

# **III. FINANCIAL STATEMENTS**

## **OF THE CENTRAL BANK OF CHILE**



## Balance Sheets

As of December 31, 2002 and 2001  
(Millions of Chilean pesos)

ASSETS	2002	2001
FOREIGN ASSETS	11,067,091.3	9,840,574.7
RESERVE ASSETS	10,935,836.6	9,732,686.7
Monetary gold	1,619.5	12,561.2
Special drawing rights (SDR)	26,011.0	19,610.1
Reserve position in the IMF	349,231.8	202,042.7
Foreign currencies	10,553,102.7	9,490,326.4
Other assets	5,871.6	8,146.3
OTHER FOREIGN ASSETS	131,254.7	107,888.0
Shares and contributions to the Interamerican Development Bank	131,254.7	107,888.0
DOMESTIC ASSETS	6,278,736.0	6,912,736.6
DOMESTIC LOANS	6,278,736.0	6,912,736.6
Loans to state-owned companies	7,000.0	8,921.0
Loans to <i>BancoEstado</i>	121,754.9	174,387.5
Loans to commercial banks	167,070.1	605,767.6
Loans to other institutions	395,714.8	376,800.4
Treasury transfers (Laws 18267, 18401 and 18768)	4,695,196.4	4,840,322.4
Loans for subordinated obligations of financial institutions (Laws 18401 and 19396)	891,999.8	906,537.7
OTHER ASSETS	639,333.9	1,551,157.7
Bank premises and equipment	16,169.3	16,264.0
Temporary assets	240,194.6	439,441.8
Other securities	382,970.0	1,095,451.9
<b>TOTAL ASSETS</b>	<b>17,985,161.2</b>	<b>18,304,469.0</b>

The accompanying notes 1 to 18 are an integral part of these financial statements.

LIABILITIES	2002	2001
FOREIGN LIABILITIES	272,245.4	239,663.3
RESERVE LIABILITIES	8,083.7	9,001.9
Reciprocal loan agreements	8,083.7	9,001.9
OTHER FOREIGN LIABILITIES	264,161.7	230,661.4
Loans	1,424.7	1,571.4
Accounts with international organizations	144,694.2	125,221.0
Allocations of special drawing rights (SDR)	118,042.8	103,869.0
DOMESTIC LIABILITIES	16,827,734.0	17,798,666.5
CURRENCY ISSUANCE	1,983,160.5	1,940,583.0
Banknotes and coins in circulation	1,786,186.2	1,739,694.9
Deposits from financial institutions (domestic currency)	196,974.3	200,888.1
DEPOSITS AND OBLIGATIONS	760,436.7	1,428,335.2
Deposits and obligations with the Treasury	492,108.6	1,130,549.1
Other deposits and obligations	268,328.1	297,786.1
NOTES ISSUED BY CENTRAL BANK OF CHILE	14,084,136.8	14,429,748.3
Indexed promissory notes payable in coupons (PRC)	4,606,053.8	5,735,974.3
Central Bank discountable promissory notes (PDBC)	2,983,000.0	2,855,160.0
Central Bank indexed promissory notes in US dollars (PRD)	2,622,091.3	2,624,694.4
Indexed coupons (CERO) in indexed units UF	1,149,390.0	1,643,178.8
Central Bank bonds in US dollars (BCD)	1,026,428.8	-
Indexed coupons (CERO) in US dollars	591,647.0	595,986.3
Central Bank bonds in Chilean pesos (BCP)	373,752.2	-
Promissory notes in indexed units UF (Resolution 990 for redemption of promissory notes Resolution 1836)	111,998.8	155,717.2
Central Bank bonds in indexed units UF (BCU)	326,588.9	-
Commercial notes from redenomination of foreign debt securities	226,794.5	-
Central Bank indexed promissory notes (PRBC)	60,278.8	301,509.7
Deposit certificates in US dollars, Resolution 1649	3,646.2	4,189.2
Promissory notes stated in indexed units UF (Resolution 1836 arising from certificates in US dollars)	1,359.0	493,582.1
Floating interest rate promissory notes (PTF)	1,086.4	19,734.1
Promissory notes issued for exchange rate differential	21.1	22.2
OTHER LIABILITIES	8,165.5	8,534.6
Provisions	7,960.9	8,397.0
Other securities	204.6	137.6
CAPITAL AND RESERVES	877,016.3	257,604.6
Capital	257,604.6	(759,779.4)
Net surplus for the year	619,411.7	1,017,384.0
<b>TOTAL LIABILITIES</b>	<b>17,985,161.2</b>	<b>18,304,469.0</b>

## Statements of income

As of December 31, 2002 and 2001  
(Millions of Chilean pesos)

<b>OPERATING RESULTS</b>	<b>2002</b>	<b>2001</b>
<b>OPERATING INCOME</b>	2,411,766.4	2,786,655.5
Interest earned and accrued	653,783.6	911,791.5
Indexation earned and accrued	83,261.5	57,091.2
Income on price differences	145,343.9	60,992.5
Exchange rate earnings	1,528,726.8	1,755,924.7
Other operating income	650.6	855.6
<b>OPERATING EXPENSES</b>	(1,585,003.2)	(1,718,780.1)
Interest paid and accrued	735,402.0	880,222.2
Indexation paid and accrued	473,595.7	408,923.3
Loss due to price differences	297,904.4	186,062.5
Exchange rate losses	69,992.2	235,043.0
Other operating expenses	8,108.9	8,529.1
<b>GROSS MARGIN</b>	826,763.2	1,067,875.4
<b>OTHER OPERATING EXPENSES</b>	(22,298.3)	(20,939.7)
Personnel expenses	13,223.9	13,817.7
Administrative expenses	7,156.6	5,221.3
Depreciation, amortization and write-offs	1,443.6	1,403.0
Taxes, rates and contributions	474.2	497.7
Income before provisions and write-offs	804,464.9	1,046,935.7
Provisions and write-offs	(204,353.1)	(136,594.5)
<b>NET MARGIN (TOTAL OPERATING INCOME)</b>	600,111.8	910,341.2
<b>NON-OPERATING RESULTS</b>	401.3	220.2
Non-operating income	447.4	255.4
Non-operating expenses	(46.1)	(35.2)
Income before price-level restatement	600,513.1	910,561.4
<b>PRICE-LEVEL RESTATEMENT</b>	18,898.6	106,822.6
<b>SURPLUS FOR THE YEAR</b>	<b>619,411.7</b>	<b>1,017,384.0</b>

The accompanying notes 1 to 18 are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. INCORPORATION AND OBJECTIVE OF THE ENTITY

Central Bank of Chile was established on August 21, 1925 by Decree Law 486. The Bank is an autonomous organization, of constitutional rank, of a technical nature, with legal status, its own equity and indefinite duration, governed by Basic Constitutional Act 18840 and its modifications.

The Bank's objective is to ensure stability of the currency and the normal operation of domestic and foreign payments.

The Bank's attributions, for these purposes, are the regulation of the amount of money and credit in circulation, the execution of credit operations and international exchange, such as, dictating regulations on monetary, credit, financial and international exchange matters. The Bank is exclusively empowered to issue banknotes and to mint coins.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

#### A) BASIS FOR PREPARING THE FINANCIAL STATEMENTS

These financial statements have been prepared in conformity with generally accepted accounting principles in Chile and policies set forth by the Board of the Central Bank of Chile, upon approval of the Chilean Superintendency of Banks and Financial Institutions, as established in Article 75 of Law 18840 (Basic Constitutional Act of the Central Bank of 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 under letter (f) below.

The presentation of these balance sheets is within an economic and accounting framework that provides an understanding of the financial and accounting position of the Bank and, at the same time, contributes to the economic analysis of the Central Bank of Chile's operations by clearly identifying whether they are undertaken by domestic or foreign agents. From this information it is possible to determine the Central Bank of Chile's share in the domestic supply of monetary assets and credit and

the related effects on the Bank's foreign indebtedness position. 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 Central Bank of Chile, the statement of cash flows is not presented, instead a note to the financial statements with the Monetary Base change and another with the International Reserves change (Note 14) are presented.

For comparative purposes, the 2001 figures have been restated according to changes in the Chilean consumer price index for the period between November 30, 2001 and November 30, 2002, amounting to 3.0%.

#### B) EXCHANGE RATES USED

Assets and liabilities denominated in foreign currency are translated into Chilean pesos at the "observed dollar" exchange rate referred to under N° 6 of Chapter I in the "General Provisions" of the Compendium of Foreign Exchange Regulations – *Compendio de Normas de Cambios Internacionales*.

Assets and liabilities stated in minted Chilean gold coins are valued at the average London morning quotation "Gold Fixing" rate (US dollars per fine troy ounce), 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 Central Bank of Chile, in the Official Gazette, however, always based upon the observed exchange rate.

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

	2002 Ch\$	2001 Ch\$
US Dollar (observed exchange rate)	712.38	656.20
Pound Sterling	1,142.18	953.92
Euro	741.75	579.63
Special Drawing Rights (SDR)	964.97	823.94

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

Shares issued by and contributions made to the IDB, and contributions to the IMF, 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 Foreign Assets. Contributions to the IMF are recorded under Foreign Reserve Assets.

D) FINANCIAL INVESTMENTS

Foreign financial investments are shown under Reserve Assets and mainly include bonds and securities issued by governments, foreign institutions and banks, and are valued at the lower of cost or market value.

E) LOANS RECEIVABLE AND OBLIGATIONS

Non-indexed loans receivable and obligations are shown at original value or at their latest renewal

value, except for commercial instruments purchased and discounted notes, which are shown at nominal value upon maturity. Indexed balances include accrued indexation adjustments as of the balance sheet dates, and balances denominated in foreign currency include the corresponding exchange rate adjustments.

Interests accrued at year-end on transactions with foreign residents are included under Other Foreign Assets and Other Foreign Liabilities. Interests on transactions with domestic residents are included in Domestic Assets and Domestic Liabilities, accordingly.

Interest paid and not accrued arising from obligations, and interest earned and not accrued arising from loans are shown as Transitory Assets under the caption "Other Assets".

F) SUBORDINATED OBLIGATIONS OF FINANCIAL INSTITUTIONS

Loans for subordinated obligation included under Domestic Assets (Note 8), include restated balances as of each year-end of such obligations, governed by Law 19396 including accumulated increases recorded and credited to income on an accrual basis.

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 19396 which sets forth that: "... any losses incurred by the Central Bank of 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, Central Bank of Chile is entitled to allocate such surplus to set up provisions in order to absorb any such losses....".

During 2002 a provision of Ch\$204,345.4 was established and charged to income for the same year (Ch\$136,594.5 million in 2001), which was applied to this deferred loss. Deferred losses amount to Ch\$379,498.6 million as of December 31, 2002 (Ch\$574,235.4 million in 2001) and are shown as "Other securities" under the caption "Other Assets".

## G) LOAN PROVISIONS

The Bank has not established provisions on loans in 2002 and 2001. The balance of provisions amounts to Ch\$11,983.6 million (Ch\$11,366.2 million in 2001) and is shown deducting the corresponding assets. The increase is due to the variation in the exchange rate of foreign currency provision.

## H) BANK PREMISES AND EQUIPMENT

Bank premises and equipment at each 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 lives 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\$6,935.9 million (Ch\$7,152.8 million in 2001).

## J) STAFF VACATION PROVISION

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

## K) PRICE-LEVEL RESTATEMENT

Shareholders' equity, Bank premises and equipment and other assets and liabilities have been price-level restated in accordance with changes in the Chilean 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 applying price-level restatement, is shown as a credit to income of Ch\$18,898.6 million in 2002 (credit to income of Ch\$106,822.6 million in 2001).

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

### 3. RESERVE ASSETS

Included under reserve assets are the international reserves held by the Bank, as follows:

	(US\$ million)	
	2002	2001
Monetary gold (1)	2.3	18.6
Special Drawing Rights (SDR) (3)	36.5	29.0
Reserve position in the IMF (2)	490.2	299.0
Foreign currencies (3):		
Coins and deposits	7,534.8	7,279.3
Bond issued by governments, foreign organizations and banks	4,855.6	4,527.1
Commercial papers	1,242.5	528.7
Euronotes	452.0	374.3
Foreign government treasury bills	343.4	421.4
Floating rate bills	264.2	517.0
Foreign investment instruments	121.4	393.5
Other assets (4):		
Reciprocal loan agreements	8.2	12.1
Total reserve assets	15,351.1	14,400.0

(1) It should be noted that for the purpose of complying with the 5<sup>th</sup> edition of the Balance of Payments Manual of the International Monetary Fund, as of May 2002 the definition of Reserve Assets and Liabilities was modified as follows:

"Gold" was renamed "Monetary gold".

(2) The previous items "IMF Subscription installment", "Loans" and "IMF Deposits" (Liabilities) make up the new item "Reserve position in the IMF".

(3) The previous items "Deposits and sight accounts" and "Deposits and investment instruments" make up the new item "Foreign currency", with the exception of Special Drawing Rights (SDR), which are shown separately in a new item called "Special Drawing Rights (SDR)".

(4) Debit balances of reciprocal loan agreements are included under “Other Assets”.

Interest receivable, associated to reserve assets, that were previously recorded under “other foreign assets” are incorporated in the different captions under “reserve assets”.

Interest payable, associated to foreign liabilities, that were previously recorded under “other foreign liabilities” are included under different captions and under “reserve liabilities”.

The figures for the year 2001, have been reclassified using the above-mentioned classification.

#### 4. DOMESTIC LOANS TO BANKS, FINANCIAL INSTITUTIONS AND OTHER INSTITUTIONS OR COMPANIES

The total balance of these loans, amounting to Ch\$691,539.8 million (Ch\$1,165,876.5 million in 2001), mainly includes the following operations:

	(Millions of Ch\$)	
	2002	2001
Receivables from <i>Corfo</i> (Note 5)	1,598.5	2,121.3
Credit lines on debt restructuring	33,289.8	43,772.6
Mortgage loan portfolio acquired	8,826.2	19,577.5
Liquidity credit lines	10,001.7	40,507.6
Credit lines to finance the sale of mortgage portfolio of former ANAP	36,247.1	44,080.7
Credit lines for international organization programs	4,427.4	5,702.2
Credit lines for deposits (Resolution 1686)	1,144.5	2,331.0
Former <i>Caja Central de Ahorros y Préstamos</i> and former ANAP (Note 6)	395,714.8	376,800.4
Central Bank of Chile promissory notes purchased with resale agreement	199,143.3	629,582.1
Other	1,146.5	1,401.1
<b>Total</b>	<b>691,539.8</b>	<b>1,165,876.5</b>

## 5. ACCOUNTS RECEIVABLE FROM CORPORACIÓN DE FOMENTO DE LA PRODUCCIÓN (*Corfo*)

The balance receivable from *Corfo*, derives from Law 18401 dated 1985 and its modifications, and Law 18577 dated 1986, by which Central Bank of Chile sold loans granted to financial institutions to *Corfo*, in order to finance the acquisition, on behalf of third parties, of shares of these financial institutions.

*Corfo* amortizes its debt by transferring securities that it recovers from shareholders, for the assignment of shares of financial institutions. As of December 31, 2002 the balance of accounts receivable from *Corfo* was Ch\$1,598.5 million (Ch\$2,121.3 million in 2001), and is included under Loans to state-owned companies.

In accordance with Article 13 of Law 18401, differences that are produced in the recovery, as a result of discounts granted to shareholders, for up to UF15 million, will be covered by the Treasury through future transfers (Note 7), which as of December 31, 2002 amounted to Ch\$190,802.4 million equivalent to UF11.4 million (Ch\$190,828.4 million in 2001, equivalent to UF11.4 million). Based on available information, the maximum amount of transfer established by law is deemed adequate to absorb the discounts.

## 6. CAJA CENTRAL DE AHORROS Y PRÉSTAMOS AND ASOCIACIÓN NACIONAL DE AHORRO Y PRÉSTAMO

Law 18900 dated January 16, 1990 terminated the legal existence of *Caja Central de Ahorros y Préstamos* and the authorization for the existence of *Asociación Nacional de Ahorro y Préstamo (ANAP)*, and established the procedure through which the respective assets would be liquidated. This liquidation is currently in the process of final approval.

In accordance with Article 5 of this law, the liabilities of *Caja Central de Ahorros y Préstamos* and of *ANAP* that are not covered by the proceeds of their liquidations will be covered by the Treasury by obtaining the necessary funds from the national budget, in conformity with provisions under Article 21 of Decree Law 1263 dated 1975.

As of December 31, 2002, the amount payable to Central Bank of Chile arising from the liquidation of these institutions, including accrued interest as of such date, amounted to Ch\$395,714.8 million, of which Ch\$364,867.5 million correspond to direct loans granted by Central Bank of Chile and Ch\$30,847.3 million to credit lines of international organization programs (Ch\$376,800.4 million in 2001, of which Ch\$347,879.3 million correspond to direct loans granted by Central Bank of Chile and Ch\$28,921.1 million to credit lines of international organization programs) and are shown under the caption "Loans to other institutions".

## 7. TREASURY TRANSFERS

Treasury transfers includes the following amounts under Domestic Loans:

	(Millions of Ch\$)	
	2002	2001
Treasury promissory notes Law 18267	335.077.4	387,201.5
Treasury promissory notes		
Law 18768	4,169,316.6	4,262,292.5
Treasury transfers Law 18401	190.802.4	190,828.4
Total	4,695,196.4	4,840,322.4

### A) TREASURY PROMISSORY NOTES LAW 18267

In conformity with Law 18267, the Treasury transferred Ch\$100,000 million to Central Bank of Chile by issuing 40 Treasury promissory notes over a 25-year term, stated in indexed units, *Unidades de Fomento* (UF) and at a 1% annual interest rate, capitalized and amortized on a semiannual basis with a five-year grace period. The last installment matures on December 15, 2008.

### B) TREASURY PROMISSORY NOTES LAW 18768

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 semiannually and the balance is capitalized. The last installment matures on December 15, 2014.

During 2002 there was no prepayment of interest. In 2001, prepayment of interest was received in the amount of US\$123.8 million, including net in transitory assets the interests received and not accrued in this period amounting to US\$115.5 million. The discount granted for prepayment of interest amounted to US\$1.3 million in 2001.

Law 19774 on public sector budgets was published in the Official Gazette on December 4, 2001. Article 21 of this law states the following: “The President of the Republic is authorized to substitute the promissory notes issued in virtue of Article 75 of Law 18768, through one or more supreme decrees from the Ministry of Finance, for other documents issued by the Treasury, in pesos common national currency, which will maintain the scheduled semi-annual maturity dates. The substitution procedure, interest rate, capitalization regime and other characteristics, conditions and types of those promissory notes, will be determined in the respective decree”.

### C) TREASURY TRANSFER LAW 18401

The balance of this item corresponds to discounts granted to shareholders subject to the provisions under Law 18401, amounting to a maximum of UF15 million as stipulated in Article 13 of this law, and explained in Note 5.

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.

## 8. SUBORDINATED OBLIGATION

The balances as of each year-end account for the subordinated obligation with Central Bank of Chile, deriving from the agreement amending payment terms for such obligation subscribed with *Banco de Chile* on November 8, 1996, in accordance with provisions of Law 19396. On such date, the Parent Company of *Banco de Chile*, formerly *Banco de*

*Chile*, agreed to the assignment of the contract to *Sociedad Administradora de la Obligación Subordinada SAOS S.A.*, based on paragraphs three and five of the above-mentioned law. Consequently, the obligation must be paid in 40 annual, consecutive and equal installments starting April 1997.

## 9. SHARES RECEIVED IN PAYMENT

Pursuant to Law 19396, Central Bank of Chile received from *Banco Santiago* 35,090.5 million series E shares, in payment during 1997, of which as of December 31, 2001 it held 35,067.8 million.

On May 13, 1999, Central Bank of Chile subscribed an agreement with *Banco Santander Central Hispano S.A.*, whereby, among other matters, Central Bank of Chile was granted the irrevocable option to sell to *Banco Santander Central Hispano*, the total or a portion of the shares that the latter held in *Banco Santiago*, until May 15, 2002.

On April 22, 2002, Central Bank of Chile sold 35,067.7 million shares received in payment from the former *Banco Santiago* at a value of Ch\$12.595435 per share to *Banco Santander Central Hispano S.A.*, receiving the sum of Ch\$441,692.3 million (equivalent to US\$682.2 million) and in the stock market 0.1 million shares, receiving Ch\$1.4 million. As a result of this sale, an offsetting charge to deferred losses was recorded as established by Article 19 of Law 19396 in the amount of Ch\$95,639.9 million.

## 10. BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation are recorded at face value. The costs of printing and coining are recorded as operating expenses.

The distribution of banknotes and coins in circulation as of December 31, is as follows:

Denomination	(Millions of Ch\$)	
	2002	2001
\$ 20,000	331,217.3	310,716.7
\$ 10,000	1,045,168.2	1,020,723.3
\$ 5,000	171,577.4	179,522.4
\$ 2,000	46,593.0	43,824.1
\$ 1,000	82,960.7	85,511.1
\$ 500	7,687.1	18,932.6
Coins	100,982.5	80,464.7
Total	1,786,186.2	1,739,694.9

## 11. DEPOSITS AND OBLIGATIONS

The caption other deposits and obligations includes the following items:

	(Millions of Ch\$)	
	2002	2001
Foreign currency current accounts	237,143.5	173,613.5
Deposits in foreign currency (Resolutions 1657 and 1686)	1,101.9	1,798.2
Short-term deposits	29,170.8	111,939.2
Other deposits	-	10,305.1
Current accounts in domestic currency	911.9	130.1
<b>Total</b>	<b>268,328.1</b>	<b>297,786.1</b>

## 12. INSTRUMENTS ISSUED BY CENTRAL BANK OF CHILE, AS DECEMBER 31, 2002 AND 2001 BY PERIOD REMAINING TO MATURITY

Type of document	(Millions of Ch\$)						Total 2002	Total 2001
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years			
Indexed promissory notes payable in coupons (PRC)	253,717.7	207,182.7	364,261.9	1,363,001.3	2,417,890.2	4,606,053.8	5,735,974.3	
Central Bank discountable promissory notes (PDBC)	2,138,000.0	160,000.0	300,000.0	385,000.0	-	2,983,000.0	2,855,160.0	
Central Bank indexed promissory notes in US dollars (PRD)	51,627.0	39,413.8	1,068,534.4	1,382,017.2	80,498.9	2,622,091.3	2,624,694.4	
Indexed coupons (CERO) in indexed units UF	45,886.5	47,878.8	79,406.2	218,696.6	757,521.9	1,149,390.0	1,643,178.8	
Central Bank bonds in US dollars (BCD)	10,891.0	3,958.2	-	737,313.3	274,266.3	1,026,428.8	-	
Indexed coupons (CERO) in US dollars	11,030.1	15,590.9	54,432.4	510,593.6	-	591,647.0	595,986.3	
Central Bank bonds in Chilean pesos (BCP)	8,462.2	290.0	-	255,000.0	110,000.0	373,752.2	-	
Promissory notes in indexed units UF (Resolution 990 for redemption of promissory notes Resolution 1836)	162,868.2	163,720.7	-	-	-	326,588.9	-	
Central Bank bonds in indexed units UF (BCU)	3,687.5	-	-	-	223,107.0	226,794.5	-	
Commercial notes from redenomination of foreign debt securities	63.9	3,350.6	21,680.5	10,872.1	76,031.7	111,998.8	155,717.2	
Central Bank indexed promissory notes (PRBC)	51,906.7	8,372.1	-	-	-	60,278.8	301,509.7	
Deposit certificates in US dollars, Resolution 1649	35.2	-	722.2	1,444.4	1,444.4	3,646.2	4,189.2	
Promissory notes stated in indexed units UF (Resolution 1836 arising from certificates in US dollars)	1,359.0	-	-	-	-	1,359.0	493,582.1	
Floating interest rate promissory notes (PTF)	349.7	393.5	343.2	-	-	1,086.4	19,734.1	
Promissory notes issued for exchange rate differential	21.1	-	-	-	-	21.1	22.2	
<b>Total notes issued</b>	<b>2,739,905.8</b>	<b>650,151.3</b>	<b>1,889,380.8</b>	<b>4,863,938.5</b>	<b>3,940,760.4</b>	<b>14,084,136.8</b>	<b>14,429,748.3</b>	
<b>Total 2001</b>	<b>2,425,599.8</b>	<b>820,988.7</b>	<b>1,437,754.9</b>	<b>4,605,369.3</b>	<b>5,140,035.6</b>	<b>14,429,748.3</b>		

The balances include accrued interest and adjustments as of December 31, 2002 and 2001.

Transitory assets include discounts granted and not accrued net of the price difference received and

not accrued originating from other documents issued in the amount of Ch\$239,853.3 million (Ch\$516,341.8 million in 2001).

### 13. CAPITAL AND RESERVES

Changes in capital and reserves during the years 2002 and 2001 were as follows:

	(Millions of Ch\$)		
	Capital	Surplus for the year	Total
Balance as of January 01,2001	(895,630.4)	180,160.1	(715,470.3)
Distribution of the 2000 surplus	180,160.1	(180,160.1)	-
Price-level restatement on equity	(22,179.6)	-	(22,179.6)
Surplus for the year	-	987,751.5	987,751.5
Balance as of December 31, 2001	(737,649.9)	987,751.5	250,101.6
Balance as of December 31, 2001			
Restated for comparison purposes (3%)	(759,779.4)	1,017,384.0	257,604.6
Balance as of January 01,2002	(737,649.9)	987,751.5	250,101.6
Distribution of the 2001 surplus	987,751.5	(987,751.5)	-
Price-level restatement on equity	7,503.0	-	7,503.0
Surplus for the year	-	619,411.7	619,411.7
Balance as of December 31, 2002	257,604.6	619,411.7	877,016.3

Article 5 of the Basic Constitutional Act of Central Bank of Chile set start-up capital for the Bank at Ch\$500,000 million (Ch\$1,547,319.1 million restated as of December 31, 2002), to be paid according to Interim Article 2 of said act. The 2002 surplus will be capitalized.

### 14. MONETARY BASE AND INTERNATIONAL RESERVES

In conformity with Note 2 Letter a) and in consideration of the operating particularities of Central Bank of Chile, starting 2001, instead of a Statement of Cash Flows, the Bank presents a Statement of Variation in Monetary Base and a Statement of Variations in International Reserves, understanding the following as Monetary Base and International Reserves:

**Monetary Base:** Central Bank of Chile liabilities that form part of the money, or otherwise contribute to the formation of monetary aggregates comprising

banknotes, coins and checks issued by the Bank that are freely circulating, plus deposits made by the financial system in Central Bank of Chile.

**International Reserves:** Foreign assets that are readily available and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and /or for other purposes.

## VARIATIONS IN MONETARY BASE

	(Millions of Ch\$)	
	2002	2001
PRICE-LEVEL RESTATED BEGINNING BALANCE OF ISSUANCE	1,940,583.0	1,819,465.2
INCREASE IN ISSUANCE		
Operations with international organizations	92,426.0	9,444.3
Domestic loans	-	609,543.8
Interest and indexation paid for instruments issued	1,435,703.5	1,547,163.2
Deposits and obligations	198,620.8	-
Other operating expenses	5,238.6	5,246.5
Operating support expenses	17,963.4	17,908.7
<b>TOTAL INCREASE</b>	<b>1,749,952.3</b>	<b>2,189,306.5</b>
DECREASE OF ISSUANCE		
Instruments issued by Central Bank of Chile	(480,290.2)	(1,159,748.6)
Domestic loans	(955,516.4)	-
Interest and indexation received for domestic loans	(121,229.6)	(186,832.3)
Deposits and obligations	-	(83,112.2)
Other assets	(6,478.6)	(4,879.8)
Net sale of foreign currencies	(87,338.2)	(578,908.3)
<b>TOTAL DECREASE</b>	<b>(1,650,853.0)</b>	<b>(2,013,481.2)</b>
Currency issuance change for the year	99,099.3	175,825.3
Effect of price-level restatement on beginning balance of issuance	(56,521.8)	(54,707.5)
<b>ENDING BALANCE OF ISSUANCE</b>	<b>1,983,160.5</b>	<b>1,940,583.0</b>

## NET VARIATION IN INTERNATIONAL RESERVES

	(US\$ million)	
	2002	2001
BEGINNING RESERVES BALANCE	14,386.8	14,902.3
RESERVE INCREASE		
Domestic loans	0.6	0.5
Other assets	0.1	0.1
Other liabilities	-	0.2
Interest received for deposits and other investments abroad	672.3	1,329.7
<b>TOTAL INCREASE</b>	<b>673.0</b>	<b>1,330.5</b>
RESERVE DECREASE		
Deposits and obligations	(269.3)	(740.2)
Instruments issued	(1.0)	-
Other liabilities	(0.2)	-
Other foreign liabilities	(0.3)	(2.2)
Interest paid for foreign liabilities	(0.3)	-
Other operating expenses	(2.5)	(10.7)
Operating support expenses	(3.8)	(1.0)
Net sale of foreign currencies	(133.9)	(791.5)
<b>TOTAL DECREASE</b>	<b>(411.3)</b>	<b>(1,545.6)</b>
Changes in reserves during the year	261.7	(215.1)
Exchange rate	691.3	(300.4)
<b>FINAL RESERVES BALANCE</b>	<b>15,339.8</b>	<b>14,386.8</b>

(1) The beginning and final balances of international reserves were modified in accordance with the new definition of assets and liabilities reserve mentioned in Note 3.

## 15. BALANCES IN FOREIGN CURRENCY

	(US\$ million)	
	2002	2001
<b>ASSETS</b>		
<b>FOREIGN ASSETS</b>	15,163.8	14,384.2
Reserves	15,127.1	14,347.5
Other foreign assets	36.7	36.7
<b>DOMESTIC ASSETS</b>	5,854.0	6,307.9
Domestic loans	5,854.0	6,307.9
<b>OTHER ASSETS</b>	1.2	1.4
Total Assets	21,019.0	20,693.5
<b>LIABILITIES</b>		
<b>FOREIGN LIABILITIES</b>	179.0	169.3
Reserves	11.3	13.2
Other foreign liabilities	2.0	3.0
Special Drawing Rights (SDR) allocations	165.7	153.1
<b>DOMESTIC LIABILITIES</b>	819.6	1,549.6
Deposits and Treasury obligations	459.6	1,197.2
Other deposits and obligations	360.0	352.4
<b>OTHER LIABILITIES</b>	-	115.9
Total liabilities	998.6	1,834.8
<b>NET ASSET POSITION</b>	20,020.4	18,858.7

## 16. CONTINGENCIES AND COMMITMENTS

Central Bank of Chile has pending lawsuits or claims, the final outcome of which (according to the Bank's Legal Department) is not expected to have a material effect on capital and reserves.

## 17. INCOME TAX

Pursuant to DL 3345, dated April 24, 1980, Central Bank of Chile is exempt from income tax.

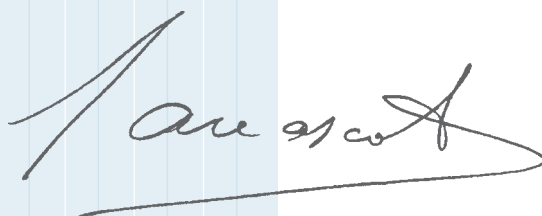
## 18. INCOME

The breakdown of income generated by interest, indexation and price differences, as of the closing date of each year-end, is as follows:

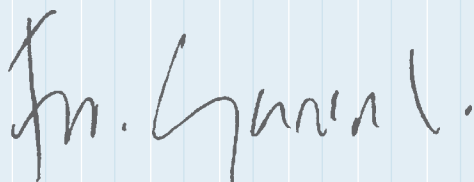
	(Millions of Ch\$)	
	2002	2001
Interest earned and accrued originates from:		
Investment abroad	468,604.5	590,844.4
Treasury transfers - Laws 18768 and 18267	108,606.9	236,513.8
Subordinated obligation	43,513.7	44,415.2
Other institutions	24,555.6	23,528.0
Commercial banks	6,325.4	11,673.2
<i>BancoEstado</i>	2,065.9	3,935.5
Reciprocal loan agreements	111.6	881.4
<b>Total</b>	<b>653,783.6</b>	<b>911,791.5</b>
Indexation earned and accrued correspond to:		
Subordinated obligation	24,794.3	26,619.1
Treasury transfers - Laws 18401 and 18267	16,012.2	18,574.5
<i>Caja Central y Asociación Nacional de Ahorro y Préstamo</i>	5,474.3	5,770.6
Other	36,980.7	6,127.0
<b>Total</b>	<b>83,261.5</b>	<b>57,091.2</b>
Income on price differences originated from:		
Redemption to CERO promissory notes in indexed units UF	88,997.5	43,872.5
Central Bank indexed promissory notes	32,255.5	13,094.5
Promissory notes indexed in US dollars	24,090.9	4,025.5
<b>Total</b>	<b>145,343.9</b>	<b>60,992.5</b>
Interest paid and accrued includes interest for:		
Indexed promissory notes with payment in coupons	324,163.1	386,223.6
Promissory notes indexed in US dollars	159,518.9	76,620.7
Central Bank discountable promissory notes	142,491.3	193,288.3
Other instruments issued	52,634.5	87,312.3
Foreign transactions	45,340.3	61,126.2
Central Bank indexed promissory notes	11,116.9	74,914.9
Reciprocal loan agreements	137.0	736.2
<b>Total</b>	<b>735,402.0</b>	<b>880,222.2</b>

(Continued)

	(Millions of Ch\$)	
	2002	2001
Indexation paid and accrued originates from:		
Promissory notes in US dollars	221,012.5	42,220.5
Indexed promissory notes paid in coupons	137,638.9	181,601.4
CERO coupons in US dollars	48,302.1	(5,303.4)
CERO coupons in UF	34,846.4	82,126.0
Other instruments issued	25,596.8	58,710.5
Central Bank indexed promissory notes	6,199.0	49,568.3
<b>Total</b>	<b>473,595.7</b>	<b>408,923.3</b>
Loss due to price differences corresponds to:		
Redemption to CERO promissory notes in indexed units UF	166,831.4	142,899.0
Indexed promissory notes with payments in coupons	93,659.0	23,142.8
Redemption to CERO promissory notes in US dollars	30,032.7	10,668.1
Promissory notes in US dollars	3,378.8	9,352.6
Other	4,002.5	-
<b>Total</b>	<b>297,904.4</b>	<b>186,062.5</b>



CAMILO CARRASCO ALFONSO  
General Manager



FRANCISCO GARCÍA LETELIER  
Accounting and Administration Manager



MARIO ULLOA LÓPEZ  
General Auditor



## REPORT OF INDEPENDENT AUDITORS

To the Chairman and  
Board Members of Central Bank of Chile:

1. We have audited the accompanying balance sheet of Central Bank of Chile (The "Bank") as of December 31, 2002 and the related statement of income for the year then ended. These financial statements (including their corresponding 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 Central Bank of Chile for the year ended December 31, 2001 were audited by other auditors, who issued an unqualified opinion on those financial statements in their report dated January 15, 2002.
2. We conducted our audit in accordance with auditing standards generally accepted in Chile. Those 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.
3. Central Bank of Chile prepares its financial statements in conformity with accounting policies established by its Board, with prior approval from the Chilean Superintendency of Banks and Financial Institutions (Law 18840). These policies are in accordance with generally accepted accounting principles, except for the deferral of accounting losses amounting to Ch\$379,498.6 million (Ch\$574,235.4 million in 2001), arising from the amendments to subordinated obligation payment agreements of certain banks, as set forth by Law 19396 (See Notes 2(f) and 8).
4. In our opinion, the financial statements as of December 31, 2002 present fairly, in all material respects, the financial position of Central Bank of Chile as of December 31, 2002 and the results of its operations for the year then ended in conformity with accounting policies described in Note 2.
5. As explained in Note 2 f), as of December 31, 2002 the Bank's management decided to amortize, with a charge to the surplus for the year Ch\$204,345.4 million (Ch\$136,594.5 million in 2001), corresponding to deferred losses originated by the modification of payment conditions of certain banks' subordinated obligations as established by Law 19396.

ERNST & YOUNG LTDA.

Santiago, Chile, January 15, 2003

**Rubén López D.**