Financial Statements

June 30, 2018

BANCO CENTRAL DO BRASIL

BANCO CENTRAL DO BRASIL
BALANCE SHEET
In thousands of Reais

ASSETS	Notes	Jun 30, 2018	Dec 31, 2017
ASSETS IN FOREIGN CURRENCIES		**1,573,119,700**	**1,363,766,435**
Cash and Cash Equivalents	4	101,080,106	82,492,092
Time Deposits Placed with Financial Institutions	5	38,934,875	43,603,351
Funds Under External Management		957,683	1,197,789
Financial Assets Purchased Under Resale Agreements	6.1	45,083,147	78,875,997
Derivatives	7.1	-	2,016
Securities	8.1	1,314,038,954	1,093,834,090
Receivables		2,563,142	2,317,025
Monetary Gold		10,444,444	9,313,546
Investment in International Financial Organizations	9	60,017,340	52,130,529
Other		9	-
ASSETS IN LOCAL CURRENCY		**1,836,182,238**	**1,812,230,232**
Derivatives	7.2	-	115,607
Federal Government Securities	8.2	1,767,315,506	1,662,315,859
Receivables from the Federal Government	10	32,149,245	108,753,804
Receivables	11	32,915,012	37,444,620
Judicial Deposits		1,585,654	1,558,360
Property and Equipment		850,134	865,591
Other		1,366,687	1,176,391
TOTAL ASSETS		**3,409,301,938**	**3,175,996,667**

LIABILITIES AND EQUITY	Notes	Jun 30, 2018	Dec 31, 2017
LIABILITIES IN FOREIGN CURRENCIES		**115,069,958**	**114,558,859**
Items in the Course of Collection		11,738,016	364,386
Deposits Received from Financial Institutions		2,741	2,352
Financial Assets Sold Under Repurchase Agreements	6.1	33,750,248	52,454,659
Derivatives	7.1	75,871	2,221
Accounts Payable		15,767,354	13,713,331
Deposits Received from International Financial Organizations	12	53,735,038	48,021,418
Other		690	492
LIABILITIES IN LOCAL CURRENCY		**2,942,385,426**	**2,686,830,748**
Items in the Course of Collection		21,716	7,261
Deposits Received from Financial Institutions	13	431,997,417	453,729,168
Financial Assets Sold Under Repurchase Agreements	6.2	1,155,383,344	1,091,328,757
Derivatives	7.2	1,121,173	-
Payables to the Federal Government	10	1,307,132,999	1,095,957,988
Accounts Payable		759,034	753,880
Deposits Received from International Financial Organizations		40,652	29,673
Provisions		45,744,574	44,830,508
Other		184,517	193,513
CURRENCY IN CIRCULATION	14	**225,768,541**	**250,363,681**
EQUITY	15	**126,078,013**	**124,243,379**
Capital		139,675,451	139,675,451
Revenue Reserve		2,403,844	6,624,205
Revaluation Reserve		411,294	414,217
Gains (Losses) Recognized Directly in Equity		(16,412,576)	(22,470,494)
TOTAL LIABILITIES AND EQUITY		**3,409,301,938**	**3,175,996,667**

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

In thousands of Reais

	Notes	Six-month periods ended June 30	
		2018	**2017**
Interest income		81,622,499	90,446,016
Interest expenses		(95,857,049)	(135,282,155)
Net interest result	**16**	(14,234,550)	(44,836,139)
Gains (losses) on financial instruments classified as At fair value through profit or loss	**17**	24,193,527	57,587,049
Gains (losses) from foreign currencies	**18**	9,097,172	(1,714,042)
Gains (losses) from monetary gold	**19**	1,130,897	715,570
Impairment	**20**	(711,179)	-
Other income	**21**	1,893,604	1,708,204
Other expenses	**21**	(1,714,179)	(2,188,980)
NET INCOME FOR THE SIX-MONTH PERIOD	**22.1**	**19,655,292**	**11,271,662**

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

In thousands of Reais

	Notes	Six-month periods ended June 30	
		2018	2017
NET INCOME FOR THE SIX-MONTH PERIOD	**22.1**	**19,655,292**	**11,271,662**
OTHER COMPREHENSIVE INCOME	**15**	**7,886,811**	**2,438,838**
Items which will not be reclassified to results		**7,886,811**	**2,454,634**
Investment in International Financial Organizations	**9**	7,886,811	2,454,634
Remeasurements of Defined Benefit Plans		-	-
Items which may be reclassified to results		**-**	**(15,796)**
Federal Government Securities	**8.2**	-	(15,796)
COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD	**22.2**	**27,542,103**	**13,710,500**

In thousands of Reais

	Notes	CAPITAL	REVENUE RESERVE	REVALUATION RESERVE	GAINS (LOSSES) RECOGNIZED DIRECTLY IN EQUITY	RETAINED EARNINGS	TOTAL EQUITY
At December 31, 2017	**15**	**139,675,451**	**6,624,205**	**414,217**	**(22,470,494)**	**-**	**124.243.379**
Constitution (reversal) Revenue Reserve		-	(4,220,361)	-	4,220,361	-	-
Realization of Revaluation Reserves		-	-	(2,923)	-	2,923	-
Gains (Losses) Recognized Directly in Equity		-	-	-	7,886,811	-	7.886.811
Effects of changes in accounting policies	**3.4.4**	-	-	-	(6,049,254)	-	(6.049.254)
Net income for the 1st half of 2018	**22.1**	-	-	-	-	19,655,292	19.655.292
Result to be transferred to the National Treasury - 1st half of 2018	**25.1**	-	-	-	-	(19,658,215)	(19.658.215)
At June 30, 2018	**15**	**139,675,451**	**2,403,844**	**411,294**	**(16,412,576)**	**-**	**126.078.013**
At December 31 2016		**139,675,451**	**6,624,205**	**422,693**	**(20,906,315)**	**-**	**125.816.034**
Realization of Revaluation Reserves		-	-	(3,194)	-	3,194	-
Gains (Losses) Recognized Directly in Equity		-	-	-	2,438,838	-	2.438.838
Net income for the 1st half of 2017		-	-	-	-	11,271,662	11.271.662
Result covered by the National Treasury - 1st half of 2017		-	-	-	-	(11,274,856)	(11.274.856)
At June 30, de 2017		**139,675,451**	**6,624,205**	**419,499**	**(18,467,477)**	**-**	**128.251.678**

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

In thousands of Reais

	Notes	Six-month periods ended June 30	
		2018	**2017**
Net Cash Flow from Operating Activities		**4,618,716**	**5,853,464**
Interest received		8,400,334	7,748,735
Interest paid		(63,327)	(22,142)
(Purchase) sale of securities		(41,123,339)	(26,400,166)
Purchase (sale) of foreign currencies		(1,125,119)	214,654
Redemption of repo operations		14,113,149	19,286,511
(Placement) redemption of time deposits		23,103,778	(1,591,084)
Redemption of funds under external management		826,125	3,985,523
Formation of deposit liabilities		337,395	287,168
Receipts on behalf of the National Treasury		77	72
Receipt of receivables		409,743	1,130,726
Receipts resulting from operations with derivatives		(259,787)	1,211,941
Other (payments) receipts		(313)	1,526
Net Cash Flow		**4,618,716**	**5,853,464**
Changes in Cash and Cash Equivalents		**82,492,092**	**74,082,067**
Change in Cash and Cash Equivalents		4,618,716	5,853,464
Effect of foreign exchange variation on cash and cash equivalents	**18**	13,969,298	2,002,386
Cash and cash equivalents at the end of the six-month period	**4**	**101,080,106**	**81,937,917**

The accompanying notes are an integral part of these condensed interim 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 condensed interim financial statements were analyzed by the Board of Directors, which approved, on August 22, 2018, their submission to the National Monetary Council (CMN) for the authorization of their disclosure on August 29, 2018, as established by Law 4,595 of 1964. These condensed interim financial statements are published on the BCB's website (www.bcb.gov.br).

2 - PRESENTATION

The BCB's condensed interim financial statements for the six-month period ended June 30, 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and follow the provisions of the International Accounting Standard (IAS) 34 – Interim Financial Reporting. Therefore, they do not include all the disclosures required for a complete set of financial statements and should be read along with the financial statements as at December 31, 2017. The same accounting policies and calculation methods are followed in these condensed interim financial statements compared to the most recent annual financial statements, except for the IFRS 9 – Financial Instruments, which application is mandatory for annual periods beginning on or after January 1, 2018, and whose effects are presented in Note 3.4.4. In line with the exemption provided for in the standard, the BCB will not restate comparative information from prior periods arising from changes in the classification and measurement of financial instruments (including expected credit losses).

When carrying out its activities as a monetary authority, the BCB applies financial instruments that 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 readers 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.

3 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the BCB, which were consistently applied to the comparative financial information, are presented below, except for the IFRS 9 (Note 2).

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 22.1 and 26.a).

3.2. Recognition of interest income and expenses

Interest income and expenses are recognized using the effective interest rate 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.

(All amounts expressed in thousands of Reais, unless otherwise stated) 7

3.3. Assets and liabilities in foreign currencies

The functional and reporting currency of these condensed interim 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, on a monthly basis, 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

	Jun 30, 2018	Dec 31, 2017	Jun 30, 2017	Dec 31, 2016
U.S. Dollar	3.8555	3.3077	3.3079	3.2588
Euro	4.5021	3.9683	3.7743	3.4379
SDR	5.4232	4.7105	4.6026	4.3808
Yen	0.0348	0.0294	0.0294	0.0279
Pound Sterling	5.0878	4.4704	4.2985	4.0354
Australian Dollar	2.8525	2.5843	2.5390	2.3556
Canadian Dollar	2.9341	2.6338	2.5479	2.4255
Swedish Krona	0.4307	0.4031	0.3919	0.3598
Danish Krone	0.6042	0.5328	0.5076	0.4624

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 on which 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:

a) 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

b) 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 or accounts payable, according to the balance determined on the balance sheet closing date.

3.4.4 Classification of financial instruments

As mentioned in Note 2, the accounting policy adopted beginning in January 1, 2018 for the classification and the measurement of the financial instruments is IFRS 9. That statement establish three main categories of financial assets classification: amortized cost, At Fair Value Through Other Comprehensive Income (FVOCI), and At Fair Value through Profit or Loss (FVTPL), replacing the previous existing categories in IAS: At Fair Value through Profit or Loss, Held-to-maturity, Loans and Receivables or Available-for-sale. All financial liabilities are measured through amortized cost, except the financial liability derivatives, which are measurable at At Fair Value through Profit or Loss (FVTPL).

a) Amortized Cost

This category comprises the non-derivative financial assets held with the main purpose of receiving contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Those assets are measured at amortized cost, being interests calculated using the effective interest rate, and are recognized in profit or loss on an accrual basis.

b) At Fair Value Through Other Comprehensive Income (FVOCI)

This category comprises the non-derivative financial assets held within a model of business whose objective is achieved both by the receiving contractual cash flows (consisting solely of payment of principal and interest) and by the sale of financial assets. Those assets are measured by fair value, with the gains and loss recognized in the Equity, while interests are calculated using the effective interest rate, are recognized in the Profit or Loss, on an accrual basis.

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For specific investments in equity instruments, which, otherwise, would be measured at fair value through profit or loss, the Management can make an irrevocable choice on initial recognition to present subsequent changes in fair value through other comprehensive income.

c) At Fair Value Through Profit or Loss (FVTPL)

The financial assets that are not measured at amortized cost or at fair value through other comprehensive income are classified in the category Fair Value Through Profit or Loss, with gains and losses arising from changes in fair value recognized in profit or loss.

The Management can also, on initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduce an inconsistency in measurement or recognition that would otherwise result from the measurement of assets or liabilities, and their gains and losses, on different bases.

The following table presents a summary of the main financial instruments and their classifications determined by IAS 39, and the new categories of measurement, according to IFRS 9:

Assets in Foreign Currencies	Original Category (IAS 39)	New Category (IFRS 9)
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	FVTPL – Portfolio/Funds
Financial Assets Purchased Under Resale Agreements	Loans and Receivables	Amortized cost
Derivatives - Futures	At Fair Value through Profit or Loss	FVTPL – Stock exchanges
Derivatives - Forward	At Fair Value through Profit or Loss	FVTPL – Internal model
Securities	At Fair Value through Profit or Loss	VJR - *Bloomberg*
Receivables	Loans and Receivables	Amortized cost
Investment in International Financial Organizations	Available-for-sale	FVOCI - Quotas and shares

Assets in Local Currency	Original Category (IAS 39)	New Category (IFRS 9)
Cash and Cash Equivalents	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	FVTPL - Brasil, Bolsa e Balcão (B3)
Derivatives - Foreign Exchange Equalization	At Fair Value through Profit or Loss	FVTPL – Internal model
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	Amortized cost
Receivables - Other	Loans and Receivables	Amortized cost
Deposits	Loans and Receivables	Amortized cost

Liabilities in Foreign Currencies	Original Category (IAS 39)	New Category (IFRS 9)
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	FVTPL – Stock exchanges
Derivatives - Forward	At Fair Value through Profit or Loss	FVTPL – Internal model
Accounts Payable	Other liabilities	Amortized cost
Deposits Received from International Financial Organizations	Other liabilities	Amortized cost

Liabilities in Local Currency	Original Category (IAS 39)	New Category (IFRS 9)
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	FVTPL - Brasil, Bolsa e Balcão (B3)
Derivatives - Foreign Exchange Equalization	At Fair Value through Profit or Loss	FVTPL – Internal model
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

The main changes resulting from the application of IFRS 9 in terms of classification and measurement of financial instruments refer to (1) Receivables - Institutions Under Extrajudicial Liquidation, previously measured at Fair Value Through Profit or Loss, by management decision, which, according to the new rules, are now measured at amortized cost and (2) the Federal Government Securities reclassified from the Available-for-sale category to Held-to-maturity category during the IAS 39, with the reversion of the remaining balance in equity corresponding to the adjustment to fair value and the retrospective application of the effective interest rate of the contract, based on the adjusted balances.

The differences in balance of financial assets and liabilities arised from the adoption of IFRS 9 were directly recognized in the equity. The following table presents a summary of those differences.

	Effects of the Initial Application of IFRS 9
Receivables - Institutions under Extrajudicial Liquidation (Note 11.1)	(2,844,389)
Federal Government Securities – NTN-B (Note 8.2)	(3,175,339)
Others	(29,526)
Total	**(6,049,254)**

3.4.5 Measurement

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 (impairment).

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.

3.4.6 Impairment of financial assets

In order to incorporate the new rules introduced by IFRS 9, the BCB reviewed its valuation models for impairment of financial assets. The Bank adopted an evaluation model based on "expected credit losses", taking into account not only objective evidence of loss (losses incurred), but also the potential impact of changes in economic factors in the calculation of loss estimates (expected losses). The new impairment model of assets is applicable to all financial assets measured at amortized cost or at fair value through other comprehensive income.

Expected credit losses for financial assets subject to impairment are reviewed at least once every six months at the close of the half-yearly balance sheets.

Credit losses are measured as expected credit losses for 12 months, unless when the credit risk of the financial instrument has increased significantly since the initial recognition or when the financial instrument has already been purchased or originated with credit recovery problems. In these situations, the credit losses are measured as expected permanent credit losses (lifetime expected credit losses of the financial asset). As an exception to this requirement, Management may assume that the credit risk of a financial asset has not increased significantly since the initial recognition if it is determined that the financial asset has a low credit risk at the reporting date (defined as financial assets that have an external rating of investment grade).

The financial income are calculated applying the effective interest rate on the gross carrying asset amount. In cases of default, the financial income are calculated applying the effective interest rate on the net book value of the asset, that is, deducted from credit losses. An operation is considered in default when verified that their obligation is overdue for more than ninety days or there are indications that the obligation will not be fully honored without having to resort to guarantees or collateral.

The amount of the loss is calculated as the difference between the carrying value of the asset on the date of measurement and the amount 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 profit or loss.

When an asset is considered uncollectible, its value 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.

Given the particular characteristics of the federal public securities that compose the BCB portfolio, in particular the fact that they are part of the Internal Federal Public Debt (DPMFi), the credit risk attributed to these assets is considered immaterial, being the same assumption adopted for the other operations whose counterpart is the Federal Government.

The financial assets represented by a high volume of low value transactions are evaluated on a collective basis. For these assets a more simplified valuation approach is adopted, based on information of historical credit losses, without prejudice to the examination of other factors that could adjust historical data to reflect the effects of current and future financial asset conditions.

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 IFRS 9– Financial Instruments and, accordingly, recognizes all gains and losses in the income statement.

3.5. Monetary 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.

The remeasurement of the net value of liability or asset of defined benefit, including the actuarial gains and losses resulting from adjustments based on experience and on changes in actuarial assumptions, are fully recognized in shareholders' equity, as other comprehensive income, while the cost of current service and the interest of the net amount of liabilities or assets of defined benefit assets are recognized in the income statement.

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.

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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).

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. These assumptions are periodically reviewed in order to guarantee the consistency of the actuarial calculations and the carrying amount of assets and liabilities recognized.

3.9. 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 cash 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).

3.10. 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 – Income Taxes.

4 - CASH AND CASH EQUIVALENTS

	Jun 30, 2018	Dec 31, 2017
In Foreign Currencies	**101,080,106**	**82,492,092**
Cash	424,809	205,796
Demand deposits	17,977,794	14,446,544
Very short-term time deposits	82,677,503	67,839,752
Total	**101,080,106**	**82,492,092**

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. International reserves are the monetary assets available for coverage of imbalances in payments and, in some situations, for other financial requirements of the monetary authority 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, as well as the effects of the depreciation of the Real against the U.S. Dollar (Note 3.3).

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5 - DEPOSITS

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, amounting to R$38,934,875 (R$43,603,351 at December 31, 2017).

6 - 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.

6.1. In foreign currencies

	Jun 30, 2018	Dec 31, 2017
Financial Assets Purchased Under Resale Agreements	**45,083,147**	**78,875,997**
Foreign Market	**33,805,809**	**52,414,397**
Securities	30,613,593	21,871,812
Currencies	3,192,216	30,542,585
Assets granted as collateral	30,625,327	21,875,057
Domestic Market	**11,277,338**	**26,461,600**
Currencies	11,277,338	26,461,600
Financial Assets Sold Under Repurchase Agreements	**33,750,248**	**52,454,659**
Foreign Market	**33,750,248**	**52,454,659**
Securities	30,611,855	21,870,628
Currencies	3,138,393	30,584,031
Assets granted as collateral (Note 8.1)	30,019,323	21,421,825

The variation in the balance of repos and reverse repos in foreign currencies carried out in the foreign market was mainly due to the decrease in investments in currency transactions, taking into consideration the strategy of diversification of the investment portfolio of international reserves. That decrease was partially compensated by the increase of securities transactions performed as demand for this type of operation, which fluctuates according to the international fixed income market conditions.

Regarding transactions carried out in the domestic market, the decrease is justified through the BCBs performance in interbank exchange market aiming to maintain adequate levels of liquidity in foreign currency in the SFN.

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6.2. In local currency

	Jun 30, 2018	Dec 31, 2017
Financial Assets Sold Under Repurchase Agreements	**1,155,383,344**	**1,091,328,757**
Securities	1,144,227,721	1,064,979,697
Foreign Currencies	11,155,623	26,349,060
Assets granted as collateral (Note 8.2)	**1,123,088,868**	**1,031,738,862**
Freely tradeable	235,867,999	187,253,542
Not freely tradeable	887,220,869	844,485,320

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 16), and by the effect of the reduction of compulsory deposits required by the BCB and the cash withdrawals by the public. This increase of liquidity was attenuated by the net collection for the period.

It is worth highlighting the BCB activities in the interbank foreign exchange market, through spot sales auctions combined with the forward repurchase of foreign currency, with the non-renewal of a portion of the transactions which fell due in the period Note (6.1).

7 - DERIVATIVES

7.1. In foreign currencies

In concordance with the guidelines of the Governance, Risks and Control Committee, established through the Subcommittee on Active Management of International Reserves, the BCB uses derivatives in its routine operations in the management of international reserves with the purpose of enabling the investment strategy and to manage exposure to market risk based on the pillars of security, liquidity and profitability.

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 June 30, 2018

	Notional Value			Fair Value	
	Long Position	Short Position	Net Position	Assets	Liabilities
Forward					
1 - 6 months				-	75,871
U.S. Dollar	-	(77,081)	(77,081)	-	1,449
Euro	900,410	(900,410)	-	-	35,805
Yen	1,860,711	(1,860,711)	-	-	-
Pound Sterling	915,795	(915,795)	-	-	38,617
Interest futures					
1 - 6 months				-	-
U.S. Dollar	14,857,221	-	14,857,221	-	-
Securities futures					
1 - 5 years				-	-
U.S. Dollar	16,334,067	-	16,334,067	-	-
Euro	-	(110,943,045)	(110,943,045)	-	-
Total				-	**75,871**

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At Dec 31, 2017

	Notional Value			Fair Value	
	Long Position	Short Position	Net Position	Assets	Liabilities
Forward					
1 - 6 months				2,016	2,221
U.S. Dollar	233,896	(30,866)	203,030	934	595
Euro	59,524	(59,524)	-	1,082	609
Yen	58,932	(205,933)	(147,001)	-	-
Australian Dollar	-	(51,686)	(51,686)	-	1,017
Canadian Dollar	31,605	(35,163)	(3,558)	-	-
Index futures					
1 - 6 months				-	-
U.S. Dollar	9,266,979	-	9,266,979	-	-
Commodities futures					
1 - 6 months				-	-
U.S. Dollar	1,324,653	(1,333,530)	(8,877)	-	-
Securities futures					
1 - 5 years				-	-
U.S. Dollar	-	(14,601,264)	(14,601,264)	-	-
Euro	-	(49,766,617)	(49,766,617)	-	-
Australian Dollar	-	(22,351,026)	(22,351,026)	-	-
> 5 years				-	-
U.S. Dollar	12,920,658	-	12,920,658	-	-
Euro	-	(4,880,659)	(4,880,659)	-	-
Australian Dollar	14,352	-	14,352	-	-
Total				**2,016**	**2,221**

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. The balances variation reflects the diversification strategy of the investment portfolio of international reserves.

7.2. In local currency

7.2.1 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 B3 (Brasil, Bolsa e Balcão), 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 6.2), which totaled R$47,384,296 at June 30, 2018 (R$18,199,278 at December 31, 2017) (Note 8.2). On a daily basis, margin calls or returns are carried out, depending on the swap variations, as established by B3, 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.

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

At Jun 30, 2018

	Notional Value			Fair Value	
	Long Position	Short Position	Net Position	Assets	Liabilities
1 month	33,782,592	-	33,782,592	-	683
1 - 6 months	166,139,674	-	166,139,674	-	712,924
6 - 12 months	93,793,299	-	93,793,299	-	407,566
Total	**293,715,565**	**-**	**293,715,565**	**-**	**1,121,173**

At Dec 31, 2017

	Notional Value			Fair Value	
	Long Position	Short Position	Net Position	Assets	Liabilities
1 month	31,882,504	-	31,882,504	19,258	-
1 - 6 months	56,477,484	-	56,477,484	60,755	-
6 - 12 months	22,238,030	-	22,238,030	35,594	-
Total	**110,598,018**	**-**	**110,598,018**	**115,607**	**-**

In the first half of 2018, the result of the foreign exchange swaps was R$17,665,127 negative (R$3,336,866 positive in the first half of 2017 – Note 22.1).

7.2.2 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.

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, and will be settled financially according to the same rules established for the transfer or coverage of the results (Notes 22.1 e 26.a).

In the first half of 2018, the result of the foreign exchange equalization operation was R$146,201,403 positive (R$15,744,789 negative in the first half of 2017), as shown in Note 25.1.

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8 - SECURITIES

8.1. In foreign currencies

	Jun 30, 2018	Dec 31, 2017
Unrestricted securities	**1,284,019,632**	**1,072,412,265**
1 month	11,756,352	17,281,806
1 - 6 months	38,502,711	130,369,551
6 - 12 months	57,868,724	63,826,206
1 - 5 years	1,120,720,844	803,357,392
> 5 years	55,171,001	57,577,310
Securities subject to repurchase agreements (Note 6.1)	**29,986,280**	**21,419,079**
1 month	2,704,206	830,091
1 - 6 months	11,806,913	5,308,956
6 - 12 months	3,047,362	-
1 - 5 years	12,427,799	15,280,032
Securities granted as collateral (Note 6.1)	**33,042**	**2,746**
1 - 6 months	33,042	-
1 - 5 years	-	2,746
Total	**1,314,038,954**	**1,093,834,090**

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. 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:

	Jun 30, 2018	Dec 31, 2017
Amortized cost	1,325,420,310	1,100,527,033
Fair value adjustment	(11,381,356)	(6,692,943)
Carrying amount	**1,314,038,954**	**1,093,834,090**

The variation in the portfolio of securities in foreign currencies was mainly due to the fair value adjustment of these assets, as well as the effects of the depreciation of the Real against the U.S. Dollar (Note 3.3), the currency in which a significant part of this portfolio is denominated, as well as the Fair value adjustment of these assets and of the appropriation of interest. In addition, the variation can also be justified by the reallocation of part of the short-term values applied to the investment portfolio, with longer terms.

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8.2. In local currency

At Jun 30, 2018

	Up to 1 month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
Unrestricted securities	**72,426,845**	**3,852,343**	**22,164,952**	**269,914,298**	**228,413,825**	**596,772,263**
Zero Coupon Fixed Rate Bill (LTN)	72,426,845	3,852,340	21,075,048	70,023,234	-	167,377,467
Zero Coupon Floating Rate Bill (LFT)	-	-	-	94,929,543	9,571,456	104,500,999
IPCA - Consumer Price-Index Note (NTN-B)	-	3	1,089,904	12,185,774	89,850,580	103,126,261
Plain Vanilla Fixed Rate Note (NTN-F)	-	-	-	92,775,747	128,991,789	221,767,536
Securities subject to repurchase agreements	-	**70,738,597**	**67,893,457**	**717,347,038**	**267,109,776**	**1,123,088,868**
Zero Coupon Fixed Rate Bill (LTN)	-	37,531,612	34,144,271	194,973,773	-	266,649,656
Zero Coupon Floating Rate Bill (LFT)	-	-	-	385,543,854	44,278,995	429,822,849
IPCA - Consumer Price-Index Note (NTN-B)	-	33,206,985	33,749,186	117,570,046	186,773,320	371,299,537
Plain Vanilla Fixed Rate Note (NTN-F)	-	-	-	19,259,365	36,057,461	55,316,826
Securities granted as loans	-	**-**	**-**	**45,595**	**24,251**	**69,846**
Zero Coupon Fixed Rate Bill (LTN)	-	-	-	33,038	-	33,038
IPCA - Consumer Price-Index Note (NTN-B)	-	-	-	12,557	24,251	36,808
Securities granted as collateral (Note 7.2.1)	-	-	**26,344,490**	**21,039,806**	**-**	**47,384,296**
Zero Coupon Floating Rate Bill (LFT)	-	-	26,344,490	21,039,806	-	47,384,296
Untradeable securities	-	-	-	187	46	233
National Treasury Notes - Series P (NTN-P)	-	-	-	187	46	233
Total	**72,426,845**	**74,590,940**	**116,402,899**	**1,008,346,924**	**495,547,898**	**1,767,315,506**

At Dec 31, 2017

	Up to 1 month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
Unrestricted securities	**67,944,900**	**12,984,681**	**47,735,749**	**182,745,902**	**300,966,261**	**612,377,493**
Zero Coupon Fixed Rate Bill (LTN)	46,977,684	12,984,681	31,701,175	54,246,094	-	145,909,634
Zero Coupon Floating Rate Bill (LFT)	-	-	-	32,106,654	21,937,573	54,044,227
IPCA - Consumer Price-Index Note (NTN-B)	-	-	16,034,574	54,501,373	128,554,052	199,089,999
Plain Vanilla Fixed Rate Note (NTN-F)	20,967,216	-	-	41,891,781	150,474,636	213,333,633
Securities subject to repurchase agreements	**-**	**5,776,962**	**92,645,255**	**712,231,374**	**221,085,271**	**1,031,738,862**
Zero Coupon Fixed Rate Bill (LTN)	-	5,776,962	75,936,742	176,782,159	-	258,495,863
Zero Coupon Floating Rate Bill (LFT)	-	-	-	450,119,357	7,721,273	457,840,630
IPCA - Consumer Price-Index Note (NTN-B)	-	-	16,708,513	67,882,939	170,340,019	254,931,471
Plain Vanilla Fixed Rate Note (NTN-F)	-	-	-	17,446,919	43,023,979	60,470,898
Securities granted as collateral (Note 7.2.1)	-	-	**-**	**18,199,278**	**-**	**18,199,278**
Zero Coupon Floating Rate Bill (LFT)	-	-	-	18,199,278	-	18,199,278
Untradeable securities	-	-	-	**181**	**45**	**226**
National Treasury Notes - Series P (NTN-P)	-	-	-	181	45	226
Total	**67,944,900**	**18,761,643**	**140,381,004**	**913,176,735**	**522,051,577**	**1,662,315,859**

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.;

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- 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 25.1, was mainly due to the accrual of interest (Note 16) e and the issuance of securities by the National Treasury, to cover the negative result, including the exchange rate equalization referring to the second half of 2016 and 1° the first half of 2017. This effect was partially offset by the net redemption of securities in the period.

During the validity of IAS 39, part of the federal government securities portfolio classified in the Available for Sale category, with the adjustments to fair value recognized directly in equity, was reclassified to Held to Maturity category. The corresponding amount adjustment to fair value recognized directly in equity up to the date of reclassification of the portfolio had been amortized in the statement of income during the remaining life of the reclassified papers.

With the retrospective application of IFRS 9, the amounts were adjusted as if it were always measured at amortized cost, implying in the reversal of the remaining balance in equity (R$1,828,893 – Note 15) and in the effective interest rate recalculation based on the adjusted balances.

The following table presents the effect of these adjustments at the time of initial application:

Securities – NTN-B	Balance at Dec 31, 2017 (IAS 39)	Adjusted Balance (IFRS 9)	Effects of the Initial Application of IFRS 9
Unrestricted securities	**199,089,999**	**197,994,649**	**(1,095,350)**
Principal	199,688,328	199,688,328	-
Acquisition cost to be amortized	(3,780,803)	(4,875,939)	(1,095,136)
Receivable Interest	3,182,474	3,182,260	(214)
Securities subject to repurchase agreements	**254,931,471**	**252,851,482**	**(2,079,989)**
Principal	256,763,125	256,763,125	-
Acquisition cost to be amortized	(5,511,944)	(7,591,542)	(2,079,598)
Receivable Interest	3,680,290	3,679,899	(391)
Total			**(3,175,339)**

9 - INVESTMENT IN INTERNATIONAL FINANCIAL ORGANIZATIONS

The investment of the BCB in international financial organizations consists of quotas of the IMF (2,22% 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 IFRS 9.

These assets are classified as Fair Value Through Other Comprehensive Income, and their fair value is expressed by the value, in Reais, of Brazil’s investment in the organizations.

	Jun 30, 2018	Dec 31, 2017
International Monetary Fund	59,882,422	52,013,341
Bank for International Settlements	134,918	117,188
Total	**60,017,340**	**52,130,529**

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The variation in the period was due to positive fair value adjustment, recognized directly in equity (Note 15), in view of the depreciation of the Real against the SDR (Note 3.3). In the first half of 2018, the BCB received dividends from the BIS in the amount of R$3,815 (R$4,112 in the first half of 2017).

10 - TRANSACTIONS WITH THE FEDERAL GOVERNMENT

Receivables from the Federal Government	Jun 30, 2018	Dec 31, 2017
Foreign exchange equalization result	32,075,296	108,750,486
Remuneration of the National Treasury Operating Account to be incorporated	70,562	-
Amounts to be offset or refunded	3,387	3,318
Total	**32,149,245**	**108,753,804**

Payables to the Federal Government	Jun 30, 2018	Dec 31, 2017
National Treasury Operating Account	1,139,337,818	1,079,725,998
Result to be transferred to the National Treasury	19,658,214	14,715,120
Foreign exchange equalization result	146,201,403	-
Remuneration of the National Treasury Operating Account to be incorporated	1,858,966	1,440,082
Amounts payable	76,598	76,788
Total	**1,307,132,999**	**1,095,957,988**

Due to legal provisions, the BCB has a financial relationship with the National Treasury, their main transactions are described in Note 25.1.

The variation in receivables from the Federal Government was mainly due the coverage of the result of the exchange equalization operation referring to the second half of 2016 and first half of 2017. In the case of payables to the Federal Government, the variations are mainly related to the behavior of the balance of the National Treasury Operating Account in the period (Note 25.1), to the BCBs result referring to the first half of 2018, in an superior amount than recorded in the second half of 2017, and to the positive result of the foreign exchange equalization operation in the period.

11 - RECEIVABLES IN LOCAL CURRENCY

At Jun 30, 2018

	Amortized Cost	Fair Value adjustment	Carrying Amount
Institutions Under Extrajudicial Liquidation	**33,283,237**	**(9,660,826)**	**23,622,411**
Banco Nacional - Under Extrajudicial Liquidation	24,464,431	(6,671,265)	17,793,166
Banco Econômico - Under Extrajudicial Liquidation	8,526,420	(2,877,417)	5,649,003
Banco Banorte - Under Extrajudicial Liquidation	292,386	(112,144)	180,242
Loans and Receivables	**9,292,601**	**-**	**9,292,601**
Transfer of resources related to rural credit	8,608,695	-	8,608,695
Centrus	418,236	-	418,236
Other	265,670	-	265,670
Total	**42,575,838**	**(9,660,826)**	**32,915,012**

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At Dec 31, 2017

	Amortized Cost	Fair Value adjustment	Carrying Amount
Institutions Under Extrajudicial Liquidation	38,073,958	(9,998,367)	28,075,591
Banco Nacional - Under Extrajudicial Liquidation	27,860,045	(6,262,497)	21,597,548
Banco Econômico - Under Extrajudicial Liquidation	9,883,007	(3,584,692)	6,298,315
Banco Banorte - Under Extrajudicial Liquidation	330,906	(151,178)	179,728
Loans and Receivables	9,369,029	-	9,369,029
Transfer of resources related to rural credit	8,608,695	-	8,608,695
Centrus	463,008	-	463,008
Other	297,326	-	297,326
Total	**47,442,987**	**(9,998,367)**	**37,444,620**

11.1. Institutions Under Extrajudicial Liquidation

This refers 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.

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.

In the scope of the IAS 39, these assets were designated as fair value through profit or loss as a result of Management's decision once they were managed and had their performance measured through fair value. This possibility of designation at fair value ceased to exist with the beginning of IFRS 9.

With the new standards application, receivables from Institutions Under Extrajudicial Liquidation are now measured at amortized cost and are subject to impairment based on the characteristics of the contractual cash flows, as well as the management model adopted by BCB for these credits.

Moreover, considering the operations characteristics, the credit losses are measured as expected permanent credit losses (lifetime expected credit losses of the financial asset), and their financial income are calculated applying the effective interest rate on the net asset value, which means, net of credit losses.

(All amounts expressed in thousands of Reais, unless otherwise stated) 23

The methodology of valuation of these credits includes the estimated default in the installment contract flow, considering the present value of the cash flow, calculated based on the reference rates of DI x TR available through B3 for the installment period, adjusted to incorporate a risk premium that reflects the uncertainty inherent to cash flows. The risk premium is determined by the difference in the interest rate that equates the present value of contracted cash flows with the adjusted cash flows for the institution`s payment capacity under extrajudicial liquidation, being estimated from internal pricing models, which do not reflect objective market parameters in view of the exceptionality characteristics of the counterparty. The model also predict alternative scenarios, weighted by the probability of occurrence, that may affect the payment capacity of the institution.

The following table presents the effect of these adjustments at the time of initial application:

Institutions Under Extrajudicial Liquidation	**Balance at Dec 31, 2017 (IAS 39)**	**Adjusted Balance (IFRS 9)**	**Effects of the Initial Application of IFRS 9**
Banco Nacional - Under Extrajudicial Liquidation	21,597,548	19,341,183	(2,256,365)
Amortized Cost	27,860,045	25,097,162	(2,762,883)
Fair Value Adjustment	(6,262,497)	-	6,262,497
Recoverable Value Adjustment	-	(5,755,979)	(5,755,979)
Banco Econômico – Under Extrajudicial Liquidation	6,298,315	5,724,715	(573,600)
Amortized Cost	9,883,007	8,788,657	(1,094,350)
Fair Value Adjustment	(3,584,692)	-	3,584,692
Recoverable Value Adjustment	-	(3,063,942)	(3,063,942)
Banco Banorte - Under Extrajudicial Liquidation	179,728	165,304	(14,424)
Amortized Cost	330,906	311,477	(19,429)
Fair Value Adjustment	(151,178)	-	151,178
Recoverable Value Adjustment	-	(146,173)	(146,173)
Total	**28,075,591**	**25,231,202**	**(2,844,389)**

11.2. Loans and Receivables

These are mainly represented by transfers to financial institutions of resources originating from the compulsory reserve requirements for deficiencies in applications in rural credit of compulsory resources, of rural savings account and raised through the Agribusiness Credit Bill (LCA) (Note 13). 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 LCA, they are subject to updating by the TR. These amounts are received regardless of the settlement of the compulsory reserve requirements.

12 - 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, destined for the operations and payment of expenses of these organizations in the country.

The variation in the balance of these deposits is mainly due to the effects of the exchange variation arising from the depreciation of the Real against the SDR in the period (Note 3.3), the currency in which a significant portion of these deposits is denominated.

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13 - DEPOSITS RECEIVED FROM FINANCIAL INSTITUTIONS IN LOCAL CURRENCY

	Jun 30, 2018	Dec 31, 2017
Demand Deposits	44,059,222	46,391,775
Time Deposits	225,970,306	226,034,943
Savings Deposits	149,576,702	168,991,960
Deficiencies in applications in rural credit	11,631,083	11,631,083
Other	760,104	679,407
Total	**431,997,417**	**453,729,168**

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 the BCB, in federal government securities. The deposits made in cash are recognized as demand liabilities of the BCB.

The variation in the balances of deposits of financial institutions is associated with the fluctuation of the amounts subject to collection and the changes in the rules of the main compulsory reserve requirements verified in the period, especially the decrease of the rates related to demand and saving deposits.

14 - 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, totaling R$225,768,541 (R$250,363,681 at December 31,2017).

The decrease in the balance of the Currency in Circulation is due to the behavior usually observed in the demand for currency in this period.

15 - EQUITY

	Jun 30, 2018	Dec 31, 2017
Capital	139,675,451	139,675,451
Revenue Reserve	2,403,844	6,624,205
Revaluation Reserve	411,294	414,217
Gains (Losses) Recognized Directly in Equity	(16,412,576)	(22,470,494)
Investment in International Financial Organizations	4,924,673	(2,962,138)
Federal government securities	-	1,828,893
Remeasurements of defined benefit plans	(21,337,249)	(21,337,249)
Total	**126,078,013**	**124,243,379**

In representative accounts of equity, the main changes was due to the positive fair value adjustment of the investment in international financial organizations (Note 9), given the depreciation of the Real against the SDR in the period (Note 3.3), and the effects of the change in accounting practices (Notes 2 and 3.4.4), including the reversal of gains on federal public securities recognized directly in Equity (Note 8.2). The net effect of these changes was absorbed by the Revenue Reserve, according to the Management's decision.

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16 - 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.

	Six-month periods ended June 30	
	2018	2017
Interest income	81,622,499	90,446,016
In Foreign Currencies	**1,329,061**	**581,855**
Cash and Cash Equivalents (Note 4)	608,498	251,689
Time Deposits Placed with Financial Institutions (Note 5)	377,113	142,839
Reverse Repo (Note 6.1)	305,750	174,495
Other	37,700	12,832
In Local Currency	**80,293,438**	**89,864,161**
Securities (Note 8.2)	77,565,341	85,971,710
Federal Government (Note 10)	1,632,204	3,613,792
Receivables (Note 11)	969,313	37,908
Other	126,580	240,751
Interest Expenses	(95,857,049)	(135,282,155)
In Foreign Currencies	**(259,146)**	**(94,291)**
Repo (Note 6.1)	(190,719)	(59,981)
Borrowings	(54,930)	(26,961)
Other	(13,497)	(7,349)
In Local Currency	**(95,597,903)**	**(135,187,864)**
Deposits Received from Financial Institutions (Note 13)	(10,964,750)	(18,424,718)
Repo (Note 6.2)	(37,526,587)	(64,924,780)
Federal Government (Note 10)	(45,560,473)	(50,145,880)
Other	(1,546,093)	(1,692,486)
Net Interest Result	**(14,234,550)**	**(44,836,139)**

The change in net interest income is mainly due to the results of operations in local currency, mainly impacted by the reduction of the effective Selic rate in the first half of 2018 compared to the same period last year.

17 - 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.

	Six-month periods ended June 30	
	2018	2017
In Foreign Currencies	**188,060,055**	**34,311,121**
Securities (Note 8.1)	188,347,495	33,268,169
Derivatives (Note 7.1)	(421,107)	1,256,178
Funds Under External Management	133,667	(213,226)
In Local Currency	**(163,866,528)**	**23,275,928**
Derivatives (Note 7.2)	(163,866,530)	19,081,655
Receivables (Note 11)	-	4,194,274
Other	2	(1)
Total	**24,193,527**	**57,587,049**

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The variation was mainly a result of the effects of the depreciation of the Real against the U.S. Dollar in the first half of 2018 (Note 3.3), the currency in which a significant part of this portfolio is denominated, while in the first half of 2017 the variation in exchange rates occurred less accentuated. Another significant variation is observed in derivatives in local currency, due to foreign exchange swaps (Note 7.2.1) and the foreign exchange equalization operation between the National Treasury and the BCB (Notes 7.2.2 and 25.1).

In the first half of 2017, gains (losses) on financial instruments classified as FVTPL also included interest and adjustment to fair value of receivable credits with institutions in extrajudicial liquidation, in the amount of R$4,194,274. From the initial adoption of IFRS 9, these credits are now measured at amortized cost (Note 11.1).

18 - 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.

	Six-month periods ended June 30	
	2018	**2017**
Cash and Cash Equivalents	13,969,298	2,002,386
Time Deposits Placed with Financial Institutions	6,759,932	755,663
Repurchase agreements	(1,001,581)	(1,717,341)
Receivables	320,602	201,844
Items in the Course of Collection	(1,639,878)	(53,556)
Accounts Payable	(2,066,291)	(640,459)
Deposits Received from International Financial Organizations	(7,240,002)	(2,261,230)
Other	(4,908)	(1,349)
Total gains (losses) from foreign currencies	**9,097,172**	**(1,714,042)**

The result presented arises from the effects of the depreciation of the Real against the main foreign currencies in the first half of 2018 (Note 3.3), while in the first half of 2017 the variation in exchange rates occurred less accentuated.

19 - 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$1,130,897 (R$715,570 in the first half of 2017).

The result in the first half of 2018 is due to the effects of the depreciation of the real against the US dollar in first half of 2018 (Note 3.3), while in the first half of 2017 the variation in exchange rates occurred less accentuated. This effect was partially offset by the negative adjustment to fair value in the period due to the reduction in the gold price in dollars on the international market.

20 - ADJUSTMENT TO NET RECOVERABLE VALUE

Refers to the impairment of all financial assets measured at amortized cost or at At Fair Value Through Other Comprehensive Income, calculated according to the valuation model based on "expected credit losses" adopted from the first half of 2018 with the initial application of IFRS 9 (Note 3.4.6).

The result in the first half of 2018 mainly due to the adjustment to the impairment of receivables with the institutions into receivership in the amount of R$ 694,732 (Note 11).

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21 - OTHER INCOME AND EXPENSES

	Six-month periods ended June 30	
	2018	**2017**
Other Income	**1,893,604**	**1,708,204**
Transfer from the National Treasury	1,489,487	1,376,087
Precatory and Small Value Requisitions	131,282	4,926
Tariffs	110,482	122,576
Fines	109,759	120,123
Reversal of provision for litigation	17,240	35,847
Other	35,354	48,645
Other Expenses	**(1,714,179)**	**(2,188,980)**
Personnel	(1,015,914)	(945,321)
Provision for litigation	(248,738)	(759,442)
Production and distribution of notes and coins	(291,978)	(312,614)
Depreciation	(16,788)	(26,103)
Other	(140,761)	(145,500)

The variation observed was mainly due to the reduction of expenses with provisions for lawsuits and of the increase in revenues with precatory and requisitions of small value, reflecting the movement of lawsuits in the period.

22 - INCOME STATEMENT

22.1. Net income for the six-month period

The result for the first half of 2018 was positive by R$19,655,292 (R$11,271,662 positive in the first half of 2017), as shown in the table below:

	Six-month periods ended June 30	
	2018	**2017**
International Reserve Operations and Swaps	**-**	**-**
Profitability of the international reserves	209,838,617	37,120,917
Foreign exchange derivatives - Swaps in local currency	(17,665,127)	3,336,866
Foreign exchange equalization of reserves and derivatives (Profitability)	(192,173,490)	(40,457,783)
Other transactions in foreign currencies	**(10,500,907)**	**(3,958,938)**
Transactions in local currency	**30,667,622**	**15,073,143**
Interest income	80,293,438	89,864,161
Interest expenses	(95,597,903)	(135,187,864)
Foreign exchange equalization (Funding cost)	45,972,087	56,202,572
Institutions under liquidation (Fair value adjustment)	-	4,194,274
Other transactions in local currency	**(511,423)**	**157,457**
Net income for the six-month period	**19,655,292**	**11,271,662**

As the profitability obtained with the management of the international reserves and foreign exchange derivatives (swaps) (Note 7.2.1), 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.

As required by the applicable legislation, the result for the first half of 2018 will be transferred to the National Treasury no later than the 10th working day after the approval of the financial statements by the CMN (Notes 1 and 26.a).

22.2. 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 items of which are presented in Note 15.

23 - FINANCIAL INSTRUMENTS – BY CATEGORY

23.1. In foreign currencies

The financial assets and liabilities in foreign currency measured at amortized cost do not present significant differences in its fair value, considering that this is spot transactions or short-term and present rates compatible with market rates.

23.2. In local currency

The financial assets and liabilities in local currency measured at amortized cost is composed mainly by the federal government securities existing in the BCB's portfolio (Note 8.2), whose fair value on Jun 30,2018 was R$1,809,104,839 (R$1,744,251.848 on Dec 31,2017).

The others financial assets and liabilities in local currency measured at amortized do not present significant differences in its fair value, considering that this is spot transactions or short-term and present rates compatible with market rates.

24 - 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.

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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 Jun 30, 2018

	Level 1	Level 2	Level 3	Total
Assets in Foreign Currencies	**1,374,056,294**	**957,683**	**-**	**1,375,013,977**
Funds Under External Management	-	957,683	-	957,683
Securities	1,314,038,954	-	-	1,314,038,954
Investment in International Financial Organizations	60,017,340	-	-	60,017,340
Assets in Local Currency	**1,809,104,839**	**-**	**-**	**1,809,104,839**
Federal government Securities	1,809,104,839	-	-	1,809,104,839
Liabilities in Foreign Currencies	**-**	**75,871**	**-**	**75,871**
Derivatives	-	75,871	-	75,871
Liabilities in Local Currency	**1,121,173**	**-**	**-**	**1,121,173**
Derivatives	1,121,173	-	-	1,121,173

At Dec 31, 2017

	Level 1	Level 2	Level 3	Total
Assets in Foreign Currencies	**1,145,964,619**	**1,199,805**	**-**	**1,147,164,424**
Funds Under External Management	-	1,197,789	-	1,197,789
Derivatives	-	2,016	-	2,016
Securities	1,093,834,090	-	-	1,093,834,090
Investment in International Financial Organizations	52,130,529	-	-	52,130,529
Assets in Local Currency	**1,744,367,455**	**-**	**28,075,591**	**1,772,443,046**
Federal government Securities	1,744,251,848	-	-	1,744,251,848
Derivatives	115,607	-	-	115,607
Receivables - Institutions Under Extrajudicial Liquidation	-	-	28,075,591	28,075,591
Liabilities in Foreign Currencies	**-**	**2,221**	**-**	**2,221**
Derivatives	-	2,221	-	2,221

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 Fair Value Through Other Comprehensive Income (Note 3.4.4).

The receivables from institutions under extrajudicial liquidation that were previously classified in Level 3 of fair value hierarchy according to the evaluation methodology used for its measurement, are now measured at amortized cost with the initial adoption of IFRS 9 (Note 11.1).

There were no transfers of financial instruments between the levels of the fair value hierarchy during the first half of 2018.

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25 - RELATED PARTIES

25.1. Federal Government

The following table presents the main transactions between the BCB and the Federal Government in the period:

	Six-month periods ended		
	Jun 30, 2018	Dec 31, 2017	Jun 30, 2017
National Treasury Operating Account (Note 10)			
Opening balance	1,079,725,998	1,009,504,798	1,039,821,680
(+) remuneration	44,971,456	46,082,969	50,216,235
(+/-) deposits/withdrawals	(315,449)	12,660,661	(88,482,316)
(+) transfer of positive result	14,955,813	11,477,570	7,949,199
Closing balance	1,139,337,818	1,079,725,998	1,009,504,798
Securities issued by the National Treasury (Note 8.2)			
Opening balance	1,662,315,859	1,606,712,522	1,518,007,723
(+/-) net purchase (net redemption)	(47,697,749)	(21,506,828)	(116,362,448)
(+) issuance for covering the negative result/foreign exchange equalization	78,307,394	-	119,111,333
(+) remuneration (Note 16)	77,565,341	77,141,382	85,971,710
(+/-) fair value adjustment	-	(31,217)	(15,796)
(+/-) effects of changes in accounting policies (Note 3.4.4)	(3,175,339)	-	-
Closing balance	1,767,315,506	1,662,315,859	1,606,712,522
Result to be covered by the National Treasury			
Opening balance	-	-	18,318,977
(+) remuneration	-	-	75,082
(-) covers	-	-	(18,394,059)
Closing balance	-	-	-
Result to be transferred to the National Treasury (Note 10)			
Opening balance	14,715,120	11,274,856	7,783,321
(+) positive result to be transferred	19,658,214	14,715,120	11,274,856
(+) remuneration	240,693	202,714	165,878
(-) transfers	(14,955,813)	(11,477,570)	(7,949,199)
Closing balance	19,658,214	14,715,120	11,274,856
Foreign exchange equalization (Note 7.2.2)			
Opening balance	-	-	-
(+/-) adjustments	(146,201,403)	30,677,374	15,744,789
(+/-) transfers to accounts payable (receivables)	146,201,403	(30,677,374)	(15,744,789)
Closing balance	-	-	-
Receivables due to foreign exchange equalization result (Note 10)			
Opening balance	108,750,486	74,469,641	155,903,416
(+) foreign exchange equalization result	-	30,677,374	15,744,789
(+) remuneration	1,632,204	3,603,471	3,538,710
(-) receipts	(78,307,394)	-	(100,717,274)
Closing balance	32,075,296	108,750,486	74,469,641
Accounts payable due to foreign exchange equalization result (Note 10)			
Opening balance	-	-	-
(+) result of exchange equalization	146,201,403	-	-
Closing balance	146,201,403	-	-
Transfer under budget law (Note 21)	1,489,487	1,477,773	1,376,087

The BCB's result considers the income and expenses of all its operations, and is accounted for on the accrual basis (Notes 3.1, 22.1 and 26.a). The result with reserves and foreign exchange derivatives, object of foreign exchange equalization, in turn, represents the cost of loading international reserves and foreign exchange swap operations carried out in the domestic market (Note 7.2.2).

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The table below shows the results of the BCB in the first half of 2018 and in the first and second half of 2017, after completion of reservations, and their settlement dates:

	BCB Result		Result with Reserves and Foreign Exchange Derivatives (Foreign Exchange Equalization)	
1st half of 2018	19,658,215	To be transferred to the National Treasury until Set 13, 2018	146,201,403	To be transferred to the National Treasury until Set 13, 2018
2nd half of 2017	14,715,120	Transferred to the National Treasury on Mar 8, 2018	(30,677,374)	To be covered by National Treasury until Jan 15,2019
1st half of 2017	11,274,856	Transferred to the National Treasury on Set 12, 2017	(15,744,789)	Covered by National Treasury on Jan 12, 2018

25.2. Centrus

The main transactions between the BCB and Fundação Banco Central de Previdência Privada (Centrus) were the following:

	Six-month periods ended		
	Jun 30, 2018	**Dec 31, 2017**	**Jun 30, 2017**
Actuarial surplus			
Opening balance	1,105,905	1,255,720	1,067,851
(+/-) remeasurements of defined benefit plans	-	(314,771)	-
(+) interest	96,080	164,956	187,869
Closing balance	1,201,985	1,105,905	1,255,720
Receivables (Note 11)			
Opening balance	463,008	510,308	555,557
(+) interest	18,993	18,646	24,236
(-) receipts	(63,765)	(65,946)	(69,485)
Closing balance	418,236	463,008	510,308

26 - 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 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.

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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$12,678,564 in the first quarter and R$6,976,728 in the second quarter, giving a total result of R$19,655,292 in the first half of 2018, 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$21,747,838 in the first quarter and R$23,571,941 in the second quarter, totaling R$45,319,779 in the first half of 2018.

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 June 30, 2018, 87.82% 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 first quarter of 2018, the international reserves presented a positive return of 0.81%. Considering the funding cost of the BCB, the net result of the reserves was negative by 0.80% (R$9,949,778). In the second quarter, the return of the reserves was 14.50% positive, totaling 12.62% positive (R$173,816,308) when taking into consideration the funding cost.

	International Reserves		Funding Cost	Cost of Maintaining International Reserves	
	Average Balance (R$ thousand)	Profitability (%)	(%)	(%)	(R$ thousand)
1st Quarter/2018	1,241,189,318	0.81	(1.61)	(0.80)	(9,949,778)
2nd Quarter/2018	1,377,724,370	14.50	(1.88)	12.62	173,816,308
Total for the six-month period					**163,866,530**

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 first quarter of 2018, a negative return of 0.05%, being comprised of accrued interest (0.32%) and the negative mark-to-market adjustment of the assets (0.37%). After deducting the funding cost, the net result of the reserves was negative by 1.66% (R$20,659,554). In the second quarter, the profitability of the reserves was positive by 0.29% (0.43% through the accrual of interest and 0.13% through the negative mark-to-market adjustments of the assets), totaling 1.59% negative (R$21,908,969) when considering the funding cost.

(All amounts expressed in thousands of Reais, unless otherwise stated) 33

	International Reserves		Funding Cost	Cost of Maintaining International Reserves	
	Average Balance (R$ thousand)	Profitability, excluding foreign exchange variation (%)	(%)	(%)	(R$ thousand)
1st Quarter/2018	1,241,189,318	(0.05)	(1.61)	(1.66)	(20,659,554)
2nd Quarter/2018	1,377,724,370	0.29	(1.88)	(1.59)	(21,908,969)
Total for the six-month period					**(42,568,523)**

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$38,632,065 in the first quarter and R$38,933,276 in the second quarter, totaling R$77,565,341 in the first half of 2018.

Governor: Ilan Goldfajn

Deputy Governors: Carlos Viana de Carvalho, Carolina de Assis Barros, Maurício Costa de Moura, Otávio Ribeiro Damaso, Paulo Sérgio Neves de Souza, 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

Banco Central do Brasil

Report on review of condensed interim financial statement
June 30, 2018
(A free translation of the original report in Portuguese on interim financial statement prepared in accordance with IAS 34 - Interim Financial Reporting issued by the International Accounting Standards Board - IASB)

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Report on review of condensed interim financial statement

To
The Management of
Banco Central do Brasil.
Brasília - DF

Introduction
We have reviewed the condensed interim balance sheet of Banco Central do Brasil (“BCB”) as at June 30, 2018, and the related condensed interim income statement, comprehensive income, changes in equity and cash flows for six-month period then ended, as well as the corresponding explanatory notes (“condensed interim financial statements”).

The BCB´s Management is responsible for the preparation and presentation of the condensed interim financial statement in accordance with international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board - IASB. Our responsibility is to express a conclusion on this condensed interim financial statement based on our review.

Scope of the review
We conducted our review in accordance with Brazilian and international standards on review (NBC TR 2410 and ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity). A review of interim financial statement consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and international standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Therefore, we do not express an audit opinion.

Conclusion on the condensed interim financial statement
Based on our review, we are not aware of any fact that could lead us to believe that the acompanying condensed interim financial statement referred above are not prepared, in all material respects, in accordance with IAS 34 - Interim Financial Reporting.

Brasília, August 22, 2018

KPMG Auditores Independentes
CRC SP-014428/O-6 F-DF

Cláudio Rogélio Sertorio
Accountant CRC 1SP212059/O-0