

III. Financial statements of the Central Bank of Chile

Balance Sheets as of 31 December

(In millions of Chilean pesos)

Assets	2004	2003
Foreign assets	9,105,843.7	9,890,543.8
Reserve assets	8,966,255.1	9,739,084.2
Monetary gold	1,683.2	1,677.3
Special drawing rights (SDR)	29,464.3	28,022.5
Reserve position in the IMF	249,476.2	357,731.7
Foreign currencies	8,674,772.1	9,345,710.4
Other assets	10,859.3	5,942.3
Other foreign assets	139,588.6	151,459.6
Shares and contributions to the IDB	103,147.6	113,203.1
Bank for International Settlements (BIS) Shares	36,441.0	38,256.5
Domestic assets	5,344,340.4	5,886,801.3
Domestic loans	5,344,340.4	5,886,801.3
Loans to state-owned companies	3,430.4	5,368.3
Loans to <i>BancoEstado de Chile</i>	373,332.8	178,327.8
Loans to commercial banks	685,466.5	539,859.7
Loans to other institutions	451,750.4	430,640.6
Treasury transfers (Laws 18,267, 18,401 and 18,768)	2,896,181.5	3,785,701.1
Loan for subordinated obligations of financial institutions (Laws 18,401 and 19,396)	934,178.8	946,903.8
Other assets	424,380.0	452,983.7
Bank premises and equipment, net	16,715.7	17,298.7
Temporary assets	-	39,320.8
Other securities	407,664.3	396,364.2
Total assets	14,874,564.1	16,230,328.8

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

(Continued)

Liabilities	2004	2003
Foreign liabilities	214,983.7	236,831.4
Reciprocal loan agreements	8,891.5	5,591.2
Loans	455.7	1,029.1
Accounts with international organizations	99,600.7	119,003.3
Special drawing rights (SDR) allocations	106,035.8	111,207.8
Domestic liabilities	15,838,630.1	16,542,964.3
Currency issuance	2,329,189.8	2,146,777.4
Banknotes and coins in circulation	2,143,372.0	1,965,668.5
Deposits from financial institutions (domestic currency)	185,817.8	181,108.7
Deposits and obligations	1,421,190.4	968,298.0
Deposits and obligations with the Treasury	198,608.6	129,595.2
Other deposits and obligations	1,222,581.8	838,702.8
Instruments issued by Central Bank of Chile	12,088,249.9	13,427,889.1
Indexed promissory notes payable in coupons (PRC)	3,154,496.0	3,922,862.7
Central Bank bonds in Chilean pesos (BCP)	1,919,107.7	1,558,029.8
Central Bank discountable promissory notes (PDBC)	1,635,000.0	2,067,425.0
Central Bank bonds in US dollars (BCX)	1,421,343.0	-
Central Bank bonds expressed in US dollars (BCD)	1,274,553.0	2,182,984.9
Central Bank bonds in UF (BCU)	1,267,750.6	953,184.0
Indexed coupons (CERO) in UF	822,615.5	921,900.6
Indexed promissory notes in US dollars (PRD)	395,118.3	1,143,324.4
Indexed coupons (CERO) in US dollars	116,510.9	382,575.2
Commercial notes from redenomination of foreign debt securities	80,015.0	90,102.5
Other	1,739.9	2,527.2
Promissory notes in US dollars (PCX)	-	145,176.9
Coupons issued in US dollars (XERO)	-	57,795.9
Other liabilities	61,814.3	8,905.7
Provisions	8,063.1	8,626.0
Other securities	183.6	279.7
Temporary liabilities	53,567.6	-
Capital and reserves	(1,240,864.0)	(558,372.6)
Capital	(558,372.6)	907,931.2
Deficit for the year	(682,491.4)	(1,466,303.8)
Total liabilities	14,874,564.1	16,230,328.8

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

Statements of income for the years ended 31 December

(In millions of Chilean pesos)

Operating Results	2004	2003
Operating Income	923,573.1	828,114.2
Interest earned and accrued	416,542.8	486,294.9
Indexation earned and accrued	37,095.9	18,098.8
Income on price differences	138,137.4	126,482.5
Foreign exchange earnings	331,483.4	193,030.7
Other operating income	313.6	4,207.3
Operating Expenses	(1,608,766.9)	(2,270,397.5)
Interest paid and accrued	707,527.7	744,331.6
Indexation paid and accrued	52,643.2	(663,519.8)
Loss due to price differences	58,152.7	129,187.9
Exchange rate losses	783,747.9	2,054,759.1
Other operating expenses	6,695.4	5,638.7
Gross margin	(685,193.8)	(1,442,283.3)
Other Operating Expenses	(25,155.1)	(25,456.5)
Personnel expenses	16,123.1	15,307.8
Administrative expenses	7,001.2	8,309.0
Depreciation, amortization and write-offs	1,556.2	1,321.6
Taxes, rates and contributions	474.6	518.1
Income before provisions and write-offs	(710,348.9)	(1,467,739.8)
Provisions and write-offs	58.4	-
Net margin (Total operating results)	(710,290.5)	(1,467,739.8)
Non-Operating Results	735.1	507.3
Non-operating income	759.9	515.9
Non-operating expenses	(24.8)	(8.6)
Income before price-level restatement	(709,555.4)	(1,467,232.5)
Price-level restatement	27,064.0	928.7
Deficit for the year	(682,491.4)	(1,466,303.8)

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

Notes to the Financial Statements

1. Description of business

The Central Bank of Chile was incorporated on 21 August, 1925 by Decree Law 486. The Bank is an autonomous organization established in the Basic Constitutional Act 18,840 and its modifications.

The Bank's objective is to look after stability of the currency and the normal functioning of domestic and foreign payments.

In order to meet its objectives, the Bank regulates the amount of money and credit in circulation and executes credit operations and international exchange, such as, dictating regulations on monetary, credit, financial and international exchange matters. Additionally, the Bank is exclusively empowered to issue banknotes and to mint coins.

2. Summary of significant accounting policies

a) Basis of preparation of the financial statements

The financial statements have been prepared in conformity with generally accepted accounting principles in Chile ("Chilean GAAP") and regulations issued by the Board of the Central Bank of Chile, upon approval by the Chilean Superintendency of Banks and Financial Institutions, as established in Article 75 of the Basic Constitutional Act of the Central Bank of Chile. These policies are consistent with Chilean GAAP, except for the method used in recording losses on subordinated loan obligations, which is explained under letter g) 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 Bank's operations by clearly identifying whether they are undertaken by domestic or foreign agents. From this information it is possible to determine the Bank'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, respectively. Therefore, and especially considering the unique operating features of the Bank, the statement of cash flows is not presented. Instead, notes to the financial statements containing the Monetary Base Change and another detailing the International Asset Reserves Change (note 13) are presented.

For comparative purposes, the 2003 figures have been restated according to changes in the Chilean consumer price index for the period between 30 November 2003 and 30 November 2004, amounting to 2.5%.

b) Assets and liabilities in foreign currency

Assets and liabilities denominated in foreign currency are translated to Chilean pesos at the "observed U.S. dollar" exchange rate pursuant to Article 44 of the Basic Constitutional Act, that governs the Bank, referred to under No. 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 are valued at the average London morning quotation of the "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 US dollars is made at the exchange rates published daily by Central Bank of Chile, in the Official Gazette, which are always based upon the "Observed US dollar" rate.

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

	2004	2003
	Ch\$	Ch\$
United States dollar (Observed exchange rate)	559.83	599.42
Pound Sterling	1,072.88	1,062.61
Euro	759.71	748.81
Special Drawing Rights (SDR)	866.53	887.51

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 acquisition or contribution cost plus restatements, where applicable.

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

d) Bank for International Settlements (BIS) Shares

During 2003, Board resolutions Nos. 1073-04-030710 and 1084-02-030916, authorized the incorporation of the Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September 2003, in accordance with these resolutions, the Central Bank of Chile acquired 3,000 shares of the BIS for SDR 42,054,000, which are valued at acquisition cost and are shown under Other Foreign Assets.

e) Financial investments

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

f) 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 date, and balances denominated in foreign currency include the corresponding exchange rate adjustments.

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

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

g) Subordinated obligations of financial institutions

Loan for subordinated obligations included under Domestic Assets (note 8) includes restated balances as of each year-end and accumulated increases recorded and credited to income on an accrual basis, in conformity with Law 19,396.

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 Article 19 of Law 19,396 which states: "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, the Central Bank of Chile is entitled to allocate such surplus to set up provisions to absorb any such losses".

As of 31 December 2004, deferred losses amount to Ch\$392,876.0 million (Ch\$392,876.0 million as of 31 December 2003) and are shown under Other Securities in Other Asset Accounts. During 2004 and 2003, no provisions have been made for this concept.

h) Loan provisions

The Bank has not established any provision on loans in 2004 and 2003. The balance if provisions amounts to Ch\$9,365.3 million (Ch\$10,346.3 million in 2003), net of the corresponding assets. During 2004, an amount of Ch\$7.8 million was written-off with a charge to Provisions and provisions of Ch\$58.4 million were recovered.

i) Bank premises and equipment

Bank premises and equipment at each year-end are shown at cost plus price-level restatement, net of accumulated depreciation under "Other Assets". Depreciation has been calculated using the straight-line method based on the estimated useful lives of assets.

j) Severance indemnities

Staff severance indemnities have been determined using the present value method (accrued cost of the benefit), with an annual interest rate of 6%. As of 31 December 2004, the total

amount of the provision is Ch\$7,075.4 million (Ch\$7,544.8 million as of 31 December 2003).

k) Vacation accrual

The annual cost of employee vacations is recognized in the financial statements on an accrual basis.

l) Price-level restatement

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 (CPI). Income statement account balances in local currency, except for depreciation and price-level restatement, have not been restated for inflation. The effect of the application of price-level restatement represented a net credit to income of Ch\$27,064.0 million in 2004 (Ch\$928.7 million in 2003).

The effect of foreign currency translation on assets and liabilities denominated in foreign currencies and indexation on loans and liabilities are included under Operating Results, separate from price-level restatement.

3. Reserve assets

Reserve assets include international reserves held by the Bank, detailed as follows:

	(US\$ million)	
	2004	2003
Monetary gold	3.0	2.7
Special Drawing Rights (SDR)	52.6	45.6
Reserve position in the IMF	445.6	582.2
Foreign currencies:		
Coins and deposits	7,604.1	7,927.1
Bonds issued by governments, organizations and foreign banks	5,824.0	4,873.5
Commercial papers	972.4	254.6
Foreign government treasury bills	712.7	1,007.5
Floating rate bills	282.0	609.6
Other foreign investment instruments	100.2	538.7
Other assets:		
Reciprocal loan agreements	19.4	9.7
Total reserve assets	16,016.0	15,851.2

4. Domestic loans to banks, financial institutions and other institutions or companies

Domestic loans to banks, financial institutions and other institutions or companies, which amounted to Ch\$1,513,980.1 million in 2004 (Ch\$1,154,196.4 million in 2003), mainly include the following operations:

	(Millions of Ch\$)	
	2004	2003
Receivables from <i>Corfo</i> (note 5)	1,283.7	1,499.2
Credit line on debt restructuring	17,275.7	26,231.5
Mortgage loan portfolio acquired	-	1,570.3
Liquidity credit lines	38,004.8	2,665.3
Credit lines to finance the sale of mortgage portfolio of former <i>Anap</i>	19,834.6	28,961.4
Credit lines for programs of international organizations	1,947.2	3,264.4
Credit lines for deposits (Resolution 1,686)	230.7	457.2
Former <i>Caja Central de Ahorros y Préstamos</i> and former <i>Anap</i> (note 6)	451,750.4	430,640.6
Purchase of Central Bank of Chile promissory notes with resale agreement	983,453.3	658,246.8
Other	199.7	659.7
Total	1,513,980.1	1,154,196.4

5. Accounts receivable from *Corporación de Fomento de la Producción (Corfo)*

Balances receivable from *Corporación de Fomento de la Producción (Corfo)* in accordance with Law 18,401 dated 1985 and its modifications, and Law 18,577 dated 1986, relates to loans granted to financial institutions that were sold by the Central Bank of Chile 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 the corresponding financial institutions. As of 31 December 2004, accounts receivable from *Corfo* amounts to Ch\$1,283.7 million (Ch\$1,499.2 million in 2003), and is included under Loans to state-owned companies.

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million will be covered by the Treasury through future transfers (note 7), which as of 31 December 2004 amounted to Ch\$197,331.0 million, equivalent to UF11.4 million (Ch\$197,626.8 million in 2003, equivalent to UF11.4 million). Based on available information, the maximum transfer amount established by law is deemed adequate to absorb the discounts.

6. *Caja Central de Ahorros y Préstamos y Asociación Nacional de Ahorro y Préstamo*

In accordance with Law 18,900 dated 16 January 1990, *Caja Central de Ahorros y Préstamos* (“CCAP”) and *Asociación Nacional de Ahorro y Préstamo* (“Anap”) ceased to exist and a procedure was established through which the respective equity would be liquidated and used to pay shareholders and obligations of the institutions.

Article 5 of the aforementioned law establishes that the Treasury shall be responsible for any obligations of the CCAP and the Anap that are not covered upon liquidating shareholders’ equity, the funds for which should be requested from the national budget, in conformity with Article 21 of Decree Law 1,263 of 1975.

As of 31 December 2004, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, was Ch\$451,750.4 million, of which Ch\$415,767.2 million relate to direct loans granted by the Bank and Ch\$35,983.2 million to credit lines for international organizations programs (Ch\$430,640.6 in 2003, of which Ch\$396,694.6 relate to direct credits granted by Central Bank of Chile and Ch\$33,946.0 to credit lines for international organizations programs) and is shown under “Loans to other institutions”.

7. Treasury transfers

Treasury transfers, included under Domestic Loans, the following:

	(Millions of Ch\$)	
	2004	2003
Treasury promissory notes Law 18,267	235,672.1	292,110.4
Treasury promissory notes Law 18,768	2,463,178.4	3,295,963.9
Treasury transfers Law 18,401	197,331.0	197,626.8
Total	2,896,181.5	3,785,701.1

a) Treasury promissory notes Law 18,267

In conformity with Law 18,267, the Treasury transferred Ch\$100,000 million to the Bank by issuing 40 Treasury promissory notes over a 25-year term, denominated in UFs with an annual interest rate of 1%, capitalized and amortized on a semiannual basis with a five-year grace period. The last installment matures on 15 December 2008.

b) Treasury promissory notes Law 18,768

This item relates to promissory notes denominated and payable in US dollars, accruing an annual interest rate of Libor plus 0.5 points, of which 2% is payable semiannually and the balance is capitalized. The last installment expires on 15 December 2014. During the present year, the Bank received principal prepayments of US\$488.2 million and interest prepayments of US\$12.1 million. The portion of interest not accrued during the year, US\$11.7 million, is included under Temporary Liabilities within Other Liabilities.

Law 19,986 on public sector budgets for 2005 was published in the Official Gazette on 7 December, 2004. Article 15 of this law states:

“Article 15 - The President of the Republic is authorized to substitute the promissory notes issued by virtue of Article 75 of Law 18,768, through one or more executive decrees from the Ministry of Finance, for other documents or bonds issued by the Treasury, the expiration period of which will be equal to or less than the expiration of debt referred to in Law 18,358. The substitution procedure, interest rate, and other characteristics, conditions and types of those instruments will be determined in the respective decree.

Upon substitution of those promissory notes indicated in the preceding subparagraph or upon assumption of obligations with the purpose of prepaying debt indicated in Law 18,358 and its modifications, interest rate or foreign currency exchange contracts may be entered into for the resulting liabilities. The sum of amounts involved in exchange contracts cannot exceed the total amount of related liabilities”.

c) Transferencia fiscal Ley 18.401

The balance of this account corresponds to discounts of up to UF15 million, as stipulated in Article 13 of Law 18,401, that have been granted to shareholders who are subject to the aforementioned law, as explained in note 5.

Also in conformity with this law, Treasury transfers will be completed in a period not exceeding 30 years, with a 10-year grace period, beginning on the date of final determination of the total amount.

8. Subordinated obligation

The balances as of each year-end represent a subordinated obligation of *Banco de Chile* with the Bank as established in the agreement amending payment terms dated 8 November 1996, in accordance with provisions of Law

19,396. On that date, parent company of *Banco de Chile*, formerly *Banco de Chile*, agreed to transfer the contract to SAOS S.A. (*Sociedad Administradora de la Obligación Subordinada*), based on paragraphs three and five of the aforementioned law. Consequently, the obligation must be paid in 40 annual, consecutive and equal installments beginning in April 1997.

9. 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 31 December is as follows:

Denomination	(Millions of Ch\$)	
	2004	2003
Ch\$ 20,000	451,690.5	393,190.0
Ch\$ 10,000	1,222,620.7	1,125,476.0
Ch\$ 5,000	195,625.2	186,849.7
Ch\$ 2,000	64,569.5	56,643.4
Ch\$ 1,000	91,308.2	88,594.4
Ch\$ 500	5,045.0	5,552.0
Coins	112,512.9	109,363.0
Total	2,143,372.0	1,965,668.5

10. Deposits and loan obligations

Other deposits and loan obligations as of 31 December 2004 and 2003, include the following items:

	(Millions of Ch\$)	
	2004	2003
Foreign currency current accounts	76,983.3	37,490.7
Deposits in foreign currency, Resolutions 1,657 and 1,686	128.5	277.7
Short-term deposits	1,145,239.3	799,832.7
Current accounts in domestic currency	230.7	1,101.7
Total	1,222,581.8	838,702.8

11. Future maturities of instruments issued by the Central Bank of Chile, as of 31 December 2004 and 2003

Type of document	(Millions of Ch\$)						Total 2004	Total 2003
	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)	219,009.7	187,931.7	327,909.1	1,091,692.9	1,327,952.6	3,154,496.0	3,922,862.7	
Central Bank bonds in Chilean pesos (BCP)	41,130.0	7,477.7	496,500.0	824,000.0	550,000.0	1,919,107.7	1,558,029.8	
Central Bank discountable promissory notes (PDBC)	1,635,000.0	-	-	-	-	1,635,000.0	2,067,425.0	
Central Bank bonds in US dollars (BCX)	9,911.4	307,530.9	1,103,900.7	-	-	1,421,343.0	-	
Central Bank bonds expressed in US dollars (BCD)	432,433.6	276,691.1	123,162.6	223,932.0	218,333.7	1,274,553.0	2,182,984.9	
Central Bank bonds in indexed units UF (BCU)	18,653.7	979.1	-	241,131.3	1,006,986.5	1,267,750.6	953,184.0	
Indexed coupons (CERO) in UF	28,369.6	20,865.2	45,026.2	173,165.3	555,189.2	822,615.5	921,900.6	
Central Bank promissory notes indexed in US dollars (PRD)	2,241.5	2,955.2	326,660.8	63,260.8	-	395,118.3	1,143,324.4	
Indexed coupons (CERO) in US dollars	314.5	2,937.7	113,258.7	-	-	116,510.9	382,575.2	
Commercial notes from redenomination of foreign debt securities	-	-	1,381.8	78,633.2	-	80,015.0	90,102.5	
Deposit certificates expressed in US dollars, Resolution 1649	16.2	-	567.5	1,135.1	-	1,718.8	2,505.5	
Exchange differential promissory notes	21.1	-	-	-	-	21.1	21.7	
Promissory notes in US dollars (PCX)	-	-	-	-	-	-	145,176.9	
Coupons in US dollars (XERO)	-	-	-	-	-	-	57,795.9	
Total notes issued	2,387,101.3	807,368.6	2,538,367.4	2,696,950.6	3,658,462.0	12,088,249.9		
Total 2003	2,148,200.8	504,161.3	3,169,603.5	3,245,131.2	4,360,792.3		13,427,889.1	

Balances include interest and adjustments accrued as of 31 December 2004 and 2003.

Transitory liabilities include net discounts granted but not accrued, net of price differences earned but not accrued, generated by notes issued for Ch\$53,640.2 million (Ch\$39,320.8 million in 2003, included in Transitory Assets).

12. Capital and reserves

Changes in capital and reserves during 2004 and 2003 were as follows:

	Capital	(Millions of Ch\$) Results for the year	Total
Balances as of 1 January 2003	257,604.6	619,411.7	877,016.3
Distribution of the 2002 surplus	619,411.7	(619,411.7)	-
Price-level restatement on equity	8,770.2	-	8,770.2
Deficit for the year	-	(1,430,540.3)	(1,430,540.3)
Balances as of 31 December 2003	885,786.5	(1,430,540.3)	(544,753.8)
Balances as of 31 December 2003 restated for comparison purposes	907,931.2	(1,466,303.8)	(558,372.6)
Balances as of 1 January 2004	885,786.5	(1,430,540.3)	(544,753.8)
Distribution of the 2003 deficit	(1,430,540.3)	1,430,540.3	-
Price-level restatement on equity	(13,618.8)	-	(13,618.8)
Deficit for the year	-	(682,491.4)	(682,491.4)
Balances as of 31 December 2004	(558,372.6)	(682,491.4)	(1,240,864.0)

Article 5 of the Basic Constitutional Act of the Central Bank of Chile established start-up capital for the Bank at Ch\$500,000 million (Ch\$1,601,862.1 million restated as of 31 December 2004), to be paid according to Interim Article 2 of Law 18,840.

In accordance with Article 77 of the Basic Constitutional Act of the Central Bank of Chile (Law 18,840), a deficit produced in any year will be absorbed with a charge to constituted reserves.

When there are no reserves or they are insufficient, the deficit produced in any certain period will be absorbed with a charge to paid-in capital.

As of 31 December 2004, the bank has an equity deficit of Ch\$1,240,864.0 million (deficit of Ch\$558,372.6 million in 2003).

The negative variation in equity resulted principally from the effects of exchange rate variations on assets in foreign currency.

13. Monetary base and international reserve asset variations

In conformity with note 2 a) and in consideration of the Bank's unique operations, beginning in 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, further defined as follows:

Monetary Base: Bank liabilities that form part of money, or otherwise contribute to the formation of monetary aggregates including freely circulating banknotes, coins and checks issued by the Bank, plus deposits made by the financial system in the Bank.

International Reserves: Foreign assets that are readily available and controlled by monetary authorities for directly financing payment imbalances, indirectly regulating such imbalances through exchange market intervention and/or for other purposes.

Variations in the monetary base		
	(Millions of Ch\$)	
	2004	2003
Price-level restatement on beginning balance	2,146,777.2	2,053,066.9
Increase of issuance		
Operations with international organizations	-	11,749.4
Domestic loans	324,611.2	404,664.7
Notes issued	1,527,997.6	50,379.6
Interest and indexation paid	490,169.9	762,107.7
Other operating expenses	11,264.6	333.0
Operating support expenses	22,750.9	17,698.5
Total increase	2,376,794.2	1,246,932.9
Decrease of issuance		
Operations with international organizations	(80,272.9)	-
Deposits and obligations	(212,856.3)	(639,620.7)
Interest and indexation received for domestic loans	(86,623.2)	(71,421.6)
Net sales of foreign currencies	(1,762,268.9)	(421,852.9)
Total decrease	(2,142,021.3)	(1,132,895.2)
Change in currency issuance	234,772.9	114,037.7
Effect of price-level restatement on beginning balance of issuance	(52,360.3)	(20,327.4)
Ending balance of issuance	2,329,189.8	2,146,777.2

Variations in assets in international reserves		
	(US\$ million)	
	2004	2003
Beginning reserver balance	15,851.2	15,351.1
Reserver increase		
Domestic loans	0.7	0.7
Other foreign liabilities	-	89.7
Deposits and obligations	479.6	-
Other liabilities	-	0.2
Interest received for deposits and other investment instruments abroad	565.6	685.3
Total increase	1,045.9	775.9
Reserve decrease		
Foreign assets	-	(1.5)
Other foreign assets	-	(209.8)
Deposits and obligations	-	(86.7)
Notes issued	(1,001.4)	-
Other liabilities	(0.5)	-
Interest paid for foreign liabilities	(0.7)	-
Operating support expenses	(6.0)	(5.8)
Net sale of foreign currencies	(2,880.4)	(746.8)
Total decrease	(3,889.0)	(1,050.6)
Exchange and conversion operations that did not generate any flow in foreign currency	2,840.7	-
Change in reserves during the year	(2.4)	(274.7)
Effect of exchange rate	167.2	774.8
Final asset reserve balance	16,016.0	15,851.2

14. Balances in foreign currency

Rights and obligations paid in foreign currency included in the balance sheet as of 31 December 2004 and 2003 are as follows:

	(US\$ million)	
	2004	2003
Assets		
Foreign assets	16,123.8	15,806.5
Reserves	15,874.5	15,560.0
Other foreign assets	249.3	246.5
Domestic assets	4,400.2	5,365.5
Domestic loans	4,400.2	5,365.5
Other assets	12.5	3.2
Total assets	20,536.5	21,175.2
Liabilities		
Foreign liabilities	296.1	281.8
Reserves	15.9	9.1
Other foreign liabilities	90.8	91.7
Special Drawing Rights (SDR) allocations	189.4	181.0
Domestic liabilities	3,274.6	583.8
Deposits and Treasury obligations	282.5	145.3
Other deposits and obligations	450.2	104.2
Notes issues	2,541.9	334.3
Other liabilities	-	0.2
Total liabilities	3,570.7	865.8
Net assets position	16,965.8	20,309.4

15. Contingencies and commitments

Certain lawsuits are currently in process against Central Bank of Chile, according to the law department, the outcomes of these lawsuits will have no material effect on equity.

16. Income taxes

Pursuant to Article 7 of the Decree Law 3,345, dated 1980, the Bank's income is tax exempt.

17. Income from interest, indexation and price differences

Income generated by interest, indexation and price differences, as of 31 December 2004 and 2003, is detailed as follows:

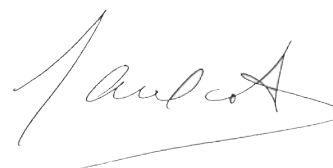
	(Millions of Ch\$)	
	2004	2003
Interest earned and accrued originates from:		
Investments abroad	276,377.9	347,828.4
Treasury transfers		
Laws 18,768 and 18,267	63,910.7	63,955.1
Subordinate obligations	45,611.6	46,483.1
Other institutions	27,038.7	23,231.6
Commercial banks	2,587.8	3,586.4
<i>BancoEstado de Chile</i>	880.7	1,149.3
Reciprocal loan agreements	135.4	61.0
Total	416,542.8	486,294.9
Indexation earned and accrued relate to:		
Subordinated obligation	20,678.5	9,229.3
Treasury transfers		
Laws 18,401 and 18,267	10,611.7	5,829.9
<i>Caja Central de Ahorro y Préstamo</i> and <i>Asociación Nacional de Ahorro y Préstamo</i>	4,514.6	2,049.8
Other	1,291.1	989.8
Total	37,095.9	18,098.8
Income on price differences originated from:		
Central Bank bonds		
in Chilean pesos (BCP)	68,977.5	37,335.4
Central Bank bonds expressed in US dollars (BCD)	27,336.5	29,150.0
Central Bank bonds in UF (BCU)	18,071.7	11,693.3
Central Bank indexed promissory notes (PRC)	12,889.7	18,702.6
Central Bank bonds in US dollars (BCX)	9,134.2	-
Indexed promissory notes in US dollars (PRD)	1,668.2	14,978.9
Redemption to CERO promissory notes in US dollars	59.6	1,706.6
Redemption to CERO promissory notes in UF	-	12,915.7
Total	138,137.4	126,482.5

	(Millones de pesos)	
	2004	2003
Interest paid and accrued from:		
Indexed promissory notes payable in coupons (PRC)	221,445.2	273,933.6
Central Bank bonds in Chilean pesos (BCP)	154,496.7	78,754.4
Central Bank bonds expressed in US dollars (BCD)	91,729.3	85,558.2
Foreign operations	59,749.5	54,291.8
Central Bank bonds in UF (BCU)	53,933.1	30,883.9
Central Bank discountable promissory notes (PDBC)	43,576.3	85,205.1
Indexed promissory notes in US dollars (PRD)	38,889.5	121,183.9
Central Bank bonds in US dollars (BCX)	22,568.0	-
Other notes issued	21,048.9	14,135.3
Reciprocal loan agreements	91.2	71.4
Central Bank indexed promissory notes (PRBC)	-	314.0
Total	707,527.7	744,331.6
Indexation paid and accrued from:		
Indexed promissory notes payable in coupons (PRC)	75,211.0	46,587.4
Central Bank bonds in UF (BCU)	26,593.6	3,830.7
Optional indexed coupons (CERO) in UF	20,276.5	11,744.5
Optional indexed coupons (CERO) in US dollars	5,910.8	(84,420.4)
Other instruments issued	4,282.6	23,893.8
Central Bank bonds expressed in US dollars (BCD)	(67,485.5)	(371,191.1)
Indexed promissory notes in US dollars (PRD)	(12,145.8)	(293,875.5)
Central Bank indexed promissory notes (PRBC)	-	(89.2)
Total	52,643.2	(663,519.8)

	(Millions of Ch\$)	
	2004	2003
Loss due to price differences corresponds to:		
Redemption to CERO promissory notes in UF	39,292.9	70,578.6
Redemption to CERO promissory notes in US dollars	13,208.0	29,118.1
Indexed promissory notes payable in coupons (PRC)	4,407.7	19,058.4
Other	669.2	1,601.6
Indexed promissory notes in US dollars (PRD)	574.9	8,831.2
Total	58,152.7	129,187.9

18. Subsequent events

Between 31 December 2004 and the date of issuance of these financial statements there have been no significant subsequent events that may affect them.



Camilo Carrasco Alfonso
General Manager



César Caro Brown
General Accountant



Mario Ulloa López
General Auditor

Report of Independent Auditors

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

1. We have audited the accompanying balance sheets of Central Bank of Chile (the "Bank") as of 31 December 2004 and 2003, and the related statements of income for the years then ended. These financial statements (including the related notes) are the responsibility of the management of Central Bank of Chile. Our responsibility is to express an opinion on these financial statements based upon our audits.
2. We conducted our audits in accordance with generally accepted auditing standards 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 misstatement. 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. The Bank prepares its financial statements in accordance with accounting policies established by its Board with prior approval from the Chilean Superintendency of Banks and Financial Institutions (Law 18,840). These policies are in accordance with generally accepted accounting principles in Chile, except for the deferral of accounting losses of Ch\$392,876.0 million in 2004 (Ch\$392,876.0 million in 2003), arising from amendments to the subordinated loan obligation payment agreements of certain banks, in accordance with Law 19,396 (See notes 2g) and 8).
4. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Chile as of 31 December 2004 and 2003 and the results of its operations for the years then ended, in conformity with accounting policies described in note 2.
5. As of 31 December 2004, the Bank recorded a deficit in equity of Ch\$1,240,864.0 million (Ch\$558,372.6 million as of 31 December 2003). As in the prior year, the negative variation in equity as of 31 December 2004 is a consequence of the deficit for the year of Ch\$682,491.4 million (Ch\$1,466,303.8 million in 2003), which is mainly due to variations in the observed exchange rate of the United States dollar and in exchange rates of other foreign currencies during 2004 and 2003 that unfavorably affected the foreign currency asset position of the Bank.
6. As explained in note 2 g), during 2004 and 2003, the Bank did not amortize accounting losses generated by the modification of the payment conditions for the subordinated loan obligations given that the Bank had a deficit in both periods.

Rubén López D.

ERNST & YOUNG LTDA.
Santiago, Chile, 14 January 2005