



BANCO CENTRAL DO BRASIL

CENTRAL BANK OF BRAZIL

MANAGEMENT REPORT – 2008

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Preface

In light of the institution's values - ethics, commitment to the institution, focus on results, transparency and social responsibility -, the Central Bank of Brazil presents this "2008 Management Report", synthesizing the year's major achievements.

This report offers the citizenry an opportunity to familiarize itself with the major actions and measures taken by the Central Bank in complying with its mission of ensuring the stability of the currency's purchasing power and a solid and efficient financial system.

The document is structured into chapters and topics and also provides information on the institution's strategic orientation underlying implementation of monetary, credit and exchange policies and National Financial System regulations and supervision.

The 2008 financial statements are also included in this publication.

1. Overview of the Brazilian economy in 2008

1.1 Gross Domestic Product

The evolution of the Brazilian economy in 2008 can be broken down into two stages. Up to the third quarter of the year, economic activity expanded at an accelerated pace. The dynamics of the economy were rooted in factors within the nation's borders, marked by rapidly expanding private consumption and investment, while the external sector assumed a position as net absorber of domestic demand. Vigorous demand growth coupled with lesser - albeit still very significant - expansion in supply reflected pressures on domestic prices. On the external scenario, the persistent international turbulence that started in mid-2007 began reversing commodity price trends.

The second stage began in September 2008, with the worsening of the international crisis. Rising uncertainties within international financial markets and the world's mature economies generated profound impacts on the emerging economies, particularly in terms of rising risk aversion and preference for liquidity. Though the country's economic fundamentals remained healthy, Brazil was also impacted by the crisis.

In the first nine months of the year, Gross Domestic Product (GDP) expanded 6.4%, compared to the same period of 2007. All GDP components registered across-the-board positive expansion. Viewed in terms of demand, the external sector made a negative contribution of 2.5 p.p., while internal demand accounted for 8.1 p.p. positive growth. Seen under the prism of output, the crop/livestock sector registered the strongest growth in cumulative annual terms through the third quarter, with 6.7%, followed by industry, 6.5%, and services, up 5.5%.

The importance of internal demand underpinning growth in economic activity was evident throughout the year and reflected improved credit conditions and income and job market recovery. In this context, household consumption increased 6.5% in the first three quarters of the year. Gross Fixed Capital Formation rose 17.3%, the highest level for this period since 1995. Government consumption posted growth of 5.7%.

Analysis of the external sector shows cumulative export growth of 1.6%, with 22.6% under imports through the third quarter of the year. This sector's performance was a response to internal demand, as imports contributed as much to increased productive capacity as to meeting household consumer demand.

In the final quarter of 2008, the performance of economic activity partially reflected the global liquidity shortage and the activity slowdown in the mature economies, as the second stage of the international crisis deepened. Contracting of external loans and investments, coupled with reductions in external demand, suggest strongly negative repercussions on domestic output and employment in the fourth quarter of 2008. Expectations point to a downturn in GDP growth and to added pressures on the rate of exchange, with possible impacts on domestic inflation. In this scenario, the role of monetary policy has focused on ensuring the gains that have accompanied stability, in a framework of efforts targeted at reestablishing the confidence of economic agents.

The effects of the international financial crisis on the Brazilian economy will vary from one sector to another. Uncertainties regarding the evolution of short-term demand and credit restrictions tend to have a greater impact on sectors that have benefited most from credit growth: output of consumer durables and capital goods.

In the labor market, which is somewhat slow to react to the pace of economic activity, unemployment remained low through the end of 2008, but came under considerable pressure as 2009 got under way. In December, unemployment reached 6.8%, the lowest level in the historical series, while the average for the year closed at 7.8%, 1.4 p.p. below the average 2007 percentage.

1.2 Inflation

Despite the shocks suffered by the Brazilian economy, cumulative inflation in the year measured by the Broad Consumer Price Index (IPCA) was 5.9%, the fifth consecutive year that inflation has closed within the parameters defined by the National Monetary Council (CMN). In 2008, the Council had defined these parameters at 2.5% and 6.5%, with a central target of 4.5%.

As established in its yearly agenda, the Monetary Policy Committee (Copom) held eight meetings during the course of the year. In the first two, it resolved not to alter basic interest rates, in contrast to the next four meetings in which it raised rates by a total of 250 basis points, reaching a September high of 13.75% per year, where it remained when the final two meetings were held. The objective of the increase in the basic rate was to ensure that IPCA performance would be consistent with the target path, in an environment marked by a mismatch between demand growth and expansion in the supply of goods and services, as needed to ensure sustained economic growth.

In the last two Copom meetings, the decision not to alter interest rates was taken in light of the prevailing uncertainty regarding evolution of the external scenario and the reaction of domestic economic activity. Despite these uncertainties, the Committee reiterated its determination to return inflation to the target path before the end of 2009. International evidence and Brazilian experience indicate that high levels of inflation result in increased risk premiums, shorter planning horizons and, consequently, cutbacks in the growth potential of the economy, coupled with regressive effects on income distribution.

1.3 National Financial System lending operations

Notwithstanding the unfavorable conditions generated by the international financial crisis, particularly as of September, National Financial System (SFN) lending operations continued the strong 2008 growth trend. Reductions in external market liquidity and exchange rate volatility resulted in increased uncertainties in the domestic economy, with reflections on bank credit supply and demand in the final quarter of the year. As a result, the number of loan contracts formalized dropped sharply, including for both consumption and productive activity.

The difficulties rooted in the external scenario led the federal government to adopt measures aimed at preserving credit market normality. Various rules on reserve requirements were altered in order to ensure the necessary flow of liquidity on the domestic market. In its turn, the shortage of external financing lines required measures aimed at stimulating inflows of funding for contracting and renewing export financing operations. With this objective in mind, the Central Bank injected resources directly into the market through spot market sale auctions, auctions with future buyback commitments and auctions targeted to export financing.

The overall volume of National Financial System credits reached R\$ 1,227.4 billion in December 2008, for 12-month growth of 31.1%. This volume was equivalent to 41.3% of GDP, compared to 34.2% at the end of 2007. Operations with individual borrowers expanded 23.9% in 12 months, particularly under payroll-deducted loans and financing for acquisitions of consumer durables, particularly automotive vehicles. Parallel to this and in keeping with the pace of expanding economic activity, lending operations based on non earmarked resources targeted to the corporate sector totaled R\$ 477.3 billion, up 39.1% in the period. At this point, it is important to stress the very positive performance of portfolios financed with domestic resources, mainly in the working capital modality.

Average interest in the major modalities of lending operations based on non earmarked resources increased 9.4 percentage points in the year, closing December at 43.2% per year, compared to 30.7% per year in the segment of corporate loans. In its turn, the banking spread reached 30.6% per year, 8.3 percentage points above the end-2007 mark.

1.4 External sector

Signs of recession in such mature economies as the United States, Japan and Europe, and expectations of a slowdown in the emerging economies, particularly China and India, deepened uncertainties regarding growth in world trade and the behavior of international commodity prices.

International financial markets registered significant liquidity cutbacks and growing risk aversion, thus reducing the supply of available financing. Despite this scenario, the impacts on Brazil's external accounts were less accentuated. Increases occurred in the current account deficit and under net remittances by foreign portfolio investors financed with long-term capital - particularly Foreign Direct Investments (IED)-, reductions in banking sector assets held abroad and utilization of funding drawn from international reserves, as the Central Bank decided to inject foreign currency liquidity into the domestic economy.

In this context, though lower than in the same period of the previous year, trade balance surpluses in the first six months of the year aided in avoiding even sharper deterioration in the current account balance. With the worsening of the crisis in the second half of the year, foreign portfolio investments registered net outflows and a deficit in the balance between new lending inflows and scheduled payments, an evident sign of the shortage of international financing.

However, even when these figures are considered, 2008 witnessed net inflows of foreign direct investments totaling US\$ 45.1 billion, a new record for the historical series that dates back to 1947. This amount was equivalent to 2.8% of GDP and was distributed in a balanced way among the various sectors of economic activity.

The balance of payments produced a positive result of US\$ 3 billion in the year, while the current account balance closed with a deficit of US\$ 28.3 billion, equivalent to 1.8% of GDP. In 2008, the trade surplus closed at US\$ 24.7 billion, representing a major source of balance of payments financing.

The overall trade flow set a new record of US\$ 371.1 billion, based on exports totaling US\$ 197.9 billion and imports of US\$ 173.2 billion, for respective growth rates

of 23.2% and 43.6% when viewed against 2007.

As far as foreign investments in stocks are concerned, net remittances in the period under analysis totaled US\$ 7.6 billion, with significant participation in the volume of stock market trading in the country, US\$ 436.4 billion, for growth of 109.2% compared to 2007.

In their turn, net foreign investments in fixed income securities added up to US\$ 6.8 billion, practically offsetting outflows of stock investments. In the fourth quarter of the year, net amortizations of short-term securities resulted from cutbacks in external credits.

1.5 International reserves

Just as in the case of balance of payments flows, the trajectory of the nation's reserve position can be separated in two phases. With the still positive external conditions that marked the first half of the year, the Central Bank maintained its policy of strengthening the nation's reserve position, obeying the principles of not defining limits and not interfering with the exchange rate trajectory, so as to avoid further aggravation of market volatility. In the final six months of the year, as the international crisis worsened, the Central Bank intervened on the domestic exchange market with the objective of injecting foreign currency liquidity and financing foreign trade operations.

At the end of the first six months of the year, the international reserve position had surpassed the record level of US\$ 200 billion. In that period, the Central Bank purchased US\$ 15.2 billion on the domestic market, as the rate of exchange appreciated 10.1% against the United States dollar.

In the final six months of the year, the international economic scenario reversed course and international liquidity declined sharply, leading the Central Bank to inject resources into the market through net sales of US\$ 7.6 billion on the domestic spot market.

Aside from this, the monetary authority offered a net total of US\$ 8.3 billion in credit lines with repurchase commitments as of September, with the objective of expanding foreign currency liquidity and ensuring that national companies would have access to credit. At the same time, it carried out short-term foreign currency lending operations targeted to export financing. These operations were guaranteed by the country's sovereign bonds in an amount of US\$ 1.5 billion, and by foreign trade operations worth US\$ 3.2 billion, targeted to export financing.

The policy of accumulating international reserves not only made it possible for Brazil to achieve investment grade ratings from the major risk classification agencies, but also made it feasible to formalize a reciprocal currency swap agreement with the Central Bank of the United States in an overall amount of US\$ 30 billion, announced in the month of October.

At the end of the year, with the growing international crisis, the rate of exchange devalued 46.8%. Compared to the previous year, however, external account sustainability indicators continued on a positive trajectory, as a result of accumulation of an additional US\$ 26.5 billion in reserves, nominal GDP growth in dollars and continued export growth. As a proportion of GDP, the external debt dropped from 14.5% at the end of 2007 to 12.6% in 2008. Since the country's external assets, especially its international reserves, are greater than the overall external debt, Brazil increased its position of net external creditor from US\$ 11.9 billion to US\$ 28.9 billion during that period. At the same time, the public sector external debt dropped from US\$ 86 billion to a level of US\$ 82.3 billion in the period.

1.6 Reserve requirements and rediscount operations

With the outbreak of the international financial crisis in September, the Central Bank introduced significant changes into the rules governing the various types of reserve requirements, with the objective of freeing up resources for institutions in order to ensure the liquidity supply. Initially, these measures were targeted at channeling resources to small and medium-size institutions, those most heavily impacted by ongoing liquidity restrictions, with the objective of guaranteeing normal operation of the interbank market.

The greatest impact of these changes occurred under reserve requirements on time resources, applied to amounts in excess of R\$ 2 billion. Aside from this, the system of setting aside these reserves exclusively in federal public securities was altered to 70% in cash and 30% in federal public securities. Deductions from the cash amount were permitted in cases of amounts utilized in acquisitions of credit operations and other assets and also amounts invested in interbank deposits in other institutions.

The additional reserve on demand deposits and time deposits was reduced from 8% to 5%, while a reduction factor was also introduced, obligating institutions to apply the rate only to amounts in excess of R\$ 1 billion. Starting on December 1, 2008, compliance with requirements was altered once again to federal public securities and no longer cash. Deductions of reserve requirements on interbank deposits contracted with leasing companies from the value of foreign currency acquired from the Central Bank

were also authorized.

Later on, reserve requirements on demand resources were cut from 45% to 42% with the objective of ensuring an adequate flow of credits. At the same time, the obligation to invest demand resources in rural financing was raised 5 p.p.

Deduction of the amount equivalent to anticipated payment of 60 installments of the ordinary contribution to the Credit Guarantee Fund (FGC) from reserve requirements on demand resources was also permitted. This made it possible to increase the fund's available resources and its capacity to acquire credit operations from financial institutions.

Finally, the rate of reserve requirements on rural savings deposits was cut from 20% to 15%, while the requirement demanding investment of rural savings deposits in rural financing was increased from 65% to 70%.

Through mid-November, measures related to reserve requirements made it possible to release approximately R\$ 90 billion in resources deposited at the Central Bank.

In October, Provisional Measure no. 442 granted powers to the National Monetary Council to define criteria and special conditions for the Central Bank to evaluate and accept assets in national currency and rediscount operations or in guarantees of loan operations in foreign currency. This provisional measure was converted into Law no. 11,882, dated December 23.

1.7 Open market operations

Open market operations carried out by the Central Bank consisted of purchases and sales of securities included in the internal federal public securities debt on the secondary market either definitively or with a resale/repurchase commitment. The objective in this case was to normalize bank liquidity and administer very short-term interest rates (Selic rate). Repo operations are the most common, in which the sale/purchase of the security is made on the market with a repurchase/resale commitment on a future date.

These operations played a fundamental role in holding the Selic rate near the target defined by Copom. The Central Bank continued carrying out long-term repo operations with security sales and repurchase commitments with terms of five and seven months. Aside from this, repo operations with terms of from one to 35 business days were carried out normally.

Following a guideline similar to that applied to international reserves, the strategy of rolling over "reverse exchange swap" contract maturities was maintained in the first nine months of the year. These are derivative instruments with which the Central Bank assumes the active position in exchange variation and the passive position in domestic interest rates.

Starting in October, as the international financial crisis worsened, the rate of exchange devalued sharply, as demand for dollars increased on the spot market, together with demand for hedge instruments on the derivatives market. In order to reduce volatility and improve liquidity conditions on the exchange market, the Central Bank of Brazil began carrying out "traditional" exchange swap operations, in which it assumes the passive position in exchange variation and the active position in domestic interest rates.

Central Bank exposure to exchange variations in swap operations, which was active at about US\$ 22.4 billion through the end of September, shifted into a passive position of approximately US\$ 11.7 billion at the end of 2008, reflecting the contracting of approximately US\$ 32.8 billion in "traditional exchange swaps" in the final quarter of the year.

2. National Financial System

2.1 Financial system profile

In 2008, the Central Bank examined more than 4,000 requests for creation of new financial institutions and alterations in the organizational structure of existent institutions, including management elections. New institutions authorized to operate totaled 131, while another 99 were reorganized and 88, consisting basically of credit unions that had halted their activities, had their operating authorizations canceled.

While monitoring and evaluating operations involving acquisitions of financial institutions, the Central Bank concluded that these operations had not produced any significant anticompetitive impacts, though they did provoke some degree of increased concentration in certain relevant markets. These studies were included in the process of preventively monitoring the evolution of concentration levels within the financial system, in order to avoid possible anticompetitive operations that could be damaging to society.

With acquisition of the ABN Bank by Santander Bank, foreign capital assumed a position of greater importance within the National Financial System, as Santander was included in the group of large Brazilian banks.

Toward the end of the year, several facts occurred that could alter the structure of the National Financial System, enhancing competition among large Brazilian institutions. Among these factors, mention should be made of the merger of Unibanco with Banco Itaú and acquisition of Banco Nossa Caixa by the Banco do Brasil. Conclusion of these operations still depends on Central Bank approval.

The National Monetary Council introduced an important alteration in the rules, determining that exchange operations be carried out necessarily with the intermediation of institutions authorized to operate by the Central Bank. This alteration generated a considerable increase in demand for constitution of new exchange brokerage houses, substituting tourism agencies and hotels which had previously been accredited to carry out manual exchange operations or, in other words, small scale foreign currency purchase and sale operations.

In the credit union segment, 71 new institutions were authorized, while 50 of the already existent institutions were permitted to expand their operations. Of the total of 1,453 credit unions, 153 are classified among those allowed to accept membership with no distinctions, making it possible for anyone who resides within the area of coverage of the institution to become a member.

SFN Profile

Segment	Institutions
Banks and Federal Savings Bank	180
Credit, finance and investment companies	55
Stock and security brokerage companies	106
Exchange brokerage companies	45
Stock and security distribution companies	136
Leasing companies	36
Real estate credit companies and savings and loan associations	16
Mortgage companies	6
Development agencies	12
Credit unions	1,453
Microentrepreneur credit companies	47
Group buyer management companies	317
Total	2,409

For the year, more than 11,000 banking correspondents were contracted in the country, resulting in a cumulative total of approximately 110,000 service outlets. These correspondents have the task of complementing the branch network of the public and private financial institutions with which they have contracts. The effect of this network is to expand the capillarity of the banking system, in such a way as to ensure that banking services will be provided in all of the country's municipalities.

2.2 Privatizations, liquidations and administration of special regimes

The Bank of the State of Santa Catarina S/A (Besc) and the Bank of the State of Piauí S/A (BEP) were withdrawn from the National Privatization Program (PND) and incorporated into Banco do Brasil S/A, on the basis of agreements formalized between the federal government and the governments of those states.

Extrajudicial liquidation of three group buyer management companies was decreed. The Central Bank concluded two special regimes through transformation into ordinary liquidation and six by decreeing bankruptcy. Two inquiries were initiated, with five reports being remitted to the Judiciary, while two notifications of possible criminal

activity were sent to the Office of the Federal Prosecutor.

Liquidation processes now under way total 58, broken down into 12 banks, 16 group buyer management companies, 8 stock and security distribution companies, 9 exchange, stock and security brokerage companies, 3 leasing companies, 2 credit, finance and investment companies, 1 credit union and 7 nonfinancial companies.

The Extrajudicial Liquidation Information System (Sisliq) went into operation in 2008 and is designed to ensure effective monitoring of institutions subject to the special administration system. This System is designed to provide the Central Bank with improved conditions as required for the decision-making process regarding solutions considered to be most adequate for the various institutions involved.

2.3 Bank tariffs and operating costs

In 2008, the Central Bank further strengthened the measures taken by the institution with regard to the National Financial System with the dual objective of guaranteeing compliance with rules on bank tariffs and ensuring equity and adequate relations between financial institutions and their clients and users of banking services.

In March 2008, all banking institutions were subjected to evaluations regarding their positions in relation to adaptation of their operational and control systems to National Monetary Council regulations on the tariffs charged for banking services in general. The Central Bank verified the adequacy of tariff tables published on the Internet sites of financial institutions, as required by the rules.

Aside from this, the Central Bank verified compliance with the resolution that determined that institutions were obligated to notify clients as to Total Effective Cost in the contracting of lending operations and leasing operations with individual borrowers. This procedure allows institutions to summarize these costs into a single overall rate, making it possible for clients to compare these rates with those available on the market.

Besides this, the procedures adopted by banks in relation to the prohibition on the charging of the Anticipated Settlement Tariff (TLA) in credit operations were also evaluated.

The Central Bank adopted measures so that institutions would readily correct any irregularities found to exist during these inspections.

2.4 Prudential rules

The Central Bank has moved forward in the process of incorporating the recommendations of the Basel Bank Supervision Committee, contained in the document

"International Convergence of Capital Measurement and Standards: A Revised Structure" (Basel II), into national financial system regulations. That document sets out criteria that are better suited to the risk levels associated to the operations carried out by financial institutions for purposes of regulatory capital management and requirements.

With the aim of implementing the Basel II agreement in Brazil, various rules were issued defining procedures for calculating the component shares of Required Base Capital (PRE). The system of information remittance was also defined in such a way as to allow for liquidity and market risk monitoring. Measures further permit that hybrid capital and debt instruments included in Base Capital (PR) contain issuer repurchase option clauses, combined or not with increases in financial charges should the option not be exercised.

Starting on July 1, 2008, new rules went into effect on capital requirements for credit, market and operational risks, as part of the process of bringing Central Bank regulations into line with the guidelines set out in the New Basel Capital Accord. These new parameters incorporate information on exposures to market risk and on new shares of capital requirements, while also transferring management of calculation of minimum capital requirements to the institutions themselves.

Other prudential measures adopted refer to convergence of the accounting and auditing rules applicable to financial institutions to the international rules promulgated by the International Accounting Standards Board (IASB) and by the International Federation of Accountants (IFAC).

The rules on accounting and auditing were adjusted to the new accounting guidelines defined by legislation issued toward the end of 2007. That legislation altered and repealed various provisions contained in Corporate Law. In this context, a rule issued by the Central Bank defined terms related to financial instruments for purposes of accounting records, and to intangible assets.

The National Monetary Council defined procedures applicable to recognition, measurement and dissemination of provisions, liability and asset contingencies and losses in relation to the recoverable value of assets. It also set out criteria for elaborating and publishing cash flow statements and for assessing investments in associated and controlled institutions.

The Central Bank announced criteria for accounting registration of operations involving incorporations, mergers and split-ups of companies resulting in effective transfers of control and in which financial institutions participate. It also published rules

on the accounting records of fixed and deferred assets, capital reserves, income reserves, cumulative income and reevaluation of real estate used by institutions themselves. Parallel to these measures, it announced rules on optional creation of an additional provision that would be complementary to obligatory provisions and would be set aside to offset expected credit risks.

Independent auditing at financial institutions must now adopt the method of periodic substitution of the person responsible for management of the auditing team. This is known as the "rotating partner" system, and replaces the "rotating company" system that called for periodic changing of the independent auditor.

The procedures applicable to the rotating partner system, those related to accounting records of reevaluations of real estate used by companies themselves and those applicable to recognition, measurement and announcement of losses in relation to the recoverable value of assets were also extended to the segment of group buyer management companies.

2.5 Supervision

Starting in September, monitoring of financial institutions was intensified in order to make it possible to respond effectively and opportunely to the impact of the crisis that has hit the international financial system. With this in mind, a committee was formed to analyze information on the system to be adopted to support the Central Bank and National Monetary Council decision-making processes.

Indirect monitoring of institutions focused on daily evaluations of liquidity and credit risk situations, analysis of funding operations both individually and in consolidated terms, and daily monitoring of positions in derivatives markets.

Over the course of 2008, 522 direct inspections were implemented at banks and banking conglomerates, including the work carried out by the System of Risk and Control Evaluation (SRC), together with 559 indirect inspections and 240 support and control activities.

Giving special attention to risks incurred, these efforts led to the conclusion that, in general, institutions were complying opportunely with current rules and improving the services they rendered to their clients.

In the case of supervision of credit unions and nonbanking institutions, 167 direct inspections were carried out and 978 internal and indirect monitoring activities were implemented with the objective of analyzing the strategies, risk management policies, economic-financial situations and compliance levels of these institutions.

Central credit unions came under Central Bank scrutiny in order to verify their capacity to supervise affiliated companies with respect to their economic-financial situations and the existence of effective internal control systems.

2.6 Punitive administrative processes

In the year under analysis, 1,714 punitive administrative processes were concluded against financial institutions and their directors, resulting in application of 1,751 penalties, while 312 processes were dismissed. These results are shown in the following table.

Penalties applied	Quantity	%
Warning	8	0.5
Disqualification	2009	11.9
Fine	1,534	87.6
Total penalties	1,751	100.0
Dismissal	312	-

As a result of these efforts, the stock of processes awaiting judgment was reduced from a total of 1,732 on December 31, 2007 to just 356 on December 21, 2008.

Of the processes judged by the National Financial System Appeals Council (CRSFN) in the second and final administrative instances, 86% of the decisions taken by the institution were confirmed, 10% were partially modified and 4% were wholly modified.

2.7 Prevention of financial and exchange crimes

The Central Bank has accompanied financial institution compliance with the regulations regarding prevention and combating of financial crimes. In 2008, it sent 117 reports to the proper authorities notifying as to indications of crimes detected during supervisory activities. The institution also notified regarding 23 irregularities of a tax nature to the Federal Revenue Secretariat, together with 82 reports sent to the Office of the Federal Prosecutor, citing indications of crimes against the National Financial System. Twelve reports were sent to the Financial Activities Control Council (Coaf), indicating suspicious operations possibly involving money laundering or

terrorism financing, aside from the notifications sent directly to the Council by financial institutions.

The existence and quality of the policies and controls adopted by institutions subject to Central Bank supervision were evaluated, with the objective of preventing money laundering and financing of terrorist activities. The internal controls adopted by these institutions were also checked, particularly with regard to exchange operations.

Starting in July 2007, financial institutions adopted procedures aimed at preventing money laundering in relation to clients classified as "politically exposed persons". In 2008, the Central Bank evaluated compliance and the efficacy of this type of procedure.

2.8 Crop/livestock Activity Guarantee Program (Proagro)

The Crop/livestock Activity Guarantee Program (Proagro) operated 565,000 contracts with an insured value of R\$ 6.4 billion, corresponding to an average of R\$ 11,000 per operation. Disbursements totaled R\$ 204 million. For the most part, the program benefited small-scale farmers classified within the concept of "family farming", backed by "Proagro Mais".

The average period for processing the payments made by the program was reduced from approximately 60 days in the 2006/2007 harvest to 30 days in the 2007/2008 harvest. This reduction aided in the reducing program outlays in interest payments.

2.9 Rural credit - Obligatory investments

In the 2007/2008 period, financial institutions registered total obligatory investments of R\$ 31.6 billion in rural credit resources consequent upon demand deposits, with a total of R\$ 1.3 billion in investments still pending. In the same modality, R\$ 29.6 billion originating in rural savings deposits were also invested, corresponding to an investment shortfall of R\$ 2.2 billion.

Of the R\$ 3.5 billion still pending, R\$ 3 billion were onlent to financial institutions for investment in the 2008/2009 period.

2.10 International exchange and capital rules

Among efforts to further exchange market improvements, it is important to stress that the totality of Brazilian export revenues was exempted from obligatory inflow into the country. This made it possible for national exporters to manage the financial flows of their external sales with greater agility and lesser costs, thus enhancing their

competitiveness on the international market.

Operations of up to US\$ 3 thousand to or from abroad were greatly simplified, making it possible to carry out these operations through exchange correspondence contracted by National Financial System institutions, thus facilitating and reducing the costs of these transactions. Formalization of exchange contracts and demands regarding the documentation supporting these operations were dispensed with, though client identification is still required.

Companies providing tourism services registered at the Ministry of Tourism were authorized to perform manual exchange operations through agreements with National Financial System institutions. Hotels and other lodging facilities and tourism agencies still authorized by the Central Bank to operate directly on the exchange market were given a period of up to 12/31/2009 to adjust to the new rules.

Utilization of the simplified exchange contract, which had previously been restricted to foreign trade operations, international travel, unilateral transfers, specific services and financial operations of up to US\$ 10 thousand, was extended to any operation with settlement in up to two business days, with the exception of those involving foreign capital registrations, such as investment, lending and financing transactions. The purpose of this measure was to reduce the costs of exchange transactions.

The Central Bank was authorized by law to maintain deposit accounts in real in the name of foreign central banks and institutions domiciled or headquartered abroad that provide clearing, settlement and custody services on the international market. The law also allows banks authorized to operate on the nation's exchange market to comply with payment orders in real received from abroad, through utilization of resources in real maintained in deposit accounts in the name of banks domiciled or headquartered abroad. As a result, a resident abroad who needs to make a payment in real in Brazil may acquire Brazilian currency directly abroad from a bank that has an account in real in Brazil. That bank, in turn, will then order a Brazilian bank to debit its account in real for delivery to the beneficiary in the country.

In order to meet the demand of foreign travelers interested in acquiring Brazilian currency abroad, guidelines were elaborated so that banks authorized to operate on the exchange market in Brazil would be able to carry out exchange operations with banks abroad, receiving and delivering cash resources in exchange for settlement of the operation.

3. Payment system

3.1 Electronic payment instruments

The Central Bank has monitored operation of clearing and settlement systems involving interbank liabilities with the objective of ensuring their continuous and secure operation.

Intraday credit was granted to institutions holding Banking Reserve accounts, with a daily average of 392 operations and financial turnover of approximately R\$ 48 billion.

The Reserve Transfer System (STR), which is the central system of the Brazilian Payments System (SPB), registered daily average turnover of R\$ 485 billion, corresponding to 47,000 fund transfers.

The relative participation of electronic payment instruments increased in transactions carried out without the use of cash. Credit transfers and cards already account for approximately 80% of these payments.

The Central Bank continued its survey of the payment card industry carried out jointly with the Secretariat of Economic Accompaniment, subordinated to the Ministry of Finance, and the Secretariat of Economic Rights, of the Ministry of Justice. The study, which is now nearing conclusion, has the objective of orienting actions aimed at increasing the use and efficiency of these payment instruments.

3.2 Special System of Settlement and Custody

The Special System of Settlement and Custody (Selic), depositary of approximately 97% of the internal federal public securities debt, registered a daily average of R\$ 265.1 billion in security purchase and sale operations, including R\$ 10.6 billion in outright operations and R\$ 254.5 billion in operations with resale and repurchase commitments.

Considering the universe of operations, including returns on repo operations, rediscount operations and primary security issuances registered daily averages of more than R\$ 650 billion and 10,000 operations on Selic.

Public offers by the National Treasury Secretariat totaled 475 security auctions, involving a total amount of R\$ 280.7 billion.

4. Relations with international organizations and forums

4.1 International Monetary Fund (IMF)

In 2008, the Central Bank participated in discussions on the themes included in the International Monetary Fund (IMF) agenda which, among other subjects, encompassed reform in the governance of that organization and the representation of member countries, together with the causes and possible consequences of the current international financial crisis.

In this framework, reforms were approved in the systems of quotas and voice regarding the Fund's decision-making process, resulting in an increase in the Brazilian quota. A new model of IMF income sources was also approved, including broadening of the investment possibilities of that institution.

These measures resulted in alterations in the Constitutive Agreement of the institution, which requires ratification by the legislative branches of the member countries.

4.2 Group of Twenty Finance Ministers and Central Bank Governors (G-20)

In 2008, Brazil presided over the Group of Twenty Finance Ministers and Central Bank Governors (G-20) - a forum composed of representatives of the industrialized countries and more important emerging economies. Jointly with the Ministry of Finance, the Central Bank fostered a meeting of Finance Ministers and Central Bank Governors, two meetings of Deputy Finance Ministers and Central Bank Directors and three technical seminars, while coordinating two virtual study groups. Among the themes discussed during these events, mention should be made of competition in the financial sector, renewable sources of energy and fiscal policy aspects, together with evaluation of the international economic and financial situation. The study group coordinated by Australia, designated Global Credit Market Disruptions, evaluated the current international financial crisis since its outbreak.

The Central Bank participated in the G-20 Troika meetings, the three party board responsible for coordinating the Group's work. In 2008, the Troika was composed of Brazil, South Africa (President in 2007) and the United Kingdom (President in 2009).

Over the course of the year, the Central Bank was responsible for maintenance and updating of the G-20 Website on the Internet (www.g20.org), a task that is traditionally the responsibility of the host country. The website contained all information regarding the meetings, the studies carried out, the conclusions of the study groups and a variety of publications.

4.3 Bank for International Settlements

For the first time in its history, the Bank for International Settlements (BIS) held one of its bimonthly meetings in Brazil, more specifically, in São Paulo. The Central Bank was the host institution and co-organizer of the event. Held at the beginning of November, this meeting had the participation of the Governors of the central banks belonging to the institution and represented an important opportunity for them to evaluate the repercussions of the international financial crisis, together with the measures already adopted by the different monetary authorities up to that time.

The Consultative Council for the Americas (CCA), composed of the Central Bank Governors of the region, was created within the framework of the institution and given the task of improving BIS operations with the countries of the region, while better reflecting the needs and interests of the Americas in its work program.

4.4 Meetings of the Central Bank Governors of Mercosul, Bolivia, Chile, Peru and Venezuela

Three meetings with debates and exchanges of experiences on monetary and exchange policy questions were held during the period. These periodic encounters among the Central Bank Governors of the countries represented are important for purposes of examining the evolution and outlook for the world economy, providing information on the economic situation of the respective countries and exchanging experiences with regard to themes of importance to monetary authority activities.

4.5 Regional integration

Mercosul Work Subgroup no. 4 - Financial Affairs, whose national coordinator is the Central Bank of Brazil, concentrated its efforts on harmonizing the rules and regulations governing operations of the different financial systems included in this economic bloc, in the pursuit of an adequate level of solidity and transparency. During Brazil's pro temp presidency of Mercosul in the final six months of 2008, the Central Bank organized the XXVI Ordinary Meeting of the Subgroup.

4.6 Brazil-Argentina Local Currency Payments System (SML)

The Central Banks of Brazil and Argentina formalized an agreement instituting the Local Currency Payments System (SML). This is an alternative and optional computerized payments system that will make it possible for exporters and importers in both Argentina and Brazil to receive and make payments resulting from trade transactions in their own respective currencies.

The SML simplifies procedures and, consequently, is expected to reduce the financial costs of operations, stimulating the participation of small scale companies in

bilateral trade. As far as exporters are concerned, this system also makes it possible to eliminate the exchange risk generated by external sales.

4.7 Relations with central banks and bank supervision entities

The Central Bank of Brazil received delegations from the central banks of Bolivia, Cape Verde, Cuba, Mozambique and the Dominican Republic interested in exchanging experiences on governance, human resources and planning. Representatives of the New York State Banking Department, the Office of Thrift Supervision, the United States Federal Reserve Bank System, the Financial Supervisory Service of South Korea, the Bank of Spain and the Bank of Mozambique also visited Brazil.

Central Bank of Brazil employees went to Mozambique to provide training in the area of human resources. A cooperation agreement was formalized in this same area with the Central Bank of the Argentine Republic, while cooperation agreements are being negotiated with the central banks of South Africa, Angola, Cape Verde and Ecuador.

Meetings were also held with representatives of the Central Bank of the Argentine Republic, Central Bank of Uruguay, Superintendency of Banks and Financial Institutions (Chile), Federal Reserve Bank of New York, New York State Banking Department, Office of the Comptroller of the Currency, Federal Reserve Bank of Atlanta, the Securities and Exchange Commission, the Florida Department of Banking and Finance (USA) the Financial Services Authority (England), the Bank of Italy, the Financial Sector Supervisory Commission (Luxembourg) and the Bank of Portugal.

Branches and subsidiaries of Brazilian banks in seven countries were subjected to inspection: Argentina, Chile, the United States, England, Italy, Luxembourg and Portugal.

Agreements were formalized with various foreign central banks and supervisory authorities, with the objective of information exchanges as required for adequate supervision of the banking institutions of each one of the countries operating in the territory of the others.

4.8 Reciprocal Payments and Credit Agreement (CCR)

The Reciprocal Payments and Credit Agreement (CCR) involved transactions of approximately US\$ 150 million in payments of imports and US\$ 3 billion in payments received for Brazilian exports.

The Central Bank of Brazil formulated contingency plans for CCR risks and created a model of a new Information System, thus bringing the second stage of the CCR System Risk Reduction Project to a conclusion.

4.9 Association of Bank Supervisors of the Americas (Asba)

In October 2008, Brazil headquartered the XI Annual Assembly of Bank Supervisors of the Americas (Asba), which dealt with institutional themes and questions related to the supervision of financial institutions in the region. The Central Bank of Brazil Director of Inspection was elected Chairman of the Association for the 2009/2010 period.

The Central Bank participated in meetings of the work groups sponsored by the Association in Mexico City, where Asba is headquartered. Operational risk management and supervision of financial institutions were discussed, with the objective of elaborating a document on the current situation in the countries of the various member institutions (central banks and supervision agencies).

5. Central Bank of Brazil and society

5.1 Service to the citizenry

The Central Bank of Brazil provided services to the public on 322,574 opportunities, including 233,734 requests for information, 76,486 denunciations and 12,354 complaints against institutions authorized to operate by the Central Bank. Of the overall total, 161,585 were registered by telephone, 99,691 over the Internet, 50,754 were registered personally and 10,544 by means of correspondence.

Requests for information on SFN operating rules and the Central Bank -2008

Central Bank of Brazil Credit information System (SCR)	20,381
Reference information on banks and other financial institutions	18,538
Rules and procedures related to the charging of Bank tariffs	13,168
Reference File of Issuers of Bad Checks (CCF)	12,807
Rules and procedures regarding the opening and maintenance of bank accounts	9,208
Economic plans (Bresser, Collor, Verão)	8,276
Rules and procedures regarding anticipated settlement of bank loan	6,513
Informative Reference File of Unpaid Federal Public Sector Credits (Cadin)	5,697
International exchange and capital	5,619
Rumors regarding purchases of R\$ 1 coins	5,198

Complaints and denunciations against institutions supervised by the Central Bank-2008

Failures of banks and other financial institutions to supply documents	32,504
Services rendered by banks in their branches and through their SACs and ombudsman	29,960
Anticipated settlement of bank loans	26,967
Nondetermination or noncompliance with terms by banks and other financial institutions	11,253
Failures by banks and other financial institutions to provide information	10,886
Failures by group buyer management companies to supply documents and/or	6,906

information	
Absence of transparency in contractual relations with banks and other financial institutions	6,852
Irregular charging of Bank tariffs	5,124
Providing of unsolicited products and/or services by banks	3,569
Debits against current accounts not recognized by clients	2,658

At the end of the first quarter of the year, reformulation of the section "Services to the Citizenry" on the Central Bank website was concluded. The new area was conceived in order to facilitate access to information made available by the Central Bank and that is of specific interest to ordinary citizens. These changes are designed to provide a more intuitive system of navigation to information already provided in thousands of screens on the Central Bank site. This has been done through adoption of icons that facilitate association of the image with its respective content.

Representatives of the Central Bank and the Ministry of Justice Department of Consumer Protection and Defense (DPDC) created a work group with the task of developing indicators based on consumer demands regarding the services provided by financial institutions. The workgroup elaborated a report to be submitted to the Minister of Justice and Central Bank Governor. Parallel to these efforts, a seminar was held for Procon managers and directors.

5.2 Ombudsman

The office of the Ombudsman participated in a number of measures aimed at bettering relations with the citizenry: improvements in the System of Denunciation and Complaint Registration (RDR) and the opening of Ombudsman service centers in Central Bank regional offices.

Several of these measures were aimed at disseminating and consolidating the services provided to society, particularly among consumer defense entities. This work generated a sharp increase in demand, as the number of cases brought before the Ombudsman increased from 2,695 in 2007 to 3,892 in 2008. Of the total demands received in 2008, 10% contained praise, representing an increase in the level of client satisfaction with the services rendered by the Central Bank.

Most of the complaints involved questions of Bank tariffs, difficulties of access through 0800 telephone numbers, shortages of coins - principally low denomination coins for purposes of change - and reference files maintained by the Central Bank.

More than 70% of the demands were sent to the Ombudsman by e-mail and 25% by phone.

The Central Bank maintained very close relations with the DPDC, actively participating in discussion processes that resulted in publication of general rules on Consumer Services (SAC) provided by phone.

5.3 Social action

The Central Bank supports programs involving vocational training of apprentices. Of the 135 adolescents participating in the program, 44 graduated as administrative services assistants.

Based on a series of agreements, 290 University students and 25 secondary school students now participate in professional training.

The governmental program of Selective Trash Collection was adopted by the Central Bank and is designed to generate income and social inclusion for persons who work in the collection of trash apt for recycling. Commissions were created in Brasília and in the regional offices of the institution for the purpose of appropriately channeling the material generated by this program.

5.4 Cultural and numismatic collection

The Central Bank Museum has an impressive collection of bank notes, coins, documents and other items, together with objects of international and national curiosity that demonstrate the importance of monetary instruments in their historical context.

In 2008, the Iberian-American Museum Year, the Central Bank Museum in Brasília received 23,000 visitors, including 15,000 students. Approximately 380 groups of primary, secondary and university students were received by the Museum-School Program, which provides students with monitored visits, notions of economics, the history of money and conservation of the nation's legal tender.

The Museum-School Program included visits to rural schools. This project, which was implemented by Central Bank employees, was a component of the commemorations of the Iberian-American Museum Year, since this program was clearly identified with the Year's theme "Museums as agents of social change and development".

The Central Bank published the book "O Dinheiro Brasileiro: O Real – 1994 – 2006", with official information, pictures and numismatic data on issuances of banknotes and coins in the Real standard.

In 2008 also, restoration of 15 works of art by Cândido Portinari was concluded. These works are part of the Central Bank collection and are now included in the technical reserve and scheduled to be put on display in 2009.

5.5 Financial Education Program

The Central Bank is part of a work group formed in May 2007, based on a decision taken by the Committee on Financial, Capital, Insurance, Social Security and Capitalization Market Regulation and Inspection (Coremac), with the objective of elaborating a national financial education strategy proposal. The initiative is aligned with the objectives of the Central Bank Financial Education Program (PEF/BC).

Thirty lectures for approximately 9,800 university students in Brasília, Rio de Janeiro and São Paulo as part of the BC and the University Project, which is a component of the PEF/BC. The Brasília presentations were transmitted over the Central Bank Corporate TV (TV Bacen) to the regional offices of Belém, Belo Horizonte, Curitiba, Fortaleza, Porto Alegre, Recife and Salvador.

Educational material produced by the Central Bank Museum and PEF/BC were distributed at events sponsored by the Central Bank and remitted to schools, libraries and other institutions.

In order to disseminate information on the security elements of the Real, together with procedures to be followed on receiving banknotes that may be counterfeit, courses, lectures and traveling exhibitions were also carried out.

5.6 Banknotes and coins in circulation

Compared to 2007, the amount of currency in circulation expanded 12.4%, reaching R\$ 115.6 billion. The availability of R\$ 1 coins increased 39% as a result of placement of more than 355 million coins in circulation, as a result of measures taken to increase the availability of change and reduce the cost of currency management.

Banknotes withdrawn from circulation and destroyed came to a total of 1.6 billion, as part of the routine aimed at guaranteeing the quality of the money held by the public.

Since 2007, the task of distributing banknotes and coins was transferred to a contracted banking institution. In 2008, the Central Bank carried out 99 inspections at the offices of that institution, which is responsible for approximately 90% of the Central Bank stock. The objective of these inspections is to guarantee distribution of banknotes and coins in quality and quantity adequate to the needs of the national economy.

Commemorating the 200th anniversary of the arrival of the royal family in Brazil and the 100th anniversary of Japanese immigration to the country, commemorative coins were minted in silver and an amalgam of copper and nickel in total amounts of 2,000 and 10,000 units, respectively.

Banknotes in circulation - Comparison between 2008 and 2007

	12/31/2007	12/31/2008	
Banknotes (denomination)	Quantity (millions of units)	Quantity (millions of units)	Growth (2008/2007)
1	283.5	193.8	-32%
2	593.5	672.3	13%
5	350.5	389.5	11%
10	833.8	720.9	-14%
20	529.8	556.5	5%
50	1,372.3	1,425.2	4%
100	97.6	196.4	101%

Coins in circulation - Comparison between 2008 and 2007

	12/31/2007	12/31/2008	
Coins (denomination)	Quantity (millions of units)	Quantity (millions of units)	Growth (2008/2007)
0.01	3,190.4	3,190.6	0%
0.05	3,036.4	3,229.3	6%
0.10	3,347.8	3,654.3	9%
0.25	1,339.6	1,498.1	12%
0.50	1,156.1	1,309.9	13%
1.00	923.5	1,279.1	39%

6. Institutional action

6.1 Relations with the National Congress

In 2008, the National Congress approved provisional measures aimed at strengthening the transparency of Central Bank operations in the framework of the National Financial System. The Parliament also approved legislation on group buyer management companies.

Central Bank directors met on 90 different occasions with members of Congress and participated in 10 public hearings at the Chamber of Deputies and the Federal Senate.

Among these hearings, particular mention should be made of the presence of the Central Bank Governor at joint meetings of the various committees of the two legislative bodies. On those occasions, The Central Bank Governor discussed compliance with the objectives and targets of monetary, credit and exchange policies, indicating the impact and fiscal costs of the institution's operations and the balance sheet results presented.

Among the hearings in which the Central Bank Governor participated at the Federal Senate, particular attention should be given to that in which the autonomy of the monetary authority was discussed.

With regard to relations with the Congress, 27 requests for information and 115 other varied requests were answered. At the same time, the processing of approximately 400 legislative proposals on questions of Central Bank interest was monitored.

6.2 Collaboration with the Judiciary

In 2008, the Central Bank responded to more than 3.67 million requests originating in the judicial branch. Of this total, the BacenJud System registered 3.61 million requests, reflecting an increase of 30.2% compared to 2007. The number of written documents received - 59,907 - represented a reduction of 21% compared to the previous year.

6.3 Press relations

In 2008, the "Press Release - Open Market" incorporated data on holders of internal federal public securities debt into the historical series. Aside from this, additional information referring to issuances of the Treasury Direct program was also included, while statistics were expanded with respect to security issuances.

The Central Bank initiated Internet transmissions of press conferences called for purposes of announcing publication of Quarterly Inflation Reports and discussing other subjects of public interest. This occurred for the first time in the month of June, when 260 persons, including journalists and financial market agents, accompanied presentation of the Inflation Report at varied sites around the country.

6.4 Agreements

A cooperation agreement formalized in January 2008 between the Central Bank and the Financial Activities Control Council (Coaf) provided the Council with restricted access to the database involving exchange operations registered on the Central Bank Information System (Sisbacen). In this way, financial institutions will be able to notify Coaf directly with regard to operations and situations in which money laundering activities are suspected. This same information is also available to the Central Bank, for purposes of supervision.

The Higher Court of Justice (STJ) and the Government Legal Staff formalized institutional cooperation agreements with the Central Bank for purposes of utilizing mechanisms of consultation with the National Financial System Client Reference File (CCS).

6.5 Seminars, conferences and other events

Approximately 15,000 people participated in 150 events held by the Central Bank. Among these, particular mention should be made of the Bimonthly BIS Meeting, in which approximately 50 central banks participated. The main subject of discussion centered on the impact of the financial crisis on the world economy.

In 2008, the Central Bank participated in such international forums as the Financial Action Task Force (FATF/Gafi), the International Financial Action Group of South America (Gafisud) and Mercosul. The Central Bank gave courses to representatives of the Judiciary, Office of the Prosecutor and Federal Police Department, in the framework of the National Training Program for Combating Corruption and Money Laundering (PNLD).

In partnership with the Financial Stability Institute (FSI) and Asba, several events were held, such as the High-Level Meeting on Implementation of Basel II in the Americas and Other Regional Supervisory Priorities. In cooperation with the World Bank, the Central Bank sponsored the Second Latin American Seminar on Regulation and Supervision of Microfinancing Activities.

The Central Bank also participated in the meeting of the International Monetary Law Committee – Mocomila, a component of the International Law Association (ILA).

In Belo Horizonte, the VII Central Bank Seminar on Microfinance was held, with the presence of more than 1000 participants. This event marked conclusion of the stage of seminars on this theme, which had begun in 2002. During these meetings, the Central Bank presented an updated overview of the microfinancing industry in Brazil and announced the result of measures already taken, while discussing the feasibility of microfinancing activity. At the same time, particular emphasis was given to the potential of this segment in the process of social inclusion and national development.

In the month of March, the Central Bank and the Organization for Economic Cooperation and Development (OECD) sponsored an event that had the purpose of announcing the Portuguese language publication "OCDE – Perspectivas Econômicas da América Latina".

In the same month, the Central Bank and the European Commission held the Euro Conference in São Paulo, with the objective of discussing the global implications of the euro and their relevance to Latin America.

In May, the III Central Bank Seminar on Risks, Financial Stability and Banking Economics was held. Aside from the participation of national and international specialists, this event also released the "Banking Economics and Credit Report". In August, the Central Bank organized the X Annual Seminar on Inflation Targets.

In the month of November, representatives of institutions from Latin America and other invited countries met in Rio de Janeiro during the Seminar on Web and Communications Technologies in Central Banks and at the XIII Meeting on Central Bank Communications, both of which were sponsored by the Center of Latin American Monetary Studies (Cemla) and organized by the Central Bank, in a partnership with that organization. Debates were held on central bank communications and the Web tools utilized in communications.

6.6 Legal measures

The Central Bank monitored the processing of 28,389 ongoing court cases, with the objective of controlling those suits to which it was a party. As part of this process, the institution submitted 13,806 petitions at various levels of the Judiciary.

Parallel to this, the risks involved in 19,061 judicial suits in which the Central Bank is the passive party to the complaint were analyzed. In 1,802 suits, the risk of loss was estimated at R\$ 2.8 billion. In 113 judicial suits in the Proagro framework, the

Central Bank estimated losses at R\$ 88.7 million.

In the 2008 fiscal year, the institution was required to set aside payments in 2009 and the following years involving 68 judicial decisions, with Central Bank funds being used in 61 and Proagro resources in a total of seven. The budget allocation for payment of these decisions in 2009, including both full and installment payments, totals R\$ 51.5 million, including decisions regarding both the Central Bank and Proagro.

On 12/31/2008, the total amount of resources set aside for payment of judicial decisions issued since 2001 came to R\$ 1 billion.

Application of 241 administrative fines, announcement of 15 favorable judicial sentences and constitution of six contract-based securities resulted in inclusion of 262 cases among debts subject to judicial execution and five amendments to previous inclusions, totaling R\$ 619.2 million.

During execution of the BCjur System Project, which was concluded in December 2008, 32,513 judicial processes, including both those subject and not subject to contingency factors, were revised and standardized between October 2006 and December 2008. As a consequence of this project, which had the objective of adjusting the assessment and accounting records of Central Bank judicial liabilities to the international accounting standards issued by the International Accounting Standards Board (Iasb) and, in this way, correcting possible distortions in estimates of the amounts involved and of the risk rate, 13,165 cases, corresponding to 40.5% of the judicial suits reviewed, were terminated.

Among the processes terminated, the result was favorable to the Central Bank in 12,112 judicial suits and unfavorable in 993, while an additional 120 resulted in exclusion of the Central Bank as a participant or extinction of the suits without judgment of merit.

During implementation of the Credit Recovery Project, the Central Bank contracted a company specialized in locating properties belonging to debtors subject to lien. The following chart shows the positive evolution of the rate of credit recovery, stressing the 70% increase in credits recovered in 2008, compared to the previous year. Since the start of the Project on August 14, 2006, the total amount recovered has climbed to R\$ 168.2 million.

Evolution of recovered credits

Year	Amounts received	Positive growth
2007	R\$ 59.8 million	
2008	R\$ 101.7 million	70%

7. Administrative action

7.1 Internal management

The degree of the institution's maturity in project management was evaluated and classified in 2008. The Central Bank mapped and redesigned the management processes of the institution's strategic projects and acquired specific software for project management. These measures were taken to improve project methodology and had the objective of maximizing results.

In order to improve management methods, new management reports were developed based on information drawn from the Management Costs and Information System (SCIG), with the aim of making it possible for managers to administer utilization of each employee's time in implementation of activities and projects.

With the aim of continuing the process of implementing the responsibility-based human resources management model (Gecom Project), the Central Bank mapped the responsibilities required for work in the areas of Administration and Inspection.

7.2 Central Bank Corporate University

Commemorating four years of activity, the Central Bank Corporate University (UniBacen) sponsored seminars with important figures in the world economy, including professors Carl Walsh, Tommaso Monacelli and Fábio Canova.

UniBacen held courses in partnership with the central banks of England, Germany and Spain. The target public of these courses were Central Bank of Brazil employees and those of other Latin American central banks.

The course on Central Bank security, crisis management and business continuity, was the highlight of the training activities provided and was given by employees of the German Central Bank.

Various employees concluded MBA graduate courses in Contemporary Management, in a partnership with the FGV and Distance Education, in a partnership with Senac.

August marked the start of the MBA in Organizational Communication Management, as part of an agreement with the Institute of the University Administration of São Paulo Foundation (FIA/USP), with the objective of training employees in the area of communication.

The Graduate Program (PPG) provides training to 88 employees who are now on leave to take courses both in the country and abroad, including masters and doctoral degrees in areas of interest to the Central Bank.

The UniBacen Language Program continued in 2008, preparing employees to achieve proficiency in English and Spanish.

The Program of Training and Development of Managerial Competencies (DGEx) offered classes to four student groups that required student presence. This program was designed for tactical level executives and had the participation of 130 employees. At the strategic level, the first international measure was implemented, with the presence of British consultant John Mendzela, a specialist in governance and Central Bank management.

In the framework of the Financial Education Program, UniBacen provided lectures for two groups of students in Personal Financial Management.

7.3 Information technology

Located at its headquarters in Brasília, the Central Bank inaugurated the new Information Services Center (CSI). Jointly with an alternate CSI in a different locality, these facilities have made it possible for the Central Bank to store duplicate information in two separate sites, thus ensuring continuous operation of Sisbacen, the Brazilian Payments System (SPB) and the Credit Information System (SCR).

For purposes of support to administrative decisions, the Central Bank instituted the Business Intelligence platform, making it possible to manipulate and visualize various databases, with enhanced agility, greater autonomy and improved security in the production of information. This platform is utilized by the business areas of the institution in calculating prognoses and trend analyses.

The outsourcing of printing services through the use of multifunctional printers has made it possible for the Central Bank to utilize its resources in a more effective manner while reducing the use of paper, using both sides of each page.

7.4 Internal affairs activities

Twenty-seven reports on alleged irregularities committed by Central Bank employees were registered. After analysis, functional responsibility was found to exist in the cases of 17 employees, resulting in nine procedures of a disciplinary nature. Five employees received warnings, one was suspended and one was released as a consequence of a process that had been initiated in the previous year.

8. Central Bank strategic orientation

In 2008, the Central Bank continued the process of strategic planning, ratifying the strategic orientation defined by the Board of Directors for the institution during the 2007-2011 period.

Mission

Ensure the stability of the currency's purchasing power and a solid and efficient financial system.

Vision of the future -2011

In light of its autonomy, the quality of its products and services and the competence of its employees, the Central Bank of Brazil will be increasingly recognized as an institution essential to economic and financial stability which, in turn, is indispensable to the sustainable development of Brazil.

Organizational values

1. Ethics - Act with integrity, honesty and probity to preserve the institutional interests and principles that govern public administration.
2. Excellence - Constantly improve performance standards in order to meet the expectations of internal and external clients, fully aligned with the best international practices.
3. Commitment to the institution - Prioritize the interests of the institution in relation to personal and group interests and act in such a way as to focus on the mission, vision and strategic objectives of the institution.
4. Focus on results - Act with a sense of initiative and proactivity, identifying priorities and concentrating on what is relevant to achieving the results intended by the institution.

5. Transparency - Both internally and externally, provide information on policy decisions and procedures, in an open, clear and opportune manner, duly observing restrictions of a legal nature or strategic character.

6. Social responsibility - Act with a commitment to ethics and an attitude of respect in relations with employees, collaborators, suppliers, partners, users, community, government.

Strategic Objectives 2007-2011

1. Ensure compliance with the inflation targets determined by the National Monetary Council;

2. Foster efficiency and ensure the solidity and regular operation of the National Financial System;

3. Stimulate competition in the framework of the National Financial System, increasing access to financial products and services;

4. Guarantee the supply of currency with quality and reliability, in such a way as to ensure that the needs of the population will be met;

5. Improve the regulatory framework for purposes of compliance with the institutional mission;

6. Improve and strengthen communications and relations with the internal and external public;

7. Improve the management and structure of corporate governance of the institution.

9. Organizational structure of the Central Bank

Board of Directors

Governor

Henrique de Campos Meirelles

Directors

Administration (Dirad)

Anthero de Moraes Meirelles

International Affairs (Direx)

Maria Celina Berardinelli Arraes

Inspection (Difis)

Alvir Alberto Hoffmann

Settlements and Privatizations (Dilid)

Antonio Gustavo Matos do Vale

Financial System Rules and Organization (Dinor)

Alexandre Antonio Tombini

Economic Policy (Dipec)

Mário Magalhães Carvalho Mesquita

Monetary Policy (Dipom)

Mario Torós

Executive Secretariat

Executive Secretary (Secre)

Sérgio Almeida de Souza Lima

Chief of Staff of the Governor

Isaac Sidney Menezes Ferreira

Secretary for Board of Directors and National Monetary Council Affairs (Sucon)

Sergio Albuquerque de Abreu e Lima

Secretary of Institutional Relations (Surel)

José Linaldo Gomes de Aguiar

Executive Manager of Administrative and Technological Support (Geate)

José Augusto Varanda

Consultants to the Board of Directors

Administration (Dirad)

Carolina de Assis Barros

International Affairs (Direx)

Dalmir Sérgio Louzada

Inspection (Difis)

Sidnei Corrêa Marques

Settlements and Privatizations (Dilid)

Marco Antônio Belém da Silva

Financial System Rules and Organization (Dinor) **Clarence Joseph Hillerman Junior**

Economic Policy (Dipec)

Katherine Hennings

Monetary Policy (Dipom)

Flávio Pinheiro de Meio

Office of the General Prosecutor

General Prosecutor

Francisco José de Siqueira

Internal Auditing

Chief Auditor

José Aísio Catunda Aragão

Internal Affairs

Chief Internal Affairs

Jaime Alves de Freitas

Office of the Ombudsman

Ombudsman

Hélio José Ferreira

Parliamentary Advisor

Chief of Advisory Staff

Luiz do Couto Neto

Unit Chiefs and Executive Managers

Administration (Dirad)

Department de Accounting and Financial Execution (Deafi)

Jefferson Moreira

Department of Personnel Management and Organization (Depes)

Miriam de Oliveira

Department of Planning and Budget (Depla)

José Clóvis Batista Dattoli

Department of Material Resources and Assets (Demap) **Osmane Bonincontro**

Department of Security (Deseg)

Sidney Furtado Bezerra

Department of Information Technology (Deinf)

José Antônio Eirado Neto

Department of Currency (Mecir)

João Sidney de Figueiredo Filho

Executive Management of Projects (Gepro)

João Goulart Júnior

International Affairs (Direx)

Department of the External Debt and International Relations (Derin)

Ronaldo Malagoni de Almeida Cavalcante

Executive Management of Exchange and Foreign Capital Normalization (Gence)

Geraldo Magela Siqueira

Inspection (Difis)

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