



### III. FINANCIAL STATEMENTS OF THE CENTRAL BANK OF CHILE



**BALANCE SHEET**  
**AS OF DECEMBER 31st. 1999 AND 1998**  
(MILLIONS OF CHILEAN PESOS)

<b>ASSETS</b>	<b>1999</b>	<b>1998</b>
<b>OVERSEAS ASSETS</b>	<u>8,681,435.4</u>	<u>8,442,309.3</u>
<b>RESERVE</b>	<u>8,476,523.8</u>	<u>8,250,494.0</u>
Gold	167,232.9	156,464.7
Demand deposits and accounts	24,525.8	20,556.9
Deposits and securities	7,361,042.5	7,298,787.3
Mutual loan agreements	9,904.1	48,415.9
Loans	321,258.6	303,379.8
IMF subscription	592,559.9	422,889.4
<b>OTHER OVERSEAS ASSETS</b>	<u>204,911.6</u>	<u>191,815.3</u>
Shares and contributions to the Interamerican Development Bank	92,862.5	89,076.3
Interest receivable	112,047.7	102,735.8
Silver and other securities	1.4	3.2
<b>DOMESTIC ASSETS</b>	<u>5,140,148.2</u>	<u>5,107,676.9</u>
<b>DOMESTIC LOANS</b>	<u>5,140,148.2</u>	<u>5,107,676.9</u>
Loans to state-owned companies	27,859.2	40,172.3
Loans to Banco del Estado de Chile	30,476.8	66,859.9
Loans to commercial banks	154,704.2	204,723.8
Loans to other institutions	307,037.0	292,353.9
Treasury transfers (Laws 18,267, 18,401 and 18,768)	3,783,019.3	3,676,027.5
Loans for subordinated obligations of financial institutions (Law 18,401)	837,051.7	827,539.5
<b>OTHER ASSETS</b>	<u>1,164,599.1</u>	<u>1,321,437.3</u>
Fixed assets	15,898.1	15,800.4
Purchase of US currency under resale agreement	0.0	122,494.1
Other securities	1,148,701.0	1,183,142.8
<b>TOTAL ASSETS</b>	<u><u>14,986,182.7</u></u>	<u><u>14,871,423.5</u></u>

The accompanying notes 1 to 13 form an integral part of these financial statements.

<b>LIABILITIES</b>	<b>1999</b>	<b>1998</b>
<b>OVERSEAS LIABILITIES</b>	<b>935,985.1</b>	<b>701,465.1</b>
<b>RESERVE LIABILITIES</b>	<b>713,953.9</b>	<b>477,060.3</b>
Mutual loan agreements	12,543.4	43,223.9
IMF deposits	701,410.5	433,836.4
<b>OTHER OVERSEAS LIABILITIES</b>	<b>222,031.2</b>	<b>224,404.8</b>
Loans	1,274.1	1,330.1
Accounts with other international organizations	131,658.1	138,363.4
Allocations of Special Drawing Rights	88,205.9	83,373.9
Interest payable	893.1	1,337.4
<b>DOMESTIC LIABILITIES</b>	<b>14,877,876.8</b>	<b>14,992,019.2</b>
<b>CURRENCY ISSUANCE AND DEPOSITS</b>	<b>1,786,938.2</b>	<b>1,433,099.1</b>
Bank notes and coins in circulation	1,616,025.8	1,285,877.3
Deposits from financial institutions (L/C)	170,912.4	147,221.8
<b>DEPOSITS AND OBLIGATIONS</b>	<b>1,805,586.9</b>	<b>2,758,983.2</b>
Deposits and obligations with the Treasury	1,495,157.0	2,131,757.9
Other deposits and obligations	310,429.9	627,225.3
<b>NOTES ISSUED BY THE BANCO CENTRAL</b>	<b>11,285,351.7</b>	<b>10,799,936.9</b>
Indexed promissory notes payable in coupons (PRC)	6,653,440.6	7,149,163.8
Discountable promissory notes from Central Bank (PDBC)	1,727,200.0	748,774.8
Central Bank indexed promissory notes (PRBC)	1,348,492.9	1,202,144.9
Central Bank indexed promissory notes in US Dollars (PRD)	790,731.1	636,972.5
Promissory notes stated in indexed units (UF) (Resolution 1836) arising from US dollar certificates	447,764.3	455,949.8
Commercial notes from redenomination of foreign Exchange securities	220,488.3	223,608.3
Floating interest rate promissory notes (PTF)	54,105.0	73,495.8
Securities issued on rescheduling of foreign debt ( Ch. XIX of the Compendium of Foreign Exchange Regulations)	38,686.3	305,171.9
Deposit certificates stated in US\$. Resolution 1649	4,398.9	4,565.3
Promissory notes issued for exchange-rate differential	44.3	89.8
<b>OTHER LIABILITIES</b>	<b>27,746.2</b>	<b>166,641.6</b>
Provisions	7,980.9	7,471.3
Temporary liabilities	19,722.5	33,490.4
US currency purchases under resale agreement	0.0	122,494.1
Other securities	42.8	3,185.8
<b>CAPITAL AND RESERVES</b>	<b>(855,425.4)</b>	<b>(988,702.4)</b>
Capital	(988,702.4)	(597,400.1)
Surplus (Deficit) during the period	133,277.0	(391,302.3)
<b>TOTAL LIABILITIES</b>	<b>14,986,182.7</b>	<b>14,871,423.5</b>

**INCOME STATEMENTS**  
**AS OF DECEMBER 31st. 1999 AND 1998**  
(MILLIONS OF CHILEAN PESOS)

	<b>1999</b>	<b>1998</b>
<b>OPERATING RESULTS</b>		
<b>OPERATING INCOME</b>	<b>1,818,888.8</b>	<b>1,050,752.2</b>
Interest earned and accrued	673,690.1	757,014.7
Indexation earned and accrued	50,660.4	86,711.2
Income from price differences	12,095.4	45,566.6
Exchange earnings	1,078,337.1	161,363.4
Other operating income	4,105.8	96.3
<b>OPERATING EXPENSES</b>	<b>(1,724,223.6)</b>	<b>(1,497,337.5)</b>
Interest paid and accrued	956,669.9	933,143.8
Indexation paid and accrued	342,712.1	399,507.0
Commissions paid and accrued	595.9	774.7
Loss due to price differences	26,699.3	19,629.2
Exchange losses	388,348.4	135,732.6
Other operating expenses	9,198.0	8,550.2
Gross margin	94,665.2	(446,585.3)
<b>OTHER OPERATING EXPENSES</b>	<b>(19,244.0)</b>	<b>(18,843.0)</b>
Personnel expenses	13,290.4	13,187.8
Administrative expenses	4,225.2	3,998.8
Depreciation, amortizations and write-offs	1,251.5	1,264.5
Taxes, rates and contributions	476.9	391.9
Income before provisions and write-offs	75,421.2	(465,428.3)
Provisions and write-offs from risky assets	0.0	(65.7)
Net margin (Total operating income)	75,421.2	(465,494.0)
<b>NON-OPERATING INCOME AND EXPENSES</b>	<b>222.0</b>	<b>209.4</b>
Non-operating income	354.0	446.6
Non-operating expenses	(132.0)	(237.2)
Loss before price-level restatement	75,643.2	(465,284.6)
Price-level restatement	57,633.8	73,982.3
Surplus (Deficit) during the year	<u>133,277.0</u>	<u>(391,302.3)</u>

The accompanying notes 1 to 13 form an integral part of these financial statements.



## REPORT ON THE FINANCIAL STATEMENTS

### I. 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, contributes to the 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. Due to the above, and considering the particular operating features of Banco Central de Chile, the statement of cash flow is not presented.

For comparison purposes, the figures for 1998 were restated according to changes in the Consumer Price Index, for the period November 30, 1998 to November 30, 1999, amounting to 2.6%.

#### (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*. 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.

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

	1999 Ch\$	1998 Ch\$
Minted Chilean gold coins	806.84	734.36
US Dollar (Referential rate)	498.12	470.57
US Dollar (Observed rate)	527.70	473.77
Pound Sterling	854.30	798.26
Deutsche Mark	271.42	283.85
Special Drawing Rights (SDR)	723.45	666.49

**(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. Shares and contributions to IDB and contributions to IMF are considered as investments in accordance with provisions established in DL 2,943 dated February 8, 1979.

As set forth by Law 19,603 dated January 15, 1999, Banco Central de Chile was authorized to subscribe an increase in the payment to the IMF from Chile. The latter corresponds to a contribution equivalent to 234,0 million Special Drawing Rights which was made on February 10, 1999.

**(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 purchased commercial instruments 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.

Interests 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 are included in Domestic Assets and Domestic Liabilities, accordingly.

Interests paid and not accrued arising from obligations are recorded under Other Assets. Interests earned and not accrued arising from loans are 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 each year-end of such obligation, governed by Law 19,396 including 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”.

Deferred losses amount to Ch\$ 768,775.6 million as of December 31, 1999 (Ch\$ 936,467.7 million in 1998), and are shown as “Other securities” under the caption “Other assets”.

#### **(G) LOAN PROVISIONS**

The Bank has not set up provisions in 1999 (in 1998 it recorded provisions amounting to Ch\$ 65.7 million). The balance of provisions set up amounts to Ch\$ 8,894.1 million (Ch\$ 8,199.7 million in 1998), 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\$ 6,760.5 million (Ch\$ 6,238.2 million in 1998).

#### **(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\$ 520,077.2 million (Ch\$ 604,109.9 million in 1998), includes the following transactions:

	(Millions of Ch\$)	
	1999	1998
Receivables from CORFO (Note 3)	18,903.5	29,642.5
Credit lines on debt rescheduling	62,103.9	78,041.7
Mortgage loan portfolio acquired	39,644.6	50,818.4
Liquidity credit lines	0.0	37,877.9
Credit lines to finance the sale of mortgage portfolio of Asociación Nacional de Ahorro y Préstamo (ANAP)	52,545.9	58,452.6
Credit lines for international organizations programs	7,422.1	8,810.6
Credit lines for deposits (Resolution 1686)	4,649.4	5,901.7
Former Caja Central de Ahorro y Préstamo, and former ANAP (Note 4)	307,037.0	292,139.4
Price balances (Law 19,396)	25,694.6	39,722.7
Other	2,076.2	2,702.4
<b>Total</b>	<b>520,077.2</b>	<b>604,109.9</b>

### 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, 1999, the balance of accounts receivable from CORFO amounts to Ch\$ 18,903.5 million (Ch\$ 29,642.5 million in 1998), 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, 1999 amounts to Ch\$ 167,535.5 million, equivalent to UF 11.1 million (Ch\$ 164,767.2 million in 1998, equivalent to UF 10.9 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, 1999, 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\$ 307,037.0 million (Ch\$ 292,139.4 million in 1998), and is shown under “Loans to other institutions”.

## 5. TREASURY TRANSFERS

The item Treasury transfers includes the following amounts under Domestic Loans:

	(Millions of Ch\$)	
	1999	1998
Treasury promissory notes Law 18,267	438,970.7	482,924.1
Treasury promissory notes Law 18,768	3,176,513.1	3,028,336.2
Treasury transfers Law 18,401	167,535.5	164,767.2
Total	3,783,019.3	3,676,027.5

### (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.

During 1998, 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 each year-end account for the subordinated obligation with Banco Central de Chile deriving from the agreement amending the payment terms for such obligation subscribed with Banco de Chile on November 8, 1996, in accordance with provisions in Law 19,396. On such date, the Sociedad Matriz del Banco de Chile, previously named Banco de Chile, agreed, based on paragraphs three and five of the above-mentioned law, the assignment of the contract to Sociedad Administradora de la Obligación Subordinada SAOS S.A. Consequently, the obligation must be paid in 40 annual, consecutive and equal installments starting April 1997. The balance as of 1999 shows an uncovered difference corresponding

to the annual installments for 1998 and 1999 years, which according to the existing agreements should be paid in April 2000.

## 7. SHARES RECEIVED IN PAYMENT

Pursuant to Law 19,396, Banco Central de Chile received from Banco de Santiago 35,090.5 million series E shares, in payment, of which, as of December 31, 1999, it holds 35,067.8 million shares, valued at market price and included as "Other Securities" under the caption "Other assets". The accounting loss generated by the holding of these shares is included under deferred loss as indicated in Note 1 (f). In

accordance with Law 19,396, there is no fixed term for these shares to be disposed of.

With respect to the above, it is worth-mentioning that on May 13, 1999, Banco Central de Chile subscribed an agreement with Banco Santander Central Hispano S.A., whereby, among other matters, Banco Central de Chile was granted the irrevocable option to sell to Banco Santander Central Hispano, starting May 15, 2000 until May 15, 2002, the total or a portion of the shares that the latter holds in Banco Santiago, at Ch\$ 11.0 per share. This amount will be adjusted starting May 15, 2000, based on changes in Unidad de Fomento plus the deposit rate of readjustable transactions.

## 8. DEPOSITS AND OBLIGATIONS

The caption Other deposits and obligations includes the following items:

	(Millions of Ch\$)	
	1999	1998
Foreign currency current accounts	59,518.5	60,463.0
Deposits in foreign currency, Resolutions 1657 and 1686	2,875.8	3,540.6
Mandatory deposits on overseas credits	0.0	120,131.4
Short-term deposits	248,035.6	443,090.3
Total	310,429.9	627,225.3

**9. INSTRUMENTS ISSUED BY CENTRAL BANK OF CHILE AS OF DECEMBER 31st.  
1999 AND 1998 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 1999	Total 1998
Indexed promissory notes payable in coupons (PRC)	350,469.3	253,312.3	397,051.6	1,532,916.4	4,119,691.0	6,653,440.6	7,149,163.8
Central Bank discountable promissory notes (PDBC)	1,535,200.0	54,000.0	138,000.0	0.0	0.0	1,727,200.0	748,774.8
Central Bank indexed promissory notes (PRBC)	1,348,492.9	0.0	0.0	0.0	0.0	1,348,492.9	1,202,144.9
Central Bank promissory notes in US\$ (PRD)	12,279.8	2,732.3	0.0	733,503.0	42,216.0	790,731.1	636,972.5
Promissory notes stated in indexed units (UF), arising from certificates in US\$ (Resolution 1836)	10,492.7	0.0	0.0	0.0	437,271.6	447,764.3	455,949.8
Commercial notes from redenomination of foreign exchange securities	2,163.5	477.9	0.0	117,124.0	100,722.9	220,488.3	223,608.3
Floating interest rate promissory notes (PTF)	8,121.8	1,761.8	8,904.6	34,345.1	971.7	54,105.0	73,495.8
Securities issued on rescheduling of foreign debt. Chapter XIX. Compendium of Foreign –Exchange Regulations	25,025.7	12,596.7	1,063.9	0.0	0.0	38,686.3	305,171.9
Deposit certificates stated in US\$. Resolution 1649	119.2	0.0	535.0	1,069.9	2,674.8	4,398.9	4,565.3
Promissory notes issued for exchange-rate differential	43.6	0.5	0.2	0.0	0.0	44.3	89.8
<b>Total documents issued</b>	<b>3,292,408.5</b>	<b>324,881.5</b>	<b>545,555.3</b>	<b>2,418,958.4</b>	<b>4,703,548.0</b>	<b>11,285,351.7</b>	
<b>Total 1998</b>	<b>1,995,025.1</b>	<b>568,953.9</b>	<b>798,672.6</b>	<b>2,197,339.6</b>	<b>5,239,945.7</b>		<b>10,799,936.9</b>

Balances include interests and accrued adjustments as of December 31st. 1999 and 1998.

**10. CAPITAL AND RESERVES**

Changes in capital and reserves during 1999 and 1998 were as follows:

	(Millions of Ch\$)		
	Capital	Surplus (Deficit) in the period	Total
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)
<b>Balances as of 12.31.98</b>	<b>(582,261.3)</b>	<b>(381,386.3)</b>	<b>(963,647.6)</b>
Balances as of December 31st, 1998 restated for comparison purposes	(597,400.1)	(391,302.3)	(988,702.4)
Balances as of 01.01.99	(582,261.3)	(381,386.3)	(963,647.6)
Absorption of 1998 deficit	(381,386.3)	381,386.3	-
Equity revaluation	(25,054.8)	-	(25,054.8)
Surplus during the period	-	133,277.0	133,277.0
<b>Balances as of 12.31.99</b>	<b>(988,702.4)</b>	<b>133,277.0</b>	<b>(855,425.4)</b>

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, 1999, Banco Central de Chile shows a deficit in equity of Ch\$ 855,425.4 million (Ch\$ 988,702.4 million in 1998).

The 1999 surplus will be used to partially absorb the equity deficit.

Even though in the near future the negative equity position is not foreseen 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, and this has been requested to the Ministry of Finance, in conformity with Article 5 of the Constitutional Organic Law.

## II. BALANCES IN FOREIGN CURRENCY AND GOLD

Assets and liabilities denominated in foreign currency and included in the balance sheets

as of December 31st, 1999 and 1998 are as follows:

	(Millions of Ch\$)	
	1999	1998
<b>ASSETS</b>		
OVERSEAS ASSETS	14,848.6	15,919.9
Reserve	14,599.6	15,671.9
Other overseas assets	249.0	248.0
DOMESTIC ASSETS	6,022.5	6,234.1
Domestic loans	6,022.5	6,234.1
OTHER ASSETS	8.2	9.5
Total assets	<u>20,879.3</u>	<u>22,163.5</u>
<b>LIABILITIES</b>		
OVERSEAS LIABILITIES	195.1	265.9
Reserve	23.8	88.9
Other overseas liabilities	4.1	5.5
SDR allocations	167.2	171.5
DOMESTIC LIABILITIES	3,213.9	5,361.2
Deposits and obligations	3,213.9	5,361.2
OTHER LIABILITIES	121.6	200.0
Total liabilities	<u>3,530.6</u>	<u>5,827.1</u>
<b>NET ASSETS</b>	<u>17,348.7</u>	<u>16,336.4</u>



## 12. 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.

## 13. 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

MARIO ULLOA LÓPEZ  
General Auditor






ARTHUR ANDERSEN  
LANGTON CLARKE

## INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying balance sheets of Banco Central de Chile as of December 31, 1999 and 1998 and the related statements of income for the years 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 audits.
2. We have conducted our audits 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 audits provide a reasonable basis for our opinion.
3. 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\$ 768,775.6 millions (Ch\$936,467.7 millions in 1998), arising from the amendments to subordinated obligation payment agreements of given banks, as set forth by Law 19,396 (Notes 1(f) and 7).
4. In our opinion, the above-mentioned financial statements present fairly, in all material respects, the financial position of Banco Central de Chile as of December 31, 1999 and 1998, and the results of its operations for the years then ended, in conformity with accounting policies as described in Note 1.
5. Banco Central de Chile shows an equity deficit of Ch\$ 855,425.4 million (Ch\$ 988,702.4 million in 1998), and is currently holding discussions with the Ministry of Finance to determine the manner in which such deficit shall be covered.



Alejandro Cerda G.

ARTHUR ANDERSEN  
LANGTON CLARKE

Santiago, January 14, 2000