

III. FINANCIAL STATEMENTS OF THE CENTRAL BANK OF CHILE



INCOME STATEMENTS

for the years ended December 31,
(Millions of Chilean pesos)

ASSETS	1998	1997
OVERSEAS ASSETS	8,228,371.7	9,519,158.2
RESERVE	8,041,417.2	9,294,979.3
Gold	152,499.7	262,924.9
Demand deposits and accounts	20,036.0	5,020.7
Deposits and securities	7,113,827.8	8,377,240.6
Mutual loan agreements	47,189.0	81,030.4
Loans	295,691.8	154,565.9
FMI subscription	412,172.9	414,196.8
OTHER OVERSEAS ASSETS	186,954.5	224,178.9
Shares and contributions to the Interamerican Development Bank	86,819.0	90,887.1
Interest receivable	100,132.4	133,287.8
Silver and other securities	3.1	4.0
DOMESTIC ASSETS	4,978,242.6	5,459,417.1
DOMESTIC LOANS	4,978,242.6	5,459,417.1
Loans to state-owned companies	39,154.3	51,497.4
Loans to Banco del Estado de Chile	65,165.6	105,675.8
Loans to comercial banks	199,535.9	258,455.1
Loans to other institutions	284,945.3	272,249.2
Treasury transfers (Laws 18.267, 18.401 and 18.768)	3,582,872.8	3,956,430.5
Financial institution subordinated obligations (Law 18.401)	806,568.7	815,109.1
OTHER ASSETS	1,287,950.6	1,185,740.9
Fixed Assets	15,400.0	15,207.7
Purchase of US currency under resale agreement	119,390.0	0.0
Other securities	1,153,160.6	1,170,533.2
TOTAL ASSETS	14,494,564.9	16,164,316.2

The accompanying notes 1 to 12 form an integral part of these financial statements

LIABILITIES	1998	1997
OVERSEAS LIABILITIES	683,689.2	721,644.3
RESERVE LIABILITIES	464,971.1	494,303.5
Mutual loan agreements	42,128.6	80,123.5
FMI deposits	422,842.5	414,180.0
OTHER OVERSEAS LIABILITIES	218,718.1	227,340.8
Loans	1,296.4	1,508.6
Accounts with other international organizations	134,857.1	142,619.5
Allocations of Special Drawing Rights	81,261.1	81,229.9
Interest payable	1,303.5	1,982.8
DOMESTIC LIABILITIES	14,612,104.5	16,008,992.2
CURRENCY ISSUANCE AND DEPOSITS	1,396,782.7	1,455,149.2
Bills and coins in circulation	1,253,291.7	1,295,417.5
Deposits from financial institutions (domestic currency)	143,491.0	159,731.7
DEPOSITS AND OBLIGATIONS	2,689,067.5	3,120,535.4
Deposits and obligations with the Treasury	2,077,736.8	2,482,033.9
Other deposits and obligations	611,330.7	638,501.5
NOTES ISSUED BY THE CHILEAN CENTRAL BANK	10,526,254.3	11,433,307.6
Indexed promissory notes payable in coupons (PRC)	6,967,995.9	6,879,139.0
Central Bank indexed promissory notes (PRBC)	1,171,681.2	3,043,541.3
Discountable promissory notes from the Central Bank (PDBC)	729,800.0	428,673.0
Central Bank promissory notes in US Dollars (PRD)	620,830.9	0.0
Promissory notes stated in indexed units (UF)(Resolution 1836) arising from US dollar certificates	444,395.5	439,274.1
Securities issued on rescheduling of foreign debt (Ch. XIX of the Compendium of Foreign Exchange Regulations)	297,438.5	332,944.4
Commercial notes from redomination of Foreign exchange securities	217,941.8	215,832.4
Floating interest rate promissory notes (PTF)	71,633.4	88,619.4
Deposits certificates stated in US\$, Resolution 1649	4,449.6	5,140.5
Promissory notes issued for exchange-rate differential	87.5	143.5
OTHER LIABILITIES	162,418.8	15,941.0
Provisions	7,282.0	7,470.2
Temporary liabilities	32,641.7	8,448.1
US currency purchases under resale agreement	119,390.0	0.0
Other securities	3,105.1	22.7
CAPITAL AND RESERVES	(963,647.6)	(582,261.3)
Capital	(582,261.3)	206,831.0
Deficit during the period	(381,386.3)	(789,092.3)
TOTAL LIABILITIES	14,494,564.9	16,164,316.2

INCOME STATEMENTS

for the years ended December 31,
(Millions of Chilean pesos)

	1998	1997
OPERATING RESULTS		
OPERATING INCOME	1,024,125.0	1,206,943.6
Interest earned and accrued	737,831.1	774,772.6
Indexation earned and accrued	84,513.8	137,788.0
Income on price differences	44,411.9	59,998.5
Exchange earnings	157,274.3	233,714.3
Others operating income	93.9	670.2
OPERATING EXPENSES	(1,459,393.3)	(2,020,789.3)
Interest paid and accrued	909,496.9	886,399.5
Indexation paid and accrued	389,383.0	629,523.3
Commissions paid and accrued	755.1	943.6
Loss due to price differences	19,131.8	18,678.5
Exchange losses	132,293.0	474,148.8
Other operating expenses	8,333.5	11,095.6
Gross margin	(435,268.3)	(813,845.7)
OTHER OPERATING EXPENSES	(18,365.5)	(19,430.6)
Personnel expenses	12,853.6	12,635.6
Administrative expenses	3,897.5	4,721.7
Depreciation, amortization and write-offs	1,232.4	1,616.4
Tax, rates and contributions	382.0	456.9
Income before provisions and write-offs	(453,633.8)	(833,276.3)
Provisions and write-offs from risky assets	(64.1)	0.0
Net margin (total operating loss)	(453,697.9)	(833,276.3)
NON-OPERATING INCOME AND EXPENSES	204.1	743.5
Non-operating income	435.3	774.4
Non-operating expenses	(231.2)	(30.9)
Loss before price-level restatement	(453,493.8)	(832,532.8)
Price-level restatement	(72,107.5)	43,440.5
Deficit during the year	(381,386.3)	(789,092.3)

The accompanying notes 1 to 12 form an integral part of these financial statements.

REPORT ON THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES:

(A) GENERAL:

These financial statements have been prepared in conformity with generally accepted accounting principles in Chile and policies set forth by the Board of Banco Central de Chile, upon approval of the *Superintendencia de Bancos e Instituciones Financieras* (Superintendency of Banks and Financial Institutions in Chile), as established in Article 75 of Law 18,840 (Constitutional Organic Law of Banco Central de Chile). These policies are consistent with generally accepted accounting principles in Chile, except for the method used in recording losses on subordinated obligations, which is explained in letter (f) below.

The presentation of these balance sheets is within an economic and accounting framework which provides an understanding of the financial and accounting position of the Bank and, at the same time, is inclined to facilitate an economic analysis of Banco Central de Chile's operations by clearly identifying whether they are undertaken by domestic or foreign agents. Thus, we can observe the Chilean Central Bank's share in the domestic supply of monetary assets and credit and how this affects the Bank's creditor position abroad. For this reason, the economic concepts of international reserves and currency issuance are shown under the captions Reserve Assets and Liabilities and Currency Issuance, accordingly.

For comparison purposes, the figures for the 1997 period were restated according to changes in the Consumer Price

Index, for the period between November 30, 1997 and November 30, 1998, amounting to 4.3%.

B) EXCHANGE RATES USED:

Assets and liabilities stated in foreign currency are translated into Chilean Pesos at the "Observed Dollar" exchange rate referred to under N° 6, Chapter I in the "General Provisions" of Title I of the Compendium of Foreign Exchange Regulations"- *Compendio de Normas de Cambios Internacionales*- (in 1997 they were translated at the "Reference US Dollar", exchange rate as referred to in paragraph 1, N° 7, Chapter I of the "General Provisions" under Title I of the Compendium of Foreign Exchange Regulations, hereinafter "the reference US Dollar). Excluded from this regulation are balances from transaction accounts which must be settled at a different exchange rate as duly specified in the respective regulations.

Assets and liabilities stated in minted Chilean gold coins are valued at the average London morning quotation "Gold Fixing" rate (US Dollars per ounce of fine troy), for all business days in the preceding quarter, less 10%.

Settlement of foreign currencies other than the US Dollar is made at the exchange rates published daily by Banco Central de Chile in the Official Gazette, however, always based upon the "Observed Dollar" rate ("Reference US Dollar in 1997).

On September 24, 1998, the Board of the Banco Central de Chile agreed at Meeting N° 706-04-980924 to replace

the exchange rate used in reporting assets and liabilities denominated in foreign currency and in the settlement of the exchange rate position by changing from the "Reference US Dollar" exchange rate and adopting the "Observed Dollar" rate. This change, which is consistent with generally accepted accounting principles, generated an increased charge to income of Ch\$ 41,356.2 million as of September 30, 1998, and an increased credit to income of Ch\$48,543.8 million as of December 31, 1998.

The main rates used as of year-end are as follows:

	1998 Ch\$	1997 Ch\$
Minted Chilean gold coins	734.360	798.366
US Dollar (Reference rate)	470.570	472.950
US Dollar (Observed rate)	473.770	439.810
Sterling Pound	798.260	783.030
Deutsche Mark	283.850	264.144
Special Drawing Rights (SDR)	666.490	638.767

C) SHARES AND CONTRIBUTIONS TO THE INTERAMERICAN DEVELOPMENT BANK (IDB) AND CONTRIBUTIONS TO THE INTERNATIONAL MONETARY FUND (IMF):

Shares issued by and contributions to the Interamerican Development Bank, and contributions to the International Monetary Fund, on behalf of the Chilean Treasury, are valued at purchase or contribution cost, plus restatements, where applicable.

Shares and contributions to IDB are shown under Other Overseas Assets. Contributions to the IMF are recorded under Overseas Reserve Assets.

D) FINANCIAL INVESTMENTS:

Overseas financial investments are shown under Reserve Assets and basically include bonds and securities issued by government, foreign institutions and banks, and are valued at the lower of cost or market value. Interests receivable are shown under Other Overseas Assets.

E) LOANS RECEIVABLE AND OBLIGATIONS:

Non-indexed loans receivable and obligations are shown at original value or their latest renewal value, except for commercial instrument purchases and discounted notes, which are shown at nominal value upon maturity. Indexed balances include accrued adjustments as of the balance sheet date, and balances stated in foreign currency include the related exchange adjustments.

Interest accrued at year-end on transactions with overseas residents are included under Other Overseas Assets and Other Overseas Liabilities. Interest on transactions with Domestic residents is included in Domestic Assets and Domestic Liabilities, accordingly.

Interest paid and not accrued arising from obligations is recorded under Other Assets. Interest earned and not accrued arising from loans is recorded under Other Liabilities.

F) SUBORDINATED OBLIGATIONS OF FINANCIAL INSTITUTIONS:

The loan for the subordinated obligation included under Domestic Assets (Note 6) comprises restated balances as of year-end of renewed repurchase obligations, governed by Laws 18,401 and 19,396 and their amendments, and include accumulated increases recorded and credited to income as accrued.

Accounting losses arising from changes in payment terms

of the subordinated debt from the banks BHIF, Internacional, Concepción, and Santiago have been deferred in conformity with provisions under Article 19 of Law 19,396 which sets forth that: "... any losses incurred by the Banco Central de Chile in its capacity as creditor of a subordinated obligation may be deferred and absorbed by any surpluses generated in future periods. To this effect, Banco Central de Chile is entitled to allocate such surplus to set up provisions in order to absorb any such losses".

F) SUBORDINATED DEBT OF FINANCIAL INSTITUTIONS, CONTINUED:

Deferred losses amount to Ch\$ 912,736.5 million as of December 31, 1998 (Ch\$ 830,630.1 million in 1997), and are shown as "Other securities" under the caption "Other assets".

As a result of the contract entered into with Banco Santiago, Banco Central de Chile received 35,090.5 million E series shares in settlement of the subordinated debt outstanding. As of December 31, 1998, the Bank maintains 35,067.7 million shares, which are valued at market price. In conformity with Law 19,396, as amended by Law 19,459, there is no fixed term for the sale of such shares.

G) LOAN PROVISIONS:

The Bank has set up provisions in 1998 in the amount of Ch\$ 64.1 million (in 1997 no provision was set up). The balance of provisions set up amounts to Ch\$ 7,991.9 million (Ch\$ 8,254.4 million in 1997), and is included by deducting the related assets.

H) FIXED ASSETS:

Fixed assets at year-end are shown at cost plus price-level restatements, net of accumulated depreciation under "Other Assets". Depreciation has been calculated using the straight-line method based on the estimated useful life of assets.

I) SEVERANCE INDEMNITIES:

Severance indemnities have been determined based upon the present value method (accrued cost of the benefit), considering an annual 8% interest rate. The total provision amount as of year-end is Ch\$ 6,080.1 million (Ch\$ 5,519.6 million in 1997).

J) VACATION PROVISION:

The annual cost of employee vacation provision is accounted for in the financial statements on an accrual basis.

K) PRICE-LEVEL RESTATEMENT:

Capital and reserves, fixed assets and given assets and liabilities have been price-level restated in accordance with changes in the Consumer Price Index. Income statement account balances in local currency, except for depreciation and price-level restatement, have not been price-level restated.

The effect of exchange differences on assets and liabilities in foreign currency, and indexation on loans and liabilities are included under Operating Income, independently of price-level restatement.

2. DOMESTIC LOANS TO BANKS, FINANCIAL COMPANIES AND OTHER INSTITUTIONS OR COMPANIES:

Total balance of these loans, amounting to Ch\$ 588,801.1 million (Ch\$ 687,877.5 million in 1997), includes the following transactions:

	(Millions of Ch\$)	
	1998	1997
Receivables from CORFO (Note 3)	28,891.3	39,901.8
Credit lines on debt rescheduling	76,064.1	98,178.7
Mortgage loan portfolio acquired	49,530.6	61,145.8
Liquidity credit lines	36,918.0	71,171.0
Credit lines to finance the sale of mortgage portfolio of Asociación Nacional de Ahorro y Préstamo (ANAP)	56,971.4	61,735.4
Credit lines for international organization programs	8,587.3	12,519.2
Credit lines for deposits, (Resolution 1686)	5,752.1	9,125.7
Former Caja Central de Ahorro y Préstamo, and former ANAP (Note 4)	284,736.3	271,294.2
Price balances (Law 19,396)	38,716.1	55,821.8
Other	2,633.9	6,983.9
Total	588,801.1	687,877.5

3. LOANS RECEIVABLE FROM CORPORACIÓN DE FOMENTO DE LA PRODUCCIÓN (CORFO):

The balance receivable from Corporación de Fomento de la Producción (CORFO) derives from the provisions in Law 18,401 dated 1985, as amended, and Law 18,577 dated 1986, by which Banco Central de Chile sold financial institution loans to CORFO in order to finance the purchase of shares of these financial institutions by third parties.

CORFO serves its debt by transferring the amounts collected from its shareholders for the transfer of shares of the related financial institutions. As of December 31, 1998, the balance of accounts receivable from CORFO amounts to Ch\$ 28,891.3 million (Ch\$ 39,901.8 million in 1997), and is included under "Loans to state-owned companies".

In accordance with Article 13 of Law 18,401, differences that are not recovered as a result of discounts granted to the shareholders, up to UF 15 million, will be covered by the Treasury (Note 5) by future transfers, which as of December 31, 1998 amounts to Ch\$ 160,591.8 million, equivalent to UF 10.9 million (Ch\$ 158,132.9 million in 1997, equivalent to UF 10.8 million). Based on available information, the legal maximum amount of transfer established by law is deemed adequate to absorb the discounts.

4. CAJA CENTRAL DE AHORROS Y PRÉSTAMOS AND ASOCIACIÓN NACIONAL DE AHORRO Y PRÉSTAMO:

Pursuant to Law 18,900 dated January 16, 1990, the legal existence of Caja Central de Ahorros y Préstamos and the authorization of existence of Asociación Nacional de Ahorro

y Préstamo are terminated, and the liquidation of their respective net assets is initially authorized. The liquidation is currently in the process of final approval.

In accordance with Article 5 of this law, the liabilities of Caja Central de Ahorros and of Asociación Nacional de Ahorro y Préstamo which are not covered by the proceeds of their liquidations will be met by the Treasury by obtaining the necessary funds from the national budget, in conformity with provisions under Article 21 of Decree Law 1,263 dated 1975.

As of December 31, 1998, the amount payable to Banco Central de Chile arising from the liquidation of these institutions, including accrued interest as of such date, amounted to Ch\$ 284,736.3 million (Ch\$ 271,294.2 million in 1997), and is shown under "Loans to other institutions".

5. TREASURY TRANSFERS:

The following items are included under "Treasury transfers":

	(Millions of Ch\$)	
	1998	1997
Treasury promissory notes Law 18,267	470,686.3	513,246.7
Treasury promissory notes Law 18,768	2,951,594.7	3,285,050.9
Treasury transfers Law 18,401	160,591.8	158,132.9
Total	3,582,872.8	3,956,430.5

A) TREASURY PROMISSORY NOTES (LAW 18,267)

In conformity with Law 18,267, the Treasury transferred Ch\$ 100,000 million to Banco Central de Chile by issuing 40 Treasury promissory notes over a 25-year term, stated in indexed units (UF) and at a 1% annual interest rate, capitalized and amortized on a 6-monthly basis with a five-year grace period.

B) TREASURY PROMISSORY NOTES (LAW 18,768)

This item corresponds to promissory notes denominated and payable in US Dollars, accruing an annual LIBOR interest rate plus 0.5 points, of which 2% is payable half yearly and the balance is capitalized. The last installment matures on December 15, 2014.

This year, prepayments were received on capital amounting to US\$ 546.7 million and on interest amounting to US\$ 204.7 million, and were included as "Temporary Liabilities" under the caption "Other Liabilities", of which unaccrued interest amounted to US\$ 202.0 million this year.

C) TREASURY TRANSFER LAW 18,401

The balance of this item corresponds to discounts granted to shareholders subject to the provisions under Law 18,401, amounting to a maximum of 15 million UF as stipulated in Article 13 of this law, and explained in Note 3.

In conformity with the above law, these Treasury transfers will be completed in a period not exceeding 30 years, with a ten-year grace period, effective from the date of the final determination of the total amount.

6. SUBORDINATED OBLIGATION:

The balances as of year-end, account for Banco de Chile's subordinated obligation with Banco Central de Chile, deriving from the application of Article 15 of Law 18,401, granting banks having sold their loan portfolios under repurchase agreements to Banco Central de Chile (Resolutions 1450 and 1555, as amended), the option of renewing all obligations arising from said loan portfolio purchase and sale agreements. On the basis of such law, debtor banks are entitled to allocate their surpluses to the payment of such obligation, which had no fixed maturity date, until full payment is accomplished.

On July 29, 1995, Law 19,396 was published in the Official Gazette, and was amended by Law 19,459, establishing a new treatment for subordinated debts. The latter law sets forth that Banco Central de Chile and banks with outstanding subordinated debts may agree to modify the payment terms for such obligations, in conformity with such law and regulations set forth by Banco Central de Chile to this effect.

The above-mentioned law provides a range of options for the banks to modify the payment conditions for the subordinated obligations, depending on whether or not they are able to serve such debt within a 40 year-term. Those banks unable to repay their subordinated obligation within said term, which is the case of those banks that elected to benefit from this law, may agree with Banco Central de Chile, either to repay the subordinated obligation in 40 fixed, annual, consecutive and equal installments, or

to adopt a scheme for bidding shares, plus the transfer of shares in settlement to Banco Central de Chile, in both cases. Similarly, the law empowers the banks to elect one of the forms of modifying the repayment terms of the referred subordinated obligation, to set up a new bank, a holding company of the latter, and a managing company for the subordinated obligation.

Banco Central de Chile entered into agreements for amending the terms of repayment of the subordinated obligation with the only five banks which at the date of enactment of Law 19,396, as amended by Law 19,459, manifested their intention of benefitting from Law 19,396, namely: BHIF, Banco Internacional, Banco Concepción, Banco de Santiago and Banco de Chile. The subordinated obligation amounted to Ch\$ 806,568.7 million in 1998 (Ch\$ 815,109.1 million in 1997).

7. DEPOSITS AND OBLIGATIONS:

This caption includes the following items:

	(Millions of Ch\$)	
	1998	1997
Deposit reserves, Resolution 143	0.0	95,791.4
Deposits from Banco del Estado de Chile	0.0	23,623.8
Foreign currency current accounts	58,930.8	53,265.6
Deposits in foreign currency, Resolutions 1657 and 1686	3,450.9	5,734.7
Mandatory deposits on overseas credits	117,087.1	420,702.9
Liquidity deposits	0.0	31,296.1
Short-term deposits	431,861.9	8,087.0
Total	611,330.7	638,501.5

8. INSTRUMENTS ISSUED BY BANCO CENTRAL DE CHILE AS OF DECEMBER 31, 1998 AND 1997 BY PERIOD REMAINING TO MATURITY:

(Millions of Ch\$)

Type of instrument	Up to 90 Days	91 to 180 Days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 1998	Total 1997
Indexed promissory notes payable in coupons (PRC)	354,459.6	254,012.5	449,034.8	1,546,319.7	4,364,169.3	6,967,995.9	6,879,139.0
Indexed promissory notes from Banco Central (PRBC)	1,171,681.2					1,171,681.2	3,043,541.3
Promissory notes stated in indexed unit (UF), arising from certificates in US\$ (Resolution 1836)	18,197.8				426,197.7	444,395.5	439,274.1
Discountable promissory notes from Banco Central (PDBC)	373,800.0	258,000.0	98,000.0			729,800.0	428,673.0
Securities issued on debt rescheduling, Chapter XIX, Compendium of Foreign -Exchange Regulations	1,208.5	38,627.5	222,221.2	35,381.3		297,438.5	332,944.4
Commercial notes from redenomination of foreign debt	4,171.0	1,440.8		76,565.3	135,764.7	217,941.8	215,832.4
Indexed promissory notes with floating interest rate (PTF)	9,388.3	1,785.3	8,679.1	34,716.3	17,064.4	71,633.4	88,619.4
Indexed promissory notes in US\$ from Banco Central (PRD)	11,366.5	669.9		447,712.7	161,081.8	620,830.9	
Certificates of deposit stated in US\$, Resolution 1649	127.0		480.3	960.6	2,881.7	4,449.6	5,140.5
Promissory notes issued for exchange-rate differential	69.0		17.9	0.6		87.5	143.5
Total documents issued	1,944,468.9	554,536.0	778,433.3	2,141,656.5	5,107,159.6	10,526,254.3	
Total 1997	3,830,266.3	265,372.2	467,327.3	1,944,066.3	4,926,275.5		11,433,307.6

Balances include interest and accrued adjustments as of December 31, 1998 and 1997.

9. CAPITAL AND RESERVES:

Changes in capital and reserves during 1998 and 1997 were as follows:

	(Millions of Ch\$)		
	Capital	Surplus (Deficit) In the Period	Total
Balances as of 01.01.97	314,734.6	(128,183.3)	186,551.3
Absorption of 1996 deficit	(128,183.3)	128,183.3	
Equity revaluation	11,752.7		11,752.7
Deficit during the period		(756,560.2)	(756,560.2)
Balances as of 12.31.97	198,304.0	(756,560.2)	(558,256.2)
Balances as of December 31, 1997 Restated for comparison purposes	206,831.0	(789,092.3)	(582,261.3)
Balances as of 01.01.98	198,304.0	(756,560.2)	(558,256.2)
Absorption of 1997 deficit	(756,560.2)	756,560.2	
Equity revaluation	(24,005.1)		(24,005.1)
Deficit during the period		(381,386.3)	(381,386.3)
Balances as of 12.31.98	(582,261.3)	(381,386.3)	(963,647.6)

Article 5 of Law 18,840 (Constitutional Organic Law of Banco Central de Chile) set start-up capital for the Bank at Ch\$ 500,000 million to be paid according to Interim Article 2 of said law.

Pursuant to Article 77 of Law 18,840, deficit generated in any one year shall be absorbed by charging reserves. In the event that there are no reserves or if they are insufficient, the deficit incurred in any one year shall be absorbed by charging paid-in capital.

As of December 31, 1998, Banco Central de Chile shows

a deficit in equity of Ch\$ 963,647.6 million (Ch\$ 582,261.3 million in 1997).

Even though the negative equity position is not foreseen in the near future as an obstacle that might prevent Banco Central de Chile from achieving its bank objectives, as further discussed in the Bank's report to the Senate, it appears appropriate from a medium-term perspective to improve and strengthen the Bank's equity, which has been requested to the Ministry of Finance, in conformity with Article 5 of the Constitutional Organic Law.

10. BALANCES IN FOREIGN CURRENCY AND GOLD:

Assets and liabilities denominated in foreign currency and included in the balance sheets as of December 31, 1998 and 1997 are as follows:

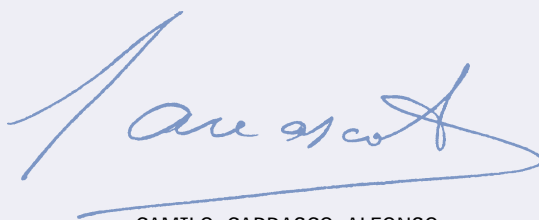
	(Millions of US\$)	
	1998	1997
ASSETS		
OVERSEAS ASSETS	15,919.9	18,181.9
Reserve	15,671.9	17,875.0
Other overseas assets	248.0	306.9
DOMESTIC ASSETS	6,234.1	6,684.0
Domestic Loan	6,234.1	6,684.0
OTHER ASSETS	9.5	0.1
Total assets	22,163.5	24,866.0
LIABILITIES		
OVERSEAS LIABILITIES	265.9	334.2
Reserve	88.9	162.4
Other overseas liabilities	5.5	7.1
SDR Allocations	171.5	164.7
DOMESTIC LIABILITIES	5,361.2	5,901.3
Deposits and obligations	5,361.2	5,901.3
OTHER LIABILITIES	200.0	17.7
Total liabilities	5,827.1	6,253.2
NET ASSETS	16,336.4	18,612.8

11. CONTINGENCIES AND COMMITMENTS:

Banco Central de Chile has pending lawsuits or claims, the final outcomes of which (according to the Bank's Law Department) are not expected to have a material effect on capital and reserves.

12. INCOME TAX:

Pursuant to DL 3,345, dated April 24, 1980, Banco Central de Chile is exempt from Income Tax.



CAMILO CARRASCO ALFONSO
General Manager



FRANCISCO GARCÍA LETELIER
Accounting and Administration Manager



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INDEPENDENT AUDITORS' REPORT

To the Chairman and Members
Of the Board of Banco Central de Chile:

We have audited the accompanying balance sheet of Banco Central de Chile as of December 31, 1998 and the related statement of income for the year then ended. The financial statements (and their notes) are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Banco Central de Chile for the year ended December 31, 1997 were audited by other auditors, whose report dated January 14, 1998 included a paragraph regarding differences between generally accepted accounting principles and accounting policies established by the Board of Banco Central de Chile, pursuant to the exchange rate used for accounting purposes, and deferral of accounting losses arising from amendments in payment agreements for subordinated debts of given banks. Additionally, the report contained two explanatory paragraphs with a description of: (i) existing agreements under Law 19,396 regarding subordinated obligation, and (ii) actions aimed at covering the equity deficit reported by Banco Central de Chile.

We have conducted our audit in accordance with generally accepted auditing standards in Chile. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Banco Central de Chile prepares its financial statements in conformity with accounting policies established by the Board, upon prior approval of Superintendencia de Bancos e Instituciones Financieras (Law 18,840). These policies are in accordance with generally accepted accounting principles, except for the deferral of accounting losses, amounting to Ch\$ 912,736.5 million, arising from the amendments to subordinated obligation payment agreements of given banks, as set forth by Law 19,396 (Notes 1(f) and 6).

In our opinion, the financial statements as of December 31, 1998 present fairly, in all material respects, the financial position of Banco Central de Chile as of December 31, 1998, and the results of its operations for the year then ended, in conformity with accounting policies as described in Note 1.

Banco Central de Chile shows an equity deficit of Ch\$ 963,647.6 million (Ch\$ 582,261.3 million in 1997), and is currently holding discussions with the Ministry of Finance to determine the manner in which such deficit shall be covered.

As explained in Note 1(b), in order to apply generally accepted accounting principles and for a better presentation of the Bank's operations, on September 24, 1998, the Board of Banco Central de Chile agreed to modify the exchange rate used in reporting assets and liabilities in foreign currency and to settle the exchange rate position by replacing the "Acuerdo Dollar" exchange rate with the "Observed Dollar" exchange rate.



Alejandro Cerda G.
Santiago, January 15, 1999

ARTHUR ANDERSEN - LANGTON CLARKE