



BANCO CENTRAL DO BRASIL
Administration Management
Accounting and Financial Department

Financial Statements

December 31, 2016

BANCO CENTRAL DO BRASIL
BALANCE SHEET
In thousands of Reais

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ASSETS	Notes	Dec 31, 2016	Dec 31, 2015	LIABILITIES AND EQUITY	Notes	Dec 31, 2016	Dec 31, 2015
ASSETS IN FOREIGN CURRENCIES		<u>1,292,650,832</u>	<u>1,471,172,680</u>	LIABILITIES IN FOREIGN CURRENCIES		<u>92,721,130</u>	<u>46,367,534</u>
Cash and Cash Equivalents	4.1	74,082,067	52,681,331	Items in the Course of Collection	16	13,700,151	5,486,551
Time Deposits Placed with Financial Institutions	5.1	31,834,409	60,164,002	Deposits Received from Financial Institutions	17	2,317	2,776
Funds Under External Management	6	19,236,030	24,098,779	Financial Assets Sold Under Repurchase Agreements	7.1	21,366,925	4,002,380
Financial Assets Purchased Under Resale Agreements	7.1	60,007,008	57,465,756	Derivatives	8.1	41,578	5,400
Derivatives	8.1	74,461	5,053	Accounts Payable	18.1	12,737,238	15,621,696
Securities	9.1	1,047,352,691	1,239,810,314	Deposits Received from International Financial Organizations	19	44,864,432	21,244,185
Receivables	11.1	3,403,429	4,879,984	Other		8,489	4,546
Gold	12	8,178,957	8,935,741				
Investment in International Financial Organizations	13	48,481,780	23,131,720				
ASSETS IN LOCAL CURRENCY		<u>1,739,477,604</u>	<u>1,312,701,235</u>	LIABILITIES IN LOCAL CURRENCY		<u>2,581,445,679</u>	<u>2,408,539,647</u>
Cash and Cash Equivalents	4.2	14,002,800	5,466,720	Items in the Course of Collection	16	13,090	14,185
Deposits	5.2	1,472,038	1,360,612	Deposits Received from Financial Institutions	17	409,224,031	368,414,269
Derivatives	8.2	865,412	-	Financial Assets Sold Under Repurchase Agreements	7.2	1,085,349,829	967,748,493
Federal Government Securities	9.2	1,518,007,723	1,279,138,194	Derivatives	8.2	-	7,375,435
Receivables from the Federal Government	10	174,225,466	64,837	Payables to the Federal Government	10	1,050,206,705	1,036,601,593
Receivables	11.2	28,878,494	24,659,216	Accounts Payable	18.2	629,168	685,654
Property and Equipment	14	887,290	847,165	Deposits Received from International Financial Organizations	19	19,866	12,457
Other	15	1,138,381	1,164,491	Provisions	20	35,924,950	27,624,434
				Other		78,040	63,127
				CURRENCY IN CIRCULATION	21	<u>232,145,593</u>	<u>225,485,184</u>
				TOTAL EQUITY		<u>125,816,034</u>	<u>103,481,550</u>
				Capital	22.1	139,675,451	99,675,451
				Revenue Reserve	22.2	6,624,205	6,624,205
				Revaluation Reserve	22.2	422,693	428,561
				Gains (Losses) Recognized Directly in Equity	22.3	(20,906,315)	(3,246,667)
TOTAL ASSETS		<u>3,032,128,436</u>	<u>2,783,873,915</u>	TOTAL LIABILITIES AND EQUITY		<u>3,032,128,436</u>	<u>2,783,873,915</u>

The accompanying notes are an integral part of these financial statements.

BANCO CENTRAL DO BRASIL
INCOME STATEMENT
In thousands of Reais

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	Notes	Years ended December 31	
		2016	2015
Interest income		174,795,274	146,214,472
Interest expenses		(297,608,069)	(242,675,875)
Net interest result	23	(122,812,795)	(96,461,403)
Gains (losses) on financial instruments classified as At Fair Value through Profit or Loss, held for trading	24	125,983,516	144,970,262
Gains (losses) on financial instruments classified as At Fair Value through Profit or Loss, by designation of the management	25	6,455,533	1,050,024
Gains (losses) from foreign currencies	26	(17,088,759)	25,020,111
Gains (losses) from monetary gold	27	(760,276)	2,068,545
Other income	28	4,134,782	2,973,761
Other expenses	28	(5,439,703)	(2,915,102)
NET INCOME FOR THE YEAR	29.1	(9,527,702)	76,706,198

The accompanying notes are an integral part of these financial statements.

BANCO CENTRAL DO BRASIL
STATEMENT OF COMPREHENSIVE INCOME
In thousands of Reais

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	Notes	Years ended December 31	
		2016	2015
NET INCOME FOR THE YEAR	29.1	(9,527,702)	76,706,198
OTHER COMPREHENSIVE INCOME	22.3	(17,659,648)	9,777,646
Items which will not be reclassified to profit or loss		(17,686,154)	9,599,358
Investment in International Financial Organizations		(12,634,799)	6,680,705
Remeasurements of Defined Benefit Plans		(5,051,355)	2,918,653
Items which may be reclassified to profit or loss		26,506	178,288
Federal Government Securities		26,506	178,288
COMPREHENSIVE INCOME FOR THE YEAR	29.2	(27,187,350)	86,483,844

The accompanying notes are an integral part of these financial statements.

BANCO CENTRAL DO BRASIL
STATEMENT OF CHANGES IN EQUITY
In thousands of Reais

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	Notes	CAPITAL	REVENUE RESERVE	REVALUATION RESERVE	GAINS (LOSSES) RECOGNIZED DIRECTLY IN EQUITY	RETAINED RESULTS	TOTAL EQUITY
At December 31, 2015		99,675,451	6,624,205	428,561	(3,246,667)	-	103,481,550
Constitution of Capital	22.1	40,000,000	-	-	-	-	40,000,000
Realization of Revaluation Reserves	22.2	-	-	(5,868)	-	5,868	-
Gains (Losses) Recognized Directly in Equity	22.3	-	-	-	(17,659,648)	-	(17,659,648)
Net income for the 1st half of 2016		-	-	-	-	(17,308,089)	(17,308,089)
Net income for the 2nd half of 2016		-	-	-	-	<u>7,780,387</u>	<u>7,780,387</u>
Net income for 2016	29.1	-	-	-	-	(9,527,702)	(9,527,702)
Result to be covered by the National Treasury - 1st half of 2016	39.1.b	-	-	-	-	17,305,155	17,305,155
Result to be transferred to the National Treasury - 2nd half of 2016	39.1.b	-	-	-	-	(7,783,321)	(7,783,321)
At December 31, 2016		139,675,451	6,624,205	422,693	(20,906,315)	-	125,816,034
At December 31, 2014		24,675,451	6,624,205	434,672	(13,024,313)	-	18,710,015
Constitution of Capital	22.1	75,000,000	-	-	-	-	75,000,000
Realization of Revaluation Reserves	22.2	-	-	(6,111)	-	6,111	-
Gains (Losses) Recognized Directly in Equity	22.3	-	-	-	9,777,646	-	9,777,646
Net income for the 1st half of 2015		-	-	-	-	35,184,659	35,184,659
Net income for the 2nd half of 2015		-	-	-	-	<u>41,521,539</u>	<u>41,521,539</u>
Net income for 2015	29.1	-	-	-	-	76,706,198	76,706,198
Result transferred to the National Treasury - 1st half of 2015	39.1.b	-	-	-	-	(35,187,802)	(35,187,802)
Result transferred to the National Treasury - 2nd half of 2015	39.1.b	-	-	-	-	(41,524,507)	(41,524,507)
At December 31, 2015		99,675,451	6,624,205	428,561	(3,246,667)	-	103,481,550

The accompanying notes are an integral part of these financial statements.

BANCO CENTRAL DO BRASIL
STATEMENT OF FOREIGN CURRENCIES CASH FLOWS
In thousands of Reais

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	Notes	Years ended December 31	
		2016	2015
<u>Net Cash Flow from Operating Activities</u>		38,250,366	11,756,106
Interest received		14,309,687	13,936,924
Interest paid		(10,230)	(7,344)
(Purchase) sale of securities		(16,055,639)	20,074,846
(Sale) purchase of foreign currencies		(2,637,306)	1,997,896
Redemption (placement) of repurchase and reverse repurchase transactions		16,262,996	(18,463,311)
Redemption (placement) of time deposits		19,990,281	(8,500,564)
Redemption (placement) of funds under external management		1,548,025	(21,081)
Formation of deposits liabilities		768,791	711,676
Receipts on behalf of the National Treasury		4,814	10,201
Receipt of receivables		2,853,113	2,504,701
Receipts (payments) resulting from operations with derivatives		1,180,609	(512,492)
Other receipts		35,225	24,654
Net Cash Flow		38,250,366	11,756,106
Change in Cash and Cash Equivalents		38,250,366	11,756,106
Cash and cash equivalents at the beginning of the year		52,681,331	25,420,081
Cash and cash equivalents at the end of the year	4	74,082,067	52,681,331
Effect of foreign exchange variation on cash and cash equivalents	26	(16,849,630)	15,505,144

The accompanying notes are an integral part of these financial statements.

1 - THE BANK AND ITS ATTRIBUTIONS

The Banco Central do Brasil (BCB), established through the enactment of Law 4,595, of December 31, 1964, is an autonomous federal government institution that is part of the National Financial System (SFN) and its mission is to ensure the stability of the currency's purchasing power and a solid and efficient financial system. The BCB's head office is in Brasília, Federal District, in Setor Bancário Sul, quadra 3, bloco B and it has offices in nine other states of Brazil.

These financial statements were analyzed by the Board of Directors, which approved, on February 15, 2017, their submission to the National Monetary Council (CMN) for the authorization of their disclosure on February 23, 2017, as established by Law 4,595 of 1964. These financial statements are published on the BCB's website (www.bcb.gov.br).

2 - PRESENTATION

The BCB's financial statements as at December 31, 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

When carrying out its activities as a monetary authority, the BCB applies financial instruments which are adequate for the management of the country's international reserves and for the execution of the monetary policy. Within this context, and with the purpose of presenting more relevant information for the users of its financial statements, the BCB divides its operations in two groups: those related to foreign currencies and those related to local currency. In the balance sheet, assets and liabilities of each group are classified in descending order regarding liquidity.

As established by Article 34 of the Fiscal Responsibility Law (Complementary Law 101 of May 4, 2000), the BCB does not issue debt or equity instruments and, therefore, is not obliged to disclose information on operating segments as provided in the IFRS 8 – Operating Segments.

2.1. Standards and amendments to standards already issued that are not yet effective and which were not adopted in advance by the BCB

- IFRS 9 – Financial Instruments: in July 2014, the IASB issued the final version of IFRS 9 bringing together the classification and measurement of financial assets, the impairment and the hedge accounting, as part of the project for the replacement of International Accounting Standard (IAS) 39 – Financial instruments: Recognition and Measurement. This version adds a new impairment model and amendments to the classification and measurement of financial assets. This standard is mandatory for annual periods beginning on or after January 1st, 2018, and it is not possible, at this moment, to estimate the potential effects on the financial statements of the BCB.

2.2. Standards and amendments to standards already issued that are not yet effective and for which no effects are expected on the financial statements

- IFRS 15 – Revenue from Contracts with Customers: in May 2014, the IASB issued IFRS 15 in replacement of IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue: Barter Transactions Involving Advertising Services. Even though IFRS 15 is applicable to contracts with customers, it is not applicable to insurance contracts, financial instruments or lease agreements, which are covered by the scope of other IFRS. This standard is mandatory for annual periods beginning on or after January 1st, 2018. No effect is expected on the financial statements since the BCB does not have contracts with customers for the supply of products or services;
- Amendments to IAS 7 – Statement of Cash Flows: in January 2016, the IASB issued amendments to IAS 7 to require entities to provide disclosures that allow users of the financial statements to assess changes in their liabilities arising from financing activities. These amendments are mandatory for annual periods beginning on or after January 1st, 2017. No effect is expected on the financial statements since the BCB does not have cash flows in foreign currencies arising from financing activities;
- Amendments to IAS 12 – Income Taxes: in January 2016, the IASB issued amendments to IAS 12 to clarify when a deferred tax asset should be recognized for unrealized losses. These amendments are

mandatory for annual periods beginning on or after January 1st, 2017. No effect is expected on the financial statements in view of the BCB's tax immunity (Note 3.9);

- IFRS 16 – Leases: in January 2016, the IASB issued IFRS 16, which replaces IAS 17 - Leases. The standard establishes a single model for lease agreements on a lessee's balance sheet, eliminating the distinction between operating and financial leases. However, the accounting of these contracts in the lessor's balance sheet remains practically unchanged. These amendments are mandatory for annual periods beginning on or after January 1st, 2019. No effect is expected on the financial statements since the BCB does not have lease agreements;
- Amendments to IAS 40 – Investment Property: in December 2016, the IASB issued a review of IAS 40 to clarify that a property under construction or development previously classified as inventory may only be reclassified to investment property when there is an evident change in use of the property. These amendments are mandatory for annual periods beginning on or after January 1st, 2018. No effect is expected on the financial statements since the BCB does not have investment properties.

3 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the BCB, which were consistently applied to the comparative financial information, are presented below.

3.1. Determination of profit and loss

The BCB's profit or loss is determined semiannually on an accrual basis and, after the constitution or reversal of reserves, it is transferred to the National Treasury in the event of net income or covered by it in the event of a net loss (Notes 29.1 and 40.a).

3.2. Recognition of interest income and expenses

Interest income and expenses are recognized using the effective interest yield of the operations, which discounts future receipts and payments of financial assets or liabilities to their net carrying amounts, according to their contractual terms. This calculation considers all the material amounts paid or received between the parties, such as fees, commissions, discounts and premiums.

Interest income and expenses presented in the income statement include interest income and expenses of the BCB's financial assets and liabilities not classified as At Fair Value through Profit or Loss.

3.3. Assets and liabilities in foreign currencies

The functional and reporting currency of these financial statements is the Brazilian Real, which represents the currency of the main economic environment in which the BCB operates.

Transactions in foreign currencies are translated into Reais at the prevailing foreign exchange rate on the date of the transactions. The foreign exchange restatement referring to monetary assets and liabilities denominated in foreign currencies is calculated on a daily basis, with the related gains and losses recognized monthly in profit or loss.

The foreign exchange rates used are the closing rates of the free exchange market freely fixed by agents and published by the BCB, except for the gold quotation, which is obtained from the London Stock Exchange and is translated into Reais at the U.S. Dollar exchange rate. The closing rates are calculated based on the average of the transaction quotations in the spot interbank market effectively provided by institutions accredited to carry out the purchase and sale operations of foreign currency with the BCB (dealers), excluding the two highest and the two lowest quotations.

The Special Drawing Right (SDR) is the accounting unit adopted by the International Monetary Fund (IMF) and its rate is pegged to a basket of currencies that are freely used in international transactions, currently the Euro (EUR), the Yen (JPY), the Pound Sterling (GBP), the Renminbi Yuan (CNY) and the U.S. Dollar (USD).

The following table presents the foreign exchange rates used on the balance sheet closing date:

	Reais / currency		
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
U.S. Dollar	3.2588	3.9045	2.6559
Euro	3.4379	4.2493	3.2264
Canadian Dollar	2.4255	2.8165	2.2915
Pound Sterling	4.0354	5.7869	4.1398
Australian Dollar	2.3556	2.8522	2.1760
SDR	4.3808	5.4105	3.8479
Yen	0.0279	0.0324	0.0222
Gold (troy ounces)	3,780.5339	4,136.0369	3,178.5811

3.4. Financial assets and liabilities

3.4.1 Recognition

Financial assets and liabilities are recognized at their fair values at the time they are contracted, i.e. on the date the entity undertakes to purchase or sell them, and for those that are not classified as At Fair Value through Profit or Loss, this amount includes all the costs incurred in the transaction.

The BCB enters into operations in which it does not substantially receive all the risks and benefits of financial assets traded, as in financial assets purchased under resale agreements. In this situation, the assets traded are not recognized in the accounting and the amounts invested are recorded in the balance sheet at the contractual amounts.

3.4.2 Derecognition

Financial assets are derecognized when:

- the rights to receive their cash flows expire, due to financial settlement, lack of expected settlement or in the event of loss of the right of realization; or
- the BCB transfers the rights to receive the cash flows, substantially transferring all the risks and benefits of ownership. In the cases in which there is no substantial retention or transfer of all the risks and benefits of ownership, the financial assets are derecognized only when there is no retention of control over the transferred financial assets.

Financial liabilities are derecognized when the obligations are settled, canceled or expired.

The BCB carries out operations in which it transfers the assets recognized on its balance sheet, but it remains with control through risks retention and the right to income and expenses. The main transactions with these characteristics are repurchase agreements and securities lending operations.

3.4.3 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and recorded at net value when there is the legal right and the intention to settle the resulting payments and receipts on a net basis. Transactions with these characteristics are carried out in the Local Currency Payment System (SML) and the Reciprocal Credit and Payment Agreement (CCR), presented in receivables (Note 11.1) or accounts payable (Note 18.1), according to the balance determined on the balance sheet closing date.

3.4.4 Classification of financial instruments

On the date of the contracting, financial assets are classified into one of the following categories: At Fair Value through Profit or Loss, Held-to-maturity, Loans and Receivables or Available-for-sale. After the initial recognition, assets are valued in accordance with the classification made. Financial liabilities are not subject to classification and are measured at amortized cost, except for derivative financial liabilities, which are measured at fair value through profit or loss.

a) At Fair Value through Profit or Loss

A financial instrument is classified as At Fair Value through Profit or Loss, with gains and losses resulting from changes in the fair value recognized in the income statement, in the event of one of the following situations:

- if there is the intention to trade it in the short-term;
- if it is a derivative financial instrument; or
- through Management's decision, when this classification presents more relevant information and provided that these assets are part of a portfolio that is valued and managed based on their fair value.

b) Held-to-maturity

This category comprises the non-derivative financial assets for which the entity has the intention and ability to hold until maturity. These assets are carried at amortized cost and the interest, calculated using the effective interest rate, is recognized in the income statement on an accrual basis.

c) Loans and Receivables

This category includes non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortized cost and the interest, calculated using the effective interest rate, is recognized in the income statement on an accrual basis.

d) Available-for-sale

This category records the non-derivative financial assets that are not classified in the other categories, since Management does not have a specific intention to sell them. These assets are measured at fair value, with gains and losses recorded in equity – they are recognized in profit or loss upon their effective realization –, while the interest, calculated using the effective interest rate, is recognized in the income statement on an accrual basis.

3.4.5 Measurement

The fair value is the market value disclosed by the main depository trust companies (custodian) and providers of economic information. For instruments with no active market, the fair value is calculated using pricing models, which make maximum use of objective market inputs, including the value of the most recent tradings, the discounted cash flow and the fair value of similar financial instruments. The models used are assessed by a multi-departmental committee, which is also responsible for suggesting new methodologies or improvements.

The amortized cost is the value on the date of recognition, adjusted by the contractual interest using the effective interest rate, less any payments and impairment losses.

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

<u>Assets in Foreign Currencies</u>	<u>Category</u>	<u>Measurement Basis / Source of Information</u>
Cash and Cash Equivalents	Loans and Receivables	Amortized cost
Time Deposits Placed with Financial Institutions	Loans and Receivables	Amortized cost
Funds Under External Management	At Fair Value through Profit or Loss	Fair value - Manager
Financial Assets Purchased Under Resale Agreements	Loans and Receivables	Amortized cost
Derivatives - Futures	At Fair Value through Profit or Loss	Fair value - Stock exchanges
Derivatives - Forward	At Fair Value through Profit or Loss	Fair value - Internal Models/Bloomberg
Securities	At Fair Value through Profit or Loss	Fair value - Bloomberg
Receivables	Loans and Receivables	Amortized cost
Investment in International Financial Organizations	Available-for-sale	Fair value - Redemption value in Reais

<u>Assets in Local Currency</u>	<u>Category</u>	<u>Measurement Basis / Source of Information</u>
Cash and Cash Equivalents	Loans and Receivables	Amortized cost
Deposits	Loans and Receivables	Amortized cost
Financial Assets Purchased Under Resale Agreements	Loans and Receivables	Amortized cost
Derivatives - Swap	At Fair Value through Profit or Loss	Fair value - Securities, Commodities and Futures Exchange
Derivatives - Foreign Exchange Equalization	At Fair Value through Profit or Loss	Fair value - BCB
Federal Government Securities	Held-to-maturity	Amortized cost
Receivables from the Federal Government	Loans and Receivables	Amortized cost
Receivables - Institutions Under Extrajudicial Liquidation	At Fair Value through Profit or Loss	Fair value - Discounted cash flow
Receivables - Other	Loans and Receivables	Amortized cost

<u>Liabilities in Foreign Currencies</u>	<u>Category</u>	<u>Measurement Basis / Source of Information</u>
Items in the Course of Collection	Other liabilities	Amortized cost
Deposits Received from Financial Institutions	Other liabilities	Amortized cost
Financial Assets Sold Under Repurchase Agreements	Other liabilities	Amortized cost
Derivatives - Futures	At Fair Value through Profit or Loss	Fair value - Stock exchanges
Derivatives - Forward	At Fair Value through Profit or Loss	Fair value - Internal Models/Bloomberg
Accounts Payable	Other liabilities	Amortized cost
Deposits Received from International Financial Organizations	Other liabilities	Amortized cost

<u>Liabilities in Local Currency</u>	<u>Category</u>	<u>Measurement Basis / Source of Information</u>
Items in the Course of Collection	Other liabilities	Amortized cost
Deposits Received from Financial Institutions	Other liabilities	Amortized cost
Financial Assets Sold Under Repurchase Agreements	Other liabilities	Amortized cost
Derivatives - Swap	At Fair Value through Profit or Loss	Fair value - Securities, Commodities and Futures Exchange
Derivatives - Foreign Exchange Equalization	At Fair Value through Profit or Loss	Fair value - BCB
Payables to the Federal Government	Other liabilities	Amortized cost
Accounts Payable	Other liabilities	Amortized cost
Deposits Received from International Financial Organizations	Other liabilities	Amortized cost

3.4.6 Impairment of financial assets

The BCB conducts an evaluation, at least every six months, in order to verify if there is evidence of impairment of its financial assets.

The BCB considers as objective evidence of impairment only the events occurring after the initial recognition of the asset that had an impact on the estimated cash flow and only when this impact can be reliably estimated. The BCB considers, for example, the following events:

- financial difficulties of the issuer or debtor;
- default of any payment, whether related to the principal or interest;
- renegotiation or discounts granted;
- extrajudicial liquidation, bankruptcy and financial reorganization; and
- disappearance of an active market, due to financial difficulties of the issuer.

If there is objective evidence of impairment for assets carried at amortized cost, the amount of the loss is calculated as the difference between the carrying value of the asset on the date of measurement and the value that is expected to be received, adjusted to present value by the contractual rates. The carrying amount of the asset is adjusted through the use of an allowance account and the amount of the loss is recognized in the income statement.

The impairment of financial assets is assessed individually by a multi-departmental committee, which is responsible for verifying the appropriateness of the methodologies used.

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

When an asset is considered uncollectible, it is written off against the allowance account. Any subsequent recoveries of amounts previously written-off are recognized as income.

If, in subsequent periods, there is a change in the conditions of receipt of the asset and this change results in a reversal of an impairment loss recognized previously, the amount of the reversal is recorded as a gain, except for equity investments, where previously recognized impairment cannot be reversed.

3.4.7 Derivatives

Derivatives are recognized at fair value as from the date they are contracted and are presented as assets, when the fair value is positive, and as liabilities, when the fair value is negative.

The BCB does not apply hedge accounting as established by IAS 39 and, accordingly, recognizes all gains and losses in the income statement.

3.5. Gold

Since the IFRS do not establish a specific accounting treatment for investments in monetary gold held by central banks, the BCB understands that the most appropriate treatment for this type of asset would be the one arising from the application of the Conceptual Framework for Financial Reporting issued by the IASB.

Accordingly, the investments in monetary gold are recognized at fair value upon their contracting, that is, on the date on which the entity undertakes to make the purchase or sale. After initial recording, the gains and losses arising from the changes in fair value, calculated by the quotation obtained from the London Stock Exchange, are recognized in the income statement on an accrual basis.

3.6. Property and equipment

This group of accounts consists of land, buildings and equipment acquired by the BCB for its own use, as well as the collection of works of art and precious metals, except monetary gold (Note 3.5), and is recorded at cost, less accumulated depreciation, when applicable. All the expenses directly attributable to the acquisition or the construction of the asset are included in the cost. Further expenditures are only added to the cost of assets if it is probable that future economic benefits will flow to BCB arising from this increase, and that its cost may be reliably measured. Other expenditures for maintenance and repair are recognized in the income statement.

Land, works of art and precious metals are not depreciated. The other assets are depreciated according to the straight-line method, recognizing their cost over the estimated useful life of the assets, as follows:

- a) buildings: 62.5 years;
- b) equipment and furniture: 5 years for computer equipment and vehicles and 10 years for other fixed assets.

3.7. Provisions

3.7.1 Litigation

The BCB recognizes a provision when an outflow of economic resources is probable and this amount can be reliably estimated. When an outflow of economic resources is not probable, but only possible, no provision is recognized.

3.7.2 Post-employment benefits

The BCB sponsors post-employment benefit plans with respect to retirement, pension and health care benefits, in the form of defined benefit and defined contribution.

a) Defined benefit

A defined benefit plan is one where the value of the benefits at the time of retirement is previously established, considering one or more factors, such as age and time of contribution.

The liability recognized in the balance sheet is the present value of the obligations less the fair value of the assets of the plans. The value of the obligations is calculated on an annual basis by independent actuaries. When the fair value of the plan assets exceeds the present value of the obligations,

resulting in an actuarial surplus, a corresponding asset is recognized in the balance sheet, to the extent of the expected benefits.

Actuarial gains and losses resulting from adjustments based on experience and on changes in actuarial assumptions are fully recognized in equity, as other comprehensive income.

b) Defined contribution

A defined contribution plan is one in which the contributions owed by the entity and the plan participants are previously established, and the value of the benefits at the time of retirement is adjusted according to the amounts contributed and the capitalization of these funds. Accordingly, the entity has no legal or presumed obligation to pay additional contributions to the plan.

In this classification, the contributions made by the BCB are fully recognized as an expense.

3.8. Use of judgments, assumptions, and estimates

The preparation of financial statements under the IFRS requires judgments, assumptions and estimates which affect the recognized amounts of assets and liabilities at the reporting date, as well as the amounts of income, expenses, gains, and losses during the periods presented and the subsequent periods, since the results effectively realized may be different from those calculated according to such judgments and estimates.

Adopted estimates are continuously analyzed, taking into consideration past experience as well as other factors considered as relevant, reflecting the best current estimates made in accordance with the applicable standard. Adjustments made are recognized in the period when the estimate is reviewed, with prospective effects.

Considering that, in many situations, there are alternatives in the use of judgments, assumptions and estimates, the results disclosed by the BCB might be different if another alternative had been chosen. Management considers that the choices are appropriate and that the financial statements properly present the financial position of the BCB as well as the result of its operation in all material aspects.

The most significant judgments, assumptions and estimates applied, which impact the amounts of assets and liabilities, are as follows:

a) Fair value of financial assets and liabilities not quoted in an active market

The fair value of financial assets and liabilities which are not quoted in an active market is established by using pricing models, which make maximum use of objective market inputs. When these inputs are not available, judgment is required for determining the fair value. The methodologies for calculation of the fair value are described in Notes 3.4.5 and 31. The sensitivity analysis of financial assets and liabilities to changes in the inputs used is disclosed in Note 36.4.

b) Impairment of financial assets

The BCB periodically reviews its financial assets in order to assess if impairment losses are to be recognized in the income statement. This process is subject to many estimates and judgments, as detailed in Note 3.4.6.

c) Provisions for litigation

Provisions for litigation are only accounted when the BCB's legal department considers the risk of loss as probable and provided that resulting disbursements can be reliably estimated (Note 3.7.1). Judgments used in this assessment are described in more details in Note 20.1.

d) Post-employment benefits

Current amounts of assets and liabilities from post-employment benefit plans sponsored by the BCB depend on factors established based on actuarial calculations, which use a number of assumptions, as detailed in Note 20.2. These assumptions are periodically reviewed in order to guarantee the consistency of the actuarial calculations and the carrying amount of assets and liabilities recognized.

e) Statement of foreign currencies cash flows

The purpose of a statement of cash flows is to provide information on the capacity of an entity to generate cash and cash equivalents as well as the necessity of using such flows in its activities. Considering that the BCB is the institution responsible for the liquidity of the financial system and, therefore, the holder of the right to issue currency, the Management understands that the statement of cash flows referring to its operations should be limited to the transactions in foreign currencies, since these are outside its prerogative to issue.

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash, demand deposits and very short-term time deposits in foreign currencies (Note 4.1).

3.9. Tax immunity

Pursuant to the Brazilian Federal Constitution, the BCB is exempt from taxes on its equity and on the income and services related to its activities. However, it is obliged to collect fees and contributions and make tax withholdings referring to the payments of services provided by third parties.

Because of its tax immunity, the BCB is not subject to the requirements of IAS 12.

4 - CASH AND CASH EQUIVALENTS

	Dec 31, 2016	Dec 31, 2015
In Foreign Currencies	74,082,067	52,681,331
Cash	39,047	379,836
Demand deposits	13,033,211	16,140,501
Very short-term time deposits	99	36,160,994
In Local Currency	14,002,800	5,466,720
Total	88,084,867	58,148,051

4.1. In foreign currencies

The amounts in foreign currencies mainly correspond to the portion of international reserves held by the BCB as demand deposits and very short-term time deposits, in accordance with its risk management policy (Notes 34 to 38). International reserves are the monetary assets available for coverage of imbalances in payments and, in some situations, for other financial requirements of the monetary authorities of a country.

The variation in the period was mainly due to the increase in investments, taking into consideration the diversification of the investment portfolio of international reserves, which was compensated in part by the effects of the appreciation of the Real against the U.S. Dollar (Note 3.3).

4.2. In local currency

The balance of cash and cash equivalents in local currency at December 31, 2015 and December 31, 2016 includes amounts receivable from contracted operations pending settlement on the balance sheet date, arising from the spot sale and forward repurchase of foreign currencies in the domestic market (Notes 7.1 and 16), which will be settled within three days.

The variation in the period is due to the higher volume of operations pending settlement at December 31, 2016, compared to December 31, 2015.

5 - DEPOSITS

5.1. In foreign currencies

These comprise the portion of international reserves held by the BCB as fixed time deposits in international financial institutions, in accordance with its risk management policy (Notes 34 to 38), amounting to R\$31,834,409 (R\$60,164,002 at December 31, 2015).

The variation in the balance of these deposits was mainly due to the decrease in investments, taking into consideration the diversification of the investment portfolio of international reserves, in addition to the effects of the appreciation of the Real against the U.S. Dollar (Note 3.3) in the period.

5.2. In local currency

These are deposits made by legal determination, relating to ongoing litigations, for which there is the recognition of a provision (Note 20.1) or a court-ordered debt payable (Note 18.2). Due to this entailment, they are unavailable up to the court decision on the matter under dispute, and are remunerated by the effective interest rate of the daily financing calculated at the Special System of Settlement and Custody (Selic rate). At December 31, 2016, the balance amounted to R\$1,472,038 (R\$1,360,612 at December 31, 2015).

6 - FUNDS UNDER EXTERNAL MANAGEMENT

	Dec 31, 2016	Dec 31, 2015
Fund managed by the BIS	1,138,716	1,343,851
External Management Program	18,097,314	22,754,928
Securities	15,307,032	17,731,178
Up to 1 year	3,700,500	4,267,564
1 - 5 years	8,927,360	9,586,528
> 5 years	2,679,172	3,877,086
Index funds	2,234,489	3,822,169
Equity instruments	2,234,489	3,822,169
Cash/receivables	555,793	1,201,581
Total	19,236,030	24,098,779

6.1. Fund managed by the BIS

The fund managed by the Bank for International Settlements (BIS) refers to the investment placed in the BIS Investment Pools (BISIPs), funds targeted exclusively for the investment of international reserves of central banks, including the BISIP ILF1 (US Inflation-protected Government Securities Fund) and the BISIP CNY (Domestic Chinese Sovereign Fixed Income Fund).

The portfolio is managed by three external managers, selected by the BIS, each with a specific investment strategy, namely: active management, enhanced indexing and passive management.

The quota holders of the fund can request the partial or complete withdrawal of their investments at any time, as long as, in accordance with the judgment of the BIS, the requested amount does not have a significant impact on the market prices of the Fund's assets. However, the BIS provides immediate liquidity if the requested settlement is not implemented due to market conditions.

The variation in the period is mainly due to the effects of the foreign exchange variation arising from the appreciation of the Real against the U.S. Dollar (Note 3.3) and to the fair value adjustment of the investments.

6.2. Program for External Management of International Reserves

The Program for External Management of International Reserves (PGER) corresponds to the outsourcing of the management of a portion of the reserves to international institutions specialized in portfolio management (external managers), with the main objective of transferring know-how to the BCB.

These institutions receive a management fee, established in the contract, and are evaluated based on the benchmark portfolio defined by the BCB, which also defines guidelines for the investment of the

funds. The assets of the PGER are held on behalf of the BCB, under the responsibility of a global custodian selected for this specific purpose, therefore without the credit risk of the manager.

The variation in the period is mainly due to the effects of the foreign exchange variation arising from the appreciation of the Real against the U.S. Dollar (Note 3.3) and to the redemption of US\$400 million of the investment.

7 - FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS/SOLD UNDER REPURCHASE AGREEMENTS

These are transactions in which assets are purchased in a lump sum under an agreement to be sold on a future date (reverse repo) or are sold under an agreement to be repurchased at a future date (repo). In the foreign market, the BCB normally contracts with the same counterparty a repo along with a reverse repo, where the cash settlement of these operations occurs independently.

In these operations, considering their characteristics, the assets traded are recorded as collaterals. The exceptions are in the event of spot purchases (sales) of foreign currency combined with the forward resale (repurchase), since cash settlement occurs only against payment on the date agreed upon, that is, the actual receipt/delivery of the traded currency settles the operation.

7.1. In foreign currencies

	Dec 31, 2016	Dec 31, 2015
Financial Assets Purchased Under Resale Agreements	60,007,008	57,465,756
Foreign Market	22,840,394	4,071,719
Securities	8,086,781	-
Currencies	14,753,613	4,071,719
Assets granted as collateral	8,084,470	-
Domestic Market	37,166,614	53,394,037
Currencies	37,166,614	53,394,037
Financial Assets Sold Under Repurchase Agreements	21,366,925	4,002,380
Foreign Market	21,366,925	4,002,380
Securities	8,085,964	-
Currencies	13,280,961	4,002,380
Assets granted as collateral	7,919,462	-

a) Financial assets purchased under resale agreements (reverse repo)

In transactions realized in the foreign market, securities issued by central governments are received as collateral. Only securities in which the BCB is authorized to invest can be received, as described in Notes 34 to 38. The quantities of securities and amounts received as collateral are continuously monitored and adjusted according to price and risk parameters. The calculation of the collateral required is made considering the collateral per counterparty, with a margin adjustment whenever the collateral offered in the repo operations is more than 98% of the collateral received in the reverse repo operations.

The BCB is not subject to restrictions on the sale, encumbrance, loan and transfer of securities deposited as collateral, provided that it returns them on the final date of an operation. These guarantees will be exercised in the event of default of one of the parties, as established by The Bond Market Association (TBMA) and the International Securities Market Association (ISMA) through the documents Master Repurchase Agreement or Global Master Repurchase Agreement.

In the domestic market, the BCB is authorized to carry out combined operations of interbank foreign currency, through spot sales auctions combined with the forward repurchase of foreign currency, with the purpose of meeting the demand for U.S. Dollars and ensuring appropriate levels of liquidity of the SFN.

The variation in the balance of repos and reverse repos in foreign currencies carried out in the foreign market was due to the increase in investments, including in transactions involving securities, taking into consideration the diversification of the investment portfolio of international reserves. Regarding transactions carried out in the domestic market, the decrease is related to the BCB's activity in the interbank foreign exchange market. This decrease is a result of the non-renewal of a portion of the transactions which fell due in the period and of the effects of the appreciation of the Real against the U.S. Dollar (Note 3.3).

b) Financial assets sold under repurchase agreements (repo)

In repo operations, securities issued by central governments existing in the portfolio of the BCB are offered as collateral. The BCB delivers securities amounting to 98% of the financial value of the repurchase agreement (repo) operations to hedge against credit and market risks. The manner of calculating and realizing the collateral is identical to the reverse repo operations.

The variation in the balance of these operations reflects the increase in the investments in the reverse repo operations realized in the foreign market (Note 7.1.a), since the BCB normally contracts with the same counterparty a repo along a reverse repo.

7.2. In local currency

	Dec 31, 2016	Dec 31, 2015
Financial Assets Sold Under Repurchase Agreements	1,085,349,829	967,748,493
Securities	1,047,483,967	913,279,784
Foreign Currencies	37,865,862	54,468,709
Assets granted as collateral	1,041,313,382	961,694,658
Freely tradeable	184,472,025	186,808,888
Not freely tradeable	856,841,357	774,885,770

The collateral of repos and reverse repos involving securities is always constituted in federal government securities held in custody in the Selic, which are valued at prices lower than those observed in the secondary market for the purpose of hedging the lender of the funds against changes in the market interest rates (prices). Since the value of the collateral is established at the time of contracting the operation and there is no provision for an adjustment during its effectiveness, the lender of resources assumes the risk of changes in market prices of the collaterals when they fall below those established at the time of contracting the operation.

Repo operations may be established with a clause of "free tradeability", in which the securities may be subject to final sale, provided they are returned on the settlement date of the repo operation, or "without free tradeability", where final sale is not permitted during the term of the operation. On the other hand, reverse repo operations are always formalized as "without free tradeability".

The changes in the balance of repo operations reflect the increase of liquidity collected by the BCB, mainly due to the payment of interest by the BCB in its open market transactions (Note 23) and the net redemption of federal government securities (Notes 9.2 and 39.1.i). This increase of liquidity was diminished by the receipt of adjustments in foreign exchange swap transactions (Notes 8.2.1 and 29.1). In addition, the BCB activities in the interbank foreign exchange market, through spot sales auctions combined with the forward repurchase of foreign currency, led to a decrease in these operations (Note 7.1.a).

8 - DERIVATIVES

8.1. In foreign currencies

In the management of the international reserves, the BCB uses derivatives in its routine operations for the purpose of implementing the investment strategy previously established by the Committee on Investment Strategy or managing exposure to market risk, aiming to achieve security, liquidity and profitability.

Considering these objectives, the Committee on Investment Strategy authorized the contracting of derivatives in currencies different from those used as a hedge of the sovereign external debt,

adopting a model that exploits the interest rate differential in the countries and a model for medium-term trends that is based on technical factors, both of which are widely used in the international financial market.

The BCB uses the following types of derivative instruments in its operations:

- a) currency forwards: derivative instruments characterized by swapping currencies (purchase and sale) with settlement on a future date at a prefixed rate. These operations are carried out on the over-the-counter market, directly with financial institutions, and follow the risk management standards described in Notes 34 to 38;
- b) futures contracts of interest rates, securities, indexes and commodities: derivative instruments characterized by the obligation to pay or the right to receive a specified amount related to the variation in the interest rates, in the prices of the reference securities, in the indexes or in the prices of commodities on a future date, in accordance with the number and size of the outstanding contracts, at a determined price established in the market. These operations are carried out in a stock exchange, with standardized contracts and collaterals in cash, and the changes in the prices of the contracts are adjusted daily.

The notional amounts of the contracts in force and their respective fair values per type of operation and per maturity are presented in the tables below:

At Dec 31, 2016

Derivative/Currency	Long Position	Short Position	Positive Adjustment	Negative Adjustment
Forward				
<u>1 - 6 months</u>			<u>74,461</u>	<u>41,578</u>
Australian Dollar	70,668	70,668	1,887	-
Euro	85,948	85,948	-	1,797
Yen	3,258,962	237,941	-	-
Renminbi Yuan	-	2,951,574	-	-
New Zealand Dollar	45,320	90,640	451	934
U.S. Dollar	3,438,831	3,460,513	72,123	38,847
Index futures				
<u>1 - 5 years</u>			<u>-</u>	<u>-</u>
Euro	989,330	-	-	-
Yen	-	974,113	-	-
Pound Sterling	-	985,765	-	-
U.S. Dollar	8,359,295	-	-	-
Commodities futures				
<u>1 - 5 years</u>			<u>-</u>	<u>-</u>
U.S. Dollar	2,552,135	2,526,725	-	-
Securities futures				
<u>1 - 5 years</u>			<u>-</u>	<u>-</u>
U.S. Dollar	10,821,614	189,038	-	-
Australian Dollar	-	133,912	-	-
Euro	-	8,982,034	-	-
<u>> 5 years</u>			<u>-</u>	<u>-</u>
U.S. Dollar	6,830,050	-	-	-
Australian Dollar	-	145,942	-	-
Euro	952,085	-	-	-
Pound Sterling	-	4,785,714	-	-
Total			74,461	41,578

At Dec 31, 2015

Derivative/Currency	Long Position	Short Position	Positive Adjustment	Negative Adjustment
Forward				
1 - 6 months			5,053	5,400
Yen	980,359	980,359	-	-
U.S. Dollar	976,125	977,445	5,053	5,400
Index futures				
1 - 6 months			-	-
Euro	2,091,930	-	-	-
Securities futures				
1 - 6 months			-	-
U.S. Dollar	-	196,475	-	-
Australian Dollar	-	628,117	-	-
1 - 5 years			-	-
U.S. Dollar	24,451,765	-	-	-
Total			5,053	5,400

Considering the characteristics of a currency swap, no collateral is constituted in forward operations. In futures operations, the collateral is established by deposits that totaled R\$952,227 at December 31, 2016 (R\$433,705 at December 31, 2015).

The derivatives balance in foreign currencies refers only to the currency forward transactions, considering that the changes in fair value of futures contracts are settled on a daily basis through a margin account.

8.2. In local currency

8.2.1 Swap

In the execution of the monetary and foreign exchange policy, the BCB may perform swaps, referenced in interest rates and in foreign exchange variation, for the purpose of providing foreign exchange hedges for financial institutions and other economic agents.

These operations are contracted through holding auctions in the BCB's electronic system and are recorded in the Securities, Commodities and Futures Exchange (BM&FBovespa), in the form of a standard agreement.

The BCB makes guarantee margin deposits in federal government securities, at the prices adopted in repos and reverse repos (Note 7.2), which totaled R\$16,414,265 at December 31, 2016 (R\$72,787,685 at December 31, 2015 – Note 9.2). On a daily basis, margin calls or returns are carried out, depending on the swap variations, as established by BM&FBovespa, which assumes all the credit risk arising from these operations.

The agreements may be of the ID x U.S. Dollar Swap with Reset (SCC) type, the object of negotiation of which is the difference between the effective interest rate of Interbank Deposits (ID) and the variation of the foreign exchange rate in relation to the U.S. Dollar, or they can be of the U.S. Dollar Swap with Reset Referencing One-Day Repurchase Agreements (SCS) type, in which the object of negotiation is the differential between the Selic rate and the variation of the foreign exchange rate in relation to the U.S. Dollar.

In the long position of these agreements, the BCB is on the asset side in a domestic interest rate (Selic or ID rate), and on the liability side in foreign exchange variation plus exchange coupon, which is a representative interest rate in U.S. Dollars. Inversely, in the short positions, the BCB is on the asset side in foreign exchange variation plus exchange coupon and on the liability side in a domestic interest rate (Selic or ID rate). These contracts have a notional value equivalent to US\$50 thousand and daily financial adjustment.

The notional values and the related fair values per type of operation and per maturity are presented in the table below:

At Dec 31, 2016

	Notional Value			Fair Value	
	Long Position	Short Position	Net Position	Assets	Liabilities
1 month	34,621,419	(18,326,734)	16,294,685	128,746	-
1 - 6 months	86,556,808	-	86,556,808	736,666	-
Total	121,178,227	(18,326,734)	102,851,493	865,412	-

At Dec 31, 2015

	Notional Value			Fair Value	
	Long Position	Short Position	Net Position	Assets	Liabilities
1 month	41,756,955	-	41,756,955	-	168,474
1 - 6 months	195,349,920	-	195,349,920	-	3,576,893
6 - 12 months	189,515,563	-	189,515,563	-	3,158,402
1 - 5 years	37,267,412	-	37,267,412	-	471,666
Total	463,889,850	-	463,889,850	-	7,375,435

In 2016, the result of the foreign exchange swaps was R\$83,803,222 positive (R\$102,628,331 negative in 2015 – Note 29.1).

8.2.2 Foreign exchange equalization

The foreign exchange equalization operation between the National Treasury and the BCB was established by Law 11,803, of November 5, 2008, for the purpose of providing greater transparency to the results of the operations of the monetary authority and reducing the volatility of its results, arising from the mismatch between the foreign currency assets and liabilities (Note 36.3).

Through foreign exchange equalization, which presents characteristics similar to a swap, the carrying cost of international reserves (represented by the difference between the profitability of the reserves and the BCB's average funding cost) and the result of the foreign exchange swaps performed in the domestic market are transferred to the Federal Government through the National Treasury. These amounts are calculated on a daily basis and the balance payable or receivable is calculated on the last working day of the half-year, which will be settled financially according to the same rules established for the transfer or coverage of the results (Notes 29.1 and 40.a).

In 2016, the result of the foreign exchange equalization operation was R\$240,319,692 positive (R\$157,344,722 negative in 2015), as presented in Note 39.1.i.

9 - SECURITIES

9.1. In foreign currencies

	Dec 31, 2016	Dec 31, 2015
Unrestricted securities	1,039,433,229	1,239,810,314
1 month	22,603,792	4,161,582
1 - 6 months	61,881,437	81,669,009
6 - 12 months	110,000,781	98,469,775
1 - 5 years	790,225,941	990,399,446
> 5 years	54,721,278	65,110,502
Securities subject to repurchase agreements	7,919,462	-
1 month	653,996	-
1 - 6 months	2,449,392	-
6 - 12 months	734,071	-
1 - 5 years	4,082,003	-
Total	1,047,352,691	1,239,810,314

These are fixed rate securities and securities remunerated by variable coupon or by the variation in price indexes plus interest, issued by national treasuries, supranational or multilateral organizations and agencies, acquired by the BCB pursuant to its investment policy (Notes 34 to 38). They form part of the international reserves and their main purposes are to diversify the types of investments and risks, to increase profitability and to maintain different levels of liquidity.

These securities are classified as At Fair Value through Profit or Loss. The table below presents the amortized cost and the fair value of these assets:

	Dec 31, 2016	Dec 31, 2015
Amortized cost	1,048,002,533	1,239,443,717
Fair value adjustment	(649,842)	366,597
Carrying amount	1,047,352,691	1,239,810,314

The variation in the portfolio of securities in foreign currencies was mainly due to the effects of the appreciation of the Real against the U.S. Dollar (Note 3.3), the currency in which a significant part of this portfolio is denominated (Note 36.2).

9.2. In local currency

At Dec 31, 2016

	Up to 1 month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
Unrestricted securities	71,280,470	12,631,420	16,226,282	164,593,323	195,515,606	460,247,101
Zero Coupon Fixed Rate Bill (LTN)	40,384,672	5,784,794	16,226,273	58,054,049	-	120,449,788
Zero Coupon Floating Rate Bill (LFT)	-	-	9	9,372,802	6,951,773	16,324,584
IPCA - Consumer Price-Index Note (NTN-B)	-	6,846,626	-	30,452,908	79,350,828	116,650,362
Plain Vanilla Fixed Rate Note (NTN-F)	30,895,798	-	-	66,713,564	109,213,005	206,822,367
Securities subject to repurchase agreements	-	30,286,506	38,029,311	567,502,529	405,495,036	1,041,313,382
Zero Coupon Fixed Rate Bill (LTN)	-	1,969,848	37,186,645	238,867,658	-	278,024,151
Zero Coupon Floating Rate Bill (LFT)	-	-	842,666	230,953,583	120,105,772	351,902,021
IPCA - Consumer Price-Index Note (NTN-B)	-	28,316,658	-	85,461,422	239,911,631	353,689,711
Plain Vanilla Fixed Rate Note (NTN-F)	-	-	-	12,219,866	45,477,633	57,697,499
Securities granted as loans	-	-	-	-	32,763	32,763
IPCA - Consumer Price-Index Note (NTN-B)	-	-	-	-	32,763	32,763
Securities granted as collateral (Note 8.2.1)	-	-	-	16,414,265	-	16,414,265
Zero Coupon Floating Rate Bill (LFT)	-	-	-	16,414,265	-	16,414,265
Untradeable securities	-	-	-	170	42	212
National Treasury Notes - Series P (NTN-P)	-	-	-	170	42	212
Total	71,280,470	42,917,926	54,255,593	748,510,287	601,043,447	1,518,007,723

At Dec 31, 2015

	Up to 1 month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
Unrestricted securities	65,025,976	224,963	535,044	56,065,425	122,804,247	244,655,655
Zero Coupon Fixed Rate Bill (LTN)	65,025,976	224,963	437,091	11,335,277	-	77,023,307
Zero Coupon Floating Rate Bill (LFT)	-	-	7	1,649,113	7,013,198	8,662,318
IPCA - Consumer Price-Index Note (NTN-B)	-	-	97,946	420,095	1,132,388	1,650,429
Plain Vanilla Fixed Rate Note (NTN-F)	-	-	-	42,660,940	114,658,661	157,319,601
Securities subject to repurchase agreements	-	38,168,903	134,475,255	397,802,180	391,248,320	961,694,658
Zero Coupon Fixed Rate Bill (LTN)	-	38,168,903	94,752,694	216,760,636	-	349,682,233
Zero Coupon Floating Rate Bill (LFT)	-	-	7,798,960	44,489,268	79,993,364	132,281,592
IPCA - Consumer Price-Index Note (NTN-B)	-	-	31,923,601	128,508,578	270,495,767	430,927,946
Plain Vanilla Fixed Rate Note (NTN-F)	-	-	-	8,043,698	40,759,189	48,802,887
Securities granted as collateral (Note 8.2.1)	-	-	-	72,787,685	-	72,787,685
Zero Coupon Floating Rate Bill (LFT)	-	-	-	72,787,685	-	72,787,685
Untradeable securities	-	-	-	8	188	196
National Treasury Notes - Series P (NTN-P)	-	-	-	8	188	196
Total	65,025,976	38,393,866	135,010,299	526,655,298	514,052,755	1,279,138,194

The BCB manages its portfolio so as to have adequate instruments available for the execution of monetary policy, i.e. the carrying out of purchase and sales operations for securities, either definitively or as a firm commitment. The breakdown of this portfolio, therefore, tends to accompany the profile of the federal government debt securities held by the market, where, for this, as the securities fall due, the BCB recomposes its portfolio through purchases in public offerings by the National Treasury, where these operations are always carried out at the average price paid by the other market players.

The characteristics of the securities held in the BCB's portfolio are as follows:

- Zero Coupon Fixed Rate Bill (LTN): fixed interest rate set by a discount on the face value;
- Zero Coupon Floating Rate Bill (LFT): floating interest rate set by the adjusted average rate of the daily financing obtained in the Selic (Selic rate);
- IPCA – Consumer Price-Index Note (NTN-B): floating interest rate set by the Amplified National Consumer Price Index (IPCA), with semiannual payment of a coupon interest rate of 6% p.a.;
- Plain Vanilla Fixed Rate Note (NTN-F): fixed interest rate set by a discount on the face value, with semiannual payment of a coupon interest rate of 10% p.a.;

- National Treasury Notes – Series P (NTN-P): registered, non-negotiable securities, adjusted by the Referential Rate (TR), plus interest of 6% p.a. upon redemption.

The variation in the portfolio of federal government securities, as detailed in Note 39.1.i, was due to the accrual of interest (Note 23) and the issuance of securities by the National Treasury, for the recovery of the BCB's portfolio, in accordance with Law 11,803, of 2008 (Note 22.1), and the partial payment of the result obtained in the foreign exchange equalization operation referring to the first half of 2016. This effect was partially offset by the net redemption of securities in the period.

10 - TRANSACTIONS WITH THE FEDERAL GOVERNMENT

Receivables from the Federal Government	Dec 31, 2016	Dec 31, 2015
Result to be covered by the National Treasury	18,318,977	-
Foreign exchange equalization result	155,903,416	-
Remuneration of the National Treasury Operating Account to be incorporated	-	62,940
Amounts to be offset or refunded	3,073	1,897
Total	174,225,466	64,837

Payables to the Federal Government	Dec 31, 2016	Dec 31, 2015
National Treasury Operating Account	1,039,821,680	881,932,081
Result to be transferred to the National Treasury	7,783,321	41,524,507
Foreign exchange equalization result	-	110,938,091
Remuneration of the National Treasury Operating Account to be incorporated	2,526,314	2,137,732
Amounts payable	75,390	69,182
Total	1,050,206,705	1,036,601,593

Due to legal provisions, the BCB has a financial relationship with the National Treasury. The main transactions are described in Note 39.1.i.

The increase in receivables from the Federal Government was mainly due to the negative result of BCB for the first half of 2016, as well as the results of the foreign exchange equalization operation for the first and second halves of 2016, to be covered by the National Treasury. In the case of payables to the Federal Government, the variations are related to the behavior of the balance of the National Treasury Operating Account in the period (Note 39.1), highlighting the incorporation of the result of the BCB and the foreign exchange equalization.

11 - RECEIVABLES

11.1. In foreign currencies

	Dec 31, 2016	Dec 31, 2015
New Arrangements to Borrow	3,397,291	4,575,584
CCR	-	301,463
Other	6,138	2,937
Total	3,403,429	4,879,984

The balance of receivables in foreign currencies as at December 31, 2016 refers mainly to the BCB's participation in New Arrangements to Borrow (NAB).

NAB is substantiated in article VII of the Articles of Agreement of the IMF, which authorizes the organization, in the event of a scarcity of a certain currency, to propose to the member countries to make loans to the Fund, in a complementary way to their quotas (Note 13), under terms and conditions agreed upon between the parties, for the purpose of reinforcing the organization's financial capacity.

The receivables from NAB are denominated in SDR and remunerated at rates determined weekly, based on the weighted average of the interest rates representative of short-term debts in the monetary market of the countries whose currencies constitute the SDR (Note 3.3). According to the IMF's regulatory decision in November 2016, these operations were renewed for an additional five-year period beginning in November 2017, with the possibility of settlement before this deadline in case the borrower anticipates payment to the Fund. The funds made available in NAB do not have secured guarantees.

The balance variation was basically due to the partial settlement of NAB credits and to the effects of the foreign exchange variation arising from the appreciation of the Real against the SDR in the period (Note 3.3).

11.2. In local currency

At Dec 31, 2016

	Amortized cost	Fair value adjustment	Carrying amount
At Fair Value through Profit or Loss - Designation	39,330,208	(13,396,641)	25,933,567
Banco Nacional - Under Extrajudicial Liquidation	28,788,599	(8,784,163)	20,004,436
Banco Econômico - Under Extrajudicial Liquidation	10,174,852	(4,369,177)	5,805,675
Banco Banorte - Under Extrajudicial Liquidation	366,757	(243,301)	123,456
Loans and Receivables	2,944,927	-	2,944,927
Transfer of resources related to rural credit	2,230,682	-	2,230,682
Centrus	555,557	-	555,557
Other	158,688	-	158,688
Total	42,275,135	(13,396,641)	28,878,494

At Dec 31, 2015

	Amortized cost	Fair value adjustment	Carrying amount
At Fair Value through Profit or Loss - Designation	39,309,262	(16,810,784)	22,498,478
Banco Nacional - Under Extrajudicial Liquidation	28,719,939	(11,742,105)	16,977,834
Banco Econômico - Under Extrajudicial Liquidation	10,196,056	(4,748,998)	5,447,058
Banco Banorte - Under Extrajudicial Liquidation	393,267	(319,681)	73,586
Loans and Receivables	2,160,738	-	2,160,738
Transfer of resources related to rural credit	1,662,254	-	1,662,254
Centrus	355,537	-	355,537
Other	142,947	-	142,947
Total	41,470,000	(16,810,784)	24,659,216

11.2.1 At Fair Value through Profit or Loss – Designation

This refers basically to the BCB's receivables from institutions under liquidation originating from financial assistance operations (Program of Incentives to the Restructuring and Strengthening of the National Financial System – Proer) and other operations, such as overdrafts in the Banking Reserves account, negative balance in CCR operations and time deposit.

Based on Law 12,249, of June 11, 2010, the BCB's credits with the institutions under liquidation became payable in cash or in installments, at the request of the debtor, with discounts from 25% to 45% on the charges. The balance at December 31, 2016 corresponds to the fair value of the credits that were subject to installment payment, as set forth in the referred legal instrument.

For the Proer contracts, the amount of installments is restated according to the contractual charges, as established in the Program's legislation. Pursuant to the contracts, these charges correspond to

the average cost of securities and credit rights pledged in guarantee, plus 2% p.a. As regards to the contracts related to the remaining debt, the amount of each monthly installment is exclusively restated through the application of the accumulated monthly TR, according to Article 9, main clause, of Law 8,177, of March 1, 1991, with the wording given by Law 8,218, of August 29, 1991. In case the extrajudicial liquidation regime is terminated, there is surplus bankrupt estate or there are other legal grounds for removing the incidence of the TR, the monthly installments will be adjusted by the Selic rate.

The term entered into for payment in installments does not imply novation of the debt, and it should be stressed that default by the debtor may result in the rescission of the term, with the debt returning to the original situation. This agreement also does not imply automatic termination of the special regime, which may be evaluated at an opportune moment, if it is the case, in accordance with the conditions established by Law 6,024, of March 13, 1974.

These credits are classified as At Fair Value through Profit or Loss by designation of the BCB's Management. The fair value of the receivables corresponds to the present value of the contracted cash flows, calculated through the use of equivalent market rates (Note 31).

11.2.2 Loans and Receivables

a) Transfer of resources related to rural credit

These are mainly represented by transfers to financial institutions of resources originating from the compulsory reserve requirements for deficiencies in applications in rural credit (Note 17). These transfers are made at the request of the financial institutions; they are limited to the amount of their own compulsory reserve requirements and must be applied in rural credit operations.

These transfers have a maximum term of twelve months and, in the case of funds arising from the rural savings account or raised through the Agribusiness Credit Bill (LCA), they are subject to updating by the TR. These amounts are received regardless of the settlement of the compulsory reserve requirements.

The variation in the balance of transfers related to rural credit was due to the increase in the deficiencies in applications in rural credit in the period, with a consequent increase in this type of loan.

b) Centrus

This balance comprises the receivables from the Fundação Banco Central de Previdência Privada (Centrus), arising from:

- changes introduced in 2009 in the regulation of the Foundation's benefit plan, which consisted of an increase in the basic quota of death benefits, generating a credit for the sponsor in proportion to the benefit granted;
- the allocation of the surplus of the Foundation's benefit plan, with the reversal of amounts to the sponsor and the sponsored participants, as approved by the National Superintendence of Supplementary Social Security (Previc) through Ordinance 504, of September 23, 2013, in the case of balances existing at December 31, 2015, and Ordinance 518, of November 4, 2016, for the balances of December 31, 2016.

Pursuant to the agreement entered into between the BCB and Centrus, the funds arising from changes in the regulations of the benefit plan and the allocation of the surplus of the plan, as approved by Ordinance 518, of 2016, are being transferred, on the request of the sponsor, and are remunerated at a rate equivalent to the yield obtained by the Foundation on investments in federal government securities, including short-term funds collateralized by these securities.

The variation resulted from the recognition of the allocation of the surplus of the plan, as approved by Ordinance 518, of 2016, and the accrual of interest, which was partially offset by the receipts occurred in the period (Note 39.2).

12 - GOLD

	Dec 31, 2016	Dec 31, 2015
Cost	7,108,773	8,503,673
Fair value adjustment	1,070,184	432,068
Carrying amount	8,178,957	8,935,741

The BCB maintains part of Brazil's international reserves in gold, which is the gold held by the monetary authorities as reserve assets.

The variation is due to the effects of the foreign exchange variation arising from the appreciation of the Real against the U.S. Dollar (Note 3.3), partially offset by the positive fair value adjustment of the gold in the period (Note 27).

13 - INVESTMENT IN INTERNATIONAL FINANCIAL ORGANIZATIONS

The investments of the BCB in international financial organizations consists of quotas of the IMF (2.31% of the Fund's equity) and shares of the BIS (0.55% of the capital). The percentage of the capital of these organizations held by the BCB does not represent control or a significant influence in their management or in the decisions of these organizations, which determines their accounting in accordance with IAS 39.

These assets are classified as Available-for-sale and their fair value is expressed by the value, in Reais, of Brazil's investment in the organizations.

	Dec 31, 2016	Dec 31, 2015
International Monetary Fund	48,372,794	22,997,118
Bank for International Settlements	108,986	134,602
Total	48,481,780	23,131,720

The variation of the balance in the period was due to the increased Brazil's investment in the IMF, from 1.78% to 2.31%, in view of the 14th General Quota Review, whose conditions for effectiveness were met in the beginning of 2016. This effect was partially offset by the negative fair value adjustment (Note 22.3), considering the appreciation of the Real against the SDR (Note 3.3).

14 - PROPERTY AND EQUIPMENT

2016	Precious metals under several forms	Land	Buildings	Equipment	Works of art and museum pieces	Total
At Dec 31, 2015	12,459	256,324	442,296	105,878	30,208	847,165
Cost	12,501	256,324	565,216	285,267	30,208	1,149,516
Accumulated depreciation	-	-	(122,920)	(179,389)	-	(302,309)
Provision for losses	(42)	-	-	-	-	(42)
Changes in 2016	19,752	-	6,148	14,229	(4)	40,125
Incorporations/Acquisitions/Constructions	21,023	-	16,335	39,224	1	76,583
Sales/Write-offs	-	-	-	(28,653)	(5)	(28,658)
Provision for losses adjustment	(1,271)	-	-	-	-	(1,271)
Depreciation	-	-	(10,187)	(24,730)	-	(34,917)
Depreciation write-off	-	-	-	28,388	-	28,388
At Dec 31, 2016	32,211	256,324	448,444	120,107	30,204	887,290

2015

	Precious metals under several forms	Land	Buildings	Equipment	Works of art and museum pieces	Total
At Dec 31, 2014	12,459	256,324	426,806	100,189	30,187	825,965
Cost	12,501	256,324	539,618	260,210	30,187	1,098,840
Accumulated depreciation	-	-	(112,812)	(160,021)	-	(272,833)
Provision for losses	(42)	-	-	-	-	(42)
Changes in 2015	-	-	15,490	5,689	21	21,200
Incorporations/Acquisitions/Constructions	-	-	25,598	28,378	21	53,997
Sales/Write-offs	-	-	-	(3,321)	-	(3,321)
Depreciation	-	-	(10,108)	(22,605)	-	(32,713)
Depreciation write-off	-	-	-	3,237	-	3,237
At Dec 31, 2015	12,459	256,324	442,296	105,878	30,208	847,165

15 - OTHER ASSETS

	Dec 31, 2016	Dec 31, 2015
In Local Currency	1,138,381	1,164,491
Actuarial Surplus - Centrus (Note 20.2.1)	1,067,851	1,092,333
Other	70,530	72,158
Total	1,138,381	1,164,491

16 - OPERAÇÕES CONTRATADAS A LIQUIDAR

These items refer basically to contracted operations pending settlement on the balance sheet date, whose financial settlement will occur in up to three days. At December 31, 2016, the balance of items in the course of collection, in foreign and local currencies, was R\$13,700,151 and R\$13,090 (R\$5,486,551 and R\$14,185 at December 31, 2015), respectively.

17 - DEPÓSITOS DE INSTITUIÇÕES FINANCEIRAS

	Dec 31, 2016	Dec 31, 2015
In Foreign Currencies	2,317	2,776
In Local Currency	409,224,031	368,414,269
Demand Deposits	38,141,553	29,803,738
Time Deposits	140,406,354	110,006,288
Savings Deposits	125,143,775	131,592,628
Additional Requirements	102,563,195	94,531,901
Deficiencies in applications in rural credit	2,296,571	1,713,142
Other	672,583	766,572
Total	409,226,348	368,417,045

The deposits received from financial institutions in local currency comprise mainly compulsory reserve requirements, which represent a traditional monetary policy mechanism that acts as a stabilizer for the liquidity of the economy.

These deposits are calculated based on the average daily balance of the amounts obtained by the banks and may be required in cash or, when established by BCB, in federal government securities. The deposits made in cash are recognized as demand liabilities of the BCB.

Currently, the main compulsory reserve requirements have the following percentages and rates of remuneration:

- a) on demand deposits: 45%, without remuneration;
- b) on time deposits: 25%, remunerated by the Selic rate;
- c) on savings deposits: 24.5% (15.5% for rural savings account), remunerated based on the TR + 6.17% p.a. or TR + 70% of Selic Target;
- d) additional requirements: due on the sum of time deposits (11%) and of savings deposits (5.5%), remunerated by the Selic rate;
- e) deficiencies in applications in rural credits: due on the total amount of the deficiencies applied, without remuneration, in case of mandatory resources, or remunerated based on the TR, in case of resources from the rural savings account or raised through the LCA.

The change in the balance of deposits received from financial institutions is associated with the fluctuation in the amounts subject to collection in the period.

The reserve requirements on demand deposits, together with the Currency in Circulation (Note 21), comprise the economic concept of the monetary base, the variations of which evidence the primary currency issue. In 2016, the reserve requirements on demand deposits presented an increase of R\$8,337,815 (reduction of R\$12,871,073 in 2015).

18 - ACCOUNTS PAYABLE

	Dec 31, 2016	Dec 31, 2015
In Foreign Currencies	12,737,238	15,621,696
SDR allocations	12,652,165	15,621,696
CCR	85,073	-
In Local Currency	629,168	685,654
Court-ordered debts payable	355,352	434,206
Other	273,816	251,448
Total	13,366,406	16,307,350

18.1. In foreign currencies

SDR allocations are funds made available by the IMF to member countries, proportional to their participation quotas, with no expiration date, on the use of which there is interest (payable quarterly) calculated at the rates for the SDR, published by the IMF itself. The SDRs resulting from these allocations comprise the international reserves (Note 4.1) and are remunerated at the same rates as the obligation.

The variation in the balance of accounts payable in foreign currencies was basically due to the effects of the appreciation of the Real against the SDR in the period (Note 3.3).

18.2. In local currency

Pursuant to paragraph 5 of Article 100 of the Federal Constitution, state-owned companies must include in their budgets the amounts required to cover court-ordered debts presented up to July 1st of each year, for payment by no later than the end of the following year.

In compliance with the provisions of Article 32 of Law 13,408, of December 26, 2016 (Budget Guidelines Law – LDO 2017), the appropriations approved in the annual budget law for the payment of debts arising from final and unappealable judicial decisions will be decentralized to the courts requesting the court-ordered debts, which will be responsible for making the payments to the beneficiaries. As a result, the budget and financial resources shall not pass through the BCB (debtor entity). The balance existing at December 31, 2016 refers to the court-ordered debts to be paid in 2017 and the following years.

19 - DEPOSITS RECEIVED FROM INTERNATIONAL FINANCIAL ORGANIZATIONS

Deposits received from international financial organizations correspond to cash held by these institutions in the BCB, resulting from the capitalization of quotas and foreign and domestic receipts, for the operations and payment of expenses of these organizations in Brazil.

The variation in the balance of these deposits resulted mainly from the capitalization of IMF quotas (Note 13), partially offset by the effects of the appreciation of the Real against the SDR in the period (Note 3.3), the currency in which a significant portion of these deposits is denominated (Note 36.2).

20 - PROVISIONS

	Dec 31, 2016	Dec 31, 2015
Litigation	6,031,134	4,303,048
Actuarial liability	29,866,761	23,294,138
Other	27,055	27,248
Total	35,924,950	27,624,434

20.1. Provisions for litigation

At December 31, 2016, the BCB was a party to 9,478 lawsuits (3,004 as the plaintiff, 6,425 as the defendant and 49 where the BCB was an interested party) in respect of various issues, including economic plans, labor claims, liquidations of financial institutions and privatizations (at December 31, 2015, the total was 9,622, being 3,080 as the plaintiff, 6,530 as the defendant and 12 in which the BCB was an interested party).

The legal department assesses all these lawsuits, taking into consideration the amount under litigation, the stage of the litigation and the risk of loss. The risk of loss is calculated based on decisions occurring in the process, on the applicable case law and on precedents for similar cases.

Provisions are recorded for 100% of the amount at risk (including an estimate of fees for the loss of the lawsuit) for all the litigation where the risk of loss is classified as probable, i.e. where the risk of loss is assessed as greater than 50%. At December 31, 2016, provisions were recorded for 911 lawsuits (888 at December 31, 2015). The following table presents the changes in the provisions during the year:

	Years ended December 31	
	2016	2015
Opening balance	4,303,048	4,139,084
Changes	1,728,086	163,964
(+) Formation	2,685,344	329,922
(-) Reversal	(926,623)	(63,102)
(-) Transfer to court-ordered debts	(27,840)	(101,900)
(-) Write-off due to payment of requisition of small sum	(2,795)	(956)
Closing balance	6,031,134	4,303,048

In 2016, a new system was implemented in order to control the legal liabilities and receivables managed by the legal department of the BCB. As a result, improvements were made in the calculation of provisions for litigation, which explained the variation in these income and expenses in 2016 compared to the same period in the previous year (Note 28).

The amounts of the lawsuits are adjusted by the Selic rate, as determined in Resolution 134, of December 21, 2010, of the Federal Justice Council. Labor lawsuits are exceptions, since these are restated using the TR plus legal interest, in accordance with Laws 8,177, of 1991, and 10,192, of February 14, 2001.

The lawsuits in which the risk of loss was considered as less than probable and more than remote were classified as contingent liabilities and, accordingly, no provisions were recorded. At December 31, 2016, there were 904 lawsuits (917 at December 31, 2015) in this situation, totaling R\$41,318,419 (R\$40,372,004 at December 31, 2015).

The following table presents the amount of the provisions distributed according to the period of time expected for the conclusion of the lawsuits:

	Dec 31, 2016	Dec 31, 2015
2016	-	1,248,196
2017	5,796,469	1,865,891
2018	2,963	164,575
2019	15,404	6,190
2020	19,866	785,933
2021	80,073	12,647
2022	108,576	1,969
2023	1,695	3,678
2024	1,999	2,770
2025	1,605	209,368
2026	553	1,831
2027	999	-
2028	387	-
2029	437	-
2030	108	-
Total	6,031,134	4,303,048

The distribution of the balance of the provision in accordance with the nature of the lawsuits is shown in the table below:

	Dec 31, 2016	Dec 31, 2015
Special systems	1,579,545	1,580,692
Labor lawsuits	2,587,426	1,475,474
Economic plans	973,647	568,540
Contractual relationships	573,274	420,871
Other	317,242	257,471
Total	6,031,134	4,303,048

The BCB, in conformity with legal procedures, made deposits for some lawsuits in progress (Note 5.2). These deposits may be used in any one of the following situations:

- a favorable decision for the BCB in a lawsuit, in which case the judge authorizes the BCB to redeem the deposit;
- an unfavorable decision for the BCB and determination by the judiciary for the amount to be transferred to the successful party;
- an unfavorable decision for the BCB and issuance of a court-ordered debt, in which case the judge authorizes the BCB to redeem the corresponding deposit.

20.2. Provision for actuarial liabilities

The BCB sponsors post-employment benefit plans for its employees, which include retirement, pension and health care benefits, in the form of defined benefit and defined contribution (Note 3.7.2). A summary of the existing plans and the main assumptions for the actuarial calculations are presented below, when applicable:

20.2.1 Defined benefit plans

a) Retirement benefits for employees retired before 1990 – Centrus

The Centrus plan is a defined benefit plan, the purpose of which is to supplement the retirement and pension benefits paid by the government Social Security System to employees that retired up to 1990. The plan is funded by contributions from the sponsor and the retired employees, made to Centrus, which is responsible for administering the funds and payments. In 2008, due to the actuarial surplus presented by the plan, the rates for the contributions were reduced to 0% for the sponsor and for the participants. This plan is in the process of being extinguished since entry of new participants is no longer possible.

b) Retirement benefits for employees retired after 1990 – RJU

The RJU plan is a defined benefit plan, the purpose of which is to provide the payment of retirement and pension benefits in accordance with the determinations of the Federal Constitution and Law 8,112, of December 11, 1990 and Law 12,618, of April 30 2012.

In accordance with this plan, the post-employment benefits are calculating considering one or more factors, such as age and time of contribution. It should be pointed out that, in the case of employees who were hired after February 4, 2013, the retirement benefits and pensions are limited to the maximum threshold established by the Social Security General Regime (RGPS), based on the Federal Constitution and on Law 12,618, of 2012.

In order for the employees to be entitled to this benefit, the BCB and the employees, themselves, contribute directly to the Federal Government; however, there is no relationship between this payment and receipt of the benefits, resulting in the responsibility of BCB for paying the obligation.

c) Health care benefits – Faspe

The Faspe plan is a defined benefit plan, the purpose of which is to maintain a program aiming at funding the prevention of disease and the maintenance and recovery of the health of the BCB's employees and their dependents.

The plan is maintained by contributions from the sponsor and the employees, and there is also a participation by the employees in the expenses incurred, in accordance with the regulations.

The contributions are made to the Personnel Assistance Fund (Faspe), which is responsible for the management of the funds and for the payment of the benefits.

d) Actuarial calculations

Calculation of the provision	Dec 31, 2016			Dec 31, 2015		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Present value of actuarial obligations	2,215,995	24,454,948	5,458,446	2,210,946	19,357,814	3,972,546
(-) Fair value of plan assets	(5,281,287)	-	(46,633)	(5,013,069)	-	(36,222)
Net actuarial liabilities (assets)	(3,065,292)	24,454,948	5,411,813	(2,802,123)	19,357,814	3,936,324
Unrecognized assets	1,997,441	-	-	1,709,790	-	-
Actuarial liabilities (assets) recognized in the balance sheet	(1,067,851)	24,454,948	5,411,813	(1,092,333)	19,357,814	3,936,324

The actuarial asset of the Centrus plan, referring to the excess of assets in relation to the benefits payable, is recognized in the balance sheet to the extent of the expected economic benefits (Note 15). Accordingly, taking into consideration the reversal of the amounts of the actuarial surplus of the Centrus plan, in compliance with Resolution 26, of the Board for Management of Supplementary Pension Funds (CGPC), of September 29, 2008, this calculation considers the proportionality of the contribution between the BCB and the participants, as well as the formation of a contingency reserve by Centrus.

The following tables present the information used in the actuarial calculations, as well as the changes in the period:

Present value of the liabilities - Reconciliation	Dec 31, 2016			Dec 31, 2015		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Present value of actuarial obligations at the beginning of the year	2,210,946	19,357,814	3,972,546	2,153,041	21,695,321	3,651,581
(+) Current service cost	-	187,450	140,203	-	136,614	92,453
(+) Interest cost on liabilities	297,367	2,375,225	484,887	247,719	2,305,409	387,910
(-) Benefits paid	(358,142)	(1,376,513)	(307,848)	(334,071)	(1,308,619)	(260,784)
(+) Participants contributions	-	-	95,125	-	-	90,326
(+/-) Actuarial losses (gains)	65,824	3,910,972	1,073,533	144,257	(3,470,911)	11,060
(=) Present value of actuarial obligations at the end of the year	2,215,995	24,454,948	5,458,446	2,210,946	19,357,814	3,972,546

Plan assets - Reconciliation	Dec 31, 2016			Dec 31, 2015		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Fair value of the plan assets at the beginning of the year	5,013,069	-	36,222	5,342,798	-	67,376
(-) Benefits paid	(358,142)	(1,376,513)	(307,848)	(334,071)	(1,308,619)	(260,784)
(+) Participants contributions	-	-	95,125	-	-	90,326
(+) Sponsor contributions	-	-	225,749	-	-	137,438
(+) Interest cost on investments	634,743	-	6,949	578,496	-	8,342
(+) Transfer from the National Treasury	-	1,376,513	-	-	1,308,619	-
(-) Allocation of surplus of the plan	(304,572)	-	-	-	-	-
(+/-) Return on assets not included in the net interest	296,189	-	(9,564)	(574,154)	-	(6,476)
Fair value of the plan assets at the end of the year	5,281,287	-	46,633	5,013,069	-	36,222

Plan assets - Percentage distribution	Dec 31, 2016			Dec 31, 2015		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Quoted in an active market	92.9%	-	74.8%	92.8%	-	67.6%
Federal Government Securities	78.8%	-	74.8%	83.9%	-	67.6%
Investment in Equity Instruments	5.9%	-	-	7.3%	-	-
Investment in Fixed Income Funds	8.2%	-	-	1.6%	-	-
Not quoted in an active market	7.1%	-	25.2%	7.2%	-	32.4%
Real Estate Investments	1.8%	-	-	1.6%	-	-
Other	5.3%	-	25.2%	5.6%	-	32.4%
Total	100.0%	-	100.0%	100.0%	-	100.0%

Income and expenses recognized in the Income Statement for the year	Dec 31, 2016			Dec 31, 2015		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Other expenses						
Current service cost	-	187,450	140,203	-	136,614	92,453
Interest expenses (income)						
Interest cost	(337,376)	2,375,225	477,938	(330,777)	2,305,409	379,568

Remeasurements of defined benefit plans recognized in Equity	Dec 31, 2016			Dec 31, 2015		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Opening balance	(4,534,471)	(4,527,069)	(2,058,437)	(3,999,749)	(7,997,980)	(2,040,901)
Actuarial gains (losses)	(65,824)	(3,910,972)	(1,073,533)	(144,257)	3,470,911	(11,060)
Adjustments arising from the return on assets not included in the net interest	296,189	-	(9,564)	(574,154)	-	(6,476)
Changes in the effect of the asset ceiling	(287,651)	-	-	183,689	-	-
Closing balance	(4,591,757)	(8,438,041)	(3,141,534)	(4,534,471)	(4,527,069)	(2,058,437)

Actuarial assumptions	Dec 31, 2016			Dec 31, 2015		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Financial						
Discount rate (*)	10.47%	10.39%	10.36%	12.04%	12.08%	12.07%
Inflation rate (*)	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Rate of contribution of retired employees	-	-	1 a 3%	-	-	1 a 3%
Rate of contribution of the sponsor	-	-	Up to 3%	-	-	Up to 3%
Expected growth rate for salaries	-	2.20%	-	-	2.05%	-
Trend rate for medical costs	-	-	11.95%	-	-	12.84%
Non-financial						
Number of active employees	-	4,092	3,801	-	4,236	3,716
Number of retired employees	609	5,191	5,728	648	5,131	5,768
Number of pensioners	707	666	1,286	696	617	1,224
Number of beneficiaries	-	-	32,129	-	-	32,218
Average past service (in years)	-	14.6	-	-	18.4	-
Average expected future service (in years)	-	19.9	-	-	14.4	-
Average age of active employees	-	46	45	-	44	44
Average age of retired employees	83	67	68	82	65	62
Average age of pensioners	87	56	72	85	54	54
General mortality table	AT 2000 reduced by 10%	AT 2000 reduced by 10%	AT 2000 reduced by 10%	AT 2000 reduced by 10%	AT 2000 reduced by 10%	AT 2000 reduced by 10%
Disabled mortality table	EX IAPC	EX IAPC	EX IAPC	EX IAPC	EX IAPC	EX IAPC
Entry into disability table	ÁLVARO VINDAS	ÁLVARO VINDAS	ÁLVARO VINDAS	ÁLVARO VINDAS	ÁLVARO VINDAS	ÁLVARO VINDAS

(*) The financial assumptions consider the market expectations for the periods when the obligations will be settled.

The variation observed between the two periods is mainly due to the revision of indexes, especially discount rates, and in the case of the Centrus plan, it should be pointed out the allocation of the surplus approved by Ordinance 518, of 2016 (Notes 11.2.2.b and 39.2).

e) Sensitivity analysis for significant actuarial assumptions

The sensitivity analysis was carried out by submitting the most significant actuarial assumptions to certain variations, reflecting their effects on the liability amounts. For all plans, the actuarial assumption analyzed was the long-term interest rate. In addition, the salary growth rate for the RJU plan and the evolution of medical costs for Faspe were analyzed.

The long-term interest rate, used as a basis for the establishment of the discount rate of the plans, was calculated considering the market of the federal government securities for terms similar to those of the flow of obligations of each plan, in the so-called duration concept. A change of (+/-) 2% in the interest rate would have the following impact on the amount of the actuarial liabilities:

	+2%	-2%
Centrus	(238,412)	295,287
RJU	(4,771,708)	7,179,782
Faspe	(1,241,920)	1,988,783

To determine the salary growth rate, the BCB considered the variation of the salary mass of its active employees between 2015 and 2016. Accordingly, the salary growth rate is not applicable to the Centrus plan, since the entry of new participants is no longer possible and there are no active participants linked to the BCB. Regarding RJU, an increase of 1% in the rate would increase the amount of the actuarial liability by R\$363,328, whereas a decrease in the same percentage would reduce the liability by R\$324,359.

The rate of growth of the medical costs of Faspe was calculated considering past growth in the last five years. A change of (+/-) 1% in the medical costs would have the following impact on Faspe:

	+1%	-1%
Cost of services and interest	130,010	(102,402)
Liability	847,440	(685,673)

f) Other information

- The BCB estimates that the payment of its contributions to Faspe in 2017 will be R\$98,293;
- Estimate present value of payment of benefits for the next 10 years:

	Centrus	RJU	Faspe	Consolidated
2017	356,171	1,332,832	150,086	1,839,089
2018	335,227	1,334,053	157,872	1,827,152
2019	314,608	1,334,967	167,225	1,816,800
2020	294,072	1,335,475	175,604	1,805,151
2021	273,668	1,335,454	185,275	1,794,397
2022 - 2026	1,073,224	6,647,078	1,076,481	8,796,783

- Weighted average duration of actuarial liabilities:

	Centrus	RJU	Faspe
Weighted average duration of actuarial liabilities (in years)	6.0	14.9	19.6

- Past information:

	2016	2015	2014	2013	2012
Centrus					
Present value of the liabilities	2,215,995	2,210,946	2,153,041	2,384,265	3,221,072
Fair value of the assets	5,281,287	5,013,069	5,342,798	5,539,877	5,430,476
Deficit (surplus) of the plan	(3,065,292)	(2,802,123)	(3,189,757)	(3,155,612)	(2,209,404)
Adjusted experience resulting from the plan's liabilities	(88,705)	426,130	(57,028)	(352,644)	122,856
Adjusted experience resulting from the plan's assets	(296,189)	574,154	438,321	7,238	338,874
RJU					
Present value of the liabilities	24,454,948	19,357,814	21,695,321	20,129,908	21,922,281
Deficit (surplus) of the plan	24,454,948	19,357,814	21,695,321	20,129,908	21,922,281
Adjusted experience resulting from the plan's liabilities	153,022	(1,006,629)	(2,279,917)	1,989,603	1,619,688
Faspe					
Present value of the liabilities	5,458,446	3,972,546	3,651,581	3,448,509	3,271,456
Fair value of the assets	46,633	36,222	67,376	75,840	74,003
Deficit (surplus) of the plan	5,411,813	3,936,324	3,584,205	3,372,669	3,197,453
Adjusted experience resulting from the plan's liabilities	(279,925)	(175,170)	164,356	1,649,635	83,109
Adjusted experience resulting from the plan's assets	9,564	6,476	7,771	7,000	7,511

20.2.2 Defined contribution plan

a) Funpresp-Exe

In compliance with Law 12,618, of 2012, the BCB sponsors a defined contribution plan, administered by the Fundação de Previdência Complementar do Servidor Público Federal do Poder Executivo (Funpresp-Exe), a closed supplementary pension plan entity, related to the Ministry of Planning, Development and Management (MPDG). This plan is destined to supplement the payment of retirement and pension of statutory employees. The employee who adopts the Funpresp-Exe benefit plan is classified as:

- regular active participant, if the employee is subject to the maximum threshold established by the RGPS and his or her contribution basis is higher than this threshold; and

- alternative active participant, if the employee is not subject to the maximum threshold established by the RGPS or his or her contribution basis is equal to or lower than this threshold.

The BCB pays a basic contribution only in favor of the regular active participant, which corresponds to 100% of the participant's basic contribution, up to the maximum amount of 8.5% of the participation salary of the corresponding participant. In 2016, the BCB made contributions amounting to R\$3,488 (R\$2,579 in 2015) to the Funpresp-Exe.

b) Defined Contribution Plan (PCD)

Designed to meet the requirements of Article 14 of Law 9,650, of May 27, 1998, the PCD is a defined contribution plan managed by Centrus, aimed at complementing pensions of employees and directors of the BCB.

The BCB exercises non-contributory sponsorship and, therefore, does not contribute to the PCD. Therefore, the value of the post-employment benefit exclusively considers the contributions of the participants, corresponding to a percentage of their participation salary, observing the minimum limit of 3%.

21 - CURRENCY IN CIRCULATION

The Currency in Circulation represents the balance of bank notes and coins in circulation, held by the general public and financial institutions, recorded at the issuing amount.

The distribution of notes and coins in circulation, per denomination, is presented below:

	Dec 31, 2016		Dec 31, 2015	
	Quantity	Amount	Quantity	Amount
Notes	6,286,941,913	225,940,804	6,243,040,511	219,525,999
R\$1.00	148,906,872	148,907	149,057,098	149,057
R\$2.00	1,156,755,333	2,313,511	1,122,703,867	2,245,408
R\$5.00	513,767,844	2,568,839	536,666,089	2,683,331
R\$10.00	644,091,326	6,440,913	683,677,919	6,836,779
R\$20.00	716,099,441	14,321,989	741,277,557	14,825,551
R\$50.00	2,211,709,284	110,585,464	2,163,598,487	108,179,924
R\$100.00	895,611,813	89,561,181	846,059,494	84,605,949
Coins	24,590,573,044	6,201,268	23,829,204,995	5,956,714
R\$0.01	3,191,076,449	31,911	3,191,039,179	31,910
R\$0.05	6,158,681,184	307,934	5,886,768,568	294,339
R\$0.10	6,555,985,279	655,598	6,369,078,224	636,908
R\$0.25	2,847,595,806	711,899	2,784,993,554	696,248
R\$0.50	2,686,617,743	1,343,309	2,600,033,578	1,300,017
R\$1.00	3,150,616,583	3,150,617	2,997,291,892	2,997,292
Commemorative	-	3,521	-	2,471
Total		232,145,593		225,485,184

At December 31, 2016, the Currency in Circulation presented an increase of 3% when compared to December 31, 2015, which can be associated mainly with the behavior of inflation, together with a downturn in the economic activity and in the credit operations of the financial system.

The Currency in Circulation, together with the reserve requirements on demand deposits (Note 17), comprises the economic concept of the monetary base, the variation in which evidences the primary issue of currency. The variations in the Currency in Circulation are presented in the table below:

	Years ended December 31	
	2016	2015
Opening balance	225,485,184	220,853,706
Changes	6,660,409	4,631,478
(+) Issuance	297,468,080	286,387,143
(-) Payment	(290,807,671)	(281,755,665)
Closing balance	232,145,593	225,485,184

As regards the administrative expenses of currency in circulation, the amounts in 2015 and 2016, recorded in Other Expenses (Note 28), are as follows:

	Years ended December 31	
	2016	2015
Acquisition of notes and coins	530,788	518,286
Storage and safekeeping of notes and coins	98,029	88,854
Distribution of notes and coins	38,580	34,941
Selection of notes and coins	10,141	13,789
Destruction of notes and coins	1,435	1,526
Royalties from the sale of commemorative coins	9,399	11,625
Other	1,034	15
Total expenses with Currency in Circulation	689,406	669,036

22 - EQUITY

22.1. Capital

Capital is comprised of the following items:

- initial equity, in the amount of R\$14,526, which represents the capital originally transferred to the BCB at the time of its constitution, adjusted by the monetary restatement up to December 31, 1995;
- results of the BCB until 1987 and incorporated into its equity, adjusted by the monetary restatement up to December 31, 1995, totaling R\$2,561,830; and
- capital increases resulting from the incorporation of securities issued by the Federal Government for the purpose of recovery of the portfolio, in the amount of R\$137,099,095.

The variation in the period was due to the issuance of securities by the National Treasury in favor of the BCB, without financial compensation, in accordance with Law 11,803, of 2008, amounting to R\$40,000,000 (Notes 9.2 and 39.1).

22.2. Reserves

Reserves are comprised of:

- Revenue reserve: may be appropriated up to the limit of 25% of the BCB's profit, excluding the income from foreign exchange equalization. No revenue reserve was accounted for during 2015 and 2016;
- Revaluation reserve: results from the revaluation of the properties of the BCB for own use, which occurred until 2004. On the initial adoption of the IFRS, the BCB opted to record its property and equipment on the cost method (Note 3.6), attributing the amount of the last revaluation as the new cost (deemed cost). This amount is realized in accordance with the useful lives of these assets (R\$5,868 in 2016 and R\$6,111 in 2015).

22.3. Gains (Losses) Recognized Directly in Equity

These refer to the fair value adjustments of financial assets classified as Available-for-sale and the remeasurements of defined benefit plans arising from the provision for payment of post-employment benefits.

	Dec 31, 2016	Dec 31, 2015
Federal government securities		
Opening balance	1,849,399	1,671,111
Reclassification of fair value adjustment to the income statement	26,506	178,288
Closing balance	1,875,905	1,849,399
Investment in International Financial Organizations		
Opening balance	6,023,911	(656,794)
Fair value adjustment	(12,634,799)	6,680,705
Closing balance	(6,610,888)	6,023,911
Remeasurements of defined benefit plans		
Opening balance	(11,119,977)	(14,038,630)
Actuarial gain (loss)	(5,050,329)	3,682,972
Adjustments arising from the return on assets not included in the net interest	286,625	(580,630)
Changes in the effect of the asset ceiling	(287,651)	(183,689)
Closing balance	(16,171,332)	(11,119,977)
Total	(20,906,315)	(3,246,667)

The variation in the balance of gains (losses) recognized directly in equity arose, mainly, from the negative fair value adjustment of investment in international financial organizations (Note 13) and the actuarial loss recognized in the period (Note 20.2.1).

23 - NET INTEREST RESULT

This refers to interest income and expenses on the BCB's financial assets and liabilities not classified as At Fair Value through Profit or Loss.

	Years ended December 31	
	2016	2015
Interest Income	174,795,274	146,214,472
In Foreign Currencies	590,200	152,140
Cash and Cash Equivalents (Note 4)	234,352	37,519
Time Deposits Placed with Financial Institutions (Note 5)	220,883	83,941
Reverse Repo (Note 7)	123,259	19,578
Other	11,706	11,102
In Local Currency	174,205,074	146,062,332
Securities (Note 9)	162,047,332	145,457,366
Federal Government (Note 10)	11,597,546	-
Other	560,196	604,966
Interest Expenses	(297,608,069)	(242,675,875)
In Foreign Currencies	(4,172,718)	(2,538,206)
Repo (Note 7)	(4,155,980)	(2,529,973)
Borrowings	(11,173)	(6,789)
Other	(5,565)	(1,444)
In Local Currency	(293,435,351)	(240,137,669)
Deposits Received from Financial Institutions (Note 17)	(39,508,845)	(30,873,631)
Repo (Note 7)	(141,791,207)	(115,379,395)
Federal Government (Note 10)	(109,239,583)	(91,159,241)
Other	(2,895,716)	(2,725,402)
Net Interest Result	(122,812,795)	(96,461,403)

The change in the net interest result mainly arises from the increase in the effective Selic rate, compared to the same period in the previous year, associated with the increase in the average balances of operations with securities in local currency, deposits received from financial institutions, repo transactions, and transactions with the Federal Government.

24 - GAINS (LOSSES) ON FINANCIAL INSTRUMENTS CLASSIFIED AS AT FAIR VALUE THROUGH PROFIT OR LOSS, HELD FOR TRADING

These refer to the variation in the price of the financial instruments classified in this category and include foreign exchange variation, interest and fair value adjustments.

	Years ended December 31	
	2016	2015
In Foreign Currencies	(198,139,392)	404,943,304
Securities (Note 9)	(195,901,625)	398,721,532
Funds Under External Management (Note 6)	(3,302,129)	6,707,492
Other	1,064,362	(485,720)
In Local Currency	324,122,908	(259,973,042)
Derivatives (Note 8)	324,122,914	(259,973,053)
Other	(6)	11
Total	125,983,516	144,970,262

The variation was mainly a result of the effects of the appreciation of the Real against the U.S. Dollar in 2016 (Note 3.3), the currency in which a significant part of the securities portfolio and of the funds under external management is denominated (Note 36.2), while in 2015 there was an opposite movement in the foreign exchange rates. Another significant variation is observed in derivatives in local currency, due to foreign exchange swaps (Note 8.2.1) and the foreign exchange equalization operation between the National Treasury and the BCB (Notes 8.2.2 and 39.1).

25 - GAINS (LOSSES) ON FINANCIAL INSTRUMENTS CLASSIFIED AS AT FAIR VALUE THROUGH PROFIT OR LOSS, BY DESIGNATION OF THE MANAGEMENT

These include interest and the fair value adjustment of the receivables from institutions under extrajudicial liquidation (Note 11.2.1), in the amount of R\$6,455,533 (R\$1,050,024 in 2015).

26 - GAINS (LOSSES) FROM FOREIGN CURRENCIES

These represent the result of the foreign exchange restatements of the assets and liabilities, except gold, in foreign currencies and in local currency pegged to changes in the foreign exchange rates and that are not classified as At Fair Value through Profit or Loss.

	Years ended December 31	
	2016	2015
Cash and Cash Equivalents	(16,849,630)	15,505,144
Time Deposits Placed with Financial Institutions	(8,730,294)	17,790,770
Repurchase agreements	(7,285,806)	1,615,906
Receivables	(806,362)	1,458,811
Items in the Course of Collection	1,984,875	(876,786)
Accounts Payable	2,972,890	(4,511,600)
Deposits Received from International Financial Organizations	11,616,478	(5,947,556)
Other	9,090	(14,578)
Total gains (losses) from foreign currencies	(17,088,759)	25,020,111

The result presented arose from the appreciation of the Real against the main foreign currencies in 2016 (Note 3.3), while in 2015 the foreign exchange rates presented an opposite trend.

27 - GAINS (LOSSES) FROM MONETARY GOLD

These refer to the changes in the price of gold (Note 3.3) and include foreign exchange variation and the fair value adjustment, amounting to R\$760,276 negative (R\$2,068,545 positive in 2015).

The result in 2016 was due to the effects of foreign exchange variation arising from the appreciation of the Real against the U.S. Dollar (Note 3.3), which was partially offset by the positive fair value adjustment in the period. The variation compared to 2015 is due to the opposite trend in the foreign exchange rates and in the fair value adjustment of gold in that year.

28 - OTHER INCOME AND EXPENSES

	Years ended December 31	
	2016	2015
Other Income	4,134,782	2,973,761
Fines	130,204	100,171
Transfer from the National Treasury	2,479,282	2,394,141
Court-ordered debts and requisition of small sum	145,082	29,741
Reversal of provision for litigation	926,623	63,102
Tariffs	240,930	224,570
Other	212,661	162,036
Other Expenses	(5,439,703)	(2,915,102)
Personnel	(1,665,006)	(1,524,031)
Production and distribution of notes and coins	(689,406)	(669,036)
Provision for litigation	(2,685,344)	(329,922)
Depreciation	(34,917)	(32,713)
Other	(365,030)	(359,400)

The variation observed was mainly due to the implementation of a new system for the control of the legal liabilities and receivables managed by the legal department of the BCB, with a consequent improvement in the calculation of provisions for litigation (Note 20.1).

29 - INCOME STATEMENT

29.1. Net income for the year

The result for the year was negative in R\$9,527,702 (R\$76,706,198 positive in 2015), as shown in the table below:

	Years ended December 31	
	2016	2015
International Reserve Operations and Swaps	-	-
Profitability of the international reserves	(235,597,359)	443,663,578
Foreign exchange derivatives - Swaps in local currency	83,803,222	(102,628,331)
Foreign exchange equalization of reserves and derivatives (Profitability)	151,794,137	(341,035,247)
Other transactions in foreign currencies	16,026,414	(14,017,684)
Transactions in local currency	(24,249,189)	90,665,212
Interest income	174,205,074	146,062,332
Interest expenses	(293,435,351)	(240,137,669)
Foreign exchange equalization (Funding cost)	88,525,555	183,690,525
Institutions under liquidation (Fair value adjustment)	6,455,533	1,050,024
Other transactions in local currency	(1,304,927)	58,670
Net income for the year	(9,527,702)	76,706,198

As the profitability obtained with the management of the international reserves and foreign exchange derivatives (swaps) (Note 8.2.1) is neutralized through the foreign exchange equalization operation, the result of the BCB is basically explained by the operations in local currency, where the reimbursement of the funding cost of resources used in the international reserves is highlighted – the second leg of the foreign exchange equalization mechanism. The interest income and expenses from operations in

local currency and the fair value adjustment of the receivables from the institutions under extrajudicial liquidation also contributed to the result.

The result for the first half of the year (R\$17,308,089 negative) was covered by the National Treasury in January 2017. The result for the second half (R\$7,780,387 positive) will be transferred to the National Treasury no later than the 10th working day after the approval of these financial statements by the CMN (Note 1).

29.2. Comprehensive Income

The purpose of the Statement of Comprehensive Income is to disclose the economic results of an entity, increasing the level of disclosure of the results beyond the concept of accounting profit or loss, which is usually disclosed through the income statement.

For the purpose of providing greater transparency to the income statement, the statement of comprehensive income discloses the gains and losses recognized directly in equity, the details of which are presented in Note 22.3.

Although there are no federal government securities currently classified as Available-for-sale, since the portfolio was reclassified as Held-to-maturity, amounts still exist relating to these securities, which affect the Statement of Comprehensive Income. This situation arises from the fact that the amount corresponding to the fair value adjustment recognized directly in equity (Note 22.3), before the reclassification of the portfolio, is amortized to the income statement during the remaining life of the reclassified securities.

30 - FINANCIAL INSTRUMENTS – BY CATEGORY

30.1. In foreign currencies

	Dec 31, 2016		Dec 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	1,284,471,875	1,284,471,875	1,462,236,939	1,462,236,939
Loans and receivables	169,326,913	169,326,913	175,191,073	175,191,073
Available-for-sale	48,481,780	48,481,780	23,131,720	23,131,720
At fair value through profit or loss	1,066,663,182	1,066,663,182	1,263,914,146	1,263,914,146
Financial liabilities	92,721,130	92,721,130	46,367,534	46,367,534
Other liabilities	92,679,552	92,679,552	46,362,134	46,362,134
At fair value through profit or loss	41,578	41,578	5,400	5,400

30.2. In local currency

	Dec 31, 2016		Dec 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	1,737,472,559	1,774,792,835	1,310,711,476	1,245,344,405
Held-to-maturity	1,518,007,723	1,555,327,999	1,279,138,194	1,213,771,123
Loans and receivables	192,665,857	192,665,857	9,074,804	9,074,804
At fair value through profit or loss	26,798,979	26,798,979	22,498,478	22,498,478
Financial liabilities	2,545,520,729	2,545,520,729	2,380,915,213	2,380,915,213
Other liabilities	2,545,520,729	2,545,520,729	2,373,539,778	2,373,539,778
At fair value through profit or loss	-	-	7,375,435	7,375,435

Financial assets classified as Held-to-maturity are composed exclusively of federal public securities existing in the BCB's portfolio (Note 9.2), whose fair value at December 31, 2016 was R\$1,555,327,999 (R\$1,213,771,123 at December 31, 2015). Other financial assets and liabilities measured at amortized cost do not present a significant difference in their fair value, since they are related to cash or short-term operations at rates compatible with market rates. Notes 34 to 38 present the risk policy of the BCB for the management of financial assets and liabilities.

31 - FAIR VALUE – BY HIERARCHY

The methodologies for the calculation of the fair value are classified according to the following hierarchy levels, which reflect the representativeness of the data used in their valuations:

- Level 1 – price quotations of identical financial instruments, traded in an active market, without adjustments;
- Level 2 – prices quoted, not included in Level 1, observable for the financial asset or liability, directly or indirectly, including: (i) quotations of prices of similar financial instruments, traded in an active market; (ii) quotations of the prices of identical or similar financial instruments, traded on a market with little activity; and (iii) other relevant data observable for the financial instrument;
- Level 3 – non-observable data for the financial instrument, used in the measurement of financial assets or financial liabilities for which there are no observable data available or when there is little or no market activity on the valuation date.

The following table presents the existing balance for the financial instruments of the BCB stated at fair value, according to the fair value hierarchy level in which they are classified:

At Dec 31, 2016

	Level 1	Level 2	Level 3	Total
Assets in Foreign Currencies	1,095,834,471	19,310,491	-	1,115,144,962
Funds Under External Management	-	19,236,030	-	19,236,030
Derivatives	-	74,461	-	74,461
Securities	1,047,352,691	-	-	1,047,352,691
Investment in International Financial Organizations	48,481,780	-	-	48,481,780
Assets in Local Currency	865,412	-	25,933,567	26,798,979
Derivatives	865,412	-	-	865,412
Receivables - Institutions Under Extrajudicial Liquidation	-	-	25,933,567	25,933,567
Liabilities in Foreign Currencies	-	41,578	-	41,578
Derivatives	-	41,578	-	41,578

At Dec 31, 2015

	Level 1	Level 2	Level 3	Total
Assets in Foreign Currencies	1,262,942,034	24,103,832	-	1,287,045,866
Funds Under External Management	-	24,098,779	-	24,098,779
Derivatives	-	5,053	-	5,053
Securities	1,239,810,314	-	-	1,239,810,314
Investment in International Financial Organizations	23,131,720	-	-	23,131,720
Assets in Local Currency	-	-	22,498,478	22,498,478
Receivables - Institutions Under Extrajudicial Liquidation	-	-	22,498,478	22,498,478
Liabilities in Foreign Currencies	-	5,400	-	5,400
Derivatives	-	5,400	-	5,400
Liabilities in Local Currency	7,375,435	-	-	7,375,435
Derivatives	7,375,435	-	-	7,375,435

Financial instruments measured at fair value are classified as At Fair Value through Profit or Loss, except for the investment in international financial organizations, which are classified as Available-for-sale (Note 3.4.5).

The receivables from institutions under extrajudicial liquidation that were subject to payment in installments, based on Article 65 of Law 12,249, of 2010 (Note 11.2.1), are classified in Level 3 of the fair value hierarchy due to the fact that the methodology used for their measurement considers the present value of the cash flows, calculated based on the reference rates for ID x TR swaps made available by BM&FBovespa for the period of the payment in installments, adjusted to incorporate a risk premium that reflects the price of the uncertainty inherent to the cash flows, as established by IFRS 13 – Fair Value Measurement.

The risk premium is calculated by the differential of the interest rate that equals the present value of the contracted cash flow to the cash flow adjusted by the payment capacity of the institution under extrajudicial liquidation, and is estimated based on internal pricing models, which do not reflect objective market parameters, considering the exceptional characteristics of the counterparty.

The table below presents information on the unobservable market parameters that were used in the measurement of the fair value of the receivables from institutions under extrajudicial liquidation at December 31, 2016:

	Measurement	Unobservable parameters	Interval (weighted average)
Receivables - Institutions Under Extrajudicial Liquidation	Present value of cash flows	Risk premium	2.03% - 20.98% (3.57%)

The gains and losses on receivables from institutions under extrajudicial liquidation classified in Level 3 of the fair value hierarchy are recognized in full in the income statement, in Gains (losses) on financial instruments classified as At Fair Value through Profit or Loss, by decision of the management (Note 25).

There were no transfers of financial instruments between the levels of the fair value hierarchy during 2016 and 2015.

The following table presents the changes in the financial instruments classified in Level 3 of the fair value hierarchy:

	Years ended December 31	
	2016	2015
Opening balance	22,498,478	24,525,155
Changes	3,435,089	(2,026,677)
Fair value adjustment	6,455,533	1,050,024
Write-off	(3,020,444)	(3,076,701)
Closing balance	25,933,567	22,498,478

32 - TRANSFERS OF FINANCIAL ASSETS

The BCB sells securities under repurchase agreements. In these operations, the assets recognized in its balance sheet are transferred, but the risks and benefits associated to them are maintained (Note 3.4.2), including those arising from the change in the value of these assets. In this situation, the securities transferred (Note 9) are not derecognized in the accounting records, and the obligation related to these operations is recognized in liabilities in repo operations (Note 7).

32.1. In foreign currencies

Transactions in foreign currencies of this nature are backed by securities issued by central governments in the BCB's portfolio, and the counterparty is not subjected to restrictions on the sale, encumbrance, loan and transfer of securities deposited as collateral, provided that such securities are returned on the final date of the operation (Note 7.1).

The following table presents the carrying amount and fair value of the securities in foreign currency transferred but still recognized in the balance sheet and their respective corresponding liabilities.

	Dec 31, 2016	Dec 31, 2015
Transferred assets and associated liabilities		
Carrying amount of the securities linked to the repo	7,919,462	-
Carrying amount of the repo	8,085,964	-
Associated liabilities whose right of recourse applies only to the transferred assets		
Fair value of the securities linked to the repo (A)	7,919,462	-
Fair value of the repo (B)	8,085,964	-
Net position (A - B)	(166,502)	-

32.2. In local currency

Transactions in local currency of this nature are backed by federal government securities held in custody in the Selic and may be carried out with a clause of "free tradeability", in which the securities may be subject to final sale, provided they are returned on the settlement date of the repo operation, or "without free tradeability", where final sale is not permitted during the term of the operation (Note 7.2).

The following table presents the carrying amount and fair value of the securities in local currency transferred but still recognized in the balance sheet and their respective corresponding liabilities.

	Dec 31, 2016	Dec 31, 2015
Transferred assets and associated liabilities		
Carrying amount of the securities linked to the repo	1,041,313,382	961,694,658
Carrying amount of the repo	1,047,483,967	913,279,784
Associated liabilities whose right of recourse applies only to the transferred assets		
Fair value of the securities linked to the repo (A)	1,064,858,965	915,131,222
Fair value of the repo (B)	1,047,483,967	913,279,784
Net position (A - B)	17,374,998	1,851,438

33 - OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The BCB records financial assets and liabilities at net value when there is the legal right and the intention to settle the resulting payments and receipts on a net basis, as in operations carried out in SML and CCR (Note 3.4.3).

However, some financial assets and liabilities that are not offset are subject to agreements, in which each party may have the option to settle all such amounts on a net basis in the event of default or bankruptcy of the other party. Repos and reverse repos involving securities (Note 7), foreign exchange swaps (Note 8.2.1) and securities lending operations (Note 9.2) are included in this context.

33.1. In foreign currencies

The following table presents the amounts of financial assets in foreign currencies subject to offset, corresponding to the operations carried out in SML and CCR (Notes 11.1 and 18.1), as well as the amounts of financial assets in foreign currencies which are not offset, but are subject to agreements that allow the settlement on a net basis, corresponding to the resale agreements involving securities (Note 7.1):

At Dec 31, 2016

	Gross amounts of recognised financial assets	Gross amounts of financial liabilities offset	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
Financial Assets Purchased Under Resale Agreements	8,086,781	-	8,086,781	(8,084,470)	-	2,311
Receivables	1,519,121	(1,512,983)	6,138	-	-	6,138
Total	9,605,902	(1,512,983)	8,092,919	(8,084,470)	-	8,449

At Dec 31, 2015

	Gross amounts of recognised financial assets	Gross amounts of financial liabilities offset	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
Receivables	1,589,201	(1,284,801)	304,400	-	-	304,400
Total	1,589,201	(1,284,801)	304,400	-	-	304,400

The following table presents the amounts of financial liabilities in foreign currencies subject to offset, corresponding to the operations carried out in SML and CCR (Notes 11.1 and 18.1), as well as the amounts of financial liabilities in foreign currencies which are not offset, but are subject to agreements that allow the settlement on a net basis, corresponding to the repurchase agreements involving securities (Note 7.1). In accordance with IFRS 7 – Financial Instruments: Disclosures, the gross amount of financial assets offset was limited to the gross amount of recognized financial liabilities.

At Dec 31, 2016

	Gross amounts of recognised financial liabilities	Gross amounts of financial assets offset	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
Financial Assets Sold Under Repurchase Agreements	8,085,964	-	8,085,964	(7,919,462)	-	166,502
Accounts Payable	1,598,056	(1,512,983)	85,073	-	-	85,073
Total	9,684,020	(1,512,983)	8,171,037	(7,919,462)	-	251,575

At Dec 31, 2015

	Gross amounts of recognised financial liabilities	Gross amounts of financial assets offset	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
Accounts Payable	1,284,801	(1,284,801)	-	-	-	-
Total	1,284,801	(1,284,801)	-	-	-	-

33.2. In local currency

The following table presents the amounts of financial assets in local currency which are not offset, but are subject to agreements that allow the settlement on a net basis, corresponding to the securities lending operations (Note 9.2). In accordance with IFRS 7, the amount of financial instruments that were not offset was limited to the net value of recognized financial assets. In 2015, there were no outstanding balances for these transactions at the balance sheet date.

At Dec 31, 2016

	Gross amounts of recognised financial assets	Gross amounts of financial liabilities offset	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
Federal Government Securities	32,763	-	32,763	(32,763)	-	-
Total	32,763	-	32,763	(32,763)	-	-

The following table presents the amounts of financial liabilities in local currency which are not offset, but are subject to agreements that allow the settlement on a net basis, corresponding to the repurchase agreements involving federal government securities (Note 7.2) and foreign exchange swaps (Note 8.2.1). In accordance with IFRS 7, the amount of financial instruments that were not offset was limited to the net value of recognized financial liabilities.

At Dec 31, 2016

	Gross amounts of recognised financial liabilities	Gross amounts of financial assets offset	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
Financial Assets Sold Under Repurchase Agreements	1,047,483,967	-	1,047,483,967	(1,047,439,635)	-	44,332
Total	1,047,483,967	-	1,047,483,967	(1,047,439,635)	-	44,332

At Dec 31, 2015

	Gross amounts of recognised financial liabilities	Gross amounts of financial assets offset	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
Financial Assets Sold Under Repurchase Agreements	913,279,784	-	913,279,784	(909,485,916)	-	3,793,868
Derivatives	7,375,435	-	7,375,435	(7,375,435)	-	-
Total	920,655,219	-	920,655,219	(916,861,351)	-	3,793,868

34 - RISK MANAGEMENT

The BCB uses financial instruments as a means of achieving its monetary policy objectives and also for managing international reserves. Obtaining profits is not a primary object, but rather having appropriate instruments for better executing the functions of a monetary authority. Accordingly, its risk management policy (PGR-BCB) differs from that of other institutions. Based on the guidelines and recommendations presented in the main risk management reference guides of the organizations, such as COSO, ISO 31000, ISO 22301 standards and AS/NZS 4360:2004, the PGR-BCB adopts an integrated structure for risk management (Enterprise Risk Management), aligned with the best international practices. Consequently, the management of risks follows a process for continuous improvement of its activities and better allocation of institutional resources.

The BCB holds two main portfolios of financial instruments with different risk policies and characteristics:

a) Financial instruments intended for the management of international reserves

The main purpose of Brazil's international reserves is to contribute towards reducing the economy's vulnerability to external shocks and the perception of risk by investors. Therefore, the concern to meet external commitments and reduce the exposure of Brazil to foreign exchange variation led to a strategy to seek the foreign exchange hedge of the country's gross external debt.

Once the foreign exchange hedging strategy is considered, the investment of international reserves is based on criteria of security, liquidity and profitability, prioritized in that order, using a strategy of diversification of financial instruments. Therefore, the Board of Directors established a reference portfolio that reflects its long-term objectives and preferences with respect to the risk-return ratio, liquidity restrictions and the operating limits to be observed in the investment process.

A portion of the international reserves is managed externally under the PGER. In addition to the PGER, with regard to the externally managed assets in foreign currency, the BCB invests in two funds managed by the BIS: the BISIP ILF1, which corresponds to a portfolio of U.S. government securities linked to inflation (TIPS), as well as the BISIP CNY, which invests in Chinese government securities.

b) Financial instruments intended for executing the monetary policy

The monetary policy is executed mainly through operations with federal government securities and foreign exchange swaps. The portfolio of federal government securities issued by the National Treasury is used primarily to execute actions of the monetary and foreign exchange policies, normally through open market operations, whereas swaps have the specific purpose of improving liquidity conditions, providing an exchange hedge for the economic agents and correcting eventual distortions observed in the foreign exchange coupon curve.

In executing the monetary policy, the BCB manages the domestic liquidity in local currency, to align the effective interest rate with the target established by the Monetary Policy Committee (COPOM), by increasing the liquidity (decreasing the amount of debt of repo and reverse repo transactions) when the effective Selic rate exceeds the target, and constricting liquidity (increasing the amount of debt of repo and reverse repo transactions) in the opposite scenario.

Notes 35 to 38 present the main risks to which these two portfolios of financial instruments are exposed, as well as the policy for management of these risks.

35 - CREDIT RISK

Credit risk is the possibility of a loss associated to a counterparty default.

a) Financial instruments intended for the management of international reserves

In order to control the credit risk of the financial instruments used in the international reserves operations, two types of limits were established by the Board of Directors: for a counterparty and for the portfolio as a whole. The selection of eligible counterparties and issuers is based on internal risk rating criteria, in addition to classifications according to Moody's, maximum exposure amounts and term limits. The credit risk, measured through expected default, is a function of the rating of the counterparties, the amount and the term of the investments.

The assessment of the credit risk of international reserves operations managed by the participants of the PGER follows the same aforementioned criteria.

The main credit risk limits are listed below, and it should be emphasized that internal analyses of the credit conditions of the counterparties could generate further restrictions in addition to those listed below:

a.1) Minimum ratings

The operations which are subject to bank credit risk, such as deposits, repos, reverse repos, swaps, forwards and commercial papers, should be contracted with counterparties belonging to groups with a minimum short-term rating of P-2 and a minimum long-term rating of A.

In operations with securities, the BCB invests in sovereign securities, where the minimum admissible rating for the issuer is Aa, and securities issued by agencies and supranational organizations, whose minimum rating is Aaa, in addition to the securities issued by the BIS. Issuers of sovereign securities that are part of the reference portfolio are authorized for investment, irrespective of their ratings.

a.2) Maximum amounts of exposure

For operations with bank credit risk, the maximum exposure per group is equivalent to the lower of US\$0.5 billion and 0.5% of the group's assets.

Operations with credit risk the counterparties of which are central banks of countries that issue government securities included in the benchmark portfolio are limited to 5% of the total assets of the respective institutions. Operations in which the counterparty is the BIS do not have exposure limits.

Funds invested in deposits with commercial banks have a volume limited to 1% of the international reserves to accommodate the operations required for daily cash flow management.

With respect to investments in securities, the sovereign securities must represent at least 65% of the portfolio, whereas the securities issued by agencies or supranational organizations can represent a maximum of 10% of the total volume of the international reserves. Furthermore, a limit is established of a 20% participation in each issue of securities belonging to the reference portfolio and of 10% for the securities that are not part of this portfolio.

The counterparties authorized for international reserves operations with bank credit risk managed by the participants of the PGER have exposure limits of US\$50 million.

a.3) Maximum terms

The maximum term for deposits is one week for internally managed operations and six months for operations under the PGER. Other operations with bank credit risk may be contracted with a maximum term of six months, regardless of the type of management (internal or external). Operations with credit risk managed internally, including deposits, the counterparties of which are the BIS or central banks of countries that issue government securities included in the benchmark portfolio, shall respect the maximum term of six months for the investment.

b) Financial instruments intended for executing the monetary policy

The securities portfolio of the BCB is comprised exclusively of securities issued by the National Treasury (Note 9.2), considered as without credit risk, which are used mainly for the carrying out of repo and reverse repo operations (Note 7.2).

The credit risk monitoring of these operations is realized by counterparty, exposure and term. Because these operations are guaranteed by federal government securities, the actual exposure is calculated as the difference between the amount of securities used as collateral and the cash position.

Swaps (Note 8.2.1) are contracted in the ambit of BM&FBovespa, a clearing house which is the central counterparty of the operations. BM&FBovespa has a policy for the control of the credit risk through collateral requirements from all the members. The amount of these guarantees is calculated using stress tests, which consider the total of the possible loss until the date of the settlement of the contracts. The collaterals may be established in federal government securities, bank guarantees, bank deposit certificates, shares, gold or in cash, amongst others. The majority of the members of the clearing house, including the BCB, constitute the collaterals through the delivery of federal government securities, which are assessed at a defensive price, lower than the market quotation.

c) Concentration of financial assets by geographic area

	Dec 31, 2016	Dec 31, 2015
Brazil	1,774,690,150	1,364,664,768
European Economic Community	139,226,771	201,993,853
United States of America	987,512,577	1,083,138,523
Other	120,514,936	123,151,271
Total	3,021,944,434	2,772,948,415

d) Concentration of financial assets by type of counterparty

At Dec 31, 2016

	Financial Institutions	International Organizations	Government Institutions	Other	Total
Cash and Cash Equivalents	17,518,920	11,410,370	59,155,577	-	88,084,867
In foreign currencies	3,516,120	11,410,370	59,155,577	-	74,082,067
In local currency	14,002,800	-	-	-	14,002,800
Deposits	1,483,968	7,997,526	23,335,747	489,206	33,306,447
In foreign currencies	11,930	7,997,526	23,335,747	489,206	31,834,409
In local currency	1,472,038	-	-	-	1,472,038
Funds Under External Management	2,790,282	1,422,743	13,864,382	1,158,623	19,236,030
Financial Assets Purchased Under Resale Agreements	59,536,095	470,913	-	-	60,007,008
In foreign currencies	59,536,095	470,913	-	-	60,007,008
Derivatives	71,979	2,482	-	865,412	939,873
In foreign currencies	71,979	2,482	-	-	74,461
In local currency	-	-	-	865,412	865,412
Securities	-	8,041,282	2,538,941,271	18,377,861	2,565,360,414
In foreign currencies	-	8,041,282	1,020,933,548	18,377,861	1,047,352,691
In local currency	-	-	1,518,007,723	-	1,518,007,723
Receivables from the Federal Government	-	-	174,225,466	-	174,225,466
Receivables	2,230,682	3,397,291	6,138	26,647,812	32,281,923
In foreign currencies	-	3,397,291	6,138	-	3,403,429
In local currency	2,230,682	-	-	26,647,812	28,878,494
Investment in International Financial Organizations	-	48,481,780	-	-	48,481,780
Other	-	-	-	20,626	20,626
In local currency	-	-	-	20,626	20,626
Total Assets	83,631,926	81,224,387	2,809,528,581	47,559,540	3,021,944,434

At Dec 31, 2015

	Financial Institutions	International Organizations	Government Institutions	Other	Total
Cash and Cash Equivalents	9,475,562	14,088,703	34,583,786	-	58,148,051
In foreign currencies	4,008,842	14,088,703	34,583,786	-	52,681,331
In local currency	5,466,720	-	-	-	5,466,720
Deposits	1,360,612	13,867,796	46,296,206	-	61,524,614
In foreign currencies	-	13,867,796	46,296,206	-	60,164,002
In local currency	1,360,612	-	-	-	1,360,612
Funds Under External Management	5,023,750	1,668,242	14,974,267	2,432,520	24,098,779
Financial Assets Purchased Under Resale Agreements	57,465,756	-	-	-	57,465,756
In foreign currencies	57,465,756	-	-	-	57,465,756
Derivatives	5,053	-	-	-	5,053
In foreign currencies	5,053	-	-	-	5,053
Securities	-	13,638,466	2,472,912,999	32,397,043	2,518,948,508
In foreign currencies	-	13,638,466	1,193,774,805	32,397,043	1,239,810,314
In local currency	-	-	1,279,138,194	-	1,279,138,194
Receivables from the Federal Government	-	-	64,837	-	64,837
Receivables	1,662,254	4,575,584	304,400	22,996,962	29,539,200
In foreign currencies	-	4,575,584	304,400	-	4,879,984
In local currency	1,662,254	-	-	22,996,962	24,659,216
Investment in International Financial Organizations	-	23,131,720	-	-	23,131,720
Other	-	-	-	21,897	21,897
In local currency	-	-	-	21,897	21,897
Total Assets	74,992,987	70,970,511	2,569,136,495	57,848,422	2,772,948,415

36 - MARKET RISK

Market risk is the risk resulting from fluctuations of market parameters, such as interest and foreign exchange rates.

a) Financial instruments intended for the management of international reserves

The market risk of the international reserves is monitored using Value at Risk (VaR) models. The VaR of the international reserves and limits authorized by the Board of Directors for active management are observed daily and variations are permitted in relation to the reference portfolio, in order to take

advantage of eventual opportunities in the market. The volatility of the model is calculated using an exponentially weighted moving average, with a confidence level of 95%. Back testings are realized for the validation of the model and quarterly reports are presented to the Board of Directors.

b) Financial instruments intended for executing the monetary policy

The market risk arising from these instruments is monitored through the managerial VaR of the BCB, which includes all the effective exposures of the international reserves portfolios and of the definitive portfolio of federal government securities. The volatility of the model is calculated using an exponentially weighted moving average, with a confidence level of 95%. Back testings are realized for the validation of the model and annual reports are presented to the Board of Directors.

1.1. Interest rate risk

This is the risk resulting from changes in the interest rates that affect the fair value of the instruments with a fixed yield and the future financial flow of those instruments with a floating yield. The following table presents the exposure of the BCB to these two types of risk:

	Dec 31, 2016		Dec 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Fixed rate	1,822,361,732	977,685,482	1,937,152,883	870,328,642
Floating rate	1,132,729,359	1,560,687,089	789,052,447	1,490,403,963
Without interest	66,853,343	99,869,288	46,743,085	66,550,142
Total	3,021,944,434	2,638,241,859	2,772,948,415	2,427,282,747

The next table presents the financial instruments of the BCB grouped according to the date of maturity (fixed rate) or of repricing (floating rate). The valuation methodology for these assets is described in Note 3.4.5.

At Dec 31, 2016

	Up to 1 month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Without interest	Total
Assets							
Cash and Cash Equivalents	73,583,037	-	-	-	-	14,501,830	88,084,867
In foreign currencies	73,583,037	-	-	-	-	499,030	74,082,067
In local currency	-	-	-	-	-	14,002,800	14,002,800
Deposits	13,553,820	19,740,697	-	-	-	11,930	33,306,447
In foreign currencies	12,081,782	19,740,697	-	-	-	11,930	31,834,409
In local currency	1,472,038	-	-	-	-	-	1,472,038
Funds Under External Management	3,527,454	666,080	645,682	8,927,360	4,913,661	555,793	19,236,030
Financial Assets Purchased Under Resale Agreements	30,219,726	27,180,242	2,607,040	-	-	-	60,007,008
In foreign currencies	30,219,726	27,180,242	2,607,040	-	-	-	60,007,008
Derivatives	-	-	-	-	-	939,873	939,873
In foreign currencies	-	-	-	-	-	74,461	74,461
In local currency	-	-	-	-	-	865,412	865,412
Securities	949,552,176	72,085,472	164,147,770	1,170,163,080	209,411,916	-	2,565,360,414
In foreign currencies	23,257,788	64,330,830	110,734,852	794,307,943	54,721,278	-	1,047,352,691
In local currency	926,294,388	7,754,642	53,412,918	375,855,137	154,690,638	-	1,518,007,723
Receivables from the Federal Government	174,222,393	-	-	-	-	3,073	174,225,466
Receivables	29,943,485	-	-	-	-	2,338,438	32,281,923
In foreign currencies	3,403,429	-	-	-	-	-	3,403,429
In local currency	26,540,056	-	-	-	-	2,338,438	28,878,494
Investment in International Financial Organizations	-	-	-	-	-	48,481,780	48,481,780
Other	-	-	-	-	-	20,626	20,626
In local currency	-	-	-	-	-	20,626	20,626
Total Assets (A)	1,274,602,091	119,672,491	167,400,492	1,179,090,440	214,325,577	66,853,343	3,021,944,434
Liabilities							
Items in the Course of Collection	-	-	-	-	-	13,713,241	13,713,241
In foreign currencies	-	-	-	-	-	13,700,151	13,700,151
In local currency	-	-	-	-	-	13,090	13,090
Deposits Received from Financial Institutions	368,356,522	-	-	-	-	40,869,826	409,226,348
In foreign currencies	-	-	-	-	-	2,317	2,317
In local currency	368,356,522	-	-	-	-	40,867,509	409,224,031
Financial Assets Sold Under Repurchase Agreements	1,010,532,205	93,517,349	2,667,200	-	-	-	1,106,716,754
In foreign currencies	15,588,272	5,778,653	-	-	-	-	21,366,925
In local currency	994,943,933	87,738,696	2,667,200	-	-	-	1,085,349,829
Derivatives	-	-	-	-	-	41,578	41,578
In foreign currencies	-	-	-	-	-	41,578	41,578
Payables to the Federal Government	1,050,206,705	-	-	-	-	-	1,050,206,705
Accounts Payable	355,352	12,737,238	-	-	-	273,816	13,366,406
In foreign currencies	-	12,737,238	-	-	-	-	12,737,238
In local currency	355,352	-	-	-	-	273,816	629,168
Deposits Received from International Financial Organizations	-	-	-	-	-	44,884,298	44,884,298
In foreign currencies	-	-	-	-	-	44,864,432	44,864,432
In local currency	-	-	-	-	-	19,866	19,866
Other	-	-	-	-	-	86,529	86,529
In foreign currencies	-	-	-	-	-	8,489	8,489
In local currency	-	-	-	-	-	78,040	78,040
Total Liabilities (B)	2,429,450,784	106,254,587	2,667,200	-	-	99,869,288	2,638,241,859
Net position (A - B)	(1,154,848,693)	13,417,904	164,733,292	1,179,090,440	214,325,577	(33,015,945)	383,702,575

At Dec 31, 2015

	Up to 1 month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Without interest	Total
Assets							
Cash and Cash Equivalents	37,623,504	-	-	-	-	20,524,547	58,148,051
In foreign currencies	37,623,504	-	-	-	-	15,057,827	52,681,331
In local currency	-	-	-	-	-	5,466,720	5,466,720
Deposits	19,119,170	42,405,444	-	-	-	-	61,524,614
In foreign currencies	17,758,558	42,405,444	-	-	-	-	60,164,002
In local currency	1,360,612	-	-	-	-	-	1,360,612
Funds Under External Management	3,498,915	962,600	1,149,899	9,586,528	7,699,256	1,201,581	24,098,779
Financial Assets Purchased Under Resale Agreements	9,440,870	30,923,176	17,101,710	-	-	-	57,465,756
In foreign currencies	9,440,870	30,923,176	17,101,710	-	-	-	57,465,756
Derivatives	-	-	-	-	-	5,053	5,053
In foreign currencies	-	-	-	-	-	5,053	5,053
Securities	826,381,317	95,745,480	173,376,903	1,229,321,615	194,123,193	-	2,518,948,508
In foreign currencies	115,045,175	57,351,614	78,187,118	950,521,064	38,705,343	-	1,239,810,314
In local currency	711,336,142	38,393,866	95,189,785	278,800,551	155,417,850	-	1,279,138,194
Receivables from the Federal Government	-	-	-	-	-	64,837	64,837
Receivables	27,745,750	-	-	-	-	1,793,450	29,539,200
In foreign currencies	4,879,984	-	-	-	-	-	4,879,984
In local currency	22,865,766	-	-	-	-	1,793,450	24,659,216
Investment in International Financial Organizations	-	-	-	-	-	23,131,720	23,131,720
Other	-	-	-	-	-	21,897	21,897
In local currency	-	-	-	-	-	21,897	21,897
Total Assets (A)	923,809,526	170,036,700	191,628,512	1,238,908,143	201,822,449	46,743,085	2,772,948,415
Liabilities							
Items in the Course of Collection	-	-	-	-	-	5,500,736	5,500,736
In foreign currencies	-	-	-	-	-	5,486,551	5,486,551
In local currency	-	-	-	-	-	14,185	14,185
Deposits Received from Financial Institutions	336,324,236	-	-	-	-	32,092,809	368,417,045
In foreign currencies	1,362,974	-	-	-	-	2,776	2,776
In local currency	336,324,236	-	-	-	-	32,090,033	368,414,269
Financial Assets Sold Under Repurchase Agreements	780,209,453	162,406,415	20,425,191	8,709,814	-	-	971,750,873
In foreign currencies	3,862,974	139,406	-	-	-	-	4,002,380
In local currency	776,346,479	162,267,009	20,425,191	8,709,814	-	-	967,748,493
Derivatives	-	-	-	-	-	7,380,835	7,380,835
In foreign currencies	-	-	-	-	-	5,400	5,400
In local currency	-	-	-	-	-	7,375,435	7,375,435
Payables to the Federal Government	1,036,601,593	-	-	-	-	-	1,036,601,593
Accounts Payable	434,206	15,621,696	-	-	-	251,448	16,307,350
In foreign currencies	-	15,621,696	-	-	-	-	15,621,696
In local currency	434,206	-	-	-	-	251,448	685,654
Deposits Received from International Financial Organizations	-	-	-	-	-	21,256,642	21,256,642
In foreign currencies	-	-	-	-	-	21,244,185	21,244,185
In local currency	-	-	-	-	-	12,457	12,457
Other	-	-	-	-	-	67,673	67,673
In foreign currencies	-	-	-	-	-	4,546	4,546
In local currency	-	-	-	-	-	63,127	63,127
Total Liabilities (B)	2,153,569,488	178,028,111	20,425,191	8,709,814	-	66,550,143	2,427,282,747
Net position (A - B)	(1,229,759,962)	(7,991,411)	171,203,321	1,230,198,329	201,822,449	(19,807,058)	345,665,668

36.2. Foreign exchange rate risk

This risk represents the possibility of loss resulting from changes in the foreign exchange rates. The BCB has financial assets and liabilities in foreign currencies or indexed to the foreign exchange variation and this type of risk is inherent to its operations.

The table below shows the distribution of financial assets and liabilities per currency:

At Dec 31, 2016

	U.S. Dollar	Euro	Canadian Dollar	Pound Sterling	Australian Dollar	SDR	Yen	Other	Total
Assets									
Cash and Cash Equivalents	60,233,129	1,197,131	187,344	632,780	149,364	11,383,044	298,003	1,272	74,082,067
Time Deposits Placed with Financial Institutions	31,822,479	11,930	-	-	-	-	-	-	31,834,409
Funds Under External Management	12,372,851	2,267,166	1,241,116	787,214	1,227,757	-	987,148	352,778	19,236,030
Financial Assets Purchased Under Resale Agreements	58,466,658	-	-	-	1,540,350	-	-	-	60,007,008
Derivatives	72,123	-	-	-	1,887	-	-	451	74,461
Securities	855,655,698	49,893,349	49,999,824	29,593,336	28,284,367	-	33,926,117	-	1,047,352,691
Receivables	6,138	-	-	-	-	3,397,291	-	-	3,403,429
Investment in International Financial Organizations	-	-	-	-	-	48,481,780	-	-	48,481,780
Total Assets (A)	1,018,629,076	53,369,576	51,428,284	31,013,330	31,203,725	63,262,115	35,211,268	354,501	1,284,471,875
Liabilities									
Items in the Course of Collection	13,686,960	-	-	-	13,191	-	-	-	13,700,151
Deposits Received from Financial Institutions	2,317	-	-	-	-	-	-	-	2,317
Financial Assets Sold Under Repurchase Agreements	8,085,964	103,137	118,849	347,040	49,468	-	12,662,467	-	21,366,925
Derivatives	38,847	1,797	-	-	-	-	-	934	41,578
Accounts Payable	85,073	-	-	-	-	12,652,165	-	-	12,737,238
Deposits Received from International Financial Organizations	324,584	-	-	-	-	44,538,218	-	1,630	44,864,432
Other	5,583	2,753	-	-	-	-	-	153	8,489
Total Liabilities (B)	22,229,328	107,687	118,849	347,040	62,659	57,190,383	12,662,467	2,717	92,721,130
Net Position (A - B)	996,399,748	53,261,889	51,309,435	30,666,290	31,141,066	6,071,732	22,548,801	351,784	1,191,750,745

At Dec 31, 2015	U.S. Dollar	Euro	Canadian Dollar	Pound Sterling	Australian Dollar	SDR	Yen	Other	Total
Assets									
Cash and Cash Equivalents	35,478,528	762,901	405,594	762,673	190,397	14,050,484	1,029,414	1,340	52,681,331
Time Deposits Placed with Financial Institutions	60,164,002	-	-	-	-	-	-	-	60,164,002
Funds Under External Management	16,097,533	2,340,158	1,490,125	1,013,520	1,791,741	-	948,132	417,570	24,098,779
Financial Assets Purchased Under Resale Agreements	56,262,394	-	-	106,478	1,040,311	-	-	56,573	57,465,756
Derivatives	5,053	-	-	-	-	-	-	-	5,053
Securities	1,019,413,647	62,825,782	57,700,446	39,812,745	34,492,589	-	25,565,105	-	1,239,810,314
Receivables	304,400	-	-	-	-	4,575,584	-	-	4,879,984
Investment in International Financial Organizations	-	-	-	-	-	23,131,720	-	-	23,131,720
Total Assets (A)	1,187,725,557	65,928,841	59,596,165	41,695,416	37,515,038	41,757,788	27,542,651	475,483	1,462,236,939
Liabilities									
Items in the Course of Collection	5,466,300	-	-	-	20,251	-	-	-	5,486,551
Deposits Received from Financial Institutions	2,776	-	-	-	-	-	-	-	2,776
Financial Assets Sold Under Repurchase Agreements	333,444	964,591	292,916	179,393	59,896	-	2,172,140	-	4,002,380
Derivatives	5,400	-	-	-	-	-	-	-	5,400
Accounts Payable	-	-	-	-	-	15,621,696	-	-	15,621,696
Deposits Received from International Financial Organizations	367,675	-	-	-	-	20,875,690	-	820	21,244,185
Other	4,353	-	-	-	-	-	-	193	4,546
Total Liabilities (B)	6,179,948	964,591	292,916	179,393	80,147	36,497,386	2,172,140	1,013	46,367,534
Net Position (A - B)	1,181,545,609	64,964,250	59,303,249	41,516,023	37,434,891	5,260,402	25,370,511	474,470	1,415,869,405

36.3. Foreign exchange equalization

The foreign exchange equalization operation (Note 8.2.2) aims at providing greater transparency to the results of the operations of the monetary authority and at reducing the volatility of the result of the BCB, due to the mismatch between foreign currency assets and liabilities.

a) Equalization of the carrying cost of the international reserves

The BCB assumes an asset position with respect to the funding cost of the international reserves, represented by the funding rate of the total liabilities, against a liability position in foreign exchange variation and interest of the international reserves. As a result, the equalization operates as a foreign exchange and interest rate economic hedge for the BCB, reducing its exposure in foreign currency and assuring coverage of the maintenance cost of the reserves.

The following table presents the BCB's net position in foreign currency adjusted by the position assumed in the foreign exchange equalization:

	Dec 31, 2016	Dec 31, 2015
Net position in foreign currency	1,199,929,702	1,424,805,146
Foreign exchange equalization	(1,212,745,457)	(1,439,100,316)
Exposure in foreign currency	(12,815,755)	(14,295,170)

With respect to the interest rate, the result obtained by the BCB in the foreign exchange equalization operations, based on the average balance of the international reserves in the period, was 5.89% positive, since the funding cost covered by the National Treasury was 6.79%, whereas the result from interest (including mark-to-market) of the international reserves transferred to the National Treasury was 0.90% positive.

b) Equalization of the foreign exchange swaps performed in the domestic market

The BCB performs with the National Treasury, within the mechanism of foreign exchange equalization, an operation with characteristics opposite to the foreign exchange swaps performed in the domestic market, attaining a perfect economic hedge, since the notional amounts and the rates are identical, but with opposite positions.

Through this operation, the foreign exchange swaps performed in the domestic market do not represent foreign exchange or interest rate exposure for the BCB.

36.4. Sensitivity analysis

The foreign exchange equalization operation (Notes 8.2.2 and 36.3) reduced the volatility of the result of the BCB, arising from price changes inherent to the international reserves. Additionally, the

classification of the securities portfolio in local currency as Held-to-maturity (Note 3.4.5) reduced the mark-to-market component of assets, making the daily results of the BCB barely susceptible to market variables, being more influenced by the accrual of interest. Accordingly, the impact of price variations on the result of the BCB was reduced compared to other sources of results, which made the calculation of the VaR of the accounting result inappropriate for measuring risks from changes in market prices. Therefore, as from 2011, the BCB chose to replace the calculation of the VaR with a sensitivity analysis.

The following table presents the main exposures of the BCB to market risk factors as at December 31, 2016:

	Foreign exchange rate	Foreign exchange coupon curve	Foreign currencies interest curve	ID x TR swap curve	Risk premium
Foreign exchange swap	(102,851,493)	(102,851,493)	-	-	-
International reserves	1,212,745,457	-	1,212,745,457	-	-
Accounts payable in foreign currencies	(12,737,238)	-	-	-	-
Receivables from institutions under liquidation	-	-	-	25,933,567	25,933,567

For the purpose of analyzing the impacts on the financial statements of the BCB resulting from changes in the various risk factors involved, the potential results of adverse changes were simulated for five risk factors: foreign exchange rate of the Real against the foreign currencies that comprise the international reserves; foreign exchange coupon curve; interest curves of the foreign currencies that comprise the international reserves; the ID x TR swap curve; and risk premium used in the calculation of the fair value of receivables from institutions under extrajudicial liquidation. For the exchange rate, a 20% appreciation of the Real against the other currencies was simulated. For the foreign exchange coupon and ID x TR swap curves, a parallel shift of one percentage point above these curves was simulated. For the interest curves of the currencies that comprise the international reserves, a parallel shift of half a percentage point above these curves was simulated. For the risk premium, a parallel shift of five percentage points above was simulated. The simulations consider only the immediate results of the price changes, based on a conservative analysis, ignoring the effect of the loading over time.

The following table presents the impact on the result of the BCB for each of these simulations:

	20% appreciation of the Real against other currencies	Parallel shift of 1 percentage point of the foreign exchange coupon curve	Parallel shift of 0.5 percentage point of the foreign currencies interest curve	Parallel shift of 1 percentage point of the ID x TR swap curve	Parallel shift of 5 percentage points in the risk premium
Foreign exchange swap	17,311,361	172,198	-	-	-
International reserves	(242,549,091)	-	(11,063,016)	-	-
Accounts payable in foreign currencies	2,547,448	-	-	-	-
Receivables from institutions under liquidation	-	-	-	(1,770,789)	(5,083,785)
Foreign exchange equalization	224,218,840	(172,198)	11,063,016	-	-
Net impact	1,528,558	-	-	(1,770,789)	(5,083,785)
on the result	11,224,914	-	-	(1,770,789)	(5,083,785)
on equity	(9,696,356)	-	-	-	-

37 - LIQUIDITY RISK

Liquidity risk is the risk that arises from a possible difficulty in trading securities in a secondary market, due to the fact that it cannot absorb the volume that is desired to be traded without there being a significant change in price.

a) Financial instruments intended for the management of international reserves

The purpose of the management of the liquidity risk is to ensure that the BCB fulfills all the financial commitments that it has assumed. Accordingly, there is a strategy for diversification of maturities and also the establishment of limits aiming at ensuring that the securities purchased can be traded in the secondary market without causing abrupt changes in the prices of the assets. Due to these guidelines, even securities with longer maturities have immediate liquidity.

b) Financial instruments intended for executing the monetary policy

Considering the attributions of a monetary authority, which include controlling the liquidity of the financial system, the BCB is not subject to the limitations resulting from a mismatch between assets and liabilities in local currency.

c) Maturity terms

The following table presents the contractual maturities of the assets and liabilities of the BCB in foreign currencies:

At Dec 31, 2016						
	Up to 1 month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
Assets						
Cash and Cash Equivalents	74,082,067	-	-	-	-	74,082,067
Time Deposits Placed with Financial Institutions	12,093,712	19,740,697	-	-	-	31,834,409
Funds Under External Management	4,083,247	666,080	645,682	8,927,360	4,913,661	19,236,030
Financial Assets Purchased Under Resale Agreements	30,219,726	27,180,242	2,607,040	-	-	60,007,008
Derivatives	-	74,461	-	-	-	74,461
Securities	23,257,788	64,330,829	110,734,852	794,307,944	54,721,278	1,047,352,691
Receivables	6,138	-	-	3,397,291	-	3,403,429
Investment in International Financial Organizations (*)	-	-	-	-	48,481,780	48,481,780
Total Assets (A)	143,742,678	111,992,309	113,987,574	806,632,595	108,116,719	1,284,471,875
Liabilities						
Items in the Course of Collection	13,700,151	-	-	-	-	13,700,151
Deposits Received from Financial Institutions	2,317	-	-	-	-	2,317
Financial Assets Sold Under Repurchase Agreements	15,588,272	5,778,653	-	-	-	21,366,925
Derivatives	-	41,578	-	-	-	41,578
Accounts Payable (**)	12,737,238	-	-	-	-	12,737,238
Deposits Received from International Financial Organizations (**)	44,864,432	-	-	-	-	44,864,432
Other	8,489	-	-	-	-	8,489
Total Liabilities (B)	86,900,899	5,820,231	-	-	-	92,721,130
Net position (A - B)	56,841,779	106,172,078	113,987,574	806,632,595	108,116,719	1,191,750,745

(*) Investment in International Financial Organizations was classified as ">5 years", in view of its nature of a permanent investment and with no maturity date.

(**) Obligations arising from SDR allocations and Deposits Received from International Financial Organizations were classified as "up to 1 month", as they have no maturity date and because the counterparties may choose the payment date.

At Dec 31, 2015						
	Up to 1 month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
Assets						
Cash and Cash Equivalents	52,681,331	-	-	-	-	52,681,331
Time Deposits Placed with Financial Institutions	17,758,558	42,405,444	-	-	-	60,164,002
Funds Under External Management	4,700,496	962,600	1,149,899	9,586,528	7,699,256	24,098,779
Financial Assets Purchased Under Resale Agreements	9,440,870	30,923,176	17,101,710	-	-	57,465,756
Derivatives	-	5,053	-	-	-	5,053
Securities	4,161,582	81,669,009	98,469,775	990,399,446	65,110,502	1,239,810,314
Receivables	304,400	-	-	4,575,584	-	4,879,984
Investment in International Financial Organizations (*)	-	-	-	-	23,131,720	23,131,720
Total Assets (A)	89,047,237	155,965,282	116,721,384	1,004,561,558	95,941,478	1,462,236,939
Liabilities						
Items in the Course of Collection	5,486,551	-	-	-	-	5,486,551
Deposits Received from Financial Institutions	2,776	-	-	-	-	2,776
Financial Assets Sold Under Repurchase Agreements	3,862,974	139,406	-	-	-	4,002,380
Derivatives	-	5,400	-	-	-	5,400
Accounts Payable (**)	15,621,696	-	-	-	-	15,621,696
Deposits Received from International Financial Organizations (**)	21,244,185	-	-	-	-	21,244,185
Other	4,546	-	-	-	-	4,546
Total Liabilities (B)	46,222,728	144,806	-	-	-	46,367,534
Net position (A - B)	42,824,509	155,820,476	116,721,384	1,004,561,558	95,941,478	1,415,869,405

(*) Investment in International Financial Organizations was classified as ">5 years", in view of its nature of a permanent investment and with no maturity date.

(**) Obligations arising from SDR allocations and Deposits Received from International Financial Organizations were classified as "up to 1 month", as they have no maturity date and because the counterparties may choose the payment date.

38 - NON-FINANCIAL RISK

Non-financial risk, which includes, among others, the strategic, legal and operational risks, may generate financial loss, damage to reputation or inability to achieve the objectives of the business, resulting from one or more causes of risk, originating from human factors, processes, defective or inadequate systems or external events. The management of the non-financial risk in the BCB is carried out using an integrated risk management system, which establishes the integration and coordination of the organization's risk management process in a single methodological framework, in a structured and systematic manner. The

main tools used to identify and measure risks, supported by computer systems developed for this purpose, are: Risk and Control Self-Assessment (RCSA), key risk indicators and the history of events.

For the purpose of preventing and controlling the non-financial risk, the BCB has internal control systems in accordance with the characteristics of its activities, in addition to regulations that establish the competencies of each department and the attributions of their managers (Internal Rules and Administrative Organization Manual), and it also has standards that define the criteria and procedures for all its activities.

Compliance with these regulations and observance of the internal control systems are monitored by the Internal Audit of the BCB, which is responsible for ensuring the strict observance of these actions.

Additionally, every six months, the heads of department of the BCB attest to the consistency of the internal controls referring to the operations under their responsibility, which allows the Deputy Governor for Administration and the Head of the Accounting and Financial Department to sign, on behalf of the BCB, a declaration of responsibility on its internal controls to the independent audit firm.

39 - RELATED PARTIES

In accordance with IAS 24 – Related Party Disclosures, the following entities are defined as related parties:

39.1. Federal Government

The BCB is an autonomous federal government agency linked to the Ministry of Finance (MF) and is a member of the SFN and, therefore, is subject to the guidelines of the CMN, the highest deliberative body of SFN. The CMN is responsible for establishing the general guidelines of the monetary, foreign exchange and credit policies, for regulating the functioning and supervision of the financial institutions and for disciplining the instruments for monetary and foreign exchange policy, as well as for approving the financial statements and accounting system of the BCB.

The Governor and Deputy Governors of the BCB do not have a fixed term mandate. They are appointed by the President of the Republic and approved by the Federal Senate.

The expenditure budget for the maintenance of the BCB is approved by the National Congress and its financial execution must observe the limits established by the Executive Branch.

All the operations between the BCB and the National Treasury are governed by constitutional and legal provisions of which the main provisions are listed below. Operations with other entities related to the Federal Government are carried out under market conditions and in the course of normal day to day transactions and, therefore, are not considered within the context of this note.

a) Deposits to the Order of the Federal Government

The financial resources of the Federal Government are deposited in the BCB (National Treasury Operating Account – Note 10); they can be freely utilized and are remunerated by the average yield of the federal government securities that exist in the portfolio of the BCB (Note 9.2). In 2016, the yield was 13.28% (13.75% in 2015).

b) The result of the BCB

A profit earned by the BCB, after the recording or reversal of reserves, creates an obligation of the BCB to the Federal Government, which must be transferred no later than the 10th working day after the approval of the financial statements by the CMN. If there is a loss, this result creates a credit for the BCB against the Federal Government, which must be paid by no later than the 10th working day of the year subsequent to the approval of the financial statements. In both situations, the amounts must be adjusted by the same indexes applied to the National Treasury Operating Account, until the date of the actual transfer or coverage (Notes 10 and 40.a).

c) Foreign exchange equalization

Through the foreign exchange equalization operation (Notes 8.2.2 and 36.3), the carrying cost of the international reserves and the result of the foreign exchange swaps performed in the domestic

market are transferred to the Federal Government, through the National Treasury. These amounts are computed daily and the balance payable or receivable is calculated on the last day of the half year, and will be settled financially according to the same rules established for the transfer or coverage of the results, also with respect to their adjustment (Note 10).

d) Transfers from the National Treasury

The BCB uses funds transferred by the Federal Government for the payment of part of its administrative expenses (Note 28).

e) Payment of lawsuits

The payments result from res judicata legal decisions in which the Federal Government and its autonomous agencies have been sentenced, have been made by competent courts, which are responsible for requesting budgetary and financial authorization (Notes 18.2 and 20.1). In 2016, the write-offs due to the payment of court-ordered debts referring to lawsuits in which the BCB was sentenced totaled R\$142,287 (R\$28,785 in 2015).

f) Use of securities as a monetary policy instrument

The BCB uses securities issued by the National Treasury to carry out its monetary policy (Notes 7.2 and 9.2). All the purchases and sales of securities that take place between the BCB and the National Treasury are realized at market prices.

g) Providing of services for the placement of securities

The BCB provides services for the placement of government securities in the financial market, leaving, however, the definition of characteristics, price and term of the papers placed to the National Treasury. Fees are not charged for providing this service.

h) Brazilian Sovereign Wealth Fund

The Brazilian Sovereign Wealth Fund (FSB), created by Law 11,887, of December 24, 2008, is a special fund of an accounting and financial nature linked to the MF for the purpose of: (i) encouraging investments in assets in Brazil and abroad; (ii) forming public savings; (iii) mitigating the effects of economic cycles; and (iv) encouraging projects located abroad of strategic interest for Brazil. The form, term and nature of the investments of the FSB are approved by the Deliberative Council of the FSB (CDFSB), which comprises the State Minister of Finance, State Minister of Planning, Development and Management, and the Governor of the BCB. Pursuant to Resolution 2, of September 17, 2010, of the CDFSB, the National Treasury was authorized to invest the Fund's resources in the purchase and sale of foreign currencies or in the carrying out of other foreign exchange operations, including derivative contracts, through an agreement to be entered into with the BCB. An agreement was entered into between the National Treasury and the BCB for this purpose; however, until the end of 2016, no operation had been carried out.

i) Main transactions between the BCB and the Federal Government in the period

	Years ended December 31	
	2016	2015
National Treasury Operating Account (Note 10)		
Opening balance	881,932,081	605,920,552
(+) remuneration	104,964,723	86,049,514
(+/-) deposits/withdrawals	(103,361,058)	13,424,876
(+) transfer of positive result	156,285,934	176,537,139
Closing balance	1,039,821,680	881,932,081
Securities issued by the National Treasury (Note 9.2)		
Opening balance	1,279,138,194	1,113,234,371
(+/-) net purchase (net redemption) (Note 7.2)	(58,204,309)	(54,731,831)
(+) issuance for recovery of the portfolio (Note 22.1)	40,000,000	75,000,000
(+) issuance for covering the negative result/foreign exchange equalization	95,000,000	-
(+) remuneration (Note 23)	162,047,332	145,457,366
(+/-) fair value adjustment (Note 29.2)	26,506	178,288
Closing balance	1,518,007,723	1,279,138,194
Result to be covered by the National Treasury (Note 10)		
Opening balance	-	-
(+) negative result to be covered	17,305,155	-
(+) remuneration	1,013,822	-
Closing balance	18,318,977	-
Result to be transferred to the National Treasury (Note 10)		
Opening balance	41,524,507	25,658,860
(+) positive result to be transferred	7,783,321	76,712,309
(+) remuneration	1,041,319	1,449,335
(-) transfers	(42,565,826)	(62,295,997)
Closing balance	7,783,321	41,524,507
Foreign exchange equalization (Note 8.2.2)		
Opening balance	-	-
(+/-) adjustments	240,319,692	(157,344,722)
(+/-) transfers to accounts payable (receivables)	(240,319,692)	157,344,722
Closing balance	-	-
Receivables due to foreign exchange equalization result (Note 10)		
Opening balance	-	-
(+) foreign exchange equalization result	240,319,692	-
(+) remuneration	10,583,724	-
(-) receipts	(95,000,000)	-
Closing balance	155,903,416	-
Accounts payable due to foreign exchange equalization result (Note 10)		
Opening balance	110,938,091	65,173,472
(-) foreign exchange equalization result	-	157,344,722
(-) remuneration	2,782,017	2,661,039
(+) payments	(113,720,108)	(114,241,142)
Closing balance	-	110,938,091
Transfer under budget law (Note 28)	2,479,282	2,394,141

39.2. Centrus

Centrus, a nonprofit organization, is a private pension fund and its purpose is to supplement retirement benefits and pensions provided by the public social security system (Note 20.2.1). The BCB is the sponsor of Centrus and, accordingly, there were the following transactions between the entities:

	Years ended December 31	
	2016	2015
Actuarial surplus (Note 15)		
Opening balance	1,092,333	1,296,278
(+/-) remeasurements of defined benefit plans	(57,286)	(534,722)
(+) interest	337,376	330,777
(-) allocation of surplus of the plan	(304,572)	-
Closing balance	1,067,851	1,092,333
Receivables (Note 11.2.2.b)		
Opening balance	355,537	553,987
(+) interest	71,085	70,846
(+) allocation of surplus of the plan	304,572	-
(-) receipts	(175,637)	(269,296)
Closing balance	555,557	355,537

The variations in the period arose from remeasurements of benefit plans defined in the Centrus plan (Note 20.2.1), the accrual of interests, the recognition of the allocation of surplus of the plan, as approved by Ordinance 518, of 2016, and receipts in the period (Note 11.2.2.b).

39.3. Funpresp-Exe

The Funpresp-Exe, a closed supplementary pension plan entity, is a privately-held legal entity, related to the MPDG, created by Decree 7,808, of September 20, 2012, for the purpose of managing and executing supplementary pension benefit plans for employees who hold statutory positions in the Federal Government (Note 20.2.2).

The BCB, as the sponsor of the plan, made contributions in 2016 amounting to R\$3,488 to the Funpresp-Exe (R\$2,579 in 2015).

39.4. Casa da Moeda do Brasil (CMB)

The CMB (the Brazilian mint) is a federal public company, linked to the MF and its main activities comprise the exclusive manufacture of bank notes and coins and the printing of federal postage and tax stamps.

The bylaws of the CMB establish that its management will be carried out by the Board of Directors and by the Executive Board and that there will be one member on the Board of Directors indicated by the BCB.

In 2016, the BCB purchased notes and coins in the amount of R\$530,788 (R\$518,286 in 2015) (Note 21).

39.5. Fundação de Previdência da Casa da Moeda do Brasil (Cifão)

Cifão, established by the CMB, a nonprofit organization, is a private pension fund, endowed with a legal personality of private law, with its own equity and administrative and financial autonomy. Its main purpose is to establish and execute pension plans for the employees of the CMB. Although Cifão has no transactions with the BCB, it is considered as a related party under IAS 24 because it is a post-employment benefit plan maintained by a related party of the Institution, in this case, the CMB.

39.6. Reserve for the Institutional Development of the BCB (Redi-BC)

The funds of the Redi-BC are intended to support the execution of relevant and essential projects focused on the institutional functioning and development of the BCB and which aim at implementing the actions defined in its strategic planning. In 2016, Redi-BC spent R\$99,875 (R\$91,431 in 2015) to pay for the execution of projects and reimbursed the BCB the amount of R\$4,690 (R\$4,263 in 2015) as a management fee.

39.7. Personnel Assistance Fund (Faspe)

Faspe is an accounting fund created to generate resources intended to maintain the health care benefits of the employees of the BCB. It was created by Law 9,650, of 1998, which determined that its resources will be comprised by budget allocations from the BCB and monthly contributions from the participants, where the contributions of the BCB must be equivalent to the income from the participants' contributions. It also determined that in the event of a deficit in the system, the BCB will be able to use available funds to cover the deficit.

In 2016, the expenses incurred by the BCB as an ordinary contribution to Faspe totaled R\$95,125 (R\$90,326 in 2015), and the extraordinary contributions amounted to R\$130,624 (R\$47,112 in 2015).

39.8. Board of Directors and members occupying strategic positions

The BCB has nine Directors (including the Governor), a Head of Cabinet of the Governor, an Executive Secretary, an Attorney General and 46 employees – consisting of Heads of Cabinets of Directors and Heads of Departments, considered as occupying strategic positions.

The following table presents the costs with remuneration and other benefits attributed to the directors and the other members occupying strategic positions:

	Years ended December 31	
	2016	2015
Short-term benefits	27,997	27,225
Directors	3,498	3,913
Other members occupying strategic positions	24,499	23,312
Termination benefits	167	-
Total	28,164	27,225

The short-term benefits paid include wages, per diem allowances, social security contributions, housing allowances, food allowances and medical care. The salaries and benefits are established by law and there is no connection between them and the financial performance of the BCB. The BCB does not make loans to the members of its board or to its employees.

The benefits resulting from the termination of the work relationship comprise the compensatory remuneration payable to Board members after their exoneration from the position they have occupied, due to the legal impediment to exercise activities or provide services in their sector for a period of six months as from exoneration.

The BCB does not have other long-term benefits and does not offer post-employment benefits to the members of the Board, with the exception of those that are part of the staff of the BCB, who receive the same benefits as the other employees of the BCB (Note 20.2).

40 - FISCAL RESPONSIBILITY LAW – MANDATORY SUPPLEMENTARY INFORMATION

a) Impact and fiscal cost of operations – Fiscal Responsibility Law, paragraph 2 of Article 7

The sole paragraph of Article 8 of Law 4,595, of 1964, with the wording given by Decree Law 2,376, of November 25, 1987, establishes that “as from January 1st, 1988, the results obtained by the Banco Central, considering the revenues and expenses related to all its operations, shall be 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 result of the Banco Central do Brasil, calculated after the recording or reversal of reserves, constitutes revenue of the National Treasury and will be transferred no later than the 10th working day subsequent to the approval of the semiannual balance sheets.

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

Pursuant to Clause II of Article 2 of Provisional Measure 2,179-36, of August 24, 2001, this negative result must be covered no later than the 10th working day of the year following the approval of the balance sheet by the CMN.

Accordingly:

- I - the result of the BCB considers the revenues and expenses related to all its operations;
- II - the positive results are transferred as revenues to the National Treasury and the negative results are covered as expenses of the National Treasury;
- III - these results are included in the budget in the National Treasury account.

The BCB presented a positive result of R\$5,883,857 in the third quarter and R\$1,896,530 in the fourth quarter, giving a total result of R\$7,780,387 in the second half of 2016 which, after the realization of reserves, will be transferred to the National Treasury no later than the 10th working day after the approval of the financial statements by the CMN. In conformity with paragraph 5 of Article 9 of the Fiscal Responsibility Law, within 90 days after the half-year end, the BCB shall present, in a joint meeting of the pertinent thematic committees of the National Congress, an evaluation report on the fulfillment of the objectives and goals of the monetary, credit and foreign exchange policies, clearly showing the impact and the fiscal cost of its operations and the results presented in the financial statements.

b) Cost of remunerating the deposits of the National Treasury – Fiscal Responsibility Law, paragraph 3 of Article 7

The cost corresponding to the remuneration of the deposits of the National Treasury amounted to R\$26,391,758 in the third quarter and R\$23,822,903 in the fourth quarter, totaling R\$50,214,661 in the second half of 2016.

c) Cost of maintaining the foreign exchange reserves – Fiscal Responsibility Law, paragraph 3 of Article 7

The cost of maintaining the foreign exchange reserves is calculated, on a daily basis, by the difference between the rate of profitability of the international reserves, including foreign exchange variation, and the average rate of funding calculated by the BCB.

At December 31, 2016, 89% of the reserve assets were comprised of securities, as published in the Press Release of the External Sector (table 34), available on the BCB's website (www.bcb.gov.br).

In the third quarter of 2016, the international reserves presented a positive return of 1.25%. After deducting the funding cost of the BCB, the net result of the reserves was negative by 1.41% (R\$17,287,721). In the fourth quarter, the return of the reserves was 1.34% negative, totaling 3.53% negative (R\$43,483,481) when taking into consideration the funding cost.

	International Reserves		Funding Cost	Cost of Maintaining International Reserves	
	Average Balance (R\$ thousand)	Profitability (%)		(%)	(R\$ thousand)
3rd quarter/2016	1,224,388,587	1.25	(2.66)	(1.41)	(17,287,721)
4th quarter/2016	1,232,580,345	(1.34)	(2.19)	(3.53)	(43,483,481)
Total for the six-month period					(60,771,202)

It should be pointed out that the foreign exchange restatement presents a difference resulting from the translation of the amounts of the reserve assets into Reais, and it is not a realized result from a financial point of view. Therefore, after excluding this restatement, the international reserves presented in the third quarter of 2016 a positive return of 0.05%, being comprised of accrued interest (0.15%) and the negative mark-to-market adjustment of the assets (0.10%). After deducting the funding cost, the net result of

the reserves was negative by 2.61% (R\$31,915,714). In the fourth quarter, the profitability of the reserves was negative by 0.65% (0.16% through the accrual of interest and 0.81% through the negative mark-to-market adjustment of the assets), totaling 2.84% negative (R\$35,030,454) when considering the funding cost.

	International Reserves		Funding Cost (%)	Cost of Maintaining International Reserves	
	Average Balance (R\$ thousand)	Profitability, excluding foreign exchange variation (%)		(%)	(R\$ thousand)
3rd quarter/2016	1,224,388,587	0.05	(2.66)	(2.61)	(31,915,714)
4th quarter/2016	1,232,580,345	(0.65)	(2.19)	(2.84)	(35,030,454)
Total for the six-month period					(66,946,168)

d) Profitability of the securities portfolio – Fiscal Responsibility Law, paragraph 3 of Article

7

The profitability of the securities portfolio of the BCB, composed exclusively of securities issued by the Federal Government, was R\$40,330,482 in the third quarter and R\$36,522,251 in the fourth quarter, totaling R\$76,852,733 in the second half of 2016.

Governor: Ilan Goldfajn

Deputy Governors: Anthero de Moraes Meirelles, Carlos Viana de Carvalho, Isaac Sidney Menezes Ferreira, Luiz Edson Feltrim, Otávio Ribeiro Damaso, Reinaldo Le Grazie, Sidnei Corrêa Marques and Tiago Couto Berriel

Head of the Accounting and Financial Department: Arthur Campos e Pádua Andrade

Accountant – CRC-DF 24,829/O-7

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Banco Central do Brasil
Financial statements
at December 31, 2016
and independent auditor's report



(A free translation of the original in Portuguese)

Independent auditor's report

To the Management
Banco Central do Brasil

Opinion

We have audited the accompanying financial statements of Banco Central do Brasil ("BCB"), which comprise the balance sheet as at December 31, 2016 and the statements of operations, comprehensive income (loss), changes in equity and foreign currency cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Central do Brasil as at December 31, 2016, and its financial performance and foreign currency cash flows for the year then ended, in accordance with the IFRS issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the BCB in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matters

Supplementary information

We have also audited the accounting information included in the supplementary information presented in Note 40, which is not required by the IFRS but is being presented in compliance with the Fiscal Responsibility Law. This accounting information has been subjected to the same procedures described above and, based on our opinion, nothing has come to our attention that causes us to believe that it has not been prepared, in all material respects, in a manner consistent with the financial statements taken as a whole.

Banco Central do Brasil

Other information accompanying the financial statements and the independent auditor's report

The BCB's management is responsible for the other information that comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the BCB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the BCB's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

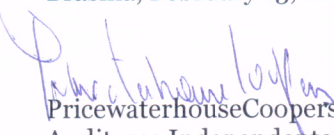


Banco Central do Brasil

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BCB's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BCB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the BCB to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Brasília, February 15, 2017


PricewaterhouseCoopers
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Guilherme Naves Valle
Contador CRC 1MG070614/O-5 "S" DF