BANCO CENTRAL DO BRASIL
Administration Management
Head of the Accounting and Financial Department

Financial Statements

December 31, 2006

BANCO CENTRAL DO BRASIL
BALANCE SHEET (As at December 31, 2006)
In Thousands of Reais

A S S E T S	Notes	Dec 31, 2006	Dec 31, 2005 (Restated)
ASSETS IN FOREIGN CURRENCIES		**200,980,845**	**140,474,794**
Cash and Cash equivalents	5	10,566,592	6,208,473
Time Deposits placed with Financial Institutions	5	28,009,886	27,334,446
Financial Assets Purchased Under Agreements to Resell	6	1,500,113	2,869,024
Derivatives	7	37,640	-
Debt Securities	8	149,424,976	92,386,198
Credits Receivable		71,262	95,101
Gold	11	1,526,867	1,341,149
Investments in International Financial Organizations	12	9,843,509	10,238,727
Other	14	-	1,676
ASSETS IN LOCAL CURRENCY		**343,448,875**	**342,992,288**
Deposits	5	609,950	596,873
Financial Assets Purchased Under Agreements to Resell	6	504,501	25,941,192
Derivatives	7	1,640	177,372
Debt Securities Issued by the Federal Government	8	303,860,298	281,393,821
Receivables from the Federal Government	9	14,322,275	13,172,325
Credits Receivable	10	23,287,301	20,826,385
Property, Plant and Equipment	13	785,684	807,880
Other	14	77,226	76,440
TOTAL		**544,429,720**	**483,467,082**

L I A B I L I T I E S	Notes	Dec 31, 2006	Dec 31, 2005 (Restated)
LIABILITIES IN FOREIGN CURRENCIES		**18,001,253**	**16,667,435**
Items in the Course of Collection	15	4,955,147	1,161,717
Deposits Received from Financial Institutions	16	577	1,413
Financial Assets Sold Under Agreements to Repurchase	6	1,499,992	2,856,494
Derivatives	7	40,729	-
Loans Payable	17	1,497,009	2,153,575
Deposits Received from International Financial Organizations	20	9,940,621	10,415,505
Other	22	67,178	78,731
LIABILITIES IN LOCAL CURRENCY		**426,882,976**	**388,187,319**
Items in the Course of Collection	15	1,076,320	216,645
Deposits Received from Financial Institutions	16	118,438,655	104,545,368
Financial Assets Sold Under Agreements to Repurchase	6	77,871,622	63,109,520
Derivatives	7	121,601	143,798
Debt Securities in Issue	18	-	6,815,600
Payables to the Federal Government	9	226,456,810	210,676,394
Accounts Payable	19	1,635,015	1,526,786
Deposits Received from International Financial Organizations	20	25,973	19,927
Provisions	21	1,235,182	1,106,049
Other	22	21,798	27,232
CURRENCY IN CIRCULATION	23	**85,824,753**	**70,033,641**
NET EQUITY	24	**13,720,738**	**8,578,687**
Income Reserve		4,662,369	4,662,369
Revaluation Reserve		485,564	491,849
Gains (Losses) Recognized Directly in Equity		4,090,432	(832,625)
Changes in Accounting Policies - Process of Adopting IFRSs		1,906,017	1,906,017
Retained Earnings		2,576,356	2,351,077
TOTAL		**544,429,720**	**483,467,082**

The Explanatory Notes are an integral part of the Financial Statements

INCOME STATEMENT - 2006
In Thousands of Reais

	Notes	2006	2005 (Restated)
FOREIGN CURRENCIES OPERATIONS		**(2,644,750)**	**(11,590,373)**
Interest income		6,560,602	4,391,549
Interest expenses		(289,505)	(2,979,982)
(=) Net interest income	25	6,271,097	1,411,567
Gains (losses) on financial assets classified as "At fair value through profit or loss"	26	(464,218)	(1,243,133)
Gains (losses) on financial assets held for investment purposes	27	-	110
Gains (losses) from foreign exchange	28	(8,451,629)	(11,758,917)
LOCAL CURRENCY OPERATIONS		**(9,730,031)**	**2,127,233**
Interest income		64,869,262	52,633,986
Interest expenses		(49,036,420)	(50,427,355)
(=) Net interest income	25	15,832,842	2,206,631
Gains (losses) on financial assets classified as "At fair value through profit or loss"	26	(23,439,869)	2,967,119
Gains (losses) on financial assets held for investment purposes	27	(619,610)	(624,368)
Gains (losses) from foreign currency-linked operations	28	(1,503,394)	(2,422,149)
NET PROVISIONS	29	**(11,712)**	**(22,414)**
OTHER INCOME	30	**1,865,189**	**1,143,158**
OTHER EXPENSES	30	**(2,645,744)**	**(2,152,567)**
NET INCOME (LOSS)	31	**(13,167,048)**	**(10,494,963)**

Suplementary information Not Required by IFRSs

Net income (loss)		(13,167,048)	(10,494,963)
Net result from exchange rate variations and swaps	32	(15,545,014)	(11,783,337)
Net income (loss) excluding the result from exchange rate variations and swaps		2,377,966	1,288,374

The Explanatory Notes are an integral part of the Financial Statements

STATEMENT OF CHANGES IN EQUITY - 2006
In Thousands of Reais

	INCOME RESERVE	REVALUATION RESERVE	GAINS (LOSSES) RECOGNIZED DIRECTLY IN EQUITY	CHANGES IN ACCOUNTING POLICIES - PROCESS OF ADOPTING IFRSs	RETAINED EARNINGS	EQUITY
Balance as at December 31, 2005	4,662,369	491,849	(832,625)	1,906,017	2,576,356	8,803,966
Correction of Errors (note 10.2)	-	-	-	-	(225,279)	(225,279)
Balance as at December 31, 2005 (Adjusted)	**4,662,369**	**491,849**	**(832,625)**	**1,906,017**	**2,351,077**	**8,578,687**
Realization of Revaluation Reserves	-	(6,285)	-	-	6,285	-
Available-for-Sale Financial Assets						
- Gains (Losses) Recognized Directly in Equity	-	-	5,542,667	-	-	5,542,667
- Gains (Losses) Reclassifed to the Income Statement Upon Disposal	-	-	(619,610)	-	-	(619,610)
Total Amount Recognized Directly in Equity	**-**	**(6,285)**	**4,923,057**	**-**	**6,285**	**4,923,057**
Net Income (Loss) for the 1st half of the year	-	-	-	-	(12,523,956)	(12,523,956)
Net Income (Loss) for the 2nd half of the year	-	-	-	-	(643,092)	(643,092)
Net Income (Loss) for the Year	**-**	**-**	**-**	**-**	**(13,167,048)**	**(13,167,048)**
Total Income and Expenses recognized during the Year	**-**	**(6,285)**	**4,923,057**	**-**	**(13,160,763)**	**(8,243,991)**
Result to be covered by the National Treasury - 1st half-year	-	-	-	-	12,746,093	12,746,093
Result to be covered by the National Treasury - 2nd half-year	-	-	-	-	639,949	639,949
Distribution of result	-	-	-	-	**13,386,042**	**13,386,042**
Balance as at December 31, 2006	**4,662,369**	**485,564**	**4,090,432**	**1,906,017**	**2,576,356**	**13,720,738**
Balance as at December 31, 2004	4,327,548	498,134	2,620,852	-	2,748,616	10,195,150
Correction of Errors (note 10.2)	-	-	-	-	(184,992)	(184,992)
Changes in Accounting Policies - Process of Adopting IFRSs (Note 24.4)	-	-	-	1,906,017	-	1,906,017
Balance as at December 31, 2004 (Adjusted)	**4,327,548**	**498,134**	**2,620,852**	**1,906,017**	**2,563,624**	**11,916,175**
Realization of Revaluation Reserves	-	(6,285)	-	-	6,285	-
Available-for-Sale Financial Assets						
- Gains (Losses) Recognized Directly in Equity	-	-	(4,077,735)	-	-	(4,077,735)
- Gains (Losses) Reclassifed to the Income Statement Upon Disposal	-	-	624,258	-	-	624,258
Total Amount Recognized Directly in Equity	**-**	**(6,285)**	**(3,453,477)**	**-**	**6,285**	**(3,453,477)**
Net Income (Loss) for the 1st half of the year	-	-	-	-	(11,626,465)	(11,626,465)
Net Income (Loss) for the 2nd half of the year	-	-	-	-	1,131,502	1,131,502
Net Income (Loss) for the Year	**-**	**-**	**-**	**-**	**(10,494,963)**	**(10,494,963)**
Total Income and Expenses recognized during the Year	**-**	**(6,285)**	**(3,453,477)**	**-**	**(10,488,678)**	**(13,948,440)**
Constitution of Income Reserves	334,821	-	-	-	(334,821)	-
Result to be covered by the National Treasury - 1st half of the year	-	-	-	-	11,615,413	11,615,413
Result to be transferred to the National Treasury - 2nd half of the year	-	-	-	-	(1,004,461)	(1,004,461)
Distribution of result	**334,821**	-	-	-	**10,276,131**	**10,610,952**
Balance as at December 31, 2005	**4,662,369**	**491,849**	**(832,625)**	**1,906,017**	**2,351,077**	**8,578,687**

The Explanatory Notes are an integral part of the Financial Statements

CASH FLOW STATEMENT - 2006
In Thousands of Reais

	Notes	2006	2005 (Restated)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**5,835,299**	**55,141,636**
Interest received		4,028,976	2,670,825
Interest paid		(305,031)	(2,714,368)
Purchases/sales of securities		(62,058,185)	(49,377,717)
Purchases/sales of foreign currencies		75,112,159	71,044,750
Placements/redemptions of repurchase and reverse repurchase transactions		26,701	3,131,808
Placements/redemptions of term deposits		2,246,866	17,658,720
Redemptions of deposits received		706,991	(73,006)
Payments/receipts on behalf of the National Treasury		(13,924,313)	13,014,646
Credits receivable		18,155	(29,355)
Other payments/receipts		(17,020)	(184,667)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(310,828)**	**(55,227,712)**
Repayments of loan principal		(310,828)	(55,227,712)
NET CASH FLOWS		**5,524,471**	**(86,076)**
CHANGE IN CASH AND CASH EQUIVALENTS	**33**	**5,524,471**	**(86,076)**
Cash and cash equivalents at beginning of period		6,208,473	7,926,115
Cash and cash equivalents at end of period		10,566,592	6,208,473
Effect of exchange rate changes on cash and cash equivalents		(1,166,352)	(1,631,566)

The accompanying Notes are an integral part of the Condensed Interim Financial Statements

1 - BANCO CENTRAL DO BRASIL AND ITS FUNCTIONS

Banco Central do Brasil (the "Bank"), an agency of the federal government that forms 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 Brasilia, DF, in the Setor Bancário Sul – Quadra 3, Bloco B, and has offices in nine other states of Brasil.

As determined by Law 4,595/1964, the National Monetary Council (CMN) approved these financial statements on February 28, 2007. The financial statements are available on the Bank's Internet website (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 determined, in 2003, the gradual adoption by the Bank of International Financial Reporting Standards (IFRSs). This process was substantially completed during the 2004 exercise, and since January 1, 2005, the only remaining IFRS adaptation refers to the implementation of International Accounting Standard 19 (IAS 19) – Employee Benefits.

The initial forecast for the conclusion of the conversion process was December 31, 2006, with the IFRS opening balance sheet designated as January 1, 2005, and the condensed interim financial statements of June 30, 2006 being the first interim financial statements presented in accordance with IAS 34 – Interim Financial Reporting.

However, in light of delays in concluding the necessary actuarial calculations in order to implement IAS 19, the established time-frame was not adhered to; with the following consequences:

a) January 1, 2005 is no longer considered the IFRS opening balance sheet date;

b) The amounts originally registered as IFRS Transition Adjustments, in accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards, were reclassified in accordance with the provisions of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (note 24.4);

c) Contrary to the expectation at June 30, 2006, the December 31, 2006 financial statements are not the Bank's first complete set of annual financial statements prepared in accordance with IFRSs.

Thus, the December 31, 2006 financial statements, including the 2005 comparative financial information, have been prepared following IFRSs with the exception of the provisions of IAS 19 – Employee Benefits.

These financial statements are not consolidated financial statements, reflecting only the Bank's operations. The Bank did not elect to early adopt IFRS 7 – Financial Instruments: Disclosure and does not expect any impacts in the Balance Sheet or Income Statement as a result of its adoption.

3 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below represent a summary of the most significant accounting principles used by the Bank; which have been consistently applied in all periods presented in these financial statements.

3.1. Revenue recognition

The Bank recognizes revenue on the accrual basis. Semi-annually, the result of the Bank is transferred to the National Treasury in the event of net income, or otherwise covered by the National Treasury in the event of a net loss (note 31).

3.2. Recognition of interest income and expenses

Interest income and expenses are recognized using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts on a financial asset or financial liability, through the expected life of the financial instrument, to its net carrying amount. Calculation of the effective interest rate considers all amounts either paid or received between the parties involved, such as fees and commissions; and also includes discounts and premiums.

Interest income and expenses presented in the Income Statement include interest income and expenses on all of the Bank's financial assets and liabilities; regardless of the category in which they are classified.

3.3. Assets and liabilities denominated in foreign currencies

The functional and reporting currency of the Bank is the Real. Foreign currencies transactions are translated into the Real at exchange rates prevailing at the date of the transactions. On a monthly basis, monetary assets and liabilities denominated in foreign currencies are translated to the Real based on the month-end exchange rates; with the resulting gains or losses from foreign exchange recognized in the Income Statement. The following table presents the foreign exchange rates utilized at the balance sheet dates:

(Unless otherwise stated, amounts are expressed in thousands of Reais) Page 6

	Dec 31, 2006	Dec 31, 2005
Dollar	2.1376	2,3403
Euro	2.8193	2.7680
SDR	3.2158	3,3449
Yen	0.0179	0,0198

The Special Drawing Right ("SDR") is an accounting unit used by the International Monetary Fund (IMF). The rate is based on a bucket of currencies freely used in international transactions (currently consisting of the Euro (EUR), the Japanese yen (JPY), the pound sterling (GBP), and the United States dollar (USD)).

3.4. Financial Assets and Liabilities

3.4.1 Recognition

Financial assets and liabilities are registered at their fair values on the respective trade date; i.e., on the date the Bank firmly commits itself to the sale or purchase of the instrument, inclusive of all of the costs directly associated with the transaction.

3.4.2 Derecognition

Financial assets are derecognized when they are effectively settled, when there is no expectation of realization or in the event of loss of the right of realization.

Financial liabilities are derecognized when the obligations are settled, cancelled or expire.

The Bank enters into transactions in which it transfers its financial assets to other parities, however, maintains control of such assets by means of retaining the risks of ownership and the rights to the income and expenses generated. These assets are not derecognized from the books and records. The main transactions with these characteristics are repurchase and securities lending agreements.

3.4.3 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the balance sheet and shown at their net values when there exists both the intention to settle on a net basis and a legally enforceable right to set-off the recognized amounts.

3.4.4 Classification of Financial Instruments

When financial assets are acquired, they are classified into one of the following categories: Financial assets at fair value through profit or loss, Available-for-sale, Held-to-maturity or Loans and receivables. After initial recognition, financial assets are measured in accordance with the classification; as follows:

a) Financial assets at fair value through profit or loss

A financial instrument is classified in this category, with gains and losses resulting from mark-to-market adjustments recorded in the income statement, in the following situations:

- When it is management's intention to trade the financial asset in the near-term;
- If the financial instrument is a derivative;
- When so designated by management due to the fact that this classification results in more relevant information; and so long as the financial assets are part of a portfolio evaluated and managed on a fair value basis.

b) Available-for-sale

This category includes non-derivative financial assets that are not classified in one of the other categories; and is mainly used when Bank management does not have a specific intention with regard to either maintaining or disposing of the financial asset. These assets are evaluated at fair value; with unrealized gains and losses recorded in equity. Such gains and losses are recognized in the income statement when they are effectively realized. Interest on these assets, calculated based on the effective interest method, is recognized in the income statement.

c) Held-to-maturity

This category includes non-derivative financial assets for which the Bank has the intent and ability to hold until maturity; and are carried at amortized cost.

d) Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market; and are valued at amortized cost.

3.4.5 Measurement

Fair value is considered the market value as published by primary depository trust companies (custodians) or economic information providers. For financial instruments with no active market, fair value is calculated using pricing models; which include the prices of the most recent trades, discounted cash flows and the fair value of similar financial instruments.

Amortized cost is the book value on the recognition date, adjusted for accrued interest based on the contractual interest rate using the effective interest method, accumulated amortization and any impairment losses recognized.

The following table presents a summary of the main financial instruments and their classifications:

Assets in Foreign Currency	Category	Evaluation Methodology
Cash and Cash Equivalents	Loans and Receivables	Amortized Cost
Financial Assets Purchased Under Agreements to Resell	Loans and Receivables	Amortized Cost
Time Deposits placed with Financial Institutions	Loans and Receivables	Amortized Cost
Gold	Avaliable-for-sale	*PM fixing - London Stock Exchange*
Derivatives - Interest and Securities Futures	At Fair Value through Profit or Loss	Stock Markets
Derivatives - Currency Forward	At Fair Value through Profit or Loss	Bloomberg
Debt Securities	At Fair Value through Profit or Loss	Bloomberg
Credits Receivable	Loans and Receivables	Amortized Cost
Investments in International Financial Organizations	Avaliable-for-sale	Redemption value in Reais

Assets in Local Currency	Category	Evaluation Methodology
Financial Assets Purchased Under Agreements to Resell	Loans and Receivables	Amortized Cost
Deposits	Loans and Receivables	Amortized Cost
Derivatives	At Fair Value through Profit or Loss	BM&F Exchange
Debt Securities Issued by the Federal Government	Avaliable-for-sale	Andima
Receivables from the Federal Government	Loans and Receivables	Amortized Cost
Credits Receivable	At Fair Value through Profit or Loss	Present value of the guarantees

Liabilities in Foreign Currency	Category	Evaluation Methodology
Items in the Course of Collection	Other liabilities	Amortized Cost
Financial Assets Sold Under Agreements to Repurchase	Other liabilities	Amortized Cost
Derivatives - Interest and Securities Futures	At Fair Value through Profit or Loss	Stock Markets
Derivatives - Currency Forward	At Fair Value through Profit or Loss	Bloomberg
Deposits Received from Financial Institutions	Other liabilities	Amortized Cost
Loans Payable	Other liabilities	Amortized Cost
Deposits Received from International Financial Organizations	Other liabilities	Amortized Cost

Liabilities in Local Currency	Category	Evaluation Methodology
Items in the Course of Collection	Other liabilities	Amortized Cost
Financial Assets Sold Under Agreements to Repurchase	Other liabilities	Amortized Cost
Deposits Received from Financial Institutions	Other liabilities	Amortized Cost
Derivatives	At Fair Value through Profit or Loss	BM&F Exchange
Debt Securities in Issue	Other liabilities	Amortized Cost
Payables to the Federal Government	Other liabilities	Amortized Cost
Deposits Received from International Financial Organizations	Other liabilities	Amortized Cost
Accounts Payable	Other liabilities	Amortized Cost

The fair values of financial instruments measured at amortized cost do not present significant differences from the amortized cost amounts; as these are short-term operations.

3.4.6 Impairment of financial assets

The Bank assesses, at least semi-annually, if there is objective evidence of impairment of any of its financial assets.

The Bank considers objective evidence of impairment for events occurring after the initial recognition of financial assets that could have an impact on estimated future cash flows. The Bank considers, among others, the following types of events:

a) Financial difficulties of the issuer or obligor;
b) The occurrence of default in any payments; whether related to principal or interest;
c) Renegotiations or granting of discounts;
d) Extrajudicial liquidation, bankruptcy or other types of reorganizations;
e) The disappearance of an active market for previously traded financial assets due to financial difficulties of the issuer or obligor.

When there exists objective evidence of impairment for an asset carried at amortized cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

For assets classified as Available-for-sale, when there is objective evidence of impairment, the accumulated loss recognized in equity is recognized in the income statement, even though the loss has not been effectively realized.

In the event that an asset is considered uncollectible, it is written-off against the related allowance account. Subsequent recoveries of amounts previously written-off are recognized as gains.

If in a subsequent period the amount of a previously recognized impairment loss decreases, and the decrease relates to an objectively verifiable event occurring after the impairment was recognized, the amount of the reversal is recognized as a gain; except as pertains to equity investments where previously recognized impairment losses cannot be reversed.

3.4.7 Derivatives

Derivatives are recognized on their respective trade dates at fair value and are shown as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank does not apply hedge accounting as contemplated in IAS 39 – Financial Instruments: Recognition and Measurement, and thus, recognizes all gains and losses in the Income Statement (note 26).

3.5. Property, plant and equipment

Land, buildings and equipment acquired for own use, as well as works of art and precious metals pertaining to the Bank's collection, are recorded at historical cost (or deemed cost) less accumulated depreciation (buildings and equipment). Costs include all expenses directly attributable to the acquisition or construction of the asset. Further expenditures are capitalized only when it is probable that future economic benefits have been created. Maintenance and repair expenses related to the asset are expensed as incurred.

Land, works of art and precious metals in diverse forms held by the Bank are not subject to depreciation. All other assets are depreciated on a straight-line basis considering the following useful lives:

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

3.6. Provisions

3.6.1 Legal claims

The Bank recognizes a provision for legal claims when it is probable that an outflow of economic resources will be necessary to settle the claim and a reliable estimate of the amount can be made. When it is possible, but not probable that an outflow of economic resources will be necessary to settle the claim, no provision is established. Provisions are adjusted to present value using market interest rates that incorporate similar characteristics and tenures.

3.6.2 Employee benefits

a) Post-employment benefits

The Bank's employees are subject to Law 8,112; which regulates the benefits of employees of the federal government. On account of the aforementioned law, and complementary legal provisions, there exist two types of post-employment benefit plans.

Pension benefits granted up to December 31, 1990 are in the form of defined benefits, and the payments are made by Centrus; funded by contributions from the Bank and the plan's participants. The amount of contributions is based on actuarial calculations, and the Bank is responsible for any actuarial deficits.

(Unless otherwise stated, amounts are expressed in thousands of Reais) Page 9

The pension benefits of employees who retired after December 31, 1990 are paid directly by the Bank; charged monthly to an expense account, with no involvement of the pension plan and without constitution of an actuarial provision.

The Actuarial liabilities recorded in the balance sheet pertain to the Bank's responsibility regarding benefits granted up to December 31, 1990.

b) Medical care benefits

The Bank provides healthcare benefits; which include medical, dental and psychological care expenses, for its current and retired employees under both the Centrus and RJU plans, and their dependents.

The Bank and its employees share the funding of these costs. The Bank's contributions are charged monthly to an expense account, without the constitution of an actuarial provision.

3.7. Tax immunity

In accordance with the Brazilian Federal Constitution, the Bank is tax exempt as pertains to results arising from the exercise of its normal activities, but is otherwise subject to withholding taxes from services rendered by third parties, and is subject to paying other taxes of a non-income nature.

3.8. Cash Flow Statement

The main purpose of the Cash Flow Statement is to demonstrate an entity's capacity to generate cash so as to meet its liquidity needs. Since the Bank is the institution that provides liquidity to the National Financial System, having the right to issue currency into circulation, management understands that the Statement of Cash Flows should contemplate only its foreign currencies operations; which are outside the limits of the Bank's prerogative to issue.

Cash and cash equivalents comprise cash in species, demand deposits and short-term time deposits.

4 - ACCOUNTING RECLASSIFICATIONS

Accounting reclassifications were made to the 2005 comparative financial information so as to achieve better comparability with the current period financial information. The following tables demonstrate the amounts originally published and the reclassifications made.

a) Balance Sheet:

	Originally Published Value	Reclassification	Restated Value
Assets in Foreign Currencies			
Cash and Cash Equivalents	514,057	5,694,416	6,208,473
Time Deposits placed with Financial Institutions	33,028,862	(5,694,416)	27,334,446
Assets in Local Currency			
Receivables from the Federal Government	13,187,222	(14,897)	13,172,325
Credits Receivable **(Originally published value was adjusted - note 10.2)**	20,811,510	14,875	20,826,385
Property, Plant and Equipment	769,398	38,482	807,880
Others	114,900	(38,460)	76,440
Liabilities in Foreign Currencies			
Deposits	10,436,845	(10,436,845)	-
Deposits Received from Financial Institutions	-	1,413	1,413
Deposits Received from International Financial Organizations	-	10,415,505	10,415,505
Liabilities in Local Currency			
Payables to the Federal Government	210,676,399	(5)	210,676,394
Actuarial Liabilities	1,081,940	(1,081,940)	-
Deposits Received from International Financial Organizations	-	19,927	19,927
Accounts Payable **(Originally published value was adjusted - note 10.2)**	494	1,526,292	1,526,786
Provisions	1,017,055	88,994	1,106,049
Others	560,573	(533,341)	27,232

The main accounting reclassifications were due to the following:

(Unless otherwise stated, amounts are expressed in thousands of Reais) Page 10

– A portion of the balance of Time Deposits placed with Financial Institutions was reclassified to Cash and Cash Equivalents due to the short-term nature of the operations;

– Deposits Received in Foreign Currencies were reclassified to Deposits Received from International Financial Organizations and Deposits Received from Financial Institutions due to the characteristics of the operations;

– The amount previously registered under Actuarial Liabilities was reclassified to Accounts Payable; as the balance represents a debt financing contract.

b) Income Statement

	Originally Published Value	Reclassification	Restated Value
Foreign Currencies Operations			
Interest income	(3,034,172)	54,190	(2,979,982)
Gains (losses) on financial assets classified as "At Fair value through profit and loss"	(1,193,037)	(50,096)	(1,243,133)
Gains (losses) from foreign exchange	(11,756,869)	(2,048)	(11,758,917)
Local Currency Operations			
Interest Income **(Originally published value was adjusted - note 10.2)**	52,632,650	1,336	52,633,986
Interest expenses	(50,427,346)	(9)	(50,427,355)
Gains (losses) on financial assets classified as "At Fair value through profit and loss"	2,967,149	(30)	2,967,119
Gains (losses) from foreign curency-linked operations	(2,424,197)	2,048	(2,422,149)
Other Income	**976,915**	**166,243**	**1,143,158**
Other Expenses	**(1,980,933)**	**(171,634)**	**(2,152,567)**

c) Cash Flow Statement

	Originally Published Value	Reclassification	Restated Value
Operating Activities			
Purchases/sales of securities	(46,246,741)	(3,130,976)	(49,377,717)
Placements/redemptions of repurchase and reverse repurchase transactions	-	3,131,808	3,131,808
Variation in Cash and Cash Equivalents			
Exchange Rate Effects	(1,630,734)	(832)	(1,631,566)

5 - CASH AND CASH EQUIVALENTS AND TIME DEPOSITS PLACED WITH FINANCIAL INSTITUTIONS

5.1. In Foreign Currencies

This item consists of the portion of the international reserves that the Bank maintains 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 37.

5.2. In Local Currency

These deposits are constituted in accordance with legal determinations, linked to legal claims in process, and for which either a provision has been recognized or a court-ordered payment order has been issued (note 19.2). The deposits are remunerated by the TR (referential rate), and due to their nature, are restricted for other use until a court decision is issued on the subject litigation.

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6 - FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL (REVERSE REPOS) / SOLD UNDER AGREEMENTS TO REPURCHASE (REPOS)

6.1. In Foreign Currencies

	Dec 31, 2006	Dec 31, 2005
Reverse Repos	**1,500,113**	**2,869,024**
Securities	1,295,260	-
Currencies	-	2,869,024
In the Course of Collection	204,853	-
Repos	**1,499,992**	**2,856,494**
Securities	1,295,139	-
Currencies	-	2,856,494
In the Course of Collection	204,853	-
TOTAL	**3,000,105**	**5,725,518**

The reverse repos involving debt securities were collateralized by securities in the amount of R$1,323,741 (R$1,319,616 at fair value), and the Bank did not enter into any transactions with these securities. The debt securities linked to repurchase agreements (repos) are demonstrated in note 8.1.

There is no additional collateral in the repo and reverse repo transactions with foreign currencies, while for amounts " In the Course of Collection", collateral is constituted when the transaction is settled.

6.2. In Local Currency

For the reverse repos in local currency, the debt securities received as collateral may be sold only if the contract is not fulfilled.

The variations in the account balances of these operations (reverse repos/repos) reflect the intervention of the Bank in managing market liquidity. In the current year, liquidity was mainly impacted by redemption of National Treasury securities and the acquisition of foreign currencies in the domestic market.

7 - DERIVATIVES

7.1. In Foreign Currencies

To manage the international reserves, the Bank uses derivatives in its routine operations or to hedge the market risk exposure of the short-term external sovereign liability. To that end, the Bank uses the following types of derivative instruments in its operations:

a) Currency forwards - 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 internal risk management policy;

b) Interest rate and Securities futures - obligations to pay or to receive an amount linked to the variation in interest rates or to the value of securities at a future date. These contracts are guaranteed in cash, and their values are adjusted daily on the futures exchange.

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DECEMBER 31, 2006

Derivative/Currency	Long Position	Short Position	Positive Adjustment	Negative Adjustment
Currency Forward				
1 Month			37,640	40,588
Australian Dollar	198,663	198,663	6,561	587
Canadian Dollar	105,662	105,662	3,374	469
Swiss Franc	120,394	120,394	514	4,129
Euro	207,769	207,860	1,349	2,548
British Pound	22,667	22,667	209	-
Japanese Yen	126,223	126,223	1,681	2,300
Norwegian Krone	46,018	46,018	-	3,073
New Zealand dollar	204,869	204,869	12,862	8,272
Swedish krona	243,935	243,935	4,175	10,521
United States Dollar	1,118,680	1,121,473	6,915	8,689
Interest Futures				
1 - 6 months			-	-
United States Dollar	-	5,344,000	-	-
Securities Futures				
1 - 6 months			-	141
United States Dollar	-	3,185,024	-	-
Euro	-	-	-	141
TOTAL			**37,640**	**40,729**

Regarding this table, note the following:

a) For the futures contracts in dollars, the adjustments are required to be settled on D+1. As there were no transactions in the dollar market on December 29, 2006, there are no payables or receivables recorded on this date;

b) For the futures contracts in Euro, the adjustments are required to be settled on D+2. Thus, although there were no open transactions on December 31, 2006, there was an adjustment balance payable on January 2, 2007.

7.2. In Local Currency

As an instrument in its monetary and foreign exchange policies, the Bank carries out swap operations indexed to interest rates and foreign exchange variations in order to provide foreign exchange hedges for financial institutions and other economic agents (notes 34 to 37).

These operations consist of open contracts on the Futures and Commodities Exchange (BM&F). In the 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, represented by an exchange rate coupon. Conversely, in the short positions, the asset side is linked to exchange rate variation plus the exchange rate coupon, and on the liability side, interest rates (DI).

Up to November 2006, the Bank held the following types of swap 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

During this month, the Bank settled the SC2 and SC3 contracts and began to operate exclusively with SCC contracts.

The following tables demonstrate the notional value of these operations, as well as the fair value by type of operation and maturity date:

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Dec 31, 2006

		Fair Value	
	Notional Amount	**Assets**	**Liabilities**
- SWAP - Daily Settlement	**31,089,086**	**1,640**	**121,601**
Long position in dollars	**(358,115)**	**1,640**	-
1 month	-	-	-
1 to 6 months	-	-	-
6 to 12 months	-	-	-
1 to 5 years	(358,115)	1,640	-
Short position in dollars	**31,447,201**	-	**121,601**
1 month	3,553,784	-	10,603
1 to 6 months	8,167,160	-	33,573
6 to 12 months	6,641,697	-	26,409
1 to 5 years	13,084,560	-	51,016
TOTAL	**31,089,086**	**1,640**	**121,601**

Dec 31, 2005

		Fair Value	
	Notional Amount	**Assets**	**Liabilities**
- SWAP - Settlement 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 - Daily Settlement	**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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8 - DEBT SECURITIES

8.1. Securities denominated in foreign currencies

	Dec 31, 2006	Dec 31, 2005
Uncommitted Securities	**148,126,612**	**92,386,198**
1 month	403,671	671,877
1 to 6 months	3,636,621	525,707
6 to 12 months	11,862,501	2,960,351
1 to 5 years	124,564,980	87,219,672
more than 5 years	7,658,839	1,008,591
Securities linked to repurchase agreements	**1,289,730**	**-**
1 month	-	-
1 to 6 months	-	-
6 to 12 months	-	-
1 to 5 years	861,823	-
more than 5 years	427,907	-
Securities granted as collateral	**3,741**	-
1 month	-	-
1 to 6 months	-	-
6 to 12 months	-	-
1 to 5 years	3,741	-
Securities sold to to be delivered	**4,893**	-
1 month	-	-
1 to 6 months	-	-
6 to 12 months	-	-
1 to 5 years	-	-
more than 5 years	4,893	-
TOTAL	**149,424,976**	**92,386,198**

These refer to fixed rate debt securities, issued by both sovereign national treasuries and governmental agencies, acquired by the Bank in accordance with its policy of diversification (notes 34 to 37). The portfolio is part of Brazil's international reserves for which the objectives are (i) to diversify investments and risks, (ii) to enhance profitability and (iii) to maintain different levels of liquidity. These securities are classified in the "At Fair Value through profit and Loss" category. The table below shows the cost and the carrying amount of these assets, after the mark-to-market adjustments:

	Dec 31, 2006	Dec 31, 2005
Cost	149,538,417	92,915,332
Mark-to-market Adjustments	(113,441)	(529,134)
Carrying Amount	149,424,976	92,386,198

The variation in the period is due to the increase in the International Reserves, as a result of the purchase of foreign currencies in the domestic market.

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8.2. Federal government debt securities

Dec 31, 2006

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Uncommitted Securities	**27,561,126**	**41,859,539**	**26,594,716**	**95,048,507**	**30,755,300**	**221,819,188**
LTN	26,334,425	25,228,571	16,092,180	50,163,230	-	117,818,406
LFT	1,226,701	12,844,891	3,031,219	18,005,879	10,830,887	45,939,577
LFT-B	-	-	-	-	-	-
NTN-B	-	-	-	16,662,200	11,562,308	28,224,508
NTN-D	-	3,786,077	7,471,317	3,491,454	-	14,748,848
NTN-F	-	-	-	6,718,768	8,361,955	15,080,723
NTN-P	-	-	-	6,976	150	7,126
Securities linked to repurchase agreements	**-**	**15,233,847**	**20,797,600**	**41,097,146**	**1,876,564**	**79,005,157**
LTN	-	-	20,797,600	29,266,682	-	50,064,282
LFT	-	15,233,847	-	8,559,259	-	23,793,106
NTN-B	-	-	-	2,327,832	1,541,278	3,869,110
NTN-F	-	-	-	943,373	335,286	1,278,659
Securities granted as collateral	**-**	**-**	**-**	**3,035,953**	**-**	**3,035,953**
LFT	-	-	-	3,035,953	-	3,035,953
TOTAL	**27,561,126**	**57,093,386**	**47,392,316**	**139,181,606**	**32,631,864**	**303,860,298**

Dec 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 securities lending transactions	**-**	**-**	**-**	**34,690**	**-**	**34,690**
LTN	-	-	-	34,690	-	34,690
Securities linked to repurchase agreements	**-**	**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**

The characteristics of the securities issued by the Brazilian National Treasury and held by the Bank are as follows:

a) National Treasury Bills - LTN: fixed interest rate determined by a discount to the face value;

b) Financial Treasury Bills – LFT and Financial Treasury Bills Series B - LFT-B: variable interest rates determined by the adjusted average rate of daily financing in the Special System of Clearance and Custody - SELIC (SELIC rate);

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c) National Treasury Notes Series B - NTN-B: variable interest rate determined by the Amplified National Consumer Price Index - IPCA, with interest paid on a half-yearly basis;

d) National Treasury Notes Series D - NTN-D: adjusted by the selling rate of the United States dollar plus interest, which is paid on a half-yearly basis;

e) National Treasury Notes Series F - NTN-F: fixed interest rate determined by a discount to the face value, with interest paid on a half-yearly basis;

f) National Treasury Notes Series P - NTN-P: registered and non-negotiable, 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 as from January 1, 2005. Principal 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. The following table shows the cost and the carrying amount of securities, after mark-to-market adjustments.

	Dec 31, 2006			Dec 31, 2005		
	Cost	Mark-to-market Adjustment	Carrying Amount	Cost	Mark-to-market Adjustment	Carrying Amount
Available-for-Sale	**296,585,769**	**7,267,403**	**303,853,172**	**279,103,421**	**2,283,883**	**281,387,304**
LTN	164,386,947	3,495,741	167,882,688	119,177,989	1,371,265	120,549,254
LFT	72,645,512	123,124	72,768,636	119,586,384	632,408	120,218,792
LFT-B	-	-	-	250,507	2,370	252,877
NTN-B	30,061,616	2,032,001	32,093,617	9,230,921	(133,291)	9,097,630
NTN-D	13,799,602	949,246	14,748,848	24,888,390	1,934,334	26,822,724
NTN-F	15,692,092	667,291	16,359,383	2,707,081	17,608	2,724,689
CVS	-	-	-	3,262,149	(1,540,811)	1,721,338
Held-to-maturity	**7,126**	**-**	**7,126**	**6,517**	**-**	**6,517**
NTN-P	7,126	-	7,126	6,517	-	6,517

9 - TRANSACTIONS WITH THE FEDERAL GOVERNMENT

	Assets	
	Dec 31, 2006	Dec 31, 2005
Result to be covered by the National Treasury	14,284,589	12,904,701
National Treasury Operating Account - Remuneration to be Transferred	2,916	19,356
Other	34,770	248,268
Total	**14,322,275**	**13,172,325**

	Liabilities	
	Dec 31, 2006	Dec 31, 2005
National Treasury Operating Account	226,047,319	208,476,268
Result to be Transferred	-	1,004,461
National Treasury Operating Account - Remuneration to be Transferred	369,440	1,154,213
Other	40,051	41,452
Total	**226,456,810**	**210,676,394**

In light of constitutional and legal provisions, the Bank has a financial relationship with the National Treasury, which is further detailed in note 39.1.

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10 - CREDITS RECEIVABLE

Dec 31, 2006

	Cost	Allowance for Bad Debt	Mark-to-Market	Carrying Amount
At Fair Value Through Profit and Loss	**42,971,447**	**-**	**(21,392,349)**	**21,579,098**
Banco Nacional - Under extrajudicial liquidation	20,351,038		(10,584,633)	9,766,405
Banco Econômico - Under extrajudicial liquidation	17,723,442		(7,357,212)	10,366,230
Banco Mercantil - Under extrajudicial liquidation	1,446,463		-	1,446,463
Banco Banorte - Under extrajudicial liquidation	675,702		(675,702)	-
Banco Bamerindus - Under extrajudicial liquidation	2,774,802		(2,774,802)	-
Loans and Receivables	**1,708,203**	**-**	**-**	**1,708,203**
Centrus	1,679,373	-	-	1,679,373
Others	28,830	-	-	28,830
Total	**44,679,650**	**-**	**(21,392,349)**	**23,287,301**

Dec 31, 2005

	Cost	Allowance for Bad Debt	Mark-to-Market	Carrying Amount
At Fair Value Through Profit and Loss	**22,552,018**	**-**	**(3,542,412)**	**19,009,606**
Banco Nacional - Under extrajudicial liquidation	13,526,370	-	(3,272,478)	10,253,892
Banco Econômico - Under extrajudicial liquidation	5,480,790	-	-	5,480,790
Banco Mercantil - Under extrajudicial liquidation	204,319	-	-	204,319
Banco Banorte - Under extrajudicial liquidation	621,224	-	(215,724)	405,500
Banco Bamerindus - Under extrajudicial liquidation	2,719,315	-	(54,210)	2,665,105
Loans and Receivables	**1,880,297**	**(63,518)**	**-**	**1,816,779**
Centrus	1,783,157	-	-	1,783,157
Others	97,140	(63,518)	-	33,622
Total	**24,432,315**	**(63,518)**	**(3,542,412)**	**20,826,385**

10.1. Receivables from financial institutions under extrajudicial liquidation

a) Credit Characteristics and Conditions

The receivables from financial institutions under extrajudicial liquidation stem either from financial assistance provided to the banks (PROER loans), or from negative account balances (overdrafts) in the banks' reserve accounts.

The realization of these credits is subject to the legal and procedural conditions prescribed in the Liquidations Law (Law 6.024/74) and the Bankruptcy Law (Law 11.101/05). This legislation determines, among others:

– Suspension of the previously stated periods for the settlement of the obligations;

– That the payment of the liabilities shall be made in accordance with the order of preference established by law; as follows (in order of most preferential to least preferential): expenses essential to the liquidation, wages, secured creditors, tax liabilities and unsecured creditors;

– The establishment of a general table of creditors in order to identity all of the creditors of the Institution, the effective values of their credits and their position in the order of preference to receive payments for these credits;

– The procedures necessary to realize the assets of the institution; for example, consisting of the form of sale (i.e. direct sale or auction, individual assets or groups of assets)

In view of these characteristics, the timing of the realization of these assets cannot be precisely forecasted, although it is important to note that a majority of the Bank's credits are supported by real guarantees and, as such, have their values linked to the value of these guarantees, as described below.

b) Classification and form of evaluation

These credits are classified as "At Fair Value through profit and Loss" due to management's view that this classification results in more relevant information, considering the following:

– They comprise a portfolio of assets with the same origin – arising from the Bank's role as supervisor of the National Financial System;

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– For management and accounting purposes, since 1999, these assets have been evaluated based on their realizable values. This form of evaluation reflects the objectives of the Bank when dealing with extrajudicial liquidation processes; which are to conclude the processes in the least possible amount of time and with the least amount of costs to the monetary authority and depositors and investors.

These receivables had been actualized based on the contractual interest rates as from the respective loan disbursement dates, and by the Referential Rate (TR), as from the dates of the respective liquidations of the financial institutions; based on management's previous understanding of applicable legislation. Since January 1, 2006, in order to more reliably reflect the valuation of these receivables, they were calculated in accordance with the sole paragraph of Article 26 of the Bankruptcy Law. This had as a consequence that the portion of the receivables balances attributable to the PROER loans was actualized by the contractual rates up to limits of the collateral on the loans.

As a result of this understanding, the fair value of these credits was measured based on the fair value of the collateral; excluding amounts owed by the financial institutions to preferential creditors (i.e., expenses essential to the liquidations, wages and taxes). This change was deemed a change in accounting estimate in accordance with IAS 8, and did not cause a significant net impact to the results of the Bank, nor is the change expected to have a significant net impact to the results of future periods.

	Current Methodology	Previous Methodology	Impact
Receivables from Institutions under extrajudicial Liquidation			
Cost	42,971,447	23,012,189	19,959,258
Mark-to-Market	(21,392,349)	(2,753,967)	(18,638,382)
Total	**21,579,098**	**20,258,222**	**1,320,876**

10.2. Receivables from Centrus

This amount resulted from contributions to Centrus made by the Bank up to December 31, 1990 with respect to the employees that were transferred to the RJU; and is adjusted by the average yield of Centrus' assets (21.4% in 2006 and 19.4% in 2005).

As compensation for administering these resources, the Bank pays Centrus a monthly management fee of 0.05% of the adjusted receivables balance; so long as the monthly yield of the assets is higher than IGP-DI + 0.486%.

In 2005, the amount of the receivables balance, and the management fee payable, was corrected as a result of the identification of mistakes in the calculation of the remuneration of the assets, and consequently, the management fee. As the mistakes occurred from 1997 onwards, the corrections have been made directly in the opening equity balances of the comparative financial information; as prescribed by IAS 8. The following table demonstrates the impact of these corrections in each period presented:

	Receivables	Payables	Equity	Income Statement
Dec 31, 2004	(184,992)	-	(184,992)	-
Jun 30, 2005	(9,912)	-	-	(9,912)
Dec 31, 2005	(29,881)	495	-	(30,376)
Total	**(224,785)**	**495**	**(184,992)**	**(40,288)**

11 - GOLD

The Bank, as other central banks, maintains a certain amount of gold as part of Brazil's international reserves. International reserves form part of the monetary assets of a country available for covering balance-of-payment deficits, and in some cases, to meet other financial needs of a country's monetary authorities. Gold is considered a reserve asset because it is immediately available for use by the monetary authorities on an unconditional basis, and thus, management understands that gold held by the Bank is a monetary asset.

In view of these characteristics, management understands that IFRSs do not provide an adequate basis of accounting for this type of asset. Therefore, in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, the Bank determined that the most reliable and relevant way to measure and present gold would be that prescribed for other financial assets (IAS 39).

As at December 31, 2006, the Bank's gold reserve amounted to 1,080,201.30 fine troy ounces (1,080,068.65 as at December 31, 2005). Gold is classified as available-for-sale given the lack of a specific intent to trade in the near-term. Gold is measured at its market price in US dollars, with price adjustments recorded in equity and the effects of exchange rate variation recorded in the Income Statement.

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	Dec 31, 2006	Dec 31, 2005
Cost	721,044	759,716
Mark-to-market Adjustments	805,823	581,433
Carrying Amount	1,526,867	1,341,149

12 - INVESTMENTS IN INTERNATIONAL FINANCIAL ORGANIZATIONS

The Bank's participation in international financial organizations comprises quotas of the International Monetary Fund – IMF (1.4% of the Fund's total quotas) and equity shares of the Bank for International Settlements – BIS (0.55% of the entity's capital). These participations do not fall under the definitions of "control" or "significant influence in the administration or in the financial and operating policy decisions".

	Dec 31, 2006	Dec 31, 2005
International Monetary Fund - IMF	9,763,506	10,155,512
Bank for International Settlements - BIS	80,003	83,215
Total	**9,843,509**	**10,238,727**

These investments are classified as Available-for-sale, and their market value is determined based on the amount in Reais of Brazil's participation in the entities.

In 2006, the relative participation of the Bank in the International Monetary Fund - IMF decreased from 1.42% to 1.40% due to increases in the amount of shares of four other countries - China, South Korea, Mexico and Turkey – which occurred at the last meeting of the Fund in September 2006. This reduction, which also affected the other participating countries, is part of a process in which the criteria and formulas used to define the participation of member countries is being reviewed.

13 - PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2006

	Precious Metals	Property	Equipment	Works of art and museum pieces	Total
Balance as at Dec 31 2005	**38,482**	**648,638**	**90,662**	**30,098**	**807,880**
Cost	38,750	671,277	204,210	30,098	944,335
Accumulated Depreciation	-	(22,639)	(113,548)	-	(136,187)
Provision for Losses	(268)	-	-	-	(268)
Changes during 2006	**-**	**(2,232)**	**(19,986)**	**22**	**(22,196)**
Acquisitions/Constructions	-	7,469	7,531	22	15,022
Sales/Write-offs	-	(116)	(48)	-	(164)
Depreciation	-	(9,585)	(27,469)	-	(37,054)
Balance as at Dec 31, 2006	**38,482**	**646,406**	**70,676**	**30,120**	**785,684**

As at December 31, 2005

	Precious Metals	Property	Equipment	Works of art and museum pieces	Total
Balance as at Dec 31 2004	**38,482**	**643,512**	**85,483**	**30,096**	**797,573**
Cost	38,750	656,587	179,189	30,096	904,622
Accumulated Depreciation	-	(13,075)	(93,706)	-	(106,781)
Provision for Losses	(268)	-	-	-	(268)
Changes during 2005	**-**	**5,126**	**5,179**	**2**	**10,307**
Acquisitions/Constructions	-	14,690	26,732	2	41,424
Sales/Write-offs	-	-	(124)	-	(124)
Depreciation	-	(9,564)	(21,429)	-	(30,993)
Balance as at Dec 31, 2005	**38,482**	**648,638**	**90,662**	**30,098**	**807,880**

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14 - OTHER ASSETS

	Dec 31, 2006	Dec 31, 2005
Assets in foreign currency	**-**	**1,676**
Assets in local currency	**77,226**	**76,440**
Investment Property	52,702	52,702
Salary Advances	9,056	8,548
Other Advances to Civil Servants	11,348	11,051
Other	4,120	4,139
Total	**77,226**	**78,116**

15 - ITEMS IN THE COURSE OF COLLECTION

This amount refers to transactions pending settlement as at the reporting date; whose settlement will occur in up to two or three days (i.e. purchase and sale of securities and placements and withdrawals of deposits).

16 - DEPOSITS OF FINANCIAL INSTITUTIONS

	Dec 31, 2006	Dec 31, 2005
In Foreign Currencies	**577**	**1,413**
In Local Currency	**118,438,655**	**104,545,368**
Demand Deposits	35,277,248	31,213,594
Savings Deposits	36,739,792	33,471,733
Additional Requirements	45,130,611	38,849,174
Other	1,291,004	1,010,867
TOTAL	**118,439,232**	**104,546,781**

The deposits of financial institutions comprise mainly compulsory reserve deposits which are used as a mechanism to limit the lending capacity of these institutions.

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.

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

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 the 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%), with a deduction of R$100,000 applied to the amount calculated, bearing the SELIC interest rate.

17 - LOAN PAYABLES

The balances shown in Loan Payables comprise the following:

	Dec 31, 2006	Dec 31, 2005
Financial Assistance Program of the IMF	-	238,845
Paris Club / Brazilian Financing Program	302,112	663,687
SDR Allocations	1,161,211	1,204,813
Other	33,686	46,230
TOTAL	**1,497,009**	**2,153,575**

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In December 2005, the Bank repaid all the outstanding principal amounts related to the IMF Financial Assistance Program. The interest regarding the last quarter of 2005 was paid on February 6, 2006 in accordance with the operating procedures of this organization.

The SDR allocations are resources made available by the IMF to its member countries, proportional to their shares, with no due date. The use of these credits is subject to the SDR interest rate published by the IMF, which is paid quarterly.

18 - DEBT SECURITIES IN ISSUE

In the execution of monetary and foreign exchange policy, the Bank issued its own securities (Central Bank Notes, Special Series - NBC-E), which were actualized by the asking price of the United States dollar and paid interest semi-annually. Since May 5, 2002, in compliance with the Fiscal Responsibility Law, the Bank ceased to issue its own securities. The last maturity date of debt securities in issue was November of 2006.

19 - PAYABLES

	Dec 31, 2006	Dec 31, 2005
Obligations with Centrus	1,104,541	997,400
Court-ordered payment orders	457,346	471,708
Others	73,128	57,678
TOTAL	**1,635,015**	**1,526,786**

19.1. Obligations with Centrus

Refers to centralization of benefit payments to retired persons and pensioners, which are the responsibility of Previ (Caixa de Previdência dos Funcionários do Banco do Brasil), and relate to employees that opted to join the workforce of the Bank and the transference of the obligation related to the pension benefits which are the responsibility of the Bank of employees that retired or died up to December 31, 1990 under the RGPS; by means of funding Centrus in the amount of the respective mathematical reserves.

An agreement between the Bank and Centrus was reached in August 1998, and amended successively up to December 31, 2005, providing that these reserves would be paid in annual and consecutive payments of at least one tenth of the adjusted original balance.

In view of legal questions that emerged regarding the existence of the Bank's obligation, in function of the plan surplus in Centrus, no payments were made nor were any additional amendments made to the agreement. The parties are discussing the terms and conditions of the agreement.

19.2. Court-ordered payment orders

In accordance with Article 100, Paragraph 1 of the Federal Constitution, public entities shall include in their respective budgets the amounts necessary to cover court-ordered payment orders 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 payment orders 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 Law 11.439/2006, budgetary provisions passed by the annual budget law to cover payments of debts resulting from court decisions beyond appeal were decentralized to the individual court level. These courts apply for the funds and are 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, 2006 refers to court-ordered payment orders to be paid from 2007 onwards, with the 2007 payment made on January 31, 2007.

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20 - DEPOSITS RECEIVED FROM INTERNATIONAL FINANCIAL ORGANIZATIONS

	Dec 31, 2006	Dec 31, 2005
In Foreign Currencies	**9,940,621**	**10,415,505**
Inter-American Development Bank	155,353	193,884
International Bank for Reconstruction and Development	19,552	21,070
International Monetary Fund	9,764,727	10,157,025
Others	989	43,526
In Local Currency	**25,973**	**19,927**
Plata Basin Financial Development Fund	25,973	19,927
TOTAL	**9,966,594**	**10,435,432**

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.

21 - PROVISIONS

21.1. Provisions for Legal Claims

As at December 31, 2006, the Bank was party to 31,055 lawsuits (3,643 as plaintiff and 27,412 as defendant) referring to various subjects, amongst which are economic plans, employment relationships, privatization procedures and liquidation procedures of financial institutions. As at December 31, 2005 there were 32,769 lawsuits in total, being 3,421 as plaintiff and 29,348 as defendant.

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

A provision is recorded whenever the probability that the loss event will occur is classified as probable (i.e. whenever the probability of loss is considered more than 50%). The amount provided for consists of 100% of the value 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:

	2006	2005
Opening balance	**1,017,055**	**2,809,530**
Provision	1,517,926	2,809,530
Present Value Adjustment	(500,871)	-
Changes	**131,268**	**(1,792,475)**
Changes in Accounting Procedures - Process of Adopting IFRSs	-	(1,897,023)
Constitution	793,999	229,378
Reversal	(610,174)	(124,298)
Transfer to Court-ordered Payment Orders	(266,805)	(27,709)
Present Value Adjustment	214,248	27,177
Closing balance	**1,148,323**	**1,017,055**
Provision	1,434,946	1,517,926
Present Value Adjustment	(286,623)	(500,871)

During the first semester of 2005, in accordance with the adaptation of IFRSs, the provisions account was adjusted with the effects charged against an equity account, in accordance with IAS 8.

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 provided for. As of December 31, 2006, there were 2,782 lawsuits considered contingent liabilities, amounting to R$ R$85,740,037.

In view of the average term for the settlement of the disputes, the amounts of the provisions were adjusted to their present values using a discount rate based on assets with similar maturities and characteristics.

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

	As at Dec 31, 2006		
	Provision	Present Value Adjustment	Adjusted Value
2007	593,142	(15,168)	577,974
2008	100,769	(9,294)	91,475
2009	264,193	(44,587)	219,606
2010	68,405	(11,686)	56,719
2011	6,387	(953)	5,434
2012	6,518	(1,765)	4,753
2013	507	(27)	480
2014	84,544	(40,695)	43,849
2015	304,818	(161,243)	143,575
2016	4,689	(628)	4,061
2017	656	(386)	270
2018	318	(191)	127
Total	**1,434,946**	**(286,623)**	**1,148,323**

The Bank, in accordance with court procedures, made deposits linked to its ongoing lawsuits. These deposits may be used in the following occasions:

a) Decision in favor of the Bank, when the court authorizes the Bank to redeem the deposit;

b) Decision against the Bank, and the court orders the transfer to the wining party;

c) Decision against the Bank with the issuance of a court-ordered payment order: In this case, the court authorizes the Bank to redeem the deposit.

21.2. Provisions for 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.

The liability recorded in this account (R$86,859) refers to the present value of the Bank's future contributions related to the benefits granted until 1990. 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	1,011
– Number of pensioners	685

22 - OTHER LIABILITIES

	Dec 31, 2006	Dec 31, 2005
In foreign currency	**67,178**	**78,731**
Discrepancy in CCR balances	65,855	68,496
Others	1,323	10,235
In local currency	**21,798**	**27,232**
Operations registered in foreign currencies	19,297	21,125
Others	2,501	6,107
Total	**88,976**	**105,963**

Discrepancy in CCR balances refers to transactions through the Reciprocal Payment Netting Agreement (CCR) between the Bank and the Central Bank of Uruguay which are under investigation.

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23 - CURRENCY IN CIRCULATION

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

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

	Dec 31, 2006		Dec 31, 2005	
	Quantity	**Value**	**Quantity**	**Value**
Banknotes	**3,770,807,718**	**83,882,265**	**3,336,851,485**	**68,430,714**
R$1.00	428,355,088	428,355	583,096,923	583,097
R$2.00	471,199,733	942,399	356,223,484	712,447
R$5.00	319,862,086	1,599,310	279,155,404	1,395,777
R$10.00	901,051,357	9,010,514	828,958,709	8,289,587
R$20.00	399,675,817	7,993,516	268,250,154	5,365,003
R$50.00	1,223,163,872	61,158,194	1,000,637,563	50,031,878
R$100.00	27,499,765	2,749,977	20,529,248	2,052,925
Coins	**11,900,864,845**	**1,941,750**	**10,769,641,849**	**1,602,219**
R$0.01	3,189,317,693	31,893	3,185,045,796	31,851
R$0.05	2,791,807,294	139,590	2,505,446,000	125,272
R$0.10	3,031,555,174	303,156	2,651,492,093	265,149
R$0.25	1,210,224,455	302,556	1,059,267,860	264,817
R$0.50	1,026,811,474	513,406	906,520,783	453,261
R$1.00	651,148,755	651,149	461,869,317	461,869
Commemorative Coins	**-**	**738**	**-**	**708**
TOTAL		**85,824,753**		**70,033,641**

As at December 31, 2006, the currency in circulation presented a nominal increase of 22.55%, as compared to December 31, 2005, which indicates a real increment of 18.01%, if discounted by inflation as measured by IGP-M of 3.85%. The increase in demand for currency in the period was mainly due to the following reasons:

a) The electoral period, in which historically there is expansion greater than normal levels;

b) Social programs involving income supplementation sponsored by the Government and a real increase in the minimum wage;

c) Circular 3,323, of May 30, which changed the cash limits that can be used by financial institutions by increasing the compulsory deposit from 26.7% to 29,6%.

24 - EQUITY

24.1. Retained Earnings

Retained earnings correspond to the Bank's accumulated result, which up to 1987 was incorporated into the Bank's equity. The balances as at December 31, 2004 and December 31, 2005 have been adjusted due to the correction of errors in relation to the transactions with Centrus.

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;

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 lives of the assets.

24.3. Gain (Losses) recognized Directly in Equity

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

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	Dec 31, 2006	Dec 31, 2005
Federal Government Debt Securities		
Opening balance	2,283,883	4,310,565
Mark-to-market adjustments	4,229,047	(1,780,632)
Write-off	1,088,148	-
Transfers	(80)	(870,418)
Realization	(333,596)	624,368
Closing balance	7,267,402	2,283,883
Gold		
Opening balance	625,071	457,569
Mark-to-market adjustments	268,022	167,612
Realization	-	(110)
Closing balance	893,093	625,071
FCVS		
Opening balance	(66,734)	(808,116)
Mark-to-market adjustments	6,229	(129,036)
Write-off	60,425	-
Transfers	80	870,418
Closing balance	-	(66,734)
Quotas of International Financial Organizations		
Opening balance	(3,674,845)	(1,339,166)
Mark-to-market adjustments	(395,218)	(2,335,679)
Closing balance	(4,070,063)	(3,674,845)
TOTAL	**4,090,432**	**(832,625)**

The amount shown under the entry "Transfers" refers to mark-to-market adjustments of the credits with the FCVS, which during the period were exchanged for federal government debt securities – CVS.

24.4. Changes in accounting policies – Process of adopting IFRSs

In view of the changes in accounting principles made in accordance with the process of conversion to IFRSs, on January 1, 2005, the following adjustments were recognized under this entry:

	Dec 31, 2004	Adjustments	Jan 1, 2005
Assets in Foreign Currencies			
Foreign Currencies Commitments	4,942,769	8,994	4,951,763
Liabilities in Local Currency			
Provision for legal claims	2,809,530	(1,368,975)	1,440,555
Adjustment to present value of the provisions for legal claims	-	(528,048)	(528,048)
Equity	10,010,158	1,906,017	11,916,175

Regarding these changes, it is important to note the following:

a) The simultaneous selling and purchasing of currencies were recorded as repurchase agreements;

b) The methodology for the calculation of provisions for legal claims was altered to consider present value adjustments and recognition only when the possibility of an outflow of economic resources for the settlement of a legal dispute is considered probable (note 21.1).

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25 - NET INTEREST INCOME

	2006	2005
Foreign Currencies Operations		
Interest Income	**6,560,602**	**4,391,549**
Securities Operations	4,991,789	2,982,781
Deposits	1,551,189	1,354,960
Others	17,624	53,808
Interest Expenses	**(289,505)**	**(2,979,982)**
Securities Operations	(178,353)	(162,558)
Loans	(76,855)	(2,563,434)
Others	(34,297)	(253,990)
Net Result	**6,271,097**	**1,411,567**
Local Currency Operations		
Interest Income	**64,869,262**	**52,633,986**
Securities Operations	42,608,958	50,418,842
Credit Operations (note 10.1)	20,542,552	648,828
Federal Government	947,681	1,034,191
Others	770,071	532,125
Interest Expenses	**(49,036,420)**	**(50,427,355)**
Securities Operations	(13,807,920)	(12,555,980)
Deposits	(8,514,881)	(8,974,341)
Federal Government	(25,886,004)	(28,581,593)
Others	(827,615)	(315,441)
Net Result	**15,832,842**	**2,206,631**
Total Interest Income	**71,429,864**	**57,025,535**
Total Interest Expenses	**(49,325,925)**	**(53,407,337)**
Total Interest Result	**22,103,939**	**3,618,198**

The significant variation in interest income from credits receivable in local currency is a consequence of the adjustments made to how the receivables from financial institutions under extrajudicial liquidation are measured.

26 - GAINS (LOSSES) ON FINANCIAL ASSETS CLASSIFIED AS "AT FAIR VALUE THROUGH PROFIT OR LOSS"

	2006	2005
Foreign Currencies Operations	**(464,218)**	**(1,243,133)**
Derivatives	509	(46,339)
Securities	(464,727)	(1,196,794)
Local Currency Operations	**(23,439,869)**	**2,967,119**
Derivatives	(5,589,991)	2,397,729
Credits Receivables from Financial Institutions under Extrajudicial Liquidation (note 10.1)	(17,849,938)	569,420
Others	60	(30)

The significant variation observed in the mark-to-market adjustments with credit operations in local currency was due to changes in how the receivables from financial institutions under extrajudicial liquidation are measured.

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27 - GAINS (LOSSES) ON FINANCIAL ASSETS HELD FOR INVESTMENT PURPOSES

	2006	2005
Foreign Currencies Operations	**-**	**110**
Gold	-	110
Local Currency Operations	**(619,610)**	**(624,368)**
Securities	(619,610)	(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 from the mark-to-market adjustments.

28 - GAINS (LOSSES) FROM FOREIGN EXCHANGE AND GAINS (LOSSES) FROM FOREIGN CURRENCY-LINKED OPERATIONS

This item refers to the foreign exchange variation on (i) assets and liabilities denominated in foreign currencies and (ii) assets and liabilities in local currency but linked to foreign exchange variations.

	2006	2005
Foreign Currencies Operations	**(8,451,629)**	**(11,758,917)**
Debt Securities	(6,576,935)	(13,356,234)
Deposits	(1,627,441)	(9,539,269)
Loans Payables	(136,560)	11,382,905
Others	(110,693)	(246,319)
Local Currency Operations	**(1,503,394)**	**(2,422,149)**
Debt Securities issued by the Federal Government	(2,080,341)	(4,426,397)
Debt Securities in issue	549,351	1,925,160
Others	27,596	79,088

29 - NET PROVISIONS

	2006	2005
Credits Receivable from Financial Institutions under extrajudicial liquidation	(11,388)	(21,528)
Credits from foreign currency transactions	1,723	2,679
Other	(2,047)	(3,565)
Total	**(11,712)**	**(22,414)**

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30 - OTHER INCOME AND EXPENSES

	2006	2005
Other Income	**1,865,189**	**1,143,158**
Fines	113,205	59,263
Transfer under the Budget Law by the National Treasury	695,375	552,891
Court order payment orders	41,931	38,365
Provision for legal claims	863,084	167,227
Refunding of contributions from Centrus	-	112,659
Fees	133,560	179,288
Others	18,034	33,465
Other Expenses	**(2,645,744)**	**(2,152,567)**
Personnel	(1,262,811)	(1,108,685)
Cost of production and distribution of currency	(367,527)	(345,241)
Provision for legal claims	(793,999)	(244,598)
Theft losses (Note 38)	-	(151,479)
Depreciation	(37,053)	(30,992)
Other administrative expenses	(163,944)	(176,773)
Burden Sharing	(2,010)	(60,026)
Others	(18,400)	(34,773)

31 - NET INCOME

In 2006, the result was a loss of R$13,167,048 due, in most part, to the variation of Real against the major foreign currencies. The portion of the result due to exchange rate variation must be evaluated within the context of the government's policy of decreasing the exposure of the public sector to changes in exchange rates. This policy has as a consequence, among others, the accumulation of assets denominated in and linked to foreign currencies in the Bank's balance sheet, with the objective of reinforcing the capacity of the country to resist external shocks and also to counterbalance the impact of these shocks on foreign currencies denominated liabilities of the Federal Government; mainly comprising the external debt carried by the National Treasury.

As the Brazilian Government's foreign exchange assets and liabilities are accounted for in different institutions (the Bank and the National Treasury, respectively), there exists a mismatch as to where the respective accounting results are recorded. Such results demonstrate similar magnitudes (in the opposite direction) within the financial statements of the Bank (main holder of foreign currencies assets; represented by the country's international reserves and reverse foreign currencies swaps) and the financial statements of the National Treasury (which maintains the foreign currencies liabilities; represented mainly by the public external debt).

Thus, in 2006, the 8.66% valuation of the Real had a relatively neutral effect on the public sector; resulting in a negative result for the Bank, but having a positive effect on the external debt held by the National Treasury of a similar magnitude.

The impact of variations in the exchange rate on the public sector is being reduced significantly. For example, at the height of the sensibility of the public debt to exchange rate variations, in September of 2002, each 1% of local currency devaluation generated an increase of 0.34% in the size of the consolidated net public debt relative to GDP. Currently, this sensibility has been reduced to almost zero, and in June of 2006, each 1% of devaluation resulted in a small reduction of the public debt relative to GDP of about 0.02%.

In accordance with applicable legislation (note 39.1), the National Treasury covered the result from the first semester (deficit of R$12,523,956) in January of 2007 through the delivery of debt securities issued by the federal government, while the result from the second semester (deficit of R$ 643,092) will be covered not later than the tenth business day of the fiscal year subsequent to approval of the financial statements.

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32 - SUPPLEMENTARY INFORMATION NOT REQUIRED BY IFRSs

	2006	2005
Exchange Rate Variation from foreign currencies operations	(8,451,629)	(11,758,917)
Exchange Rate Variation from local currency operations	(1,503,394)	(2,422,149)
Net Result from Swaps	(5,589,991)	2,397,729
Total	**(15,545,014)**	**(11,783,337)**

33 - CASH AND CASH EQUIVALENTS

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

	Dec 31, 2006	Dec 31, 2005
Cash	**123,779**	**110,200**
Demand Deposits	**1,606,433**	**403,857**
Uncommitted deposits	243,044	172,318
Deposits linked to management of the external debt	-	13,423
Foreign Currency to be received	1,363,389	218,116
Short-term deposits	**8,836,380**	**5,694,416**
Total	**10,566,592**	**6,208,473**

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 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-line with its overall objectives, through diversification of the financial instruments portfolio it maintains.

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

The Bank's portfolio of Brazilian federal government debt securities issued by the Brazilian National Treasury 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 7.2) 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 37 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 obligations.

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 may 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 and a P-1 minimum by Moody's for short-term.

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 as follows: (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 deposit, equity securities, gold and cash, among others. The majority of the participants in the clearinghouse, including the Bank, collateralize their trades through the assignment of federal government debt securities, which, for conservatism, are assessed using a calculation formula that imputes discounts relative to market prices

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

	Dec 31, 2006	Dec 31, 2005
Brazil	346,745,121	345,160,864
European Union	36,150,363	29,215,065
United States of America	151,105,662	90,106,534
Japan	106,957	2,022,397
Others	9,535,933	16,154,342
Total	**543,644,036**	**482,659,202**

The following table shows the concentration of investments in counterparties:

(Unless otherwise stated, amounts are expressed in thousands of Reais) Page 31

As at Dec 31, 2006

	Financial Institutions	International Organizations	Governmental Organizations	Other	Total
Cash and Cash Equivalents	9,890,141	18,015	658,436	-	10,566,592
Financial Assets Purchased Under Agreements to Resell	2,004,614	-	-	-	2,004,614
In foreign currencies	1,500,113	-	-	-	1,500,113
In local currency	504,501	-	-	-	504,501
Deposits	28,004,518	615,318	-	-	28,619,836
In foreign currencies	27,394,568	615,318	-	-	28,009,886
In local currency	609,950	-	-	-	609,950
Derivatives	39,280	-	-	-	39,280
In foreign currencies	37,640	-	-	-	37,640
In local currency	1,640	-	-	-	1,640
Debt Securities	-	3,203,462	450,081,812	-	453,285,274
In foreign currencies	-	3,203,462	146,221,514	-	149,424,976
In local currency	-	-	303,860,298	-	303,860,298
Receivables from the Federal Government	-	-	14,322,275	-	14,322,275
Credits Receivable	(81,568)	1,541	151,289	23,287,301	23,358,563
In foreign currencies	(81,568)	1,541	151,289	-	71,262
In local currency	-	-	-	23,287,301	23,287,301
Investments in International Financial Organizations	-	9,843,509	-	-	9,843,509
Others	934,954	-	591,913	77,226	1,604,093
In foreign currencies	934,954	-	591,913	-	1,526,867
In local currency	-	-	-	77,226	77,226
Total	**40,791,939**	**13,681,845**	**465,805,725**	**23,364,527**	**543,644,036**

As at Dec 31, 2005

	Financial Institutions	International Organizations	Governmental Organizations	Other	Total
Cash and Cash Equivalents	6,016,925	81,348	110,200	-	6,208,473
Financial Assets Purchased Under Agreements to Resell	25,941,192	2,869,024	-	-	28,810,216
In foreign currencies	-	2,869,024	-	-	2,869,024
In local currency	25,941,192	-	-	-	25,941,192
Deposits	27,303,821	627,498	-	-	27,931,319
In foreign currencies	26,706,948	627,498	-	-	27,334,446
In local currency	596,873	-	-	-	596,873
Derivatives	177,372	-	-	-	177,372
In foreign currencies	-	-	-	-	-
In local currency	177,372	-	-	-	177,372
Debt Securities	-	4,059,582	369,720,437	-	373,780,019
In foreign currencies	-	4,059,582	88,326,616	-	92,386,198
In local currency	-	-	281,393,821	-	281,393,821
Receivables from the Federal Government	-	-	13,172,325	-	13,172,325
Credits Receivable	(67,425)	1,631	160,895	20,826,385	20,921,486
In foreign currencies	(67,425)	1,631	160,895	-	95,101
In local currency	-	-	-	20,826,385	20,826,385
Investments in International Financial Organizations	-	10,238,727	-	-	10,238,727
Others	939,012	-	403,813	76,440	1,419,265
In foreign currencies	939,012	-	403,813	-	1,342,825
In local currency	-	-	-	76,440	76,440
Total do Ativo	**60,310,897**	**17,877,810**	**383,567,670**	**20,902,825**	**482,659,202**

36 - MARKET RISK

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

(Unless otherwise stated, amounts are expressed in thousands of Reais) Page 32

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

With respect to market risk, the management of the 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 backtesting is performed upon presentation of the Bank's results to the Board of Governors.

With respect to derivatives, the Investment Strategy Committee authorized the realization of derivatives in currencies different from those used as *hedges* of the short-term sovereign debt. The use of derivatives considers a model that looks to exploit differences in interest rates among countries and a mid-term tendency model based on certain technical criteria. The international financial markets use both of these models extensively. The strategies include currencies of countries which, in the majority, are rated AAA, with a lowest rating of AA.

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

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

This is defined as the risk resulting from the variations in interest rates, which affect the fair value of fixed-rate financial instruments and the future cash flows of those paying variable rates. The following table shows the Bank's exposure to both types of risk.

	Dec 31, 2006		Dec 31, 2005	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Fixed-rate	383,524,685	59,662,081	251,389,785	2,924,990
Variable rate	143,088,749	332,258,132	218,705,868	356,686,645
Non-interest bearing	17,030,602	52,964,016	12,563,549	45,243,119
Total	**543,644,036**	**444,884,229**	**482,659,202**	**404,854,754**

The table below presents the financial instruments of the Bank's portfolio according to their maturity date (fixed-rate) or according to their repricing date (variable rate).

(Unless otherwise stated, amounts are expressed in thousands of Reais) Page 33

As at Dec 31, 2006

	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							
Cash and Cash Equivalents	8,503,308	-	-	-	-	2,063,284	10,566,592
Financial Assets Purchased Under Agreements to Resell	2,004,614	-	-	-	-	-	2,004,614
In foreign currencies	1,500,113	-	-	-	-	-	1,500,113
In local currency	504,501	-	-	-	-	-	504,501
Deposits	16,010,808	8,333,828	-	-	-	4,275,200	28,619,836
In foreign currencies	15,400,858	8,333,828	-	-	-	4,275,200	28,009,886
In local currency	609,950	-	-	-	-	-	609,950
Derivatives	1,640	-	-	-	-	37,640	39,280
In foreign currencies	-	-	-	-	-	37,640	37,640
In local currency	1,640	-	-	-	-	-	1,640
Debt Securities	131,607,475	32,651,268	56,223,597	216,014,053	16,788,881	-	453,285,274
In foreign currencies	403,671	3,636,621	11,862,501	125,430,544	8,091,639	-	149,424,976
In local currency	131,203,804	29,014,647	44,361,096	90,583,509	8,697,242	-	303,860,298
Receivables from the Federal Government	14,284,589	-	-	-	-	37,686	14,322,275
Credits Receivable	23,323,883	(692)	-	-	-	35,372	23,358,563
In foreign currencies	65,413	(692)	-	-	-	6,541	71,262
In local currency	23,258,470	-	-	-	-	28,831	23,287,301
Investments in International Financial Organizations	-	-	-	-	-	9,843,509	9,843,509
Other	67,555	798,627	-	-	-	737,911	1,604,093
In foreign currencies	67,555	798,627	-	-	-	660,685	1,526,867
In local currency	-	-	-	-	-	77,226	77,226
Total Assets (A)	**195,803,872**	**41,783,031**	**56,223,597**	**216,014,053**	**16,788,881**	**17,030,602**	**543,644,036**
Liabilities							
Items in the Course of Collection	-	-	-	-	-	6,031,467	6,031,467
In foreign currencies	-	-	-	-	-	4,955,147	4,955,147
In local currency	-	-	-	-	-	1,076,320	1,076,320
Financial Assets Sold Under Agreements to Repurchase	37,294,999	38,848,965	3,227,650	-	-	-	79,371,614
In foreign currencies	1,499,992	-	-	-	-	-	1,499,992
In local currency	35,795,007	38,848,965	3,227,650	-	-	-	77,871,622
Derivatives	121,601	-	-	-	-	40,729	162,330
In foreign currencies	-	-	-	-	-	40,729	40,729
In local currency	121,601	-	-	-	-	-	121,601
Deposits Received from Financial Institutions	82,031,266	-	-	-	-	36,407,966	118,439,232
In foreign currencies	-	-	-	-	-	577	577
In local currency	82,031,266	-	-	-	-	36,407,389	118,438,655
Loans Payable	-	164,338	150,483	25,267	1,156,921	-	1,497,009
Deposits Received from International Financial Organizations	-	-	-	-	-	9,966,594	9,966,594
In foreign currencies	-	-	-	-	-	9,940,621	9,940,621
In local currency	-	-	-	-	-	25,973	25,973
Payables to the Federal Government	226,047,319	-	-	-	-	409,491	226,456,810
Provisions	1,235,182	-	-	-	-	-	1,235,182
Accounts Payable	1,550,366	-	-	-	-	84,649	1,635,015
Other	65,856	-	-	-	-	23,120	88,976
In foreign currencies	65,856	-	-	-	-	1,322	67,178
In local currency	-	-	-	-	-	21,798	21,798
Total Liabilities (B)	**348,346,589**	**39,013,303**	**3,378,133**	**25,267**	**1,156,921**	**52,964,016**	**444,884,229**
Net Position (A - B)	**(152,542,717)**	**2,769,728**	**52,845,464**	**215,988,786**	**15,631,960**	**(35,933,414)**	**98,759,807**

(Unless otherwise stated, amounts are expressed in thousands of Reais) Page 34

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							
Cash and Cash Equivalents	5,522,709	-	-	-	-	685,764	6,208,473
Financial Assets Purchased Under Agreements to Resell	27,615,102	1,195,114	-	-	-	-	28,810,216
In foreign currencies	1,673,910	1,195,114	-	-	-	-	2,869,024
In local currency	25,941,192	-	-	-	-	-	25,941,192
Deposits	15,605,887	11,559,188	-	-	-	766,244	27,931,319
In foreign currencies	15,009,014	11,559,188	-	-	-	766,244	27,334,446
In local currency	596,873	-	-	-	-	-	596,873
Derivatives	177,372	-	-	-	-	-	177,372
In foreign currencies	-	-	-	-	-	-	-
In local currency	177,372	-	-	-	-	-	177,372
Debt Securities	131,969,031	12,813,873	49,233,913	178,754,611	1,008,591	-	373,780,019
In foreign currencies	671,877	525,707	2,960,351	87,219,672	1,008,591	-	92,386,198
In local currency	131,297,154	12,288,166	46,273,562	91,534,939	-	-	281,393,821
Receivables from the Federal Government	12,990,515	-	-	-	-	181,810	13,172,325
Credits Receivable	20,880,850	(811)	-	-	-	41,447	20,921,486
In foreign currencies	88,087	(811)	-	-	-	7,825	95,101
In local currency	20,792,763	-	-	-	-	33,622	20,826,385
Investments in International Financial Organizations	-	-	-	-	-	10,238,727	10,238,727
Other	104,542	665,166	-	-	-	649,557	1,419,265
In foreign currencies	104,542	665,166	-	-	-	573,117	1,342,825
In local currency	-	-	-	-	-	76,440	76,440
Total Assets (A)	**214,866,008**	**26,232,530**	**49,233,913**	**178,754,611**	**1,008,591**	**12,563,549**	**482,659,202**
Liabilities							
Items in the Course of Collection	-	-	-	-	-	1,378,362	1,378,362
In foreign currencies	-	-	-	-	-	1,161,717	1,161,717
In local currency	-	-	-	-	-	216,645	216,645
Financial Assets sold Under Agreements to Repurchase	29,465,015	36,500,999	-	-	-	-	65,966,014
In foreign currencies	1,652,700	1,203,794	-	-	-	-	2,856,494
In local currency	27,812,315	35,297,205	-	-	-	-	63,109,520
Derivatives	143,798	-	-	-	-	-	143,798
In foreign currencies	-	-	-	-	-	-	-
In local currency	143,798	-	-	-	-	-	143,798
Deposits Received from Financial Institutions	72,405,576	-	-	-	-	32,141,205	104,546,781
In foreign currencies	-	-	-	-	-	1,413	1,413
In local currency	72,405,576	-	-	-	-	32,139,792	104,545,368
Loans Payable	2,802	426,142	164,325	351,210	1,209,096	-	2,153,575
Deposits Received from International Financial Organizations	-	-	-	-	-	10,435,432	10,435,432
In foreign currencies	-	-	-	-	-	10,415,505	10,415,505
In local currency	-	-	-	-	-	19,927	19,927
Payables to the Federal Government	-	10,874	6,804,726	-	-	-	6,815,600
Provisions	209,480,730	-	-	-	-	1,195,664	210,676,394
Accounts Payable	1,106,049	-	-	-	-	-	1,106,049
Other	1,464,654					62,132	1,526,786
In foreign currencies	75,639	-	-	-	-	30,324	105,963
In local currency	75,639	-	-	-	-	3,092	78,731
In local currency	-	-	-	-	-	27,232	27,232
Total Liabilities (B)	**314,144,263**	**36,938,015**	**6,969,051**	**351,210**	**1,209,096**	**45,243,119**	**404,854,754**
Net Position (A - B)	**(99,278,255)**	**(10,705,485)**	**42,264,862**	**178,403,401**	**(200,505)**	**(32,679,570)**	**77,804,448**

36.2. EXCHANGE RATE VARIATION RISK

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

The Bank holds assets and liabilities denominated in foreign currencies 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. These exposures are shown in the table below.

(Unless otherwise stated, amounts are expressed in thousands of Reais) Page 35

As at Dec 31, 2006

	US$	Euro	SDR	Yen	Others	Total
Assets						
Cash and Cash equivalents	9,450,858	985,040	18,015	106,958	5,721	10,566,592
Financial Assets Purchased Under Agreements to Resell	1,500,113	-	-	-	-	1,500,113
Time Deposits placed with Financial Institutions	25,853,652	1,078,983	-	1,077,251	-	28,009,886
Derivatives	6,915	1,349	-	1,681	27,695	37,640
Debt Securities in Foreign Currencies	132,437,605	16,987,371	-	-	-	149,424,976
Securities linked to Exchange Rate Variations	14,748,848	-	-	-	-	14,748,848
Credits Receivable	71,262	-	-	-	-	71,262
Investments in International Financial Organizations	-	-	9,843,509	-	-	9,843,509
Others	1,526,867	-	-	-	-	1,526,867
Total Assets (A)	**185,596,120**	**19,052,743**	**9,861,524**	**1,185,890**	**33,416**	**215,729,693**
Liabilities						
Items in the Course of Collection	4,353,734	601,413	-	-	-	4,955,147
Financial Assets Sold Under Agreements to Repurchase	1,499,992	-	-	-	-	1,499,992
Derivatives	8,689	2,689	-	2,300	27,051	40,729
Deposits Received from Financial Institutions	577	-	-	-	-	577
Loans Payable	335,788	10	1,161,211	-	-	1,497,009
Deposits Received from International Financial Organizations	174,892	-	9,764,727	-	1,002	9,940,621
Others	67,178	-	-	-	-	67,178
Total Liabilities (B)	**6,440,850**	**604,112**	**10,925,938**	**2,300**	**28,053**	**18,001,253**
Derivatives - short position (C)	**41,097,698**	**207,860**	**-**	**126,223**	**942,208**	**42,373,989**
Derivatives - long position (D)	**1,476,795**	**207,769**	**-**	**126,223**	**942,208**	**2,752,995**
Net position (A - B + C - D)	**218,776,173**	**18,448,722**	**(1,064,414)**	**1,183,590**	**5,363**	**237,349,434**

As at Dec 31, 2005

	US$	Euro	SDR	Yen	Others	Total
Assets						
Cash and Cash equivalents	5,988,882	50,304	67,925	99,485	1,877	6,208,473
Financial Assets Purchased Under Agreements to Resell	540,196	2,328,828	-	-	-	2,869,024
Time Deposits placed with Financial Institutions	14,684,624	4,576,234	-	8,073,588	-	27,334,446
Debt Securities in Foreign Currencies	72,863,363	19,518,792	-	4,043	-	92,386,198
Securities linked to Exchange Rate Variations	26,822,724	-	-	-	-	26,822,724
Credits Receivable	95,101	-	-	-	-	95,101
Investments in International Financial Organizations	-	-	10,238,727	-	-	10,238,727
Others	1,342,825	-	-	-	-	1,342,825
Total Assets (A)	**122,337,715**	**26,474,158**	**10,306,652**	**8,177,116**	**1,877**	**167,297,518**
Liabilities						
Itens in the Course of Collection	746,518	415,199	-	-	-	1,161,717
Commitments under Agreements	-	-	-	2,856,494	-	2,856,494
Securities linked to Exchange Rate Variations	6,815,600	-	-	-	-	6,815,600
Deposits of Financial Institutions	1,413	-	-	-	-	1,413
Loans Payable	699,953	17	1,443,659	-	9,946	2,153,575
Deposits of International Financial Organisms	258,471	-	10,157,025	-	9	10,415,505
Others	71,588	-	7,143	-	-	78,731
Total Liabilities (B)	**8,593,543**	**415,216**	**11,607,827**	**2,856,494**	**9,955**	**23,483,035**
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)	**131,016,275**	**26,058,942**	**(1,301,175)**	**5,320,622**	**(8,078)**	**161,086,586**

37 - LIQUIDITY RISK

Liquidity risk contemplates eventual difficulties in trading securities in a secondary market, such 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 to 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 management of the diversification of maturities and the establishment of limits. For this reason, the policy ensures immediate liquidity even for issues with longer maturities.

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

In view of its attributes as the 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 currencies financial assets and liabilities:

As at Dec 31, 2006

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Assets						
Cash and Cash equivalents	10,566,592	-	-	-	-	10,566,592
Financial Assets Purchased Under Agreements to Resell	1,500,113	-	-	-	-	1,500,113
Time Deposits placed with Financial Institutions	19,676,058	8,333,828	-	-	-	28,009,886
Derivatives	37,640	-	-	-	-	37,640
Debt Securities	403,671	3,636,621	11,862,501	125,430,544	8,091,639	149,424,976
Credits Receivable	62,496	(692)	7,917	-	1,541	71,262
Investments in International Financial Organizations	-	-	-	-	9,843,509	9,843,509
Other	135,110	798,627	-	-	593,130	1,526,867
Total Assets (A)	**32,381,680**	**12,768,384**	**11,870,418**	**125,430,544**	**18,529,819**	**200,980,845**
Liabilities						
Items in the Course of Collection	4,955,147	-	-	-	-	4,955,147
Financial Assets Sold Under Agreements to Repurchase	1,499,992	-	-	-	-	1,499,992
Derivatives	40,588	141	-	-	-	40,729
Deposits Received from Financial Institutions	-	-	-	-	577	577
Loans Payable	-	164,338	150,483	25,267	1,156,921	1,497,009
Deposits Received from International Financial Organizations	9,940,621	-	-	-	-	9,940,621
Other	1,323	65,855	-	-	-	67,178
Total Liabilities (B)	**16,437,671**	**230,334**	**150,483**	**25,267**	**1,157,498**	**18,001,253**
Net position (A - B + C - D)	**15,944,009**	**12,538,050**	**11,719,935**	**125,405,277**	**17,372,321**	**182,979,592**

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

Em 31.12.2005

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Assets						
Cash and Cash equivalents	6,208,473	-	-	-	-	6,208,473
Financial Assets Purchased Under Agreements to Resell	1,673,910	1,195,114	-	-	-	2,869,024
Time Deposits placed with Financial Institutions	15,775,258	11,559,188	-	-	-	27,334,446
Debt 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
Investments 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
Financial Assets Sold Under Agreements to Repurchase	1,652,700	1,203,794	-	-	-	2,856,494
Deposits Received from Financial Institutions	-	-	-	-	1,413	1,413
Loans Payable	2,802	426,142	164,325	351,210	1,209,096	2,153,575
Deposits Received from International Financial Organizations	10,415,505	-	-	-	-	10,415,505
Other	10,235	-	-	68,496	-	78,731
Total Liabilities (B)	**13,242,959**	**1,629,936**	**164,325**	**419,706**	**1,210,509**	**16,667,435**
Net position (A - B + C - D)	**11,321,768**	**12,324,136**	**2,796,026**	**86,799,966**	**10,565,463**	**123,807,359**

(*) 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

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 considered 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 internal regulations and the applicability of the internal control systems.

In addition, the heads of the departments certify, half-yearly, on the consistency of the internal controls in relation to the operations performed under their supervision. This procedure permits the Administrative Director and the Head of the Accounting and Financial 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 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 reassessed 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 the Security Department (Deseg)), a specialized department, which has the function 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 current with international best practices and the experiences of peer organizations.

39 - RELATED PARTIES

In accordance with IAS 24 – Related Party Disclosures, the following institutions are related parties of the Bank:

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 characteristics of the monetary and exchange rate policies instruments. The CMN also rules on the operations and procedures of financial institutions as well as on their supervision and is responsible for approving the Bank's financial statements and accounting systems.

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 expenditures on maintenance. The financial execution of these provisions must be within the limits established by the Executive Branch of the Federal Government.

The Federal Constitution and subsequent pertinent legislation regulate all transactions occurring between the Bank and the National Treasury, the most important of which are the following:

a) National Treasury operating account:

The financial resources of the Brazilian Federal Government must be deposited in the Bank in an interest-bearing demand deposit account that pays interest equivalent to the average yield of the Brazilian federal government debt securities that the Bank holds in its portfolio, excluding mark-to-market adjustments (note 8). In 2006, the aforementioned yield was 15.07% (16.11% in 2005).

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 and are remunerated by the same interest rate paid on the National Treasury operating account (notes 9 and 31).

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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 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 19.2).

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 administrative requirements and payments related to Brazil's external liabilities. 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.

TRANSACTIONS WITH THE NATIONAL TREASURY

	2006	2005
National Treasury Operating Account		
Opening balance	208,476,268	158,231,716
(+) remuneration	26,633,983	27,780,168
(+) deposits	-	22,464,384
(-) Redemptions	(10,087,749)	-
(+) positive result transferred	1,024,817	
Closing balance	226,047,319	208,476,268
Federal Government Debt Securities		
Opening balance	281,393,821	306,047,865
(-) net redemptions	(22,205,288)	(68,144,914)
(+) remuneration	40,247,352	45,271,502
(+) mark-to-market adjustments	4,424,413	(1,780,632)
Closing balance	303,860,298	281,393,821
Result to be covered by the National Treasury		
Opening balance	12,904,701	255,096
(+) remuneration	947,681	1,034,192
(-) payments	(12,953,835)	-
(+) negative result to be covered - 1st and 2nd halves of 2006	13,386,042	-
(+) negative result to be covered - 1st half of the year 2005	-	11,615,413
Closing balance	14,284,589	12,904,701
Result to be transferred to the National Treasury		
Opening balance	1,004,461	-
(+) positive result to be transferred - 2nd half of the year 2005	-	1,004,461
(+) remuneration	20,356	-
(-) transfers	(1,024,817)	-
Closing balance	-	1,004,461
Transfer under Budget Law	695,374	552,891

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39.2. Centrus

Centrus (*Fundação Banco Central de Previdência Privada*), 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 10.2 and 21.2). The Bank sponsors Centrus, and as a result, the following transactions occurred between the entities.

	2006	2005
Accounts Receivable		
Opening balance	2,007,942	1,990,689
(+) interest	121,514	344,766
(+) reversal of contributions	3,266	82,507
(-) amounts received	(453,349)	(410,020)
Closing balance	1,679,373	2,007,942
Provision for Employer's Contribution		
Opening balance	88,994	95,616
(+) interest	11,635	6,754
(-) payments	(13,770)	(13,376)
Closing balance	86,859	88,994
Mathematical Reserves to be paid-up		
Opening balance	992,946	925,627
(+) interest	100,074	67,319
Closing balance	1,093,020	992,946
Payment of Management Fees	11,677	7,812

39.3. Casa da Moeda do Brasil - CMB

The CMB is a federal public entity, linked to the Ministry of Finance, and has as its main activities the exclusive manufacture of banknotes and coins and the printing of federal mailing and fiscal stamps.

The statute of the CMB establishes that the Council of Administration and the Executive Direction will exert its administration. There is one member of the Council of Administration indicated by the Bank.

In 2006, the Bank acquired banknotes and coins that totaled an expense of R$294,748 (R$283,053 in 2005).

39.4. Fundo de Pensão dos Empregados da Casa da Moeda do Brasil - CIFRÃO

Cifrão, instituted by the CMB, a non-profit organization, is a private pension fund with its own equity and administrative and financial autonomy. Its main objective is the institution and execution of retirement benefit plans to the employees of the CMB. There are no transactions between the Bank and the Cifrão.

39.5. Reserva para o Desenvolvimento Institucional do Banco Central do Brasil - Redi-BC

Redi-BC was created with the objective to fund the execution of projects developed to achieve the institutional mission of the Bank and the accomplishment of its strategic objectives as defined by the Board of Directors as part of the institutional planning process.

In 2006, Redi-BC spent R$21,509 (R$53,011 in 2005) for the Bank and also reimbursed it in the amount of R$589 (R$463 in 2005) as an administration fee.

39.6. Fundo de Assistência ao Pessoal - FASPE

Faspe is a fund created to manage resources destined to the maintenance of healthcare benefits of the employees of the Bank. It was created by Law 9.650, of May 27, 1998, which determines that its resources will be composed by budget endowments of the Bank and monthly contributions from the participants. The Bank’s contributions must be equivalent to the expected contributions of the participants. It also prescribes that, in the occurrence of a deficit in the system, the Bank may use available sources of resources for the covering of such deficit.

In 2006, the Bank made R$39,441 (R$33,052 in 2005) in contributions to the Faspe.

39.7. The Board of Directors and other management officers

The Bank’s Board of Directors consists of 9 Directors (including the Governor), one Executive Secretary, one Attorney General and 39 Heads of Departments. These are considered key-people. The Bank does not grant loans of any kind to any of its key-people. Nevertheless, the benefits include salaries, wage related expenses, health care and other benefits. The Bank is also responsible for the payment of post retirement benefits for the key-people 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$1,758 in 2006 (R$1,578 in 2005). The total amount for the remaining key-people was R$9,593 in 2006 (R$7,463 in 2005).

40 - OTHER INFORMATION

To increase accountability and transparency of the Bank's actions, and continuing the initiative to improve internal controls and corporate governance, three new departments have been created within the Bank, as follows:

a) Ombudsman's Office – has the function of receiving and responding to society's complaints against the Bank; with responsibility for ensuring agility and appropriates of follow-up measures taken and ensuring that the public receives rapid responses;

b) Department of Professional Conduct – has the function of receiving and analyzing complaints and denounces related to the performance and behavior of employees of the Bank; and also investigating and holding employees responsible for their actions;

c) Security Department – has the function of guaranteeing the physical safety of the people, investments and other holdings of the Bank; the new department will work to anticipate possible risks to the investments and performance capacity of the Bank.

41 - FISCAL RESPONSIBILITY LAW – MANDATORY INFORMATION

a) Impact and fiscal cost of 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, these negative results must be covered not later than the tenth business day of the fiscal year subsequent to the year of approval of the financial statements by the CMN.

Therefore:

I. The result of the Bank is comprised of revenues and expenses related to all of its operations;

II. Positive results are transferred as revenues to the National Treasury, and negative results are covered as expenses of the National Treasury;

III. Such results are included in the Fiscal Budget of the National Treasury account.

The Bank experienced a surplus of R$413,589 in the third quarter, and a deficit of R$1,056,681 in the fourth quarter, totaling a negative result of R$643,092 for the second half of the year. After realization of revaluation reserves, this result will be covered by the National Treasury not later than the tenth business day of the exercise following the approval of the financial statements by the CMN. In conformity with Article 9, Paragraph 5, of the Fiscal Responsibility Law, within ninety days after the end of the semester, the Bank shall present, in a joint meeting of the interested committees of the National Congress (among which the Economic Subjects Commission, the Finances and Taxation Commission and the Public budget Commission), an evaluation report on compliance with the objectives and targets of the monetary, credit and foreign exchange policies; and also demonstrating the impact and fiscal costs of its operations and the results depicted in its financial statements.

b) Cost of remunerating the National Treasury deposits with the Bank - Fiscal Responsibility Law, Article 7, Paragraph 3:

The cost corresponding to the remuneration of the National Treasury deposits amounted to R$5,866,766 in the third quarter of 2006 and to R$6,505,723 in the fourth quarter of 2006 (R$12,372,489 for the semester).

c) Cost of maintaining foreign exchange reserves - Fiscal Responsibility Law, Article 7,

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Paragraph 3:

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

	International Reserves		Cost of Funding	Cost of maintaining international reserves	
	Average Balance (R$ '000)	Profitability (%)	(%)	(%)	(R$ mil)
3rd Quarter	149,566,858	2.04	2.48	(0.44)	(658,094)
4th Quarter	172,808,507	(0.21)	2.24	(2.45)	(4,233,808)
Total during the semester	-	-	-	-	(4,891,902)

In the fourth quarter, with an average daily balance of R$172,808,507, the international reserves yielded a negative result of 0.21%, considering the valuation of the Real against the main foreign currencies. The exclusion of the average cost of the Bank's liabilities (2.24%), resulted in a net negative result of 2.45% (R$4,233,808) on the international reserves.

d) Profitability of the securities portfolio, with emphasis on the securities issued by the National Treasury - Fiscal Responsibility Law, Article 7, Paragraph 3:

	Income	Expenses	Result
3rd Quarter	**11,041,919**	**(1,313,939)**	**9,727,980**
Debt Securities issued by the Federal Government	10,931,612	(992,181)	9,939,431
Debt Securities in Issue	110,307	(321,758)	(211,451)
4th Quarter	**10,092,659**	**(544,928)**	**9,547,731**
Debt Securities issued by the Federal Government	10,019,046	(475,321)	9,543,725
Debt Securities in Issue	73,613	(69,607)	4,006
Total in the semester	**21,134,578**	**(1,858,867)**	**19,275,711**

In the fourth quarter, these results can be explained mainly by the following factors:

I - Debt Securities Issued by the Federal Government – the net positive result arising from transactions with these securities amounted to R$9,543,725; due primarily to interest earnings;

II - Debt Securities in Issue – the net positive result arising from transactions with these securities amounted to R$156,337; due primarily to 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
Antonio Gustavo Matos do Vale
Mário Magalhães Carvalho Mesquita
Paulo Sérgio Cavalheiro
Paulo Vieira da Cunha
Rodrigo Telles da Rocha Azevedo.

Head of the Accounting and Financial Department

Jefferson Moreira – Accountant, CRC-DF 7.333

Independent Auditors' Report

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

1. We have audited the accompanying financial statements of Banco Central do Brasil (the "Bank"), which comprise the balance sheets as at December 31, 2006 and 2005, and the related income statements, statements of changes in equity and cash flow statements for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with International Standards on Auditing; and in observance of Auditing Standards applicable in Brasil. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3. As described in Note 2, the financial statements referred to in paragraph 1 have been prepared in accordance with the accounting practices defined by the National Monetary Council (CMN), which determined that the Bank adopt International Financial Reporting Standards as its accounting framework.

4. During 2005, the Bank implemented a new system for the management of legal claims, which is used to generate the amount of the corresponding provision in accordance with the criteria set forth in Note 21.1. During 2006, updates and enhancements were made to the system with the objective of ensuring the integrity of the data included therein and consistency in the form in which the amount of the provisions is calculated. Despite the adjustments made, our audits revealed a significant number of inconsistencies in the information utilized, which made it impracticable to evaluate the adequacy of the provisions for legal claims; which amounted to R$ 1,148 million at December 31, 2006 and R$ 1,017 million at December 31, 2005.

5. As described in Note 3.6.2, the Bank is responsible for the payment of retirement benefits to employees who retired from the Bank subsequent to 1991; and who do not participate in the Centrus pension plan. This obligation is being settled on a monthly basis from a budget appropriation contained in the Administrative Budget. Furthermore, as described in the same note, the Bank offers medical benefits to all of its active and retired employees, pensioners, and their dependents. The Bank has not recorded the actuarial liability related to these benefit plans at December 31, 2006 and 2005; not complying with International Financial Reporting Standards in this regard, specifically as pertains to IAS 19 – *Employee Benefits*. .

6. In our opinion, except for the matter discussed in paragraph 4, and the non-implementation of IAS 19 as described in paragraph 5, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards.

7. Our audits were conducted for the purpose of expressing an opinion on the basic financial statements taken as a whole. The supplementary information included in the income statements and in Note 41 is not required information in accordance with the Bank's accounting framework, and is being presented for purposes of additional analysis and in compliance with the Fiscal Responsibility Law, respectively. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 28, 2007

KPMG Auditores Independentes
CRC 2SP014428/O-6-F-DF

Original report in Portuguese signed by:
Ricardo Anhesini Souza
Contador CRC 1SP152233/O-6 S-DF