BANCO CENTRAL DO BRASIL

MANAGEMENT REPORT

2012

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Strategic guidelines of the Central Bank of Brazil

Institutional Mission

To ensure the stability of the currency's purchasing power, and a solid and efficient financial system.

Organizational values

Ethics – To act with integrity, honesty and probity to preserve the institutional interests and principles that guide Public Administration.
Excellence – To continuously improve performance standards in order to meet the expectations of both internal and external clients, while keeping in line with international best practices.
Commitment to the Institution – To prioritize institutional interests over personal or group interests, and to focus on the institution's mission, vision, and strategic goals.
Focus on results – To act with a sense of initiative and proactivity, identifying priorities and focusing actions on what is relevant to achieve the results intended by the institution.
Transparency – To inform, both internally and externally, about decisions concerning policies and procedures, in an open, clear and timely manner, observing the restrictions of a legal nature or strategic character.
Social responsibility – To act within the bounds of ethics and maintain a respectful attitude towards staff, collaborators, suppliers, partners, users, community, and government.

Vision of the future: 2014

Due to its independent performance, the quality of its products and services – which is ensured by its management processes –, and the competence of its staff, the Central Bank will be increasingly recognized as an essential institution for the country's economic and financial stability, which is critical to the sustainable development of Brazil.

Strategic goals for 2010-2014

1. To ensure the attainment of the inflation targets set by the National Monetary Council.
2. To ensure the soundness and regular functioning of the National Financial System.
3. To promote the efficiency of the National Financial System and the financial inclusion of the population.
4. To ensure a currency supply adequate to meet the society's needs.
5. To improve the regulatory framework so that it complies with the institutional mission.
6. To improve communication and relationship with internal and external stakeholders.
7. To promote the institution's governance, structure, and management.
8. To strengthen the international insertion of the institution.

Preface

Dear Sirs and Madams,

We are glad to publish the 2012 Management Report. This is an opportunity for the Central Bank of Brazil (BCB[1]) to put into practice one of its dearest values: transparency. This publication will give you the opportunity to learn more about our institution and, most importantly, evaluate the benefits generated by the BCB activities throughout 2012.

To make the reading easier, this document has been divided into three parts: I – The Central Bank of Brazil and society; II – Activity report; and III – Financial statement.

The first part contains information regarding the actions that directly benefit the daily life of Brazilian citizens. As an example, we highlight initiatives aiming to increase access of the population to financial products and services, and the creation of a new board of executive officers within the structure of the BCB. The purpose of this new board is to promote communication with society, financial education, and to improve customer service.

We also had the launch of both the twenty and the ten Real paper money with the Second Family of the Real. The new banknotes are more modern, and have easily verifiable safety features. Their distinctive size, combined with the relief print, makes it easier for the visually impaired to identify the banknotes.

In the second part, you will find a description of the actions that enabled us to fulfill our institutional mission, which is to ensure the purchasing power of the Brazilian Real and a solid financial system.

The 2012 inflation rate remained within the government's target.

We improved the credit risk central, which began to monitor 99% of the existing credit available in the country and became an important provider of information to the supervisory division. The work carried out by the BCB was rated by the International Monetary Fund and the World Bank as one of the best among the financial supervisory bodies in the G20 economies.

We took center stage in the international financial forums, where we proposed solutions to improve international financial regulation. In addition, we attained the ISO 9001 certification due to our excellent work in international reserve management.

Finally, in part III you will find our financial statements. These accounting data constitute an important instrument to allow for the rendering of accounts to society.

The BCB staff has once again competently and professionally performed their duties. The Board of Directors also thanks the staff for the excellent work they have accomplished.

Alexandre Antonio Tombini
Governor

1 Translator's note: All acronyms appear in their original language.

Part I
The Central Bank of Brazil and society

Part I

1 Citizenship and the financial system

1.1 Relationship with customers

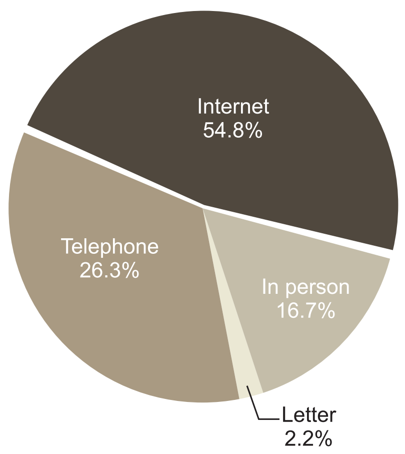
The Central Bank of Brazil (BCB) relies on various customer relationship channels. Most of the requests reach the Bank through Customer Service, which serves the public through four channels: by telephone, making a free-of-charge call to 0800-979-2345; on the BCB website; in person, at our headquarters in Brasília, and in the other nine capital cities where the institution keeps a representative office; and by mail. We also offer exclusive phone service intended for the hard of hearing and speech impaired on the number 0800-642-2345. The BCB provided 507.1 thousand services through these channels within the period, which represents an increase of 22.1% compared to the previous year and 53.5% compared to 2010.

The Bank provides information about financial issues, especially about the rules governing the National Financial System (SFN) and its agents, and about the products and services of the BCB itself, such as its records, information systems, and financial and economic, foreign exchange, and international capital indices.

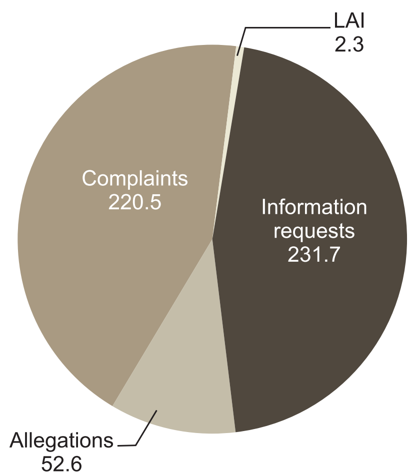
In addition, the BCB receives **allegations and complaints** against financial institutions and group buyer management companies, and supervises compliance with rules. In such cases, the BCB contacts the institutions, which respond to the complainant and to the BCB. The information received by the BCB is used in the process of regulation and oversight, as it may point to a breach of rules and laws applicable to such institutions.

The BCB considers as **allegations** the situations in which there is an indication that a BCB or a National Monetary Council (CMN) rule was violated, and as **complaints** those cases which do not relate to an issue regulated by these two bodies.

Number of services – by channel



Number of services – by type (x 1.000)



Access to Information Act

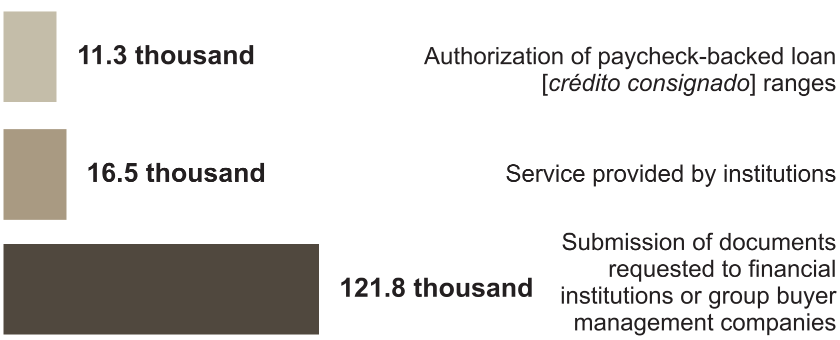
A working group was organized in order to make the BCB comply with the requests of Law no.12527 – Access to Information Act (LAI) of November 18, 2011, which allows anyone to request information to Federal Executive Branch agencies, provided that such information is not protected.

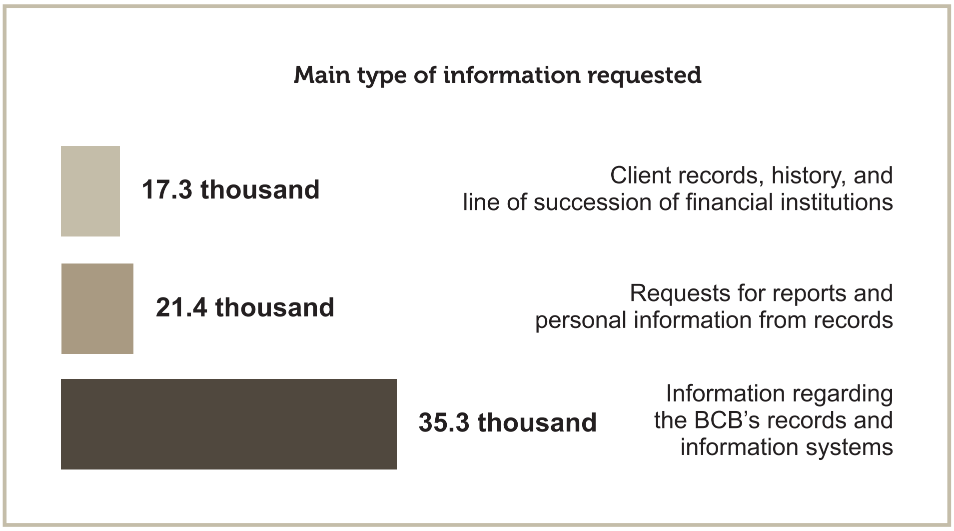
Examples of BCB's actions to ensure access to information:

- implementation of an Access to Information area on its website;
- adjustment of Customer Service through the creation of the Citizen Information Service (SIC);
- internal standardization of the process to classify documents and information;
- changes to the rules of the Monetary Policy Committee (Copom), by means of a nominal record and disclosure of the content of member votes during determination of the basic interest rate.

Main allegations

Main complaints





Citizen Information Service (SIC)

Citizens may also request information through the Electronic Citizen Information Service (e-SIC), which was implemented as a result of the Access to Information Act. Since the service's inception on May 16, there have been 2,300 requests for information. Average response time was two days, which is below the national average of ten days, according to system data provided by the Office of the Comptroller General.

Ombudsman Service

Through the BCB's Ombudsman Service, citizens may file complaints, allegations, praises, or suggestions regarding the services provided by the institution. There were 6,253 service requests filed in 2012, which was 40% higher than in the previous year. With a view to improving access, the Ombudsman Service website was updated.

Ombudsman Service Requests

Type of Request	2009	2010	2011	2012
Complaints	1,609	1,256	2,169	3,365
Criticism	227	347	312	284
Suggestions	521	437	421	410
Praise	240	230	206	262
Allegations	1	- - -	- - -	- - -
Inappropriate channel*	1,388	1,408	1,346	1,932
Total Requests	**3,986**	**3,678**	**4,454**	**6,253**

* Information requests and complaints against financial institutions, which were both outside the scope of the Ombudsman Service.

The BCB continued its actions to bring its Ombudsman Service closer to the ombudsman services of other public agencies, ombudsmen's representative entities, and consumer protection agencies. The goal of these actions was to promote the best practices in the sector and contribute to the consolidation and development of ombudsmanship.

PGBC/Atende service

The BCB also received 89 requests through the *PGBC/Atende* service. This service channel was created in 2011 to deal with requests for hearings and information by lawyers or legitimate, interested parties, about proceedings being processed at the Central Bank's Office of the General Counsel (PGBC). All requests received a response within no more than five days.

New Structure

With the purpose of better meeting the demands of citizens and bringing the BCB and society closer, the Institutional and Citizen Relations division was implemented. This new division is responsible for institutional service, communication, and financial education.

1.2 Financial inclusion

The BCB has been working towards the expansion and improvement of public access to financial products and services since the 1990s, in three main ways:

a) by expanding and strengthening access channels to financial services;
b) by developing instruments that make financial services more accessible to low-income segments;
c) by assuring the quality of financial services provision.

All 5,565 Brazilian municipalities have at least one financial service access point, which brings the SFN physically close to citizens.

The BCB coordinates the National Partnership for Financial Inclusion (PNIF), which is composed of organizations engaged in actions that promote financial inclusion in Brazil. Within the PNIF framework, the Action Plan to Strengthen the Institutional Environment was established in May, with eight actions whose purpose is to enhance the regulatory and institutional environment with a view to promoting the adequate financial inclusion of the population.

The **Action Plan to Strengthen the Institutional Environment** includes the following actions:

- to improve the regulatory framework of microcredit and specialized microfinance institutions in order to provide adequate support to microentrepreneurs, as well as to micro and small businesses;
- to promote the diversification and improvement of financial services, making them better adapted to people's needs;
- to define a legal and regulatory framework for mobile payment;
- to strengthen the network of customer service channels;
- to contribute to promoting financial literacy;
- to scale up efforts to ensure that financial services users are informed of their rights and about dispute resolution procedures;
- to improve the methodology used to measure financial inclusion and to incorporate quality indicators;
- to conduct surveys on people's behavior and perception regarding the use of financial services.

In order to contribute to the strengthening of the financial service consumer network, the National Monetary Council (CMN) has improved the regulation for the establishment of financial institution facilities (Resolution no. 4072 of April 26, 2012). These new rules allow financial institutions to implement service units at a lower cost and with a more flexible structure, which are adjusted to the local needs, so that institutions may provide a broad range of services in municipalities, communities, and neighborhoods previously not served by banks.

With regard to Electronic Service Points, which are composed solely of self-service terminals, the new regulation now allows them to provide all the services offered by the financial institution.

Within the sphere of actions designed to diagnose the Brazilian reality, the BCB has established a partnership with the Brazilian Institute of Geography and Statistics (IBGE) in order to expand its knowledge about the demand for financial services and about overall financial inclusion.

Credit unions

Aiming to consolidate **credit cooperativism**, the BCB established the minimum requirements and characteristics of the credit guarantee fund for singular credit unions and cooperative banks, an issue regulated by CMN Resolution no. 4150 of October 30, 2012. This independent fund, which will be formed by private funds, is intended to guarantee the deposits made in credit unions and to carry out financial assistance and support operations to associated institutions.

In addition, the Credit Union System Combined Balance Sheet was implemented through Resolution no. 4151 of October 30, 2012. With this measure, cooperative banks, credit federations, and central credit unions will begin to send an accounting document to the BCB, which document will consolidate the accounting data of institutions that integrate the same credit union system, as is already a practice among banking conglomerates.

Credit unions are associations of people whose goal is to obtain financial services (to invest funds or to borrow money) at more interesting rates than those offered by banks. Credit operations are conducted only among members. There are open credit unions, which accept any member, or closed ones, which only accept members from a specific segment (civil servants, physicians, etc.) They are considered financial institutions, and are regulated and supervised by the BCB.

The Combined Balance Sheet is a way to improve supervision by the BCB on this segment, and at the same time, to provide credit unions with additional information that is important to their management.

Microfinance

In October, two resolutions were published with the purpose of improving **microcredit** rules. Resolution no. 4152 of October 30, 2012 defines microcredit as credit for the microentrepreneur, and provides the minimum guidelines for operating well in the market. Resolution no. 4153 of October 30, 2012, changes the rules for microcredit funding, increasing from R$20 thousand to R$40 thousand the overall indebtedness ceiling for borrowers who are the beneficiaries of oriented productive microcredit operations. It also establishes a mechanism to facilitate the flow of funds for investments in microcredit operations.

Microfinance is the supply of loans, savings, and other financial services targeted for the low income population. **Microcredit** is a type of microfinance service.

IV Central Bank Forum on Financial Inclusion

The IV Central Bank Forum on Financial Inclusion was held in Porto Alegre in October with the presence of more than 800 participants, and for the first time the whole event was webcast live. The purpose of the meeting was to present and discuss the progress of actions in the Plan to Strengthen the Institutional Environment, within the sphere of the PNIF. It also debated the performance of credit unions, taking opportunity of the International Year of Cooperatives.

During the event, improvements to the regulatory framework targeting proper financial inclusion were announced and debated. Among these were included: issuance of a regulation to harmonize the concept of microcredit, and change in the rules of distribution of funds for such operations (CMN Resolutions no. 4152 and 4153 of 2012), definition of new rules for the establishment of financial institution facilities (CMN Resolution no. 4072 of 2012), the creation of a Cooperative Credit Guarantee Fund (CMN Resolution no. 4150 of 2012), the issuance of accounting consolidation standards for the credit union segment (CMN Resolution no. 4151 of 2012), and the study for a new legal and regulatory framework for payment arrangements. In addition, a commemorative coin was issued during the forum to mark the International Year of Cooperatives, in acknowledgment of the importance of this segment to financial inclusion.

1.3 Financial Education

The Financial Education topic gained more space on the BCB’s agenda, which resulted in the creation of a department to deal exclusively with this topic within the scope of the Area of Institutional Relations and Citizenship.

In the first semester of 2012, a multi-departmental Working Group focused on proposing guidelines, objectives, target public, governance structure, products, and partnerships for the Central Bank’s Financial Education Program (PEF-BC), which will offer elements to guide the new department’s performance.

The role of the Financial Education Department is to promote the financial education of the population and its access to adequate financial services. It does this by strengthening and articulating actions with this purpose, both internally and externally, and contributing to the promotion of the SFN’s efficiency and to the financial inclusion of the population.

The purpose of the department is also to evaluate and monitor the impact of the BCB's actions to citizens.

BC University Program

The BC University Program, whose purpose is to build a closer relationship between the BCB and university students, resumed activities in the second semester. Six lectures were held with the following topics: "National Financial System," "The Central Bank and its functions," and "Personal Finance Management." The lectures were held on site, but were webcast live to registered universities.

Courses

The BCB held three editions of public speaking training workshops in Personal Finance Management (GFP) and eleven editions of the GFP course. With these educational actions, which cover different representations of the BCB, the institution increases the number of servants able to spread the topic. This results in a greater number of citizens who are benefited. Three lectures on the topic were also delivered to Air Force servants.

The BCB applied, on an experimental basis, an impact evaluation for the GFP course. The development of the evaluation instrument and its application occurred in partnership with the Central Bank Private Pension Foundation (Centrus). The initial results showed that the course had positively impacted the way people use their funds.

Other actions

The Citizen Calculator application was developed and made available for download both in Android and Apple IOS formats for smartphones and tablets.

The BCB also developed other educational actions, such as:

a) "The museum goes to rural schools," by which institution servants visited eight schools located in Brazlândia, Paranoá, Planaltina, Sobradinho, and São Sebastião;
b) visits to the Museum of Money in Brasília (over 20,000 visitors) and in Curitiba (about 300 visitors);
c) 142 lectures held, in addition to courses and travelling exhibitions to disseminate the safety features of banknotes. These courses and exhibitions are organized for professionals who work constantly with cash, and raised awareness among more than 6,000 people in 2012.

In addition, products to take financial education to different segments of the population are being developed:

- a series of educational videos and comic books, based on citizens' most frequently asked questions;
- a "Personal Finance Management" distance learning course delivered online in partnership with Escola de Administração Fazendária – Esaf (Treasury Management School).

National Strategy for Financial Education

The BCB participates in the National Strategy for Financial Education (Enef), implemented by the federal government, as a member of the National Committee for Financial Education (Conef), and performs the duties of Executive Secretariat in this committee.

The institution coordinated, within the scope of the Conef's permanent commission, the development of a project for financial and social security education for adults. The institution intends for this project to guide educational actions which will be carried out by the Association for Financial Education in Brazil, a Public Interest Civil Society (Oscip) working in agreement with the Conef and responsible for the design, planning, structuring, development, implementation, and management of the financial and social security education initiatives that integrate the Enef.

Still within the sphere of the Conef, a pilot project has been completed to provide financial education in schools to high school level students, which was evaluated by the World Bank. The results were positive. Students who participated in the classes showed better savings habits and consumption behavior than students from the control group, who were not taught this material.

1.4 Clients and users of the National Financial System

The Central Bank has been acting to ensure increasing security, widespread presence, transparency and efficiency to the SFN and, as a consequence, to its clients and users. Over the period, the institution took the initiative to regulate several issues, both by its own actions and by the actions of the CMN.

Among the regulatory measures taken, three should be highlighted:

a) CMN Resolution no. 4072 of April 26, 2012, which changes and consolidates the rules regarding the implementation of financial institutions and other institutions authorized by the BCB to operate in Brazil;
b) BCB Circular no. 3590, also of April 26, 2012, which regulates the analysis of concentration acts in the SFN and information dispatch by the financial institutions and other institutions authorized to operate by the BCB;
c) BCB Circular no. 3598 of June 06, 2012, which implements the payment slip and its kinds, and regulates their issuance and presentation, including liquidation of transfers of funds associated thereto.

It is also worth highlighting the entry into force of the rules regarding credit card fees (CMN Resolution no. 3919 of November 25, 2010). Since June 1, such rules started to be required of all credit card contracts.

Credit cards with standardized fees

The entry into force of the rules for credit card fees closed a cycle of fee regulation by the SFN that started in 2007. According to the rules in force, institutions are free to set service fees, but prices must be widely publicized at their facilities and the amounts charged must be informed in the statements by using standardized nomenclature determined by the CMN.

Standardization of services reduced the number of credit card fees from over eighty to only five and made price comparison easier. The BCB publishes on its website the minimum, maximum, and average fees charged by different institutions.

In addition, that regulation establishes the minimum information required to appear on monthly statements, which ensures that the client is well informed about the service being used.

Modernization of retail payment systems

The BCB took part in the working group, together with the Ministry of Communications and the National Agency of Telecommunications (Anatel), which was established in order to study and propose legislative and regulatory measures to regulate payment systems, such as payment cards, electronic currency, payments through cell phones, etc. These measures must set the rules and procedures to be followed when providing these services to the public.

The BCB works with the perspective that payment methods using mobile telephones may potentially reduce the price of financial operations and improve services, due to an increase in competition, which may as a result facilitate financial inclusion.

New rules for savings account deposits

The BCB issued a regulatory act about the new methodology for the remuneration of savings account deposits established by the government.

The new savings account regulation

As one of the measures to reduce the cost of credit operations, the federal government issued a provisional measure, signed into law, establishing a new method of remuneration of savings account deposits.

The structure of remuneration of savings accounts was improved, narrowing the gap between savings account remunerations and those of other financial products, without removing the safety and popular nature of this type of investment. As things stood, the remuneration arrangements represented a legal obstacle to lowering nominal interest rates.

Under the new rule, when the Special Liquidation and Custody System (Selic) target rate is equal to or lower than 8.5%, the savings account earns 70% of this target plus the Reference Rate (TR). When the Selic target rate is above 8.5%, the old rule remains in place, that is, 0.5% per month plus the TR.

Portability

The BCB worked toward the improvement of the standardization of credit operation portability. This portability allows the client to transfer his/her debts from one financial institution to another. Combined with the portability of the client's relationship record with SFN institutions, there is an increase in the client's power to negotiate and in the competition among financial institutions. This has fostered price reduction in banking services and interest rates.

Credit portability encompasses the rules that allow consumers to prepay credit operation contracts and leasing contracts by using funds transferred by a similar institution, without any burden to the debtor.

Prepayment is one of the phases of portability, which starts with the negotiation to obtain a loan with the bank to where the client wishes to transfer the operation. Once the loan has been obtained, this bank pays off the original operation in advance.

Portability opportunities

Credit portability has allowed many borrowers to reduce their loan charges, because of the interest rate reduction throughout 2012. This reduction took place as the result of a renegotiation with the financial institution itself, or by means of effective portability.

Foreign Exchange Correspondents

The regulation dealing with foreign exchange **correspondents** has been improved. Under the new rules, the institutions which operate in the foreign exchange market may hire companies, entrepreneurs, associations, notary and registry service providers, and state-owned companies to act as correspondents, providing services for the sale of foreign currencies – cash, traveler's check or prepaid card – up to a limit of US$3 thousand.

Correspondents in the country are those companies which, in addition to their core business, provide financial institution services. As they have a low implementation cost, they help bring financial services to places where there are no bank branches.

The service used to be restricted to legal entities registered with the Ministry of Tourism as paid tourist service providers, the Brazilian Post and Telegraph Company, and holders of lottery sales agent license.

The new rule aims mainly at meeting the growing demand for foreign exchange as a result of the expected increase in the number of foreign tourists in the country due to the international sports events which will be held in Brazil as from 2013.

Total Effective Value – Manual foreign exchange operation

As from January 2, as established by CMN Resolution no. 4021 of September 29, 2011, financial institutions must inform their clients or users the Total Effective Value **(VET)** of the manual exchange operation for purchase or sale of foreign currency for international trips. Services subject to fees in exchange operations for international trips were also defined. Thus, better conditions for the standardization of fees in the foreign exchange

The **VET** must be expressed in Reals, by foreign currency unit, and must be calculated considering the foreign exchange rate to be contracted, the taxes levied, and the fees which may be charged.

market were established, so as to facilitate price comparison by clients and the choice of institution.

Foreign exchange at self-service terminals

The use of cash dispensers (ATMs) has been authorized for manual exchange operations up to US$3 thousand, provided that the client can be identified, which will be done by means of either an international card or a passport. This measure was an attempt to move forward the process of simplification of small amount foreign exchange operations, to contribute to the bank's widespread presence and to meet the demands resulting from an expected increase in the number of foreign tourists in Brazil in the coming years.

Group buyer management companies

Aiming to improve and reinforce money laundering prevention procedures, the BCB published a list of operations and situations which may be indicative of the occurrence of the crimes defined in Law no. 9613 of Mach 3, 1998, and which should be reported to the Council for the Control of Financial Activities (Coaf). Situations regarding group buyer management companies were included in that list.

The BCB also issued a regulatory act which compels group buyer management companies to adopt the rules set by the Brazilian Accounting Pronouncements Committee (CPC). The purpose is to continue the process of converging the Brazilian accounting standard to international accounting standards – International Financial Reporting Standards (IFRS).

1.5 Access to the National Financial System rules

The BCB website (<http://www.bcb.gov.br/?BUSCANORMA>) offers a search system in which rules issued by the BCB and by the CMN (resolutions, circulars, and circular letters) since 1965 are available. The search result informs the rules in force and presents all changes made to them.

The system saves on material and human resources as it makes the printing of documents unnecessary, as well as the maintenance of teams responsible for updating information on legislation.

In 2012, the number of daily accesses to the rules was approximately 1,400.

1.6 Money in circulation

The BCB has worked to make sure there are enough banknotes and coins in good condition available in the country. In 2012, the institution continued to modernize the Real banknotes aiming to make them still safer.

The BCB launched the 10- and 20-Real banknotes of the new Real family. Production of those banknotes relied on technological advances which made possible to include new safety elements, such as the chameleon number that changes color and the puzzle, which makes the face value visible when the banknote is held against the light.

The Second Family of Real Banknotes

The launch of 10- and 20-Real banknotes expanded the process of modernization of the Real further still. That process started in 2010 with the 50-and 100-Real banknotes, which were the first from the Second Family to enter circulation. Although Brazilian currency is considered safe, the BCB decided to make this preventive change so as to keep on making sure the Real banknotes remain safe in the coming years.

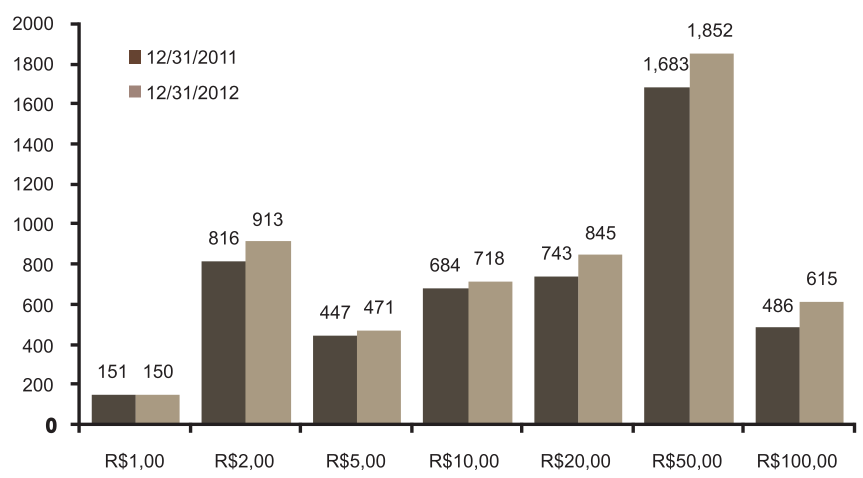
In addition to improving safety, modernization of banknotes brought more reliable ways to verify the authenticity of the banknotes by all segments of society, the visually impaired included, which reduces the risk of loss for all citizens. The numbers are bigger, which facilitates reading for those partially sighted, and the size of banknotes varies according to their face value.

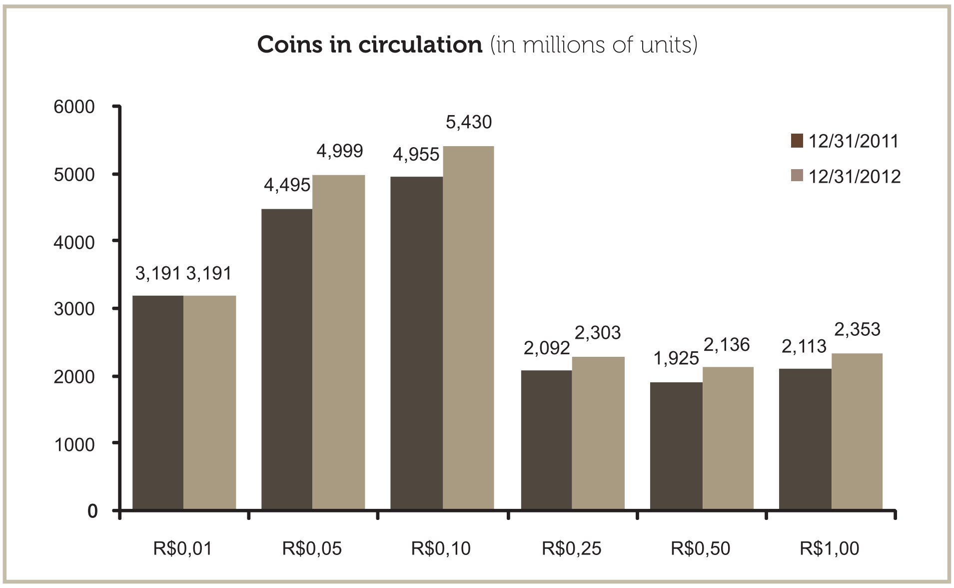
Currency in circulation

The BCB regularly promotes the 'cleaning' of the currency in circulation, that is, it withdraws from circulation unfit banknotes and coins, and replaces them. This action aims to keep money safe because the newer the banknote, the easier it is to identify the elements which permit verification of authenticity.

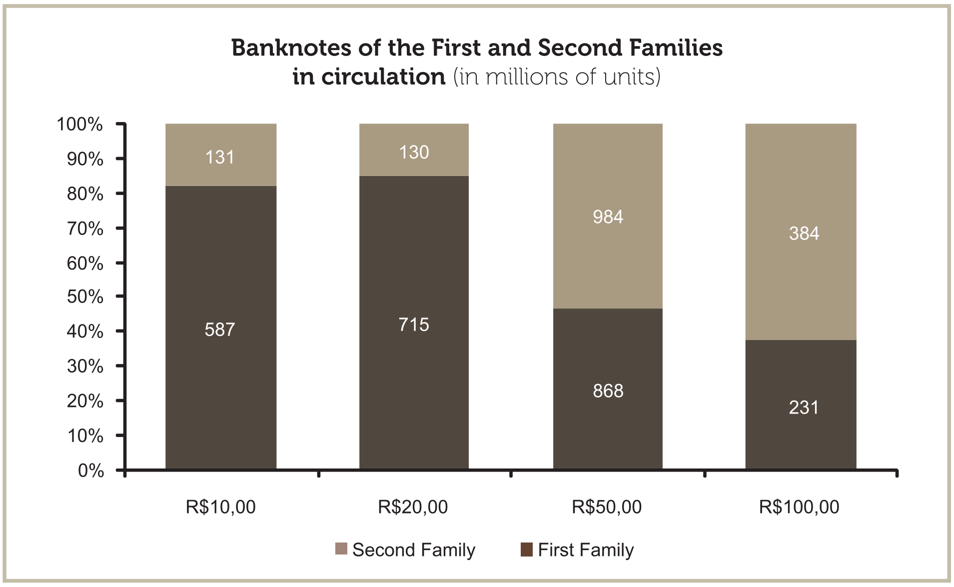
There has been an increase of 15.1% in money in circulation in the period as compared to the previous year, reaching R$187.4 billion. An increase in circulation was identified in almost all the denominations of banknotes and coins, which reflects the actions taken to increase availability of change. Two-point-two billion worn-out, unfit banknotes were replaced.

Banknotes in circulation (in millions of units)





Of the banknotes in circulation, the recently-launched 10- and 20-Real banknotes still account for a small percentage of the total. On the other hand, the 50- and 100-Real banknotes of the Second Family already represent more than half of the total in circulation, in their denominations.



Supply and withdrawal of banknotes and coins

In order to ensure that the currency in circulation remains fit, there must be continuous supply and withdrawal of banknotes and coins around the country. The BCB carries out these operations through a contract with the Banco do Brasil.

The Banco do Brasil receives damaged and worn-out banknotes from its branches and from other banks and ships them to the Central Bank. It also receives new banknotes and coins from the BCB and distributes them to its branches and to other banks.

These procedures are systematically monitored by the BCB so as to ensure service quality and safety. In 2012, the BCB carried out 81 inspections at Banco do Brasil's most important facilities, in several cities.

Taking opportunity of the inspections, especially in cities away from the capitals, the Central Bank held meetings with banks and local professional associations – particularly with trade associations. The main goals were to show the benefits of conserving banknotes and to offer instruction on identifying legitimate money. This is the way the BCB consolidates its presence all over the country and learns the demands of society up close.

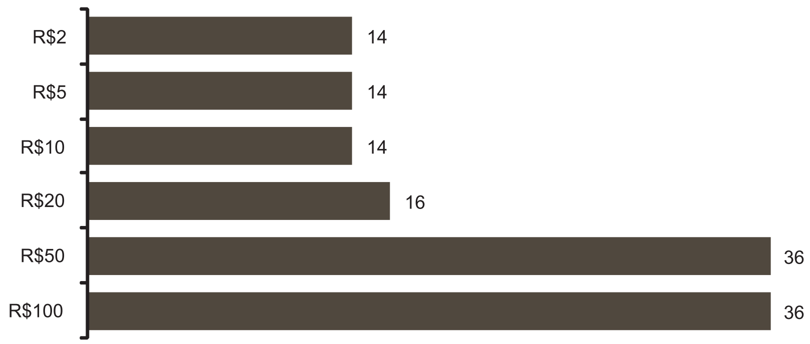
Survey

The BCB carries out periodical surveys to measure the quality of the banknotes in several Brazilian cities. The survey conducted in the period showed a good level of quality of the 10-, 20-, 50- and 100-Real banknotes in circulation – about 85% of them were considered fit for circulation. For 2- and 5-Real banknotes, this percentage was around 70%, which indicates the need for specific actions to improve these denominations.

The survey also checked, for the first time, the **hoarding** of coins. The results showed that 27% of coins issued since the launch of the Real are out of circulation. Average durability of banknotes was also measured.

Hoarding occurs when people stockpile banknotes and coins, thus withdrawing them from circulation.

Durability of banknotes (in months)



Commemorative coins

The BCB launched commemorative coins in order to celebrate and honor the following events:

- the handover of the Olympic flag – 6,000 silver coins and general circulation coins, with an issuance of 2,016,000 coins. Of those, sixteen thousand units were made available for purchase in special collection sets;
- International Year of Cooperatives – five thousand pieces of silver coins;
- tribute to the City of Goiás – issuance of three thousand silver coins as part of the numismatic "World Heritage in Brazil" series.

To facilitate the export of commemorative coins, a resolution was issued establishing that this operation be regulated by the Brazilian Revenue Service.

Part I

2 Social and environmental responsibility

2.1 Environmental actions

The BCB has become increasingly committed to studying and developing actions that promote social and environmental responsibility, whether by means of internal actions or by the role it plays in the SFN.

Among the actions within the institution is the green building certification of its headquarters buildings under construction in Rio de Janeiro and in Salvador. With regard to Rio de Janeiro, a consulting company was hired to help with the certification of the new building through the Leadership in Energy and Environmental Design (LEED), an environmental certification and guidance system for the building industry. The Salvador headquarters building construction follows the same criteria and should be certified.

Another example of internal action are the technical specifications when purchasing IT equipment, which take into account the use of recyclable materials, energy efficiency, and the disposal policy for such equipment.

Furthermore, in 2012 the electricity saving policy allowed for a 95% reduction in electricity consumption at BCB workstations at night.

RIO+20

During the World Environmental Conference (RIO+20) promoted by the United Nations (UN), the BCB debated the balanced incorporation of environmental, economic, and social goals in decision-making in the SFN, given the relevant role played by the institutions comprising this system as fundraisers and drivers of good social and environmental practices in the economy.

Social and environmental rules within the National Financial System

The BCB has begun public consultation on two proposals of regulatory acts on that topic. The first proposal establishes the obligation of financial institutions to adopt a social and environmental policy compatible with their size and the complexity of their products and services, in line with their strategic policies. According to the proposal, this policy should include the social and environmental impacts caused by the products and services offered, as well as the tailoring of products to the needs of clients and users and the management of social and environmental risk.

The second proposal forces financial institutions to publish an annual report on the practices they use within the scope of their social and environmental responsibility policy. Under this proposal, the report should follow the best international standards. The purpose is to show the society how the institution's social and environmental responsibility policy is being implemented, and how it is possible to evaluate the relation between the institution and its stakeholders.

Suggestions received from civil society organizations, financial institutions, professional associations, the academia, and citizens constitute an important contribution for the BCB to establish soon a regulation plan more suitable to the characteristics of the SFN.

Regulation with greater focus on social and environmental responsibility

For years, the BCB has focused on the study of social and environmental topics and issues within the scope of the SFN. Since 1995, at the time of the first Green Protocol, the institution has been engaged in debates to disseminate the best sustainable practices in financial businesses and in the economy.

Social concern and its impacts on financial businesses go back to the first rules which deal with microcredit and rural credit and, recently, are also part of the rules that deal with risk management processes. The improvement of regulation by the BCB and the CMN has demanded strategic positioning from the institutions in the SFN regarding social and environmental risk, and has encouraged the identification of opportunities geared toward sustainable development – economically viable, socially just, and environmentally correct –, which ensures the use of natural resources for the current generations and those to come.

The first **Green Protocol** was an agreement signed between the Ministry for the Environment and the federal public financial institutions with the purpose of disseminating policies and practices that would act as forerunners and multipliers in terms of social and environmental responsibility.

2.2 Social actions

Among the social actions carried out by the BCB, two deserve special mention: the Awake Program (*Programa Despertar*) and the professional internships offered to high school and higher education students.

The Awake Program, promoted by the BCB in partnership with the Salesian Center for Minors (Cesam), offers at-risk or socially vulnerable adolescents the opportunity for a first job experience, based on the Law of Apprenticeship – Law no. 10097 of December 19, 2000. The adolescent takes the administrative assistant training course, whose weekly workload is twenty hours. The practical portion is carried out at the BCB, and the theoretical one is done once a week at Cesam.

In 2012, two hundred and twenty-one adolescents took part in the Awake Program. Sixty of them have completed their training, and 139 are still in training. Twenty-two were discontinued prior to program end date.

Internships

Through partnership agreements, 259 higher education students and 25 high school students participated in professional trainings at the BCB.

Donations

In 2012, 466 desktop computers, which is equivalent to 8.5% of the BCB computers, six laptop computers, 62 monitors, 173 keyboards, and 950 mouse devices still fit for use were prepared for donation to philanthropic institutions.

2.3 Cultural actions

The BCB maintains at its headquarters and at some regional branches the Museum of Money, which promotes its collections, among which are banknotes, coins, documents, pieces, and national and international curiosities that show monetary value within their historical context. Promotion is done through free of charge exhibits and publications.

In 2012, an exhibit to celebrate 40 years of the Museum of Money was inaugurated. It featured a retrospective look on the main actions of a museological and educational nature held since its inauguration in 1972.

The Museum has received over twenty thousand visitors. Most of them came through the Museum School program, which promotes student visits guided by monitors. The program offers an introduction to financial education, dealing with money, and Brazilian monetary history, with the support of educational publications distributed to students and teachers.

Aiming at promoting social inclusion and citizenship, the Museum of Money has also been present in the low-income and difficult to access communities of the Federal District, with the educational program entitled "The Museum goes to school". This program benefited about 1,600 citizens among students, teachers, helpers, and residents in the neighboring areas, in eight schools located in the rural areas of Brazlândia, Paranoá, Planaltina, Sobradinho and São Sebastião.

Recognition

In recognition of the cultural and social, and educational activities carried out in its 40 years, the Museum of Money has been awarded by the federal government with the **2012 Order of Cultural Merit**, the highest decoration of Brazilian culture.

The **Order of Cultural Merit** was created in 1995 by the Ministry of Culture. Its purpose is to award prizes to personalities, entities, and initiatives which stood out for their relevant contributions to Brazilian culture.

Art collection

In addition to the Museum of Money, the BCB maintains at its headquarters an art gallery that offers free admission, where works from its art collection can be appreciated. This collection is made up mostly of works received as payment for debts from financial institutions liquidated during the 1970s.

The "Modernist Avant-guard" exhibit was in display in 2012, featuring 86 art works from the Central Bank Collection, authored by ten pioneer Brazilian modernists. Opened in 2011, the exhibit has received about 2,500 visitors.

Aiming to give more visibility to its collection, the BCB lent one Tarsila do Amaral's work to a retrospective exhibit of the painter at the Banco do Brasil Cultural Center in Rio de Janeiro. It also participated with twelve works that compose the "Brazilian Scenes" series, by Candido Portinari, in the exhibit at the Chamber of Deputies. This exhibit included a retrospective review of the restoration process performed by the BCB on these works.

Part II
Activity Report

Part II

1 Economic overview of 2012

1.1 International economic scenario

The world economy started the year under severe stress caused by the threat of collapse of the Euro Zone. At the time, analysts were quite pessimistic about the permanence of Greece in the monetary union due to the country's high debt, repeated downgrades of its sovereign credit ratings, and its failure to meet the targets of the adjustment program with the International Monetary Fund (IMF) and with the European Community.

The European banking system was severely exposed to the bonds issued by countries in the periphery of the Euro Zone. There was a fear that the exit of Greece from the monetary union or a disorderly default would result in an unprecedented banking crisis, plunging Europe and the world into recession again.

The main production and consumption indicators in the United States, on the other hand, had been showing encouraging signs of recovery, leading many analysts to predict vigorous growth of the American economy in 2012. However, the real estate market of that country was still rather repressed and household indebtedness and public sector indebtedness remained both high. The unemployment rate remained quite elevated, despite the actions of the American central bank (Federal Reserve Bank – Fed) and the acceleration of economic growth, which signaled that the recovery might be short-lived.

Emerging countries had been resisting well to the unfavorable situation, with the main economies of this group showing steady growth or moderate slowdown. It was predicted that the Chinese economy would go through a controlled slowdown of economic activity, given some slowing in international trade, especially the reduction of exports to Europe.

The actions of the European Central Bank (ECB), which were implemented at the end of 2011 – especially the **long term liquidity auctions (LTROs)** – became more efficient in reducing panic in the region, thus keeping at bay fears of a banking crisis. However, the impact of **fiscal adjustment** measures in indebted countries, the banks' process of **deleveraging**, and the crisis of trust to which the peripheral economies in the region were submitted resulted in recession almost all over the continent.

At the time, worries began to surface from emerging countries with the increase in international capital flows, fueled by the increase in liquidity provided by the central banks of important developed economies. In addition to the excessive inflows of capital and the pressures to appreciate

The ECB carried out **long term liquidity auctions** to inject more funds into the economy of that region. The ECB lent money to banks in the Euro Zone at low interest rates and long term payment so that these banks would be able to pay off their debts and lend more money. The purpose of this measure was to avoid a banking crisis, while helping to heat the economy.

In order to carry out the **fiscal adjustment**, a set of measures was adopted so that the countries in the region could lower their deficits.

Deleveraging happens when a person, company, or country pays down their debts. In this crisis scenario, European banks started to capture fewer funds and, with less money, they started to lend less. As a consequence, they were less indebted, which lowered their risks. This type of behavior is common during a crisis.

the local currencies, the main fears concerned the increase in food and energy prices, and its impacts on inflation.

In the second quarter, the American economy started to slow down due to structural problems. This, combined with the “smooth landing” of the Chinese economy and the European recession, led to a drop in economic growth and a relative cooling of inflationary pressures in emerging countries. This scenario of global economic slowdown and reduction in inflationary pressures consolidated along the third quarter, which led the major central banks in advanced economies to take new measures to increase liquidity.

The fourth quarter started with a persistent scenario of weak global growth despite a reduction in the Euro Zone breakup risk, which was a sign that economic problems would be overcome slowly and gradually. However, at the end of that period a few indicators, mainly from the Chinese economy, brought less pessimistic expectations.

Two factors, which are crucial for global growth to resume, remain unresolved: the deleveraging of the financial system and the reduction of the sovereign and household debt in developed economies. In addition, the monetary policy instruments used by the central banks in these countries seem to be getting less efficient, including the non-conventional ones, which poses a challenge to economic policy management.

In Europe, consolidation of a new institutional framework favoring the convergence of fiscal policies in the countries and the economic policy harmonization of economies in the medium and long term remains unresolved. In this scenario, 2012 closed with the risk of extreme events – such as a banking crisis or a global recession – not as serious as those occurring in the beginning of the year, but also with a much longer period of slow growth expected.

The final days of the year were marked by a stalemate among the American political leaderships on the so-called **fiscal cliff**. This added further uncertainties to the growth outlook in that country and to global growth.

Fiscal cliff refers to the withdrawal of several fiscal incentives, such as tax breaks, and the automatic reduction of government spending due to excess indebtedness, which were predicted to take place simultaneously in the first half of 2013, and their consequences on the American economy.

1.2 Level of domestic activity

Alongside the permanence of the international crisis scenario, economic activity in Brazil slowed down in 2012, after the moderate growth recorded in 2011. The result reflected adverse shocks which happened in the first two quarters of the year, mainly the strong setback in agricultural production in the first quarter, the industry’s weak performance in the second quarter and the receding of the **Gross Fixed Capital Formation (GFCF)**.

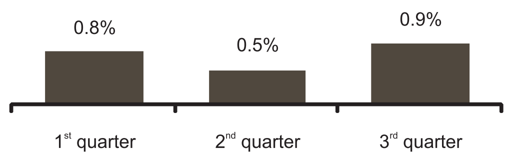
The **GFCF** is an indicator that measures how much companies and the State have increased the country’s productive capital stock – machines, equipment, and building material used to produce other goods.

This indicator shows whether the country’s production capacity is growing.

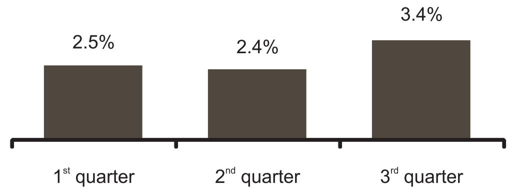
Within this context and still fueled by the dynamism of internal demand, the Gross Domestic Product (GDP) grew in the first three quarters of 2012, compared to the corresponding quarter in 2011.

Household consumption grew in the first three quarters, when compared on an equal comparison basis, and remained as the main contributing factor to the GDP growth. This result reflected the environment of growth of real earnings, and the maintenance of confidence indicators at high levels.

GDP
(compared to the same period in 2011)



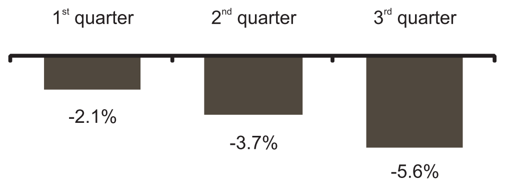
Household consumption
(compared to the same period in 2011)



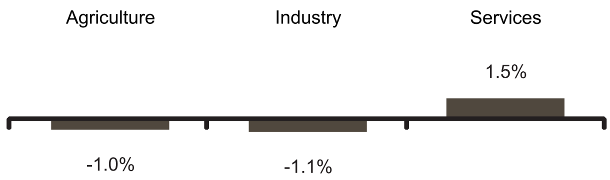
The GFCF recorded reductions in the first three quarters, in line with the evolution of the confidence indicators of businessmen throughout the year, and the uncertainties associated with the external scenario.

On the supply side, the service sector was the only one to post growth in cumulative results for the first three quarters of the year, as compared to the same period in the previous year, with the agricultural and industrial sectors posting drops.

Gross Fixed Capital Formation
(compared to the same period in 2011)



Sectors evolution
(cumulative results for the first three quarters)



In the demand sphere, the external sector (represented by the balance, in volume, between the exports and imports of goods and services) gave a null contribution to growth, which was the result of similar variations both in the exports and imports. This effect is compatible with the slowdown in the pace of economic growth of the major trade partners, and is consistent with the pace of expansion of the domestic economy.

The labor market continued to show a favorable evolution. The unemployment rate remained at historically low levels, even though the pace of job creation had slowed down. The actual average income kept its increasing course, contributing to the favorable evolution of the actual wages.

1.3 Monetary policy

The inflation showed a slowdown trend in 2012 compared to 2011, a result associated with smaller increases in **administered prices**. **Marked based prices**, which showed similar variation in both periods, were

Market based prices are those that fluctuate according to the market, which is the case for most goods and services. **Administered prices** are those set or influenced by government bodies, such as the electricity, water, and gas prices.

influenced by specific pressures that occurred in the "food" group and the reversal in the downward movement of prices of services over the second half of the year.

After a decline in the first two quarters, the cumulative Extended National Consumer Price Index (IPCA) over twelve months accelerated after July, as a consequence of inflationary pressures on the food segment. These pressures resulted mostly from the shocks in the prices of fresh produce and grains. Still, IPCA variation in the year was 5.84%, remaining within the range set by the CMN – between 2.5% and 6.5% –, which marks the ninth consecutive year in which the BCB has achieved that target.

The inflation targeting regime

Brazil has been using the inflation targeting regime since 1999. The CMN – composed by the BCB governor, the Finance Minister and the Minister of Planning, Budget, and Management – defines the annual inflation target, with a target range for each year, using the IPCA as a benchmark, which is calculated by the IBGE.

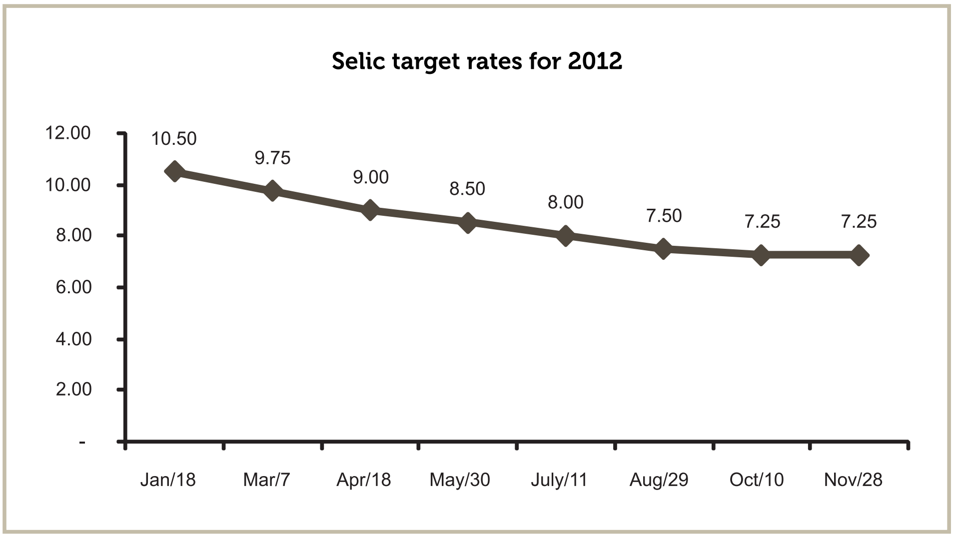
Verification of whether the target was achieved occurs at year-end, that is, calculations are done based on the cumulative inflation rate from January to December. If the target is not achieved, the BCB governor sends an open letter to the Finance Minister explaining the reasons for such non-compliance and what is being done to set the inflation back on its course towards the target. This has happened only three times, in 2001, 2002 and 2003.

Transparency is among the advantages of the regime, as everyone is aware beforehand of the target to be pursued by the BCB.

Copom

The Monetary Policy Committee (Copom) met eight times in 2012. In the first seven meetings, the base interest rate was reduced. In the last meeting, the Committee chose to keep the rate at 7.25% per year. The reduction of 375 base points (3.75 percentage points) in the interest rate occurred in line with a scenario of persistent limited risks to inflation, in that the utilization of the productive capacity was below the long term trend and the uncertainty transmission mechanisms of the external scenario contributed to a moderate domestic activity.

In the last meeting of the year, the Copom assessed the balance of risks to inflation, the recovery of domestic activity, and the complexity involved in the international environment, and concluded that the stability of monetary conditions for a period of time sufficiently long was the most adequate strategy to ensure the convergence of the inflation rate to its target, though not linearly.



The Monetary Policy Committee

The Copom is composed by the governor and by the directors of the BCB. Its purpose is to establish monetary policy guidelines, define the base interest rate and its bias, if any. Regular meetings are held eight times a year, about every 45 days. The meeting calendar is published in the previous year.

Meetings last two days and always take place on Tuesdays and Wednesdays. On the first day, BCB unit chiefs present an analysis of both the national and international scenario. On the second day, the meeting is restricted to the governor, the directors, and the Research Department chief, but the latter is a non-voting participant. In this session, after analysis of updated forecasts for the inflation rate and other relevant indicators, members vote on the Selic target rate. The decision is immediately released to the press.

The Copom meeting minutes are published on the BCB website and released to the press at 08:30 on Thursday, on the week after each meeting. An English version of the document is disclosed about 24 hours later. The technical presentations made on the first day of the Copom meeting are published in full on the BCB website, with a delay of four years. The Copom members' votes started to be published on May 30, 2012, after enactment of the Access to Information Act.

Open market operations

Open market operations are the key tool used by the BCB to regulate the available banking reserves, with a view to achieving the Selic target rate set by the Copom. These operations consist in purchasing or selling, in the secondary market, federal government bonds held in custody in Selic, on a definitive basis or through a resale or repurchase commitment (committed operation).

In 2012, the BCB continued to deal with excesses of liquidity in the banking system, and used sale operations with commitment to repurchase in the short term, from one to 35 business days, and in longer terms, from three to six months. The average daily balance of the short-term operations was R$362.3 billion, and the balance for three to six months was R$156 billion.

Committed operations and the Selic rate

Committed operations are sale (purchase) operations of debt instruments with the commitment to repurchase (resell) those same instruments at a later date, prior to their maturity date, undertaken by the seller (buyer) concomitantly with the commitment to resell (repurchase) undertaken by the buyer (seller).

The BCB makes use mostly of committed operations in its interventions in the money market. Interbank operations in this market are also, almost in their totality (more than 95%), committed operations involving federal government bonds registered with the Selic.

Operations with a repurchase/resale date on a business day (referred to as overnight transactions) account for over 95% of all the committed operations carried out on a daily basis.

The difference between the bond's sale price and its repurchase price (or between the purchase and the resale price) represents the interest rate of the operation; and that rate, as a rule, has no direct relation with the bond's rate of return.

The Selic rate is an average of the interest rates used in one-business-day committed operations for federal government bonds registered with the Selic.

Reserve requirements and rediscount operations

One of the monetary policy tools used by the BCB is the reserve requirement, which is the holding of a portion of the deposits kept by clients in banks. The bigger the reserve requirement deposit, the less money is available to circulate, which reduces liquidity.

A few institutions have the right not to send the BCB a part of these reserve deposits, by means of deductions. Eligible counterparties for deductible operations are those institutions of average and small size which offer a relative minimum level of credit granting operations. Eligibility criteria were refined in September, and semi-annual reassessments were planned.

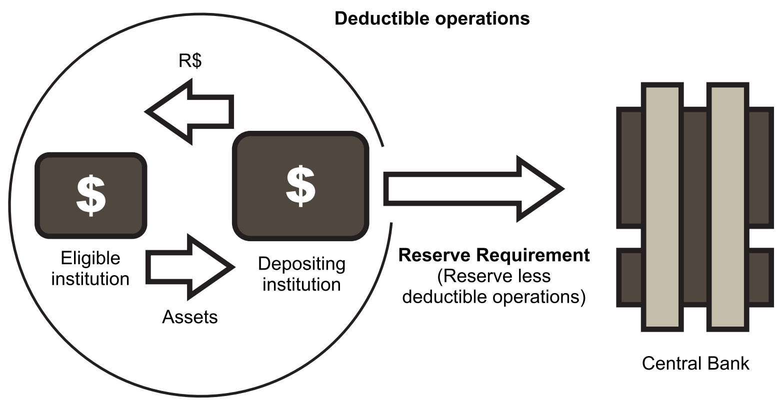
To ensure adequate levels of interbank market liquidity, the BCB reformulated the rules regarding deduction over the reserve requirement for time deposits. The maximum deduction allowed for reserve deposits changed the requirement from 36% to 50%, which promoted a potential increase of R$8 billion for new operations to raise funds by the eligible institutions.

Operations eligible for deduction

Simultaneously with the revision of the rules about reserve requirements, a revision was made of the list including the types of operations eligible for **reserve requirement deduction**. The purpose was to encourage the extension of depository institutions' liabilities.

Additionally, in order to provide funds to the credit lines for the automobile and motorcycle market, the BCB included the new loans to purchase these goods in the list of deductible operations. In September, after the historical record of monthly sales of automobiles in the previous month, according to the National Association of Automakers (Anfavea), the BCB discontinued the incentive granted for the purchase of automobiles.

The rule in force allows for a depository institution to **deduct from its reserve requirement** on time deposits the total paid for assets received in several types of deductible operations, when the counterparty is an eligible institution.



Savings

Even with the changes introduced by Provisional Measure no. 567 of May 3, 2012, the savings reserve deposited on a daily basis with the BCB by financial institutions recorded an increase of R$14.8 billion over the year, reaching a total of R$95.5 billion in December. The compensation paid by the monetary authority to financial institutions on account of the savings reserves was adjusted to reflect the new rules set by the provisional measure.

Provisional Measure no. 567 of May 3, 2012, converted into Law nº. 12703 of August 7, 2012, changed the remuneration of savings deposits made after the date of its publication to interest rates equal to 70% of the Selic target rate, whenever that rate is lower than 8.5% per month.

Economic incentives

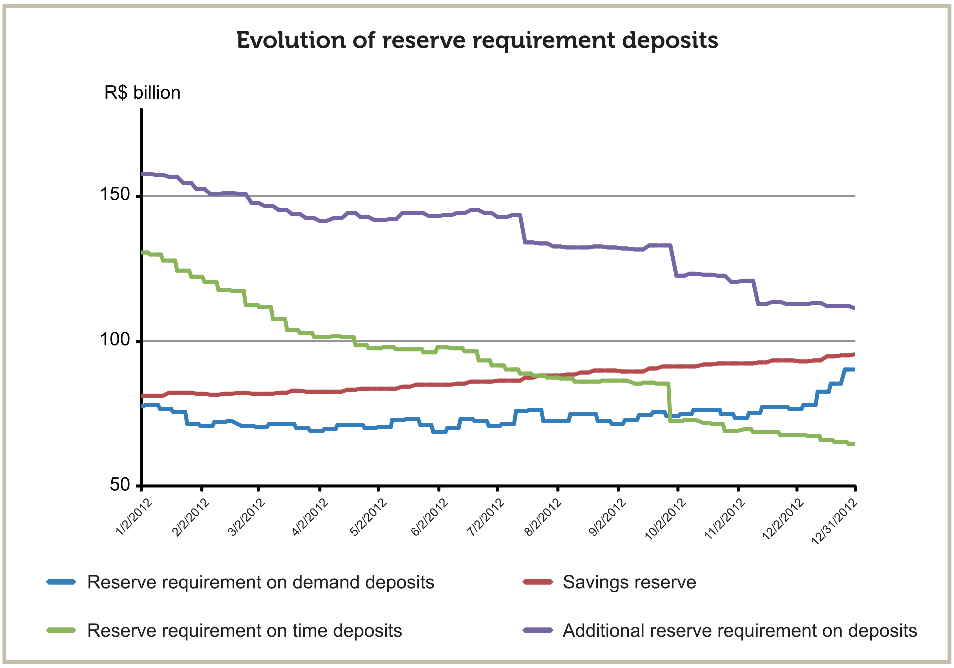
Among the actions to stimulate rural credit, in January the BCB introduced the possibility to deduct the reserve requirement on demand deposits by up to R$3.0 billion, which corresponds to the total rural credit financing granted in the first nine months of the year.

In July, in line with the execution of the 2012/2013 Safra Plan, there was a R$9.5 billion release of the reserve requirement with the reduction of the 12% to 16% rate in the additional reserve on demand deposits. This amount released was fully allocated to investment in rural credit operations, given the simultaneous and equivalent increase in the reserve rate for this targeting.

Additional reserves are a type of remunerated reserve requirement applied on the deposit bases of three other requirement deposits: demand deposits, time deposits, and savings deposits. For each one of these, a different additional rate is applied.

As a monetary stimulus to the economy, starting in September the BCB released about R$17.5 billion from deposit when it reduced the 6% rate to 0% and the 12% rate to 11%, respectively, in the demand and time deposit components of the additional reserve.

As a whole, the measures adopted by the BCB allowed a reduction of 19% in the total supply of reserve requirement deposits, which amounted to R$84.7 billion, concentrated mainly on the reserve requirement on time deposits. At the end of 2012, the total balance of reserve requirement deposits at the BCB reached R$318 billion.



1.4 National Financial System credit operations

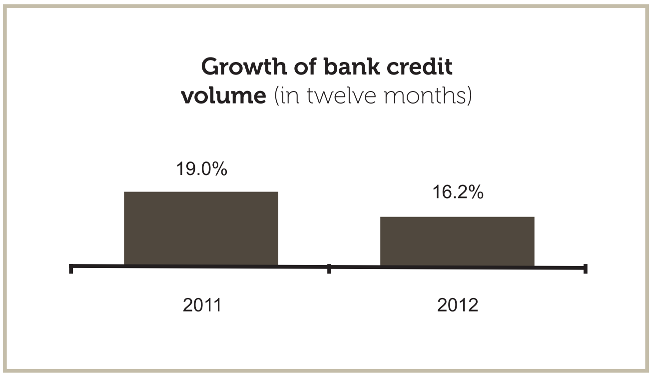
The SFN credit operations showed moderate growth, in line with the slowdown in economic activity, which was boosted by the prospect of low growth of the global economy for a prolonged period, having an impact on investment, consumption, and production decisions.

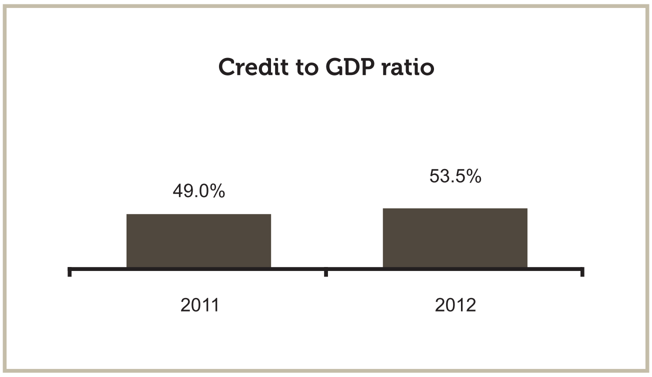
Credit dynamics was sustained by a more intense expansion trend in the targeted resources segment, which benefited from the strength of the housing credit and the National Bank of Economic and Social Development's (BNDES) financing targeted at infrastructure projects.

Evolution of the credit market occurred in an environment of sharp decline in interest rates, which reached the lowest levels on record. This movement reflected the actions taken toward monetary policy flexibilization, as well as the significant reduction of bank spreads in a scenario of stabilization of default rates.

In this context, regarding the modalities that make up the reference credit for the interest rate, the average interest rate and the bank spread declined, respectively, by 9 percentage points (pp) and 5.8 pp in 2012, standing at 28,1% p.a. and 21.1% p.a., while the percentage of defaults, taken into account delays above ninety days, reached 5.8%, rising 0.3 percentage points over the period.

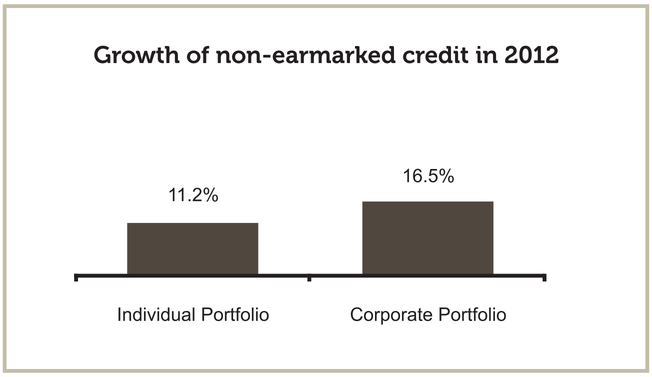
The total volume of bank credit, including operations of non-earmarked and earmarked funds, reached R$2.4 trillion in December, which resulted in a 16.2% growth in twelve months. As a consequence, the credit to GDP ratio reached 53.5%.

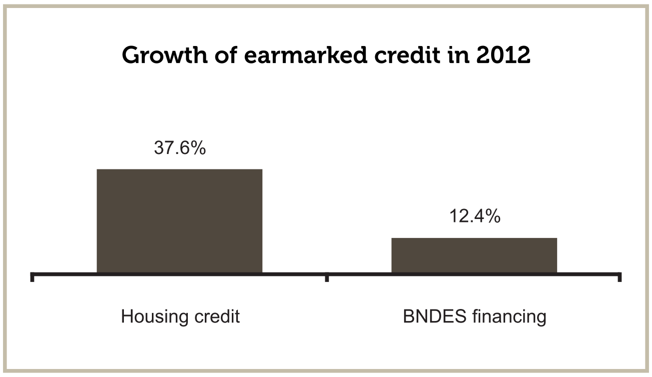




Non-earmarked credit totaled R$1.5 trillion in December, an increase of 13.9% in twelve months. This was the result of increases in both individual and corporate portfolios.

In earmarked credit, loans totaled R$874 billion, an increase of 20.5% in twelve months, driven by housing loans and financing with BNDES funds, whose balances expanded by 37.6% and 12.4%, reaching R$257 billion and R$472 billion, respectively.





1.5 Public Finance

The slowdown in the pace of economic activity associated with tax and contribution breaks, contributed to a moderate pace of revenue growth for the year and to a consequent reduction in the primary surplus, compared to 2011.

The **public sector primary surplus** reached R$105 billion, equal to 2.38% of the GDP, 0.73 pp lower than in 2011. Despite the reduction in surplus, the target set for the year was achieved, after deducting the costs of the Growth Acceleration Program (PAC), as provided for in the Budget Guidelines Act (LDO).

A **primary surplus** is achieved by the Public Sector when revenues are greater than expenses, after deducting interest expenses. The **nominal result**, on the other hand, compares the revenue with all expenses, i.e., it includes interest.

The public sector nominal interests, which were defined by using accrual basis accounting, totaled R$213.9 billion, which was equivalent to 4.85% of the GDP, a drop of 0.87 pp compared to the previous year. This reduction was mainly influenced by the downward trend of the Selic rate and the lowest observed variation in the IPCA. These indicators affect a significant portion of the federal securities, the most important component of indebtedness.

The **nominal result**, which includes the assessed primary results and nominal interests, recorded a deficit equivalent to 2.47% of the GDP, dropping 0.14 pp compared to the previous year. The nominal deficit financing occurred through the increase of domestic securities debt and other internal sources of financing, including the monetary base partially offset by reductions in net bank debt and net external debt.

The **Public Sector Net Debt (DLSP)** reached 35.1% of the GDP, dropping 1.3 pp compared to the previous year. This decrease reflected the impacts of the primary surplus, the GDP growth, and the foreign exchange depreciation accumulated for the year on the creditor's portions of the net indebtedness associated with foreign exchange.

The **DLSP** is the difference between what the public sector owes and its outstanding credits.

On the other hand, the **General Government Gross Debt (DBGG)** reached 58.6% of the GDP, rising 4.4 pp and particularly reflecting the net issuance of federal government bonds, the impact of the exchange rate depreciation on the gross external debt, and the release of reserve requirement deposits made throughout the year. This had, in turn, an impact on the volume of committed operations to control liquidity.

The **DBGG** encompasses the total debt liability of the federal, state, and local governments. The concept does not include the debts of government-owned enterprises.

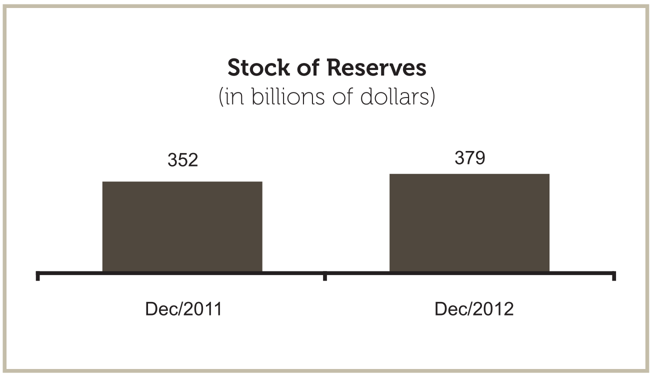
The composition of the DLSP has changed throughout the year, particularly the increase in the portion associated with price indices, the creditor's portion associated with the Long Term Interest Rate (TJLP) and the creditor's portion associated with foreign exchange, whose growth was influenced by the increase in international reserves and by the currency devaluation. The average maturity of federal government bonds, which make up the largest percentage of the DLSP, increased from 41.8 months at the end of 2011 to 46.1 months at the end of 2012, showing that investors remain confident in the sustainability of the fiscal policy.

1.6 External sector

The global economic outlook at the start of the year was unfavorable due to the economic crisis of European countries, the moderate growth in other advanced economies, and the slowdown in growth in China. However, the emergency measures adopted by the ECB resulted in an improvement of the financial scenario still in the month of January, which allowed the BCB to resume the process of accumulation of **international reserves** in February.

International reserves are assets held by the country in foreign currency, gold, and other high-liquidity foreign assets. Having a good stock of reserves lends international credibility to the country in that it shows that the country is able to meet its payments abroad.

However, the low rates of economic growth around the world and the lack of a definitive solution to the European crisis led to further deterioration of global financial conditions in the first two quarters of the year, and to the interruption of the reserve accumulation process by the BCB as from the month of April. In that month, the stock of reserves reached a total of US$374 billion.



At the end of December, reserves reached US$378.6 billion, up US$26.6 billion compared to December 2011. Of this increase, US$18.2 billion was generated by the purchase of foreign currency through interventions in the domestic foreign exchange market; US$4.4 billion referred to the remuneration from reserve investments, and US$4.1 billion resulted from other factors, particularly from the increase in the price of securities in which the reserves are invested.

Management of international reserves earns ISO 9001 certification

In October the BCB earned the ISO 9001 certification for the management of Brazilian international reserves. The certification is the result of a reserve management improvement project started in 2010 with the goal of seeking the best international practices in the management of these resources. As part of this effort, a year and a half ago the BCB implemented a Quality Management System (QMS), which is the basis for obtaining the certification. The ISO standards are adopted in more than 140 countries.

Through the implementation of a set of standardized and well documented procedures, with consistent goals and indicators, the BCB obtained this external recognition of excellence in the management of international reserves.

Balance of payments

The international financial crisis and its developments in the global economy contributed to the reduction of trade flows in Brazil, with an emphasis on the reduction of exports and of the trade balance. The current account deficit in the balance of payments widened throughout 2012, reaching US$54.2 billion. This trajectory resulted from a decrease in the trade balance and an increase in net costs of services. The financing of the current account deficit remained focused on long-term capital, especially foreign direct investments (FDI), which were more than enough to cover the current account deficit.

The trade balance, a relevant source for the financing of the balance of payments, recorded a surplus, i.e., the value of exports exceeded that of imports. The result was lower than that in the same period of 2011. Trade flow – the sum of exports and imports – was also reduced, on the same basis of comparison. Exports of goods were down compared to 2011, reflecting the slowdown in global demand and the decline in the price of commodities that are relevant to the agenda. Imports of goods also decreased on the same basis of comparison.

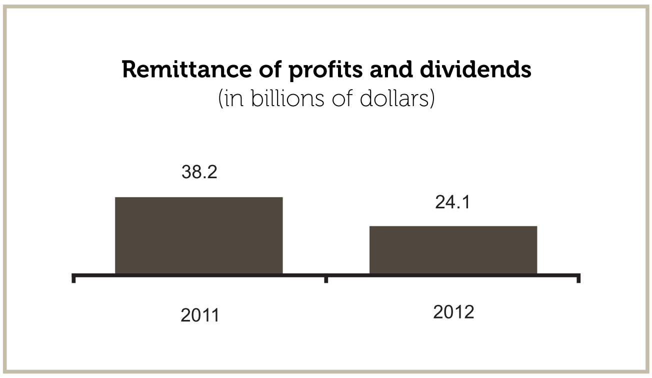
Exports of goods
US$ **242.6** billion
-5.3%
compared to 2011

Imports of goods
US$ **223.1** billion
-1.4%
compared to 2011

Trade balance
Surplus of
US$ **19.4** billion
-34.8%
compared to 2011

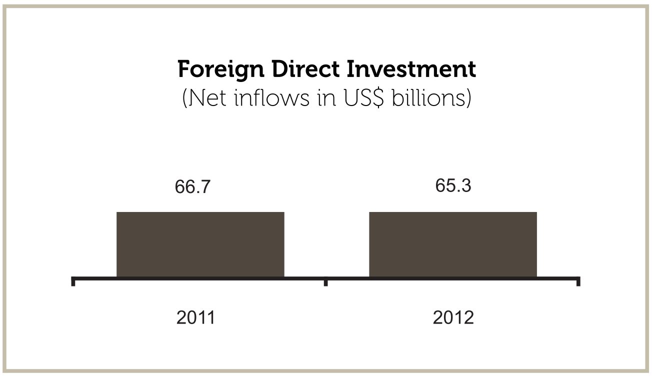
Trade flow
US$ **465.7** billion
-3.4%
compared to 2011

The slowdown in domestic activity, especially in the first two quarters, and the depreciation of the nominal exchange rate contributed to a significant decrease in net remittance of profits and dividends, compared to the previous year. Additionally, the expansion of net expenses in the services account and the surplus in the net flows of unilateral current transfers contributed for the current account deficit to reach 2.4% of the GDP in 2012.



The conditions for balance of payments financing remained favorable, which allowed the BCB to maintain the policy of strengthening the external sector of the economy, based on improving the temporal profile and the borrowing cost – preference for liabilities in the form of stocks and direct investment – and in the accumulation of international reserves.

In the financial account, the preponderance of foreign direct investments was maintained as the main source of financing for Brazil's balance of payments. After a record net inflow of US$66.7 billion in 2011, this amount reached US$65.3 billion in 2012, distributed among various economic sectors, especially trade, metallurgy, food products manufacturing, and financial services.



According to the United Nations Conference on Trade and Development (UNCTAD), with preliminary data for the year, a 2.1% decrease in FDI flows directed to Brazil proved to be much less intense than the one verified in global flows of 18.3%, allowing the country to increase its relative participation.

Net inflows of foreign portfolio investments remained positive in 2012, despite the reduction in investments in the form of shares, compared to 2011. Foreign investors bought a net US$5.6 billion in stock, compared to US$7.2 billion in the previous year. The decline occurred even after the reduction of the Tax on Financial Transactions (IOF) rate from 2% to zero in December 2011. Foreign investment in fixed income securities in the country totaled US$5.1 billion of net inflows in the period, compared to net outflows of US$61 million in the previous year.

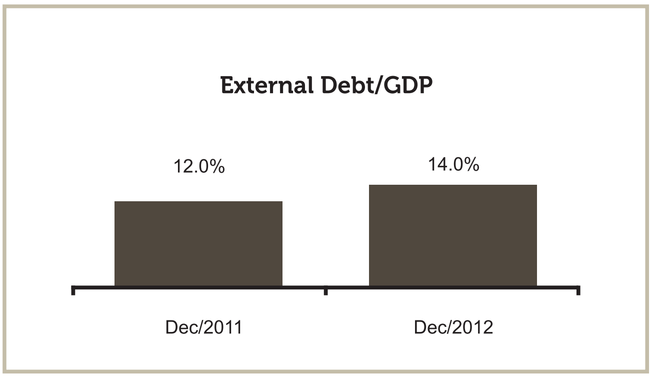
Net inflows in the form of loans and fixed income securities traded in the international market, considering medium- and long-term instruments only, provided inflows of US$18.6 billion in the year. The ratio of new gross fund inflows and repayments related to past debts resulted in a roll rate of 188%, representing positive net inflows and hence an increase in the stock of external debt. The short-term instruments recorded net repayments of US$1.9 billion, influenced by the imposition of the rate of 6% IOF tax on new hires.

Foreign Exchange

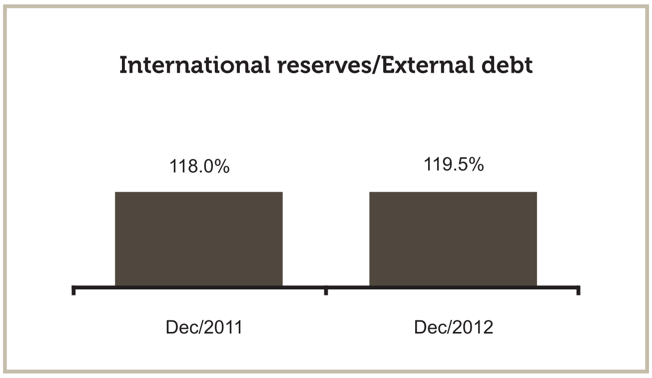
The nominal exchange rate of the real against the US dollar depreciated by 8.9% in 2012.

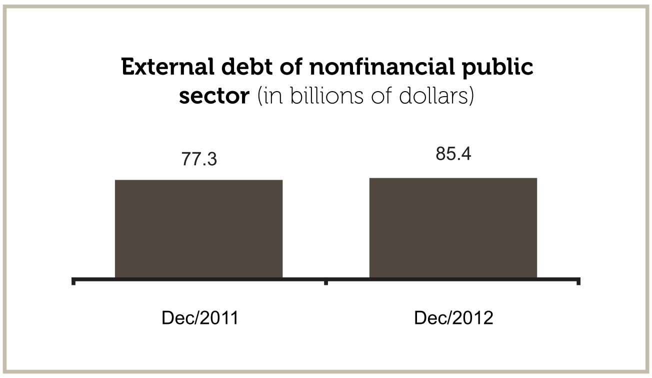
External sustainability indicators

Despite the instability of the international economic situation, the perception about the strength of Brazilian external accounts continued favorable. Regarding external sustainability indicators, the external debt as a proportion of the GDP rose 2 pp and the relationship between international reserves and external debt increased by 1.5 pp, considering the estimated positions for December. The net external creditor position increased from US$72.9 billion to US$82.5 billion, and nonfinancial public sector external debt rose from US$77.3 billion to US$85.4 billion.



The ratio of net external debt to GDP fell to -3.6% compared to -2.9%, and the ratios of debt service and exports of goods and exports of goods and services reached 22.3% and 19.2%, against 20.5% and 17.9%, respectively. The performances of these indicators were influenced by reductions of 8.6%, 5.3%, and 4%, respectively, of the nominal GDP estimate in dollars, of the exports of goods and of the exports of goods and services accumulated in twelve months; and by increases of 6.2% in the total external debt, 13.2% in the net external debt creditor position, 7.6% in the international reserves, and 2.8% in the external debt service.





Part II

2 The National Financial System

2.1 The National Financial System organization

In 2012 the BCB analyzed and issued a decision on 3,182 proceedings related to the SFN organization and resulting, among others, from requests to authorize the operation, corporate restructuring, and election or appointment of members of statutory or contractual bodies of financial institutions and other entities authorized by the BCB to operate, including group buyer management companies. In addition to the proceedings of a corporate nature, concentration acts were also analyzed. These acts resulted from acquisitions, consolidations, and mergers of financial institutions.

Foreign economic groups maintained their interest in operating in the Brazilian banking system. Throughout 2012, the Presidency of the Republic enacted seven **decrees** acknowledging the interest of the Brazilian government that foreign investors participate in the capital stock of financial institutions with head offices in the country. The requests under examination show a trend for this interest in the Brazilian market to continue.

The enactment of **decrees** that allow the participation of foreign capital in the capital stock of financial institutions with head offices in the country is in compliance with article 52 of the Temporary Constitutional Provisions Act, which remains in force until the regulation of article 192 of the Federal Constitution, which deals with the SFN.

Number of institutions that comprise the SFN:

Segment	Dec 2011	Dec 2012
Banks*	178	177
Foreign Exchange Bank	2	2
Credit, Financing, and Investment Company	61	57
Securities Brokerage Company	101	93
Exchange Brokerage Company	46	55
Securities Dealer Company	129	118
Leasing Company	31	29
Real Estate Credit Company and Savings and Loan Association	14	12
Mortgage Company	8	7
Development Agency	16	16
Subtotal	**586**	**566**
Credit Union	1,312	1,251
Microentrepreneur Credit Company	43	39
Subtotal	**1,941**	**1,856**
Group Buyer Management Company	296	222
Total	**2,237**	**2,078**

* This includes Multiple Banks, Commercial Banks, Investment Banks, Development Banks, and Savings Banks.

Credit Unions

The credit union segment experienced a slight reduction compared to the previous year, going from 1,312 to 1,251 entities, mainly as a result of merger filings. As a contrast, the number of Credit Union Service Posts (PAC) showed an increase from 3,502 to 3,743 in the same period.

Authorizations were issued to transform 27 credit unions into the modality allowing members to be freely admitted, an operation which somewhat expands the potential for members. This has positive effects on the financial inclusion of the population.

Appointments to financial institutions

The BCB analyzed 10,824 requests for ratification of the names of those elected or appointed to fill in positions in statutory or contractual bodies of financial institutions and other entities authorized by the BCB to operate. Among those, 151 had their names rejected and four await the decision of an appeal filed against the rejection. Most of the rejections resulted from non-compliance with the requirement for the elected member or nominee to have immaculate reputation.

Year	Confirmed	Rejected	Awaiting appeal	Total
2011	12,740	138	0	12,878
2012	10,669	151	4	10,824

The role of the BCB in the SFN organization

The BCB maintains a strict control over the SFN. This control, which starts when the BCB issues an authorization for an institution to operate, continues with the oversight works and the monitoring of the changes that the institution goes through over the years.

Before it can start operating, the institution needs to prove to the BCB that it can operate in a solid manner, with minimum of risks possible to its clients. After submission of a business plan and an economic and financial feasibility study by the institution, the BCB analyzes the documents and data aiming to check whether the business is sustainable; whether the initial working capital is sufficient, whether it does exist and has a legal origin; and whether the managers have the technical knowledge and immaculate reputation required, among other aspects.

Likewise, any significant change in the institution – such as a change in directors, members, company agreement, and capital stock – can only be carried out after analysis and approval by the BCB.

2.2 Prudential and operational rules

In general, the guidelines for prudential regulation are debated and set in international forums in which Brazil participates, aiming to strengthen the stability and efficiency of each country's financial system. The references for these guidelines are the standards and recommendations given by international bodies such as the Basel Committee on Banking Supervision – BCBS, in which Basel III rules are currently debated.

Basel III

The agenda for regulatory improvement known as Basel III, under the process of being adopted by Brazil, encompasses the gradual incorporation to the Brazilian prudential rules of definitions and new requirements for capital over the next years, starting in 2013 and being completed in 2019, which include:

a) the strengthening of the capital allocated by financial institutions to cover losses;
b) the introduction of a leverage ratio and minimum liquidity ratios to be maintained by financial institutions;
c) the strengthening of financial supervisors' actions;
d) the transparency in disclosing information about financial institutions; and
e) the treatment to be given to the institutions identified as systemically important, both at global and domestic levels.

These changes, due to the conservative regulatory structure long ago adopted by Brazil, will bring no change to the Brazilian citizen at large in the service and in the quality of the financial services currently provided by the institutions regulated and authorized by the BCB, but they will expand even further the security and robustness of the SFN.

In Brazil, incorporation of these standards and recommendations into our internal regulations is done in compliance with a previously published schedule, which considers the specificities of the SFN.

The main initiatives adopted in the year consisted of the setting of rules that regulate the permission for the use of internal risk rating systems in order to determine the requirement of capital for credit risk and the norms that improve the liquidity management rules used by financial institutions.

Share ownership

Within the scope of prudential and operational rules, improvement was made to the regulation dealing with share ownership held by financial institutions and other institutions authorized to operate by the BCB.

The new regulation requires the authorization of the BCB for financial institutions to hold, directly or indirectly, shares of any companies headquartered in Brazil or abroad. Share ownership is only allowed in entities engaged in complementary activities or activities ancillary to those conducted by the institution.

Prior authorization is required in case of acquisition of share ownership, increase in the percentage of ownership, and other ownership situations that require the preparation of financial statements on a consolidated basis by the participating institution.

New Interbank Foreign Exchange System

Circular no. 3591 of May 2, 2012 brought changes to the International Exchange and Capital Market Regulation. Interbank foreign exchange operations are recorded in computer systems through which US$5 billion are handled every day. This system was modernized at three levels: I) database; II) information processing; and III) form of trading information between the BCB and the institutions authorized to operate in the foreign exchange market, with the implementation of a messaging system as a way to transmit and receive data daily.

The change of platform and adoption of a messaging system enabled the individualization of service tariffs for foreign exchange services by the BCB, and resulted in a reduction of most of reimbursement costs of authorized institutions to the Central Bank's Information System (Sisbacen).

Exports of trading companies

Resolution no. 4072 of April 26, 2012 regulated the expansion of the use of external commercial credit lines in order to make possible indirect export operations. This resolution was approved after the enactment of Provisional Measure no. 564 of April 3, 2012, later converted into Law no. 12712 of August 30, 2012, which expands the concept. This law started to consider the sales to trading companies also as **indirect exports**, and expanded the ways to be used by the final exporting company to declare that the inputs will be used in the relevant processes.

Law no. 9529 of December 10, 1997 considers **indirect export** as the sale of inputs that go into the production, the assembly, and the packaging process of goods intended for exportation.

Convergence to international standards

The BCB has been making an effort to reduce the differences between the accounting standards applicable to financial statements and the international financial reporting standards (IFRS) published by the International Accounting Standards Board (IASB). The purpose is to lower the cost of compliance and increase the efficiency of the institutions in the SFN.

Incorporation of IASB rules which harmonize these standards with the Accounting Plan of National Financial System Institutions (Cosif) follows strict technical criteria that consider the relevance and stability of the international standard, as well as the convenience and opportunity of adopting them in the SFN.

Based on these criteria, the international rules are adopted only after completion of studies and the introduction of changes in relevant laws that aim to ensure the legal and economic conditions necessary to the implementation of such measures.

The importance of convergence to international standards

The international accounting standards have been fully applied to consolidated financial statements of financial institutions since the 2010 fiscal year.

Adoption of these standards increases the quality and transparency of accounting data, facilitates access of institutions in the SFN to international financial and capital markets, and reduces their cost of raising capital in these markets in that it facilitates comparison between accounting statements of Brazilian institutions and those of foreign institutions.

In international forums, Brazil has been praised by the international community for the safe and responsible way it has been developing the process of convergence to the international accounting standards. This fact was acknowledged by the IMF, in an assessment carried out in 2012, when the IMF highlighted the point that strong regulation and supervision by the BCB contributed significantly to maintaining the stability of the SFN.

Access to Financial System and election of directors

The BCB issued Resolution no. 4122 of August 2, 2012, which set new requirements and procedures for the organization, authorization to operate, cancellation of authorization, changes in company control, corporate reorganizations, and conditions to fill positions in the statutory or contractual bodies that said resolution specifies.

Among the innovations introduced, the new resolution determines that the structure of a financial institution being organized be implemented and assessed by the BCB before it can be granted authorization to operate.

With this new rule, an attempt was made to ensure soundness and efficiency to the SFN, by means of stricter requirements for institutions to enter the system.

Cooperative Credit Guarantee Fund

The Cooperative Credit Guarantee Fund (FGCoop), established by Resolution no. 4150 of October 30, 2012, will have national coverage, with the participation of singular credit unions that take deposits from their associates, in addition to cooperative banks.

The FGCoop will be constituted as a non-profit private entity whose purpose will be to guarantee credit from clients of entities in the credit union system and to carry out assistance and financial support operations with these institutions.

Concentration acts

Aiming to encourage the protection of competition in the SFN, the BCB issued rules that regulate the analysis of concentration acts resulting from the transfer of controlling interest, the conversion, the consolidation, or the merger of financial institutions.

In accordance with the best practices issued by antitrust agencies in Brazil and abroad, the new regulatory framework offers the possibility for the BCB to enter into an Agreement on Concentration Control with the contracting parties. In this agreement, commitments are established in order for the involved institution to share with the users of their financial products and services the result of the efficiency generated by the concentration acts.

The agreement should be entered into after wide-ranging negotiations between the parties involved, so as to ensure efficiency of the commitments undertaken with the regulator. Failure to comply with such commitments will subject the institutions and their directors to administrative sanctions.

2.3 Foreign exchange rules and international capitals

Resolution no. 4051 of January 26, 2012 and Circular no. 3575 of February 2, 2012 changed the rules that govern the participation of securities brokers and dealers in the foreign exchange market. Previously, the limit established for these institutions was US$50 thousand for export and import exchange operations and for financial operations relating to transfers of funds into and out of the country, not subject to or bound by registration with the BCB.

In addition, these institutions were able to carry out unlimited purchase and sale of foreign currency in the form of checks bound by unilateral transfers, as well as the following operations related to international travel: purchase and sale of foreign currency in cash, checks, and traveler's checks.

Now these institutions may carry out any foreign exchange operation with clients, regardless of its nature, provided that immediate settlement be conducted and that they be limited to US$100 thousand per operation. These agents have now also received authorization to carry out operations relating to international capitals subject to registration with the BCB.

Procedures for export foreign exchange contracts

At the beginning of the year, there were export foreign exchange contracts with a pending shipping status or pending the provision of services, due to problems resulting from the international financial crisis. There were instances of interruption in the offer of international credit lines, cancellation of firm orders, and renegotiation of amounts, prices and terms, as well as contractual breaches by importers located in countries suffering an economic downturn.

On April 5 the BCB issued Circular no. 3589, which extended the term for shipment or for the provision of service in specific situations, relatively to existing exchange contracts, provided that the maximum term of 1,500 days between the entering into the contract and the settlement of the exchange contract be observed. For exchange operations contracted after the circular came into force, the deadline for shipment remained unchanged.

Export prepayment transactions

The BCB issued three circulars (no. 3580 of March 1, 2012; no. 3604 of June 28, 2012; and no. 3617 of December 4, 2012) containing new rules for export prepayment transactions. This takes place when, before shipping the goods or providing the service, the Brazilian exporter receives funds advanced by the payer abroad to finance his production.

During the year, the BCB adjusted the term for this advance with the purpose of contributing to the balance between the offer of credit for financing exports and the existing market demand. In December, as a result of the procedures established to monitor the measure, the BCB approved a new circular allowing the contracting of export prepayment transactions with a term longer than 360 days, but limited to 1,800 days.

Review of foreign exchange operations classification

The classification codes for foreign exchange operations are now under a review process, in an attempt to achieve: a) rationalization and simplification, enhancing the quality and use of information; b) the compatibilization of exchange operations recording with the compilation methodology recommended in the latest edition of the IMF's Balance of Payments Manual (BPM6); c) the elimination of still remaining references to normative aspects already changed in the foreign exchange and international capitals regulatory framework; d) the preservation of issues still deserving a specific foreign exchange treatment or still relevant to the banking supervision process.

The review process will generate a guide for exchange operations classification, in order to standardize the concepts used and to ensure better quality of the information provided. The guide will instruct and help institutions classify exchange market operations but will have no normative power, which will allow for a dynamic updating process.

2.4 Supervision

The BCB plays its role of supervising the institutions in the SFN in three ways: by authorizing their entrance in the SFN; by constantly monitoring the information provided by these institutions; and by means of direct supervision activities, when BCB servants visit the institutions to carry out inspections or follow-up activities.

By December, 721 direct supervision and follow-up activities had been carried out. In addition, 157 support and control activities had also been conducted in banks and banking conglomerates.

Supervision of banks and banking conglomerates

Direct supervision actions conducted in banks and banking conglomerates take into account the strategic priorities and guidelines defined by the BCB. Among those, noteworthy of mention are:

- strengthening of the basic premises of supervision, which needs to be intrusive, skeptical, comprehensive, proactive, adaptive, and conclusive;
- inspections based on risks taken, with an emphasis on solvency and credit risks;
- monitoring of the impact of Basel III rules relating to bank liquidity;
- monitoring of the adequate adoption of international accounting rules adopted by the BCB;
- timely application of prudential measures which are punitive and remedial to the institutions showing abnormal operating performance; and
- enhancement of the bank and banking conglomerate supervision process, also intensifying the exchange with foreign supervisory authorities about the supervised entities status.

Within the scope of credit unions and non-banking institutions supervision, 812 direct supervision and follow-up activities had been carried out by December. In addition, 167 support and control activities had also been conducted.

Supervision of credit unions and non-banking institutions

Direct supervision actions conducted in credit unions and non-banking institutions take into account the strategic priorities and guidelines defined by the BCB. Here are the main ones:

- enhancement of risk-based supervision of the non-banking segment;
- performance of inspections in the credit union segment, giving priority to independent credit unions with the worst rating and which have not undergone inspection the longest;
- emphasis on aspects such as corporate governance and internal controls in inspections of singular credit unions;
- performance of inspections of group buyer management companies focused on control structure evaluation and on the adequacy of leverage/immobilization limits; and
- timely application of prudential measures which are punitive and remedial to the institutions showing abnormal operating performance.

In addition, the BCB has been aligning with the international best practices for conducting supervision that is both efficient and efficacious. Accordingly, a new methodology was developed during the year, to be implemented in 2013, for the supervision of compliance issues (conduct supervision).

The proposed methodology, which is in line with the Basel Principles and the IMF recommendations, is based on a combination of actions that have as their main parameter the risk profile of the entities to be supervised.

Basel Accords

The city of Basel, in Switzerland, is the headquarters of the Bank for International Settlements (BIS), which works as a kind of central bank of the central banks, as it carries out settlement operations among monetary authorities.

The BIS organizes meetings of the Basel Committee on Banking Supervision, an organization composed of banking supervisory authorities (generally central banks) and that aims to disseminate supervisory practices that foster the international banking system.

In 1988, at the initiative of this group more than one hundred countries signed an agreement – known as the Basel Accord – which created minimum requirements that banks should comply with in order to avoid credit risk.

Credit risk arises when banks lend huge amounts to bad debtors who do not honor their debts, and thus banks cannot honor their own. The result is a domino effect, which can end up reaching only a few banks, the whole economy of a country or the world economy, as in the current crisis.

In 2004, a second agreement was signed replacing the previous one. In 2010, with the international financial crisis there was a revision to the second agreement, which was called Basel III.

Monitoring Process

The main purpose of the SFN monitoring process is to identify situations or events that represent potential risk to stability and to the regular functioning of the SFN, with a view to proposing timely and suitable solutions.

In this context, the BCB made important improvements to the monitoring of liquidity, market, and credit risks.

A Market Monitoring System (SMM) came into operation in January, which enhanced the information made available on a daily basis to the Supervision sector about the liquidity and market risks to which banking institutions are exposed.

The SMM puts out 708 market risk stress scenarios daily, which cover all major risk factors of financial instruments negotiated in Brazil. Processing twenty million records per day containing active, passive, and derivative portfolios of financial institutions, the system calculates, with a one business day delay, the level of liquidity risk of each financial institution. This makes it possible for the BCB to assess the capacity that financial institutions have to honor their obligations in various scenarios and time horizons.

The importance of the Market Monitoring System

The capacity to predict gained with the SMM provided the BCB more accuracy and safety to make decisions throughout the year to remedy the SFN.

The versatility and the scope of the information produced by the system make it an essential tool to monitor individual problems and their potential to spread, or even to monitor the effect of systemic crises. The greater accuracy in the identification and measurement of problems provided more safety in assessing the potential consequences to the system, for example, of the remedial decisions concerning the SFN made throughout the year.

Regarding the credit risk, it is worth highlighting the new version of the Credit Information System (SCR), which brought two important changes: a) the reduction from R$5 thousand to R$1 thousand in the limit for identification of clients who have credit with the SFN; and b) the inclusion of information relating to the income of individual clients and to the revenue and size of corporate clients.

This new level of detail enhances the analysis of the credit granting process on the part of institutions, and allows a better monitoring of the process of financial inclusion of Brazilian citizens in that it makes possible to evaluate their income commitment in relation to their ability to pay. In addition, greater efficiency of the credit granting process of the SFN contributes to the process to reduce the cost of credit in our country.

While providing access to more information by means of the SCR, the BCB signed information exchange agreements by means of which it will receive databases generated by other entities. Among them are the Securities Custodial and Clearing Center (CETIP), Credit Assignment Center (C3), National Social Security Institute (INSS), Brazilian Revenue Service (RFB), Brazilian Institute of Geography and Statistics (IBGE), Securities and Exchange Commission (CVM), and Ministry of Planning, Budget, and Management (MPOG).

Crossing these new databases with information from the SCR contributed considerably to the improvement of the quality of information. In addition, it allowed the monitoring of high-risk operations and even the detection of fraud. This improvement favors the safe and sustainable growth of the secondary credit market in Brazil, as it provides greater operational safety for the parties involved in these transactions.

In order to translate the gains in volume and quality of the information used in the monitoring of these risks into concrete results for the improvement of the financial stability monitoring process, emphasis was placed on the specialization of the teams. This specialization involved aspects of macroprudential and microprudential monitoring, as well as the development of methodologies and technologies geared toward the detection of fraud.

IMF and World Bank Evaluation

In March, a joint mission of the IMF and the World Bank (WB) carried out an assessment of the Brazilian financial sector (Financial Sector Assessment Program – FSAP). The rules and practices for the regulation, supervision, and resolution of the National Financial System (SFN), as well as the status of the SFN itself, were the object of a rigorous analysis by these international organizations, using widely accepted international standards.

As a result, the IMF/WB assessment considered the Brazilian financial system to be stable and low risk. Among others, the mission highlighted as positive aspects:

- the high stock of international reserves combined with a flexible foreign exchange regime;
- the country's strong regulation and supervision, and its compliance with the Basel Principles.

The Sanea Project

Ended in November, the Sanea Project aimed to provide the BCB with a systematic process for identifying and routing a solution to supervised entities that no longer presented operating conditions, due to:

a) inability to pay off debs;
b) inactivity;
c) serious violation of legal and company agreement rules that regulate the activity of the institution, and of the CMN or the BCB provisions; or
d) performance below expectation, without meeting the purpose which justified the authorization for them to operate in the market.

Different solutions were adopted for these entities according to the severity of the problem identified:

a) return to operational normalcy;
b) market solution (merger, consolidation, split-up, or conversion);
c) voluntary or imposed revocation of the authorization to operate;
d) ordinary liquidation;
e) declaration of special regime (intervention, extrajudicial liquidation, or Temporary Special Administration Regime – RAET).

With these actions, the BCB made it possible for 88 entities to return to normalcy. Other 187 entities had their authorization to operate revoked.

Entities that had their authorization to operate revoked:

Segment	Number
Group Buyer Management Company	78
Savings and Loan Association	1
Credit Union	66
Exchange Brokerage Company	4
Securities Brokerage Company	8
Leasing Company	1
Microentrepreneur Credit Company	4
Real Estate Credit Company	2
Real Estate Credit Company – Refinancing Company	2
Credit, Financing, and Investment Company	3
Securities Dealer Company	18
Total	**187**

The Sanea Project also aimed to systematize the application of existing laws and rules to situations not yet fully addressed. This was done by harmonizing perspectives and proposing improvements that would allow substantiating the proposed solutions for institutions with more serious problems.

Rural credit supervision

The Executive Office for the Regulation and Control of Rural Operations and Proagro (Gerop) gave way to the newly created Department of Regulation, Supervision and Control of Farm Credit Operations and Proagro (Derop), which centralizes all surveillance activities and monitoring of rural credit and Proagro operations contracted under the National Rural Credit System (SNCR).

Supervisory actions are designed to ensure that funds allocated to rural credit through the institutions of the SNCR be correctly invested in compliance with current regulatory acts, and that requests for Proagro coverage be analyzed correctly by financial institutions applying this program.

Actions were carried out in order to supervise rural credit and Proagro portfolios with relevant amounts from the institutions that had not yet been supervised. Actions were also undertaken to supervise operations granted under the National Program for Strengthening Family Agriculture (Pronaf) in order to evaluate the financing related to investments with required funds, originating from demand deposits.

In addition, there were actions to verify on the spot the progress of implementation of the new Joint Record of Rural Operations (Recor), and to assess the effectiveness of the CMN rules providing for rural debt renegotiation.

2.5 Extrajudicial liquidation, intervention, and Temporary Special Administration Regime

The BCB decreed special regime arrangements in twelve institutions, among those five involved Temporary Special Administration Regimes (RAET), two interventions, and five extrajudicial liquidations. All RAET were converted into extrajudicial liquidation, while the intervention regimes remained in place on December 31, 2012.

Types of institutions under special regime	Number
Multiple banks	3
Brokerage companies	2
Credit unions	3
Dealer companies	2
Non-financial institutions	2
Total	**12**

Nine special regimes were terminated in the period.

Special regimes terminated – basis	Number
Adjudication of bankruptcy	4
Removal from the competent public record	1
Conversion into ordinary liquidation	2
Change in business purpose	2
Total	**9**

In order to ascertain the responsibilities of comptrollers and former managers of the institutions under special regime, the BCB initiated eleven investigations, sent fifteen reports issued by the Investigation Commissions to the Judicial Branch, and made eight notifications of a suspected criminal offense to the Federal Prosecutor's Office.

There are currently 65 special regimes in progress.

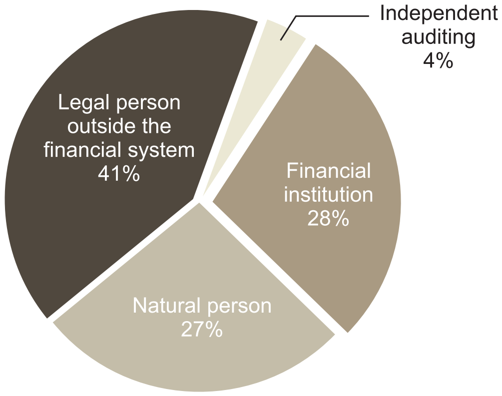
Special regimes in progress – types of institutions	Number
Banks	12
Group buyer management companies	11
Securities dealer companies	9
Brokerage companies	8
Leasing companies	2
Credit, financing, and investment companies	3
Credit unions	7
Non-financial companies	13
Total	**65**

2.6 Punitive administrative procedure

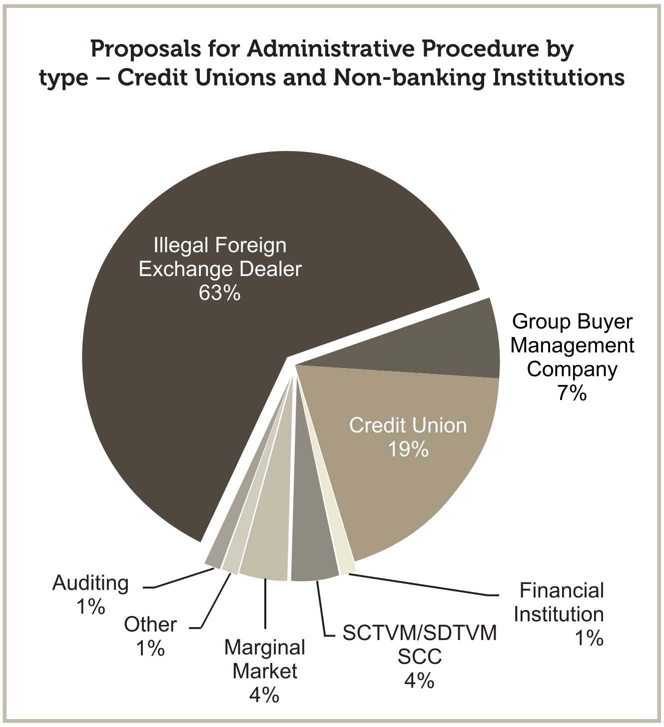
Institution of procedure

The BCB analyzed 82 requests to initiate punitive administrative procedures against financial banking institutions, independent audit companies, non-financial legal entities, and individuals. Among those, 71 were approved in the meetings in which they were presented, and eleven were removed from the agenda for later decision.

Proposals for Administrative Procedures by type – Banks and Banking Conglomerates



The monetary authority also ruled on 81 requests to initiate administrative procedures against credit unions and against non-banking institutions. Of these, 78 were approved and three were dismissed. About these segments, 63% of the approved requests involved natural and legal persons responsible for illegal foreign exchange transactions, that is, a kind of marginal market.



SCTVM – Securities Brokerage Companies;
DTVM – Securities Dealer Companies;
SCC – Exchange Brokerage Companies

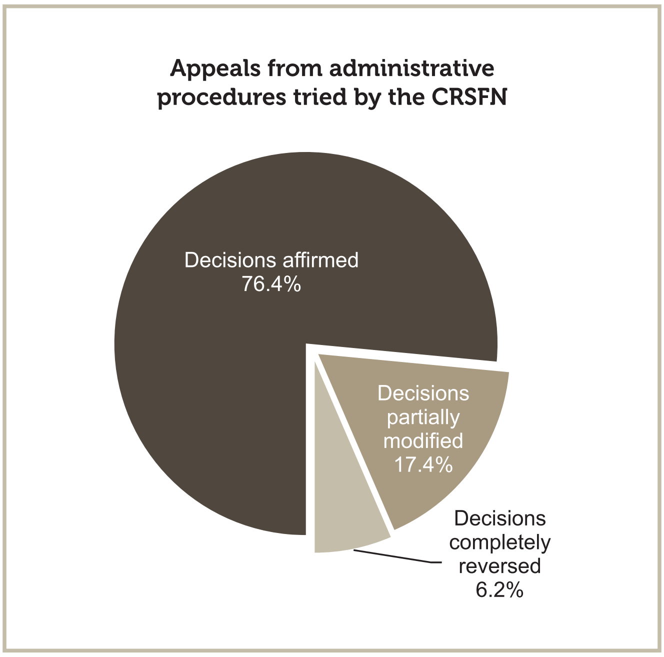
Decision

At the beginning of the year, there were 353 punitive administrative procedures brought against natural and legal persons subject to supervision by the BCB and pending decision. In 2012, 342 procedures were initiated and 252 were resolved, resulting in 443 cases awaiting analysis and decision.

The decisions made resulted in the application of 807 sanctions and 92 dismissals, according to the table below. The total sanctions and dismissals differ from the total procedures disposed of because more than one sanction can be imposed when a decision is delivered, in addition to a dismissal.

Sanctions applied and dismissals	Number	Percentage
Warning	38	4.2%
Disqualification	473	52.6%
Fine	296	32.9%
Dismissal	92	10.3%
Total	**899**	**100.0%**

Of the procedures tried by the National Financial System Appeals Council (CRSFN) as a second and last administrative instance, most of the decisions made by the BCB were affirmed on appeal.



Standardization

The BCB issued Circular no. 3582 of March 9, 2012 which provides for the proceedings relating to punitive administrative procedures and the criteria for the application of the sanctions defined by Law no. 11795 of October 8, 2008, for a breach of legal provisions and regulations that govern the activity of group buyer management companies and their administrators.

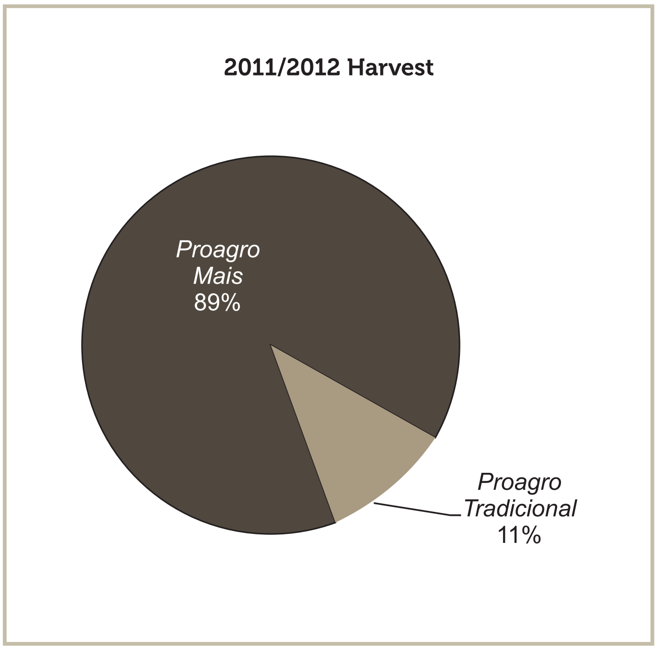
The purpose of the rule is to provide the BCB with more tools to oversee this segment, so as to preserve the financial integrity of group buyers and their management companies, and to offer more safety to the customers using these services.

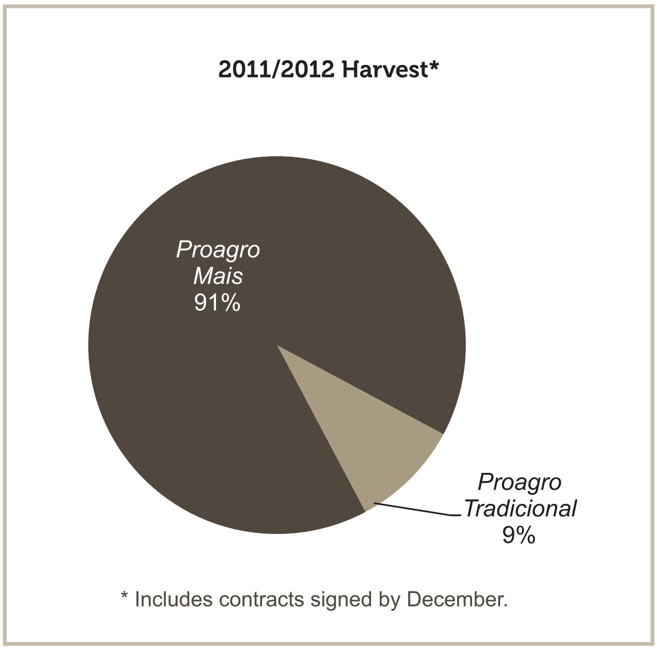
2.7 Farm Activity Guarantee Program

The BCB manages the Farm Activity Guarantee Program (Proagro), which is an insurance that covers the farmer or rancher in case of loss of property, crops, and livestock due to natural phenomena, pests, and diseases. In the 2011/2012 harvest, over 511,000 contracts were signed.

	2011/2012 Harvest	2012/2013 Harvest*
Contracts	511,585	378.609
Amount insured	R$8.2 billion	R$7.4 billion
Average value by operation	R$16.1 thousand	R$19,6 thousand

* Figures until December/2012. Contracts under way: harvest goes from July 1 to June 30 of the following year.





The program benefits mainly small-scale farmers classified within the concept of "family farming" and served by "Proagro Mais." Other operations are classified within Proagro Tradicional.

In 2012, the BCB paid R$1,007 million in Proagro expenditures, arising from claims of losses (R$ 822 million related to the 2011/2012 harvest), as well as services to prove loss and remuneration of program agents. Claims were paid within an average of eighteen days from the request by the financial institution acting as Program agent.

2.8 Rural credit

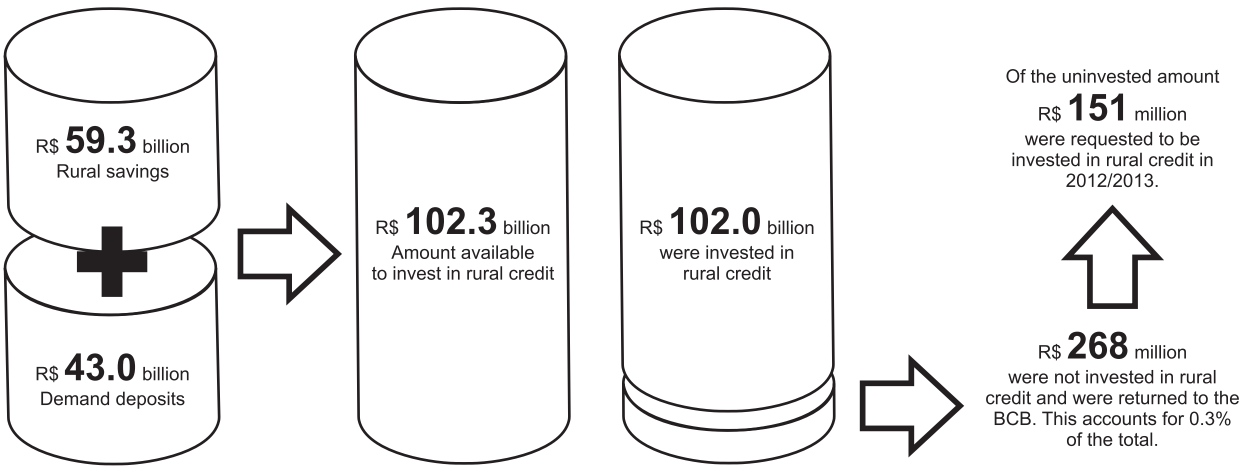
Financial institutions have to compulsorily invest part of the demand deposits and also part of the rural savings funds in rural credit operations. Over the period of 2012/2013, these investments totaled R$42.7 and R$59.3 billion, respectively.

Financial institutions failed to invest R$262 million and R$6 million of demand deposits and rural savings, respectively. When financial institutions fail to invest these funds partially or fully in rural credit, they must return the amount not invested to the BCB.

That amount may be retained for up to twelve months without remuneration for the financial institutions in the case of demand deposits, or with basic remuneration (TR) in the case of rural savings funds.

Of the amount available at the BCB, institutions had requested R$151 million by December 2012 for use in rural credit in the 2012/2013 period, through the fund transfer mechanism.

Rural credit investment in 2011/2012



New Rules

In June, the CMN amended the rules for reserve requirement on rural credit to enable a possible additional contribution of R$15.8 billion for rural credit in the 2012/2013 harvest. The data observed until December point to a trend that this amount will be exceeded, thus this additional contribution is expected to reach R$21.2 billion. Hence, the total amount available for investments in rural credit should reach R$123.2 billion.

The CMN also passed a resolution that: a) raised the eligibility ceiling for Proagro from R$150,000 to R$300,000; b) unified at 3% the Proagro additional rate (premium) for the operations supported by all producers, except for Proagro Mais operations whose rate remained at 2%; and c) compelled adherence to Proagro for transactions contracted within the scope of the National Mid-Size Producer Support Program (Pronamp).

Record of operations

The Joint Record of Rural Operations (Recor) – a system that keeps all records of loans granted by the National Rural Credit System (SNCR) – recorded 2,613,601 rural credit operations by December, amounting to R$112.4 billion. This figure is still temporary, given that financial institutions may send 2012 data by January 30, 2013.

New rural credit operations system

In 2012, we completed the Rural Credit and Proagro Operations System (Sicor), which replaces Recor for rural credit operations contracted as from 2013, while the inventory of operations contracted to date remain on record with Recor.

The new system will help to improve surveillance of rural credit and Proagro. The federal government will also gain a new tool to assist in the management of rural credit policies, Proagro, and rural insurance.

2.9 Prevention of financial and foreign exchange crimes

The BCB has improved the prevention of money laundering and the fight against terrorist financing in the SFN. Actions took place in three fronts: issue of new rules; inspection of financial institutions; and studies and participation in forums about the issue, aiming to learn best practices.

Rules

The BCB issued Circular no. 3583 of March 12, 2012, which establishes that institutions authorized to operate by the BCB should not initiate or continue a business relationship with a client who the institutions cannot fully identify. In addition, this circular compels institutions to adopt internal control policies and procedures in their own facilities and in subsidiaries located abroad.

With publication of Circular no. 3584 of March 12, 2012, institutions operating in the foreign exchange market must adopt measures to be familiar with the procedures to prevent money laundering and combat terrorist financing adopted by the foreign bank involved in the operation, so as to make sure that it is not an institution which: a) has no facilities in the country where it is incorporated and licensed; and b) is not affiliated to any financial service group which is the object of actual supervision.

In addition, Circular Letter no. 3542 of March 12, 2012 expands the examples of operations and situations that may indicate money laundering activities. Before publication of this regulatory act, 43 operations were listed. Now there are 106 situations described which may indicate money laundering activities.

The purpose of these rule changes was to carry out adjustments which were incumbent upon the BCB as a result of the Mutual Evaluation of the Financial Action Task Force on Money Laundering and Terrorist Financing (**Gafi**/FATF), conducted in 2009/2010.

The **Gafi** is an intergovernmental organization whose purpose is to combat money laundering and terrorist financing around the world. It is formed by 31 countries, including Brazil.

Inspections

Financial institutions were inspected with the purpose of identifying the level of implementation of their Money Laundering Prevention controls. Among the banks selected, the BCB gave priority to those that presented significant changes in their systems for detection of atypical operations and those where, during previous inspections, inadequate practices of analysis of atypical operations had been identified.

Forums

The BCB participated in three plenary meetings of the Gafi/FATF. In one of them, the plenary approved the first report about the actions adopted in Brazil, which resulted from the evaluation to which the country was submitted between 2009 and 2010. This report acknowledged the advances implemented by Brazil, and highlighted the positive response given to the issues under the responsibility of the BCB.

The institution was present in both plenary meetings of the Financial Action Task Force on Money Laundering in South America (Gafisud). It also participated in both meetings of the Mercosur's Money Laundering and Terrorism Prevention Commission.

Within the scope of the National Strategy to Combat Corruption and Money Laundering (Enccla), the BCB worked in the coordination of two actions, which included the participation of other federal agencies:

- **Action 04**: to assess the country's risk exposure to money laundering and terrorist financing, so as to detect areas, markets, and economic sectors that need operational, regulating, or legislative adjustments, especially because of the 2013 Confederation Cup, the 2014 World Cup, and the 2016 Olympic Games.
- **Action 09**: to uniform and regulate the procedures for seizure, transportation, custody, convertibility, and destination of national and foreign currency and other values.

Promotion

The BCB has held courses and workshops aiming to improve the prevention of money laundering and the combat of terrorist financing, as part of a strategic project conducted by the institution.

Part II

3 Payment systems

3.1 Reserves Transfer System

The Reserves Transfer System (STR) enables funds transfer between financial institutions. The STR is the core of the Brazilian Payment System (SPB), which is responsible for funds transfer with real time gross settlement (LBTR). In 2012, the STR registered an average daily flow of approximately R$878 billion. This is equivalent to the flow of an amount similar to the Brazilian GDP every five days.

The **STR** operates from 06:30 am to 06:30 pm, except on Saturdays, Sundays, and federal holidays.

To be able to use the STR, the financial institution must have an account with the BCB. This year, two institutions opened accounts with the monetary authority. In addition, other four institutions are undergoing tests and should open their accounts by the end of the year.

Brazilian Payment System

The SPB encompasses entities, systems, and procedures related to the transfer of funds and other financial assets, or the processing, clearing, and settlement of payments in any of their forms. In short, all electronic money and other value transfers among financial institutions in Brazil occur within the scope of the SPB.

The SPB is comprised of the funds transfer settlement and other interbank obligations systems, such as the Centralizer Clearance for Checks (Compe), Cielo, Redecard, Deferred Settlement System for Interbank Credit Orders Transfers (Siloc), Funds Transfer System (Sitraf) and the STR. Also part of the SPB are the transaction settlement systems involving financial assets, bonds, securities, financial derivatives and foreign currencies, which encompass the C3, clearing houses for assets, foreign exchange, derivatives, and shares of the Securities, Commodities, and Futures Exchange (BM&FBovespa), Cetip S.A. – Organized Markets and the Selic, in addition to financial institutions and their clients.

The BCB works to maintain the STR fully operational and available, given its importance for people and companies to make their payments and funds transfers. This year, the STR remained operational 99.86% of the time.

3.2 Special System for Settlement and Custody

The Selic is an electronic system developed and managed by the BCB, which is intended for the custody of securities issued by the National Treasury, as well as the recording and settlement of operations involving such securities.

The System is the central depository of approximately 99% of the internal federal public securities debt (position on 12/31). The daily average of securities purchase and sale operations between institutions was equivalent to R$775.4 billion, of which R$21.9 billion corresponded to outright operations, and R$753.5 billion to operations with a resale and repurchase commitment.

Considering the universe of operations recorded with the Selic – including returns on committed operations, the BCB's rediscount operations, and **primary securities issuances** –, daily averages amounted to over R$1.8trillion and 19 thousand operations. Regarding public offers (securities auctions) of the National Treasury (STN), 417 events were processed in the year, which transacted an amount of R$325.2 billion.

Primary securities issuances are conducted by the STN to finance the Federal Government's budget deficit, including the refinancing of its own debt, and to conduct operations with specific purposes which are defined by law.

The BCB conducted two actions aiming to improve the federal public securities market:

a) implementation of the Selic's Electronic Securities Trading Platform, which enables **dealer institutions** to do business through the registration of offers of outright purchase and sale of bonds, thus facilitating the operationalization of negotiations, increasing transparency, and contributing to an increase in liquidity in the secondary market;
b) real-time dissemination of bond trading prices in the secondary market, including on the BCB website, at the time operations are recorded with the Selic. This also increases the transparency of transactions with federal bonds.

Dealer institutions are banks, brokerage firms or dealers through which the BCB operates in the open market. Twelve institutions are selected twice a year, following the criteria of business volume and quality in the provision of data to the BCB and the National Treasury.

3.3 Settlement systems oversight

The BCB routinely oversees clearing houses and clearing and settlement service providers to ensure stability in the SFN and the regular functioning of the SPB. The scope of this oversight policy is: a) monitoring the risks related to the settlement of obligations among financial institutions; b) risk management by systems; and c) aspects related to the standards internationally applicable to financial market infrastructures.

Overseeing tools

The infrastructure for clearance and settlement under oversight by the BCB is comprised of :

- BM&FBovespa Securities Clearing House;
- BM&FBovespa Asset Clearing House;
- BM&FBovespa Foreign Exchange Clearing House;
- BM&FBovespa Derivative Clearing House;
- Interbank Payment Clearing House – CIP (Siloc, Sitraf, and C3);
- Compe;
- Cetip S.A. – Organized Markets;
- Cielo;
- Redecard;
- STR;
- Selic.

In order to conduct its oversight activities, the BCB makes use of four tools:

a) authorizations to operate and to make changes in systems that involve aspects of risk management, settlement procedures, connections between systems, among others, in order to verify compliance with principles and with the applicable normative base;
b) on-the-spot inspection, so as to assess:

- technological environment;
- risk management;

cont.

cont.

- internal controls;
- continuity of businesses;
- corporate governance;

c) statistical tests (monthly backtesting):

- monitoring of credit and liquidity risks incurred by the participants and by the systems that operate as central counterparties;
- assessment of whether the guarantees deposited by participants, in each system and every day of the period analyzed, are properly measured to support failures in settlement;

d) monitoring of operations through recorded flows. The result points toward adjustment of the measure of risks and guarantees by the clearing house.

In the past years, the BCB has made an effort to provide the risk management and internal control sectors of these infrastructures with independence and sufficient resources to meet their responsibilities and reach their goals.

In January, the C3 system operated by the Interbank Payment Clearing House (CIP) was approved. Creation of this system is in accordance with determinations by the CMN, which established that only credit operations registered with a settlement and registration system authorized by the BCB may be the object of assignment (Resolution no. 3998 of July 28, 2011).

This measure resulted from the need to prevent fraud in the interbank credit assignment market deriving from multiple assignments of same operation. Development of this system was essential for the recovery of the interbank credit assignment market, which was temporarily paralyzed due to the problems experienced in the previous year.

Compliance with the new principles for financial market infrastructures

The recent financial crisis and the experience accumulated since implementation of international standards for risk management of financial market infrastructures (IMF) led the BIS Committee on Payment and Settlement Systems (CPSS/BIS) and the International Organization of Securities Commission (Iosco) to publish the Principles for Financial Market Infrastructures (PFMI) in April.

The document contains international standards for the evaluation of the safety and efficiency of these infrastructures, laying out the minimum parameters to be adopted by regulatory authorities in their oversight practices. These standards result from a review of those published in earlier reports. G20 members undertook to apply these principles to their respective FMIs.

Within the scope of the Financial System Assessment Program (FSAP), the World Bank assessed the SPB's integrating systems regarding the new PFMIs. Results point toward broad compliance of the SPB with the international recommendations.

Still, the BCB organized a working group to write a proposal to review the legal and regulatory framework in force. The purpose is to foster alignment to the new principles, whenever required, in addition to incorporating the improvement opportunities identified during the monetary authority's work as an overseer of the SPB.

Modernization of retail payment systems

The BCB released new data and statistics about retail payment systems – Diagnosis of the Retail Payment System of Brazil – 2011 Statistical Addendum – and about payment cards – Report on the Payment Card Industry in Brazil – 2011 Statistical Addendum. Both these reports are available on the BCB website, in the section about the Brazilian Payment System.

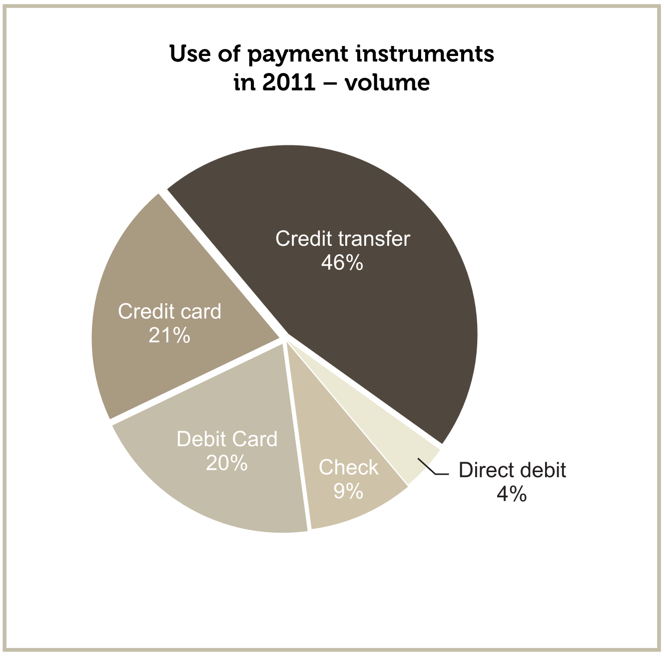
Studies show that in 2011 the use of checks dropped by about 5% compared to the previous year, while the use of electronic payment instruments increased by 14%, with a strong influence of debit and credit card transactions, which grew by 16.8%. The table below shows evidence that there has been a decrease in the number of checks written for amounts below R$1 thousand, possibly due to their substitution for electronic means, mainly payment cards.

Number of checks cashed*

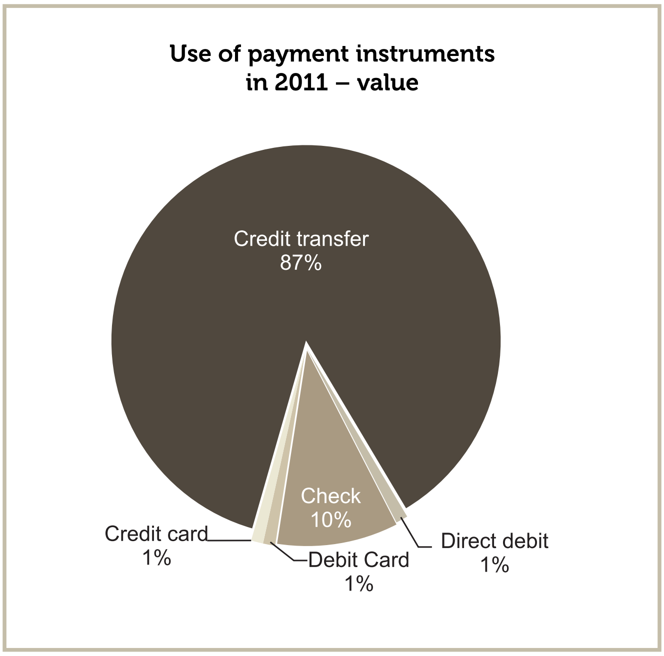
Amount range	2006	2011	2011/2006 (%)
Up to R$300	1,166,051	491,809	-58%
R$300 to R$1 thousand	357,197	305,610	-14%
R$1 thousand to R$2.5 thousand	113,875	126,539	11%
R$2.5 thousand to R$5 thousand	48,821	56,769	16%
R$5 thousand to R$50 thousand	21,237	26,896	27%
R$50 thousand to R$250 thousand	921	1,264	37%
Above R$250 thousand	74	113	53%

* Interbank checks.

The major electronic payment instrument remains credit transfers – a generic name for DOC (Credit Transfer Document), TEC (Special Credit Transfer), TED (Electronic Funds Transfer), payment slips, transfers among clients in the same institution, and collection agreements –, representing 46% of the volume and 87% of the value of transactions made without the use of cash. In turn, debit and credit cards taken together represent about 40% of payments, in terms of volume, but only 2% in terms of value.

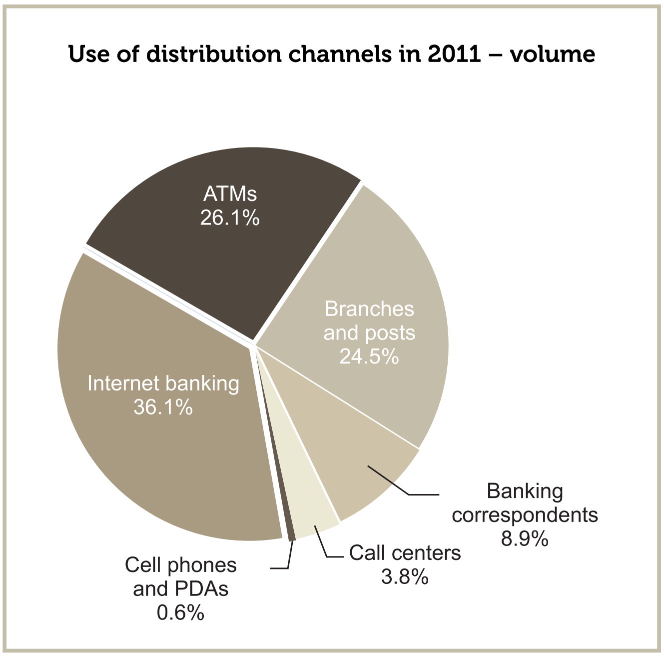


Use of payment instruments in 2011 – volume

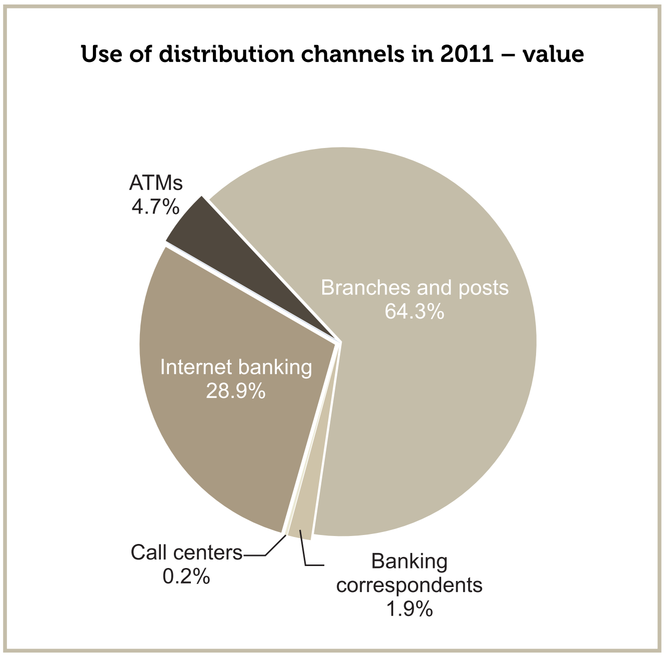


Use of payment instruments in 2011 – value

Regarding the use of distribution channels, in 2011 63% of banking transactions were made through electronic channels – internet banking, automated tellers (ATMs), cell phones, and hand computers (PDAs). Considering financial volume, branches and traditional posts accounted for 64% of the transactions. Deserving of note is the use of internet banking, which accounted for 29% of the transactions, in value, followed by ATMs with about 5%.



Use of distribution channels in 2011 – volume



Use of distribution channels in 2011 – value

New circular on payment slips

The BCB issued Circular no. 3598 of June 6, 2012, which instituted the payment slip, in replacement of the collection slip. The purpose of the circular was to improve the offer of payment services and to provide stability and modernization to the SPB.

Among the changes, the one regarding the settlement system for interbank obligations resulting from the use of this instrument deserves special note. The change will be effective as from April 2013.

With the new rules, the slips with a value equal to or higher than R$250 thousand will compulsorily be settled through the STR on the same day of receipt. On the other hand, the slips below this value may be settled at the receiving institution's discretion by multilateral clearing, through a clearing and settlement system authorized by the BCB or by adopting the same system applied to the slips higher than R$250 thousand.

In both cases, the term for making the funds available to the beneficiary remains an object of negotiation between the beneficiary and the receiving financial institution.

The rule in force until April 2013 establishes that slips with an individual value equal to or higher than R$5 thousand are settled in a bilateral manner, while slips with a value lower than R$5 thousand are settled by the multilateral net value, both on the following day.

In addition to anticipating the settlement of significant amounts (from the following day to the same day of payment), the new system increases the financial volume settled with multilateral clearing, increasing the efficiency of the system without compromising its safety.

In addition, the new regulation allows the universal use of the slip, regardless of the type of legal business, and creates the offer slip. The purpose of the new type of instrument is to protect financial system clients, making it possible to distinguish between payment of a previously incurred debt and other situations in which the obligation had not been previously contracted and therefore the payment of which is not required.

3.4 New payment arrangements

A working group was formed with members from the BCB, the Ministry of Communications, and the National Telecommunications Agency (Anatel), with a view to creating a new legal framework to provide payment services by non-banking entities and establishing the competence to the CMN and to the BCB to regulate this issue. Provision of services by these entities has increased as a result of the new services created, such as mobile payments (m-payments) and those based on electronic money (e-money). The purpose of the legal framework under study is to ensure an environment adequate for the development of payment services in an inclusive, competitive, innovative, and reliable manner.

New payment services

Participation of non-banking entities in the offer of retail payment services has been growing significantly in the international community, in great measure due to the advent of technologies that allow them to compete in areas which have not yet been dominated by banks.

This scenario brought a surge of new services, such as mobile payments (m-payments) and those based on electronic money (e-money), which, in addition to promoting innovation and increase in competition, have a significant potential for social inclusion, especially due to the high mobile phone penetration in all segments of the population.

In Brazil, provision of payment services by non-banking entities has also gained attention. However, the lack of specific regulation generates legal uncertainty and, consequently, brings risks to consumers, limits market growth, and restricts the BCB's ability to promote the efficient and safe functioning of the SPB. The BCB has been working to change this scenario, so as to provide greater safety to the users of these services.

Part II

4 International insertion

4.1 Overview of performance in international forums and organizations

As a representative of the country in a few forums and organizations, the BCB has prioritized overcoming impasses for the benefit of economic and financial stability and sustainable global development. It has also promoted the financial reform agenda previously agreed upon, and has supported greater representation of emerging economies in the review of the international financial architecture, particularly with the IMF.

Forums and organizations have been including for debate in their agenda not only economic policy dilemmas and significant risks to national economic and financial policies, but also the strengthening of multilateral financial safety nets, especially to improve the profile of the IMF instruments.

At the same time, the BCB has stepped up cooperation with the monetary authorities of the major emerging economies to create instruments (such as bilateral **swap** agreements in local currencies and multilateral contingency mechanisms of reserve **swaps**) that minimize uncertainty and mitigate any impact of turbulence in the international scenario on the Brazilian economy.

A **Swap** is a financial derivative whose purpose is to promote the simultaneous exchange of financial assets among the economic agents involved.

The volatility in commodity prices and the surge of capital inflows to emerging economies remained on the list of challenging topics on the agenda, as well as the new unconventional monetary measures taken by advanced countries.

Regarding the structural issues of the international financial agenda, the debate about the origins of the 2008-2009 crisis made relevant three major performance fronts: a) correcting global macroeconomic imbalances; b) strengthening of regulatory aspects; and c) reform of the international monetary system. Though still gradual, advances have been made.

4.2 Performance of the Central Bank of Brazil in major multilateral economic forums

In the current scenario, the importance of coordination has been gaining relevance among the G20, a group that includes the economic and financial authorities and leaders from the nineteen largest economies in the world and in the European Union. This year was marked by countries taking more cautious positions, which made it somehow difficult to reach broad agreements.

In addition to cooperating in the debates about G20 regulatory reforms, the BCB played an intense role in two working groups: International Financial Architecture (IFA) and Framework for Strong, Sustainable and Balanced Growth (FWG).

Brazil supported the need for additional measures to stimulate economic activity, as the global growth rate has been slowing down, and opposed the adoption of fiscal targets for the emerging economies and the inclusion of an indicator to measure reserve accumulation. Finally, Brazil advocated that the working group should work on the consequences for the emerging economies of the excessive global liquidity resulting from the expansionary monetary policies adopted by developed countries.

G20 priorities

In 2012, Mexico held the G20 presidency, which established the following priorities:
a) economic stability and structural reform to boost growth and employment;
b) improvement of the international financial architecture;
c) strengthening of the financial system;
d) improvement of food security and treatment of commodities price volatility;
e) promotion of sustainable development; and
f) risk management of disasters.
In 2013, Russia will take over the G20 presidency under the expectation of continuing working on most topics on the agenda adopted under Mexican leadership.

International Monetary Fund

The world crisis continues to put great financial pressure on the IMF, which has had to substantially increase its funds to consolidate its capacity to help member countries that encounter difficulties in balancing their payments.

Brazil has been providing support for the strengthening of the IMF financial capacity. The allocations are made in Special Drawing Rights (SDRs), a type of currency of the Fund. At the end of 2012, Brazil contributed close to SDR 2.15 billion to the Fund (SDR 1.12 billion through its general account – quotas – and SDR 1.03 billion via NAB).

In line with the commitments undertaken in the G20, a few countries expressed their intention to boost the Fund's lending capacity even further. New loan agreements have been defined. During the Mexico G20 Summit, Brazil announced its willingness to contribute an additional US$10 billion.

IMF loans

The IMF works as a kind of credit union among countries, in which each member country has a specific quota and, in turn, the member country makes a specific financial allocation to the institution. In return, whenever a country needs, it can apply for a loan with the institution.

IMF decisions are made by the vote of its members and each vote represents the percentage of quotas each country holds. Among such decisions is the one whether the IMF should loan funds to a member country – and the loan conditions.

Brazil, which during a long time borrowed funds from the IMF, is currently in an opposite position by contributing money to the Fund. These contributions are expressed in SDRs, and they are paid in through the purchase of IMF quotas.

The SDRs function as IMF currency. When members make a financial allocation to back up the loans, they receive that amount in SDRs, which may be exchanged for convertible currency in case of need. The SDR value is calculated based on a basket of four currencies: the US dollar, the Euro, the Japanese yen, and the UK pound sterling.

Through IMF's Financial Transactions Plan (FTP), the entity announces what the financial need of its main account should be for a specific period. Although quotas represent the IMF's main form of financing, supplementary sources of financing may be activated in case of need, such as the expansion of the New Arrangements to Borrow (NAB) – a multilateral agreement with a subgroup of member countries created in 1998 – or the execution of new bilateral agreements with member countries.

The IMF has also been dedicated to its internal structure. There was an election for executive directors and a debate about the reform of IMF quotas, in which Brazil had an active role.

The new executive directors were elected for the period from November 2012 to October 2014. The expectation to have all Board seats filled by election did not materialize, which resulted in non-compliance with the commitment assumed at the G20. The IMF has continued its practice of appointing five executive directors (the largest quota holders) and electing the nineteen remaining positions through a grouping of countries.

With regard to the reform of quotas, the IMF has been split between two processes throughout the year: ratification of the 2010 reform and debate of the quota formula reform, which, through its variables, translates representation of the countries in the institution.

In both cases, expected results were not reached. Implementation of the IMF quota reform agreed upon in 2010 also did not materialize within the deadline, as it did not obtain a majority vote within the G20. The quota formula reform met intense resistance from the countries that would lose representation, and will possibly not be completed within the established deadline – January 2013.

Brazil participated in the reform debates by openly advocating greater voting power to emerging and developing countries, and a simple and transparent quota formula, one which would reflect to a greater degree the countries' GDP.

The IMF carries out regular economic and financial assessments in sectors of its member countries. An IFM mission made visits to government agencies in the economic arena and a few entities of the Brazilian private sector. Overall, the IMF approved of Brazil's combination of austere fiscal policy and a more expansionary monetary policy, and predicted growth recovery in 2013 and 2014. The Fund reiterated the need to strengthen the level of competition and savings.

Based on the commitment undertaken within the scope of the G20, Brazil has agreed to be assessed every five years under the Financial Sector Assessment Program (FSAP), a joint IMF-World Bank initiative, the purpose of which is to gauge the soundness and stability of the SFN. The assessment was rather positive and showed the advances in the last decade. Banking supervision had excellent performance, standing out among G20 members. Stress tests revealed a robust financial system, which is capable of absorbing enormous shocks.

World Bank

In its cooperation with the World Bank, the BCB stands out for its participation in working groups and interlocutions related to payment systems, such as the Western Hemisphere Payments and Securities Settlement Forum, coordinated by the international organism in partnership with the Centro de Estudios Monetarios Latinoamericanos (Cemla – Center for Latin American Monetary Studies).

> **Cemla**
> Cemla is an organization that seeks to promote integration among Latin American central banks. It fosters research, disseminates information to its members about monetary and banking topics in Latin American and in the Caribbean, and promotes training of central banks' staff.

Cemla

The relationship between the BCB and Cemla has been strengthened, among other forms, by means of debates regarding the current international context. Thus, the BCB contributed to the debate in meetings promoted by the organism in several areas such as the planning and management of Central Banks treasury departments, using management models and indicators, and the aspects relating to production of currency and to the analysis of methodologies for indicators and for registration of money counterfeiting. Furthermore, the BCB played an outstanding role in the debates about aspects relating to interconnection of national payment systems, in addition to presenting the oversight framework for Brazilian payment systems in international events on the topic.

Bank for International Settlements

As a member of the Committee on Payment and Settlement Systems of the Bank for International Settlements (CPSS/BIS), the BCB continued to contribute to the debate, review, and harmonization of the best practices with a view to promoting the safety and efficiency of the financial system.

In addition, the BCB participated in several activities and debates at the BIS, such as:

a) the Market Committee meetings, held bimonthly;
b) the Committee on the Global Financial System (CGFS) meetings, held bimonthly. It also participated in one of its working groups in tune with the contemporary macrofinancial policy, the Meeting of the CGFS Working Group on the Selection and Application of Macroprudential Instruments (SAM);
c) the Research Task Force (RTF) working group, which is part of the subcommittee named Policy Development Group (PDG) of the Basel

Committee. The task force brings together representatives from central banks' financial risk and stability research departments, and supervising authorities from several countries;

d) the Consultative Council for the Americas (CCA) meetings, as well as in the organization of the BIS CCA Research Network on Capital flows, policy responses and risks of sudden reversals. The BCB contributed the work Order Flow and the Real: Indirect Evidence of the Effectiveness of Sterilized Interventions, presented at a project closing conference promoted by the Colombian Central Bank, in November, in that country;
e) the meeting of central bank directors of emerging economies (Meeting of the Working Party on Domestic Monetary Policy), as well as the meeting of chief economists (Meeting of Central Bank Chief Economists).

4.3 Participation of the Central Bank of Brazil in financial stability, inclusion, and education forums

The economic stability and the excellence in financial regulation reached by Brazil favored the country's participation in international forums dedicated to economic and financial regulation topics. On the one hand, this provides Brazil with the opportunity to contribute to the adoption of new global regulatory standards that ensure the balance in competitive terms and the robustness of financial systems, and, on the other hand, it enables the country to share experiences with other countries and play an important role in the formulation of financial regulation proposals, so that the decisions, rules, and principles adopted by these instances may include national interests.

One of these forums is the Financial Stability Board (FSB), of which the BCB has been a member since it was established in 2009. The authority participates in all levels of the Board: in specific working groups, in permanent Committees (Standing Committee on Assessment of Vulnerabilities and Standing Committee on Standards Implementation), and in the Directors' Board (Steering Committee).

The FSB coordinates and consolidates proposals of economic and financial improvement, assess their implementation, identifies potential problems, and promotes cooperation among countries. In addition, the Committee operates as a link between the political level (G20) and the level of regulatory policies rising out of the several international standard setters (Standard Setting Bodies – SSBs). In that sense, the FSB organizes several groups to debate specific topics and propose coordinated actions in economic and financial regulation.

In 2012, the FSB focused on the implementation of the financial reforms approved by the G20. In addition, six regional consultative groups (RCGs) were established, with the participation of FSB members and non-members.

Regarding resolution of the financial system, in respect to the Key Attributes of Effective Resolution Regimes for Financial Institutions published by the FSB, England's supervisory authorities (FSA) and Spain's (Bank of Spain) started debates to prepare Recovery and Resolution Plans (RRPs), within the context of the Crisis Management Groups (CMGs) of HSBC and Santander banks, respectively, of which the BCB participates.

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) is responsible for the proposition of new regulatory standards, in terms of prudential regulation for financial institutions. The BCBS also serves as a coordination forum among banking supervisors of the world's major economies, who are responsible for the supervision of global financial institutions that operate simultaneously in various jurisdictions. The BCBS is composed by 27 representatives of countries and autonomous territories, including Brazil.

The main purpose that the BCBS intends to reach with the proposition of prudential regulatory standards is the implementation, by the world's major economies, of a harmonious and consistent structure of prudential regulation and banking supervision, so as to reduce systemic risk and ensure global financial stability.

Financial inclusion and education

The BCB participates in debates and international actions to promote financial inclusion, whose agenda is developed by the Global Partnership for Financial Inclusion (GPFI), a network of international organizations, among which are the World Bank, the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), and the Organization for Economic Co-operation and Development (OECD). The G20 also seeks to coordinate actions developed by these international stakeholders, focusing on policies related to global financial inclusion.

In the context of the AFI, the BCB coordinated activities of the Financial Inclusion Data Working Group, which is dedicated to debating the major challenges in the collection and analysis of data, and to identifying solutions based on the experience of other countries. The group also works toward the definition of standard indicators that facilitate the diagnosis of financial inclusion in member countries and enable international comparisons.

The working group identified three dimensions for the study of financial inclusion: access, use, and quality. Starting from there, it developed and tested a set of indicators, which deserved recognition by the G20.

The BCB, with the support from the British Trust, started a project in the financial education area aiming to identify current strategies in financial education in Brazil, comparing them to the best British practices with a view to making our strategies more interesting and intelligible to the public at large. Results will be disseminated in training courses for representatives of the National Committee for Financial Education (Conef) and for the BCB servants. The authority expects this result to contribute to make consumers more aware of their finances and use of credit.

4.4 International monetary and financial integration

Within the regional context and in compliance with the federal government policies, the BCB has worked toward the expansion of financial and monetary integration of the Mercosur, in the Union of the

South American Nations (Unasur), and with other nations and regions. The final purpose is not only to increase financial transactions and investment, but also to benefit the productivity of businesses and the consumer through an increase in the quality of products and services produced and provided in the region.

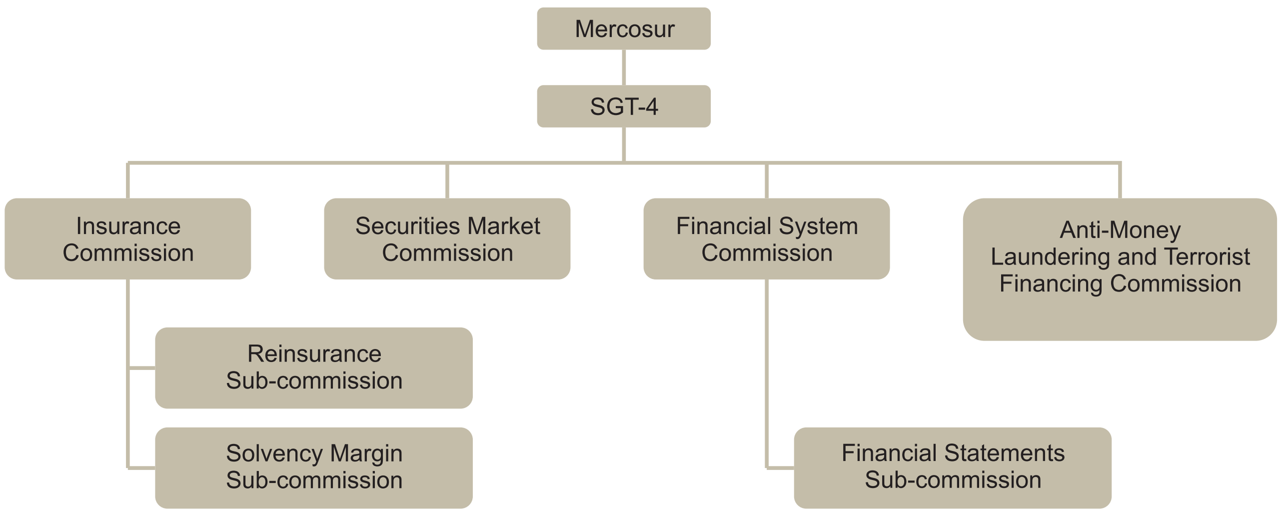
Regional integration and dialogue

The BCB has pushed for regional integration that protects both Brazilian investors and financial service providers abroad, and Brazilian consumers in relation to investments and service provision by foreigners in Brazil.

In the second half of the year, Brazil returned to the *pro tempore* presidency of the Mercosur.

The BCB's major work toward integration occurs in the Working Subgroup no. 4 – Financial Matters (SGT-4) of Mercosur, composed by the regulating bodies of the banking, insurance, and capital market sectors of the member countries. Debates have been progressing with a view to laying the foundations that will allow for an effective financial integration. The purpose is to reach this liberalization goal by 2015. The BCB has been coordinating Brazilian financial regulators in international negotiations and agreements to liberalize financial services and investments, which still involves representation in Subgroup (SGT) no. 17 in the Mercosur, which deals with negotiation of services in general and is not restricted to financial services.

Mercosur's STG-4 Structure



Within the SGT-4, throughout 2012 the BCB coordinated the preparation of a "Celebratory Booklet of 20 Years of Mercosur," which places the work of the SGT-4 in historical perspective. A seminar was also conducted in Brasília, "Challenges of Strengthening Financial Integration within the Mercosur – Lessons from the European Experience." The purpose of the seminar was to identify solutions, mechanisms, and instruments which favor the development of the process of financial integration in the block.

Aiming to institutionally strengthen these financial regulators and contribute to deepen regional financial integration, the STG-4 approved a proposal to intensify technical cooperation among Mercosur's financial regulators.

The STG-4 also approved the document "New Basis for negotiation of financial services in the Mercosur," listing the conditions which Mercosur's financial regulators consider indispensable for international negotiations involving financial services.

Still within the context of the Mercosur, acting in its capacity as the national coordinator of the Macroeconomic Monitoring Group (GMM) of the block, the BCB participated in four meetings of the Group and was responsible for the organization of two regular meetings of the GMM, in Rio de Janeiro. In addition to economic situation analyses, debates about global financial stability and about the perspectives of the world economy, the work agenda included the expansion of themes requested by the Ministries of Economy and Finance and by Mercosur's central bank governors, regarding: adequate level of international reserves; impact of capital flows in the region; countercyclical fiscal policies; and a review of Mercosur's policy on macroeconomic convergence goals, as well as other proposals for macroeconomic coordination for the region.

Two editions of the Mercosur Macroeconomic Indicators Bulletin were prepared. They are published semiannually on the GMM Internet portal, developed and managed by the BCB. They reflect the initiatives of the Mercosur member countries toward gaining greater control over the efficiency of their macroeconomic policies in a regional context, through coordinated dissemination of a selected set of situational indicators of the respective economies, mostly harmonized indicators, allowing comparison of the economies in the block.

Financial and Monetary Cooperation

In the last G20 summit in June, the BRICS made progress on the proposal of swap bilateral agreements in local currencies among central banks and the creation of a multilateral contingent mechanism of reserve swaps, so as to reinforce solidity and financial cooperation among the five member countries.

BRICS is a term used to describe five countries with large developing economies: Brazil, Russia, India, China, and South Africa.

As a result of that decision, the BCB has been working in two fronts: assessment of a possible currency swap mechanism among the BRICS's central banks, and negotiation of a bilateral local currency swap agreement with the Chinese central bank.

The mechanism under discussion among the BRICS aims to establish a contingent reserve arrangement by means of which its central banks, in case of transitory liquidity shocks, would commit among themselves to complement the countries' own defenses and the already existing multilateral mechanisms. The purpose is to increase the level of protection for members in cases of liquidity crisis. The central banks have been discussing details of the operationalization, risks, and benefits of this mechanism, as well as the amounts involved.

Regarding the negotiation with China, the government chiefs of both countries announced during the Rio+20 Summit, in June, the bilateral local currency swap agreement between the two central banks.

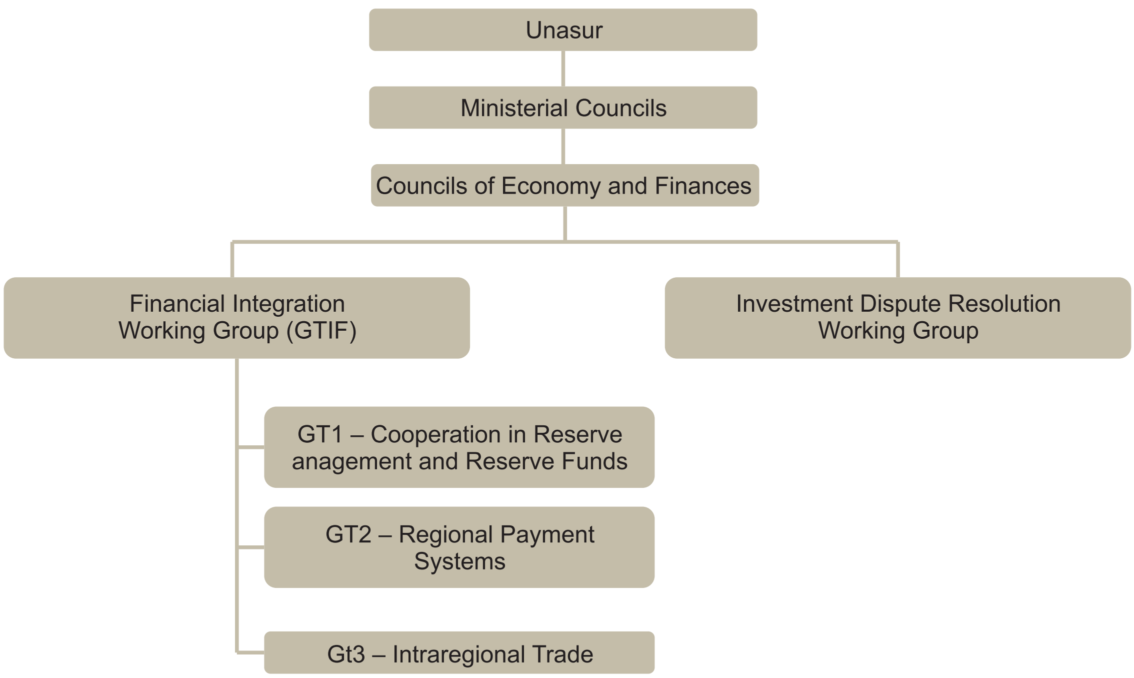
The monetary authorities of both countries have been making progress on this proposal. By this agreement, China and Brazil will be able to access up to R$60 billion or CNY190 billion (yuans) from each other, according to technical criteria to be defined. At the BCB, a working group has been formed to provide help to the Board of Directors in the negotiations.

At the same time, the BCB's entrance in the debates of the Union of the South American Nations (Unasur) gave more relevance to the regional financial and monetary integration agenda.

The BCB has focused its actions on the Unasur's Council of Economy and Finances, especially the Financial Integration Working Group (GTIF), which is geared toward: a) the development of South American financial and capitals markets; b) the use of regional currencies in trade and investment; and c) the establishment of regional institutions to boost the process of commercial, economic, and financial integration.

In addition, the BCB has been contributing to the creation of the Development Bank of the Union of the South American Nations (Bank of the South), and participating in a consultative capacity in the GT2 (Working Group 2 – Financial, Credit and Risk Management), coordinated by Brazil. Finally, progress was also made in the debate in the working group for the creation of Unasur's center for dispute resolution.

Structure of UNASUR Council of Economy and Finances



Still in the context of integration, the BCB has been increasingly requested to participate in the negotiation of economic and trade and investment agreements such as: Mercosur-European Union Bi-regional

Agreement, Colombia-Mercosur Economic Cooperation Agreement, Mercosur-Canada Negotiations, Brazil-Mexico Negotiations, Brazil-Chile Bilateral Investment Agreement and U.S.-Brazil Investment Dialogue, within the scope of the U.S.-Brazil Cooperation Agreement.

Further mention should be made of the service negotiations within the Word Trade Organization (WTO) and the General Agreement on Trade in Services (GATS), in which the purpose is to establish an international regulatory framework applicable to service trade and to the regulatory space of governments.

Finally, the regional dialogue moved forward also in the payment system area, in the Working Group on Payment System Issues of Latin America and the Caribbean (WGPS-LAC). The understandings also advanced in the Working Group on the Inter-American Payments Framework (GT-MIAP), coordinated by Cemla. Regional integration of financial market infrastructures will be deepened in the study group comprised of 25 countries, which aims to produce a document with guidelines and examples of good practices relating to the regional integration of payment systems.

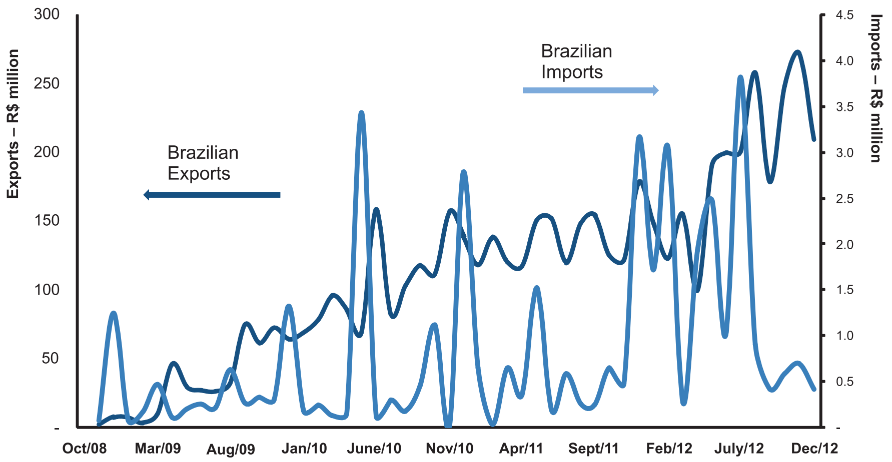
Brazil-Argentina Local Currency Payments System

The **Local Currency Payments System (SML)** in force with Argentina has been growing during the year, both in volume of operations and in amount processed. The SML traded R$2.3 billion in 2012, an amount 41% higher than in the previous year.

Transactions made since it started operating in October 2008 have exceeded R$5.6 billion. Throughout the year there was progress in the negotiations to allow Brazilian imports to be set in Reals, in addition to the inclusion of other types of operations not related to foreign trade, such as payments of social security benefits.

The **SML** is a payment system intended for commercial operations that allows Brazilian and Argentine importers and exporters to make and receive payments in their respective currencies. Thus, these agents simplify their operations and save money because they do not have to pay to convert their currency into dollars, as is usually the case in most import and export operations.

Brazil-Argentina SML: monthly evolution of processed transactions
(R$ million)



The BCB presented its experience with SML at the 4th Meeting of Central Bank Governors of Portuguese Language Countries. In that forum, a working group was organized to debate instruments capable of expanding economic and financial integration among its members. The SML constituted one of the instruments under discussion.

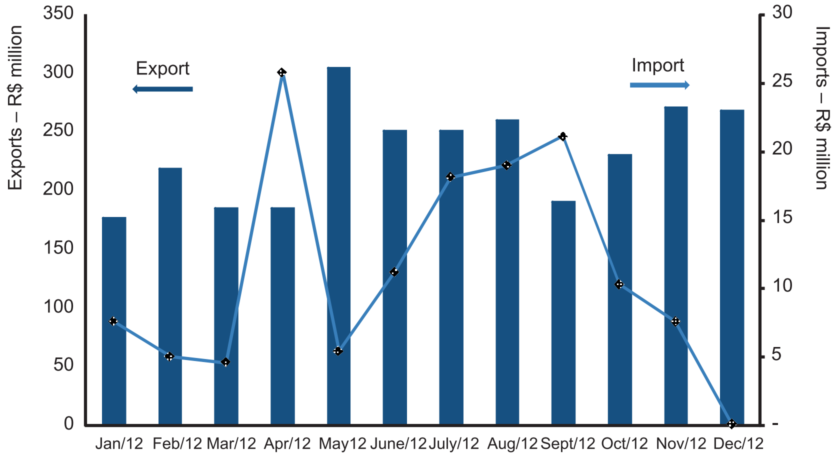
Other countries maintain a dialogue with Brazil about the possibility of using local currencies in foreign trade and financial transactions, such as China, Russia, Chile, Colombia, and Uruguay. With Uruguay, negotiations are already more advanced by means of Bill no. 7330/2010, which is now under consideration in the National Congress, to allow the BCB to award a contingency margin to the Uruguayan Central Bank in order to start the SML operation between the two countries.

Agreement on Reciprocal Payments and Credits

The Agreement on Reciprocal Payments and Credits (CCR) processed about US$2.8 billion in 2012 in proceeds from Brazilian exports and US$136 million in import payments.

Debates were conducted in the Monetary and Financial Affairs Committee (CAFM) of the Latin American Integration Association (Aladi) about reduction of CCR risks. The BCB headed the mapping of the major risks of the system and the measures to reduce them. The debate about the topic will continue in 2013, when a definition is expected about the measures to be adopted to make the system safer and more efficient. The following graphic illustrates the evolution of the flows of goods and services transacted in the CCR.

CCR: monthly evolution of processed transactions, 2012
(US$ million)



Agreement on Reciprocal Payments and Credits

The CCR is an agreement between the Aladi countries (except for Cuba) and the Dominican Republic. The CCR has the following objectives: to encourage financial relations among the countries in the region, to facilitate the expansion of reciprocal trade, and to systematize mutual consultations in monetary issues, foreign exchange and payments.

Through the CCR, payments derived from the trade of goods originated in or services provided from the signatory countries during four-month periods are cleared and settled among participating countries. At the end of every four months (clearing period), only the global balance that the central bank of each country has with the other countries is transferred or received. The guarantees set forth in the agreement are: convertibility of national currencies into American dollars and transferability of the latter by means of reimbursements among the central banks.

4.5 International relationship with banking and non-banking supervision entities

Cooperation Agreements

The BCB has intensified the execution of cooperation agreements with banking supervision agencies from other countries, with an emphasis on the exercise of consolidated supervision of financial institutions authorized to operate by the BCB. This action follows the recommendation made by the Basel Committee on Banking Supervision, which recommends the continuous and frequent exchange of information between the countries' supervisory entities, with the purpose of improving the quality of the international financial system supervision.

The BCB signed cooperation agreements for supervision purposes with the following supervisory authorities: *Bank Supervision Department of the South African Reserve Bank* (South Africa), *Banca D'Italia* (Italy) and *China Banking Regulatory Commission* (China). These three agreements add to the other seventeen the BCB already had in place in 2011.

Supervision abroad

As part of the direct inspection of branches and subsidiaries of Brazilian banks abroad, BCB supervisors worked in the USA, the Bahamas, Austria, Switzerland, and Portugal.

Also worth of mentioning are the Colleges of Supervisors – symposiums that promote communication between supervisors of the same financial institution, aiming to intensify the sharing of information and to expand understanding of the economic and financial situation, the strategies, and the risks undertaken worldwide by these banks, with the purpose of having consolidated supervision of the conglomerate.

In September, the College of Supervisors of a large Brazilian bank was held for the second time and consolidated the process started in 2010. In addition, BCB supervisors participated in five other Colleges of Supervisors of foreign banks with Brazilian subsidiaries.

Supervision of banking institutions

Regionally, Brazil participates in the Association of Supervisors of Banks of the Americas (Asba), whose purpose is to develop, disseminate, and promote banking supervisory practices in line with international standards, and to support the development of banking supervision expertise and resources in the Americas through the effective provision of training and technical cooperation services.

Supervision of non-banking institutions

Regarding supervision of non-banking institutions, the BCB has a representative in the International Credit Union Regulators' Network (ICURN), an international network of credit union regulators that promotes the guidance given by the leaders of the G20 nations for greater international cooperation among financial services regulators.

This network facilitates the sharing of information among credit unions, develops research about credit unions and their supervision, identifies best practices, and provides access to a forum on relevant issues that are critical to credit unions regulation.

4.6 International technical cooperation

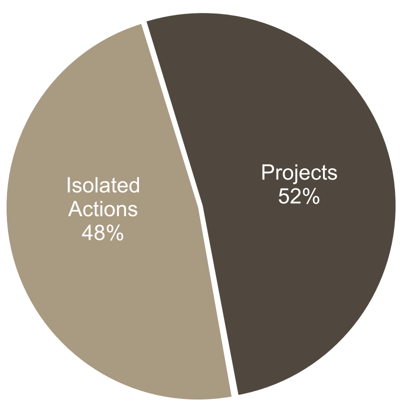
Brazil's performance in the last years continues to generate growing interest in the international community, which wants to know the responses provided by the BCB to the dilemmas inherent to the monetary authority activities in the context of an emerging economy.

In the scope of the Community of Portuguese Language Countries (CPLP), the BCB signed a technical, scientific, and cultural cooperation agreement with the Law School of the University of Lisbon. The BCB servants that deal with legal issues will be able to apply for Master's and PhD programs at that Law School.

There has been a growing number of requests for technical cooperation from foreign governments' central banks and other agencies. And the BCB has been improving to meet this demand.

Most of the BCB's international technical cooperation (CTI) activities have been provided by means of projects in partnership with the Brazilian Cooperation Agency (ABC) of the Ministry of Foreign Affairs (MRE). This has been contributing not only to better organize such activities and to allocate the resources available, but also, and mainly, to provide more effectiveness and efficiency to the service provided to beneficiaries. There are projects signed and in progress in Cape Verde, Surinam and Cuba, in addition to others under preparation.

CTI – Actions and Projects

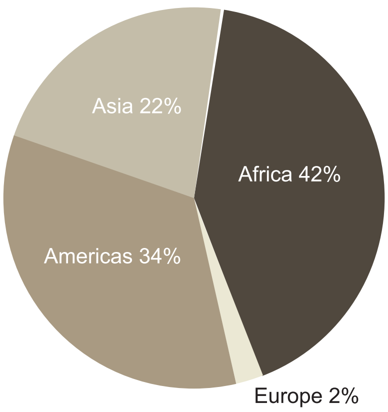


A development of such activities may involve a partnership with international organizations for the provision of triangular CTI, such as that with the IMF, which contributed to finance fourteen missions in the last two years.

Although most of the requests still come from Latin American countries, the Caribbean, and Africa, there has been a demand for high level visits from authorities from other countries in Asia and Europe, and from Canada.

More than a third of the CTI in the year was provided to countries in the Community of Portuguese Language Countries (CPLP). The number of actions directed toward Africa has grown with the integrated projects developed and conducted in partnership with national and international agencies, such as the ABC from the MRE, now accounting for 42% of the total.

CTI in 2012 – Actions by Continent



The dialogue and experience sharing have focused on different areas, such as financial inclusion and model of banking correspondents, payment system, reserve management, risk management, customer service, statistics of payment balance, management of the inflation targeting system, open market operations, among others.

Globally, there have been 41 CTI actions in the year, 13 of which were conducted abroad and 28 in Brazil. Among the sixteen missions from African countries, thirteen were from the CPLP countries.

Part II

5 Institutional Relations

5.1 Relationship with the National Congress

In an effort to help the **Legislative Branch** in issues related to its duties, the BCB promoted several meetings such as the ones of its directors with members of Congress held at its headquarters, and the hearings held at the National Congress Houses with the participation of representatives of the institution.

In its **interaction with the Legislative Branch**, the BCB aims to cooperate in the writing of new laws. The institution is currently following up on approximately 800 legislative proposals on issues within the scope of its competence, and supplying opinions with an analysis of each issue.

The BCB governor participated in quarterly public hearings in the Commission for Economic Affairs (CAE) of the Federal Senate and in joint meetings of several thematic commissions, both of the Chamber of Deputies and of the Senate. In those meetings, the BCB made presentations about the fulfillment of the goals and targets of the monetary, credit, and foreign exchange policies, making evident the impact and fiscal cost of its operations, in addition to the results reported in its balance sheets. Also discussed were other issues regarding monetary policy and the impacts of the international crisis on Brazil.

The institution responded to the Legislative Branch's formal and informal requests, particularly the requests for information from congressmen and senators.

In addition, in the state and federal spheres, the monetary authority cooperated with the Parliamentary Commissions of Inquiry (CPIs) by sending to the SFN all orders for the transfer of the bank secrecy of those individuals and legal entities under investigation, especially to the Joint Parliamentary Commission of Inquiry (CPMI) formed in the Legislative Assembly of the State of Goiás.

5.2 Services to the Judicial Branch

In 2012, the BCB served 5.02 million demands from the three Branches of Power. Most of them came from the Judicial Branch. Out of this total, the Bacen Jud system recorded 4.54 million requests, 9.35% more than the previous year. The number of judicial orders in print in 2012 – 56.7 million – was 1.38% lower than in the previous year.

The Bacen Jud

The Bacen Jud is a system for electronic communication between the Judicial Branch and financial banking institutions. It uses the BCB's intermediation, technical management, and support service. Through this system, judges file judicial orders to request information and for the blocking, unblocking, and transfer of blocked values, which orders are transmitted to banking institutions for compliance and response.

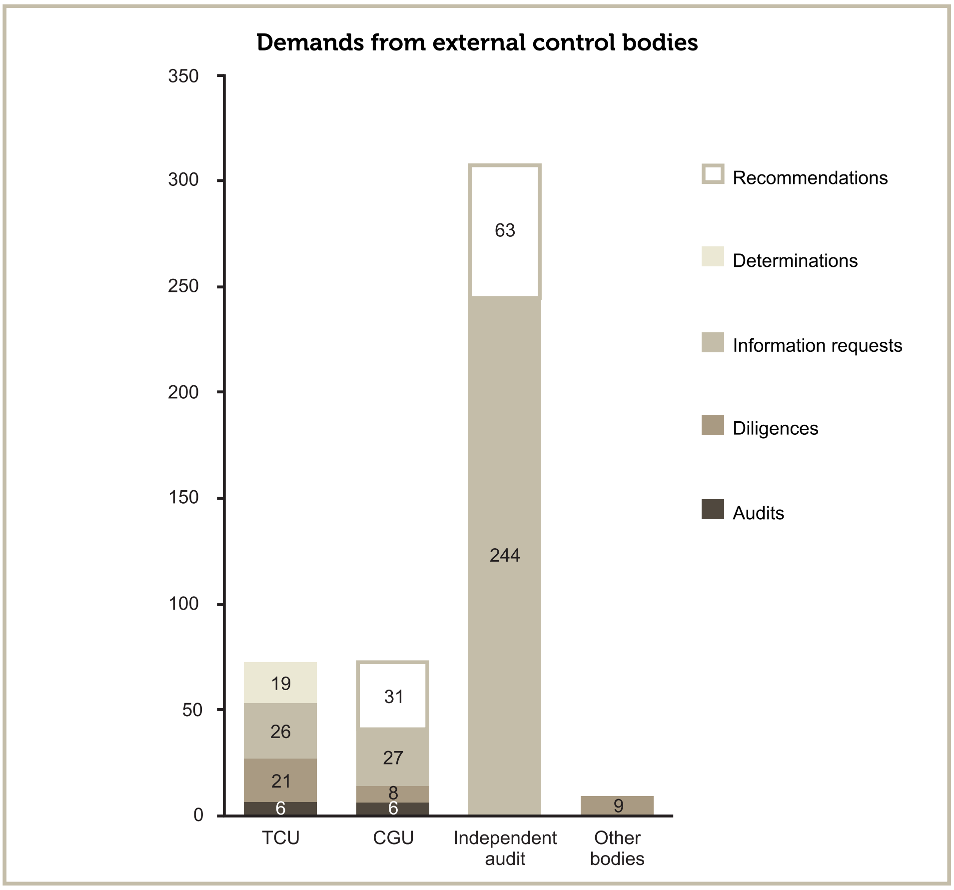
Previously, for example, whenever an employee won a lawsuit and a court had to request the blocking of the amount to be paid in the employer's account, all this process was conducted in paper format. The judge used to send a request to the BCB, which analyzed and forwarded it to all banks in the SFN. The process was slow.

With the Bacen Jud, a judge can quickly block amounts through the system, ensuring more agility for people who are eligible to be paid. The system is available to all areas of Justice – labor, civil, etc.

5.3 Services to external control bodies

The BCB is directly subject to external control by two bodies, with the purpose of ensuring transparency in its management. The Federal Court of Accounts (TCU) audits the accounts of the institution. The accounting, financial, budget, operational, and asset supervision is the responsibility of the Office of the Comptroller General (CGU). There is also an independent audit, which issues an opinion on financial statements, and the auditing from other areas of the Legislative and Executive Branches.

The BCB responded to 460 demands from external control bodies through its internal audit service. All determinations and recommendations have been or are being complied with within the terms established.



Works

Among the demands for information and audit, worthy of mention are those regarding the construction of BCB's headquarter buildings in Rio de Janeiro and Salvador. The TCU requested information and conducted specific audits in both works, which resulted in recommendations that were readily complied with by the BCB.

The institution also responded requests for information about the construction in Rio de Janeiro from the Chamber of Deputies and the Rio de Janeiro Attorney General's Office.

Redi-BC

The use of the Reserve for the Institutional Development of the Central Bank (Redi-BC) was under analysis by the TCU. The Redi-BC is a fund with financial resources originating from the collection of a service charge on checks returned for insufficient funds. The issue was evaluated by the court, which confirmed the regularity of the use that the BCB had been making of such resources – use in corporate projects to improve the institution's performance.

A budget flow was put into place to move these resources via General Budget of the Union, with the creation of a specific action in the Pluriannual Plan (PPA) and its inclusion in the Annual Budget Law (LOA).

5.4 Seminars, conferences, and other events

The BCB promoted several events, with the presence of approximately 8,000 people. A few of them had international relevance, such as the meetings about payment systems and accountancy geared toward central bank employees from countries in the Community of Portuguese Language Countries (CPLP). The purpose was to strengthen the relationship of the BCB with central banks in this community. Other meetings were held of jurists and governors of central banks in the CPLP.

Meetings of the Community of Portuguese Language Countries

At the 5th Meeting on Payment Systems – held in May, in Brasília –, specialists of central banks of the CPLP debated settlement systems for large amounts, payment systems oversight , retail payment systems, widespread presence of financial services, among other topics.

The 2nd Accounting Meeting, promoted in the same period, dealt with the adaptation of CPLP monetary authorities to the international accounting standards (IFRS), as well as internal controls and payments. Accountants also debated operational risk management models and transparency in financial statements.

In September, the 9th Meeting of Jurists and the 6th Meeting of the CPLP Central Bank Governors were held in Rio de Janeiro. In the former, debates were held about the improvement measures to prevent and combat crises; banking services and their impacts on consumer rights; and other responsibilities of central banks as regulating bodies.

At the Governors' Meeting, there were debates about the respective economic situations and how the actions taken by the central banks within their competences may facilitate closer economic and financial relations among the countries that comprise the CPLP.

Training

The agreement among the BCB, the Ministry of Finance, the Ministry of Foreign Affairs, and the IMF was extended. During the year, there were five training activities intended for government employees from Latin American and Portuguese speaking nations. The following topics were studied: balance of payment statistics, monetary and foreign exchange policy, financial solidity indicators, macroeconomic management, and remittance statistics.

Traditional events

The BCB organized the XIV Annual Inflation Targeting Seminar, in Rio de Janeiro. This event promotes experience sharing between Brazilian and foreign specialists about issues relevant to the inflation targeting regime, with a focus on the design and application of monetary policy.

In São Paulo, the Seminar on Risk, Financial Stability, and Banking Economics reached its seventh annual edition.

Events with other international bodies

Other international events resulted from the agreement between the BCB and the **Centro de Estudios Monetarios Latinoamericanos** (Cemla), especially the XI Meeting of Central Bank Treasurers of Latin America and the Caribbean.

Events were also held in combination with other international organizations, such as the Association of Supervisors of Banks of the Americas (Asba), the FED and the BIS, on the following issues: supervision of credit unions and measuring; credit risk management; and financial regulation and monetary policy.

Within the sphere of the Mercosur, there were meetings in Rio de Janeiro of the Macroeconomic Monitoring Group and, in Brasília, the semi-annual meeting of the SGT-4 working subgroup – Financial Matters of the Mercosur. In Brasília, there were debates about the actions required to strengthen the financial integration of the block's member countries.

Financial inclusion and education

The BCB organized and participated in several events about financial inclusion and financial education. In May, the BCB held an event in Brasília, in partnership with Sebrae, to launch the Action Plan to Strengthen the Institutional Environment, within the PNIF.

In October, the 4th Central Bank Forum on Financial Inclusion was held in Porto Alegre with the presence of more than eight hundred participants and, for the first time, the whole event was webcast live.

Academic seminars

In addition, the BCB held twenty seminars in Brasília and five in Rio de Janeiro, which were part of a series of academic seminars geared toward the dissemination of research results of interest to the institution, and the interaction of technical staff of the BCB with the academic community.

5.5 Institutional communication

Second Family of Real Banknotes

In July, the Central Bank launched a national campaign to promote the 10- and 20-Real banknotes from the **Second Family of the Real**. With the slogan "See, feel, and find out the news regarding your money," the campaign included radio spots, advertising video, newspaper inserts, and a hotsite with details about safety elements in the new banknotes, accessible also for tablet and smartphone users.

The 100- and 50-Real banknotes of the **Second Family of the Real** were launched in 2011, and the 5- and 2-Real banknotes will be launched in 2013.

A survey commissioned by the BCB to assess the effectiveness of the campaign indicated that the citizens started to notice more clearly the presence of safety elements – especially the high relief and watermark features –, and to identify more easily the new banknotes in circulation.

Despite the fact that most people stated that they already knew how to determine the authenticity of a banknote, 25% of those who saw the campaign stated that they learned how to make the verification. In addition, 85% indicated their intention to pay closer attention to the banknotes that they receive in their everyday lives.

Brazilian capital abroad

With the purpose of strengthening its connection with society, the BCB launched a dissemination campaign for the Statement of Brazilian Capital Abroad (CBE) in the first quarter of the year. The purpose was to inform the target public of the deadlines of annual reporting. That public includes individuals or legal entities who had the equivalent of US$100 thousand or more in foreign assets on 12/31/2011. The media strategy included the running of radio spots, specialized magazine and newspaper ads, and banner ads on economic portals.

In addition, the BCB started the dissemination of the quarter CBE through a campaign rather similar to the annual one, but with a more restricted target public, as the minimum value to be stated is US$100 million.

The campaigns were successful, resulting in 21,716 statements of the annual CBE and more than three hundred statements on average, in each quarter CBE, favoring wide coverage of the foreign assets held by residents in Brazil and the production of quality statistics.

Census of Foreign Capital

The Census of Foreign Capital, a survey that used to be conducted every five years, started to be conducted annually in 2012 (base year 2011), in an abridged version.

In the Census quinquennial edition, every resident company that had foreign investment with an interest in its capital, at any value, had to file a statement. In the annual version, the company should also own net worth equal to or higher than US$100 million on the reference date.

Information was collected between July and September, supported by a dissemination campaign with radio spots, specialized magazines and newspapers ads, in addition to banner ads on economic portals, which directed interested visitors to the statement reporting environment on the BCB website.

The greater frequency of the survey was important in order to fill the gaps in the production of foreign sector statistics. More than three thousand statements were received. This allowed the BCB to build a wide-ranging picture of the presence of foreign capital in the Brazilian economy, which is an important resource for researchers and economic policy makers.

Memory

Throughout the year, the BCB community reviewed reports that marked internal communication in the last decades by means of traveling exhibit "The History of the Central Bank Told by Communication – 47 years of the Central Bank, 30 years of *Linha Direta*" [Direct Line]. The exhibit was inaugurated in Brasília, in May, and was shown in the nine regional branches of the banking authority. Through this exhibit, BCB collaborators were able to observe how the internal newsletter followed the evolution of the institution and great moments of Brazil's history.

5.6 National technical cooperation

The BCB enters into technical cooperation agreements with several bodies, aiming to share experiences and expand the possibilities to carry out its mission.

INSS

The BCB has entered into a technical cooperation agreement with the National Social Security Institute (INSS), aiming to share information and provide specialized technical support.

With information received from the INSS, the BCB will be able to learn more about the most significant part of paycheck-backed loans [*crédito consignado*] offered by financial institutions, so as to make more effective the financial education actions that the monetary authority has been implementing.

In addition, the BCB will have at its disposal one more tool to support decisions relating to credit policy for retired citizens and pensioners who are INSS beneficiaries. These decisions are made together with the INSS itself and with the Federal Public Prosecutor's Office and the Ministry of Justice, through the National Consumer Secretariat.

Chamber of Deputies

The BCB and the Chamber of Deputies entered into a cooperation agreement to promote technical-scientific, social, historic, artistic, and cultural exchange, research and cooperation.

The first event made possible by the agreement was a joint exhibit of works of painter Cândido Portinari, as a tribute to the fifty-year anniversary of his death. The exhibit was held at the Chamber of Deputies.

Ministry of Justice

The BCB and the Ministry of Justice have extended their technical cooperation agreement by sixty months. The purpose of this agreement is to promote joint actions to improve the supply of products and provision of services to clients and users of financial products and services by the institutions authorized to operate by the BCB.

The agreement has been offering financial education actions in order to reduce the asymmetry of information between consumers and institutions, such as the publication of the "Consumption and Finance Newsletter." Also to that effect, the BCB and the Department of Consumer Protection and Defense (DPDC) of the Ministry of Justice produced the newsletters "Consumption and Finance" issues 4 and 5, about "credit operations" and "opening and closing an account", respectively.

In addition, the BCB and the Federal Police Department renewed a technical cooperation agreement whose purpose is to combat counterfeit money manufacturing. The technical group formed as a consequence of this agreement regularly assesses the data about forgeries, in order to help investigations.

5.7 Legal safety

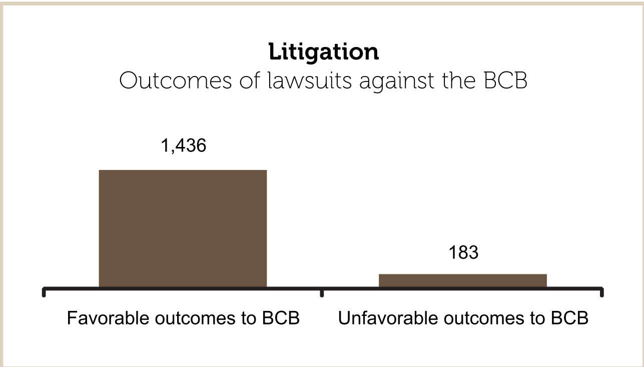
The actions taken by the BCB undergo rigorous legal control. The legal advice received prior to making a decision and the zeal to ensure that procedures are legally compliant provide the legal certainty that is necessary for the BCB to accomplish its institutional mission in accordance with the constitutional principles and the legal system.

The BCB encouraged the sharing of experience between the technical and the legal departments. With better knowledge of the business of each unit, the BCB's Office of the General Counsel is able to improve the legal advisory services provided and its prior control of legal compliance.

Consultations from the various technical departments with the Office of the General Counsel resulted in the access of more than 1,500 internal investigative proceedings, not including the service delivered by electronic means.

Litigation

In the litigation arena, by 12/31 the BCB had received favorable results in the vast majority of ordinary proceedings or injunctions.



Risk assessment

By year-end, the BCB had monitored 6,839 lawsuits against the institution, whose amount claimed totaled R$215.7 billion. There was an assessment of the risks inherent to them, by means of an estimate of the amounts of interest and the possibility of loss in each lawsuit. The risk of losing was assessed as probable in 1,121 of the lawsuits reviewed, which led to the provision of only R$3.78 billion (1.7% of the total claimed), a large portion of which was concentrated in lawsuits involving financial institutions subject to special regimes (R$1.4 billion) and BCB servants (R$1.3 billion). The same procedure was adopted in 114 lawsuits relating to Proagro, resulting in the provision of the amount of R$76.7 million.

Amounts due

By December 31, the BCB had received requests for payment of 89 court-ordered debt payment notices (*precatórios*), totaling R$24.8 million, regarding the 2013 Budget Proposal. Seventy-eight of those, an amount of R$23.9 million, will be paid with the BCB's own resources, and eleven with Proagro resources, an amount of R$939.5 thousand.

Active debt

By December 31, 120 debts had been recorded as active debts, a total original amount of R$88.04 million. One hundred and sixty-six debt records made in the previous years were cancelled, a total original amount of R$112.4 million, as they referred to credits proven to be unenforceable according to Law no. 11371 of November 28, 2006.

The BCB received R$89.4 million referring to payments of credits posted in the active debt roster. The BCB also received legal fees referring to court case decisions, in the amount of R$5.2 million. In addition, the BCB's actions in administrative proceedings resulting from art. 65 of Law 12249 of June 11, 2010 allowed for the reception of R$1.78 billion referring to credits not posted in the active debt roster and owed mainly by financial institutions undergoing out of court liquidation proceedings.

Joint action

In addition to its internal investigations, the BCB took action through its Office of the General Counsel and its Internal Audit, in cases of more wide-ranging federal interest. Such action, which was also taken jointly with the Office of the Solicitor-General of the Union (AGU), took place in processes of the Federal Court of Accounts (TCU) relating to topics such as:

a) investigation, by the BCB, into information about public indebtedness used by the government in order to conduct its fiscal policy;
b) collection of fines resulting from regulation and inspection activities;
c) market solutions to protect the financial stability with operations of corporate restructuring (merger and acquisition) among institutions of the SFN;
d) influence of monetary and foreign exchange policies on the fiscal policy;
e) supervision of family farm financing operations;
f) type of Redi-BC values management.

New system

The BCB moved forward in the development of the Integrated Legal Records Management and Financial Controls System (BCJUR II), whose purpose is to improve the control of legal and financial records resulting from lawsuits. Through this system, the whole management of credits, provisions, and court-ordered debt payment notices (*precatórios*) will be done, thus further improving the level of reliability of the information provided to control agencies.

Improvement of routines

The PGBC's Calculation Manual was written with the main purpose of standardizing procedures and providing greater safety to the parameters and criteria used in the preparation of legal calculations in the defense of the BCB.

A systematized database was also created to gather the precedents representing the most relevant theses for the BCB. The database already has 452 items filed and will be updated permanently, allowing the BCB to follow the dynamics of court decisions, and, based on the reports produced, to adopt measures geared toward the strategic defense of the institution.

In addition, improvements were made in the process taken to execute the BCB credits, such as a) automatization and computerization of the stages of the process; and b) adoption of systematic consultations to new search tools, to locate debtors and their assets. These measures provide more data for the BCB to make the decision to start collection through the legal system, after out of court measures have been exhausted.

Part II

6 Management

6.1 Organizational adjustments

In 2012, the BCB continued the effort to improve its management.

Aiming to bring the institution even closer to citizens, the creation of a department dedicated to Institutional Relations and Citizenship represented a remarkable change. The sector is responsible for customer service, financial inclusion and education, and institutional communication. This was an important step toward reaching the strategic goal of implementing improvements in the communication and relationship with both the external and internal publics.

The Conduct Supervision Department was created based on the model referred to as twin peaks, which creates distinctive components to deal with prudential supervision, with a focus on solvency, and conduct (or behavioral) supervision, which focuses on compliance with rules and regulations.

There was also an important adjustment in the commissioned positions within the BCB, allowing the BCB to meet a few priority demands, as well as the creation of a strategic reserve of commissions, aimed at meeting specific situations and deadlines. This adjustment reduced the number of hierarchic levels and strengthened strategic positions.

6.2 Corporate management instruments

Aiming to consolidate management through processes, the improvement and validation of the value chain of the BCB were initiated in all its units. The value chain is a management instrument that reflects how activities performed create value in the fulfillment of legal obligations and achievement of the BCB's mission. This allows a more efficient allocation of resources and staff.

In line with this goal, a method was developed to evaluate the organizational design that reflects the way the BCB is organized to carry out its activities. This method will be used whenever there are demands for organizational restructuring.

In the area of organizational behavior, the actions were concentrated on the development of an integrated model of culture and climate management in the BCB, with a focus on strengthening organizational values. The purpose of this is to allow for the continuity and effectiveness of business in view of the labor force reduction and the challenges imposed by the external environment.

The BCB created the Strategic People Management Committee, which is responsible for proposing policies and guidelines for people management and parameters to assess its effectiveness; monitoring the resolutions about such policies; and working as a consultative instance for issues posed at supradepartmental level in people management.

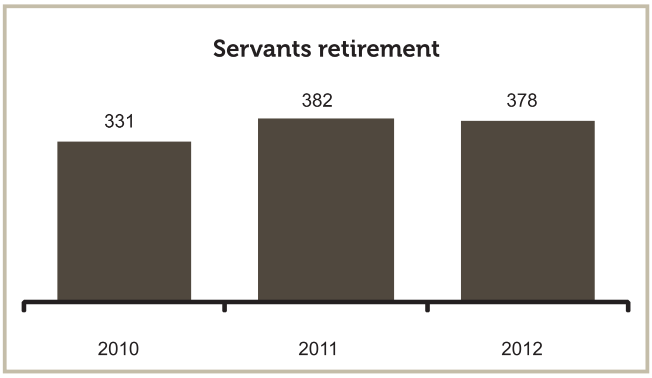
In the projects arena, the *Maturidade em Projetos* [Project Maturity] project concentrated efforts on improving the project and portfolio management methods, and on the consolidation of the use of the project management system. The project office also helped several units to conduct their strategic projects, with the completion of fifteen projects, to the tune of R$31 million.

Two meetings of the Corporate Projects Committee were held in which the topics discussed included the new scenario for the use of Redi-BC resources, the evaluation of new pre-projects, the monitoring and control of project portfolios, and the budget execution.

The BCB's strategic plan was broken down into priorities, in accordance with the guidelines laid out by the Board of Directors, and actions have been systematically followed up, presenting concrete results in all areas.

6.3 People management

Just as in the last years, the BCB developed actions to decrease operational risk in people management represented by the significant number of retirements in recent years and by the retirements predicted for the next years – approximately 23% (988) of its servants may apply for the benefit by 2014.



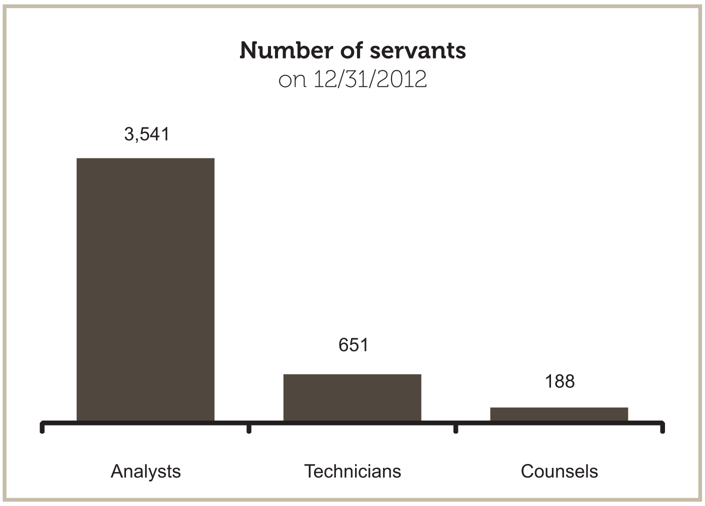
By December 31, 378 servants had retired, which consolidated a sequence of high annual retirement figures in the last three years.

Among the actions to decrease operational risk in people management, which is aggravated by the BCB's growing list of new responsibilities, the following are relevant: admission of more than 800 servants in the last three years, through public selection exam; promotion of internal mobility with the purpose of maximizing the use of **staff** capabilities; and review of the work processes aiming at greater efficiency.

The BCB **staff** is divided into two career tracks: specialist and counsel. The specialist track is divided into the following positions: analyst and technician. The counsel career track has only one position, that of counsel.

During the year, 153 analysts, 49 technicians, and 13 counsels started work at the BCB. Meanwhile, the process of internal mobility promoted the relocation of about 8% of the staff, allowing the BCB to make better use of human potential.

Despite the BCB's efforts in recent years, on 12/31/2012 its staff recorded the lowest historical position since the mid 1970s with 4,380 servants.



Still as part of an effort to mitigate the operational risk in people management, a request was sent to the Ministry of Planning, Budget, and Management for authorization to conduct public selection exams in 2013.

The BCB has been trying to develop initiatives in the people management area to promote the practice of organizational values. The Central Bank's Quality of Life at Work Program and the Central Bank Servants Health Assistance Program (PASBC) are examples of such initiatives. Worthy of mention is the development of actions such as regular physical exams, follow-up on servants with chronic pathologies, preventive health campaigns, and workplace physical activity.

6.4 Training

The BCB has been expanding its presence in the training area through the Central Bank Corporate University (UniBacen) and also by entering into agreements and establishing partnerships with other institutions.

In March, the BCB corporate university was elevated to the status of Government School, a member of the Federal Government School System (Segu).

In addition, the BCB implemented the Leadership School and defined BCB managers' leadership profile and their learning trails. These trails are composed of 31 management themes to be offered to managers and their potential successors, for training and development.

The BCB conducted about 700 educational actions, offering its servants more than 7,000 training opportunities in accordance with the Annual Training Plan (PAC). More than 75% of these actions were conducted with internal facilitators.

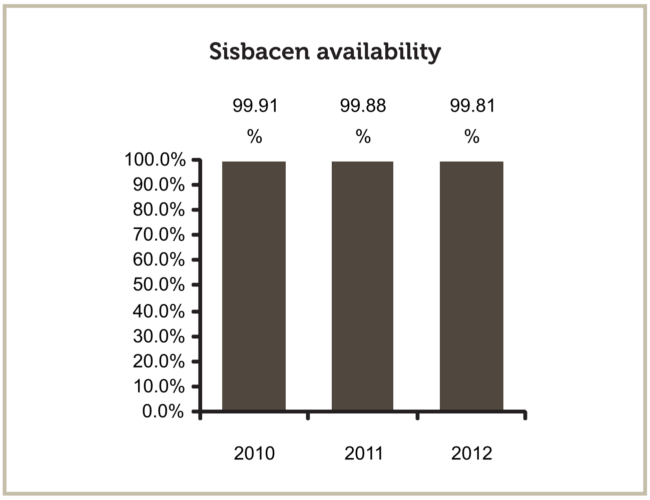
Within the scope of the International Events Program of the corporate university, the BCB hosted nine educational actions, six of which in partnership with the IMF, in Brasília, two in partnership with Asba, in Rio de Janeiro and São Paulo, and one in partnership with Cemla, in Brasília. These actions had 285 participants, among foreigners and BCB servants, in addition to servants being sent abroad to receive specialized training.

The Graduate Program released 27 servants to pursue graduate studies. These servants are now on leave of absence to attend master's and doctoral programs in Brazil and abroad, in areas of interest to the institution. In addition, 14 servants received financial sponsorship to attend graduate professional training.

The Language Program offered 439 servants the chance to improve their knowledge of the English and Spanish languages, and the First Undergraduate Degree Incentive Grant Program provided financial help to 36 servants, and seven new participants were admitted into the program.

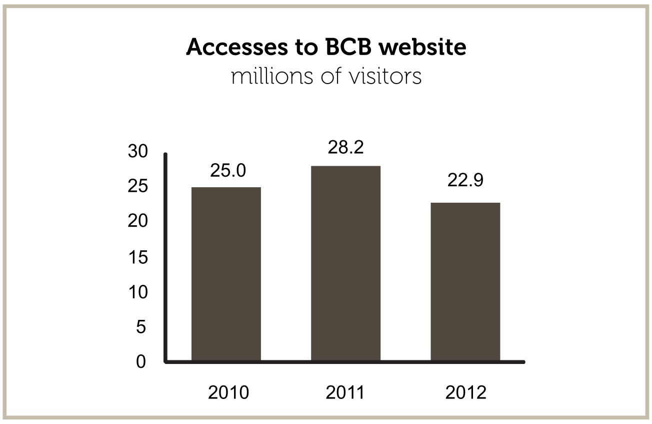
6.5 Information technology

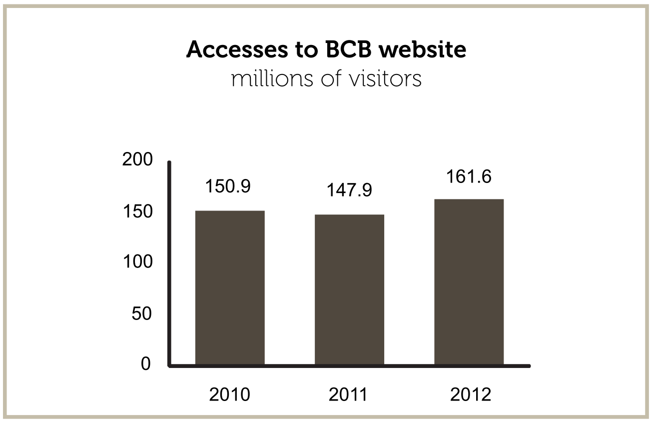
The BCB kept the standard of excellence in information systems that provide support to the BCB's institutional mission. During the year, the average rate of availability of these systems was 99.81%. This means that, throughout the year, the systems were only unavailable to users for less than sixteen hours.



The BCB developed a version of the Citizen Calculator for mobiles and tablets. This was the result of adopting development platforms for these devices. One of the focuses of the BCB on the Information Technology area is from now on to develop more applications for public use in mobile equipment.

The support tool for the BCB website was changed in order to make it more transparent for the users. There was a considerable evolution inasmuch as the information is published in a quicker and more reliable manner. There were 23 million unique visitors who accessed about 161 million times the website pages. It was available 99.93% of the time.





The BCB Mail system was also changed to the web platform, providing greater usability to the user with a better use interface.

The Sisbacen support received almost 29 thousand requests of users who demanded guidance regarding the systems, of which about 95% were solved within two hours.

The BCB completed 87 projects for the development of new solutions and improvements of IT infrastructure. Throughout the year, 2,769 systems maintenance requests were taken care of.

6.6 Property management

In continuation to its General Construction Program, the BCB developed the following activities:

a) Headquarters building in Rio de Janeiro: continuation of the works started in 2010, with the completion of 80% of the foundations and 40% of the reinforced concrete. An adjustment of the work schedule was necessary due to the archeological findings on the construction site;
b) Headquarters building in Salvador – execution of construction agreement and start of works with preparation of worksite, soil cutting, and laying of foundations;
c) Headquarters building in Porto Alegre: projects under analysis by the City Government.

6.7 Safety

In September, the BCB implemented the Central Bank of Brazil Safety Policy with the purpose of establishing safety principles and guidelines to be complied with by all sectors when performing their institutional activities, and which guide the actions necessary for the safety of people, facilities, information, assets, values, and officials of the BCB.

Within the scope of the Institutional Safety Program, the installation of a new electronic surveillance system was completed in all regional BCB branches and at its headquarters. Among the benefits of the new system is the improvement of real-time monitoring, done both locally and remotely, and of the capacity to analyze events using logs. There were improvements in the functionality, scope, and quality of the system, which resulted in greater protection for the organization.

The project to install the new electronic system of access control is underway. The purpose of this system is to standardize and improve access into the BCB's functional buildings. The new equipment will allow a more efficient control of areas and facilities, especially the most sensitive ones, as well as its integration with the electronic surveillance system.

6.8 Corporate risk management

Throughout the last years the BCB has been making a greater effort to deal with the risks associated with its activities. In this sense, particularly remarkable is the risk management process associated with the strategic allocation of international reserves, which is made evident in the International Reserves Management Report. Published annually by the BCB, the report is considered an international reference.

During the year, the BCB started to implement the Integrated Risk Management Policy, by identifying, assessing, and evaluating risks in several lines of business conducted by the institution.

Regarding the continuity of business, the purpose of which is to avoid interruption of critical processes, the BCB defined research standards, prepared forms and reports, designed processes, and conducted analyses to adopt best practices and standards relating to the topic.

The BCB's risk management model

The BCB's risk management takes into account several dimensions, such as the financial, strategic, reputational, legal, and operational dimensions, and the institution's business continuity management.

More integrated and efficient risk management (Enterprise Risk Management – ERM) provides a continual improvement process of the BCB's activities and better allocation of human and financial resources. In addition, it allows more transparency in the choice of risk preference appropriate to the strategic goals of the BCB.

With the adoption of an integrated and structured model of risk management, the BCB is aligned with the best international practices, consolidating its position of excellence on the topic. The participation of the BCB in technical cooperation actions and international discussion forums, before other central banks, makes evident its outstanding position in risk management.

6.9 Ethics at the Central Bank of Brazil

Public service is accountable to the population – the citizens –, and therefore it must be worthy of the trust bestowed upon it. This relationship based on trust must give rise to public service ethical standards.

In order to ensure high ethical standards in the institution, the Central Bank Ethics Committee (CEBCB) works to prevent deviations of conduct and disseminate an ethical conduct by all staff members. It is responsible for clarifying doubts, investigating allegations, and supervising compliance with the Code of Conduct of the High Federal Administration by its management body.

The Committee, formed by three effective members and three alternate members, met eleven times and analyzed a total of forty-two consultations of servants and citizens, and six allegations. The average time to reply to consultations was ten days, and twenty-six days for the analysis of allegations.

In order to disseminate to the maximum the desirable standards of conduct and to stimulate reflection about ethical behavior, the BCB:

a) taught two groups in the subject "Management of Ethics and the Code of Conduct of Servants," in the Training Course for Inspectors, in São Paulo and in Brasília;
b) made a presentation on "Management of Ethics at the Central Bank" during the III Week of Organizational Culture, with the presence of more than 250 people, among servants and hired individuals;
c) prepared and distributed the "Ethical Guide", to better inform servants and hired individuals about the ethical conduct desired by the Institution;
d) made presentations about "Management of Ethics at the Central Bank" to all new servants who entered into office at the institution.

6.10 Activities of the Central Bank of Brazil's General Internal Affairs Office

The BCB's General Internal Affairs office prevents and investigates irregular behavior attributed to servants from the institution's specialized career. The unit, which is part of the System of Corrections of the Federal Executive Branch, filed three Administrative Disciplinary Procedures (PADs), two Accusatory Disciplinary Procedures, and one Investigative Disciplinary Procedure. As a result of these procedures, three suspension penalties were imposed, one 15-day suspension penalty, and two 30-day suspension penalties.

One warning penalty was imposed and one procedure was dismissed, both as a result of the PADs filed by other entities against BCB servants while they were serving these entities.

In addition, the BCB trained 64 servants so that they can work as members of disciplinary commissions.

6.11 Audit

The BCB's internal audit evaluates the institution's internal control and that of the Central Bank Private Pension Foundation (Centrus). Higher risk procedures are evaluated based on two parameters: a) importance of the procedure, as evaluated by the strategic and tactical managers; and b) reliability of internal control, as evaluated on the basis of the results of audits.

To this end, internal audit adopts its own methodology with a focus on risk, based on internationally recognized models, in addition to following the rules and instructions set out by the Office of the Comptroller General (CGU).

Twenty-seven audits had been conducted by 12/31, resulting in 212 recommendations that are followed until their implementation.

Part II

7 Financial Statements and evaluation of results

The BCB's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). They include the following reports: Balance Sheet; Statement of Income; Statement of Comprehensive Income; Statement of Changes in Net Assets; Statement of Foreign Currency Cash Flow.

Balance Sheet

The Balance Sheet presents the balances of accounts representing assets and liabilities, segregated in foreign and local currencies, in addition to net assets, at the end of the fiscal year.

Assets in foreign currency are represented basically by financial instruments referring to international reserves investment, in the form of bonds, term deposits in financial institutions, committed operations, gold, among other types of operations.

Assets in foreign currency also include amounts relating to participation in international financial organizations – IMF and BIS – and to receivables from the IMF relating to loans granted with the purpose of reinforcing the financial capacity of the organization.

In the group of assets in local currency, a relevant portion (almost 90%) corresponds to the portfolio of federal bonds kept by the BCB as a means to make viable the conduct of its monetary policy. In this group, other highlights are: the balance of committed operations (repurchase commitment); credits with the federal government referring to the result of **exchange equalization** to be refunded by the National Treasury; and receivables from institutions in liquidation, originating from financial assistance operations (Proer) and from balances resulting from overdrafts in the Banking Reserve account.

Regarding liabilities, those backed by foreign currencies are little representative in relation to the other groups, and include: deposits and credits by international financial organizations, particularly the IMF; and committed operations (repurchase commitment) performed in the management of international reserves.

Liabilities in local currency, on the other hand, mainly include those recorded for:

a) obligations with the federal government referring to cash available by the National Treasury deposited with the BCB (Single Account), and the **BCB's positive result** to be transferred to the National Treasury;

One purpose of the **exchange equalization** operation is to provide more transparency to the results of the BCB operations. Another purpose is to reduce volatility of results of the transactions conducted by the monetary authority, transferring to the National Treasury the cost of maintaining the foreign exchange reserves and the result of the exchange rate swap carried out in the domestic market. It was established by Law no. 11803 of November 5, 2008, and regulated by Joint Administrative Rule MF/BCB no. 242, of 2009.

According to Complementary Law no. 101 of May 4, 2000, the **BCB's positive result**, which is calculated subsequent to the constitution or reversion of reserves, constitutes National Treasury revenues and is to be transferred after approval of the half-year balance sheets. The negative result, in turn, will constitute a National Treasury liability with the Central Bank, and will be entered in a specific budget allocation.

b) the balance of committed operations (repurchase commitments) backed by federal bonds in the BCB's portfolio, performed with the purpose of conducting the monetary policy; and
c) deposits of financial institutions, comprised mainly of reserve requirement deposits, which represent a traditional instrument of monetary policy and perform the function of liquidity stabilizers in the economy.

For the purpose of equity position, the currency in circulation is also regarded as a BCB liability. It corresponds to the balance of banknotes and coins in circulation, in the hands of the public and financial institutions, and recorded at their issue value in books.

Statement of Income

The BCB's Statement of Income reflects its revenues and expenses during the fiscal year, under the accrual basis of accounting.

The earnings from operations in foreign currency are due mainly to the effects of foreign exchange variation on the balance of international reserves. To a lesser extent, the incorporation of interests and the marking to market of reserve assets also contributed to this result.

On the other hand, with respect to local currency operations, net losses were assessed despite the positive net result obtained when comparing the revenues and expenses with interests related to the bonds in portfolio and committed operations, which losses resulted mainly from: remuneration of federal government credits held by the BCB, especially in the Single Account; remuneration of reserve requirement deposits collected from financial institutions; and the net result of exchange equalization – transfer mechanism of the cost of maintaining the foreign exchange reserves and the result of exchange rate swap operations, as previously mentioned.

Comprehensive Income and Changes in Net Assets

The Comprehensive Statement of Income discloses the effects of variation in asset values, which, according to accounting rules, do not appear in the Statement of Income, while the Statement of Changes in Net Assets includes the activity in net assets accounts during the fiscal year, and also the destination given to the result assessed.

Statement of Foreign Currency Cash Flow

Finally, a Statement of Foreign Currency Cash Flow is presented, thus completing the set of accounting reports. This statement describes all cash flows and cash equivalents for the year, mainly those related to the management of international reserves, such as receipts and payments of interest; purchases and sales of securities and currencies; investments and redemptions of deposits, committed operations; among others.

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, an option was made not to prepare a Statement of Local Currency Cash Flow because it would not meet the goal for this type of statement, namely, to demonstrate the entity's ability to generate cash to meet its liquidity needs.

Seigniorage

In 2011 the Federal Court of Accounts (TCU) recommended that the BCB demonstrate the flows relating to revenues derived from the **seigniorage** earned on the issue of currency.

Given that there is not a single method for this goal, the BCB considers the TCU's recommendation and, for dissemination purposes, uses the "**monetary seigniorage**," which is equivalent to the purchasing power of the new currency issued, and which may be measured by the variation of the monetary base, in actual terms. The table below presents the values calculated for the seigniorage in the years 2011 and 2012, considering also the deduction of the costs associated with currency production and issue.

Seigniorage may be defined as the revenue or profit resulting from having the monopoly to issue currency.

Monetary seigniorage is based on the premise that the currency issued does not constitute a government's liability and, consequently, it is not a private sector asset as there is no obligation of redemption at a future date.

In millions of Reals

	2011	2012
Circulating Medium Variation	11,624	24,665
Variation of Reserve Requirements on Demand Deposits	(4,242)	(5,529)
= Variation of the Monetary Base	7,382	19,136
IPCA	6.50%	5.84%
Revenue from Seigniorage	6,931	18,080
Costs of currency production and issue	(914)	(972)
= Profit on Seigniorage	6,017	17,108

In accounting, the monetary base is regarded as a Central Bank liability. Its record is associated to the increase of an asset, which is more common, or to the reduction of another liability. Thus, seigniorage gains are indirectly recognized in accounts – revenues from assets incorporated into the equity or the reduction of the expenses associated with the liabilities eliminated in compensation for the recognition of the increase in the monetary base.

In short, though in its monetary concept seigniorage starts at the moment that the currency is issued, from an accounting standpoint revenue is only recognized because of the appreciation of assets originated as a result of an increase in the monetary base. This is justified because an increase in the monetary base is characterized as an accounting event which does not result in increases in equity, which is a basic condition for the recognition of an accounting revenue.

International Accounting Standards Board (IASB)

The IASB conditions the accounting recognition of revenue on an inflow of funds or on an increase in assets or reduction in liabilities, which result in increased net assets.

Central Bank of Brazil organizational structure

Board of Directors

Governor
Alexandre Antonio Tombini

Directors

Administration – Dirad
Altamir Lopes

International Affairs and Risk Management – Direx
Luiz Awazu Pereira da Silva

Supervision – Difis
Anthero de Moraes Meirelles

Financial System Organization and Control of Farm Credit – Diorf
Sidnei Correa Marques

Economic Policy – Dipec
Carlos Hamilton Vasconcelos Araújo

Monetary Policy – Dipom
Aldo Luiz Mendes

Financial Regulation – Dinor
Luiz Awazu Pereira da Silva

Institutional Relations and Citizenship – Direc
Luiz Edson Feltrim

Executive Secretariat

Executive Secretary
Geraldo Magela Siqueira

Secretariat to the Board of Directors and National Monetary Council Affairs – Sucon
Henrique Balduino Machado Moreira

Executive Office for Administrative and Technological Support – Geate
José Augusto Varanda

Governor's Office

Chief of Staff
Otávio Ribeiro Damaso

Directors' Chiefs of Staff

Administration – Dirad
Daniel Cardim Heller

International Affairs and Risk Management – Direx
Wagner Thomaz de Aquino Guerra Júnior

Supervision – Difis
Andréia Laís de Melo Silva Vargas

Financial System Organization and Control of Farm Credit – Diorf
Maurício Costa de Moura

Economic Policy – Dipec
Eugênio Pacceli Ribeiro

Monetary Policy – Dipom
Emanuel Di Stefano Bezerra Freire

Financial Regulation – Dinor
Aloísio Tupinambá Gomes Neto

Institutional Relations and Citizenship – Direc
José Linaldo Gomes de Aguiar

Office of the General Counsel

Counsel General
Isaac Sidney Menezes Ferreira

Internal Audit

Chief Auditor
Osmane Bonincontro

Internal Affairs Office

Chief Internal Affairs Officer
Jaime Alves de Freitas

Office of the Ombudsman

Ombudsman
Hélio José Ferreira

Congressional Advisory Division

Chief Advisor
David Falcão

Unit Chiefs and Executive Managers

Administration – Dirad

Accounting and Financial Department – Deafi
Eduardo de Lima Rocha

Human Resources Department – Depes
Nilvanete Ferreira da Costa

Planning, Budget, and Management Department – Depog
Adalberto Felinto da Cruz Júnior

Department of Infrastructure – Demap
Antonio Carlos Mendes Oliveira

Security Department – Deseg
Gontron Magalhães Júnior

Information Technology Department – Deinf
Marcelo José Oliveira Yared

Currency Management Department – Mecir
João Sidney de Figueiredo Filho

Central Bank Corporate University – UniBacen
Juliana Mozachi Sandri

International Affairs and Risk Management – Direx

International Affairs Department – Derin
Bruno Walter Coelho Saraiva

Executive Office for Corporate Risk and Benchmarks – Geris
Isabela Ribeiro Damaso Maia

Supervision – Difis

Department of Planning and Management Overview of Supervisory Activities – Decop
Harold Paquete Spínola Filho

Financial System Monitoring Department – Desig
Gilneu Francisco Astolfi Vivan

Department of Supervision of Banks and Banking Conglomerates – Desup
Lúcio Rodrigues Capelletto

Department of Supervision of Credit Unions and Non-banking Financial Institutions – Desuc
José Angelo Mazzillo Júnior

Department of Surveillance of Illegal Activities and Financial System Consumer Complaints – Decic*
Ricardo Liao

* BCB Vote no. 265/2012 of December 12 changed both the competences and the name of this department to Decon (Department of Supervision of Conduct), which is still under implementation.

Financial System Organization and Control of Farm Credit – Diorf

Department of Analysis and Control of Disciplinary Actions – Decap
Cláudio Jaloretto

Department of Bank Liquidation – Deliq
Dawilson Sacramento

Financial System Organization Department – Deorf
Adalberto Gomes da Rocha

Department of Regulation, Supervision, and Control of Farm Credit Operations and Proagro – Derop
Deoclécio Pereira de Souza

Economic Policy – Dipec

Research Department – Depep
Eduardo José Araújo Lima

Department of Economics – Depec
Tulio José Lenti Maciel

Investor Relations and Special Studies Department – Gerin
Renato Jansson Rosek

Monetary Policy – Dipom

Department of Banking Operations and Payments System – Deban
Daso Maranhão Coimbra

Foreign Reserves Department – Depin
Márcio Barreira de Ayrosa Moreira

Open Market Operations Department – Demab
João Henrique de Paula Freitas Simão

Financial Regulation – Dinor

Financial System Regulation Department – Denor
Sérgio Odilon dos Anjos

Exchange and Foreign Capital Regulation Executive Office – Gence
Paulo Marcelo Cavalcanti Muniz

Institutional Relations and Citizenship – Direc

Institutional Relations Department – Deati
Fernando Lima Pereira Dutra

Communication Department – Comun
Carolina de Assis Barros

Financial Education Department – Depef
Elvira Cruvinel Ferreira

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Part III
Financial Statements

Independent auditor's report

(A free translation of the original in Portuguese)

We have audited the accompanying financial statements of Banco Central do Brasil ("BCB"), which comprise the balance sheet as at December 31, 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Central do Brasil as at December 31, 2012, and its financial performance and its cash flows in foreign currency for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Other matters
Supplementary information

We have also audited the accounting information included in the supplementary information presented in Note 37, which is not required by the International Financial Reporting Standards (IFRS) but is being presented in compliance with the Fiscal Responsibility Law. This accounting information has been subjected to the same review procedures described above and, based on our opinion, nothing has come to our attention that causes us to believe that it has not been prepared, in all material respects, in a manner consistent with the financial statements taken as a whole.

Audit of prior-year information

The financial statements for the year ended December 31, 2011, presented for comparison purposes, were audited by another firm of auditors whose report, dated February 9, 2012, expressed an unmodified opinion on those statements.

Brasília, February 15, 2013

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" DF

Geovani da Silveira Fagunde
Contador CRC 1MG051926/O-0 "S" DF

BANCO CENTRAL DO BRASIL
BALANCE SHEET – AS AT DECEMBER 31, 2012
In thousands of Reais

ASSETS	Notes	Dec 31, 2012	Dec 31, 2011
ASSETS IN FOREIGN CURRENCIES		**784,189,650**	**675,500,413**
Cash and Cash Equivalents	**4**	13,636,611	12,808,011
Time Deposits Placed with Financial Institutions	**5.1**	29,433,213	24,473,813
Funds under External Management	**6**	13,092,735	455,689
Financial Assets Purchased Under Resale Agreements	**7.1**	11,826,109	5,858,935
Derivatives	**8.1**	67,998	350
Securities	**9.1**	692,023,006	614,321,929
Receivables	**11.1**	3,367,814	2,169,037
Gold	**12**	7,316,622	3,102,339
Investment in International Financial Organizations	**13**	13,425,542	12,310,310
ASSETS IN LOCAL CURRENCY		**1,024,758,273**	**907,911,058**
Cash and Cash Equivalents	**4**	20,483	569
Deposits	**5.2**	1,428,823	623,908
Financial Assets Purchased Under Resale Agreements	**7.2**	61,849,997	9,299,998
Derivatives	**8.2**	15,197	-
Federal Government Securities	**9.2**	910,222,934	754,543,113
Receivables from the Federal Government	**10**	9,900,636	101,274,835
Receivables	**11.2**	39,787,656	40,157,590
Property and Equipment	**14**	778,264	785,223
Other	**15**	754,283	1,225,822
TOTAL ASSETS		**1,808,947,923**	**1,583,411,471**

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

LIABILITIES AND EQUITY	Notes	Dec 31, 2012	Dec 31, 2011
LIABILITIES IN FOREIGN CURRENCIES		**19,341,850**	**23,913,425**
Items in the Course of Collection	**16**	76,880	828,852
Deposits Received from Financial Institutions	**17**	1,453	1,333
Financial Assets Sold Under Repurchase Agreements	**7.1**	636,357	5,892,661
Derivatives	**8.1**	9,097	2,347
Accounts Payable	**18.1**	9,067,027	8,324,770
Deposits Received from International Financial Organizations	**19**	9,547,147	8,863,307
Other		3,889	155
LIABILITIES IN LOCAL CURRENCY		**1,580,647,178**	**1,377,897,860**
Items in the Course of Collection	**16**	32,811	19,285
Deposits Received from Financial Institutions	**17**	320,097,305	424,925,295
Financial Assets Sold Under Repurchase Agreements	**7.2**	597,214,923	351,178,116
Derivatives	**8.2**	-	11,336
Payables to the Federal Government	**10**	633,537,608	578,190,914
Accounts Payable	**18.2**	839,300	959,748
Deposits Received from International Financial Organizations	**19**	4,578	2,045
Provisions	**20**	28,895,337	22,577,874
Other		25,316	33,247
CURRENCY IN CIRCULATION	**21**	**187,434,736**	**162,769,670**
EQUITY		**21,524,159**	**18,830,516**
Capital	**22.1**	24,675,451	24,675,451
Revenue Reserve	**22.2**	1,606,019	1,606,019
Revaluation Reserve	**22.2**	447,584	453,869
Gains (Losses) Recognized Directly in Equity	**22.3**	(5,204,895)	(7,904,823)
TOTAL LIABILITIES AND EQUITY		**1,808,947,923**	**1,583,411,471**

BANCO CENTRAL DO BRASIL
INCOME STATEMENT – 2012
In thousands of Reais

	Notes	2012	2011
Interest income		91,982,951	94,035,581
Interest expenses		(124,609,597)	(126,430,149)
Net interest result	**23**	(32,626,646)	(32,394,568)
Gains (losses) on financial instruments classified as At fair value through profit or loss, held for trading	**24**	51,706,950	44,036,761
Gains (losses) on financial instruments classified as At fair value through profit or loss, by designation of the management	**25**	3,168,056	7,004,665
Gains (losses) from foreign currencies	**26**	2,738,640	4,568,282
Other income	**27**	3,085,398	3,515,923
Other expenses	**27**	(3,457,669)	(3,259,653)
NET INCOME FOR THE YEAR	**28.1**	**24,614,729**	**23,471,410**

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

BANCO CENTRAL DO BRASIL
STATEMENT OF COMPREHENSIVE INCOME – 2012
In thousands of Reais

	Notes	2012	2011
NET INCOME FOR THE YEAR	**28.1**	**24,614,729**	**23,471,410**
OTHER COMPREHENSIVE INCOME	**22.3**	**2,699,928**	**2,878,165**
Items which will not be reclassified to results		**(4,049,371)**	**(1,061,314)**
Investment in International Financial Organizations		1,115,232	1,263,441
Actuarial Gains (Losses) in Defined Benefit Plans		(5,164,603)	(2,324,755)
Items which may be reclassified to results		**6,749,299**	**3,939,479**
Federal Government Securities		6,655,695	3,806,891
Gold		93,604	132,588
COMPREHENSIVE INCOME FOR THE YEAR	**28.2**	**27,314,657**	**26,349,575**

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

BANCO CENTRAL DO BRASIL

STATEMENT OF CHANGES IN EQUITY – 2012

In thousands of Reais

	Notes	CAPITAL	REVENUE RESERVE	REVALUATION RESERVE	GAINS (LOSSES) RECOGNIZED DIRECTLY IN EQUITY	EQUITY
At December 31, 2011		**24,675,451**	**1,606,019**	**453,869**	**(7,904,823)**	**18,830,516**
Realization of revaluation reserves	**22.2**	6,285	-	(6,285)	-	-
Gains (losses) recognized directly in equity	**22.3**	-	-	-	2,699,928	2,699,928
Net income (loss) for the 1st six-month period of 2012		12,318,246	-	-	-	12,318,246
Net income (loss) for the 2nd six-month period of 2012		12,296,483	-	-	-	12,296,483
Net income for the year	**28.1**	24,614,729	-	-	-	24,614,729
Result transferred to the National Treasury – 1st six-month period of 2012	**36.1.b**	(12,321,388)	-	-	-	(12,321,388)
Result to be transferred to the National Treasury – 2nd six-month period of 2012	**36.1.b**	(12,299,626)	-	-	-	(12,299,626)
At December 31, 2012		**24,675,451**	**1,606,019**	**447,584**	**(5,204,895)**	**21,524,159**
At December 31, 2010		**24,675,451**	**1,606,019**	**460,155**	**(10,782,988)**	**15,958,637**
Realization of revaluation reserves	**22.2**	6,286	-	(6,286)	-	-
Gains (losses) recognized directly in equity	**22.3**	-	-	-	2,878,165	2,878,165
Net income (loss) for the 1st six-month period of 2011		12,230,706	-	-	-	12,230,706
Net income (loss) for the 2nd six-month period of 2011		11,240,704	-	-	-	11,240,704
Net income for the year	**28.1**	23,471,410	-	-	-	23,471,410
Result transferred to the National Treasury – 1st six-month period of 2011	**36.1.b**	(12,233,849)	-	-	-	(12,233,849)
Result transferred to the National Treasury – 2nd six-month period of 2011	**36.1.b**	(11,243,847)	-	-	-	(11,243,847)
At December 31, 2011		**24,675,451**	**1,606,019**	**453,869**	**(7,904,823)**	**18,830,516**

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

BANCO CENTRAL DO BRASIL
STATEMENT OF FOREIGN CURRENCIES CASH FLOWS – 2012
In thousands of Reais

	Note	2012	2011
Net Cash Flow from Operating Activities		**(1,457,306)**	**(2,440,523)**
Interest received		13,362,617	9,807,319
Interest paid		(10,699)	(32,723)
(Purchase) sale of securities		(20,806,281)	(123,292,664)
Purchase (sale) of foreign currencies		32,166,573	79,383,511
(Placement) redemptions of repurchase and reverse repurchase transactions		(11,131,161)	135,634
(Placement) redemptions of time deposits		(2,754,010)	28,538,923
(Placement) redemption of funds under external management		(12,221,275)	(375,683)
Formation (redemption) of passive deposits		1,573,189	1,759,550
(Payments) receipts on behalf of the National Treasury		28,308	123,211
(Granting) receipt of receivables		2,150,748	1,411,323
Receipts (payments) resulting from operations with derivatives		(27,520)	159,095
(Purchase) sale of gold		(3,806,577)	-
Other (payments) receipts		18,782	(58,019)
Net Cash Flow		**(1,457,306)**	**(2,440,523)**
Change in Cash and Cash Equivalents		**(1,457,306)**	**(2,440,523)**
Cash and cash equivalents at the beginning of the period		12,808,011	13,865,931
Cash and cash equivalents at the end of the period	**4**	13,636,611	12,808,011
Effect of exchange rate changes on cash and cash equivalents		2,285,906	1,382,603

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

1 The Bank and its attributions

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 Brazilian financial system and its mission is to ensure the stability of the purchasing power of the Brazilian currency and a solid and efficient financial system. BCB's head office is in Brasília, Federal District, in Setor Bancário Sul, quadra 3, bloco B and it has offices in nine other states of Brazil.

These financial statements were analyzed by the Deputy Governor of Administration, who recommended a favorable vote for their approval on February 15, 2013. As established in Law 4,595 of 1964, the National Monetary Council (CMN) authorized the publication of these statements on February 28, 2013 and they are available on the BCB's Internet website (www.bcb.gov.br).

2 Presentation

The BCB's financial statements as at December 31, 2012 were prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

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

- Amendments to IAS 1 – Presentation of Financial Statements, which requires disclosure of the items defined as "Other Comprehensive Income" that may be reclassified to the statement of income, with compulsory application for annual periods beginning on or after July 1st, 2012.

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

- IFRS 9 – Financial Instruments: the mandatory application of IFRS 9, which was forecast for the years beginning on January 1st, 2013, was postponed by IASB until January 1st, 2015, so as to maintain the same effective date of obligation for all stages of the project. This standard was not applied in advance by the BCB and it is not possible to estimate its potential effects on its financial statements.
- Amendments to IAS 19 – Employee Benefits: in June 2011, IASB issued a revision of IAS 19, with mandatory application for annual periods beginning on or after January 1st, 2013. The main changes were: the elimination of the option for postponing recognition of gains and losses from defined benefit plans (corridor method); the elimination of options for the presentation of gains and losses with respect to these plans; and the calculation of the expected return on the plan's assets based on the rate used for discounting the defined benefit obligation. The application of this standard in 2013, retroactively to 2012, will not change the equity position of assets and liabilities, but will result in an adjustment of R$ 85,697 in equity accounts (decrease) and results (increase).
- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities: in December 2011, IASB issued a revision of IAS 32, altering the criteria to apply the offsetting between financial assets and financial liabilities. These amendments are mandatory for annual periods beginning on or after January 1st, 2014, and it is not possible, at this moment, to estimate the potential effects on the financial statements of the BCB.

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

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

- IFRS 13 – Fair Value Measurement, which established a single set of requirements for all fair value measurements required or permitted by IFRS, with mandatory application for the annual periods beginning on or after January 1st, 2013; and
- Amendments to IFRS 7 – Disclosure of Offsetting of Financial Assets and Financial Liabilities, with mandatory application for annual periods beginning on or after January 1st, 2013.

3 Significant accounting policies

A summary of the significant accounting policies used by the BCB, which were applied consistently to the comparative financial information, is presented below.

3.1 Determination of profit and loss

The BCB's profit or loss is determined semi-annually on an accrual basis and is transferred to the National Treasury in the event of net income or covered by it in the event of a net loss (Notes 28.1 and 37.a).

3.2 Recognition of interest income and expenses

Interest income and expenses are recognized using the effective interest yield of the operations, which discounts the future receipts and payments of financial assets or liabilities to their net carrying amount, 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 statement of income include interest income and expenses of the BCB's financial assets and liabilities not classified as At Fair Value through Profit or Loss.

3.3 Assets and liabilities in foreign currencies

The functional and reporting currency of these financial statements is the Brazilian Real, which represents the currency of the main economic environment in which the BCB operates. Transactions in foreign currency are translated into Reais at the prevailing 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, using the closing rate of the free exchange market, with the related gains and losses recognized monthly in profit or loss. The following table presents the exchange rates used on the balance sheet closing date:

		Reais / currency
	Dec 31, 2012	Dec 31, 2011
U.S. Dollar	2.0432	1.8755
Euro	2.6949	2.4337
Canadian Dollar	2.0542	1.8397
Pound Sterling	3.3025	2.9141
Australian Dollar	2.1192	1.9112
SDR	3.1402	2.8794
Gold (troy ounces)	3,386.6040	2,871.3140

The exchange rates used are those freely fixed by the market agents and published by the BCB, except for the quotation for gold, which is the PM Fixing, published by the London Stock Exchange, translated into Reais at the US dollar rate on the balance sheet date. The exchange rates are estimated 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 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) and the US dollar (USD).

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 conducts operations in which it neither receives nor transfers substantially all the risks and benefits of financial assets traded, as in 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 amounts advanced.

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. Where it is not possible to determine if there is 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, cancelled or have 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 financial 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 Agreement on Reciprocal Payments and Credits (CCR), presented in credits receivable or payables, according to the balance determined on the balance sheet closing date.

3.4.4 Classification of financial instruments

On the date of the contracting, financial assets are classified into one of the following categories: At Fair value through Profit or Loss, Held-to-maturity, Loans and Receivables or Available-for-sale. After the initial record, assets are evaluated in accordance with the classification made:

a) At fair value through profit or loss

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

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

b) Held-to-maturity

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

c) Loans and receivables

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

d) Available-for-sale

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

3.4.5 Measurement

The fair value is the market value published 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 include the value of the most recent tradings, the discounted cash flow and the fair value of similar financial instruments. The models used are assessed by a multi-departmental committee, which is also responsible for suggesting new methodologies or improvements.

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

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

Assets in Foreign Currencies	Category	Measurement Basis / Source of Information
Cash and Cash Equivalents	Loans and receivables	Amortized cost
Time Deposits Placed with Financial Institutions	Loans and receivables	Amortized cost
Funds under External Management	At fair value through profit or loss	Fair value – Manager
Financial Assets Purchased Under Resale Agreements	Loans and receivables	Amortized cost
Derivatives – Futures	At fair value through profit or loss	Fair value – Stock exchanges
Derivatives – Forward	At fair value through profit or loss	Fair value – Internal Models/Bloomberg
Securities	At fair value through profit or loss	Fair value – Bloomberg
Receivables	Loans and receivables	Amortized cost
Gold	Available-for-sale	Fair value – PM Fixing – London Stock Exchange
Investment in International Financial Organizations	Available-for-sale	Fair value – Redemption value in Reais

Assets in Local Currency	Category	Measurement Basis / Source of Information
Cash and Cash Equivalents	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Financial Assets Purchased Under Resale Agreements	Loans and receivables	Amortized cost
Derivatives – Swap	At fair value through profit or loss	Fair value – Stock, Futures and Commodities Exchange
Derivatives – Foreign Exchange Equalization	At fair value through profit or loss	Fair value – BCB
Federal Government Securities – part of the LTN	Available-for-sale	Fair value – Anbima
Federal Government Securities – LFT, NTN-B, NTN-F, NTN-P and part of the LTN	Held-to-maturity	Amortized cost
Receivables from the Federal Government	Loans and receivables	Amortized cost
Receivables – Institutions under Extrajudicial Liquidation – Original	At fair value through profit or loss	Fair value – Fair value of the collateral
Receivables – Institutions under Extrajudicial Liquidation – In installments	At fair value through profit or loss	Fair value – Discounted cash flow
Receivables – Other	Loans and receivables	Amortized cost

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

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

3.4.6 Adjustments for impairment of financial assets

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

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

a) financial difficulties of the obligor;
b) default of any payment, whether related to the principal or interest;
c) renegotiation or discounts granted;
d) extrajudicial liquidation, bankruptcy and financial reorganization;
e) disappearance of an active market, due to financial difficulties of the issuer.

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

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

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

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

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

3.4.7 Derivatives

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

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

3.5 Property and equipment

This group of accounts consists of land, buildings and equipments acquired by the BCB for its own use, as well as the collection of works of art and precious metals, except monetary gold, which are recorded at cost, less accumulated depreciation, when applicable. All the expenses directly attributable to the acquisition or construction of the asset are included in the cost. Further expenditures are capitalized only when it is probable that future economic benefits associated with the item will flow to the Bank and these can be reliably estimated. 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:
   - computer equipment and vehicles: 5 years;
   - other fixed assets: 10 years.

3.6 Provisions

3.6.1 Litigation

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

3.6.2 Post-employment benefits

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

A defined benefit plan is one where the value of the benefits to which the employees have the right upon retirement is previously established, considering one or more factors, such as age and time of contribution.

The provision 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 annually 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 balances sheet, to the extent of the expected benefits.

Actuarial gains and losses resulting from adjustments based on experience and on changes in actuarial assumptions are fully recognized in equity.

3.7 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.

3.8 Statement of cash flows

The purpose of the Cash Flows Statement is to present an entity's capacity to generate cash in order to meet its liquidity requirements. 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 BCB's 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 purposes of the Cash Flows Statement, cash and cash equivalents include cash, demand deposits and very short-term time deposits, in foreign currency (Note 4).

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

4 Cash and cash equivalents

	Dec 31, 2012	Dec 31, 2011
In Foreign Currencies	**13,636,611**	**12,808,011**
Cash	125,747	199,104
Demand deposits	8,973,168	7,785,755
Very short-term time deposits	4,537,696	4,823,152
In Local Currency	**20,483**	**569**
Total	**13,657,094**	**12,808,580**

The amounts in foreign currencies correspond to the portion of international reserves held by the BCB as demand deposits and very short-term time deposits, in accordance with its risk management policy (Notes 31 to 35). International reserves are the monetary assets available for coverage of imbalances in payments and, in some situations, for other financial requirements of the monetary authorities of a country.

5 Deposits

5.1 In foreign currencies

These comprise the portion of international reserves held by the BCB as fixed time deposits in financial institutions, in accordance with its risk management policy (Notes 31 to 35), in the amount of R$ 29,433,213 (R$ 24,473,813 in 2011).

The variation in the balance of these deposits may be explained, basically, by the exchange variation and by the increase in the international reserves in the period.

5.2 In local currency

These are deposits made by legal determination, relating to ongoing litigations, for which there is recognition of a provision (Note 20.1) or a court-ordered debt payable (Note 18.2). They are remunerated by the Selic rate and, due to this entailment, are unavailable until the court decision on the matter under dispute. At December 31, 2012, the balance amounted to R$ 1,428,823 (R$ 623,908 in 2011).

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

6 Funds under external management

	Dec 31, 2012	Dec 31, 2011
Funds managed by the Bank for International Settlements (BIS)	**522,720**	**455,689**
External Management Program	**12,570,015**	**-**
Securities	**10,827,842**	-
Up to 1 year	3,115,504	-
1 - 5 years	6,251,463	-
More than 5 years	1,460,875	-
Index funds	**1,152,615**	**-**
Equity instruments	879,282	-
Fixed income	273,333	-
Cash/receivables	**589,558**	**-**
Total	**13,092,735**	**455,689**

6.1 Fund managed by the BIS

This refers to the investment placed in the Bank for International Settlements Investment Pool Inflation-linked Government Bond Fund (BISIP ILF1), a fund managed by the BIS for the investment of international reserves of central banks.

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

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

6.2 Program for external management of international reserves

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

These institutions receive a management fee, established in the contract, and are evaluated based on the benchmark portfolio defined by the BCB, which also defines guidelines for the investment of the funds. The assets of the Program are held on behalf of the BCB, under the responsibility of a global custodian selected for this specific purpose, therefore without incurring in the credit risk of the manager.

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

PGER, interrupted at the beginning of 2010, was resumed in February 2012 after reformulation and selection of new international financial institutions. The initial amount allocated to the external managers was US$ 6 billion, divided equally among them.

7 Financial assets purchased under resale agreements/sold under repurchase agreements

These are transactions in which assets are purchased 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). On the foreign market, the BCB normally trades 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 purchases (sales) in cash of foreign currency combined with the forward resale (repurchase), since cash settlement occurs only against payment on the date agreed upon, that is, the actual receipt/delivery of the traded currency settles the operation.

7.1 In foreign currencies

	Dec 31, 2012	Dec 31, 2011
Financial Assets Purchased Under Resale Agreements	**11,826,109**	**5,858,935**
Foreign Market	**637,546**	**5,858,935**
Currencies	637,546	5,858,935
Domestic Market – Forward repurchase	**11,188,563**	**-**
Currencies	11,188,563	-
Financial Assets Sold Under Repurchase Agreements	**636,357**	**5,892,661**
Foreign Market	**636,357**	**5,892,661**
Currencies	636,357	5,892,661

a) Financial Assets Purchased Under Resale Agreements (Reverse repo):

In these operations, securities issued by central governments with an Aaa credit rating by Moody's are received as collateral. The quantities of securities and amounts received as collateral are continuously monitored and adjusted according to price and risk parameters. The calculation of the collateral required is made considering the collateral per counterparty, with a margin adjustment whenever the collateral offered in the repo operations is more than 98% of the collateral received in the reverse repo operations.

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

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

International Securities Market Association (ISMA) through the documents Master Repurchase Agreement or Global Master Repurchase Agreement.

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

b) Financial Assets Sold Under Repurchase Agreements (Repo):

In repo operations securities issued by central governments with an Aaa credit rating by Moody's are offered as collateral. The BCB delivers securities amounting to 98% of the financial value of the repurchase commitment (repo) operations to hedge against credit and market risks. The way of calculating and realizing the collateral is identical to the reverse repo operations.

c) Variation in the period:

The variation in the balance of operations carried out in the foreign market is due to the fact that there was a concentration of repurchase transactions with currencies at the end of 2011 – contracted in November and December 2011 and settled between February and March 2012 –, which was not repeated at the end of 2012.

As regards the transactions carried out in the domestic market, the variation is due to the activities of the BCB in the interbank foreign exchange market at the end of 2012, with the purpose of meeting the demand of U.S. dollars and ensuring appropriate levels of liquidity.

7.2 In local currency

	Dec 31, 2012	Dec 31, 2011
Financial Assets Purchased Under Resale Agreements	**61,849,997**	**9,299,998**
Securities	61,849,997	9,299,998
Assets granted as collateral	**62,691,711**	**9,362,687**
Financial Assets Sold Under Repurchase Agreements	**597,214,923**	**351,178,116**
Securities	585,844,844	351,178,116
Foreign Currencies	11,370,079	-
Assets granted as collateral	**559,244,695**	**348,223,829**
Freely tradable	285,351,503	165,501,562
Not freely tradable	273,893,192	182,722,267

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

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

The increase in the balance of repo operations was caused, mainly, by the changes in the rules of compulsory deposits, which caused the release of funds to the banking system and the net redemption of federal government securities held by the market, including the payment of interest. To a lesser extent, the performance of the BCB also contributed to the variation in the interbank foreign exchange market through auctions to purchase foreign currency.

In the case of reverse repos, the variation in the final balance of 2012 as compared to the prior year was due to the need to offer liquidity to the market in the last week of the year, as a result of the concentration of factors such as: collection of taxes; payment of the National Institute of Social Security (INSS); transfer of funds from the Brazilian Sovereign Wealth Fund to the National Treasury; and settlement of the usual BCB's auction of six-months repo operations. On the first business day of 2013, this situation was reversed, when the banking system received the funds related to the redemptions of federal government securities, including the payment of interest.

8 Derivatives

8.1 In foreign currencies

In the management of the international reserves, the BCB uses derivatives in its routine operations for the purpose of implementing the investment strategy previously established by the Committee on Investment Strategy or to manage exposure to market risk, aiming to achieve security, liquidity and profitability, and also hedging the country's short-term sovereign debt.

Considering these objectives, the Committee on Investment Strategy authorized the contracting of derivatives in currencies different from those used as hedge of the sovereign external debt, adopting a model that exploits the interest rate differential in the countries and a model for medium-term trends that is based on technical factors, both of which are widely used in the international financial market.

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

a) currency forwards – derivative instruments characterized by swapping currencies (purchase and sale) with settlement on a future date at a prefixed rate. These operations are carried out on the over-the-counter market, directly with financial institutions, and follow the risk management standards described in Notes 31 to 35;
b) future contracts on interest rate, securities, indexes and commodities – derivative instruments characterized by the obligation to pay or the right to receive a specified amount related to the variation in the interest rates, in the prices of the securities of reference, in the indexes or in the prices of commodities on a future date, in accordance with the number and size of the outstanding contracts

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

at a determined price established in the market. These operations are carried out in a stock exchange, with standardized contracts and collaterals in cash, and the changes in the prices of the contracts are adjusted daily.

Dec 31, 2012

Derivative/Currency	Long position	Short position	Positive adjustment	Negative adjustment
Forward				
1 - 6 months			67,998	9,097
Canadian Dollar	-	210,800	-	-
Euro	145,869	-	-	-
Pound Sterling	-	194,574	-	-
Yen	-	160,382	-	-
Norwegian Krone	154,435	-	-	-
New Zealand Dollar	-	241,588	-	-
Singapore Dollar	163,119	-	-	-
Swedish Krona	147,533	-	-	-
U.S. Dollar	817,280	612,960	67,998	9,097
Index futures				
1 - 5 years				
Euro	588,890	-	-	-
U.S. Dollar	-	583,937	-	-
Commodity futures				
1 - 5 years				
U.S. Dollar	17,120	337,692	-	-
Securities futures				
1 - 5 years			-	-
U.S. Dollar	18,980,827	-	-	-
Australian Dollar	-	3,302,132	-	-
> 5 years			-	-
U.S. Dollar	684,688	1,441,681	-	-
Australian Dollar	1,162,948	-	-	-
Euro	-	9,610,493	-	-
Total			67,998	9,097

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

Dec 31, 2012

Derivative/Currency	Long position	Short position	Positive adjustment	Negative adjustment
Forward				
1 - 6 months			350	2,347
Australian Dollar	57,335	19,112	-	-
Canadian Dollar	-	36,793	-	-
Swiss Franc	-	56,524	-	-
Euro	114,040	-	-	871
Pound Sterling	-	-	-	-
Norwegian Krone	-	1,222	-	-
Swedish Krona	-	18,547	-	-
U.S. Dollar	57,224	98,294	350	1,476
Securities futures				
1 - 5 years			-	-
U.S. Dollar	3,925,298	-	-	-
Euro	-	-	-	-
Total			**350**	**2,347**

Given the characteristics of a currency swap, no collateral is established in forward operations. In futures operations, the collateral is established by deposits that totaled R$ 236,036 in 2012 (R$ 8,899 in 2011).

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

8.2 In local currency

8.2.1 Swaps

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

These operations are contracted through holding auctions in the BCB's electronic system and are recorded in the Securities, Commodities and Future Exchange (BM&FBovespa), in the form of a standard agreement negotiated in that exchange known as an "Exchange Swap Contract with Periodic Adjustments (SCC)". In the long position of these agreements, the BCB is on the asset side in a domestic interest rate, represented by the average rate of the Interbank Deposits (DI) for one working day, 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 (DI). These contracts have a notional value equivalent to US$50 thousand and daily financial adjustment. The amount of collateral is stipulated by BM&FBovespa.

The purchase operations for these agreements by the BCB are known in the financial market as exchange swaps and the selling operations are identified as reverse exchange swaps.

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

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

Dec 31, 2012

	Notional value			Fair value	
	Long position	**Short position**	**Net position**	**Assets**	**Liabilities**
1 month	4,270,915	(3,831,563)	439,352	1,470	-
1 - 6 months	3,780,475	-	3,780,475	13,727	-
Total	**8,051,390**	**(3,831,563)**	**4,219,827**	**15,197**	**-**

Dec 31, 2011

	Notional value			Fair value	
	Long position	**Short position**	**Net position**	**Assets**	**Liabilities**
1 month	4,462,059	(4,830,185)	(368,126)	-	37
1 - 6 months	2,129,033	(4,117,381)	(1,988,348)	-	8,472
6 - 12 months	328,265	(1,003,553)	(675,288)	-	2,827
Total	**6,919,357**	**(9,951,119)**	**(3,031,762)**	**-**	**11,336**

8.2.2 Foreign exchange equalization

The foreign exchange equalization operation between the National Treasury and the BCB was established under Law 11,803, of November 5th, 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 exchange assets and liabilities (Note 33.3).

Through 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 made on the domestic market are transferred to the federal government through the National Treasury. These amounts are computed daily and the balance payable or receivable is calculated on the last working day of the six-month period, and will be settled financially according to the same rules established for the transfer or coverage of the results (Notes 10, 24 and 36.1).

In 2012, the result of the foreign exchange equalization operation was R$ 22,309,406 negative (R$ 44,040,773 negative in 2011), as presented in Note 36.1.

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

9 Securities

9.1 In foreign currencies

	Dec 31, 2012	Dec 31, 2011
Uncommitted securities	**692,023,006**	**614,062,619**
1 month	428,080	98,226
1- 6 months	29,296,823	23,934,370
6 - 12 months	14,387,175	28,170,193
1 - 5 years	597,579,722	514,689,636
More than 5 years	50,331,206	47,170,194
Securities subject to definitive sale operations pending settlement	**-**	**259,310**
1 - 5 years	-	259,310
Total	**692,023,006**	**614,321,929**

These are fixed rate securities and securities remunerated 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:

	Dec 31, 2012	Dec 31, 2011
Amortized cost	679,952,149	601,580,972
Fair value adjustment	12,070,857	12,740,957
Carrying amount	**692,023,006**	**614,321,929**

The difference in the portfolio of securities in foreign currencies was due mainly to the effects of the depreciation of the Brazilian Real against the U.S. dollar (Note 3.3), the currency in which a significant part of this portfolio is denominated (Note 33.2),and also to the increase in the international reserves in the period, considering that the investment in securities accounts for the major part of the reserves.

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

9.2 In local currency

At Dec 31, 2012

	Up to one month	1 - 6 month	6 - 12 months	1 - 5 years	> 5 years	Total
Uncommitted securities	**16,772,893**	**9,959,671**	**7,767,281**	**149,594,858**	**166,393,029**	**350,487,732**
National Treasury Bills (LTN)	-	9,959,054	7,767,281	62,820,686	-	80,547,021
Financial Treasury Bills (LFT)	-	16	-	19,108,117	-	19,108,133
National Treasury Notes – Series B (NTN-B)	-	601	-	34,112,374	134,310,789	168,423,764
National Treasury Notes – Series F (NTN-F)	16,772,893	-	-	33,553,681	32,082,240	82,408,814
Securities subject to repurchase agreements	**-**	**78,887,431**	**23,260,983**	**353,054,867**	**104,041,414**	**559,244,695**
National Treasury Bills (LTN)	-	21,124,842	23,260,983	146,470,699	-	190,856,524
Financial Treasury Bills (LFT)	-	41,129,309	-	126,977,352	-	168,106,661
National Treasury Notes – Series B (NTN-B)	-	16,633,280	-	53,846,431	75,017,941	145,497,652
National Treasury Notes – Series F (NTN-F)	-	-	-	25,760,385	29,023,473	54,783,858
Securities granted as collateral	**-**	**-**	**-**	**490,281**	**-**	**490,281**
Financial Treasury Bills (LFT)	-	-	-	490,281	-	490,281
Untradeable securities	**-**	**-**	**-**	**97**	**129**	**226**
National Treasury Notes – Series P (NTN-P)	-	-	-	97	129	226
Total	**16,772,893**	**88,847,102**	**31,028,264**	**503,140,103**	**270,434,572**	**910,222,934**

At Dec 31, 2012

	Up to one month	1 - 6 month	6 - 12 months	1 - 5 years	> 5 years	Total
Uncommitted securities	**15,777,152**	**5**	**38,144,159**	**196,067,388**	**153,965,733**	**403,954,437**
National Treasury Bills (LTN)	-	-	27,404,540	72,554,541	-	99,959,081
Financial Treasury Bills (LFT)	-	5	-	41,551,447	234,430	41,785,882
National Treasury Notes – Series B (NTN-B)	-	-	10,739,619	45,742,275	134,484,281	190,966,175
National Treasury Notes – Series F (NTN-F)	15,777,152	-	-	36,219,125	19,247,022	71,243,299
Securities subject to repurchase agreements	**-**	**53,873,933**	**17,685,556**	**204,597,599**	**72,066,741**	**348,223,829**
National Treasury Bills (LTN)	-	-	13,368,564	38,670,497	-	52,039,061
Financial Treasury Bills (LFT)	-	53,873,933	-	128,581,632	266,702	182,722,267
National Treasury Notes – Series B (NTN-B)	-	-	4,316,992	26,775,566	37,876,183	68,968,741
National Treasury Notes – Series F (NTN-F)	-	-	-	10,569,904	33,923,856	44,493,760
Securities granted as collateral	**-**	**-**	**-**	**2,364,635**	**-**	**2,364,635**
Financial Treasury Bills (LFT)	-	-	-	2,364,635	-	2,364,635
Untradeable securities	**-**	**-**	**-**	**91**	**121**	**212**
National Treasury Notes – Series P (NTN-P)	-	-	-	91	121	212
Total	**15,777,152**	**53,873,938**	**55,829,715**	**403,029,713**	**226,032,595**	**754,543,113**

The BCB seeks to manage its portfolio so as to have adequate instruments available for the execution of its 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, the BCB, as the securities in its portfolio fall due, recomposes its portfolio through purchases in public offerings by the National Treasury, where these operations are always made at the average price paid by the other market players.

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

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

- National Treasury Bills (LTN): fixed interest rate set by a discount on the face value;
- Financial Treasury Bills (LFT): floating interest rate set by the adjusted average rate of the daily financing obtained in the Selic (Selic rate);
- National Treasury Notes – Series B (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.;
- National Treasury Notes – Series F (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 TR, plus interest of 6% p.a. upon redemption.

The following table presents the amortized cost and the mark-to-market value (Note 3.4.5) of these securities:

	Dec 31, 2012			Dec 31, 2011		
	Amortized cost	Fair value adjustment	Carrying amount	Amortized cost	Fair value adjustment	Carrying amount
Available-for-sale	**234,491,730**	**10,416,863**	**244,908,593**	**148,286,672**	**3,711,470**	**151,998,142**
National Treasury Bills (LTN)	234,491,730	10,416,863	244,908,593	148,286,672	3,711,470	151,998,142
Held-to-maturity	**665,314,341**	**-**	**665,314,341**	**602,544,971**	**-**	**602,544,971**
National Treasury Bills (LTN)	26,494,951	-	26,494,951	-	-	-
Financial Treasury Bills (LFT)	187,705,075	-	187,705,075	226,872,784	-	226,872,784
National Treasury Notes – Series B (NTN-B)	313,921,417	-	313,921,417	259,934,916	-	259,934,916
National Treasury Notes – Series F (NTN-F)	137,192,672	-	137,192,672	115,737,059	-	115,737,059
National Treasury Notes – Series P (NTN-P)	226	-	226	-	-	212
Total	**899,806,071**	**10,416,863**	**910,222,934**	**750,831,643**	**3,711,470**	**754,543,113**

The variation in the BCB's portfolio of federal government securities is due, basically, to the accrual of interest (Note 23), the issuances to cover the results from the foreign exchange equalization incurred in the second half of 2010 and in the first half of 2011 (Note 36.1.c), the positive adjustment to fair value of the securities classified as available for sale (Note 22.3) and the exchange of CVS securities received by the BCB as settlement of the debts of Mercantil and Banorte along with the Program for the Strengthening of the National Financial System (Note 11.2.1.a.1).

10 Transactions with the Federal Government

Assets	Dec 31, 2012	Dec 31, 2011
Foreign exchange equalization result	9,900,595	101,274,794
Other	41	41
Total	**9,900,636**	**101,274,835**

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

Liabilities	Dec 31, 2012	Dec 31, 2011
National Treasury Operating Account	620,401,291	475,622,276
Foreign exchange equalization result	-	90,240,059
Result to be transferred to the National Treasury	12,299,626	11,243,847
Other	836,691	1,084,732
Total	**633,537,608**	**578,190,914**

Due to legal provisions, the BCB has a financial relationship with the National Treasury. The main transactions are described in greater detail in Note 36.1.

The variation in the period is due mainly to the result obtained in the foreign exchange equalization operation between the National Treasury and the BCB and the behavior of the National Treasury Operating Account's balance (Notes 8.2.2 and 36.1).

11 Receivables

11.1 In foreign currencies

	Dec 31, 2012	Dec 31, 2011
New Arrangements to Borrow	3,239,477	2,160,171
Other receivables	128,337	8,866
TOTAL	**3,367,814**	**2,169,037**

The balance of receivables in foreign currencies as of December 31, 2012 refers mainly to the BCB's participation in New Arrangements to Borrow (NAB).

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

The receivables from NAB are denominated in SDR and remunerated at rates determined weekly, based on the weighted average of the interest rates representative of short-term debts on the monetary market of the countries whose currencies constitute the SDR (Note 3.3). The maturity of these operations is five years, with the possibility of settlement before this term in the event of the borrower of funds making early payment to the IMF. The funds made available in NAB do not have secured guarantees.

The balance variation is due to the release of funds from NAB, in the amount of SRD 281.5 million and to the depreciation of the Real against the SRD in the period.

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

11.2 In local currency

At Dec 31, 2012

	Amortized cost	Fair value adjustment	Carrying amount
At fair value through profit or loss – Designation	**70,435,090**	**(32,111,082)**	**38,324,008**
Original receivables	**67,611,719**	**(31,026,105)**	**36,585,614**
Banco Nacional – Under Extrajudicial Liquidation	33,589,521	(14,254,525)	19,334,996
Banco Econômico – Under Extrajudicial Liquidation	34,022,198	(16,771,580)	17,250,618
Receivables in installments	**2,823,371**	**(1,084,977)**	**1,738,394**
Banco Banorte – Under Extrajudicial Liquidation	490,824	(188,616)	302,208
Banco Bamerindus – Under Extrajudicial Liquidation	2,332,547	(896,361)	1,436,186
Loans and receivables	**1,463,648**	**-**	**1,463,648**
Loans related to rural credit	151,406	-	151,406
Centrus	1,208,301	-	1,208,301
Other	103,941	-	103,941
Total	**71,898,738**	**(32,111,082)**	**39,787,656**

At Dec 31, 2011

	Amortized cost	Fair value adjustment	Carrying amount
At fair value through profit or loss – Designation	**68,643,479**	**(31,672,489)**	**36,970,990**
Original receivables	**65,621,587**	**(30,350,074)**	**35,271,513**
Banco Nacional – Under Extrajudicial Liquidation	32,805,739	(14,718,108)	18,087,631
Banco Econômico – Under Extrajudicial Liquidation	30,310,999	(15,481,663)	14,829,336
Banco Mercantil – Under Extrajudicial Liquidation	2,354,543	-	2,354,543
Banco Banorte – Under Extrajudicial Liquidation	150,303	(150,303)	
Banco Morada – Under Extrajudicial Liquidation	3	-	3
Receivables in installments	**3,021,892**	**(1,322,415)**	**1,699,477**
Banco Banorte – Under Extrajudicial Liquidation	525,428	(229,933)	295,495
Banco Bamerindus – Under Extrajudicial Liquidation	2,496,464	(1,092,482)	1,403,982
Loans and receivables	**3,186,600**	**-**	**3,186,600**
Loans related to rural credit	2,200,764	-	2,200,764
Centrus	966,887	-	966,887
Other	18,949	-	18,949
Total	**71,830,079**	**(31,672,489)**	**40,157,590**

11.2.1 At fair value through profit or loss – Designation

a) Original receivables

a.1) Receivables characteristics and conditions

This refers basically to the BCB's receivables from institutions under liquidation originating from financial assistance (Proer loans) and from the balances resulting from overdrafts in the Banking Reserves account.

These receivables are adjusted by applying article 124, sole paragraph, of the Bankruptcy Law (Law 11,101 of February 9, 2005), through which the portion of the receivables originating from Proer loans should be updated by the contractual rates up to the limits of the collateral on the loans, and the remaining balances by the TR, highlighting that the contractual rates are those resulting from the collateral of the original loans.

The realization of these receivables is subject to the legal and procedural requirements established in the Liquidation Law (Law 6,024 of March 13, 1974) and in the Bankruptcy Law. This legislation establishes, amongst other matters:

- suspension of the terms previously established for settlement of the obligations;
- payment of the liabilities observing the order of preference established by the law: essential liquidation expenses, labor claims, secured creditors, tax liabilities, and, finally, unsecured creditors;
- establishment of a general creditors' table, as a means for identifying all the institution's creditors, the effective value of their credit and their position in the order of preference for payment;
- the procedures required to realize the assets, such as the type of sale (direct or auction, individual assets or groups of assets).

The payments occurring since the date of adjudication of liquidation, when made with funds originating from the collateral entailed to the debts, are allocated in the respective agreements of the financial assistance operations (Proer), in accordance with bankruptcy legislation, and the debtor may realize the legal liability according to his convenience only in the cases where the payments were made with unrestricted funds. In any case, the repayments are recorded initially as interest and afterwards as principal, in accordance with civil law.

In relation to the position as at December 31, 2011, the BCB received settlements in cash of the credits held against: Banco Mercantil – Under Extrajudicial Liquidation, on January 26, 2012, fact disclosed as subsequent event in the annual financial statements of 2011; Banco Banorte – Under Extrajudicial Liquidation, on March 19, 2012, related to the financial assistance under Proer loans (debts resulting from overdrafts in the Banking Reserves account are being paid in installments); and Banco Morada – Under Extrajudicial Liquidation, on January 4th, 2012.

a.2) Classification and measurement

These credits are classified as At Fair Value through Profit or Loss by designation of the BCB's Management, which considered this classification more relevant, considering the following characteristics:

- they comprise a portfolio of assets with the same origin – they arise from the BCB's actions as supervisor of the national financial system;
- for management and accounting purposes, these assets have been stated at their realizable amount since 1999. This form of evaluation reflects the BCB's objectives when dealing with extrajudicial liquidation processes, i.e. concluding the processes in the shortest time possible and at the lowest possible cost for the monetary authority, depositors and investors.

The fair values of these assets are stated at the fair value of the original collateral, formed by LFT, NTN-A3 and FCVS/CVS, excluding the credits that are preferential in relation to the BCB (payments of expenditures that are essential for the liquidation, wages and tax charges).

b) Credits receivable in installments

b.1) Receivables characteristics and conditions

With the publication of 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% due on the charges. The general principle that guides the settlement of receivables is the acceptance of federal government securities in payment, whose valuation will be attributed by the BCB for each type of security offered, considering the lower value between face value and market value.

Banorte and Bamerindus entered into a term for payment in installments of their debts originated from overdrafts in the Bank Reserves account with the BCB, in August 2011, for the payment in 180 consecutive, monthly installments, adjusted by the TR, as assured to institutions under liquidation by Article 9, main clause, of Law 8,177 of March 1st, 1991 with the wording given by Law 8,218, of August 29, 1991. If the extrajudicial liquidation scheme 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 imply the rescission of the term, with the debt returning to the original situation. Consummation of the payment in installments does not imply automatic closing of the special regime, which may be evaluated at an opportune moment, if it is the case, in accordance with the conditions established in Law 6,024, of March 13, 1974.

b.2) Classification and measurement

These receivables are classified as At Fair Value through Profit or loss by designation of the management, considering the same characteristics as for the original receivables (Note 11.2.1.a).

The fair value of the receivables corresponds to the present value of the cash flows, calculated through the use of equivalent market rates – DI x TR swap reference rates published by BM&FBovespa for the installment term (Note 30).

11.2.2 Loans and receivables

a) Loans related to rural credit

These are loans to financial institutions with funds originating from the reserve requirements for rural loan deficiencies. The loans are granted at the request of the financial institutions, they are limited to the amount of their own compulsory reserve deposits and must be applied in rural loan operations.

These loans have a maximum term of 12 months and, in the case of funds from the rural savings account, they are subject to financial charges based on the TR.

The change in the balance of the loans related to rural credit is due to the decrease in the deficiencies in applications in rural credit in the period, with a consequent decrease in this type of loan.

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

b) Centrus

These operations comprise receivables from Centrus resulting from:

- changes introduced in 2009 in the regulation of the Foundation's benefit plan, which consisted of an increase in the basic quota of death benefits, generating credit for the sponsor in proportion to the benefit granted;
- the distribution of the surplus of the Foundation's benefit plan, as approved by Ordinance n° 192, of April 14, 2011, of the National Superintendency of Suplementary Social Security (Previc), with reversal of amounts to the sponsor, the sponsored participants and the self-sponsored participants;
- reversal of tax contingency for Withholding Income Tax (IRRF), on December 28, 2012, previously recognizedby Centrus.

Pursuant to the agreement entered into between the BCB and Centrus, the funds are transferred upon request of the sponsor and are remunerated at a rate equivalent to the yield obtained by the Foundation on investments in federal government securities, including short-term funds collateralized by these securities.

The change in relation to December 31, 2011 is due, basically, to the recognition of the portion owed to the BCB of the reversal of the tax contingency for IRRF and the remuneration of the receivables in the period (Note 36.2).

12 Gold

The BCB, like other central banks, maintains part of Brazil's international reserves in gold. Gold is considered as a reserve asset because it is readily and unconditionally available for the monetary authorities. Accordingly, the gold held by the BCB is a monetary financial asset.

Considering these characteristics, the BCB understood that IFRS do not establish an accounting treatment for this type of asset and, accordingly, based on IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, it concluded that the best alternative is the treatment prescribed for the other financial assets, i.e. IAS 39.

Since there is no intention of trading in the short term, the funds invested in gold are classified as Available-for-sale. Due to this classification, the gold is stated at the market price in U.S. dollars, with price adjustments recorded in equity and the effects of foreign exchange adjustments recorded in the income statement.

	Dec 31, 2012	Dec 31, 2011
Cost	4,449,918	574,814
Fair value adjustment	2,866,704	2,527,525
Carrying amount	**7,316,622**	**3,102,339**

The variation in the period is mainly due to the decision of the BCB's management of increasing investments in this type of asset, allocating to it part of the increase in the international reserves.

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

13 Investments in international financial organizations

The BCB's interest in international financial organizations consists of quotas of the IMF (1.79% 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 establishes their accounting in accordance with IAS 39.

These assets are classified as Available-For-Sale and their market value is expressed by the value, in Reais, of Brazil's interest in the organizations.

	Dec 31, 2012	Dec 31, 2011
International Monetary Fund	13,347,420	12,238,677
Bank for International Settlements	78,122	71,633
TOTAL	**13,425,542**	**12,310,310**

The change in the balance in the period is due to the positive fair value adjustment (Note 22.3), considering the depreciation of the Real against the SDR (Note 3.3).

14 Property and equipment

2012

	Precious metals under several forms	Land	Buildings	Equipment	Works of art and museum pieces	Total
At Dec 31, 2011	**38,482**	**256,324**	**369,158**	**91,117**	**30,142**	**785,223**
Cost	38,750	256,324	451,646	273,285	30,142	1,050,147
Accumulated depreciation	-	-	(82,488)	(182,168)	-	(264,656)
Provision for losses	(268)	-	-	-	-	(268)
Changes in 2012	**(26,023)**	**-**	**11,460**	**7,574**	**30**	**(6,959)**
Acquisitions/Construction	-	-	21,568	31,590	30	53,188
Sales/Write-offs	(26,249)	-	-	(65,484)	-	(91,733)
Reversal of provision for losses	226	-	-	-	-	226
Depreciation	-	-	(10,108)	(23,538)	-	(33,646)
Depreciation write-off	-	-	-	65,006	-	65,006
At Dec 31, 2012	12,459	256,324	380,618	98,691	30,172	778,264

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

2011

	Precious metals under several forms	Land	Buildings	Equipment	Works of art and museum pieces	Total
At Dec 31, 2010	**38,482**	**256,324**	**360,232**	**82,306**	**30,134**	**767,478**
Cost	38,750	256,324	432,612	257,853	30,134	1,015,673
Accumulated depreciation	-	-	(72,380)	(175,547)	-	(247,927)
Provision for losses	(268)	-	-	-	-	(268)
Changes in 2011	**-**	**-**	**8,926**	**8,811**	**8**	**17,745**
Acquisitions/Construction	-	-	19,236	32,795	8	52,039
Sales/Write-offs	-	-	(202)	(17,363)	-	(17,565)
Depreciation	-	-	(10,108)	(23,845)	-	(33,953)
Depreciation write-off	-	-	-	17,224	-	17,224
At Dec 31, 2011	**38,482**	**256,324**	**369,158**	**91,117**	**30,142**	**785,223**

15 Other assets

	Dec 31, 2012	Dec 31, 2011
In Local Currency	**754,283**	**1,225,822**
Actuarial Surplus – Centrus (Note 20.2)	682,633	1,149,284
Outros	71,650	76,538
Other	**754,283**	**1,225,822**

16 Items in the course of collection

These refer basically to contracted operations pending settlement on the balance sheet date, whose financial settlement will occur within three days. At December 31, 2012, the balance of contracted operations pending settlement, in foreign and local currencies, was R$ 76,880 and R$ 32,811 (R$ 828,852 and R$ 19,285 in 2011), respectively.

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

17 Deposits received from financial institutions

	Dec 31, 2012	Dec 31, 2011
In Foreign Currencies	**1,453**	**1,333**
In Local Currency	**320,097,305**	**424,925,295**
Demand Deposits	45,936,716	51,465,641
Time Deposits	64,600,897	130,616,900
Savings Deposits	95,569,420	80,713,232
Additional Requirements	111,649,700	157,685,941
Other	2,340,572	4,443,581
Total	**320,098,758**	**424,926,628**

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

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

Currently, the main reserve requirements have the following percentages and rates of remuneration:
a) on demand deposits – 44%, without remuneration;
b) on time deposits – 20%, remunerated by the Selic rate;
c) on savings deposits – 20% (17% rural savings account), remunerated based on the TR + 6.17% p.a. or 70% of Selic Target + TR;
d) on foreign exchange short position – 60%, without remuneration;
e) additional requirements – due on the sum of time deposits (11%) and of savings deposits (10%), remunerated by the Selic rate.

The change in the balance of deposits received from financial institutions is associated basically with the fluctuation in the amounts subject to collection and the changes in the rules for the main reserve requirements in the period.

The reserve requirements on demand deposits, together with the Currency in Circulation (Note 21), comprise the economic concept of monetary base, which variation evidence the primary currency issue. In 2012, the reserve requirements on demand deposits presented a reduction of R$ 5,528,925 (reduction of R$ 4,242,313 in 2011).

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

18 Accounts payable

The balance of accounts payable comprises:

	Dec 31, 2012	Dec 31, 2011
In Foreign Currencies	**9,067,027**	**8,324,770**
SDR allocations	9,067,027	8,315,443
Other	-	9,327
In Local Currency	**839,300**	**959,748**
Court -ordered debts payable	622,880	759,325
Other	216,420	200,423
Total	**9,906,327**	**9,284,518**

18.1 In foreign currencies

SDR allocations are funds made available by the IMF to member countries, proportional to their participation quotas, with no expiration date, on the use of which there is interest (payable quarterly) calculated at the rates for the SDR, published by the IMF, itself. The SDRs resulting from these allocations comprise the international reserves (Note 4) and are remunerated at the same rates as the obligation.

The variation in the balance of accounts payable in foreign currencies is due, basically, to the effects of the foreign exchange variance in the period.

18.2 In local currency

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

With the publication of Constitutional Amendment 30, of September 13, 2000, the court-ordered debts resulting from lawsuits filed before December 31, 1999 will be settled at their actual amount, in legal tender, plus legal interest, in annual, equal and successive payments, over a maximum period of ten years, except, among others, for credits related to alimony and of small amounts.

In compliance with the provisions of article 28 of Law 12,708, of August 17, 2012 (Budget Guidelines Law – LDO 2013), the appropriations approved in the annual budget law for the payment of debts arising from final and unappealable judicial decisions will be decentralized to the courts requesting the court-ordered debts, which will be responsible for making the payments to the beneficiaries. As a result, the budget and financial resources shall not pass through the BCB (debtor entity). The balance existing at December 31, 2012 refers to the court-ordered debts to be paid in 2013 and the following years.

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

19 Deposits received from international financial organizations

	Dec 31, 2012	Dec 31, 2011
In Foreign Currencies	**9,547,147**	**8,863,307**
Inter-American Development Bank	57,227	61,869
International Bank for Reconstruction and Development	19,214	17,008
International Monetary Fund	9,470,292	8,784,426
Other	414	4
In Local Currency	**4,578**	**2,045**
Financial Fund for the Development of River Plate Basin	4,578	2,045
Total	**9,551,725**	**8,865,352**

The deposits received from international financial organizations mainly consist of demand deposits that the IMF maintains in Brazil. Other international organizations maintain deposit accounts with the BCB to meet their administrative expenses.

The variation in the balance of IMF deposits refers mainly to the depreciation of the Real against the SDR in the period (Note 3.3).

20 Provisions

	Dec 31, 2012	Dec 31, 2011
Litigation	3,775,604	3,201,941
Actuarial liability	25,119,733	19,375,933
Total	**28,895,337**	**22,577,874**

20.1 Provisions for litigation

At December 31, 2012, the BCB was a party to 10,101 lawsuits (3,255 as the plaintiff, 6,839 as the defendant and 6 where the BCB was an interested party) due to various issues, including economic plans, labor claims, liquidations of financial institutions and privatizations (at December 31, 2011, the total was 13,379, where 3,381 were as the plaintiff, 9,992 were as the defendant and 6 had the BCB as an interested party).

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

Provisions are recorded for 100% of the amount at risk (including an estimate of fees for loss of suit) for all the litigation where the risk of loss is classified as probable, i.e. where the risk of loss is assessed as greater than 50%. In 2012 provisions were recorded for 1,121 lawsuits (1,168 in 2011). The following table presents the changes in the provisions during the year:

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

	2012	2011
Opening balance	**3,201,941**	**2,696,925**
Changes	**573,663**	**505,016**
Formation	630,614	604,867
Reversal	(58,946)	(75,529)
Transfer to court-ordered debts	1,995	(24,322)
Closing balance	**3,775,604**	**3,201,941**

The amounts of the lawsuits are adjusted by the Selic rate, following the provision in Resolution 561, of July 2nd, 2007, of the Federal Justice Council. Labor lawsuits are exceptions, since these are restated using the TR plus legal interest, in accordance with Laws 8,177, of 1991, and 10,192, of February 14, 2001.

The lawsuits where the risk of loss was considered as less than probable and more than remote were classified as contingent liabilities and, accordingly, no provisions were recorded. At December 31, 2012, there were 861 lawsuits (796 in 2011) in this situation, totaling R$ 73,159,035 (R$ 72,172,231 in 2011).

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

	Dec 31, 2012	Dec 31, 2011
2012	-	799,639
2013	1,893,400	1,618,071
2014	628,913	94,722
2015	623,096	564,940
2016	213,870	96,032
2017	369,903	3,741
2018	15,485	10,717
2019	1,131	1,018
2020	22,938	9,237
2021	5,741	3,479
2022	1,074	297
2023	53	48
Total	**3,775,604**	**3,201,941**

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

	Dec 31, 2012	Dec 31, 2011
Special systems	1,400,190	1,022,207
Labor lawsuits	1,325,935	1,263,631
Economic plans	543,405	466,532
Contractual relationships	349,743	324,770
Other	156,331	124,801
Total	**3,775,604**	**3,201,941**

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

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

20.2 Provision for actuarial liabilities

The BCB sponsors post-employment benefit plans for its employees, which include retirement, pension and health care benefits. A summary of the existing plans and the main assumptions for the actuarial calculations are presented below:

a) Retirement benefits for employees retired before 1990 – Centrus

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

b) Retirement benefits for employees retired after 1990 – RJU

The RJU Plan is a defined benefit plan whose purpose is to provide the payment of retirement and pension benefits in accordance with what is established in the Federal Constitution and in Law 8,112, of December 11, 1990.

In order for the employees to be entitled to this benefit, the BCB and the employees, themselves, make contributions directly to the Federal Government; however, there is no relationship between this payment and receipt of the benefits. Accordingly, considering the legislation in force, this plan is maintained with resources of the BCB.

c) Health care benefits – Faspe

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

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

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

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

d) Actuarial calculations

Calculation of the provision	Dec 31, 2012			Dec 31, 2011		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Present value of actuarial obligations	3,221,072	21,922,281	3,271,456	2,536,665	17,098,943	2,350,784
(-) Fair value of plan assets	(5,430,476)	-	(74,003)	(5,493,976)	-	(73,795)
Net actuarial liabilities (assets)	(2,209,404)	21,922,281	3,197,453	(2,957,311)	17,098,943	2,276,989
(-) Unrecognized assets	(1,526,772)	-	-	(1,808,027)	-	-
Actuarial liabilities (assets) recognized in the balance sheet	(682,632)	21,922,281	3,197,453	(1,149,284)	17,098,943	2,276,989

The actuarial surplus of the Centrus plan, referring to the excess of assets in relation to the benefits payable, is recognized in the balance to the extent of the expected economic benefits (Note 11.2). Accordingly, taking into consideration the reversal of amounts of the actuarial surplus of the Centrus plan, in compliance with Resolution 26, of the Board for Management of Supplementary Pension Funds (CGPC), of September 29, 2008, this calculation takes into consideration the proportionality of the contribution between the BCB and the participants, as well as the formation of a contingency reserve by Centrus.

In the case of RJU and Faspe, the variation observed between the two periods is due to the entry of new employees and the review of indices ("Actuarial Assumptions" table). For the Centrus plan, the variation is due mainly to the review of the actuarial assumptions.

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

Present value of the liabilities – Reconciliation	Dec 31, 2012			Dec 31, 2011		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Present value of actuarial obligations at the beginning of the year	2,536,665	17,098,943	2,350,784	2,303,023	16,847,922	704,109
(+) Current service cost	-	136,590	185,034	-	159,259	52,058
(+) Interest cost	242,735	2,002,299	228,730	225,512	1,646,206	72,377
(-) Benefits paid	(301,786)	(984,844)	(175,414)	(291,540)	(905,941)	(167,572)
(+) Participants contributions	-	-	67,261	-	-	77,601
(+/-) Actuarial losses (gains)	743,458	3,669,293	615,061	299,670	(648,503)	1,612,211
(=) Present value of actuarial obligations at the end of the year	3,221,072	21,922,281	3,271,456	2,536,665	17,098,943	2,350,784

Plan assets – Reconciliation	Dec 31, 2012			Dec 31, 2011		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Fair value of the plan assets at the beginning of the year	5,493,976	-	73,795	6,579,520	-	82,909
(-) Benefits paid	(301,786)	(984,844)	(175,414)	(291,540)	(887,291)	(167,572)
(+) Participants contributions	-	-	67,261	-	-	77,601
(+) Sponsor contributions	-	-	107,966	-	-	92,397
(+) Expected return on the plan's assets	650,108	-	6,621	876,506	-	8,548
(+) Transfer from the National Treasury	-	984,844	-	-	887,291	-
(+/-) Actuarial gains (losses)	(411,822)	-	(6,226)	(1,670,510)	-	(20,088)
Fair value of the plan assets at the end of the year	5,430,476	-	74,003	5,493,976	-	73,795

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

Plan assets – Percentage distribution	Dec 31, 2012			Dec 31, 2011		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Equity instruments	30.0%	-	-	33.2%	-	-
Federal Government Securities	61.0%	-	82.9%	60.9%	-	80.1%
Property	2.2%	-	-	2.3%	-	-
Other	6.8%	-	17.1%	3.6%	-	19.9%

Income and expenses recognized in the Income Statement for the year	Dec 31, 2012			Dec 31, 2011		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Other expenses						
Current service cost	-	136,590	185,034	-	159,259	52,058
Interest income						
Expected return on plan assets	650,108	-	6,621	876,506	-	8,548
Interest expenses						
Interest costs	242,735	2,002,299	228,730	225,512	1,646,206	72,377

Actuarial gains and losses recognized in equity	Dec 31, 2012			Dec 31, 2011		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Opening balance	**(3,366,268)**	**(6,280,946)**	**(1,693,608)**	**(2,025,309)**	**(6,929,449)**	**(61,309)**
Recognition	(874,024)	(3,669,293)	(621,286)	(1,340,959)	648,503	(1,632,299)
Closing balance	**(4,240,292)**	**(9,950,239)**	**(2,314,894)**	**(3,366,268)**	**(6,280,946)**	**(1,693,608)**

Actuarial assumptions	Dec 31, 2012			Dec 31, 2011		
	Centrus	RJU	Faspe	Centrus	RJU	Faspe
Financial						
Discount rate	7.61%	8.28%	8.30%	10.32%	10.40%	10.38%
Inflation rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Rate of contribution of retired employees	-	-	1% to 3%	-	-	1% to 3%
Rate of contribution of the sponsor	-	-	Up to 3%	-	-	Up to 3%
Expected growth rate for salaries	-	1.46%	-	-	1.70%	-
Trend rate for medical costs	-	-	10.9%	-	-	13.6%
Non-financial						
Number of active employees	-	4,461	4,369	-	4,548	4,438
Number of retired employees	768	4,533	5,115	815	4,218	4,911
Number of pensioners	679	505	1,172	652	473	1,098
Average past service (in years)	-	16.2	-	-	17.3	-
Average expected future service (in years)	-	16.5	-	-	15.5	-
Average age of active employees	-	46	46	-	47	47
Average age of retired employees	80	64	66	79	63	65
Average age of pensioners	76	51	66	75	50	65
General mortality table	AT 2000	AT 2000	AT 2000	AT 2000	AT 2000	AT 2000
Disabled mortality table	EX IAPC	EX IAPC	EX IAPC	EX IAPC	EX IAPC	EX IAPC
Entry into disability table	ÁLVARO VINDAS	ÁLVARO VINDAS	ÁLVARO VINDAS	ÁLVARO VINDAS	ÁLVARO VINDAS	ÁLVARO VINDAS

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

e) Other information

- The long-term interest rate, used as a basis for the establishment of the discount rate of the plans, was calculated considering the market of the federal government securities for terms similar to those of the flow of obligations of each plan, in the so-called duration concept.
- The rate of growth of the plan's medical costs was calculated considering past growth in the last five years.
- A change of (+/-) 1% in the medical costs would have the following impact on Faspe:

	+1%	-1%
Cost of services and interest	23,190	(20,763)
Liability	638,034	(521,983)

- The BCB estimates that the payment of its contributions to Faspe in 2013 will be R$ 98,816.
- Past information:

	2012	2011	2010	2009
Centrus				
Present value of the liabilities	3,221,072	2,536,665	2,303,023	2,408,173
Fair value of the assets	5,430,476	5,493,976	6,579,520	5,779,620
Deficit (surplus) of the plan	(2,209,404)	(2,957,311)	(4,276,497)	(3,371,447)
Adjusted experience resulting from the plan's liabilities	122,856	253,446	(180,061)	(298,363)
Adjusted experience resulting from the plan's assets	905,301	2,140,486	(375,185)	(367,243)
RJU				
Present value of the liabilities	21,922,281	17,098,943	16,847,922	14,475,619
Fair value of the assets	-	-	-	630,867
Deficit (surplus) of the plan	21,922,281	17,098,943	16,847,922	13,844,752
Adjusted experience resulting from the plan's liabilities	(1,619,688)	(846,955)	(327,340)	1,325,832
Adjusted experience resulting from the plan's assets	-	(887,291)	16,486	(133,600)
Faspe				
Present value of the liabilities	3,271,456	2,350,784	704,109	710,841
Fair value of the assets	74,003	73,795	82,909	76,821
Deficit (surplus) of the plan	3,197,453	2,276,989	621,200	634,020
Adjusted experience resulting from the plan's liabilities	83,109	1,458,807	303,231	(15,687)
Adjusted experience resulting from the plan's assets	6,225	34,884	(1,515)	(2,156)

21 Currency in circulation

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

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

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

	Dec 31, 2012		Dec 31, 2011	
	Number	Amount (R$ thousand)	Number	Amount (R$ thousand)
Notes	**5,569,014,004**	**182,610,276**	**5,009,229,063**	**158,418,349**
R$1.00	150,013,414	150,013	150,919,407	150,919
R$2.00	913,425,568	1,826,851	815,894,757	1,631,790
R$5.00	470,805,968	2,354,030	447,388,395	2,236,942
R$10.00	722,346,875	7,223,469	683,911,079	6,839,111
R$20.00	844,549,581	16,890,992	742,823,319	14,856,466
R$50.00	1,852,446,791	92,622,340	1,682,521,788	84,126,089
R$100.00	615,425,807	61,542,581	485,770,318	48,577,032
Coins	**20,413,737,206**	**4,823,411**	**18,770,658,056**	**4,350,366**
R$0.01	3,190,933,773	31,909	3,190,853,499	31,909
R$0.05	4,998,983,846	249,949	4,495,096,298	224,755
R$0.10	5,430,470,374	543,047	4,955,321,324	495,532
R$0.25	2,302,584,905	575,646	2,091,563,039	522,891
R$0.50	2,135,807,473	1,067,904	1,925,088,972	962,544
R$1.00	2,354,956,835	2,354,956	2,112,734,924	2,112,735
Commemorative	**-**	**1,049**	**-**	**955**
Total		**187,434,736**		**162,769,670**

At December 31, 2012, the Currency in Circulation presented an increase of 15.2% when compared to 2011, which can be associated mainly with growth in the gross domestic product (GDP) and the impact of the minimum wage readjustment on the economy's monetization due to the profile of the wage-earning individuals benefitted from this increase.

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

	2012	2011
Opening balance	**162,769,670**	**151,145,368**
Changes	**24,665,066**	**11,624,302**
(+) Issuances	262,269,730	228,613,072
(-) Payment	(237,604,664)	(216,988,770)
Closing balance	**187,434,736**	**162,769,670**

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

As regards currency in circulation administrative expenses, the amounts in 2011 and 2012, recorded in Other Expenses, are as follows:

	2012	2011
Acquisition of notes and coins	827,739	788,304
Storage and safekeeping of notes and coins	66,277	57,655
Distribution of notes and coins	51,848	34,274
Selection of notes and coins	11,757	11,233
Destruction of notes and coins	1,274	566
Disclosure and researches of matters related to Currency in Circulation	13,011	22,028
Other	22	2
Total expenses with Currency in Circulation	**971,928**	**914,062**

22 Net equity

22.1 Capital

Capital is comprised of the following items:

a) initial equity, in the amount of R$ 14,526, which represents the capital originally transferred to the BCB at the time of its constitution, adjusted by the monetary restatement up to December 31, 1995;
b) results of the BCB until 1987 and incorporated into its equity, adjusted by the monetary restatement up to December 31, 1995, totaling R$ 2,561,830; and
c) capital increases resulting from the incorporation of securities issued by the Federal Government for the purpose of recomposition of the portfolio, in the amount of R$ 22,099,095.

22.2 Reserves

Reserves are comprised of:

a) Revenue Reserve – may be appropriated up to the limit of 25% of theBCB's profit, excluding the income from exchange equalization.
b) Revaluation Reserve – results from the revaluation of the BCB's properties for own use, occurring until 2004. Upon initial adoption of the IFRS, BCB opted for recording its property and equipment on the cost method (Note 3.5), attributing the amount of the last revaluation as the new cost (deemed cost). This amount is realized in accordance with the useful life of these assets.

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

22.3 Gains (Losses) Recognized in Equity

These refer to the fair value adjustments of financial assets classified as Available-for-Sale and the actuarial gains and losses arising from the provision for payment of post-employment benefits.

	Dec 31, 2012	Dec 31, 2011
Federal government securities		
Opening balance	5,621,981	1,815,090
Fair value adjustment	6,705,393	3,955,266
Write-off	(49,698)	(148,375)
Closing balance	12,277,676	5,621,981
Gold		
Opening balance	2,611,516	2,478,928
Fair value adjustment	93,604	132,588
Closing balance	2,705,120	2,611,516
Quotas of International Financial Organizations		
Opening balance	(4,797,498)	(6,060,939)
Fair value adjustment	1,115,232	1,263,441
Closing balance	(3,682,266)	(4,797,498)
Actuarial gains and losses		
Opening balance	(11,340,822)	(9,016,067)
Actuarial gain (loss) in the period	(5,164,603)	(2,324,755)
Closing balance	(16,505,425)	(11,340,822)
Total	**(5,204,895)**	**(7,904,823)**

The variation in the balance of gains (losses) recognized directly in equity arose, mainly, from the positive fair value adjustment of federal government securities and the quotas of international financial organizations, partly offset by the actuarial loss recognized in the period (Note 20.2).

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

23 Net interest result

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

	2012	2011
Interest income	**91,982,951**	**94,035,581**
In foreign currencies	**97,070**	**155,767**
Cash and cash equivalents (note 4)	33,497	64,283
Time Deposits Placed with Financial Institutions (Note 5)	39,107	68,892
Reverse repo (Note 7.1)	16,605	13,656
Loans	1,449	7,611
Other	6,412	1,325
In local currency	**91,885,881**	**93,879,814**
Securities (Note 9.2)	89,429,697	84,303,141
Federal Government (Note 10)	698,894	8,451,476
Other	1,757,290	1,125,197
Interest expenses	**(124,609,597)**	**(126,430,149)**
In foreign currencies	**(27,006)**	**(34,013)**
Repo (Note 7.1)	(16,712)	(3,292)
Loans	(9,152)	(30,207)
Other	(1,142)	(514)
In local currency	**(124,582,591)**	**(126,396,136)**
Deposits received from financial institutions (Note 17)	(24,384,100)	(35,163,417)
Repo (Note 7.2)	(45,032,330)	(45,684,626)
Federal Government (Note 10)	(52,474,648)	(43,534,793)
Other	(2,691,513)	(2,013,300)
Net interest result	**(32,626,646)**	**(32,394,568)**

Although the net interest result was practically stable, some offsetting variations were recorded in the period, especially:

- an increase in the income from interest on operations with securities in local currency, due to the increase in the portfolio of federal government securities in the period (Note 9.2);
- a decrease in the income from interest on operations with the Federal Government, as a result of the receipt, in January 2012, of the amounts related to the results from the foreign exchange equalization in the second half of 2010 and first half of 2011;
- a decrease in the expenses with the remuneration of the deposits received from financial institutions, which is associated with the decrease in the balance of remunerated reserve requirements (Note 17); and
- an increase in the expenses with the remuneration of obligations with the Federal Government, due to the increase in the balance of the National Treasury Operational Account and of the results from the foreign exchange equalization to be transferred, referring to the second half of 2011 and first half of 2012 (Note 10).

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

24 Gains (losses) on financial instruments classified as at fair value through profit or loss – held for trading

These refer to the changes in price of the assets classified in this category and include foreign exchange variation, interest and mark-to-market adjustments.

	2012	2011
In Foreign Currencies	**72,891,414**	**87,383,195**
Securities (Note 9.1)	70,055,142	87,188,218
Funds under External Management (Note 6)	2,188,850	80,348
Other	647,422	114,629
In Local Currency	**(21,184,464)**	**(43,346,434)**
Derivatives (Note 8.2)	(21,184,990)	(43,346,426)
Other	526	(8)
Total	**51,706,950**	**44,036,761**

The variation is due, mainly, to the exchange variation effect. As, in 2012, the effects of the depreciation of the Real against the main foreign currencies in the period (Note 3.3) were lower than in the prior year, the appreciation of the assets in foreign currency, mainly securities, was less than in 2011. On the other hand, the negative result in local currency, due to the exchange equalization operation between the National Treasury and the BCB was also lower (Note 8.2.2).

25 Gains (losses) on financial instruments classifiedas at fair value through profit or loss – by designation of the management

These include interest and mark-to-market adjustments of the receivables from the institutions under extrajudicial liquidation (Note 11.2.1), in the amount of R$ 3,168,056 (R$ 7,004,665 in 2011).

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

26 Gains (losses) from foreign exchange

These represent the result of foreign exchange restatement of the assets and liabilities 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.

	2012	2011
Gains (losses) from foreign exchange		
Cash and Cash Equivalents	2,285,905	1,382,603
Time Deposits Placed with Financial Institutions	3,182,300	4,297,615
Repurchase operations	65,187	(57,788)
Receivables	263,582	201,879
Gold	318,807	440,091
Items in the Course of Collection	(1,853,829)	95,512
Accounts payable	(753,130)	(906,887)
Deposits Received from International Financial Organizations	(765,751)	(931,457)
Other	(4,431)	46,714
Total	**2,738,640**	**4,568,282**

The gains (losses) above mainly arise from the depreciation of the Real against the main foreign currencies (Note 3.3). The variation, in turn, is due to the fact that in 2012 this foreign exchange depreciation was lower than that in the prior year.

27 Other income and expenses

	2012	2011
Other income	**3,085,398**	**3,515,923**
Fines	128,958	92,066
Transfer from the National Treasury	2,316,930	2,135,717
Court-ordered debts	163,589	396,454
Reversal of provision for lawsuits	58,945	75,529
Tariffs	196,665	206,938
Centrus surplus (Note 11.2.2.b)	-	532,458
Other	220,311	76,761
Other expenses	**(3,457,669)**	**(3,259,653)**
Personnel	(1,550,004)	(1,473,093)
Production and distribution of cash	(971,929)	(914,063)
Provision for litigation	(630,615)	(604,867)
Depreciation	(33,646)	(33,954)
Other administrative expenses	(271,475)	(233,676)

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

28 Income statement

28.1 Result for the year

The result for the year was positive in R$ 24,614,729 (R$ 23,471,410 in 2011), as shown in the table below:

	2012	2011
International Reserves Operations and Swaps	**-**	**-**
Profitability of the foreign currency reserves	76,538,953	93,605,377
Foreign exchange derivatives – Swaps in local currency	1,124,416	694,347
Foreign exchange equalization of reserves and derivatives (Profitability)	(77,663,369)	(94,299,724)
Other transactions in foreign currencies	**(838,834)**	**(1,532,147)**
Transactions in local currency	**25,825,309**	**24,747,295**
Interest income	91,885,881	93,879,814
Interest expenses	(124,582,591)	(126,396,136)
Foreign exchange equalization (Funding cost)	55,353,963	50,258,952
Mark-to-market-Institutions under liquidation	3,168,056	7,004,665
Other transactions in local currency	**(371,746)**	**256,262**
Net Income for the year	**24,614,729**	**23,471,410**

Because the profitability obtained with the management of the international reserves and foreign exchange derivatives (swaps) (Note 8.2.1) is neutralized through the exchange equalization, the BCB result 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 exchange equalization mechanism. The interest income and expenses from operations in local currency and the mark-to-market of the credits receivable from the institutions in liquidation also contributed to the result.

The result for the first half (R$ 12,318,246) was transferred to the National Treasury in September 2012 and the result for the second half (R$ 12,296,483) will be transferred no later than the 10th working day after the approval of these financial statements by the CMN (Note 1).

28.2 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 results, which is usually disclosed through the Income Statement.

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

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

29 Financial instruments – By category

29.1 In foreign currencies

	Dec 31, 2012		Dec 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	**784,189,650**	**784,189,650**	**675,500,413**	**675,500,413**
Loans and receivables	58,263,747	58,263,747	45,309,796	45,309,796
Available-for-sale	20,742,164	20,742,164	15,412,649	15,412,649
At fair value through profit or loss	705,183,739	705,183,739	614,777,968	614,777,968
Financial liabilities	**19,341,850**	**19,341,850**	**23,913,425**	**23,913,425**
Other liabilities	19,332,753	19,332,753	23,911,078	23,911,078
At fair value through profit or loss	9,097	9,097	2,347	2,347

29.2 In local currency

	Dec 31, 2012		Dec 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	**1,023,245,219**	**1,108,453,424**	**905,924,393**	**927,930,736**
Held-to-maturity	665,314,340	750,522,545	602,544,971	624,551,314
Loans and receivables	74,683,081	74,683,081	114,410,290	114,410,290
Available-for-sale	244,908,593	244,908,593	151,998,142	151,998,142
At fair value through profit or loss	38,339,205	38,339,205	36,970,990	36,970,990
Financial liabilities	**1,551,751,841**	**1,551,751,841**	**1,355,319,986**	**1,355,319,986**
Other liabilities	1,551,751,841	1,551,751,841	1,355,308,650	1,355,308,650
At fair value through profit or loss	-	-	11,336	11,336

Except for the operations with securities in local currency (Note 9.2), the fair value of the operations measured at amortized cost is not significantly different from the carrying value, considering that these relate to cash or short-term operations. Notes 31 to 35 present the BCB's risk policy for the management of financial assets and liabilities.

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

30 Fair value – By hierarchy

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

- 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 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 evaluation date.

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

At Dec 31, 2012

	Level 1	Level 2	Level 3	Total
Assets in Foreign Currencies	**712,765,170**	**13,160,732**	**-**	**725,925,903**
Funds under External Management	-	13,092,735	-	13,092,735
Derivatives	-	67,998	-	67,998
Securities	692,023,006	-	-	692,023,006
Gold	7,316,622	-	-	7,316,622
Investment in International Financial Organizations	13,425,542	-	-	13,425,542
Assets in Local Currency	**244,923,790**	**1,738,394**	**36,585,614**	**283,247,798**
Derivatives	15,197	-	-	15,197
Federal Government Securities – LTN	244,908,593	-	-	244,908,593
Receivables – Institutions under Extrajudicial Liquidation	-	1,738,394	36,585,614	38,324,008
Liabilities in Foreign Currency	**-**	**9,097**	**-**	**9,097**
Derivatives	-	9,097	-	9,097

At Dec 31, 2011

	Level 1	Level 2	Level 3	Total
Assets in Foreign Currencies	**629,734,578**	**456,039**	**-**	**630,190,617**
Funds under External Management	-	455,689	-	455,689
Derivatives	-	350	-	350
Securities	614,321,929	-	-	614,321,929
Gold	3,102,339	-	-	3,102,339
Investment in International Financial Organizations	12,310,310	-	-	12,310,310
Assets in Local Currency	**151,998,142**	**1,699,477**	**35,271,513**	**188,969,132**
Federal Government Securities – LTN	151,998,142	-	-	151,998,142
Receivables – Institutions under Extrajudicial Liquidation	-	1,699,477	35,271,513	36,970,990
Liabilities in Foreign Currency	**-**	**2,347**	**-**	**2,347**
Derivatives	-	2,347	-	2,347
Liabilities in Local Currency	**11,336**	**-**	**-**	**11,336**
Derivatives	11,336	-	-	11,336

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

The credits receivable from institutions under liquidation that were subject to payment in installments, based on article 65 of Law 12,249, of 2010 (Note 11.2.1.b), are classified in Level 2 of the fair value hierarchy due to the fact that the methodology used for their measurement considers the present value of the cash flows, calculated based on the referential rates for DI x TR swaps made available by BM&FBovespa for the period of the payment in installments. The receivables that were not subject to payment in installments (Note 11.2.1.a) are classified in Level 3 of the fair value hierarchy due to the fact that the methodology used for their measurement considers the fair value of their collateral, as described in detail below, excluding the preferential receivables for the BCB:

a) LFT – fair value based on market prices;
b) NTN-A3 – fair value based on the implicit discount rates in the trading of similar instruments (Global Bonds);
c) FCVS/CVS – fair value based on the referential rates of the DI vs. TR swaps made available by BM&FBovespa for the term of the contracts.

No alternative methodology, although also considered appropriate, was identified which might serve as a basis for calculating the impact of its use in the measurement of the fair value of the collateral represented by FCVS and CVS.

There were no material transfers of financial instruments classified in Level 1 of the fair value hierarchy to Level 2 during the fiscal year 2012.

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

	2012	2011
Opening balance	**35,271,513**	**30,052,493**
Changes	**1,314,101**	**5,219,020**
Fair value adjustment	3,635,039	8,527,544
Transfer into Level 2	-	(3,308,527)
Derecognition	(2,320,936)	-
Other	(3)	3
Closing balance	**36,585,614**	**35,271,513**

31 Risk management

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

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

a) Financial instruments intended for the management of international reserves:

The main purpose of Brazil's international reserves is to contribute towards reducing the economy's vulnerability to external shocks and the perception of risk by foreign investors.

When investing the international reserves, the BCB seeks to obtain liquidity, security and profitability, in keeping with this objective, using a policy of diversification of financial instruments to do so. Therefore, the Board of Directors established a reference portfolio that reflects its long-term objectives and preferences with respect to the risk-return ratio, liquidity restrictions and the operating limits to be observed in the investment process.

b) Financial instruments intended for executing the monetary policy:

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

Notes 32 to 35 present the main risks to which these two portfolios of financial instruments are exposed, as well as the policy for management of these risks.

32 Credit risk

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

a) Financial instruments intended for the management of international reserves:

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

The main credit risk policies are listed below, and it is worth noting that internal analyses of the credit conditions of the counterparties may generate further restrictions in addition to those listed below:

a.1) Minimum ratings

Operations subject to bank credit risk, such as deposits, repos, reverse repos, swaps and forwards, should be contracted with counterparties belonging to groups with a short term rating of P-1 and a minimum long-term rating of Aa, except for repos and reverse repos, for which operations with counterparties belonging to groups with a minimum long-term rating equal to A is permitted.

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

a.2) Maximum amounts of exposure

The maximum exposure per group is equivalent to the lesser of US$0.5 billion and 0.5% of the group's assets, for operations with counterparties having a minimum long-term rating of Aa, and US$0.25 billion and 0.25% of the group's assets, for operations with counterparties having a long-term rating of A.

Operations with bank credit risk whose counterparties are the BIS, the European Central Bank, the Banque de France or central banks of countries with a long-term rating of Aaa have no exposure limits.

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

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

a.3) Maximum terms

The maximum term for operations with bank credit risk is six months, except for deposits. In this case, deposits with counterparties belonging to groups classified with a rating of Aa may be contracted for a maximum of one working day and deposit operations with counterparties belonging to groups with a rating of Aaa may be contracted for a maximum of one week.

Operations with bank credit risk whose counterparties are the BIS, the European Central Bank, the Banque de France or central banks of countries with a long-term rating of Aaa shall respect the maximum term of six months for the investment.

b) Financial instruments intended for executing the monetary policy:

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

Swaps are contracted on BM&FBovespa, a clearing house which is the central counterparty of the operations. BM&FBovespa has a policy for control of the credit risk through collateral requirements from all the members.

The amount of these guarantees is calculated using stress tests, which consider the total possible loss until the date of the settlement of the contracts. The collaterals may be established in federal government securities, bank guarantees, bank deposit certificates, shares, gold or in cash, amongst others. The majority of the members of the clearinghouse, including the BCB, establish the collaterals through the delivery of federal government securities, which are assessed at a defensive price, lower than the market quotation.

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

c) Concentration of financial assets by geographic area:

	Dec 31, 2012	Dec 31, 2011
Brazil	1,036,043,342	907,381,538
European Economic Community	134,417,233	149,995,509
United States	553,437,377	453,702,133
Other	83,536,917	70,345,626
Total	**1,807,434,869**	**1,581,424,806**

d) Concentration of financial assets by type of counterparty:

At Dec 31, 2012

	Financial institutions	International organizations	Government institutions	Other	Total
Cash and Cash Equivalents	3,419,859	8,640,016	1,597,219	-	13,657,094
In foreign currency	3,399,376	8,640,016	1,597,219	-	13,636,611
In local currency	20,483	-	-	-	20,483
Deposits	1,428,823	11,444,916	17,681,796	306,501	30,862,036
In foreign currency	-	11,444,916	17,681,796	306,501	29,433,213
In local currency	1,428,823	-	-	-	1,428,823
Funds under External Management	1,742,173	653,054	9,994,885	702,623	13,092,735
In foreign currency	1,742,173	653,054	9,994,885	702,623	13,092,735
Financial Assets Purchased Under Resale Agreements	73,676,106	-	-	-	73,676,106
In foreign currency	11,826,109	-	-	-	11,826,109
In local currency	61,849,997	-	-	-	61,849,997
Derivatives	67,239	759	-	15,197	83,195
In foreign currency	67,239	759	-	-	67,998
In local currency	-	-	-	15,197	15,197
Securities	-	9,035,082	1,569,774,585	23,436,273	1,602,245,940
In foreign currency	-	9,035,082	659,551,651	23,436,273	692,023,006
In local currency	-	-	910,222,934	-	910,222,934
Receivables from the Federal Government	-	-	9,900,636	-	9,900,636
Receivables	166,092	3,239,477	-	39,749,901	43,155,470
In foreign currency	-	3,239,477	-	128,337	3,367,814
In local currency	166,092	-	-	39,621,564	39,787,656
Investment in International Financial Organizations	-	13,425,542	-	-	13,425,542
Other	-	-	7,316,622	19,493	7,336,115
In foreign currency	-	-	7,316,622	-	7,316,622
In local currency	-	-	-	19,493	19,493
Total assets	**80,500,292**	**46,438,846**	**1,616,265,743**	**64,229,988**	**1,807,434,869**

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

At Dec 31, 2011

	Financial institutions	International organizations	Government institutions	Other	Total
Cash and Cash Equivalents	2,603,408	7,936,313	2,268,859	-	12,808,580
In foreign currency	2,602,839	7,936,313	2,268,859	-	12,808,011
In local currency	569	-	-	-	569
Deposits	623,908	9,987,943	14,204,536	281,334	25,097,721
In foreign currency	-	9,987,943	14,204,536	281,334	24,473,813
In local currency	623,908	-	-	-	623,908
Funds under External Management	-	455,689	-	-	455,689
In foreign currency	-	455,689	-	-	455,689
Financial Assets Purchased Under Resale Agreements	15,158,933	-	-	-	15,158,933
In foreign currency	5,858,935	-	-	-	5,858,935
In local currency	9,299,998	-	-	-	9,299,998
Derivatives	350	-	-	-	350
In foreign currency	350	-	-	-	350
Securities	-	26,820,356	1,296,059,138	45,985,548	1,368,865,042
In foreign currency	-	26,820,356	541,516,025	45,985,548	614,321,929
In local currency	-	-	754,543,113	-	754,543,113
Receivables from the Federal Government	-	-	101,274,835	-	101,274,835
Receivables	2,215,354	2,160,171	-	37,951,102	42,326,627
In foreign currency	-	2,160,171	-	8,866	2,169,037
In local currency	2,215,354	-	-	37,942,236	40,157,590
Investment in International Financial Organizations	-	12,310,310	-	-	12,310,310
Other	2	-	3,102,339	24,378	3,126,719
In foreign currency	-	-	3,102,339	-	3,102,339
In local currency	2	-	-	24,378	24,380
Total assets	**20,601,955**	**59,670,782**	**1,416,909,707**	**84,242,362**	**1,581,424,806**

33 Market risk

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

a) Financial instruments intended for the management of international reserves:

The market risk of the international reserves is monitored using Value at Risk (VaR) models. The VaR of the international reserves and limits authorized by the Board of Directors of the BCB for active management are observed daily and variations are permitted in relation to the reference portfolio, in order to take advantage of eventual opportunities on the market. The volatility of the model is calculated using an exponentially weighted moving average, with a confidence level of 95%. Back testings are performed and quarterly reports are presented to the Board of Directors.

b) Financial instruments intended for executing the monetary policy:

The market risk arising from these instruments is monitored through the managerial VaR of the Monetary Policy Area, which includes all the effective exposures of the international reserves portfolios and of the definitive portfolio of federal government securities.

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

33.1 Interest rate risk

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

	Dec 31, 2012		Dec 31, 2011	
	Assets	Liabilities	Assets	Liabilities
Fixed rate	1,228,392,066	408,012,637	933,977,906	211,312,636
Floating	556,761,945	1,105,059,151	629,431,232	1,102,213,477
Without interest	22,280,858	58,021,903	18,015,668	65,707,298
Total	**1,807,434,869**	**1,571,093,691**	**1,581,424,806**	**1,379,233,411**

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

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

At Dec 31, 2012

	Up to one month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Without interest	Total
Assets							
Cash and Cash Equivalents	13,053,418	-	-	-	-	603,676	13,657,094
In foreign currency	13,053,418	-	-	-	-	583,193	13,636,611
In local currency	-	-	-	-	-	20,483	20,483
Deposits	23,300,564	7,561,472	-	-	-	-	30,862,036
In foreign currency	21,871,741	7,561,472	-	-	-	-	29,433,213
In local currency	1,428,823	-	-	-	-	-	1,428,823
Funds under External Management	753,406	1,914,586	970,232	6,251,464	2,613,489	589,558	13,092,735
In foreign currency	753,406	1,914,586	970,232	6,251,464	2,613,489	589,558	13,092,735
Financial Assets Purchased Under Resale Agreements	64,294,330	9,381,776	-	-	-	-	73,676,106
In foreign currency	2,444,333	9,381,776	-	-	-	-	11,826,109
In local currency	61,849,997	-	-	-	-	-	61,849,997
Derivatives	-	-	-	-	-	83,195	83,195
In foreign currency	-	-	-	-	-	67,998	67,998
In local currency	-	-	-	-	-	15,197	15,197
Securities	518,827,690	60,380,717	45,415,439	866,185,173	111,436,921	-	1,602,245,940
In foreign currency	428,080	29,296,822	14,387,175	597,579,722	50,331,207	-	692,023,006
In local currency	518,399,610	31,083,895	31,028,264	268,605,451	61,105,714	-	910,222,934
Receivables from the Federal Government	9,900,595	-	-	-	-	41	9,900,636
Receivables	42,912,739	-	-	-	-	242,731	43,155,470
In foreign currency	3,367,814	-	-	-	-	-	3,367,814
In local currency	39,544,925	-	-	-	-	242,731	39,787,656
Investment in International Financial Organizations	-	-	-	-	-	13,425,542	13,425,542
Other	-	-	-	-	-	7,336,115	7,336,115
In foreign currency	-	-	-	-	-	7,316,622	7,316,622
In local currency	-	-	-	-	-	19,493	19,493
Total assets (A)	**673,042,742**	**79,238,551**	**46,385,671**	**872,436,637**	**114,050,410**	**22,280,858**	**1,807,434,869**
Liabilities							
Items in the Course of Collection	-	-	-	-	-	109,691	109,691
In foreign currency	-	-	-	-	-	76,880	76,880
In local currency	-	-	-	-	-	32,811	32,811
Deposits Received from Financial Institutions	271,986,713	-	6,280	-	-	48,105,765	320,098,758
In foreign currency	-	-	-	-	-	1,453	1,453
In local currency	271,986,713	-	6,280	-	-	48,104,312	320,097,305
Financial Assets Sold Under Repurchase Agreements	467,413,210	130,438,070	-	-	-	-	597,851,280
In foreign currency	285,659	350,698	-	-	-	-	636,357
In local currency	467,127,551	130,087,372	-	-	-	-	597,214,923
Derivatives	-	-	-	-	-	9,097	9,097
In foreign currency	-	-	-	-	-	9,097	9,097
Payables to the Federal Government	633,537,608	-	-	-	-	-	633,537,608
Accounts payable	9,689,907	-	-	-	-	216,420	9,906,327
In foreign currency	9,067,027	-	-	-	-	-	9,067,027
In local currency	622,880	-	-	-	-	216,420	839,300
Deposits Received from International Financial Organizations	-	-	-	-	-	9,551,725	9,551,725
In foreign currency	-	-	-	-	-	9,547,147	9,547,147
In local currency	-	-	-	-	-	4,578	4,578
Other	-	-	-	-	-	29,205	29,205
In foreign currency	-	-	-	-	-	3,889	3,889
In local currency	-	-	-	-	-	25,316	25,316
Total liabilities (B)	**1,382,627,438**	**130,438,070**	**6,280**	**-**	**-**	**58,021,903**	**1,571,093,691**
Net position (A - B)	**(709,584,696)**	**(51,199,519)**	**46,379,391**	**872,436,637**	**114,050,410**	**(35,741,045)**	**236,341,178**

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

At Dec 31, 2011

	Up to one month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Without interest	Total
Assets							
Cash and Cash Equivalents	12,339,394	-	-	-	-	469,186	12,808,580
In foreign currency	12,339,394	-	-	-	-	468,617	12,808,011
In local currency	-	-	-	-	-	569	569
Deposits	14,685,216	10,412,505	-	-	-	-	25,097,721
In foreign currency	14,061,308	10,412,505	-	-	-	-	24,473,813
In local currency	623,908	-	-	-	-	-	623,908
Funds under External Management	455,689	-	-	-	-	-	455,689
In foreign currency	455,689	-	-	-	-	-	455,689
Financial Assets Purchased Under Resale Agreements	9,432,403	5,726,530	-	-	-	-	15,158,933
In foreign currency	132,405	5,726,530	-	-	-	-	5,858,935
In local currency	9,299,998	-	-	-	-	-	9,299,998
Derivatives	-	-	-	-	-	350	350
In foreign currency	-	-	-	-	-	350	350
Securities	502,683,290	23,934,370	68,943,297	672,963,013	100,341,072	-	1,368,865,042
In foreign currency	98,226	23,934,370	28,170,193	514,948,946	47,170,194	-	614,321,929
In local currency	502,585,064	-	40,773,104	158,014,067	53,170,878	-	754,543,113
Receivables from the Federal Government	101,274,794	-	-	-	-	41	101,274,835
Receivables	40,217,565	-	-	-	-	2,109,062	42,326,627
In foreign currency	2,169,037	-	-	-	-	-	2,169,037
In local currency	38,048,528	-	-	-	-	2,109,062	40,157,590
Investment in International Financial Organizations	-	-	-	-	-	12,310,310	12,310,310
Other	-	-	-	-	-	3,126,719	3,126,719
In foreign currency	-	-	-	-	-	3,102,339	3,102,339
In local currency	-	-	-	-	-	24,380	24,380
Total assets (A)	**681,088,351**	**40,073,405**	**68,943,297**	**672,963,013**	**100,341,072**	**18,015,668**	**1,581,424,806**
Liabilities							
Items in the Course of Collection	259,327	-	-	-	-	588,810	848,137
In foreign currency	259,327	-	-	-	-	569,525	828,852
In local currency	-	-	-	-	-	19,285	19,285
Deposits Received from Financial Institutions	369,180,327	-	-	-	-	55,746,301	424,926,628
In foreign currency	-	-	-	-	-	1,333	1,333
In local currency	369,180,327	-	-	-	-	55,744,968	424,925,295
Financial Assets Sold Under Repurchase Agreements	315,123,684	41,947,093	-	-	-	-	357,070,777
In foreign currency	131,258	5,761,403	-	-	-	-	5,892,661
In local currency	314,992,426	36,185,690	-	-	-	-	351,178,116
Derivatives	-	-	-	-	-	13,683	13,683
In foreign currency	-	-	-	-	-	2,347	2,347
In local currency	-	-	-	-	-	11,336	11,336
Payables to the Federal Government	578,190,914	-	-	-	-	-	578,190,914
Accounts payable	9,084,095	-	-	-	-	200,423	9,284,518
In foreign currency	8,324,770	-	-	-	-	-	8,324,770
In local currency	759,325	-	-	-	-	200,423	959,748
Deposits Received from International Financial Organizations	-	-	-	-	-	8,865,352	8,865,352
In foreign currency	-	-	-	-	-	8,863,307	8,863,307
In local currency	-	-	-	-	-	2,045	2,045
Other	-	135	-	-	-	33,267	33,402
In foreign currency	-	135	-	-	-	20	155
In local currency	-	-	-	-	-	33,247	33,247
Total liabilities (B)	**1,271,838,347**	**41,947,228**	**-**	**-**	**-**	**65,447,836**	**1,379,233,411**
Net position (A - B)	**(590,749,996)**	**(1,873,823)**	**68,943,297**	**672,963,013**	**100,341,072**	**(47,432,168)**	**202,191,395**

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

33.2 Exchange Rate Risk

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

At December 31, 2012 and 2011, the distribution of assets and liabilities per currency was as follows:

At Dec 31, 2012

	U.S. Dollar	Euro	Canadian Dollar	Pound Sterling	Australian Dollar	SDR	Other	Total
Assets								
Cash and Cash Equivalents	4,021,113	592,217	336,459	410,384	90,821	8,145,373	40,244	13,636,611
Time Deposits Placed with Financial Institutions	26,669,833	-	616,441	2,146,939	-	-	-	29,433,213
Funds under External Management	8,908,941	1,169,295	720,193	802,691	794,358	-	697,257	13,092,735
Financial Assets Purchased Under Resale Agreements	11,475,277	207,507	-	-	129,271	-	14,054	11,826,109
Derivatives	67,998	-	-	-	-	-	-	67,998
Securities	537,367,972	37,875,016	43,029,740	19,726,520	22,032,824	-	31,990,934	692,023,006
Receivables	128,337	-	-	-	-	3,239,477	-	3,367,814
Investment in International Financial Organizations	-	-	-	-	-	13,425,542	-	13,425,542
Other	7,316,622	-	-	-	-	-	-	7,316,622
Total assets (A)	**595,956,093**	**39,844,035**	**44,702,833**	**23,086,534**	**23,047,274**	**24,810,392**	**32,742,489**	**784,189,650**
Liabilities								
Items in the Course of Collection	21,565	-	-	-	50,861	-	4,454	76,880
Deposits Received from Financial Institutions	1,453	-	-	-	-	-	-	1,453
Financial Assets Sold Under Repurchase Agreements	350,698	285,659	-	-	-	-	-	636,357
Derivatives	9,097	-	-	-	-	-	-	9,097
Accounts payable	-	-	-	-	-	9,067,027	-	9,067,027
Deposits Received from International Financial Organizations	76,442	-	-	-	-	9,470,292	413	9,547,147
Other	3,889	-	-	-	-	-	-	3,889
Total liabilities (B)	**463,144**	**285,659**	**-**	**-**	**50,861**	**18,537,319**	**4,867**	**19,341,850**
Net position (A - B)	**595,492,949**	**39,558,376**	**44,702,833**	**23,086,534**	**22,996,413**	**6,273,073**	**32,737,622**	**764,847,800**

At Dec 31, 2011

	U.S. Dollar	Euro	Canadian Dollar	Pound Sterling	Australian Dollar	SDR	Other	Total
Assets								
Cash and Cash Equivalents	4,013,440	544,756	272,728	185,447	288,942	7,464,878	37,820	12,808,011
Time Deposits Placed with Financial Institutions	22,699,602	608,415	-	1,165,796	-	-	-	24,473,813
Funds under External Management	455,689	-	-	-	-	-	-	455,689
Financial Assets Purchased Under Resale Agreements	5,506,318	135,554	8,278	-	157,670	-	51,115	5,858,935
Derivatives	350	-	-	-	-	-	-	350
Securities	482,797,439	31,278,460	38,559,553	17,885,156	19,728,750	-	24,072,571	614,321,929
Receivables	8,866	-	-	-	-	2,160,171	-	2,169,037
Investment in International Financial Organizations	-	-	-	-	-	12,310,310	-	12,310,310
Other	3,102,339	-	-	-	-	-	-	3,102,339
Total assets (A)	**518,584,043**	**32,567,185**	**38,840,559**	**19,236,399**	**20,175,362**	**21,935,359**	**24,161,506**	**675,500,413**
Liabilities								
Items in the Course of Collection	-	637,737	-	-	191,115	-	-	828,852
Deposits Received from Financial Institutions	1,333	-	-	-	-	-	-	1,333
Financial Assets Sold Under Repurchase Agreements	358,044	54,416	-	-	38,223	-	5,441,978	5,892,661
Derivatives	1,476	871	-	-	-	-	-	2,347
Accounts payable	9,327	-	-	-	-	8,315,443	-	8,324,770
Deposits Received from International Financial Organizations	78,877	-	-	-	-	8,784,426	4	8,863,307
Other	155	-				-	-	155
Total liabilities (B)	**449,212**	**693,024**	**-**	**-**	**229,338**	**17,099,869**	**5,441,982**	**23,913,425**
Net position (A - B)	**518,134,831**	**31,874,161**	**38,840,559**	**19,236,399**	**19,946,024**	**4,835,490**	**18,719,524**	**651,586,988**

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

33.3 Foreign exchange equalization

The foreign exchange equalization operation (Note 8.2.2) aims at providing greater transparency to the results of the operations of the monetary authority and at reducing the volatility of the BCB's result, due to the mismatch between foreign currency assets and liabilities. This volatility adversely affects the analysis of the result of the monetary policy operations, main function of the BCB, on the part of local and international economic agents.

a) Equalization of the carrying cost of the international reserves:

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

The table below presents the BCB's net position in foreign currency, as at December 31, 2012 and 2011, adjusted by the position assumed in the foreign exchange equalization:

	Dec 31, 2012	Dec 31, 2011
Net position in foreign currency	764,847,800	651,586,988
Foreign exchange equalization	(774,392,228)	(660,161,744)
Exposure in foreign currency	**(9,544,428)**	**(8,574,756)**

With respect to the interest rate, the result obtained by the BCB in the foreign exchange equalization operations, based on the average balance of the international reserves in the period, was 6.04% positive, since the funding cost covered by the Treasury was 7.63%, while the result from interest (including mark-to-market) of international reserves transferred to the Treasury was 1.59% positive.

b) Equalization of the foreign exchange swaps conducted on the domestic market:

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

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

33.4 Sensitivity analysis

The foreign exchange equalization operation (Notes 8.2.2 and 33.3) reduced the volatility of the BCB's result, arising from price changes inherent to the international reserves. Additionally, the classification of a large part of the securities portfolio in local currency in the category Held-to-Maturity (Note 3.4.5) reduced the mark-to-market component of assets, making the BCB's daily results barely susceptible to market variables and more influenced by the accrual of interest. Accordingly, the impact of price variations on the BCB's result was reduced compared to other sources of results, which made the calculation of the VaR of the accounting result inappropriate for measuring risks from changes in market prices. Accordingly, as from 2011, the BCB chose to replace the calculation of the VaR with a sensitivity analysis.

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

The following table presents the BCB's main exposures to market risk factors as at December 31, 2012:

	Exchange rate	Foreign exchange coupon curve	Foreign currencies interest curve	Fixed interest curve in Reais	Referential rate interest curve
Exchange rate swap	(4,219,827)	(4,219,827)	-	-	-
International reserves	774,392,228	-	774,392,228	-	-
Accounts payable in foreign currencies	9,067	-	-	-	-
Federal Government Securities – LTN	-	-	-	244,908,593	-
Receivables from institutions under liquidation	6,684,721	6,684,721	-	-	25,191,578

For the purpose of analyzing the impacts on the BCB's financial statements resulting from changes in the various risk factors involved, the potential results of adverse changes were simulated for five risk factors: exchange rate of the Real against the foreign currencies that comprise the international reserves, foreign exchange coupon curve, interest curves of the foreign currencies that comprise the international reserves, fixed interest curve in Reais and interest curve of the TR. For the exchange rate, 20% appreciation of the Real against the other currencies was simulated. For the foreign exchange coupon curves, fixed interest in Reais and the TR, a parallel shift of one percentage point above these curves was simulated. For the interest curves of the currencies that comprise the international reserves, a parallel shift of half a percentage point above these curves was simulated. The simulations consider only the immediate results of the price changes, ignoring the effect of the loading over time.

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

	20% appreciation of the Real against other currencies	Parallel shift of 1 percentage point of the foreign exchange coupon curve	Parallel shift of 0.5 percentage point of the foreign currencies interest curve	Parallel shift of 1 percentage point of prefixed interest curve in Reais	Parallel shift of 1 percentage point of the referential rate interest curve
Exchange rate swap	840,835	3,326	-	-	-
International reserves	(154,878,446)	-	(9,440,561)	-	-
Accounts payable in foreign currencies	1,813	-	-	-	-
Federal Government Securities – LTN	-	-	-	(3,725,083)	-
Receivables from institutions under liquidation	(1,336,944)	(539,205)	-	-	(1,156,131)
Foreign exchange equalization	153,261,310	(3,326)	9,440,561	-	-
Net impact	**(2,111,432)**	**(539,205)**	**-**	**(3,725,083)**	**(1,156,131)**
on the result	573,676	(539,205)	-	-	(1,156,131)
on equity	(2,685,108)	-	-	(3,725,083)	-

34 Liquidity risk

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

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

a) Financial instruments intended for the management of international reserves:

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

b) Financial instruments intended for executing the monetary policy:

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

c) Maturity terms:

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

At Dec 31, 2012

	Up to one month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
Assets						
Cash and Cash Equivalents	13,636,611	-	-	-	-	13,636,611
Time Deposits Placed with Financial Institutions	21,871,741	7,561,472	-	-	-	29,433,213
Funds under External Management	1,342,963	1,914,586	970,232	6,251,465	2,613,489	13,092,735
Financial Assets Purchased Under Resale Agreements	2,444,333	9,381,776	-	-	-	11,826,109
Derivatives	67,998	-	-	-	-	67,998
Securities	428,080	29,296,823	14,387,175	597,579,722	50,331,206	692,023,006
Receivables	128,337	-	-	3,239,477	-	3,367,814
Investment in International Financial Organizations (*)	-	-	-	-	13,425,542	13,425,542
Other (*)	-	-	-	-	7,316,622	7,316,622
Total assets (A)	**39,920,063**	**48,154,657**	**15,357,407**	**607,070,664**	**73,686,859**	**784,189,650**
Liabilities						
Items in the Course of Collection	76,880	-	-	-	-	76,880
Deposits Received from Financial Institutions	1,453	-	-	-	-	1,453
Financial Assets Sold Under Repurchase Agreements	285,659	350,698	-	-	-	636,357
Derivatives	9,097	-	-	-	-	9,097
Accounts payable	-	-	-	-	9,067,027	9,067,027
Deposits Received from International Financial Organizations	-	-	-	-	9,547,147	9,547,147
Other	3,889	-	-	-	-	3,889
Total liabilities (B)	**376,978**	**350,698**	**-**	**-**	**18,614,174**	**19,341,850**
Net position (A - B)	39,543,085	47,803,959	15,357,407	607,070,664	55,072,685	764,847,800

(*) The investment in International Financial Organizations, the liabilities resulting from the allocations of SDR and gold inventories, as they have no maturity date, were classified under maturity ">5 years"

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

At Dec 31, 2011

	Up to one month	1 - 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
Assets						
Cash and Cash Equivalents	12,808,011	-	-	-	-	12,808,011
Time Deposits Placed with Financial Institutions	14,061,308	10,412,505	-	-	-	24,473,813
Funds under External Management	455,689	-	-	-	-	455,689
Financial Assets Purchased Under Resale Agreements	132,405	5,726,530	-	-	-	5,858,935
Derivatives	310	40	-	-	-	350
Securities	98,226	23,934,370	28,170,193	514,948,946	47,170,194	614,321,929
Receivables	8,866	-	-	2,160,171	-	2,169,037
Investment in International Financial Organizations (*)	-	-	-	-	12,310,310	12,310,310
Other (*)	-	-	-	-	3,102,339	3,102,339
Total assets (A)	**27,564,815**	**40,073,445**	**28,170,193**	**517,109,117**	**62,582,843**	**675,500,413**
Liabilities						
Items in the Course of Collection	828,852	-	-	-	-	828,852
Deposits Received from Financial Institutions	-	-	-	-	1,333	1,333
Financial Assets Sold Under Repurchase Agreement	131,258	5,761,403	-	-	-	5,892,661
Derivatives	2,341	6	-	-	-	2,347
Accounts payable	9,327	-	-	-	8,315,443	8,324,770
Deposits Received from International Financial Organizations	-	-	-	-	8,863,307	8,863,307
Other	20	135	-	-	-	155
Total liabilities (B)	**971,798**	**5,761,544**	**-**	**-**	**17,180,083**	**23,913,425**
Net position (A - B)	**26,593,017**	**34,311,901**	**28,170,193**	**517,109,117**	**45,402,760**	**651,586,988**

(*) The investment in International Financial Organizations, the liabilities resulting from the allocations of SDR and gold inventories, as they have no maturity date, were classified under maturity ">5 years"

35 Operational risk

Operational risk is the risk of a financial loss, damage to reputation or inability to achieve the objectives of the business, resulting from one or more causes of risk, originating from human factors, or defective or inadequate processes or systems, or external events. The BCB uses the Advanced Measurement Approach (AMA) for the management of the operational risk, within an integrated view of risk management, which assumes the use of self-assessment of risks and controls, register of events, key risk indicators, mitigation plans, among other aspects. Therefore, it uses IT tools developed internally for the management of risks.

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

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

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

36 Related parties

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

36.1 Federal Government

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

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

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

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

a) Deposits to the Order of the Federal Government:

The financial resources of the federal government are deposited in the BCB (National Treasury Operating Account), they can be freely utilized and are remunerated by the average yield of the federal government securities that exist in the BCB's portfolio (Note 10), excluding the result from mark-to-market adjustments. In 2012, the yield was 11.20% (12.55% in 2011).

b) The BCB's Result:

A profit earned by the BCB, after the formation or reversal of reserves, creates an obligation of the BCB to the Federal Government, which must be transferred no later than the 10th working day after the approval of the financial statements by the CMN. If there is a loss, this result creates a credit for the BCB against the Federal Government, which must be paid no later than the 10th working day of the year subsequent to the approval of the financial statements. In both situations, these amounts must be adjusted by the same indexes applied to the account Deposits to the Order of the Federal Government, until the date of the actual transfer or payment (Notes 10 and 37).

c) Foreign exchange equalization:

Through the foreign exchange equalization operation (Notes 8.2.2 and 33.3), the carrying cost of the international reserves and the result of the exchange rate swaps carried out on the domestic market are transferred to the Federal Government, through the National Treasury. These amounts are computed daily and the balance payable or receivable is calculated on the last day of the six-month period, and will be settled financially according to the same rules established for the transfer or coverage of the results, also with respect to their adjustment (Note 10).

d) Transfer from the National Treasury:

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

e) Payment of lawsuits:

The payments resulting from res judicata legal decisions in which the Federal Government and its autonomous agencies have been sentenced, have been made by competent courts, which are responsible for requesting budgetary and financial authorization (Notes 18.2 and 20.1). In 2012, court-ordered debts were paid in the amount of R$ 163,589 (R$396,454 in 2011), referring to lawsuits where the BCB was sentenced.

f) Use of securities as a monetary policy instrument:

The BCB uses securities issued by the National Treasury to carry out its monetary policy. All the purchases and sales of securities that take place between the BCB and the National Treasury are performed at market price.

g) Providing of services for the placement of securities:

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

h) Brazilian Sovereign Wealth Fund:

The Brazilian Sovereign Wealth Fund (FSB) created by Law 11,887, of December 24, 2008, is a special fund of an accounting and financial nature linked to the Finance Ministry for the purpose of: (i) encouraging investments in assets in Brazil and abroad; (ii) forming public savings; (iii) mitigating the effects of economic cycles; and (iv) encouraging projects of strategic interest for Brazil located abroad. The form, term and nature of the investments of the FSB are approved by the Deliberative Council of the FSB (CDFSB), which comprises the State Minister of Finance, State Minister of Planning, Budget and Management, and the Governor of the BCB. Pursuant to Resolution 2, of September 17, 2010, of the CDFSB, the National Treasury was authorized to invest the fund's resources in the purchase and sale of foreign currencies or in the carrying out of other foreign exchange operations, including derivative contracts, through an agreement to be entered into with the BCB. An agreement was entered into between the National Treasury and the BCB for this purpose, however, until December 31, 2012, no operation had been carried out.

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

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

	2012	2011
National Treasury Operating Account		
Opening balance	475,622,276	404,516,398
(+) remuneration	50,083,969	43,198,798
(+/-) deposits/withdrawals	(54,072,218)	10,423,592
(+) transfer of positive result	148,767,264	17,483,488
Closing balance	620,401,291	475,622,276
Securities issued by the National Treasury		
Opening balance	754,543,113	703,175,643
(+/-) net purchase (net redemption)	59,594,425	(36,742,565)
(+) remuneration	89,429,703	84,303,142
(+/-) fair value adjustment	6,655,693	3,806,893
Closing balance	910,222,934	754,543,113
Result to be transferred to the National Treasury		
Opening balance	11,243,847	4,929,918
(+) positive result to be transferred	24,621,015	23,477,696
(+) remuneration	429,619	319,721
(-) transfers	(23,994,855)	(17,483,488)
Closing balance	12,299,626	11,243,847
Foreign exchange equalization		
Opening balance	-	-
(+/-) adjustments	(22,309,406)	(44,040,773)
(+/-) transfers for credit payable (receivable)	22,309,406	44,040,773
Closing balance	-	-
Receivable due to foreign exchange equalization result		
Opening balance	101,274,794	48,633,518
(+) foreign exchange equalization result	9,900,595	46,199,286
(+) remuneration	631,075	8,446,469
(-) amounts received	(101,905,869)	(2,004,479)
Closing balance	9,900,595	101,274,794
Credit payable due to foreign exchange equalization result		
Opening balance	(90,240,059)	-
(-) foreign exchange equalization result	(32,210,001)	(90,240,059)
(-) remuneration	(2,322,349)	-
(+) payments	124,772,409	-
Closing balance	-	(90,240,059)
Transfer under budget law	2,316,930	2,135,717

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

36.2 Centrus

Centrus, a nonprofit organization, is a private pension fund and its purpose is to supplement retirement benefits and pensions provided by the public social security system (Note 20.2). The BCB is the sponsor of Centrus and, accordingly, there were the following transactions between the entities:

	2012	2011
Actuarial surplus		
Opening balance	1,149,284	1,839,249
(+/-) actuarial gains/losses	(874,024)	(1,340,959)
(+) interest	407,372	650,994
Closing balance	682,632	1,149,284
Receivables		
Opening balance	966,887	289,283
(+) interest	109,716	166,090
(+) distribution of surplus	-	532,458
(+) reversal of tax contingency	166,255	-
(-) amounts received	(34,557)	(20,944)
Closing balance	1,208,301	966,887

The main changes observed in the period are due to the actuarial losses (Note 20.2), partly offset by the remuneration of the credit receivables and by the participation of the BCB in the reversal of tax contingencies in the period (Note 11.2.2.b).

36.3 Casa da Moeda do Brasil (CMB)

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

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

In 2012, the BCB purchased notes and coins in the amount of R$ 827,739 (R$ 788,304 in 2011).

36.4 Pension fund for employees of the Brazilian Mint (Cifrão)

Cifrão, established by CMB, a nonprofit organization, is a private pension fund, endowed with a legal personality of private law, with its own equity and administrative and financial autonomy. Its main purpose is to establish and execute pension plans for CMB's employees. There are no transactions between the BCB and Cifrão.

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

The funds of the Redi-BC are intended to support the execution of relevant and essential projects focused on the BCB's institutional functioning and development and which aim at implementing the actions defined in its strategic planning. In 2012, Redi-BC spent R$ 72,832 (R$ 103,776 in 2011) to pay for the execution of projects and reimbursed the BCB R$ 2,814 (R$ 1,869 in 2011) as a management fee.

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

36.6 Personnel Assistance Fund (Faspe)

Faspe is an accounting fund created to generate resources intended to maintain the health care benefits of the BCB's employees. It was created by Law 9,650, of May 27, 1998, which establishes that its resources will be comprised by budget allocations from the BCB and monthly contributions from the participants, where the BCB's contributions must be equivalent to the income forecast from the participants' contributions. It also establishes that in the event of a deficit in the system, the BCB will be able to use available funds to cover it.

In 2012, the expenses incurred by the BCB as a contribution to Faspe totaled R$ 73,408 (R$ 71,453 in 2011).

36.7 Board of Directors and members occupying strategic positions

The BCB has eight Directors (including the Governor), an Executive Secretary, an Attorney General and 48 civil servants – consisting of Heads of Cabinet of Directors, Heads of Department and Executive Managers, considered as occupying strategic positions.

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

	2012	2011
Short-term benefits	**21,203**	**20,058**
Directors	3,082	2,787
Other members occupying strategic positions	18,121	17,271
Termination benefits	**-**	**142**
Total	**21,203**	**20,200**

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

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

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

37 Fiscal responsibility law – Mandatory information

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

The sole paragraph of Article 8 of Law 4,595, of 1964, with the wording given by Decree-law 2,376, of November 25, 1987, establishes that "as from January 1st, 1988, the results obtained by the BCB, considering the income and expenses of 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 (Complementary Law 101 of May 4th, 2000):

> "Article 7. The positive result of the BCB, calculated after the formation 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 semi-annual balance sheets.
> Paragraph 1. The negative result will constitute a liability of the Treasury owed to the BCB and will be consigned in a specific budget allocation account."

Pursuant to Clause II of Article 2 of Provisional Measure 2179-36, of August 24, 2001, this negative result must be covered no later than the 10th working day of the year following the approval of the balance sheet by the CMN.

Accordingly:
I – the BCB's result 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 Fiscal Budget in the National Treasury account.

The BCB presented a positive result of R$ 2,916,055 in the third quarter and R$ 9,380,428 in the fourth quarter, giving a total result of R$ 12,296,483 in the second half of 2012 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 of the closing of the semester, the BCB shall present in a joint meeting of the pertinent thematic committees of the National Congress (including the Economic Affairs, Finance and Taxation and Public Budget Commission), 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 balance sheets.

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

In the 3rd quarter of 2012, the cost corresponding to the remuneration of the deposits of the National Treasury was R$ 11,216,098 and R$ 13,871,294 in the 4th quarter, totaling R$ 25,087,392 in the second half of the year.

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 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.

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

At December 31, 2012, 92.46% of the reserve assets were composed of securities, as published in the Press Release of the External Sector (table 49), available on the BCB's website (www.bcb.gov.br).

In the third quarter of 2012, the international reserves had a positive return of 1.698%. After deducting the BCB's funding costs, the net result of the reserves was negative by 0.110% (R$ 840,720). In the fourth quarter, the return of the reserves was 0.496%´positive, totaling 1.204% negative (R$ 9,374,664) when taking into consideration the funding cost.

	International Reserves		Cost of Funding	Cost of Maintaining International Reserves	
	Average Balance R$ thousand	Profitability (%)	(%)	(%)	(R$ thousand)
3rd quarter/2012	763,062,796	1.698	(1.808)	(0.110)	(840,720)
4th quarter/2012	778,646,899	0.496	(1.700)	(1.204)	(9,374,664)
Total for the six-month period					**(10,215,384)**

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, in the third quarter of 2012, the international reserves presented a positive return of 0.749%, which is composed by accrued interest (0.283%) and the mark-to-market adjustment of the assets (0.466%). After deducting the funding costs, the net result of the reserves was negative by 1.059% (R$ 8,080,734). In the fourth quarter, the profitability of the reserves was negative by 0.002% (0.261% through the incorporation of interest and 0.263% through mark-to-market adjustments of the assets), totaling 1.702% negative (R$ 13,254,142) when considering the funding costs.

	International Reserves		Cost of Funding	Cost of Maintaining International Reserves	
	Average Balance R$ thousand	Profitability, excluding exchange variation (%)	(%)	(%)	(R$ thousand)
3rd quarter/2012	763,062,796	0.749	(1.808)	(1.059)	(8,080,734)
4th quarter/2012	778,646,899	(0.002)	(1.700)	(1.702)	(13,254,140)
Total for the six-month period					**(21,334,874)**

d) Profitability of the securities portfolio, disclosing those issued by the Federal Government – Fiscal Responsibility Law, paragraph 3 of Article 7:

The profitability of the BCB's securities portfolio, composed exclusively of securities issued by the Federal Government, was R$ 20,918,716 in the third quarter and R$ 23,255,568 in the fourth quarter, totaling R$ 44,174,284 in the second half of 2012.

Governor: Alexandre Antonio Tombini

Deputy governors: Aldo Luiz Mendes, Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Awazu Pereira da Silva, Luiz Edson Feltrim and Sidnei Corrêa Marques

Head of the Accounting and Financial Department: Eduardo de Lima Rocha
Accountant – CRC-DF 12.005/O-9