

III. Financial Statements

Balance Sheets as of 31 December 2008 and 2007

(Ch\$ million)

ASSETS	NOTE	2008	2007
Foreign Assets		<u>14,728,435.1</u>	<u>9,265,824.6</u>
Reserve Assets	3	<u>14,571,665.2</u>	<u>9,130,576.8</u>
Monetary gold		3,595.1	2,927.4
Special drawing rights (SDR)		35,961.7	28,840.5
Reserve position in the IMF	4	105,644.5	47,731.5
Foreign currencies	3	14,374,260.9	9,014,567.6
Other assets		52,203.0	36,509.8
Other foreign assets		<u>156,769.9</u>	<u>135,247.8</u>
Shares and contributions to the IDB		115,820.2	99,405.3
Bank for International Settlements (BIS) shares		40,949.7	35,842.5
Domestic assets		<u>2,873,224.7</u>	<u>2,627,515.7</u>
Domestic loans		<u>2,873,224.7</u>	<u>2,627,515.7</u>
Loans to state-owned companies	5	1,065.3	1,125.5
Loans to commercial banks	6	958,275.3	620,651.3
Loans to other institutions	7	679,201.1	645,275.4
General Treasury transfers (Laws 18,267 and 18,401)	8	244,456.0	318,411.9
Loan for subordinated liabilities of financial institutions (Laws 18,041 and 19,396)	9	990,227.0	1,042,051.6
Other assets		<u>665,536.4</u>	<u>20,910.2</u>
Premises and equipment	10	17,043.1	16,578.0
Temporary assets		35,633.4	-
Other securities		4,374.4	4,332.2
Repurchase agreements	11	608,485.5	-
Total Assets		<u>18,267,196.2</u>	<u>11,914,250.5</u>

The accompanying notes 1 to 28 form an integral part of these financial statements.

Balance Sheets as of 31 December 2008 and 2007

(Ch\$ million)

(Continued)

LIABILITES	NOTE	2008	2007
Foreign liabilities		<u>217,440.6</u>	<u>195,219.4</u>
Reciprocal loan agreements		7,444.3	6,875.1
Accounts with international organizations		91,047.4	83,811.5
Special drawing rights (SDR) allocations		118,948.9	104,532.8
Domestic liabilities		<u>16,786,220.0</u>	<u>14,010,121.1</u>
Monetary base		4,229,786.8	3,998,974.9
Banknotes and coins in circulation	12	3,685,750.7	3,610,945.0
Deposits from financial institutions (domestic currency)		544,036.1	355,359.9
Deposits for technical reserves		-	32,670.0
Deposits and liabilities	13	<u>1,903,849.9</u>	<u>1,632,739.2</u>
Deposits and liabilities with the General Treasury		135,513.5	224,717.6
Other deposits and liabilities		1,768,336.4	1,408,021.6
Instruments issued by Central Bank of Chile	14	<u>10,652,583.3</u>	<u>8,378,407.0</u>
Central Bank bonds in UF (BCU)		5,484,696.2	2,783,913.7
Central Bank bonds in pesos (BCP)		2,232,432.5	2,107,345.7
Central Bank discountable promissory notes (PDBC)		1,144,250.0	928,154.7
Indexed promissory notes payable in coupons (PRC)		1,140,524.1	1,620,806.5
Optional Indexed coupons (CERO) in UF		645,572.4	722,348.4
Central Bank bonds expressed in U.S. dollars (BCD)		2,941.7	215,815.0
Central Bank indexed promissory notes (PRBC)		2,145.3	-
Other		21.1	23.0
Other liabilities		<u>645,836.9</u>	<u>79,474.1</u>
Provisions		8,728.7	8,589.3
Other securities		291.6	1,083.5
Temporary liabilities		-	69,801.3
Repurchase agreements	11	<u>636,816.6</u>	-
Capital and reserves	15	<u>617,698.7</u>	<u>(2,370,564.1)</u>
Capital		(1,934,992.9)	(2,062,967.6)
Surplus (deficit) for the year		<u>2,552,691.6</u>	<u>(307,596.5)</u>
Total Liabilities		<u>18,267,196.2</u>	<u>11,914,250.5</u>

The accompanying notes 1 to 28 form an integral part of these financial statements.

Statements of Income years ended as of 31 December 2008 and 2007

(Ch\$ million)

OPERATING RESULTS	NOTE	2008	2007
Operating income		<u>3,849,228.4</u>	<u>1,081,117.9</u>
Interest received and accrued	16	803,764.2	664,491.7
Readjustments received and accrued	17	130,000.0	110,509.8
Income on price differences	18	61,931.0	87,095.2
Exchange earnings	19	2,846,584.3	217,284.2
Other operating income		6,948.9	1,737.0
Operating expenses		<u>(1,450,621.4)</u>	<u>(1,505,350.4)</u>
Interest paid and accrued	20	714,677.6	615,230.0
Indexation paid and accrued	21	546,309.5	319,681.6
Loss due to price differences	22	36,847.7	34,573.7
Exchange losses	19	120,424.4	510,595.4
Other operating expenses		<u>32,362.2</u>	<u>25,269.7</u>
Gross margin		2,398,607.0	(424,232.5)
Other operating expenses		<u>(37,603.4)</u>	<u>(35,456.9)</u>
Personnel expenses		22,925.7	22,329.9
Administrative expenses		11,269.2	10,227.5
Depreciation, amortization and write-offs	10	2,913.4	2,412.4
Taxes and contributions		<u>495.1</u>	<u>487.1</u>
Income before provisions and write-offs		2,361,003.6	(459,689.4)
Provisions and write-offs		-	-
Net margin (total operating results)		2,361,003.6	(459,689.4)
Non-operating results		879.9	664.0
Non-operating income		890.5	769.2
Non-operating expenses		<u>(10.6)</u>	<u>(105.2)</u>
Results before price-level adjustment		2,361,883.5	(459,025.4)
Price-level adjustment		<u>190,808.1</u>	<u>151,428.9</u>
Surplus (Deficit) for the year		<u>2,552,691.6</u>	<u>(307,596.5)</u>

The accompanying notes 1 to 28 form an integral part of these financial statements.

Notes to the Financial Statements as of 31 December 2008 and 2007

Note 1

Description of Business

Central Bank of Chile was established on 21 August 1925, by Decree Law 486. The Bank is an autonomous entity of technical nature, full legal capacity, its own assets and indefinite duration, created in accordance with Articles 108 and 109 of the Political Constitution of Chile and ruled by the Basic Constitutional Act contained in Article One of Law 18,840 and its modifications.

The Bank's objective is to look after the stability of both 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, and financial and international exchange matters. Additionally, the Bank is exclusively empowered to issue banknotes and to mint coins.

Note 2

Summary of Significant Accounting Policies

(a) Basis of preparation of the financial statements

These financial statements have been prepared in conformity with regulations issued by the Board of Central Bank of Chile, upon approval by the Superintendency of Banks and Financial Institutions, as established in Section 75 of the Basic Constitutional Act of the Central Bank of Chile. These policies are consistent with generally accepted accounting principles (Chilean GAAP). Should there be any disagreement, the regulations issued by the Bank's Board shall prevail, as it is the case of the credit resulting from the Sinap Liquidation Account Law 18,900 "Loans to other institutions" and explained in note 7. The Bank's Board has decided to maintain the accounting treatment this asset had at the original accounting date, as it corresponds to operations arising from specific legal clauses.

The presentation of these financial statements 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 creditor position. For this reason the economic concepts of international reserves and currency issuance are shown under the captions Reserve Assets and Liability and Monetary Base, respectively. Therefore, and especially considering the unique operating features of Central Bank of Chile, 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 reserve change (note 23) are disclosed.

For comparative purposes, the 2007 figures have been price-level adjusted based on changes in Chilean consumer price index for the period from 30 November 2007 to 30 November 2008, which was 8.9%.

(b) Foreign currency translation

Assets and liabilities denominated in foreign currency are translated to Chilean pesos at the "observed U.S. dollar" exchange rate pursuant to Section 44 of the Basic Constitucional 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 Chilean minted gold, are valued at the average London morning quotation of the "Gold Fixing" rate (U.S. dollars per fine troy ounce), for all business days in the preceding quarter, less 10%.

Settlement of foreign currencies other than U.S. 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 U.S. dollar" rate.

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

	2008 Ch\$	2007 Ch\$
United States dollar (observed exchange rate)	629.11	495.82
Pound Sterling	913.74	989.46
Euro	889.33	725.73
Special Drawing Rights (SDR)	973.74	782.64

(c) Shares and contributions to the Inter-American Development Bank (IDB) and contributions to the International Monetary Fund (IMF).

Shares issued by and contributions made to the IDB, and to the IMF, on behalf of the Chilean General Treasury, are stated at acquisition or contribution cost plus adjustments, where applicable.

The accounting treatment of the previously mentioned shares and contributions is in conformity with Article 3 of DL 2943 dated 1979, published in *Official Gazette* on 16 November of the same year, according to which such shares and contributions as well as the documents evidencing them, must be recorded for the Bank's accounting purposes as investments with a charge to its own resources.

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

(d) Bank for International Settlements (BIS) shares

During 2003, Board Resolutions 1073-04-030710 and 1084-02-030916, authorized the incorporation of Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September 2003, in accordance with these resolutions, Central Bank of Chile acquired 3,000 shares of the BIS for SDR42.054 million which are valued at acquisition cost and are shown under "Other Foreign Assets". During 2008 dividends were received in the amount of US\$1.3 million (US\$1.2 million in 2007).

(e) Financial investments

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

(f) Loans and liabilities

Loans, investments and liabilities are stated including interest and adjustment accrued as of each year-end.

Non-indexed loans receivable and liabilities are shown at original value or at their latest renewal value. Indexed balances include accrued indexation adjustments as of the balance sheet date, and balances denominated in foreign currency include the related exchange rate adjustments.

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

Interest paid and not accrued from obligations, and interest earned and not accrued from loans is shown as "Temporary Assets" under "Other Assets" or as "Temporary Liabilities" under "Other Liabilities", according to the net balance.

(g) Subordinated loans from financial institutions

Loans related to subordinated liabilities included under "Domestic Assets" (note 9), include adjusted balances as of each year-end and accumulated increases recorded and credited to income on an accrual basis, according to Law 19,396.

(h) Allowances for loan losses and other assets

As of 31 December 2008 and 2007, the Bank has not established any allowance for loan losses and other assets, as it estimates there is no uncollectibility risk. As of 31 December 2008 and 2007, no provisions have been maintained for this concept.

(i) Premises and equipment

Premises and equipment at each year-end are stated at cost plus price-level adjustment, net of accumulated depreciation under "Other Assets" (note 10). Depreciation has been calculated using the straight-line method based on the estimated useful lives of assets.

(j) Severance indemnity

Severance payments have been determined using present value method (accrued cost of the benefit), with an annual interest rate of 6%. The total amount of the provision as of year-end for 2008 is Ch\$7,251.8 million (Ch\$7,210.6 million in 2007).

(k) Employee vacation

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

(l) Price-level restatement

Equity, fixed assets and other assets and liabilities have been adjusted in accordance with the basis of variations in the Chilean Consumer Price Index (CPI) which amounted to 8.9% in 2008 (7.4% in 2007). Revenues and expenses in local currency, except for depreciation and price-level restatement, have not been adjusted. The application of this adjustment resulted in a net charge to income of Ch\$190,808.1 million in 2008 (Ch\$151,428.9 million in 2007).

The effect of variations in the exchange rates for assets and liabilities in foreign currencies and indexation on loans and liabilities is included within the operating results, separate from price-level restatement.

(m) Repurchase agreements

These agreements correspond to foreign currency swaps performed through the sale or purchase of foreign currency with banking companies established in Chile and initially stated at the exchange rate determined at the date of the operation, where both parties agree to re-sell or re-purchase irrevocably, the referred foreign currency at a specific date in the future and at a pre-agreed price established in the agreement. As of 31 December 2008, foreign currency rights are valued at the observed U.S. dollar exchange rate (note 11).

Note 3

Reserve Assets

Reserve assets include international reserves held by the Bank as of 31 December 2008 and 2007, detailed as follows:

	(US\$ million)	
	2008	2007
Monetary gold	5.7	5.4
Special drawing rights (SDR)	57.2	53.4
Reserve position in the IMF	167.9	88.4
Foreign currencies:		
Coins and deposits	5,583.2	7,184.2
Bonds issued by foreign governments, organizations and banks	9,059.7	5,331.8
Euronotes	1,968.9	1,190.9
Commercial papers	-	653.5
Foreign government treasury bills	3,062.0	1,189.1
Discount notes	3,174.7	1,145.8
Other assets:		
Reciprocal loan agreements	<u>83.0</u>	<u>67.6</u>
Total reserve assets	<u>23,162.3</u>	<u>16,910.1</u>

As of 31 December 2008, monetary gold amounted to US\$5.7 million (US\$5.4 million in 2007), equivalent to 7,940 fine gold troy ounces valued at US\$719.77 per ounce (US\$682.85 in 2007). There was no change in the amount of troy ounces compared to 2007.

The US\$6,252.2 million increase as of 31 December 2008 in reserve assets, compared to 2007, is explained mainly by the purchase of currency in the amount of US\$5,750.0 million by Central Bank of Chile in accordance with the Reserve Acquisition Program established by the Bank's Board on 10 April 2008 as well as the specific contribution of US\$730.7 million to the Bank's equity by the General Treasury, under Decree 600 issued by the Ministry of Finance on 25 April 2008.

Foreign currency in reserve assets is detailed as follows:

	(US\$ million)	
	2008	2007
U.S. dollar	14,088.9	10,538.2
Euro	8,767.4	6,212.4
Other currencies	<u>306.0</u>	<u>159.5</u>
Total	<u>23,162.3</u>	<u>16,910.1</u>

Note 4

Reserve Position in the International Monetary Fund (IMF)

The reserve position balance in the IMF is as follows:

	(US\$ million)	
	2008	2007
Subscription installment. contribution	833,617.6	729,652.6
Loan. account No.1	81.5	80.5
Deposits	<u>(728,054.6)</u>	<u>(682,001.6)</u>
Total position in the IMF	<u>105,644.5</u>	<u>47,731.5</u>

Note 5

Accounts Receivable from *Corporación de Fomento de la Producción (Corfo)*

Balances receivable from Corfo, in accordance with Law 18,401 dated 1985 and its modifications, and Law 18,577 dated 1986, relate to loans granted to financial institutions that were sold by 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 2008, accounts receivable from Corfo amount to Ch\$1,065.3 million (Ch\$1,061.1 million in 2007), 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 General Treasury through future transfers (note 8(b)) which as of 31 December 2008, amount to Ch\$244,456.0 million, equivalent to UF11.4 million (\$243,504.6 million in 2007, equivalent to UF11.4 million). Based on the available information, the maximum transfer amount established by law is deemed adequate to absorb the discounts.

In conformity with this law, General 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. To date, the amounts corresponding to *Banco Internacional* (UF697,630.81) and former *Banco Concepción* (UF4,435,114.95) have been determined and reviewed by external auditors appointed by the Superintendency of Banks and Financial Institutions and the amounts corresponding to former *Banco de Santiago* (UF2,267,715.40) and *Banco de Chile* (UF3,994,724.75) are under the final review process. The prior report to the Superintendency of Banks and Financial Institutions shall be requested during the first quarter of 2009. This legal requirement is necessary to define such transfer.

Note 6

Loans to Commercial Banks

Loans to commercial banks mainly include the following operations:

	(Ch\$ million)	
	2008	2007
Credit line on debt restructuring	4,267.1	6,459.3
Central Bank promissory notes acquired under repurchase agreement	<u>954,008.2</u>	<u>614,192.0</u>
Total	<u>958,275.3</u>	<u>620,651.3</u>

Note 7

Caja Central de Ahorros y Préstamos and *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 the obligations of the institutions.

Article 3 of the law establishes that *Caja Central de Ahorros y Préstamos* shall cease its operations and shall justify them, whether it has settled the liquidations required by the law or not, and shall include an inventory of all its rights, obligations and equity and those of the *Asociación de Ahorro y Préstamo*. This account will be submitted to the review of the President of the Republic through the Ministry of Finance. This article also stipulates the President of the Republic will approve such account through executive decree issued by the Ministry of Finance published in the *Official Gazette*.

Article 5 of the aforementioned law establishes that the General 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 1263 of 1975.

This loan arises from the closing of business on the day before the Bank's Basic Constitutional Act was enforced, as established in the transitory Article 2 of the law. Consequently, such operations are the opening capital of Central Bank of Chile referred to in Article 5 of such law. The Board has determined to continue the treatment this asset had at the date of its initial recognition, as these operations arise from legal specific provisions.

As of 31 December 2008, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, was Ch\$679,201.1 million (this amount includes interest accrued for Ch\$414,417.6 million to that date), of which Ch\$624,456.4 million relate to direct loans granted by the Bank and Ch\$54,744.7 million with credit lines for international organizations programs (Ch\$645,275.4 million in 2007, of which Ch\$592,888.4 million relate to direct credits granted by Central Bank of Chile and Ch\$52,387.0 million to credit lines for international organizations programs) and is shown under "Loans to other institutions".

The recovery of such amounts depends on the approval established in the Law and the determination of a specific date for the payment of that loan, from the General Treasury in favor of the Bank which is the reason why a specific date and other conditions under which the General Treasury collateral shall be enforced cannot be determined.

Note 8

General Treasury Transfers

"General Treasury transfers", included within Domestic Loans, are the following:

	(Ch\$ million)	
	2008	2007
General Treasury promissory notes Law 18,267	-	74.907,3
General Treasury transfer Law 18,401	<u>244.456,0</u>	<u>243.504,6</u>
Total	244.456,0	318.411,9

a) General Treasury promissory notes Law 18,267

In conformity with Law 18,267, the General Treasury transferred Ch\$ 100,000 million to the Bank by issuing 40 General Treasury promissory notes over a 25-year term, denominated in UF with an annual interest rate of 1%, capitalized and amortized on a semiannual basis with a five-year grace period. As of 31 December 2008, these promissory notes were fully amortized.

b) General Treasury transfer Law 18,401

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

Note 9

Loan for Subordinated Liability

The balances as of each year-end represent a subordinated liability of *Banco de Chile* with Central Bank of Chile as established in the agreement amending payment terms dated 8 November 1996, in accordance with the provisions of Law 19,396. On that date, the parent company *Sociedad Matriz del Banco de Chile*, previously referred to as *Banco de Chile*, agreed to transfer the liability to SAOS S.A. (*Sociedad Administradora de la Obligación Subordinada*), based on paragraphs three and five of the aforementioned law. Consequently, the liability must be paid in 40 annual, consecutive and equal installments beginning in April 1997.

During 2008, *Sociedad Administradora de la Obligación Subordinada* SAOS S.A. paid UF4,909,338.5553 to Central Bank of Chile, of which UF2,320,178.0464 were allocated to the payment of interests of the debt and UF2,589,160.5089 to the credit amortization for subordinated liability (in 2007 UF4,478,870.6697 of which UF2,481,528.8982 corresponded to interest and UF1,997,341.7715 to amortization).

Likewise, an extraordinary payment of Ch\$1,373,921,952 (equivalent to UF72,056.2234) was received as of 14 September 2007, in conformity with Article 30 of Law 19,396, for the concept of disposal price of options for the subscription of payment shares corresponding to the capital increase of *Banco de Chile* agreed in May 2007, which were sold to shareholders during the special preference share offer under the terms specified in such clause. Such extraordinary payment was allocated to the payment of the annual final installment whose maturity was on 30 April 2008. As of 31 December 2008, the balance amounts to Ch\$990,227.0 million (Ch\$1,042,051.6 million in 2007).

Note 10

Premises and Equipment

The depreciation charge to net income for the year amounted to Ch\$2,913.4 million (Ch\$2,412.4 million in 2007).

	(Ch\$ million)	
	2008	2007
Real estate and facilities	7,919.3	8,431.6
Furniture and equipment	4,983.6	4,309.8
Other fixed assets	<u>4,140.2</u>	<u>3,836.6</u>
Total	<u>17,043.1</u>	<u>16,578.0</u>

Note 11

Foreign Currency Repurchase Agreement

As of 31 December 2008, Central Bank of Chile maintains the right to repurchase US\$967.2 million, as it has been established in Chapter IV D 1.2 of the *Compendium of Financial Regulations*, equivalent to Ch\$608,485.5 million. The obligation of Ch\$636,816,6 million arising from these operations is shown in liabilities. The above mentioned values are shown under "Repurchase agreements", in assets as well as in liabilities.

Note 12

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 of each year is as follows:

Denomination	(Ch\$ million)	
	2008	2007
\$ 20,000	902,824.8	841,779.4
\$ 10,000	2,084,265.4	2,079,026.3
\$ 5,000	302,702.8	303,771.9
\$ 2,000	89,347.8	90,931.9
\$ 1,000	122,826.0	121,977.5
\$ 500	4,785.6	5,238.4
Currency	<u>178,998.3</u>	<u>168,219.6</u>
Total	<u>3,685,750.7</u>	<u>3,610,945.0</u>

Note 13

Deposits and Liabilities

a) "Deposits and liabilities with the General Treasury" include:

	(Ch\$ million)	
	2008	2007
General Treasury current accounts	67,191.8	171,243.3
Other	<u>68,321.7</u>	<u>53,474.3</u>
Total	<u>135,513.5</u>	<u>224,717.6</u>

b) "Other deposits and liabilities" include:

	(Ch\$ million)	
	2008	2007
Liquidity deposits of financial institutions	1,168,759.7	1,143,466.8
Current accounts in foreign currency	231,208.7	126,359.4
Short-term deposits from banking companies	350,414.3	123,708.4
Other	17,953.7	14,487.0
Total	<u>1,768,336.4</u>	<u>1,408,021.6</u>

Note 14

Instruments Issued by Central Bank of Chile

Maturities of these instruments as of 31 December 2008 and 2007 are as follows:

	(Ch\$ million)						Total	Total
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	2008	2007	
Central Bank bonds in indexed units UF (BCU)	51,712.7	14,278.9	257,430.8	1,155,649.9	4,005,623.9	5,484,696.2	2,783,913.7	
Central Bank bonds in Chilean pesos (BCP)	207,510.0	5,222.5	423,000.0	679,450.0	917,250.0	2,232,432.5	2,107,345.7	
Central Bank discountable promissory notes (PDBC)	751,250.0	293,000.0	100,000.0	-	-	1,144,250.0	928,154.7	
Indexed promissory notes payable in coupons (PRC)	114,757.5	97,682.5	166,899.4	365,246.8	395,937.9	1,140,524.1	1,620,806.5	
Indexed coupons (CERO) in UF	14,192.9	12,466.5	27,461.6	235,889.9	355,561.5	645,572.4	722,348.4	
Central Bank bonds expressed in U.S. dollars (BCD)	47.8	-	2,893.9	-	-	2,941.7	215,815.0	
Central Bank indexed promissory notes (PRBC)	2,145.3	-	-	-	-	2,145.3	-	
Other	21.1	-	-	-	-	21.1	23.0	
Total as of 31 December 2008	1,141,637.3	422,650.4	977,685.7	2,436,236.6	5,674,373.3	10,652,583.3	-	
Total as of 31 December 2007	1,593,844.0	402,927.9	941,739.2	2,018,995.8	3,420,900.1	-	8,378,407.0	

Balances include interest and adjustments accrued as of 31 December 2008 and 2007.

The increase as of 31 December 2008, of these liabilities for Ch\$2,274,176.3 million, compared to 2007, is explained mainly by the necessity to neutralize the monetary expansion due to the purchase of currency for US\$5,750.0 million by Central Bank of Chile between 14 April and 29 September 2008, under the Program for Reserves Acquisition established by the Bank's Board.

"Temporary assets" include net discounts granted but not accrued, net of price differences received but not accrued, generated by securities issued for Ch\$35,633.4 million ("Temporary liabilities" for Ch\$69,801.3 million in 2007).

Note 15

Capital and Reserves

Changes in capital and reserves during 2008 and 2007 were as follows:

	Capital	(Ch\$ million) Results for the year	Total
Balances as of 1 January 2007	(2,152,068.4)	8,376.5	(2,143,691.9)
Distribution of 2006 surplus	8,376.5	(8,376.5)	-
General Treasury contribution 2nd installment	386,688.5	-	386,688.5
Price-level restatement on equity	(158,633.2)	-	(158,633.2)
Price-level restatement of General Treasury contribution	21,267.8	-	21,267.8
Deficit for the year	-	(282,457.7)	(282,457.7)
Balances as of 31 December 2007	(1,894,368.8)	(282,457.7)	(2,176,826.5)
Balances as of 31 December 2007 adjusted for comparison purposes	(2,062,967.6)	(307,596.5)	(2,370,564.1)
Balances as of 1 January 2008	(1,894,368.8)	(282,457.7)	(2,176,826.5)
Distribution of the 2007 deficit	(282,457.7)	282,457.7	-
General Treasury contribution 3rd installment	428,199.1	-	428,199.1
Price-level restatement on equity	(193,737.5)	-	(193,737.5)
Price-level restatement of General Treasury contribution	7,372.0	-	7,372.0
Surplus for the year	-	2,552,691.6	2,552,691.6
Balances as of 31 December 2008	(1,934,992.9)	2,552,691.6	617,698.7

Section 5 of the Basic Constitutional Act of Central Bank of Chile established a start-up capital for the Bank at Ch\$500,000 million (Ch\$1,981,722.2 million adjusted as of 31 December 2008), to be paid according to Transitory Article 2 of Law 18,840.

In accordance with Section 77 of the Basic Constitutional Act of the Central Bank of Chile, the 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.

At 31 December 2008, the bank has net assets amounting to Ch\$617,698.7 million (at 31 December 2007 there was a deficit of Ch\$2,370,564.1 million) mainly as a consequence of US\$5,750 million by way of the Foreign Exchange Acquisition Program and by US\$730.7 million in Treasury capital contributions.

Article 11 of Law 20,128 published in the Official Gazette as of 30 September 2006, stated that the General Treasury may make capital contributions to Central Bank of Chile through the Ministry of Finance, under the conditions established in such law.

In conformity with the Executive Decree 600 of the Ministry of Finance, dated 25 April 2008 (and the Executive Decree 698 of the Ministry of Finance, dated 28 May 2007, published in the *Official Gazette* on 22 June 2007), the General Treasury made a contribution to the Bank equity which amounted to Ch\$428,199.1 million (Ch\$421,103.8 million in 2007), equivalent to U.S. dollars for

the amount of US\$730.7 million (US\$736.0 million in 2007), which became part of Central Bank of Chile international reserves.

The amount of the contribution made by the General Treasury in 2008, adjusted as of 31 December 2008, amounted to Ch\$435,571.1 million (Ch\$444,264.4 million in 2007).

Note 16

Interest Received and Accrued

Interest received and accrued as of 31 December 2008 and 2007, is as follows:

	(Ch\$ million)	
	2008	2007
Investments abroad	672,099.5	483,752.0
Other institutions	64,666.4	53,987.0
Subordinated liability	48,934.8	50,887.7
Commercial banks	15,847.7	22,842.1
Reciprocal loan agreements	1,706.0	1,734.2
General Treasury transfers Law 18,267	509.8	51,288.7
Total	803,764.2	664,491.7

Note 17

Indexation Received and Accrued

Indexation received and accrued as of 31 December 2008 and 2007, is as follows:

	(Ch\$ million)	
	2008	2007
Subordinated liability	82,540.4	66,316.3
General Treasury transfers Laws 18,401 and 18,267	24,953.8	23,558.5
<i>Caja Central y Asociación Nacional de Ahorro y Préstamo</i>	20,806.6	15,927.0
Other	1,699.2	4,708.0
Total	130,000.0	110,509.8

Note 18

Income from Price Differences

Income from price differences as of 31 December 2008 and 2007, is as follows:

	(Ch\$ million)	
	2008	2007
Central Bank bonds in UF (BCU)	32,639.7	40,588.1
Central Bank bonds in Chilean pesos (BCP)	22,721.8	36,429.0
Central Bank indexed promissory notes (PRC)	6,566.9	8,673.5
Central Bank bonds in U.S. dollars (BCD)	<u>2.6</u>	<u>1,404.6</u>
Total	<u>61,931.0</u>	<u>87,095.2</u>

Note 19

Net Gain (Loss) on Foreign Exchange Transactions

Net gain (loss) on foreign exchange transactions as of each year-end are as follows:

	(Ch\$ million)	
	2008	2007
Gain on foreign exchange transactions	2,846,584.3	217,284.2
Loss on foreign exchange transactions	(120,424.4)	(510,595.4)
Net gain (loss) on foreign exchange transactions	<u>2,726,159.9</u>	<u>(293,311.2)</u>

Net gain (loss) on foreign exchange transactions as of each year-end, result mainly from the effect of exchange rate differences in foreign currency assets, as follows:

	(Ch\$ million)	
	2008	2007
U.S. dollar	1,762,566.5	(385,265.8)
Euro	931,593.4	93,033.6
SDR IMF	<u>28,460.8</u>	<u>(3,523.1)</u>
Pound Sterling	2,157.9	1,620.1
Other currency	<u>1,068.8</u>	<u>2,494.6</u>
Subtotal net gain (loss) on foreign exchange transactions	2,725,847.4	(291,640.6)
Arbitrage and other	312.5	(1,670.6)
Total net gain (loss) on foreign exchange transactions	2,726,159.9	(293,311.2)

Note 20

Interest Paid and Accrued

Interest paid and accrued as of each year-end is as follows:

	(Ch\$ million)	
	2008	2007
Central Bank bonds in pesos (BCP)	145,990.0	155,073.7
Central Bank bonds in UF (BCU)	150,354.3	121,119.7
Foreign operations	149,249.2	33,120.4
Other notes issued	97,343.4	100,876.3
Central Bank discountable promissory notes (PDBC)	87,759.7	69,373.8
Indexed promissory notes payable in coupons (PRC)	83,730.2	116,848.5
Reciprocal loan agreements	176.8	246.4
Central Bank bonds expressed in U.S. dollars (BCD)	<u>74.0</u>	<u>18,571.2</u>
Total	<u>714,677.6</u>	<u>615,230.0</u>

Note 21

Indexation Paid and Accrued

Indexation paid and accrued as of each year-end is as follows:

	(Ch\$ million)	
	2008	2007
Central Bank bonds in UF (BCU)	349,311.3	174,411.7
Indexed promissory notes payable in coupons (PRC)	110,462.3	115,638.5
Optional indexed coupons (CERO) in UF	58,019.0	49,869.2
Other notes	27,782.1	1,030.3
Central Bank bonds expressed in U.S. dollars (BCD)	<u>734.8</u>	<u>(21,268.1)</u>
Total	<u>546,309.5</u>	<u>319,681.6</u>

Note 22

Loss from Price Differences

Loss from price differences as of each year-end is as follows:

	(Ch\$ million)	
	2008	2007
Redemption to CERO promissory notes in UF	27,038.8	32,117.0
Central Bank bonds in pesos	5,282.1	-
Central Bank bonds in UF	3,124.1	-
Indexed promissory notes payable in coupons (PRC)	<u>1,369.3</u>	<u>2,040.1</u>
Other	<u>33.4</u>	<u>416.6</u>
Total	<u>36,847.7</u>	<u>34,573.7</u>

Note 23

Monetary Base and International Reserve Asset Change

According to note 2 a) and in consideration of the Bank's unique operations, beginning in 2001, instead of a statement of cash flows, the Bank discloses a statement of variations 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 Central Bank of Chile.

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

Variations in the monetary base		
	(Ch\$ million)	
	2008	2007
Opening balance monetary base	3,998,974.9	3,983,155.2
Increase		
Foreign exchange operations	2,854,447.6	6,250.3
Interest and indexation paid	769,370.8	1,318,725.6
Domestic loans	353,976.9	-
Operating support expenses	29,411.4	28,703.6
Operations with international organizations	2,259.2	1,617.2
Other liabilities	38.3	-
Other assets	-	3,818.8
Securities issued	-	<u>1,109,204.5</u>
Total increase	<u>4,009,504.2</u>	<u>2,468,320.0</u>
Decrease		
Other assets	(2,999.8)	-
Deposits and liabilities	(121,095.6)	(865,950.0)
Interest and indexation received for domestic operations	(174,658.8)	(897,799.8)
U.S. dollar sale with repurchase agreement	(618,261.6)	-
Securities issued	(2,534,854.9)	-
Domestic loans	-	(105,968.1)
Foreign currency forward sales receivables	-	(308,312.0)
Other liabilities	-	<u>(25.8)</u>
Total decrease	<u>(3,451,870.7)</u>	<u>(2,178,055.7)</u>
Variation in monetary base for the year	557,633.5	290,264.3
Effect of price-level restatement on opening balance of monetary base	<u>(326,821.6)</u>	<u>(274,444.6)</u>
Ending balance	<u>4,229,786.8</u>	<u>3,998,974.9</u>

Variations in international reserve assets		
	(US\$ million)	
	2008	2007
Opening balance reserves	16,910.1	19,428.9
Increase		
Foreign exchange operations	5,830.5	11.2
Domestic loans	-	1,048.0
Capitalization of General Treasury contribution	730.7	735.9
Deposits and liabilities	252.1	-
Interests received for deposits and other investment instruments abroad	<u>1,015.2</u>	<u>1,038.5</u>
Total increase	<u>7,828.5</u>	<u>2,833.6</u>
Decrease		
Securities issued	-	(1.0)
Foreign currency forward sales receivables	-	(529.6)
U.S. dollar sale with repurchase agreement	(969.9)	-
Deposits and liabilities	-	(5,223.3)
Other liabilities	-	(0.2)
Other assets	-	(0.1)
Interest paid for foreign liabilities	<u>(18.0)</u>	<u>(172.3)</u>
Total decreases	<u>(987.9)</u>	<u>(5,926.5)</u>
Variation in reserves for the year	6,840.6	(3,092.9)
Effect of exchange rate	<u>(588.4)</u>	<u>574.1</u>
Ending balance	<u>23,162.3</u>	<u>16,910.1</u>

Note 24

Foreign Currency Balances

The balance sheets include assets and liabilities payable in foreign currencies, which balances as of 31 December 2008 and 2007 are as follows:

	(US\$ million)	
	2008	2007
Assets		
Foreign assets	<u>23,546.5</u>	<u>17,381.1</u>
Reserves	23,297.3	17,130.6
Other foreign assets	249.2	250.5
Domestic assets	-	-
Domestic loans	-	-
Other assets	<u>970.1</u>	<u>2.9</u>
Total assets	<u>24,516.6</u>	<u>17,384.0</u>
Liabilities		
Foreign liabilities	<u>290.9</u>	<u>296.3</u>
Other foreign liabilities	101.8	102.7
Special drawing rights (SDR) allocations	189.1	193.6
Domestic liabilities	<u>1,055.2</u>	<u>793.5</u>
Deposits and General Treasury liabilities	128.3	318.5
Other deposits and liabilities	926.9	475.0
Securities issued	-	-
Total liabilities	<u>1,346.1</u>	<u>1,089.8</u>
Net assets	<u>23,170.5</u>	<u>16,294.2</u>

Note 25

Contingencies and Commitments

There are lawsuits currently in process against Central Bank of Chile, whose outcomes according to the Bank's legal department are not expected to have a material effect on equity.

Note 26

Income Tax

Pursuant to Article 7 of Decree Law 3345 dated 1980, the Bank's income is tax exempt.

Note 27

Fiscal Agency

Law 20,128 related to General Treasury Liability published in the *Official Gazette* as of 30 September 2006, created the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP)". In conformity with the provisions of the aforementioned law, the Minister of Finance through Executive Decree 1383, dated 11 December 2006, appointed Central Bank of Chile as Fiscal Agent, for the administration of resources referred to such Funds, in conformity with the procedures, conditions, methods and other standards established in the aforementioned Executive Decree.

In accordance with Article 5 of the abovementioned Executive Decree 1383, investments of public resources managed by the Bank, as Fiscal Agent, have been carried out in accordance with the guidelines established for these effects by the Minister of Finance. These investments have been recorded in off balance sheet accounts.

Through Resolution 1406 of the Board, dated 24 April 2008, *KPMG Auditores y Consultores Ltda.* company was assigned as the auditor of the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP) for 2008.

In addition, through Resolution 1341 of the Board, dated 28 June 2007, *Ernst & Young Ltda.* company was assigned as the auditor of the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP) for 2007.

Note 28

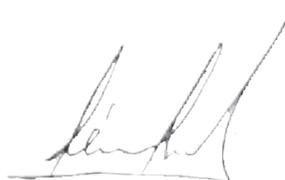
Subsequent Events

Pursuant to Resolution 1456 dated 15 January 2009 the Board approved new policies for the presentation and preparation of the financial statements of Central Bank of Chile, upon approval of the Superintendency of Banks and Financial Institutions as established in Section 75 of the Bank's Basic Constitutional Act. The new policies from 2009, are intended to comply with the requirements established by the international reporting standards as applicable to Central Bank of Chile, as well as comply with the guidelines prepared by the technical organizations in Chile and the Board own policies.



ALEJANDRO ZURBUCHEN SILVA

General Manager



CÉSAR CARO BROWN

General Accountant



SILVIA QUINTARD FLEHAN

General Auditor

Independent Auditors' Report

The Governor and Board Members

Central Bank of Chile:

1. We have audited the accompanying balance sheet of Central Bank of Chile "the Bank" as of 31 December 2008 and the related statement of income for the year then ended. The preparation of these financial statements (including their notes) is 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 31 December 2007, were audited by other auditors, whose report thereon dated 17 January 2008 expressed an unqualified opinion on those statements.

2. We conducted our audit in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform an 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 the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As discussed in note 2 to the financial statements, the Bank prepares its financial statements in accordance with standards issued by the Board, upon approval by the Chilean Superintendency of Banks and Financial Institutions, as established in Section 75 of the Bank's Basic Constitutional Act. These standards are consistent with accounting principles generally accepted in Chile. Should there be any disagreement, the standards issued by the Board of the Bank shall prevail, as it is the case of the credit resulting from the Sinap Liquidation Account Law 18,900 dated 16 January 1990, which is stated within the caption "Loans to other institutions" and explained in note 7 to the financial statements. The Board of the Bank has decided to maintain the accounting treatment this asset had at the original accounting date, as it corresponds to operations arising from specific legal clauses.

4. In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Chile as of 31 December 2008 and the results of its operations for the year then ended, in conformity with the accounting principles described in note 2 to the financial statements.

5. In accordance with Article 11 of Law 20,128, during 2008 the General Treasury through the Ministry of Finance, made a specific capital contribution to Central Bank of Chile which amounted to Ch\$435,571.1 million (Ch\$444,264.4 million in 2007), in accordance with the Fiscal Responsibility Law.

6. As discussed in note 15 to the financial statements, as of 31 December 2008 Central Bank of Chile records equity in the amount of Ch\$617,698.7 million (equity deficit of Ch\$2,370,564.1 million as of 31 December 2007), which is explained by gains resulting from variations in the exchange rates of assets in foreign currency, which increased by US\$5,750.0 million through the Reserve Acquisition Program and the capital contributions of US\$730.7 million made by the General Treasury.

7. As discussed in note 28 to the financial statements, in accordance with Resolution 1456 dated 15 January 2009, the Board approved new policies for the presentation and preparation of the Bank's financial statements, which also have been approved by the Superintendency of Banks and Financial Institutions pursuant to Section 75 of the Bank's Basic Constitutional Act. The purpose of these new policies is for the financial statements from 2009 to comply with the requirements established by international financial reporting standards as applicable to the Bank, as well as the guidelines prepared by the technical organizations in Chile and the Board own policies.

8. The above translation of the auditors' report is provided as a free translation from the Spanish language original, which is the official and binding version. Such translation has been made solely for the convenience of readers outside of Chile.

Alejandro Cerda G.
Santiago, 22 January 2009

KPMG Ltda.