

BANCO CENTRAL DO BRASIL
BALANCE SHEET - AS OF DECEMBER 31
(In thousands of Reais)

ASSETS		Notes	2004	2003	LIABILITIES		Notes	2004	2003
Assets in Foreign Currencies		3.3	<u>164,469,460</u>	<u>172,322,260</u>	Liabilities in Foreign Currencies		3.3	<u>93,298,735</u>	<u>116,155,149</u>
Cash			169,885	3,533,219	Items in the Course of Collection		15	5,058,335	3,919,520
Commitments under Agreements to Resell Assets		3.8, 6	4,942,769	11,901,288	Commitments under Agreements to Repurchase Assets		3.8, 6	4,902,441	11,918,227
Time Deposits with Financial Institutions		3.6	66,984,868	68,214,034	Derivatives		3.4, 10.1	-	17,717
Gold		3.6, 7	1,268,674	1,287,678	Loans Payable		3.13, 16	69,349,204	85,904,956
Debt Securities		3.6, 8.1	78,384,445	74,075,563	Deposits		17	13,911,951	14,312,106
Receivables		3.6	143,103	200,388	Other		22	76,804	82,623
Investments in International Financial Agencies		3.6, 9	12,574,406	13,108,763	Liabilities in Local Currencies			<u>332,409,592</u>	<u>306,264,863</u>
Other			1,310	1,327	Deposits of Financial Institutions		18	92,871,755	78,812,819
Assets in Local Currencies			<u>333,195,290</u>	<u>308,505,717</u>	Commitments under Agreements to Repurchase Assets		3.8, 6	63,050,118	66,112,159
Commitments under Agreements to Resell Assets		3.6, 3.8, 6	4,157,898	307,231	Payables to Government		11, 30.1	158,818,382	125,620,043
Derivatives		3.4, 3.6, 10.2	395,869	60,264	Derivatives		3.4, 10.2	75,600	1,457,774
Federal Government Debt Securities		3.6, 8.2	306,047,865	280,272,321	Own Issue Debt Securities		19	13,568,662	30,618,991
Receivables from Government		3.6, 11, 30.1	1,892,000	8,425,556	Actuarial Liabilities		3.12, 20	1,021,243	960,462
Receivables		3.6, 3.9, 12	19,833,574	18,616,099	Provisions		3.11, 21	2,627,169	2,245,129
Premises and equipment		3.10, 13	759,091	754,372	Other Liabilities in Local Currencies		22	376,663	437,486
Other		14	108,993	69,874	Currency in circulation		23	<u>61,935,635</u>	<u>51,363,863</u>
					Net Equity		24	<u>10,020,788</u>	<u>7,044,102</u>
					Retained Earnings			2,576,356	2,576,356
					Income Reserve			4,327,548	3,978,086
					Revaluation Reserve			498,134	489,660
					Amounts not taken to Profit and Loss			2,618,750	-
TOTAL			<u>497,664,750</u>	<u>480,827,977</u>	TOTAL			<u>497,664,750</u>	<u>480,827,977</u>

The Explanatory Notes are an integral part of the Financial Statements

Income Statement
(In thousands of Reais)

	Notes	2nd Sem./2004	2nd Sem./2003	2004	2003
Foreign Currency Operations		(6,791,266)	(66,676)	(3,336,925)	(7,659,720)
Interest Income		1,903,887	1,694,294	3,449,527	4,225,586
Interest Expenses		(1,749,830)	(2,175,209)	(3,522,310)	(4,059,293)
(=) Net Interest Income	25	154,057	(480,915)	(72,783)	166,293
Gains and Losses with Assets Held-for-trading	26	(133,701)	319,410	(838,775)	2,184,630
Gains and Losses with Foreign Currencies Operations	3.3, 27	(6,811,622)	94,829	(2,425,367)	(10,010,643)
Local Currency Operations		6,783,967	8,438,664	5,042,532	39,073,479
Interest Income		23,396,249	29,697,940	45,956,181	61,586,413
Interest Expenses		(17,845,943)	(27,309,168)	(40,335,536)	(50,132,972)
(=) Net Interest Income	25	5,550,306	2,388,772	5,620,645	11,453,441
Gains and Losses with Assets Held-for-trading	26	6,701,662	5,969,354	2,835,140	33,354,346
Gains and Losses with Foreign-Currency-linked Operations	3.3, 27	(5,468,001)	80,538	(3,413,253)	(5,734,308)
Net Allowances	28	431,313	920,606	1,767,511	2,356,808
Other Income	29	547,705	411,587	1,279,861	909,532
Other Expenses	29	(1,229,990)	(2,567,623)	(2,215,550)	(3,361,747)
Net Income	3.5, 30.1	(258,271)	7,136,558	2,537,429	31,318,352

Statement of Changes in Net Equity
(In thousands of Reais)

	Note	Retained Earnings	Amounts not taken to Profit and Loss		Income Reserve	Revaluation Reserve	Net Equity
			Mark-to-Market Adjustment	Exchange Rate Variations			
Balance as at Dec 31, 2002	24	2,576,356	-	-	2,193,946	483,743	5,254,045
Constitution		-	-	-	1,784,140	14,166	1,798,306
Realization		-	-	-	-	(8,249)	(8,249)
Balance as at Dec 31, 2003		2,576,356	-	-	3,978,086	489,660	7,044,102
Constitution		-	3,957,915	(1,339,165)	349,462	21,515	2,989,727
Reversal		-	-	-	-	(9,866)	(9,866)
Realization		-	-	-	-	(3,175)	(3,175)
Balance as at Dec 31, 2004		2,576,356	3,957,915	(1,339,165)	4,327,548	498,134	10,020,788

The Explanatory Notes are an integral part of the Financial Statements

Explanatory notes to the financial statements – December 31st, 2004

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

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

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

As determined by Law 4,595/1964, the National Monetary Council (CMN) approved the present set of the Bank's financial statements on February 26, 2005. The statements are available on the Bank's website on the Internet.

2 - PRESENTATION

The Bank's financial statements are prepared yearly in accordance with the accounting practices defined by the National Monetary Council (CMN). Those rules do not substantially differ from the practices adopted in Brazil and are summarized in note 3. Accounting rules are consistently applied except for the items mentioned in note 3.15.

3 - ACCOUNTING POLICIES

3.1 - Net Income

The half-yearly result is recognized on the accrual basis and is subject to transfer to the National Treasury in the event of a positive result, or otherwise covered by the entity (note 30.1b).

3.2 - Valuation basis

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

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

In the preparation of the present financial statements certain estimates and assumptions were used in the assessment of assets and liabilities. The main estimates and assumptions are mentioned specifically in note 4.

3.3 - Assets and liabilities denominated in foreign currencies

The functional currency of the Bank's financial statements is the Real. Foreign currency operations are translated into Reais at the exchange rate ruling at the trade date. The exchange rate variations in monetary assets and liabilities are recognised in profit or loss as a gain or an expense, while the exchange rate variations in non-monetary assets and liabilities are recognised in a specific equity account.

	As at December 31		
	2004	2003	
	Close	Bid	Ask
US dollar	2.6540	2.8884	2.8892
Euro	3.6158	3.6431	3.6506
SDR	4.1080	4.2835	4.3019
Yen	0.0259	0.0270	0.0270

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

3.4 – Derivatives

Derivatives are recognised at their fair values since trade date, i.e. the values are obtained through active market quotations, recent trades or via pricing assessment techniques. The derivatives are shown either as assets or as liabilities depending on whether their fair value is positive or negative. All gains and losses are recognised in a profit and loss account.

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

3.5 – Recognition of income and expenses

For foreign currency operations, interest income and expenses are recognised by applying the effective interest rate method. The effective interest rate is the rate that exactly discounts future cash flows of payments or receipts of a financial asset or financial liability. The calculation considers all relevant amounts paid or received between the involved parties, such as fees, commissions, discounts or premiums.

For local currency operations, interest income and expenses are recognised on a straight-line basis, which accounts for coupons, discounts and premiums.

Income and expenses arising from changes in estimates or from changes in accounting policies are recognised in the financial year of their occurrence.

3.6 – Financial assets

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

a) Mark-to-market through profit and loss

The category is divided into two subcategories: Held-for-trading and Designated by Management. A financial asset is classified as Held-for-trading if it is acquired for the purpose of trading in the near-term. Assets in this category are valued at their market value and gains and losses resulting from mark-to-market adjustments are taken to the profit and loss account at the moment they occur. The Bank holds securities acquired abroad and derivatives in this category.

b) Available-for-sale

The category records the assets that Management does not expect to sell in the near-term; i.e. it may sell in response to changes in market conditions.

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

These assets are marked-to-market and gains and losses in relation to market variations are taken to an equity account. The variations will only be taken to profit and loss when they are realized (sold). However, interest expenses and income calculated via the internal rate of return method shall be taken to profit or loss on an accrual basis. The Bank classifies the (i) Brazilian federal government debt securities acquired for the purpose of carrying out the monetary policy, (ii) investments in international financial agencies, and (iii) the inventory of gold held as an international reserve, in this category.

c) Held-to-maturity

The category records non-derivative financial assets for which the Bank has the intent and the ability to hold until maturity. These assets are valued at amortized cost. In this category the Bank classifies the Brazilian federal government debt securities that are non-negotiable and do not fit into the category for the execution of the monetary policy.

d) Loans and receivables

The category records non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These assets are valued at amortized cost. In this category the Bank classifies its loans to financial institutions.

The fair value of financial instruments is the market value divulged by the main custodians or economic information providers. For those instruments without an active market, the fair value of financial assets is calculated using pricing models, e.g. the prices of the last trades and the discounted cash flow.

3.7 – The offsetting of asset and liability balances

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

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

3.8 – Commitments under agreements

The Bank enters into contracts in which its assets are committed to transactions occurring at a specified date and price in the future such as repurchase agreements (Repos or Reverse Repos) and FX Swaps. In transactions collateralized by securities, assets sold under a commitment to repurchase are reclassified as "Repurchase Agreements". Concomitantly a liability is recognised for the obligation to repurchase the asset.

The Securities purchased with a commitment to resell are recorded in off-balance sheet accounts. The difference between the selling price and the repurchase price is recognised as interest on an accrual basis.

The Securities of the Bank's own portfolio delivered to counterparties under Securities Lending Agreements are maintained in "Assets" but are reclassified in a different account, namely "Securities under Lending Agreements", while those received by the Bank as collateral are recorded in off-balance sheet accounts.

With respect to FX swaps with currencies, assets sold with a commitment to repurchase are derecognised from the balance sheet and the currency purchased with a commitment to resell is recognised in assets.

3.9 – Impairment for losses in financial assets

The Bank assesses, at least half-yearly, if there is evidence of impairment of any of its financial assets. The Bank only considers objective evidence of impairment for events occurring after the initial recognition of financial assets that have an impact on the estimated future cash flows and provided that this impact can be reliably estimated. The bank considers the following events:

- a) financial difficulties of the issuer or obligor;

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

- b) the occurrence of default in any payments, whether related to its principal or its interest;
- c) legal determination for a renegotiation, discounting procedure or partial loss;
- d) extra-judicial liquidation, bankruptcy or any type of financial reorganization;
- e) the disappearance of the active market of the specific asset under assessment.

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

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

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

The most significant assets that fit this condition are credits against financial institutions under extra-judicial liquidation, the allowances for which are recorded based on the difference between the carrying amount compared to the total value of the assets of the institution under liquidation, valued at their market value, whenever possible, considering the Bank's relative position in the order of "preferential payments" according to the legislation.

3.10 – Property, plant and equipment

The account records land, buildings and equipment acquired for use in operations and which are recorded at their historical cost less accumulated depreciation. The historical cost includes all expenses directly attributable to the acquisition or construction of the

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

asset. Further expenditures are included in the cost only if an additional measurable financial flow is likely to be added to the asset in question. Maintenance and repair expenses related to the asset are charged to an expense account.

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

- a) buildings: 62.5 years;
- b) equipment and furniture:
 - i. computer equipment, vehicles and tools: 5 years;
 - ii. other equipment, fixtures and furniture: 10 years.

3.11 – Provisions

The Bank recognizes a provision in relation to lawsuits whenever it is likely that an outflow of economic resources will be necessary to settle the obligation and a reliable estimate of such amount can be made.

3.12 – Employee benefits

a) Post-retirement and pension benefits

The Bank's employees are subject to Law 8,112, a federal law that regulates the relationship between the State and its civil servants. On account of the aforementioned law and complementary legal determinations there are two types of post-employment benefits offered by the Bank to its employees.

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

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

Thus the value shown as actuarial liability refers to the Bank's share in the benefits granted until December 31, 1990.

b) Healthcare benefits

The Bank provides healthcare benefits to its staff, to its retired employees, to their families and to pensioners, which cover hospital fees, dental and psychological care expenses. The funding of these costs is done partly by the Bank and partly by its employees. The Bank's contributions are charged to an expense account each month.

3.13 – Loan Payables

Loans are stated at their fair value, i.e., the amount contracted less the expenses necessary for the granting of the loan. They are stated at amortized cost using the internal rate of return methodology.

If the Bank decides to settle its loan payables, they would no longer figure in the financial statements.

3.14 – Tax immunity

According to the Brazilian Federal Constitution, the Bank has tax immunity in relation to its property and income, whenever it is exercising its normal activities. However, the Bank is obliged to withhold tax from services rendered by third parties. The Bank is otherwise subject to paying taxes of other natures.

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

3.15 – Impact arising from changes in accounting procedures and comparative financial statements

- a) Effective as of December 2004 the Bank revised the classification of its financial assets according to their characteristics and management's intention. The resulting classification for assets is the following:

Asset	Category
Foreign currency debt securities	Held for Trading
Foreign currency deposits	Loans and Receivables
Shares and quotas of International Financial Organizations	Available-for-sale
Gold	Available-for-sale
Loans and Receivables	Loans and Receivables
Brazilian National Treasury Debt Securities	Available-for-sale / Held-to-maturity
Derivatives	Held for Trading

- b) Effective as of December 2004 the Bank began using trade date accounting for every transaction. As regards marked-to-market assets, adjustments are recognised since the trade date until derecognition (trade date of the sale transaction).
- c) It also started using the closing rate for operations for which there was no specific contractual determination to the contrary. Assets and liabilities with respect to the December 31, 2003 financial position were shown at either the bid rate (for assets) or the offer rate (for liabilities).
- d) Only when there is the intention and the legal possibility to offset positive and negative balances in the execution of receipts and payments are financial assets and liabilities shown in the balance sheet and in the income statement at their net value.
- e) The Bank started to recognise its buildings using the amortized acquisition cost methodology, but with respect to buildings already in the Bank's portfolio the amortized cost is the value resulting from the last revaluation of assets.

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

- f) The effects of changes in foreign exchange rates of non-monetary assets have started to be charged to a separate equity account.

As a consequence of those aforementioned changes and also in the pursuit of conformity to international practices, the Bank has modified the presentation format of the present financial statements. Also, for the sake of comparison, it has accordingly rearranged the financial statements of the previous year.

4 – MAIN ASSUMPTIONS ADOPTED IN APPLYING ACCOUNTING POLICIES

The preparation of the financial statements requires the management to make some assumptions in the application of accounting policies and in the determining of assets, liabilities, income and expenses.

These assumptions and estimates are based on historical realization and on other factors that the administration deem reasonable.

The effective value of these assets and liabilities may be different from their estimated values.

The process is constantly reviewed and the results of new estimates are charged to profit and loss in the period in which they occur. The main assumptions used in the preparation of the financial statements were:

a) Allowances for Doubtful Accounts

The Bank estimates the flow of the repayments of the loans it carries against institutions under liquidation based on the maturity date of the debtor's assets.

b) Provision for Lawsuits

The Bank uses certain assumptions based on the opinion issued by its legal department to define the probabilities loss in ongoing lawsuits (note 21).

c) Actuarial Liabilities – assumptions are indicated in note 20.

Explanatory notes to the financial statements – December 31st, 2004

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

5 –RISK MANAGEMENT

5.1 – Financial instruments

The Bank uses financial instruments to achieve the objectives of the monetary policy and also in the administration of the foreign reserves. Hence, the core objective in carrying those assets is not profit but rather the maintenance of adequate instruments for the better performance of its functions as a monetary authority.

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

- a) financial instruments carried in order to manage the foreign reserves – debt securities, deposits and derivatives:

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

In investing the foreign reserves the Bank pursues a policy of liquidity, security and profitability in harmony with its pre-eminent objectives, through the diversification of the financial instruments portfolio it carries.

With respect to the foreign reserves, the risk management policy comprises assessment and control of market, credit and liquidity risks.

- b) financial instruments carried in order to carry out the monetary policy – Brazilian federal government debt securities and exchange rate swaps:

The Bank's portfolio of Brazilian federal government debt securities, issued by both the National Treasury and the Bank itself, is managed primarily via open market operations in order to accomplish the objectives of the monetary and foreign exchange policies. Through performing exchange rate swaps the Bank aims to

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

enhance the hedging capability of the financial system and to correct possible distortions in the foreign exchange curve.

With respect to risk management, the Bank has no specific risk policy for its portfolio of Brazilian federal government debt securities, in view of its objectives. However, for the swap portfolio there is a specific risk policy.

5.2 – Credit risk

a) financial instruments carried in order to manage the foreign reserves:

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

With respect to securities the Board of Directors requires issuers to have a minimum "A" rating by Moody's and only authorizes trading with sovereign debt securities. With respect to governmental agencies and supranational issuers the minimum rating required is "Aaa" by Moody's. For the securities portfolio other limitations are prescribed: (i) a minimum of 65% of the whole portfolio must be in sovereign debt securities; (ii) a maximum of 25% of the whole portfolio may be allocated in governmental agency debt securities; and (iii) a maximum of 25% of the whole portfolio may be allocated in supranational and multilateral organizations and also in issues by the Bank for International Settlements (BIS).

With respect to derivative operations, the risk control parameters are (i) VaR limitations (ii) a counterparty bearing a minimum rating "A" by Moody's and (iii) limits for assuming and maintaining active positions.

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b) financial instruments carried in order to carry out the monetary policy:

The swap contracts are recorded in the Futures and Commodities Exchange (BM&F), a clearinghouse, which is the central counterparty of such operations. The credit risk policy of the BM&F involves requiring collateral for every participating entity.

The amounts of collateral are calculated using stress tests that consider the total possible losses until the settlement of the contract. The assets accepted as collateral instruments are federal government debt securities, certificates of deposits, equity securities, and gold and cash, among others. The majority of the participants of the clearing-house, including the bank, collateralize their trades upon the assignment of federal government debt securities, which, for precautionary reasons, are assessed using a haircut calculation formula.

5.3 – Market risk

The management of foreign reserves is monitored using the Value at Risk (VaR) methodology. The model used to calculate VaR is based on RiskMetrics, with a level of confidence of 95%. The limits authorized by the Board of Governors are monitored on a daily basis. In order to take advantage of market opportunities as they arise deviations from the reference portfolio are allowed. Quarterly backtestings are performed upon presentation of the Bank's results to the Board of Governors.

5.4 – Exchange rate variation risk

The Bank holds assets and liabilities denominated in foreign currency or pegged to exchange rate variations. In view of the institution's objectives, exposure risk to exchange rate variations is not dealt with, as shown in the table below.

Explanatory notes to the financial statements – December 31st, 2004
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As at December 31, 2004

	US\$	Euro	SDR	Other	Total
Assets					
Deposits	35,079,113	24,677,251	13,611	7,384,778	67,154,753
Securities – Foreign Currency	50,474,385	27,904,673	-	5,387	78,384,445
Commitments under Agreements	-	-	-	4,942,769	4,942,769
Securities pegged to exchange rate variations	51,590,731	-	-	-	51,590,731
Accounts Receivable	143,103	-	-	-	143,103
Other assets	49	-	12,575,667	1,268,674	13,844,390
Total Assets (A)	137,287,381	52,581,924	12,589,278	13,601,608	216,060,191
Liabilities					
Deposits	1,437,603	-	12,474,329	19	13,911,951
Loans Payable	1,149,494	33	68,188,935	10,742	69,349,204
Commitments under Agreements	3,986,534	915,907	-	-	4,902,441
Securities pegged to exchange rate variations	13,568,662	-	-	-	13,568,662
Items in the course of collection	1,393,350	3,664,985	-	-	5,058,335
Other liabilities	76,804	-	-	-	76,804
Total Liabilities (B)	21,612,447	4,580,925	80,663,264	10,761	106,867,397
Net Position (A-B)	115,674,934	48,000,999	(68,073,986)	13,590,847	109,192,794

As at December 31, 2003

Total Assets	162,160,611	46,837,356	13,013,059	12,237,252	234,248,278
Total Liabilities	45,681,376	2,940,813	97,265,197	886,754	146,774,140
Net Position	116,479,235	43,896,543	(84,252,138)	11,350,498	87,474,138

5.5 – Liquidity risk

The execution of the Bank's liquidity risk management policy prevents any breaches of the institution's financial duties and commitments to its counterparties. Therefore the liquidity risk management policy comprises management of the diversification of maturities and the establishment of limits so as to guarantee that the papers in the portfolio are traded on the secondary market at a low cost. This policy guarantees liquidity even for issues with longer maturities. The table below presents the contractual maturities of the Bank's assets and liabilities.

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As at December 31, 2004

	until 1 month	1 to 6 months	6 to 12 months	1 to 5 years	more than 5 years	Total
Assets						
Deposits	45,523,712	17,214,416	-	4,416,625	-	67,154,753
Commitments under Agreements	6,854,661	2,246,006	-	-	-	9,100,667
Foreign currency	2,696,763	2,246,006	-	-	-	4,942,769
Local currency	4,157,898	-	-	-	-	4,157,898
Derivatives	70,844	56,229	149,123	119,673	-	395,869
Foreign currency	-	-	-	-	-	-
Local currency	70,844	56,229	149,123	119,673	-	395,869
Securities	39,647,804	46,123,936	74,801,919	223,359,685	498,966	384,432,310
Foreign currency	1,060,903	529,751	2,299,822	74,493,969	-	78,384,445
Local currency	38,586,901	45,594,185	72,502,097	148,865,716	498,966	306,047,865
Credits with the Federal Government	221,152	47,736	302,833	174,857	1,145,422	1,892,000
Accounts Receivable	4,681,213	1,259,345	1,638,879	6,941,685	5,455,555	19,976,677
Foreign currency	65,885	73,140	-	-	4,078	143,103
Local currency	4,615,328	1,186,205	1,638,879	6,941,685	5,451,477	19,833,574
Participation in International Financial Organizations	-	-	-	-	12,574,406	12,574,406
Other assets	-	745,660	-	-	1,392,408	2,138,068
Total Assets (A)	96,999,386	67,693,328	76,892,754	235,012,525	21,066,757	497,664,750
Liabilities						
Items in the course of collection	5,058,335	-	-	-	-	5,058,335
Commitments under Agreements	26,732,620	31,191,781	7,150,775	2,877,383	-	67,952,559
Foreign currency	2,650,254	2,252,187	-	-	-	4,902,441
Local currency	24,082,366	28,939,594	7,150,775	2,877,383	-	63,050,118
Derivatives	497	262	812	74,029	-	75,600
Foreign currency	-	-	-	-	-	-
Local currency	497	262	812	74,029	-	75,600
Loans Payable	2,310	8,832,308	11,564,868	48,949,718	-	69,349,204
Deposits	106,783,706	-	-	-	-	106,783,706
Foreign currency	13,911,951	-	-	-	-	13,911,951
Local currency	92,871,755	-	-	-	-	92,871,755
Liabilities to the Federal Government	158,818,382	-	-	-	-	158,818,382
Own Issue Debt Securities	-	4,101	5,834,022	7,730,539	-	13,568,662
Actuarial Liabilities	976	336,273	5,856	653,770	24,368	1,021,243
Provisions	-	-	-	-	2,627,169	2,627,169
Other liabilities	-	-	-	75,304	378,163	453,467
Total Liabilities (B)	297,396,826	40,364,725	24,556,333	60,360,743	3,029,700	425,708,327
Net Position (A-B)	(200,397,440)	27,328,603	52,336,421	174,651,782	18,037,057	71,956,423

As at December 31, 2003

Total Assets	79,343,954	85,723,576	84,696,116	207,268,607	23,795,724	480,827,977
Total Liabilities	270,881,139	43,020,036	15,610,593	90,050,090	2,858,154	422,420,012
Net Position	(191,537,185)	42,703,540	69,085,523	117,218,517	20,937,570	58,407,965

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

5.6 – Interest rate risk

The Bank holds 77% of its total assets in the marked-to-market category. Additionally, 14% of total assets pay prefixed rates. Hence, eventual variations in interest rates have no significant impact on the profitability of the assets. With respect to liabilities, approximately 20% of the total bear no interest rate and 3% are subject to prefixed rates. The remaining balances are subject to floating rates – 13% to international market rates and 63% to interest rates practiced domestically.

5.7 – Fair Value of quotas of international financial organizations

The Bank's participation in international financial organizations is classified in the Available-for-sale category and is carried at historical cost, since there is no active market for this type of financial instrument and there are no pricing models applicable to these assets. (Note 9).

6 – COMMITTED ASSETS

Sales of assets under repurchase agreements are normally short-term trades in which the Bank sells assets and assumes the liability to repay the proceeds received upon settlement on a future date with accrued interest on principal. In reverse transactions the Bank purchases assets and assumes the liability to resell them on a future date at an amount that corresponds to the proceeds received upon settlement with accrued interest on principal.

7 – GOLD

The Bank keeps a certain amount of gold defined by the Board of Directors as part of the country's foreign reserves. Gold is defined as a financial asset, and since there is no intention of profiting in the short-run, the asset is recorded in the Available-for-sale category. Due to this classification, those assets are marked-to-market and the resulting adjustments are taken to an equity account. (Note 24).

Explanatory notes to the financial statements – December 31st, 2004
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8 – DEBT SECURITIES

8.1 – Securities denominated in foreign currencies

As at December 31		
	2004	2003
Non-committed securities	78,384,445	68,006,538
Up to 1 month	1,060,903	-
1 to 6 months	529,751	4,410,286
6 to 12 months	2,299,822	368,211
1 to 5 years	74,493,969	63,228,041
Committed securities	-	6,069,025
Up to 1 month	-	-
1 to 6 months	-	-
6 to 12 months	-	-
1 to 5 years	-	6,069,025
TOTAL	78,384,445	74,075,563

The table above refers to prefixed rate debt securities issued by both sovereign national treasuries and governmental agencies that are purchased under a policy of diversification (Note 5). The portfolio is part of the country's foreign reserves and its management aims (i) to diversify investments and risks, (ii) to enhance profitability and (iii) to keep different levels of liquidity. These securities are classified in the "For trading" category. The table below shows the cost value and marked-to-market value of the assets.

As at December 31		
	2004	2003
Cost	78,173,220	73,435,394
Mark-to-Market Adjustments (MTM)	211,225	640,169
Carrying Amount	78,384,445	74,075,563

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

8.2 – Brazilian federal government securities

As at December 31, 2004

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

As at December 31, 2003

	until 1 month	1 to 6 months	6 to 12 months	1 to 5 years	more than 5 years	Total
Non-committed securities	14,785,621	29,387,644	54,864,254	92,990,721	2,202,351	194,230,591
LTN	8,978,561	13,992,230	40,031,126	17,217,327	-	80,219,244
LFT	-	9,198,775	9,664,078	15,041,317	-	33,904,170
LFT-B	166,021	1,097,986	822,720	1,228,764	-	3,315,491
NTN-B	-	-	-	6,580,448	1,221,402	7,801,850
NTN-D	5,641,039	5,098,653	4,346,330	52,922,865	-	68,008,887
NTN-P	-	-	-	-	5,531	5,531
CVS	-	-	-	-	975,418	975,418
Committed securities	-	24,012,826	17,969,423	24,834,841	-	66,817,090
LTN	-	12,011,151	11,008,910	-	-	23,020,061
LFT	-	12,001,675	6,960,513	24,834,841	-	43,797,029
Collateralised securities	-	532,872	10,830,182	7,861,586	-	19,224,640
LFT	-	532,872	10,830,182	7,861,586	-	19,224,640
TOTAL	14,785,621	53,933,342	83,663,859	125,687,148	2,202,351	280,272,321

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

- a.** National Treasury Bills - LTN: prefixed yield defined by a discount on the purchase price;
- b.** Financial Treasury Bills - LFT: variable yield defined by the average adjusted rate of daily financing in the Special System of Clearance and Custody - SELIC (SELIC rate);
- c.** Financial Treasury Bills Series B - LFT-B: variable yield at the average SELIC rate, with maturities up to 15 years;
- d.** National Treasury Notes Series B - NTN-B: variable yield defined by the National Consumer Price Index Broad - IPCA, with interest paid half-yearly;
- e.** National Treasury Notes Series D - NTN-D: Adjusted by the selling rate of the United States dollar plus interest, which is payable on a half-yearly basis;
- f.** National Treasury Notes Series F - NTN-F: yield defined by a discount on the purchase price, and interest paid half-yearly;
- g.** National Treasury Notes Series P - NTN-P: registered and non-negotiable security, with a minimum term of fifteen years, updated by the Referential Rate (TR) plus 6% interest p.a. payable upon redemption;
- h.** Securitized Credits - CVS: divided into CVSA, CVSB, CVSC and CVSD; where CVSA and CVSC are adjusted by TR plus 6.17% p.a., and CVSB and CVSD are adjusted by TR + 3.12% p.a., capitalized on a monthly basis, with interest paid on a monthly basis as from January 1, 2005. Amortization will start, on a monthly basis, on January 1, 2009, with final maturity on January 1, 2027.

The above securities are classified as Available-for-sale with the exception of the NTN-P portfolio, which is classified as Held-to-maturity. The following table shows the cost value and mark-to-market value of the assets.

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As at December 31

	2004			2003(*)		
	Cost	MTM Adjustment	Carrying amount	Cost	MTM Adjustment	Carrying amount
Available-for-sale	301,731,328	4,310,565	306,041,895	233,601,433	5,766,115	239,367,548
LTN	126,146,890	(726,662)	125,420,229	100,959,950	2,279,355	103,239,305
LFT	115,052,823	973,771	116,026,595	94,728,520	2,197,319	96,925,839
LFT-B	1,407,134	15,324	1,422,458	3,257,454	58,037	3,315,491
NTN-B	8,398,618	219,279	8,617,897	7,556,796	245,054	7,801,850
NTN-D	46,894,515	4,696,216	51,590,731	25,242,063	1,867,582	27,109,645
NTN-F	1,831,615	(42,811)	1,788,804	-	-	-
CVS	1,999,733	(824,552)	1,175,181	1,856,650	(881,232)	975,418
Held-to-maturity	5,970	-	5,970	40,904,773	5,157,999	40,904,773
NTN-D	-	-	-	40,899,242	5,157,999	40,899,242
NTN-P	5,970	-	5,970	5,531	-	5,531

(*) In 2004 the Bank's Federal Government Securities portfolio was reclassified into the Available-for-sale category (Note 3.15)

9 - PARTICIPATION IN INTERNATIONAL FINANCIAL ORGANIZATIONS

The Bank's participation in international financial organizations comprises IMF quotas, representing 1.5% of the Fund's total quotas, and BIS equity shares, representing 0.72% of BIS capital. Neither participation falls into the definitions of "control" or "significant influence in the administration or in the financial and operating policy decisions" of the investees.

As at December 31	2004	2003
	International Monetary Fund - IMF	12,472,208
Bank for International Settlements - BIS	102,198	103,629
Total	12,574,406	13,108,763

The foreign exchange rate variations of these assets are taken to a specific equity account. (note 24).

10 – DERIVATIVES

The following tables shows the notional values of derivative operations as well as their market value, broken down both by type of derivative and by maturity.

Explanatory notes to the financial statements – December 31st, 2004

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As at December 31, 2004

	Notional Value	Fair Value	
		Assets	Liabilities
Foreign Currency Derivatives			
- <i>Forwards</i>	-	-	-
1 month	-	-	-
1 to 6 months	-	-	-
6 to 12 months	-	-	-
1 to 5 years	-	-	-
Total 1	-	-	-
Local Currency Derivatives			
- SC2-type Swaps	2,309,596	110,840	75,600
1 month	131,577	-	497
1 to 6 months	121,787	14,260	262
6 to 12 months	1,144,670	95,830	812
1 to 5 years	911,562	750	74,029
- SCC and SC3-type Swaps	38,169,220	285,029	-
1 month	9,103,175	70,844	-
1 to 6 months	5,284,353	41,969	-
6 to 12 months	11,433,161	53,293	-
1 to 5 years	12,348,531	118,923	-
Total 2	40,478,816	395,869	75,600
Total 1 + 2	40,478,816	395,869	75,600

As at December 31, 2003

	Notional Value	Fair Value	
		Assets	Liabilities
Foreign Currency Derivatives			
- <i>Forwards</i>	8,593,977	-	17,717
1 month	5,646,220	-	5,287
1 to 6 months	2,947,757	-	12,430
6 to 12 months	-	-	-
1 to 5 years	-	-	-
Total 1	8,593,977	-	17,717
Local Currency Derivatives			
- SC2-type Swaps	7,728,486	60,264	517,077
1 month	37,736	1,897	92
1 to 6 months	2,306,082	58,367	2,586
6 to 12 months	2,870,394	-	142,190
1 to 5 years	2,514,274	-	372,209
- SCC and SC3-type Swaps	78,562,601	-	940,697
1 month	8,515,076	-	64,950
1 to 6 months	24,352,117	-	319,817
6 to 12 months	8,009,345	-	104,323
1 to 5 years	37,686,063	-	451,607
Total 2	86,291,087	60,264	1,457,774
Total 1 + 2	94,885,064	60,264	1,475,491

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

10.1 – Derivatives in foreign currency

In managing the foreign reserves the Bank utilizes currency forwards, which are derivative instruments characterized by a contract to trade currencies that locks-in the price that an entity can buy or sell currency on a future date. These operations are OTC type (directly dealt with financial institutions) and are subject to the risk management policy described in note 5.

10.2 – Derivatives in local currency

As an additional instrument of its monetary and foreign exchange policies the Bank performs swap operations indexed to interest rates and foreign exchange variations in order to provide foreign exchange hedging for financial institutions and other economic agents.

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

The Bank trades three kinds of contracts:

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

Explanatory notes to the financial statements – December 31st, 2004
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11 – OPERATIONS WITH THE FEDERAL GOVERNMENT

As at December 31

	Assets	
	2004	2003
Wage Variation Compensation Fund – FCVS	1,145,422	912,442
Result to be Covered by the National Treasury (note 30.1)	255,096	7,172,543
Deposit Account of the National Treasury - Remuneration to be Transferred	213,189	1,355
Settlement of accounts under Provisional Measure 45	278,285	339,216
Others	7	-
Total	1,891,999	8,425,556

As at December 31

	Liabilities	
	2004	2003
Deposit Account of the National Treasury	158,231,716	120,189,562
Result to be Transferred to the National Treasury (note 30.1)	-	5,356,483
Others	586,666	73,998
Total	158,818,382	125,620,043

The Fund for Compensation of Variations in Salaries (FCVS) is a fund created with the purpose of guaranteeing coverage of possible outstanding residual balances of mortgage contracts, the payment of which is the responsibility of the National Treasury. The settlement of these credits will be made by novation via the issuing of Brazilian National Treasury debt securities, CVS, the characteristics of which are described in note 8.2. In view of the characteristics of the current credit and of the securities to be issued in the novation procedure, this asset is classified as Available-for-sale.

The balance shown as “Settlement of accounts under Provisional Measure 45” refers to amounts to be received by the Bank which were due from the settlement of accounts between the Federal Government, the Bank and its civil servants, as a result of the transfer of the Bank employees to the Single Legal Regime (RJU) which eventually led to a review of salaries and individual and corporate contributions to the Civil Servant Social Security Plan.

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12 – CREDIT RECEIVABLES

As at December 31	2004		2003	
	Balances	Provisions	Balances	Provisions
Institutions under Liquidation	22.570.699	(4.751.949)	23.050.782	(6.594.692)
Banco Nacional - Extrajudicial Liquidation	13,153,642	(3,316,961)	13,082,519	(4,606,763)
Banco Econômico - Extrajudicial Liquidation	5,329,763	-	5,730,666	-
Banco Bamerindus - Extrajudicial Liquidation	2,644,383	(535,370)	2,597,202	(849,512)
Banco Pontual - Extrajudicial Liquidation	613,380	(613,380)	602,436	(602,436)
Banco Mercantil - Extrajudicial Liquidation	198,689	-	202,084	-
Banco Banorte - Extrajudicial Liquidation	604,105	(259,501)	593,327	(293,433)
Banco Crefisul - Bankruptcy	-	-	91,816	(91,816)
Banco Banfort - Bankruptcy	-	-	120,193	(120,193)
Others	26,737	(26,737)	30,539	(30,539)
Other Credits	2.260.953	(246.129)	2.330.361	(170.352)
Centrus	1,990,689	-	1,562,091	-
Others	270,264	(246,129)	768,270	(170,352)
TOTAL	24.831.652	(4.998.078)	25.381.143	(6.765.044)

12.1 – Receivables from financial institutions under extrajudicial liquidation

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

The cash flow estimates of the receivables referred to above, and hence the provisioning policy related to them (note 3.9), considers the debtor's remaining assets and seniority according to legislation of one creditor over another (priority of lien), as follows:

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

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12.2 – Receivable from Centrus

The amount results from contributions to Fundação Banco Central de Previdência Privada (Centrus) made by the Bank until December 31, 1990 for those employees that were included in RJU (note 30.3). The funds are adjusted by the average yield rate of the assets of Centrus (30.64% in 2004 and 31.94% in 2003) and are being repaid to the Bank in monthly instalments which are equal to the expenses incurred by the Bank with retired employees under RJU.

13 – PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2004

	Property	Equipment	Artwork & Museum Collection	Total
Balance as for Dec 31, 2003	<u>656,127</u>	<u>68,154</u>	<u>30,091</u>	<u>754,372</u>
Acquisition Cost	681,383	146,217	30,091	857,691
Depreciation expenses	(9,076)	(78,063)	-	(87,139)
Allowance for losses	(16,180)	-	-	(16,180)
Changes during 2004	<u>(12,615)</u>	<u>17,328</u>	<u>6</u>	<u>4,719</u>
Acquired/Constructed	7,509	34,656	6	42,171
Sold/Disposed of	-	(2,485)	-	(2,485)
Transfers	(50,731)	-	-	(50,731)
Depreciation	(3,949)	(16,220)	-	(20,169)
Revaluation	34,556	1,377	-	35,933
As at Dec 31, 2004	<u>643,512</u>	<u>85,482</u>	<u>30,097</u>	<u>759,091</u>

As at December 31, 2003

	Property	Equipment	Artwork & Museum Collection	Total
Balance as for Dec 31, 2002	<u>674,361</u>	<u>82,984</u>	<u>29,795</u>	<u>787,140</u>
Acquisition Cost	773,942	150,289	29,795	954,026
Depreciation expenses	(99,581)	(67,305)	-	(166,886)
Allowance for losses	-	-	-	-
Changes during 2003	<u>(18,234)</u>	<u>(14,830)</u>	<u>296</u>	<u>(32,768)</u>
Acquired/Constructed	3,525	3,477	3	7,005
Sold/Disposed of	-	(38)	-	(38)
Transfers	-	-	293	293
Depreciation	(19,745)	(18,269)	-	(38,014)
Revaluation	(2,014)	-	-	(2,014)
As at Dec 31, 2003	<u>656,127</u>	<u>68,154</u>	<u>30,091</u>	<u>754,372</u>

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The amount shown in “Transfers” refers to the value of property, less depreciation charges, which was transferred to “Investment Property” due to the fact that these assets were not used for operational activities.

14 – OTHER ASSETS

As at December 31	2004	2003
Assets in Local Currency		
Gold and other metals in various forms	38,482	41,373
Investment Property	52,974	10,927
Others	17,537	17,574
Total	108,993	69,874

15 –COLLECTIONS IN TRANSIT

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

16 – LOAN PAYABLES

The balances shown in “Loan Payables” comprise the following.

As at December 31	2004	2003
IMF Financial Assistance Program	66,711,233	82,657,666
Others	2,637,971	3,247,290
TOTAL	69,349,204	85,904,956

The Bank on the behalf of Brazil has a standby arrangement with the IMF, effective since September 2002 and expiring on March 31, 2005. The agreement provides Brazil with a line of credit of SDR27,375,120 (R\$112,456,172, as at December 31, 2004), of

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which SDR17,199,638 (R\$70,655,597) has already been used. The difference of SDR10,175,482 (R\$41,800,575) is still available for withdrawals until March 2005.

The balance shown in 2004 includes outstanding balances originated in previous arrangements as well as interest accrued until December 31, 2004. The following table shows the relation between the agreed value and the portion withdrawn under each arrangement.

As at December 31, 2004				
Type	Date of Arrangement	Expiration or Cancellation date	Arrangement Value	Withdrawn Value
<i>Stand-by arrangement</i>	Sept, 2002	Mar, 2005	112,456,172	70,655,597
<i>Stand-by arrangement</i>	Sept, 2001	Sept, 2002	49,888,831	46,770,775
<i>Stand-by arrangement</i>	Dec, 1998	Sept, 2001	53,505,488	38,905,557

The following table specifies the payment schedule with reference to withdrawals and accrued interest.

As at December 31, 2004	
2005	19,264,969
2006	23,281,542
2007	24,164,722
TOTAL	66,711,233

The applicable interest rates are arrangement-specific and range from a basic rate (3.12% p.a., as at December 31, 2004) to the basic rate plus up to 500 basis points.

Financial arrangements with the IMF, in addition to the financial clauses related to them, involve a series of other goals (covenants) that the country must pursue during the period in which the arrangement is effective, which are redefined each time an arrangement is reviewed.

The covenants mainly cover the following aspects:

- primary balance of the consolidated public sector;
- external debt of the non-financial public sector;
- net foreign reserves;
- the Bank's and the Treasury's exposure in derivative markets;
- net debt of the consolidated public sector;

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- review of the tax legislation;
- implementation of risk systems.

When the arrangement is reviewed, the existence of inobservances of the covenants on Brazil's part, may lead to the suspension of further drawings of amounts otherwise available under the arrangement. However, the country may present its justifications to the IMF, which may accept them or not, and thus may or may not allow further drawings.

17 – DEPOSITS

As at December 31	2004	2003
Deposits of International Financial Organizations	12,756,944	13,383,025
Deposits linked to the exchange rate market	1,155,007	929,081
TOTAL	13,911,951	14,312,106

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

The deposits indexed to the exchange rate market consist of demand deposits of financial institutions that have exceeded the authorised long position in foreign currencies that they are subject to in relation to foreign currency operations.

18 - DEPOSITS OF FINANCIAL INSTITUTIONS

The deposits of financial institutions at the Bank comprise mainly legal reserve deposits required to limit the institutions' ability to lend. The institutions may be required to make such deposits in cash or in federal public securities. Those made in cash are recorded as on demand liabilities of the Bank. Currently, the main deposits are:

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As at December 31		
	2004	2003
Demand deposits	26,797,042	21,855,273
Savings deposits	31,500,720	28,558,534
Additional requirements	32,502,364	27,002,421
Others	2,071,629	1,396,591
TOTAL	92,871,755	78,812,819

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

19 – OWN ISSUE DEBT SECURITIES

In the execution of its monetary and exchange policy, the Bank also uses own issued securities, Central Bank Notes, Special Series - NBC-E, updated by the ask rate of the United States dollar, with semi-annual interest payouts. Since May 5, 2002, in compliance with the Law of Fiscal Responsibility, the Bank ceased to issue securities. The balances of the NBC-E, broken down by maturity, as at the Balance Sheet date are:

As at December 31		
	2004	2003
1 to 6 months	4,101	7,932,988
6 to 12 months	5,834,022	7,876,754
1 to 5 years	7,730,539	14,809,249
Total	13,568,662	30,618,991

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20 – ACTUARIAL LIABILITIES

The Bank offers two types of post-employment benefits, one regarding benefits granted until December 31, 1990, consisting of contributions to Centrus, and the other regarding benefits granted after 1990, for which the Bank is directly responsible (notes 3.12 and 30.3).

The liability amount recorded in this account refers to:

- a) the mathematical reserves concerning benefits granted until 1990, contractually recognised as debt by the Bank. This amount is being updated by the General Market Price Index – IGP-M plus 6% p.a. and is being paid in consecutive annual instalments of at least one tenth of the updated original balance.
- b) the present value of future employer's contributions related to the benefits referred to above.

The following assumptions were used for the calculation of the mathematical reserves and the present value of contributions:

▪ Interest rate	6% p.a.
▪ Rate of contribution for retired employees	7.5% p.a.
▪ Rate of contribution for the sponsor	7.5% p.a.
▪ Actuarial tables	AT-2000, IAPC, Álvaro Vindas
▪ Number of retired employees	1,082

21 – PROVISIONS

The Bank records provisions for ongoing lawsuits based on the amount under judgment, the present stage of the lawsuit and the expected risk of loss. The expected risk of loss is based on the following scale, and its application is based on previous decisions taken in the course of the lawsuit, jurisprudence and precedents of similar lawsuits in which the Bank was a party:

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- very likely: (100%);
- likely: (75%);
- possible (50%);
- remote: (25%)
- very remote: (0%).

The indexes applicable for updating each kind of lawsuit are also considered when recording the provision as well as estimated attorney fees to be born by the loser of the judicial dispute.

As at December 31, 2004, the provisions refer to 4,426 lawsuits (against 4,281, in 2003) in which the Bank considered there is a possibility of loss and, as a consequence, future outflows of economic resources. The changes in the provision are presented in the following table:

	2004	2003
Initial balance	2,245,129	376,450
Constitution	89,987	1,872,280
Monetary update	173,086	14,233
Derecognition	(15,561)	(17,834)
Attorney fees	134,528	-
Final balance	2,627,169	2,245,129

22 – OTHER LIABILITIES

As at December 31		
	2004	2003
In Foreign Currency		
CCR's discrepancies	75,304	80,972
Others	1,500	1,651
Sub-total	76,804	82,623
In Local Currency		
Court order debts payable	248,762	310,115
Payable salaries	38,456	40,675
Amounts to be classified – Centrus	30,114	22,320
Others	59,331	64,376
Sub-total	376,663	437,486
Total	453,467	520,109

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

22. 1 - Discrepancies in CCR transactions

The amount refers to operations contracted under the Reciprocal Payment Netting Agreement (CCR) between the Bank and the Central Bank of Uruguay and which are under litigation.

22. 2 - Court order debts payable

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

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

Under Article 26 of Law 10,934/2004 (Budget Guidelines, LDO 2005), budgetary provisions passed by the current budget law to cover payments of debts resulting from court decisions beyond appeal would be totally decentralized to courts which would apply for the funds and which are responsible for making the corresponding payments directly to the prevailing party. As a result, budget and financial resources no longer flow through the Bank (debtor entity). Therefore, liabilities related to court order debts payable in 2005 were written off during fiscal year 2004. The existing balance at December 31, 2004 refers to court order debts to be paid from 2006 onwards.

23 – CURRENCY IN CIRCULATION

Currency in circulation represents the balance of banknotes and coins in circulation, held by public and financial institutions, recorded at face value.

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

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As at December 31				
	2004		2003	
	Quantity	Value	Quantity	Value
Banknotes	<u>3.144.529.278</u>	<u>60.581.116</u>	<u>2.772.748.313</u>	<u>50.144.006</u>
R\$1.00	657,378,228	657,378	708,075,054	708,075
R\$2.00	294,998,030	589,996	197,128,414	394,257
R\$5.00	258,637,110	1,293,186	224,286,170	1,121,431
R\$10.00	834,133,226	8,341,332	769,676,170	7,696,762
R\$20.00	209,526,763	4,190,535	145,593,752	2,911,875
R\$50.00	869,538,072	43,476,904	709,745,388	35,487,269
R\$100.00	20,317,849	2,031,785	18,243,365	1,824,337
Coins	<u>9.871.667.440</u>	<u>1.353.822</u>	<u>8.946.072.248</u>	<u>1.219.256</u>
R\$0.01	3,127,271,028	31,273	2,979,169,845	29,792
R\$0.05	2,258,176,819	112,909	2,017,878,432	100,894
R\$0.10	2,394,169,133	239,417	2,089,613,385	208,961
R\$0.25	945,798,845	236,450	816,425,206	204,106
R\$0.50	824,957,166	412,479	734,964,086	367,482
R\$1.00	321,294,449	321,294	308,021,294	308,021
Numismatic coins	-	697	-	601
TOTAL		<u>61,935,635</u>		<u>51,363,863</u>

The currency in circulation increased nominally by 20.6% in 2004. The growth, if discounted by 12.4%, the inflation as measured by IGP-M, indicates a real increase of 7.3%. The main reason for this outcome lies in the ongoing process of economic recovery that started during the second semester of 2003. This recovery has impacted the forecast for expansion of the GDP in 2004 (5.1%), which arises from the increase in domestic demand due to a better credit scenario and to the gradual recovery in levels of employment and earnings, the performance of foreign trade and the increase in investments.

24 – NET EQUITY

The Bank's net equity is composed of:

- a. Retained Earnings, corresponding to the Bank's accumulated results up to 1987;
- b. Income Reserve, constituted for the purpose of reducing redemption of securities in the Bank's portfolio and, hence, for maintaining adequate conditions to execute the monetary policy;

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c. Revaluation Reserve, resulting from revaluation of fixed assets used in business operations, performed until 2004, which are to be realised in accordance with the useful life of the assets (note 3.10);

d. Amounts not taken to Profit and Loss, corresponding to mark-to-market adjustments of financial instruments classified in the category Available-for-sale, as well as the exchange rate variations of non-monetary assets, as follows:

As at December 31, 2004

Federal Government Debt Securities (*)	4,308,463
Gold	457,569
FCVS	(808,116)
Exchange rate variations of non-monetary assets	(1,339,166)
TOTAL	2,618,750

(*) The difference in relation to the content in Note 8 (table) will be adjusted during 2005

25 – NET INTEREST INCOME

	2004	2003
Transactions in Foreign Currency		
Interest Income	3,449,527	4,225,586
Securities	2,105,451	2,742,969
Deposits	1,304,633	1,361,831
Other	39,443	120,786
Interest Expenses	(3,522,310)	(4,059,293)
Loans	(3,444,790)	(3,656,326)
Other	(77,520)	(402,967)
Net Income	(72,783)	166,293
Transactions in Local Currency		
Interest Income	45,956,181	61,586,413
Securities	44,646,904	56,143,263
Other	1,309,277	5,443,150
Interest Expenses	(40,335,536)	(50,132,972)
Securities	(2,500,026)	(4,300,739)
Deposits	(6,692,564)	(8,348,495)
Repurchase operations	(12,824,784)	(14,915,899)
Federal Government	(18,049,665)	(22,370,924)
Other	(268,497)	(196,915)
Net Income	5,620,645	11,453,441
Total interest income	49,405,708	65,811,999
Total interest expenses	(43,857,846)	(54,192,265)
Total net interest income	5,547,862	11,619,734

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The interest income represented in the table above includes the amount of R\$409,302 (R\$1,165,311 in 2003) referring to assets that were subject to provision for losses.

26 – GAINS AND LOSSES WITH ASSETS HELD-FOR-TRADING

The group includes gains and losses with mark-to-market adjustments in assets in the Held-for-trading category – derivatives and foreign currency securities operations. Also included are the results of the securities marked-to-market at the end of 2003 which were classified as Held-for-trading (note 3.15) and the adjustments occurring during 2004 to allow for the reclassification of those instruments as Available-for-sale.

	2004	2003
Foreign Currency Operations	<u>(838.775)</u>	<u>2.184.630</u>
Securities	(444,464)	1,979,237
Gold	(394,311)	205,393
Local Currency Operations	<u>2.835.140</u>	<u>33.354.346</u>
Derivatives	7,749,795	18,579,120
Securities	(6,627,540)	14,786,255
FCVS	1,712,885	(11,029)

27 – GAINS AND LOSSES WITH FOREIGN CURRENCY OPERATIONS AND WITH FOREIGN CURRENCY-INDEXED OPERATIONS

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

	2004	2003
Foreign Currency Operations	<u>(2.425.367)</u>	<u>(10.010.643)</u>
Securities	(5,564,670)	(13,219,545)
Deposits	(578,904)	(2,105,873)
Loans Payable	2,942,307	7,173,996
Others	775,900	(1,859,221)
Local Currency Operations	<u>(3.413.253)</u>	<u>(5.734.308)</u>
Brazilian Treasury Securities	(4,114,124)	10,555,973
Own Issue Debt Securities	700,871	(16,290,281)

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28 – NET ALLOWANCES

	2004	2003
Credits against Financial Institutions	1,826,048	2,362,535
Credits originating from foreign exchange transactions	1,612	10,453
Advances to employees	(59,952)	-
Other	(197)	(16,180)
Total	1,767,511	2,356,808

29 – OTHER INCOME AND EXPENSES

	2004	2003
Other Income	1,279,861	909,532
Fines	59,400	62,855
Transfer under budget law by the National Treasury	622,060	524,963
Court order debts	107,324	725
Contribution refunding from Centrus	217,073	-
Fees	74,712	77,933
Reversal of provisions for lawsuits	-	17,834
Other	199,292	225,222
Other Expenses	(2,215,550)	(3,361,747)
Personnel	(979,570)	(775,935)
Production and distribution costs of banknotes and coins	(323,989)	(276,983)
Write-offs of uncollectible assets	(210,638)	(54,024)
Provisions for lawsuits	(382,040)	(1,886,513)
Other	(319,313)	(368,292)

30 – RELATED PARTIES

30.1 – The Brazilian federal government

The Bank, which works in connection with the Ministry of Finance, is a federal government agency and part of the National Financial System (SFN). Therefore it is subject to the rulings of the National Monetary Council (CMN). The CMN, the highest deliberative body of the SFN, formulates the directives for monetary, credit and foreign exchange policies, and the rules for the instruments of monetary and exchange rate policies. The Council also rules on the operations and procedures of financial

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

institutions as well as on their supervision. The CMN is also responsible for approving the Bank's financial statements and accounting policies.

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

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

All transactions occurring between the Bank and the National Treasury are regulated by the Federal Constitution and subsequent pertinent legislation, the most important of which are mentioned below. (The balances are shown in note 11):

- a. Deposit Account of the National Treasury at the Bank – the financial resources of the Brazilian Federal Government must be deposited only at the Bank in an interest-bearing demand deposit account which pays the average yield of the Brazilian federal government debt securities that the Bank holds in its portfolio, which excludes mark-to-market adjustments. During 2004 the yield referred to was 15.3% (14.5% in 2003);
- b. The Bank's results – the positive result of the Bank, after constitution or reversal of reserves, constitutes a Bank obligation to the National Treasury and must be transferred not later than the tenth business day subsequent to approval of the Bank's financial statements. The negative results constitute a right of the Bank against the National Treasury that must be received not later than the tenth business day subsequent to approval of the financial statements. Both amounts are updated, until the date of the effective transfer or coverage, by the same interest rate paid to the Deposit Account of the National Treasury at the Bank.

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- c. Transfer under Budget Law – the Bank makes use of the resources received under the Budget Law to pay for its administrative expenses.

- d. Payment of Lawsuits – payments of lawsuits in which the Federal Government or any of its agencies are a party have been centralized under the responsibility of the courts where they are handled. Those courts have to deal with the budgetary and financial issues, i.e., authorization and execution of payments. Hence, the Bank no longer uses its resources to pay for those obligations.

- e. Utilisation of Securities as a Monetary Policy Tool – in the execution of the monetary policy the Bank uses Federal Government Debt Securities. The transactions with securities between the National Treasury and the Bank always occur at market prices.

- f. Rendering of Services as a Foreign Federal Agent – the Bank acts as an agent for the National Treasury in the placement of federal government debt securities, although the National Treasury defines the terms and conditions of the operations.

- g. Rendering of Services as an International Financial Agent – until December 31, 2004 the Bank conducted the issuing, the marketing, the repayment and the restructuring of the debt of the Federal Republic of Brazil on the international market on the behalf of the National Treasury. The Bank was also responsible for the execution of the payments and the recording of Brazil external liabilities. However, since January 2005, the National Treasury has taken over control of those activities except for those related to the operational management of the external debt, which remain in the Bank.

The following table shows the main operations that occurred between the National Treasury and the Bank during the fiscal year.

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	2004	2003
Deposit Account of the National Treasury		
Opening balance	120,189,562	88,526,786
(+) Updating	17,570,901	19,134,057
(+) Deposits	20,471,253	12,528,719
Closing balance	158,231,716	120,189,562
Federal Government Debt Securities		
Opening Balance	280,272,321	270,419,041
(-) Net redemptions	(13,378,093)	(45,204,302)
(+) Updating	40,609,424	40,577,138
(+) Mark-to-market adjustments	(1,455,786)	14,480,444
Closing balance	306,047,866	280,272,321
Result to be Covered by the National Treasury		
Opening balance	7,172,543	19,161,634
(+) Remuneration	4,138	689,463
(-) Coverage in the period	(7,176,681)	(12,678,554)
(+) Net Income – 2nd Semester	258,271	-
(+) Realization of Reserves	(3,175)	-
Closing balance	255,096	7,172,543
Result to be Transferred to the National Treasury		
Opening balance	5,356,483	-
(+) Net Income – 1st Semester	2,795,700	24,181,794
(+) Net Income – 2nd Semester	-	7,136,558
(+) Realization of Reserves	(349,462)	8,249
(-) Constitution of Reserves	9,866	(1,784,140)
(+) Remuneration	184,909	1,102,624
(-) Transfers	(7,997,496)	(25,288,602)
Closing balance	-	5,356,483
Transfer under Budget Law	622,060	524,963

30.2 – The Board of Directors and other management officers

The Bank's Board of Directors consists of 9 Directors (including the Governor). The Bank has also strategic positions exercised by 39 Heads of Departments. The Bank does not grant loans of any kind to any of its Directors, Heads of Departments or employees.

The total remuneration of the Board of Directors (including salaries, benefits, social security and other wage related expenses) amounted to R\$1,305 in 2004 (R\$1,453 in 2003). The figure for the Heads of Departments amounted to R\$6,860 in 2004 (R\$6,910 in 2003).

Explanatory notes to the financial statements – December 31st, 2004
(Unless otherwise declared all amounts are expressed in thousands of Reais)

30.3 – Centrus

Fundação Banco Central de Previdência Privada (Centrus), a non-profit organization, is a private pension plan that aims to complement the retirement benefits of the General Social Security Regime (RGPS). (Note 12). The Bank sponsors Centrus and as a result the following transactions occurred between the entities.

	2004	2003
Amounts to be Received		
Opening balance	1,562,091	1,465,804
(+) Updating	575,306	400,428
(+) Reversal of Contributions	22,728	(23,590)
(-) Amounts Received	(169,436)	(280,551)
Closing balance	1,990,689	1,562,091
Provision for Employer's Contribution		
Opening balance	183,703	181,288
(+) Adjustments	(68,687)	15,393
(-) Payments	(19,400)	(12,978)
Closing balance	95,616	183,703
Mathematical Reserves to be Paid-in		
Opening balance	776,760	723,956
(+) Updating	148,867	107,202
(-) Payments	-	(54,398)
Closing balance	925,627	776,760
Payment of Management Fees	8,209	7,279

31 – FISCAL RESPONSIBILITY LAW – MANDATORY INFORMATION

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

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

Explanatory notes to the financial statements – December 31st, 2004 (Unless otherwise declared all amounts are expressed in thousands of Reais)

This provision was partially amended by the Law of Fiscal Responsibility:

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

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

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

Therefore:

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

The Bank experienced a deficit of R\$1,481,924 in the third quarter of 2004, and a surplus of R\$1,223,653 in the fourth quarter of 2004, totalling a negative result of R\$258,271, in the half year, which, after the constitution and realization of reserves amounting to R\$3,175, will be covered by the National Treasury. In conformity with Article 9, Paragraph 5 of the Fiscal Responsibility Law, within ninety days after the half-year closing, the Bank shall submit at a joint meeting of the pertinent thematic commissions of the National Congress an evaluation report on the fulfilment of objectives and targets of the monetary, credit and foreign exchange policies, evidencing the result shown in the balance sheets and the impact and the fiscal cost of its operations.

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

The cost corresponding to the remuneration of the National Treasury deposits amounted to R\$2,913,086 in the third quarter of 2004, and to R\$3,472,679 in the fourth quarter of 2004 (R\$6,385,765 during the half-year).

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

The cost of maintaining foreign exchange reserves is calculated as being the difference between the yield of the reserves and the average rate of obtaining such reserves, calculated considering the Bank's liabilities.

	Foreign reserves		Average Cost of Liabilities	Cost of maintaining the Foreign reserves	
	Average Balance (R\$ thousands)	Profitability (%)		(%)	(%)
3rd Quarter	150,174,979	(6.8)	0.2	(7.0)	(10,448,574)
4th Quarter	140,787,208	(2.9)	1.2	(4.1)	(5,765,236)
2nd Semester	145,481,094	(9.8)	1.4	(11.2)	(16,213,810)

In the fourth quarter of 2004, with an average daily balance of R\$140,787,208, the foreign reserves recorded a negative yield of 2.9%, considering the negative exchange rate variation in the period. The exclusion of the average cost of liabilities of 1.2% turns the net result of reserves into a negative result of 4.1% (R\$5,765,236).

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

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

	<u>Income</u>	<u>Expenses</u>	<u>Result</u>
3rd Quarter	13,795,454	(6,788,326)	7,007,128
Federal Government Debt Securities	12,181,229	(6,240,494)	5,940,735
Own Issue Debt Securities	1,614,225	(547,832)	1,066,393
4th Quarter	10,318,846	(3,168,434)	7,150,412
Federal Government Debt Securities	9,275,191	(2,764,875)	6,510,316
Own Issue Debt Securities	1,043,655	(403,559)	640,096
Total in the half-year	24,114,300	(9,956,760)	14,157,540

With respect to the result obtained in the 4th quarter of 2004, it is mostly explained by the following contributing factors:

- I. Federal Government Debt Securities – the positive result arising from transactions with those securities amounted to R\$6,510,316, due, especially, to interest earnings;
- II. Own Issue Debt Securities – the positive result arising from transactions with securities issued by the Bank amounted to R\$640,096, as a result of the negative exchange rate variation which occurred in the period.

Governor of the Banco Central do Brasil

Henrique de Campos Meirelles

Board of Directors

Afonso Sant'Anna Bevilaqua
Alexandre Schwartzman
Antonio Gustavo Matos do Vale
Eduardo Henrique de Mello Motta Loyo
João Antônio Fleury Teixeira
Paulo Sérgio Cavalheiro
Rodrigo Telles da Rocha Azevedo
Sérgio Darcy da Silva Alves

Head of the Department of Financial Administration

Jefferson Moreira – Accountant, CRC-DF 7,333

Independent auditors' report

(A free translation of the original report in Portuguese as published in Brazil, containing financial statements prepared in accordance with accounting practices adopted in Brazil, and the specific rules applicable to Banco Central do Brasil, described in Note 3)

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

1. We have examined the balance sheets of Banco Central do Brasil as of December 31, 2004 and 2003 and the related income statements and changes in net equity, for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements. The financial statements of the financial institutions under liquidation, with which Banco Central do Brasil holds credits receivable in the amount of R\$ 22,570,699 thousand at December 31, 2004 (R\$ 23,050,782 thousand at December 31, 2003), were examined by other independent auditors. A provision for losses on credits receivable from institutions under liquidation, in the amount of R\$ 4,751,948 thousand at December 31, 2004 (R\$ 6,594,692 thousand at December 31, 2003) was recorded for these credits on the basis of specific accounting rules adopted by Banco Central do Brasil. These rules require the computation of the net assets of these institutions as being the total assets less the preferred liabilities, obtained from those financial statements. Our opinion on the sufficiency of the provision for losses on credits receivable from institutions under liquidation is based on the opinions of those auditors on the financial statements used as a basis (Note 12).
2. Our examinations, with the exception of the issue mentioned in paragraph 3, were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal controls of Banco Central do Brasil; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by the management of Banco Central do Brasil, as well as the presentation of the financial statements taken as a whole.

3. As disclosed in Note 3.12 (a), Banco Central do Brasil is responsible for the payment of retirement pensions to employees who have retired since 1991 and do not participate in the CENTRUS pension plan. This obligation is settled on a monthly basis from the budgetary appropriation provided in the Administrative Budget. As disclosed in Note 3.12 (b), Banco Central do Brasil offers a health care plan to all its active and retired employees, pensioners and their dependents. Banco Central do Brasil did not calculate the actuarial liability related to the aforementioned benefits.
4. The financial statements mentioned in paragraph 1, were prepared in accordance with the accounting practices described in Note 3, which do not differ significantly from accounting practices adopted in Brazil. With the approval of the National Monetary Council and in order to attain best international practices, since 2002 Banco Central do Brasil has adopted a series of changes in these accounting practices, especially in relation to: (a) actuarial liabilities with CENTRUS (Note 20); (b) identification and segregation of the financial assets for classification in the groups “held for trading”, “available- for-sale” and “held-to-maturity”, with consequent adaptation of the criteria of valuation for each financial asset (Note 3.6); and (c) recording of a provision for lawsuits (Note 21); and (d) other changes described in Note 3.15.
5. In our opinion, based on our examinations and on the opinion of other independent auditors, as mentioned in paragraph 1 and except for the adjustments that may result from the issue discussed in paragraph 3, the aforementioned financial statements present fairly, in all material respects, the financial position of Banco Central do Brasil as of December 31, 2004 and 2003, and the results of its operations, and changes in net equity for the years then ended, in conformity with accounting practices adopted in Brazil, and the specific rules applicable to Banco Central do Brasil, described in Note 3.

February 16, 2005



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

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