according to the operating procedures of the contract was paid on February 6, 2006.

17 – DEPOSITS

	Dec 31, 2005	Dec 31, 2004
Deposits of International Financial Organizations	10,435,432	12,756,944
Deposits linked to the Exchange Rate Market	1,413	1,155,007
TOTAL	10,436,845	13,911,951

The deposits of international financial organizations at the Bank are mainly demand deposits the IMF maintains in Brazil. They represent Brazil's participation in the Fund that was paid up in local currency. Other international financial organizations maintain deposit accounts at the Bank in order to pay their administrative expenses in Brazil.

The deposits indexed to the exchange market consist of demand deposits that financial institutions are subject to, corresponding to the amount in excess of the authorized limit for long positions in foreign currencies.

Notes to the financial statements – December 31, 2005

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18 - DEPOSITS OF FINANCIAL INSTITUTIONS

The deposits of financial institutions at the Bank comprise mainly legal reserve deposits required to limit their ability to lend.

The institutions may be required to make such deposits in cash or in federal public securities. Those made in cash are recorded as demand liabilities of the Bank. Currently, the deposits are:

	Dec 31, 2005	Dec 31, 2004
Demand Deposits	31,213,594	26,797,042
Savings Deposits	33,471,733	31,500,720
Additional Requirements	38,849,174	32,502,364
Other	1,010,867	2,071,629
TOTAL	104,545,368	92,871,755

The amounts to be deposited are calculated considering the daily average balances that financial institutions hold from investors and have the following characteristics:

- a) Demand deposits – 45% of demand deposits in a non-interest bearing account;
- b) Savings deposits – 20% of savings account deposits must be maintained at the Bank in an interest-bearing account (TR+6.17% p.a. for free savings, retirement-earmarked savings and rural savings categories and TR+3% p.a. for earmarked savings);
- c) Additional requirements - additional reserve requirements on the total demand deposits (8%), term deposits (8%) and savings deposits (10%). A deduction of R\$100,000 is applied to the amount thus calculated and the resulting balance, which bears SELIC interest rate, is to be deposited at the Bank.

19 – OWN ISSUE DEBT SECURITIES

In the execution of its monetary and exchange policies (**notes 34 to 38**), the Bank also uses own issued securities, Central Bank Notes, Special Series - NBC-E, which are updated by the ask rate of the United States dollar, with semi-annual interest payouts.

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Since May 5, 2002, in compliance with the Law of Fiscal Responsibility, the Bank ceased to issue securities. The balances of the NBC-E, broken down by maturity, as at the balance sheet date are:

	Dec 31, 2005	Dec 31, 2004
1 to 6 months	10,874	4,101
6 to 12 months	6,804,726	5,834,022
1 to 5 years	-	7,730,539
Total	6,815,600	13,568,662

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

20 – ACTUARIAL LIABILITIES

The Bank offers two types of post-employment benefits, one regarding benefits granted until December 31, 1990, funded by contributions to Centrus, and another regarding benefits granted after 1990, for which the Bank is directly responsible (**note 3.12**).

The liability amount recorded in this account refers to (**note 39.3**):

- a) The mathematical reserves concerning benefits granted until 1990, contractually recognized as a debt by the Bank. This amount is being updated by the General Market Price Index – IGP-M plus 6% interest p.a. and is to be paid in consecutive annual installments of at least one tenth of the updated original balance.
- b) The present value of the employer's future contributions related to the benefits referred to above. The following assumptions were used for the calculation of the present value of the future contributions:
 - Interest rate 6% p.a.
 - Rate of contribution for retired employees 7.5% p.m.
 - Rate of contribution for the sponsor 7.5% p.m.
 - Actuarial tables AT-2000, *Experiência ex-IAPC*, and Álvaro Vindas
 - Number of retired employees 1,041

21 – PROVISIONS

As at July 30, 2005, the Bank was one of the parties to 32,046 lawsuits referring to various subjects, amongst which are economic plans, employment relationships, privatization procedures and liquidation procedures of financial institutions.

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The Bank's legal department assesses the ongoing lawsuits taking into consideration the amount under judgment, the present stage of the lawsuit and the expected risk of loss. The expected risk of loss is reckoned based on previous decisions taken in the course of the lawsuit, jurisprudence and precedents of similar lawsuits.

A provision is recognized whenever the probability that the event will occur is greater than the probability that it will not, i.e., whenever the probability for the risk of loss is considered more than 50%. The amount provisioned consists of 100% of the values under judgment as well as estimated attorney fees to be born by the loser of the judicial dispute. The changes in the provision during the period are presented in the following table:

	Dec 31, 2005	Dec 31, 2004
Opening balance	2,809,530	2,505,928
Provision	2,809,530	2,505,928
Present Value Adjustment	-	-
Changes	(1,792,475)	303,602
Transition Adjustment	(1,897,023)	-
Constitution	229,378	319,163
Derecognition	(152,007)	(15,561)
Present Value Adjustment	27,177	-
Closing balance	1,017,055	2,809,530

During the first semester of 2005, in view of the process for adaptation to IFRS, the provisions account was adjusted and the effects were charged against an equity account (**note 24.4**).

The lawsuits in which the Bank considered the possibility of loss to be less than probable and more than remote were considered contingent liabilities and, thus, were not provisioned for. As of December 31, 2005 there were 2,617 lawsuits fitting that description, amounting to R\$ R\$9,675,732.

In view of the average term for the settlement of disputes, the amounts for provisions were adjusted to their present value via the application of a discount rate, which equals that of assets that have similar maturity and similar characteristics.

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

The table below presents the amounts of provisions and their respective adjustments broken down by the expected term for settlement of lawsuits:

As at Dec 31, 2005			
	Provision	Present Value Adjustment	Adjusted value
2006	193,206	(9,222)	183,984
2007	382,103	(44,542)	337,561
2008	71,439	(14,569)	56,870
2009	69,380	(18,170)	51,210
2010	171,441	(57,409)	114,032
2011	4,500	(1,374)	3,126
2012	62,764	(27,088)	35,676
2013	1,216	(206)	1,010
2014	92,397	(48,486)	43,911
2015	282,568	(160,762)	121,806
2016	6,154	(1,019)	5,135
2017	4,772	(2,930)	1,842
2018	143,454	(92,102)	51,352
2019	16,512	(11,409)	5,103
2020	8,531	(5,990)	2,541
2022	7,489	(5,593)	1,896
Total	1,517,926	(500,871)	1,017,055

22 – OTHER LIABILITIES

	Dec 31, 2005	Dec 31, 2004
In foreign currency	78,731	76,804
Discrepancy in CCR balances	68,496	75,304
Other	10,235	1,500
In local currency	560,573	600,364
Court-ordered debts	471,708	472,463
Salaries payable	42,936	38,456
Amounts to be classified - Centrus	-	30,114
Other	45,929	59,331
Total	639,304	677,168

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(Unless otherwise stated all amounts are expressed in thousands of Reais)

22.1 – Discrepancies in CCR balances

This amount refers to operations that go through the Reciprocal Payment Netting Agreement (CCR) between the Bank and the Central Bank of Uruguay and which are under litigation.

22.2 – Court-ordered debts payable

In accordance with Article 100, Paragraph 1 of the Federal Constitution, public law entities shall include in their respective budgets the amounts necessary to cover court-ordered debts submitted up to July 1 of each year, for payment not later than the end of the subsequent fiscal year.

With the publication of Constitutional Amendment 30, of September 13, 2000, the court-ordered debts resulting from lawsuits filed in courts before December 31, 1999 shall be settled at their actual value in cash, plus legal interest, in successive, equal annual installments over a maximum period of ten years, except for credits related to alimony and credits of small amounts.

Under Article 27 of Bill 4/2005 (Budget Guidelines, LDO 2006), budgetary provisions passed by the annual budget law to cover payments of debts resulting from court decisions beyond appeal would be totally decentralized to the courts. These courts would apply for the funds and would be responsible for making the corresponding payments directly to the prevailing party. As a result, budgetary and financial resources no longer flow through the Bank (the debtor entity). The existing balance at December 31, 2005 refers to court-ordered debts to be paid from 2006 onwards, which are to be derecognized as soon as the bill is approved.

23 – CURRENCY IN CIRCULATION

Currency in circulation represents the face value of the amount of banknotes and coins in circulation held by public and financial institutions.

The breakdown by denomination of banknotes and coins in circulation is shown below:

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	Dec 31, 2005		Dec 31, 2004	
	Quantity	Value	Quantity	Value
Banknotes	3,336,851,485	68,430,714	3,144,529,278	60,581,116
R\$1.00	583,096,923	583,097	657,378,228	657,378
R\$2.00	356,223,484	712,447	294,998,030	589,996
R\$5.00	279,155,404	1,395,777	258,637,110	1,293,186
R\$10.00	828,958,709	8,289,587	834,133,226	8,341,332
R\$20.00	268,250,154	5,365,003	209,526,763	4,190,535
R\$50.00	1,000,637,563	50,031,878	869,538,072	43,476,904
R\$100.00	20,529,248	2,052,925	20,317,849	2,031,785
Coins	10,769,641,849	1,602,219	9,871,667,440	1,353,822
R\$0.01	3,185,045,796	31,851	3,127,271,028	31,273
R\$0.05	2,505,446,000	125,272	2,258,176,819	112,909
R\$0.10	2,651,492,093	265,149	2,394,169,133	239,417
R\$0.25	1,059,267,860	264,817	945,798,845	236,450
R\$0.50	906,520,783	453,261	824,957,166	412,479
R\$1.00	461,869,317	461,869	321,294,449	321,294
Commemorative coins	-	708	-	697
TOTAL		70,033,641		61,935,635

As at December 31, 2005, the currency in circulation presented a nominal increase of 13.07%, as compared to December 31, 2004, which indicates a real increment of 11.73%, if discounted by the inflation as measured by IGP-M of 1.2%. The augmented demand for currency in the period stemmed basically from the economic level of activity and from the expansion of credit operations.

24 – NET EQUITY

24.1 - Retained Earnings

The amount corresponds to the Bank's accumulated results up to 1987, which according to the rulings up till that time would be incorporated in the bank's equity. The balance as of Dec 31, 2004 has been adjusted because of changes in the following items:

- Local currency deposits had not been monetarily updated (**note 6.2**);
- The recognition of the mark-to-market adjustments of federal government debt securities had been allocated to the income statement, while the correct allocation should be to an equity account;
- Adjustments to foreign exchange gains and losses related to Loans Payable.

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24.2 - Reserves

- a) Income Reserve – limited to 25% of the result of a given period, the income reserve is constituted for reducing the redemption of securities in the Bank's portfolio and, thus, for maintaining adequate conditions to execute the monetary policy. In 2005, the constitution of reserves amounted to R\$334,821, corresponding to 25% of the result obtained in the second half of the year;
- b) Revaluation Reserve - resulting from revaluation of fixed assets used in business operations, made until 2004, which are to be realized in accordance with the useful life of the assets (**note 3.10**);

24.3 – Amounts not taken to Profit and Loss

Values corresponding to mark-to-market adjustments of financial instruments classified in the category Available-for-sale, as follows:

	Dec 31, 2005	Dec 31, 2004
Federal Government Dedbt Securities		
Opening balance	4,310,565	-
Mark-to-market adjustments	(1,780,632)	4,310,565
Transfers	(870,418)	-
Realization	624,368	-
Closing balance (*)	2,283,883	4,310,565
Gold		
Opening balance	457,569	-
Mark-to-market adjustments	167,612	457,569
Realization	(110)	-
Closing balance	625,071	457,569
FCVS		
Opening balance	(808,116)	-
Mark-to-market adjustments	(129,036)	(808,116)
Transfers	870,418	-
Closing balance	(66,734)	(808,116)
Quotas of International Financial Organizations		
Opening balance	(1,339,166)	-
Mark-to-market adjustments	(2,335,679)	(1,339,166)
Closing balance	(3,674,845)	(1,339,166)
TOTAL	(832,625)	2,620,852

The amount shown under the entry "transfers" refers to mark-to-market

Notes to the financial statements – December 31, 2005

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adjustments of the credits with the FCVS, which during the semester were subject to novation and were exchanged for federal government debt securities – CVS **(note 10a)**.

24.4 - Effects of changes in accounting procedures

As mentioned in note 3.15, in view of the changes occurred in accounting practices, the following adjustments were recognized under this entry:

	Dec 31, 2005
Provision for lawsuit losses	1,368,975
Present Value adjustments for lawsuit losses	528,048
Foreign Currency Commitments	8,994
TOTAL	1,906,017

25 – NET INTEREST INCOME

	2005	2004
Foreign Currency Operations		
Interest Income	4,391,549	3,449,527
Securities	2,789,684	2,105,451
Deposits	1,354,960	1,304,129
Other	246,905	39,947
Interest Expenses	(3,034,172)	(3,521,876)
Loans	(2,563,434)	(3,444,891)
Other	(470,738)	(76,985)
Net Result	1,357,377	(72,349)
Local Currency Operations		
Interest Income	52,672,937	46,130,416
Securities	49,771,548	44,646,904
Other	2,901,389	1,483,512
Interest Expenses	(50,427,346)	(40,335,970)
Securities	(1,344,435)	(2,500,026)
Deposits	(8,974,341)	(6,692,564)
Commitments under Agreements	(11,211,545)	(12,824,784)
Federal Government	(28,581,593)	(18,049,665)
Other	(315,432)	(268,931)
Net Result	2,245,591	5,794,446
Total Interest Income	57,064,486	49,579,943
Total Interest Expenses	(53,461,518)	(43,857,846)
Total Interest Result	3,602,968	5,722,097

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26 – GAINS AND LOSSES WITH ASSETS HELD FOR TRADING PURPOSES

In 2005, this item includes gains and losses with mark-to-market adjustments of assets in the Fair Value through Profit and Loss category, i.e., derivatives and foreign currency securities operations. As for the 2004 figure, it also includes mark-to-market adjustments of the securities that had been classified in the "Fair Value through Profit and Loss" category (**note 3.15**) and were transferred to the "Available-for-sale" category as at January 1, 2005

	2005	2004
Foreign Currency Operations	<u>(1,193,037)</u>	<u>(838,775)</u>
Derivatives	3,757	-
Securities	(1,196,794)	(444,464)
Gold	-	(394,311)
Local Currency Operations	<u>2,967,149</u>	<u>2,833,038</u>
Derivatives	2,397,729	7,749,795
Credits against Institutions under Liquidation	569,420	-
Securities	-	(6,629,642)
FCVS	-	1,712,885

27 – GAINS AND LOSSES WITH ASSETS HELD FOR INVESTMENT PURPOSES

	2005	2004
Foreign Currency Operations	<u>110</u>	<u>-</u>
Gold	110	-
Local Currency Operations	<u>(624,368)</u>	<u>-</u>
Securities	(624,368)	-

This amount originates from the selling of assets classified in the category "Available-for-sale" and the consequent realization of gains and losses with mark-to-market adjustments (**note 3.6**). During 2004, there were no financial instruments in this category.

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28 – GAINS AND LOSSES WITH FOREIGN CURRENCY OPERATIONS AND WITH FOREIGN CURRENCY-LINKED OPERATIONS

This item refers to the foreign exchange variations of (i) assets and liabilities denominated in foreign currency and (ii) of assets and liabilities in local currency but linked to foreign exchange variations **(note 3.3)**.

	2005	2004
Foreign Currency Operations	(11,756,869)	(2,494,299)
Securities	(13,356,902)	(5,564,670)
Deposits	(9,537,220)	(696,797)
Loans	11,382,905	2,942,901
Other	(245,652)	824,267
Local Currency Operations	(2,424,197)	(3,344,207)
Federal Government Debt Securities	(4,426,397)	(4,114,124)
Own Issue Debt Securities	1,925,160	700,871
Other	77,040	69,046

29 – NET ALLOWANCES

	2005	2004
Credits against Financial Institutions	(21,528)	1,826,048
Credits originating from foreign currency transactions	2,679	1,612
Other	(3,565)	(60,149)
Total	(22,414)	1,767,511

The variation between the 2004 and the 2005 figures occurred due to the classification of the credits against financial institutions under liquidation in the category "Fair Value through Profit and Loss" that occurred on January 1, 2005 **(note 11.1)**.

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30 – OTHER INCOME AND EXPENSES

	2005	2004
Other Income	976,915	1,279,889
Fines	59,263	59,400
Transfer under the Budget Law by the National Treasury	552,891	622,060
Court order debts	38,365	107,324
Contribution refunding from Centrus	112,659	217,073
Fees	179,287	74,712
Other	34,450	199,320
Other Expenses	(1,980,933)	(2,215,565)
Personnel	(1,108,686)	(979,570)
Cost of production and distribution of banknotes and coins	(345,241)	(323,989)
Derecognition of uncollectibles	(199)	(210,638)
Provision for lawsuits	(77,371)	(382,040)
Increase in liabilities (Note 38)	(151,479)	-
Other	(297,957)	(319,328)

31 – NET INCOME

In 2005, the result was negative by R\$10,454,676 and was due, in the most part, to the variation of the local currency against the major foreign currencies, especially the 11.82% negative variation of the dollar against the Real, since there is a mismatching between assets and liabilities which are pegged to foreign exchange indices.

According to the applicable laws (**note 39.1**) the result of the first half year (R\$11,616,553 negative) was covered by the National Treasury in January 2006 and occurred with the delivery of federal government securities. As for the result of the second half year of 2005 (R\$1,161,877 positive), it will be transferred to the National Treasury not later than the 10th business day subsequent to the approval of the financial statements.

32 – STATEMENT OF CASH FLOWS

The main purpose of the Statement of Cash Flows is to demonstrate an entity's capacity to generate cash so as to meet its liquidity needs.

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In view of the fact that the Bank is the institution that provides liquidity to the financial system and, consequently, has the right to issue, it is understood that the information content of the Statement of Cash Flow should only refer to its foreign currency operations, which are outside the limits of the Bank's prerogative to issue.

33 – CASH AND CASH EQUIVALENTS

In the Statement of Cash Flows, the entry "Cash and cash equivalents" besides cash in specie also comprises demand deposits and short-term time deposits at financial institutions, as shown in the following table:

	Dec 31, 2005	Dec 31, 2004
Demand Deposits	<u>514,057</u>	<u>169,885</u>
Uncommitted deposits	282,518	154,949
Deposits linked to management of the external debt	13,423	14,936
Foreign Currency to be received	218,116	-
Short-term deposits	<u>5,694,415</u>	<u>7,756,230</u>
Total	<u>6,208,472</u>	<u>7,926,115</u>

The amount shown as "Deposits Linked to the Management of the External Debt" refers to demand deposits in the BIS serving as collateral for the exchange of the Brazilian external sovereign debt.

34 – RISK MANAGEMENT

The Bank uses financial instruments to achieve the objectives of the monetary policy and also to manage the international reserves. Hence, the core objective in carrying those assets is not to make profit but rather to hold adequate instruments for the

Notes to the financial statements – December 31, 2005

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enhanced performance of its functions as a monetary authority. In view of that, the Bank's risk management policy differs from the policies of other institutions.

For this purpose the Bank holds two large portfolios of financial instruments that have distinct characteristics and are subject to two different risk administration policies:

a) Financial instruments held in order to manage the international reserves:

Brazil's international reserves are kept with the intention of guaranteeing the repayment of the short-term foreign sovereign debt while also contributing to reducing both the vulnerability of the Brazilian economy to external shocks and the perception of risk by foreign investors.

In investing the international reserves the Bank aims at achieving liquidity, security and profitability in harmony with its pre-eminent objectives, through the diversification of the financial instruments portfolio it carries.

b) Financial instruments held in order to carry out the monetary policy:

The Bank's portfolio of Brazilian federal government debt securities, issued by both the Brazilian National Treasury and the Bank itself, is managed primarily in order to fulfill the objectives of the monetary and foreign exchange policies, generally by means of open market operations. With respect to the exchange rate swaps (**note 8.2**) the Bank's target is to enhance the hedging capability of the economic agents and to correct possible distortions in the foreign exchange coupon curve.

Notes 35 to 38 show the main risks to which both portfolios of financial instruments are exposed as well as the Bank's policy for the management of those risks.

35 – CREDIT RISK

Credit risk is defined as the possibility of loss related to a counterparty not honoring its debts.

a) Financial instruments held in order to manage the international reserves:

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The Board of Directors defines limits for allocation of resources in deposit placements with financial institutions. There are limits both for counterparties and for the portfolio as a whole, which consider the amount of resources that is permitted to be placed in each institution and the minimum admissible ratings. An in-house developed credit risk model imposes diversification between institutions and geographic areas. The minimum rating requirement for qualification of long-term placements is an "A" by Moody's. Short-term investees must bear a P-1 minimum rating by Moody's.

With respect to securities, the Bank trades sovereign debt securities, requiring issuers to have a minimum "A3" rating by Moody's, and securities issued by government and supranational agencies, requiring issuers to have a minimum "Aaa" rating. For the securities portfolio other limitations are prescribed: (i) a minimum of 65% of the whole portfolio must be invested in sovereign debt securities; (ii) a maximum of 25% of the whole portfolio may be allocated in governmental agency debt securities; and (iii) a maximum of 25% of the whole portfolio may be allocated in supranational and multilateral organizations and also in issues by the Bank for International Settlements (BIS).

With respect to operations with derivatives, they must comply with the minimum rating criteria for the counterparty and to the limits fixed for the portfolio as a whole.

b) Financial instruments held in order to carry out the monetary policy:

The Bank's securities portfolio is composed exclusively of securities issued by the federal government, which are considered risk-free instruments.

The swap contracts are recorded in the Futures and Commodities Exchange (BM&F), a clearinghouse that is the central counterparty in such operations. The BM&F's credit risk policy requires collateral from every participating entity.

The amount of collateral is calculated using stress tests that consider the total possible losses until the settlement of the contracts. The assets accepted as collateral instruments are federal government debt securities, bank guarantees, certificates of deposits, equity securities, gold and cash, among others. The majority of the

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participants in the clearinghouse, including the Bank, collateralize their trades through the assignment of federal government debt securities, which, for precautionary reasons, are assessed using a haircut calculation formula.

c) The credit risk that stems from the concentration of investments in geographical areas is presented in the following table:

	Dec 31, 2005	Dec 31, 2004
Brazil	345,424,131	338,485,712
European Economic Community	29,215,065	52,955,551
United States	90,104,868	79,668,654
Japan	2,022,397	102,718
Other	16,156,008	26,273,337
Total	482,922,469	497,485,972

The following table shows the concentration of investments in counterparties:

As at Dec 31, 2005

	Financial Institutions	International Organizations	Governmental Organizations	Other	Total
Deposits	33,948,244	81,348	110,200	-	34,139,792
In foreign currency	33,351,371	81,348	110,200	-	33,542,919
In local currency	596,873	-	-	-	596,873
Commitments under Agreements	25,941,192	2,869,024	-	-	28,810,216
In foreign currency	-	2,869,024	-	-	2,869,024
In local currency	25,941,192	-	-	-	25,941,192
Derivatives	177,372	-	-	-	177,372
In foreign currency	-	-	-	-	-
In local currency	177,372	-	-	-	177,372
Securities	-	4,059,582	365,261,174	4,459,263	373,780,019
In foreign currency	-	4,059,582	83,867,353	4,459,263	92,386,198
In local currency	-	-	281,393,821	-	281,393,821
Credits against the Federal Government	-	-	13,187,222	-	13,187,222
Receivable	-	1,631	179,284	20,950,481	21,131,396
In foreign currency	-	1,631	93,470	-	95,101
In local currency	-	-	85,814	20,950,481	21,036,295
Investments in International Financial Organizations	-	10,238,727	-	-	10,238,727
Other	939,012	-	403,803	114,910	1,457,725
Total Assets	61,005,820	17,250,312	379,141,683	25,524,654	482,922,469

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As at Dec 31, 2004

	Financial Institutions	International Organizations	Governmental Organizations	Other	Total
Deposits	66,689,961	762,588	282,532	-	67,735,081
In foreign currency	66,109,633	762,588	282,532	-	67,154,753
In local currency	580,328	-	-	-	580,328
Commitments under Agreements	8,971,139	129,528	-	-	9,100,667
In foreign currency	4,813,241	129,528	-	-	4,942,769
In local currency	4,157,898	-	-	-	4,157,898
Derivatives	395,869	-	-	-	395,869
In foreign currency	-	-	-	-	-
In local currency	395,869	-	-	-	395,869
Securities	-	1,074,603	379,126,319	4,231,388	384,432,310
In foreign currency	-	1,074,603	73,078,454	4,231,388	78,384,445
In local currency	-	-	306,047,865	-	306,047,865
Credits against the Federal Government	-	-	1,897,577	-	1,897,577
Receivable	-	75,084	1,207,864	18,688,152	19,971,100
In foreign currency	-	75,084	68,019	-	143,103
In local currency	-	-	1,139,845	18,688,152	19,827,997
Investments in International Financial Organizations	-	12,574,406	-	-	12,574,406
Other	873,645	72,267	395,053	37,997	1,378,962
Total Assets	76,930,614	14,688,476	382,909,345	22,957,537	497,485,972

36 – MARKET RISK

The market risk is the risk resulting from variations occurring in market parameters, such as interest rates and foreign exchange rates.

a) Financial instruments held in order to manage the international reserves:

With respect to the market risk, the active management of international reserves is monitored using the Value at Risk (VaR) methodology. On a daily basis, various limits authorized by the Board of Governors are observed. Deviations from a reference portfolio are allowed so as to take advantage of market opportunities as they arise. The model used to calculate VaR is based on RiskMetrics®, with a level of confidence of 95%. Quarterly backtestings are performed upon presentation of the Bank's results to the Board of Governors.

b) Financial instruments held in order to carry out the monetary policy:

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In view of its objectives, the Bank does not operate with the aim of mitigating the market risk in the portfolio held to carry out the monetary policy.

36.1 – INTEREST RATE RISK

It is defined as the risk resulting from the variations of interest rates, which affect the fair value of prefixed-yield financial instruments and the future cash flow of those paying post fixed yields. The following table shows the Bank's exposure to both types of risk.

	Dec 31, 2005		Dec 31, 2004	
	Assets	Liabilities	Assets	Liabilities
Prefixed	253,411,994	4,021,551	268,731,586	4,902,441
Post-fixed	219,146,109	357,479,103	210,277,146	373,116,340
Non-interest bearing	10,364,366	43,353,606	18,477,240	48,095,497
Total	482,922,469	404,854,260	497,485,972	426,114,278

The table below presents the financial instruments of the Bank's portfolio according to their maturity date (prefixed coupon) or according to their repricing date (post fixed coupon).

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As at Dec 31, 2005

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Deposits	21,869,464	11,559,189	-	-	-	711,139	34,139,792
In foreign currency	21,272,591	11,559,189	-	-	-	711,139	33,542,919
In local currency	596,873	-	-	-	-	-	596,873
Commitments under Agreements	27,615,102	1,195,114	-	-	-	-	28,810,216
In foreign currency	1,673,910	1,195,114	-	-	-	-	2,869,024
In local currency	25,941,192	-	-	-	-	-	25,941,192
Derivatives	59	12,867	151,670	12,776	-	-	177,372
In foreign currency	-	-	-	-	-	-	-
In local currency	59	12,867	151,670	12,776	-	-	177,372
Securities	122,864,884	12,813,873	56,955,136	180,137,471	1,008,655	-	373,780,019
In foreign currency	671,877	525,707	2,960,351	87,219,672	1,008,591	-	92,386,198
In local currency	122,193,007	12,288,166	53,994,785	92,917,799	64	-	281,393,821
Credits against the Federal Government	13,187,222	-	-	-	-	-	13,187,222
Receivables	21,123,571	-	-	-	-	7,825	21,131,396
In foreign currency	87,276	-	-	-	-	7,825	95,101
In local currency	21,036,295	-	-	-	-	-	21,036,295
Investments in International Financial Organizations	-	-	-	-	10,238,727	-	10,238,727
Other	150,636	665,166	-	10	-	641,913	1,457,725
Total Assets (A)	206,810,938	26,246,209	57,106,806	180,150,257	11,247,382	1,360,877	482,922,469
Liabilities							
Items in the course of collection	-	-	-	-	-	1,378,362	1,378,362
In foreign currency	-	-	-	-	-	1,161,717	1,161,717
In local currency	-	-	-	-	-	216,645	216,645
Commitments under Agreements	64,762,220	1,203,794	-	-	-	-	65,966,014
In foreign currency	1,652,700	1,203,794	-	-	-	-	2,856,494
In local currency	63,109,520	-	-	-	-	-	63,109,520
Derivatives	-	23,552	118,177	2,069	-	-	143,798
In foreign currency	-	-	-	-	-	-	-
In local currency	-	23,552	118,177	2,069	-	-	143,798
Loans payable	2,802	426,142	164,325	351,210	1,209,096	-	2,153,575
Deposits	72,406,989	-	-	-	-	42,575,224	114,982,213
In foreign currency	1,413	-	-	-	-	10,435,432	10,436,845
In local currency	72,405,576	-	-	-	-	32,139,792	104,545,368
Liabilities to the Federal Government	210,676,399	-	-	-	-	-	210,676,399
Own Issue Debt Securities	-	10,874	6,804,726	-	-	-	6,815,600
Actuarial Liabilities	1,081,940	-	-	-	-	-	1,081,940
Provisions	1,017,055	-	-	-	-	-	1,017,055
Other	547,347	-	-	-	-	91,957	639,304
Total Liabilities (B)	350,494,752	1,664,362	7,087,228	353,279	1,209,096	44,045,543	404,854,260
Net Position (A - B)	(143,683,814)	24,581,847	50,019,578	179,796,978	10,038,286	(42,684,666)	78,068,209

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As at Dec 31, 2004

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Deposits	45,330,352	17,214,415	-	-	-	5,190,314	67,735,081
In foreign currency	44,750,024	17,214,415	-	-	-	5,190,314	67,154,753
In local currency	580,328	-	-	-	-	-	580,328
Commitments under Agreements	6,854,661	2,246,006	-	-	-	-	9,100,667
In foreign currency	2,696,763	2,246,006	-	-	-	-	4,942,769
In local currency	4,157,898	-	-	-	-	-	4,157,898
Derivatives	70,844	56,229	149,123	119,673	-	-	395,869
In foreign currency	-	-	-	-	-	-	-
In local currency	70,844	56,229	149,123	119,673	-	-	395,869
Securities	157,909,951	32,185,184	48,536,747	145,794,458	5,970	-	384,432,310
In foreign currency	1,060,903	627,924	2,299,822	74,395,796	-	-	78,384,445
In local currency	156,849,048	31,557,260	46,236,925	71,398,662	5,970	-	306,047,865
Credits against the Federal Government	1,897,577	-	-	-	-	-	1,897,577
Receivables	19,891,843	-	-	-	-	79,257	19,971,100
In foreign currency	63,846	-	-	-	-	79,257	143,103
In local currency	19,827,997	-	-	-	-	-	19,827,997
Investments in International Financial Organizations	-	-	-	-	-	12,574,406	12,574,406
Other	37	745,661	-	-	-	633,264	1,378,962
Total Assets (A)	231,955,265	52,447,495	48,685,870	145,914,131	5,970	18,477,241	497,485,972
Liabilities							
Items in the course of collection	-	-	-	-	-	5,058,335	5,058,335
Commitments under Agreements	65,700,372	2,252,187	-	-	-	-	67,952,559
In foreign currency	2,650,254	2,252,187	-	-	-	-	4,902,441
In local currency	63,050,118	-	-	-	-	-	63,050,118
Derivatives	497	262	812	74,029	-	-	75,600
In foreign currency	-	-	-	-	-	-	-
In local currency	497	262	812	74,029	-	-	75,600
Loans payable	68,188,824	1,157,959	-	-	-	2,310	69,349,093
Deposits	64,350,719	-	-	-	-	42,432,987	106,783,706
In foreign currency	-	-	-	-	-	13,911,951	13,911,951
In local currency	64,350,719	-	-	-	-	28,521,036	92,871,755
Liabilities to the Federal Government	158,818,382	-	-	-	-	-	158,818,382
Own Issue Debt Securities	-	4,101	5,834,022	7,730,539	-	-	13,568,662
Actuarial Liabilities	1,021,243	-	-	-	-	-	1,021,243
Provisions	2,809,530	-	-	-	-	-	2,809,530
Other	547,768	-	-	-	-	129,400	677,168
Total Liabilities (B)	361,437,335	3,414,509	5,834,834	7,804,568	-	47,623,032	426,114,278
Net Position (A - B)	(129,482,070)	49,032,986	42,851,036	138,109,563	5,970	(29,145,791)	71,371,694

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

36.2 – EXCHANGE RATE VARIATION RISK

The exchange rate risk is defined as the possibility of loss resulting from variations occurring in foreign exchange rates.

The Bank holds assets and liabilities denominated in foreign currency or linked to exchange rate variations. In view of its objectives it is not the Bank's policy to mitigate the risk to exchange rate variations. The risk is shown in the table below.

As at Dec 31, 2005						
	US\$	Euro	SDR	Yen	Other	Total
Assets						
Deposits	20,673,505	4,626,538	67,925	8,173,074	1,877	33,542,919
Commitments under Agreements	540,196	2,328,828	-	-	-	2,869,024
Derivatives	-	-	-	-	-	-
Foreign Currency Securities	72,863,363	19,518,792	-	4,043	-	92,386,198
Securities linked to Foreign Exchange Variations	26,822,724	-	-	-	-	26,822,724
Receivables	95,101	-	-	-	-	95,101
Investments in International Financial Organizations	-	-	10,238,727	-	-	10,238,727
Other	1,342,825	-	-	-	-	1,342,825
Total Assets (A)	122,337,714	26,474,158	10,306,652	8,177,117	1,877	167,297,518
Liabilities						
Deposits	279,820	-	10,157,025	-	-	10,436,845
Loans Payable	699,953	17	1,443,659	-	9,946	2,153,575
Derivatives	-	-	-	-	-	-
Commitments under Agreements	-	-	-	2,856,494	-	2,856,494
Securities linked to Foreign Exchange Variations	6,815,600	-	-	-	-	6,815,600
Items in the course of collection	746,518	415,199	-	-	-	1,161,717
Other	71,588	-	7,143	-	-	78,731
Total Liabilities (B)	8,613,479	415,216	11,607,827	2,856,494	9,946	23,502,962
Derivatives - short position (C)	20,369,240	-	-	-	-	20,369,240
Derivatives - long position (D)	3,097,137	-	-	-	-	3,097,137
Net position (A - B + C - D)	130,996,338	26,058,942	(1,301,175)	5,320,623	(8,069)	161,066,659

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As at Dec 31, 2004

	US\$	Euro	SDR	Yen	Other	Total
Assets						
Deposits	35,079,113	24,677,251	13,611	7,374,297	10,481	67,154,753
Commitments under Agreements	-	-	-	4,942,769	-	4,942,769
Derivatives	-	-	-	-	-	-
Foreign Currency Securities	50,474,385	27,904,673	-	5,387	-	78,384,445
Variations	51,590,731	-	-	-	-	51,590,731
Receivables	72,097	-	71,006	-	-	143,103
Investments in International Financial Organizations	-	-	12,574,406	-	-	12,574,406
Other	1,268,723	-	-	-	1,261	1,269,984
Total Assets (A)	138,485,049	52,581,924	12,659,023	12,322,453	11,742	216,060,191
Liabilities						
Deposits	1,437,622	-	12,474,329	-	-	13,911,951
Loans Payable	1,149,497	33	68,188,935	-	10,628	69,349,093
Derivatives	-	-	-	-	-	-
Commitments under Agreements	3,986,534	915,907	-	-	-	4,902,441
Variations	13,568,662	-	-	-	-	13,568,662
Items in the course of collection	1,393,350	3,664,985	-	-	-	5,058,335
Other	76,804	-	-	-	-	76,804
Total Liabilities (B)	21,612,469	4,580,925	80,663,264	-	10,628	106,867,286
Derivatives - short position (C)	-	-	-	-	-	-
Derivatives - long position (D)	40,478,816	-	-	-	-	40,478,816
Net position (A - B + C - D)	76,393,764	48,000,999	(68,004,241)	12,322,453	1,114	68,714,089

37 – LIQUIDITY RISK

The liquidity risk appears in case of a difficulty to trade securities in a secondary market, in a way that the market is not capable of absorbing the volume that one wishes to negotiate without causing relevant price changes.

a) Financial instruments held in order to manage the international reserves:

The Bank's liquidity risk management policy aims at guaranteeing that the Bank will be able to meet all of its financial obligations. Therefore, so as guarantee the tradability in the secondary market of the portfolio and to prevent the occurrence of abrupt price movements, the Bank's liquidity risk management policy comprises the management of the diversification of maturities and the establishment of limits. By reason of that, the policy guarantees immediate liquidity even for issues with longer maturities.

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

b) Financial instruments held in order to carry out the monetary policy:

In view of its attributions as a monetary authority, which include management of the liquidity of the financial system, the Bank is not subject to the limitations stemming from unmatched maturities between assets and liabilities denominated in local currency.

c) Maturities:

The following table presents the contractual maturities of foreign currency financial assets and liabilities:

As at Dec 31, 2005

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Assets						
Deposits	21,983,731	11,559,188	-	-	-	33,542,919
Commitments under agreements	1,673,910	1,195,114	-	-	-	2,869,024
Securities	671,877	525,707	2,960,351	87,219,672	1,008,591	92,386,198
Credits Receivable	84,573	8,897	-	-	1,631	95,101
Investment in International Financial Organizations (*)	-	-	-	-	10,238,727	10,238,727
Other (*)	150,636	665,166	-	-	527,023	1,342,825
Total Assets (A)	24,564,727	13,954,072	2,960,351	87,219,672	11,775,972	140,474,794
Liabilities						
Items in the course of collection	1,161,717	-	-	-	-	1,161,717
Commitments under agreements	1,652,700	1,203,794	-	-	-	2,856,494
Loans Payable	2,802	426,142	164,325	351,210	1,209,096	2,153,575
Deposits	10,436,845	-	-	-	-	10,436,845
Other	10,235	-	-	68,496	-	78,731
Total Liabilities (B)	13,264,299	1,629,936	164,325	419,706	1,209,096	16,687,362
Net position (A - B)	11,300,428	12,324,136	2,796,026	86,799,966	10,566,876	123,787,432

(*) Since the investments in international financial organizations and in gold have no maturity, they were classified under the heading More than 5 years.

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(Unless otherwise stated all amounts are expressed in thousands of Reais)

As at Dec 31, 2004

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Assets						
Deposits	45,523,712	17,214,416	-	4,416,625	-	67,154,753
Commitments under agreements	2,696,763	2,246,006	-	-	-	4,942,769
Securities	1,060,903	529,751	2,299,822	74,493,969	-	78,384,445
Credits Receivable	65,885	73,140	-	-	4,078	143,103
Investment in International Financial Organizations (*)	-	-	-	-	12,574,406	12,574,406
Other (*)	-	745,660	-	-	524,324	1,269,984
Total Assets (A)	49,347,263	20,808,973	2,299,822	78,910,594	13,102,808	164,469,460
Liabilities						
Items in the course of collection	5,058,335	-	-	-	-	5,058,335
Commitments under agreements	2,650,254	2,252,187	-	-	-	4,902,441
Loans Payable	2,199	8,832,308	11,564,868	47,472,015	1,477,703	69,349,093
Deposits	13,911,951	-	-	-	-	13,911,951
Other	-	-	-	-	76,804	76,804
Total Liabilities (B)	21,622,739	11,084,495	11,564,868	47,472,015	1,554,507	93,298,624
Net position (A - B)	27,724,524	9,724,478	(9,265,046)	31,438,579	11,548,301	71,170,836

(*) Since the investments in international financial organizations and in gold have no maturity, they were classified under the heading More than 5 years.

38 – OPERATIONAL RISK

The operational risk is the possibility of loss resulting from inadequacies or failures in internal processes, automated systems or people. In controlling and preventing the occurrence of this risk, the Bank uses internal control systems, which are adequate for its activities. The Bank's bylaws establish the scope of each department and the attributions and duties of each one of their managerial personnel (*Internal Rules and Organization and Administration Manual*). There are also internal regulations that define criteria and procedures for every activity performed by the Bank.

The Internal Audit Department regularly enforces compliance with the internal regulations and the applicability of the internal control systems.

In addition, the heads of the departments certify, half-yearly, the consistency of the internal controls in relation to the operations performed under their supervision. This procedure permits the Administration Director and the Head of the Financial

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Administration Department to issue a statement of responsibility to the external audit firm on behalf of the Bank on the quality of the internal controls.

Despite of the aforementioned measures and controls, in the second half of 2005, \$164,755 were stolen from one of the Bank's vaults , of which R\$13,276 was recovered. As a consequence, the following additional measures were taken:

- a) The previous security systems that served the Currency Management Department (Mecir) underwent a major assessment, which lead to an upgrade of the existing systems;
- b) The distribution of values kept in each vault was rethought and transfers of values between them were implemented so as each one would hold a minimum of values, thus minimizing the risks involved.
- c) The establishment of an Executive Management Group (Gerse), an specialized professional group, which has the attribution of managing every security aspect related to the Bank's activities;
- d) The Bank started a major review of its security concepts, standards and procedures manuals as well as contingency plans aiming to stay abreast with international best practices and the experiences of peer organizations.

39 – RELATED PARTIES

39.1 – The Brazilian Federal Government

The Bank, a federal government agency linked to the Ministry of Finance, is part of the National Financial System (SFN). Therefore, it is subject to the rulings of the National Monetary Council (CMN). The CMN, the highest deliberative body of the SFN, formulates the directives for monetary, credit and foreign exchange policies, and the rules for the instruments of monetary and exchange rate policies. The Council also rules on the operations and procedures of financial institutions as well as on their supervision. The CMN is also responsible for approving the Bank's financial statements and accounting systems.

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(Unless otherwise stated all amounts are expressed in thousands of Reais)

The Governor and the Board of Directors of the Bank, who do not hold fixed-term positions, are appointed by the President of the Republic and approved by the National Congress.

The National Congress approves the budgetary provisions for the Bank's expenditure on maintenance. The financial execution of these provisions must be within the limits established by the Executive Branch of the Federal Government.

All the transactions occurring between the Bank and the National Treasury are regulated by the Federal Constitution and subsequent pertinent legislation, the most important of which are the following:

- a) National Treasury operating account – the financial resources of the Brazilian Federal Government must be deposited only in the Bank in an interest-bearing demand deposit account that pays the average yield of the Brazilian federal government debt securities that the Bank holds in its portfolio, mark-to-market adjustments excluded (**note 9**). In 2005, the aforementioned yield was 16.11% (15.28% in 2004).
- b) The Bank's results – the positive result of the Bank, after constitution or reversal of reserves, is considered an obligation the Bank has to the National Treasury and must be settled not later than the tenth business day subsequent to approval of the Bank's financial statements by the CMN. The negative results constitute a right of the Bank against the National Treasury that must be received not later than the tenth business day of the year subsequent to approval of the financial statements. Both amounts are updated until the date of the effective transfer or coverage by the same interest rate paid for the National Treasury operating account (**notes 10 and 31**).
- c) Transfer under Budget Law – the Bank makes use of the resources received under the Budget Law to pay for part of its administrative expenses.
- d) Payment of Lawsuits – the payments of lawsuits in which the Federal Government or any of its agencies are a party have been centralized under the responsibility of

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the courts where they are handled. Those courts have to deal with the budgetary and financial issues, i.e., they must obtain authorization and make the payments. Hence, the Bank no longer uses its resources to pay for those obligations **(note 22.2)**.

- e) Utilization of Securities as a Monetary Policy Tool – in the execution of the monetary policy the Bank uses federal government debt securities. The transactions with securities between the National Treasury and the Bank always occur at market prices.
- f) Rendering of Services in the placement of Treasury Securities – the Bank acts as an agent for the National Treasury in the placement of federal government debt securities, although the former defines the terms and conditions of the operations.
- g) Rendering of Services as an International Financial Agent – as a financial agent for the National Treasury, the Bank is responsible for the recording of Brazil's external liabilities and the execution of the paybacks. The payments are executed using the international reserves under the perspective of the foreign exchange policy.

The following table shows the main operations that occurred between the Federal Government and the Bank during the period.

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	2005	2004
National Treasury Operating Account		
Opening balance	158,231,716	120,189,562
(+) remuneration	27,780,168	17,570,901
(+) deposits	22,464,384	20,471,253
Closing balance	208,476,268	158,231,716
Federal Government Debt Securities		
Opening balance	306,047,865	280,272,321
(-) net redemptions	(68,144,914)	(13,378,094)
(+) remuneration	45,271,502	40,609,424
(+) mark-to-market adjustments	(1,780,632)	(1,455,786)
Closing balance	281,393,821	306,047,865
Result to be covered by the National Treasury		
Opening balance	255,096	7,172,543
(+) remuneration	1,034,192	4,138
(-) payments	-	(7,176,681)
(+) negative result to be covered - 1st half year 2005	11,615,413	-
(+) negative result to be covered - 2nd half year 2004	-	255,096
Closing balance	12,904,701	255,096
Result to be transferred to the National Treasury		
Opening balance	-	5,356,483
(+) positive result to be transferred - 1st half year 2004	-	2,456,104
(+) positive result to be transferred - 2nd half year 2005	1,004,461	-
(+) remuneration	-	184,909
(-) transfers	-	(7,997,496)
Closing balance	1,004,461	-
Transfer under Budget Law	552,891	622,060

39.2 – The Board of Directors and other management officers

The Bank's Board of Directors consists of 9 Directors (including the Governor). The Bank also has strategic positions exercised by 39 Heads of Departments. The Bank does not grant loans of any kind to any of its Directors, Heads of Departments or employees. Nevertheless, the benefits include salaries, wage related expenses, health care and other fringe benefits. The Bank is also responsible for the payment of post retirement benefits for the heads of departments and for the directors who are career civil servants.

The total remuneration of the Board of Directors (including salaries, benefits, social security and other wage related expenses) amounted to R\$1,361 in 2005 (R\$1,284 in

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2004). The figure for the Heads of Departments amounted to R\$5,590 in 2005 (R\$4,735 in 2004).

39.3 – Centrus

The *Fundação Banco Central de Previdência Privada* (Centrus), a non-profit organization, is a private pension fund that aims to supplement the retirement benefits and pensions granted by the General Social Security Regime (RGPS) (**notes 11.2 and 20**). The Bank sponsors Centrus and as a result the following transactions occurred between the entities.

	2005	2004
Accounts Receivable		
Opening balance	1,990,689	1,562,091
(+) interest	344,766	575,306
(+) reversal of contributions	82,507	217,073
(-) amounts received	(410,020)	(363,781)
Closing balance	2,007,942	1,990,689
Provision for Employer's Contribution		
Opening balance	95,616	183,703
(+) interest	6,754	(68,687)
(-) payments	(13,376)	(19,400)
Closing balance	88,994	95,616
Mathematical Reserves to be paid-up		
Opening balance	925,627	776,760
(+) interest	67,319	148,867
Closing balance	992,946	925,627
Payment of Management Fees	337	8,209

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40 – FISCAL RESPONSIBILITY LAW – MANDATORY INFORMATION

a. Impact and fiscal cost of the operations - Fiscal Responsibility Law, Article 7, paragraph 2

The sole paragraph of Article 8 of Law 4,595/1964, as amended by Decree-Law 2,376/1987, stipulates that "the results obtained by Banco Central do Brasil, considering the revenues and expenses of all its operations, shall be, effective from January 1, 1988, determined on an accrual basis and transferred to the National Treasury, after offsetting any losses from prior fiscal years".

This provision was partially amended by the Fiscal Responsibility Law:

"Article 7. The positive result of Banco Central, calculated after constitution or reversal of reserves, constitutes a revenue of the National Treasury and shall be transferred not later than the tenth business day subsequent to approval of the half-year balance sheets."

Paragraph 1. The negative results will constitute a Treasury liability owed to the Banco Central do Brasil and will be consigned to a specific budget allocation account."

In accordance with item II of Article 2 of Provisional Measure 2,179-36, this negative result must be covered not later than the tenth business day of the fiscal year subsequent to the year of approval of the balance sheet by the National Monetary Council.

Therefore:

- I. The result of the Bank is comprised of revenues and expenses related to all its operations;
- II. Positive results are transferred as revenues and negative results are charged to the National Treasury as expenses incurred by the entity;
- III. Such results are included in the Fiscal Budget in the National Treasury account.

The Bank experienced a deficit of R\$4,639,710 in the third quarter of 2005, and a surplus of R\$5,801,587 in the forth quarter of 2005, totaling a positive result of

Notes to the financial statements – December 31, 2005

(Unless otherwise stated all amounts are expressed in thousands of Reais)

R\$1,161,877, in the half year, which, after realization of reserves, will be transferred to the National Treasury not later than the tenth business day after approval by CMN. In conformity with Article 9, Paragraph 5 of the Fiscal Responsibility Law, within ninety days after the end of the half-year, the Bank shall submit to a joint meeting of the pertinent thematic commissions of the National Congress an evaluation report on compliance with the objectives and targets of the monetary, credit and foreign exchange policies, evidencing the result shown in the financial statements and the impact and the fiscal cost of its operations.

b. Cost of remunerating the National Treasury deposits at the Bank - Fiscal Responsibility Law, Article 7, Paragraph 3

The cost corresponding to the remuneration of the National Treasury deposits amounted to R\$7,516,666 in the third quarter of 2005, and to R\$9,472,534 in the fourth quarter of 2005 (R\$16,989,200 in the half-year).

c. Cost of maintaining foreign exchange reserves - Fiscal Responsibility Law, Article 7, Paragraph 3

The cost of maintaining foreign exchange reserves is calculated as the difference between the yield of the international reserves and the average rate of the cost of liabilities.

	International Reserves		Cost of Funding	Cost of maintaining international reserves	
	Average Balance (R\$ '000)	Profitability (%)		(%)	(R\$ '000)
3rd Quarter	132,787,108	(5.38)	2.01	(7.39)	(9,812,967)
4th Quarter	137,891,644	5.55	3.48	2.07	2,854,357
Total during the semester	-	-	-	-	(6,958,610)

In the 4th quarter, with an average daily balance of R\$137,891,644 the international reserves recorded a positive yield of 5.55%, considering the positive variation of the

Notes to the financial statements – December 31, 2005

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Real against the main currencies. The exclusion of the average cost of liabilities – 3.48% - turns the net result of the reserves into a positive result of 2.07% (R\$2,854,357).

d. The profitability of the securities portfolio, especially the securities issued by the National Treasury - Fiscal Responsibility Law, Article 7, Paragraph 3

	<u>Income</u>	<u>Expenses</u>	<u>Result</u>
<u>3rd Quarter</u>	<u>14,507,961</u>	<u>(2,777,630)</u>	<u>11,730,331</u>
Federal Government Debt Securities	13,630,201	(2,231,445)	11,398,756
Own Issue Debt Securities	877,760	(546,185)	331,575
<u>4th Quarter</u>	<u>14,917,593</u>	<u>(1,662,318)</u>	<u>13,255,275</u>
Federal Government Debt Securities	14,693,887	(881,242)	13,812,645
Own Issue Debt Securities	223,706	(781,076)	(557,370)
Total in the semester	29,425,554	(4,439,948)	24,985,606

In the 4th quarter, the result obtained is mostly explained by the following contributing factors:

- I. Federal Government Debt Securities – the positive result arising from transactions with those securities amounted to R\$13,812,645 due, especially, to interest earnings;

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- II. Own Issue Debt Securities – the net negative result arising from transactions with own issue debt securities amounted to R\$557,370 as a result of exchange rate variation and interest for the period.

Governor of the Banco Central do Brasil

Henrique de Campos Meirelles

Board of Directors

Afonso Sant'Anna Bevilaqua

Alexandre Antonio Tombini

Alexandre Schwartzman

Antonio Gustavo Matos do Vale

João Antônio Fleury Teixeira

Paulo Sérgio Cavalheiro

Rodrigo Telles da Rocha Azevedo

Sérgio Darcy da Silva Alves

Head of the Department of Financial Administration

Jefferson Moreira – Accountant, CRC-DF 7,333

Independent auditors' report

To
The President and Directors
Banco Central do Brasil
Brasília - DF

1. We have examined the accompanying balance sheet of Banco Central do Brasil as of December 31, 2005 and the related statements of income and changes in net equity for the year then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements. The financial statements of the financial institutions under liquidation, in which Banco Central do Brasil holds credits receivable in the amount of R\$ 19,009 million at December 31, 2005, were examined by other auditors. These credits were decreased by R\$ 3,542 million, in order to reflect their net asset value. Our opinion with respect to the balance of the aforementioned credits is also based on the opinions of those auditors on the financial statements of the institutions under liquidation (Notes 3.9 and 11).
2. Our examinations, with the exception of the issues mentioned in paragraphs 3 and 4, were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal controls of Banco Central do Brasil; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by the management of Banco Central do Brasil, as well as the presentation of the financial statements taken as a whole.
3. As disclosed in Notes 3.12(a) and 20, Banco Central do Brasil is responsible for the payment of retirement pensions to employees who have retired since 1991 and do not participate in the CENTRUS pension plan. This obligation is being settled on a monthly basis from the budgetary appropriation provided in the administrative budget. As also disclosed in Note 3.12(b), Banco Central do Brasil offers healthcare benefits to all its active and retired employees and pensioners, and their dependents. Banco Central do Brasil did not calculate the actuarial liability related to the aforementioned benefits. Consequently, it was not possible to record the respective liability arising from the aforementioned actuarial liability.

4. During 2005, Banco Central do Brasil implemented a new system for management of litigations, which is used to calculate the provision for contingencies and the criteria is described in Note 21. Our examinations for verifying the databases existing in the aforementioned system, as well as for evaluating the application of the criteria for recording a provision for contingencies, presented certain inconsistencies, that, due to their nature, indicate the need for greater uniformity in the application of the concepts for determining the probable amount of the disbursement and for the prospects of the outcome of the litigations. As a consequence, it was not practicable to evaluate the adequacy of the provision for contingencies, which amounted to R\$1,017 million as of December 31, 2005, nor of the total amount of R\$ 1,897 million, posted to net equity, as described in detail in Note 24.
5. The financial statements mentioned in paragraph 1 were prepared in accordance with the accounting practices described in Note 3. With the approval of the National Monetary Council and in order to present its financial statements in accordance with international accounting practices, since 2002 Banco Central do Brasil has made a series of changes in its accounting practices.
6. In our opinion, based on our examinations and on the opinion of other independent auditors, as mentioned in paragraph 1, and except for the adjustments that may result from the issues discussed in paragraphs 3 and 4, the aforementioned financial statements present fairly, in all material respects, the financial position of Banco Central do Brasil as of December 31, 2005, and the results of its operations and changes in net equity for the year then ended, in conformity with accounting practices adopted in Brazil and the specific rules applicable to Banco Central do Brasil, described in Note 3.
7. The statements of cash flows of Banco Central do Brasil, for the years ended December 31, 2005 and 2004, which are not required as an integral part of the financial statements mentioned in the first paragraph, are being presented as supplementary information. These financial statements were submitted to the same audit procedures as those described in the second paragraph, and, in our opinion, are fairly presented in all material respects in relation to the financial statements taken as a whole.
8. We examined the financial statements as of December 31, 2004, disclosed jointly with the financial statements mentioned in paragraph 1, in accordance with the same procedures described in paragraph 2, and in our independent auditors' report, dated February 16, 2005, we issued a qualified opinion with respect to the same issue described in paragraph 3.

February 15, 2006



KPMG Auditores Independentes
CRC SP014428/O-6-F-DF

Original report in Portuguese signed by
Francesco Luigi Celso
Accountant CRC SP175348/O-5-S-DF