

III. Financial Statements of Central Bank of Chile

Balance Sheets as of 31 December 2007 and 2006

(Ch\$ million)

ASSETS	Note	2007	2006
Foreign assets		<u>8,508,562.6</u>	<u>11,293,851.1</u>
Reserve assets	3	<u>8,384,368.1</u>	<u>11,151,783.3</u>
Monetary gold		2,688.2	2,479.3
Special drawing rights (SDR)		26,483.5	31,346.2
Reserve position in the IMF	4	43,830.6	64,981.5
Foreign currencies	3	8,277,839.8	11,034,682.3
Other assets		33,526.0	18,294.0
Other foreign assets		<u>124,194.5</u>	<u>142,067.8</u>
Shares and contributions to the IDB		91,281.3	105,754.3
Bank for International Settlements (BIS) shares		32,913.2	36,313.5
Domestic assets		<u>2,412,778.4</u>	<u>3,236,066.7</u>
Domestic loans		<u>2,412,778.4</u>	<u>3,236,066.7</u>
Loans to state-owned companies	5	1,033.5	1,323.2
Loans to <i>Banco del Estado de Chile</i>		-	120,436.6
Loans to commercial banks	6	569,927.7	592,957.6
Loans to other institutions	7	592,539.4	566,448.0
Treasury transfers (Laws 18,267, 18,401 and 18,768)	8	292,389.3	952,741.6
Loans for subordinated obligations of financial institutions (Laws 18,401 and 19,396)	9	956,888.5	1,002,159.7
Other assets		<u>19,123.1</u>	<u>322,818.4</u>
Bank premises and equipment, net	10	15,223.1	14,987.1
Other securities		3,900.0	3,747.6
United States dollars purchased with resell agreement		-	304,083.7
Total Assets		<u>10,940,464.1</u>	<u>14,852,736.2</u>

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



Balance Sheets as of 31 December 2007 and 2006

(Ch\$ million)

(From previous page)

LIABILITIES	Note	2007	2006
Foreign liabilities		<u>179,264.8</u>	<u>202,329.1</u>
Reciprocal loan agreements		6,313.2	7,819.8
Loans		-	93.4
Accounts with international organizations		76,961.9	88,423.2
Special drawing rights (SDR) allocations		95,989.7	105,992.7
Domestic liabilities		<u>12,865,125.0</u>	<u>16,569,622.3</u>
Monetary base		<u>3,672,153.3</u>	<u>3,657,626.4</u>
Banknotes and coins in circulation	11	3,315,835.6	3,031,980.5
Deposits from financial institutions (domestic currency)		326,317.7	194,971.9
Deposits for technical reserves		30,000.0	430,674.0
Deposits and obligations	12	<u>1,499,301.4</u>	<u>3,744,931.6</u>
Deposits and obligations with the Treasury		206,352.3	1,146,848.9
Other deposits and obligations		1,292,949.1	2,598,082.7
Instruments issued by Central Bank of Chile	13	<u>7,693,670.3</u>	<u>9,167,064.3</u>
Central Bank bonds in UF (BCU)		2,556,394.6	2,099,836.1
Central Bank bonds in Chilean pesos (BCP)		1,935,120.0	1,918,403.0
Indexed promissory notes payable in coupons (PRC)		1,488,343.9	2,055,701.3
Central Bank discountable promissory notes (PDBC)		852,300.0	1,853,187.0
Indexed coupons (CERO) in UF		663,313.5	776,513.3
Central Bank bonds expressed in US dollars (BCD)		198,177.2	462,802.3
Other		21.1	621.3
Other liabilities		<u>72,900.8</u>	<u>383,109.9</u>
Provisions		7,887.3	7,643.4
Other securities		995.0	201.6
Temporary liabilities		64,018.5	71,221.0
Creditors on foreign currency purchased with resale agreements		-	304,043.9
Capital and reserves	14	<u>(2,176,826.5)</u>	<u>(2,302,325.1)</u>
Capital		(1,894,368.8)	(2,311,321.5)
Surplus (deficit) for the year		(282,457.7)	8,996.4
Total Liabilities		<u>10,940,464.1</u>	<u>14,852,736.2</u>

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

Statements of Income for the years ended as of 31 December 2007 and 2006

(Ch\$ million)

OPERATING RESULTS	Note	2007	2006
Operating income		<u>992,762.1</u>	<u>1,403,345.4</u>
Interest received and accrued	15	610,185.2	596,280.4
Readjustments received and accrued	16	101,478.2	32,274.9
Income on price differences	17	79,977.2	89,105.6
Exchange earnings	18	199,526.4	684,877.1
Other operating income		1,595.1	807.4
Operating expenses		<u>(1,382,323.6)</u>	<u>(984,605.1)</u>
Interest paid and accrued	19	564,949.5	680,626.0
Indexation paid and accrued	20	293,555.2	127,822.4
Loss due to price differences	21	31,748.1	37,722.5
Exchange losses	18	468,866.3	118,151.9
Other operating expenses		<u>23,204.5</u>	<u>20,282.3</u>
Gross margin		<u>(389,561.5)</u>	<u>418,740.3</u>
Other operating expenses		<u>(32,559.1)</u>	<u>(29,387.6)</u>
Personnel expenses		20,505.0	19,375.6
Administrative expenses		9,391.6	7,985.9
Depreciation, amortization and write-offs	10	2,215.2	1,530.3
Taxes and contributions		<u>447.3</u>	<u>495.8</u>
Income before provisions and write-offs		<u>(422,120.6)</u>	<u>389,352.7</u>
Provisions and write-offs		-	<u>(446,331.7)</u>
Net margin (total operating results)		<u>(422,120.6)</u>	<u>(56,979.0)</u>
Non-operating results		<u>609.7</u>	<u>(549.4)</u>
Non-operating income		706.3	651.4
Non-operating expenses		<u>(96.6)</u>	<u>(1,200.8)</u>
Results before price-level restatement		<u>(421,510.9)</u>	<u>(57,528.4)</u>
Price-level restatement		<u>139,053.2</u>	<u>66,524.8</u>
Surplus (deficit) for the year		<u>(282,457.7)</u>	<u>8,996.4</u>

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

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2007 AND 2006

Note 1 Description of business

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

The Bank's objective is to ensure stability of both the currency and the normal operations 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, as well as, dictating regulations on monetary, credit, financial and foreign 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

The financial statements have been prepared in conformity with 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 Section 75 of the Basic Constitutional Act of the Central Bank of Chile and generally accepted accounting principles in Chile ("Chilean GAAP"). Should there be any discrepancies, the regulations dictated by the Board of the Central Bank of Chile shall prevail.

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 monetary base are shown under the captions Reserve Assets and Liabilities and Monetary Base, 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 reserve change (note 22) are disclosed.

For comparative purposes, the 2006 figures have been restated according to changes in the Chilean consumer price index for the period between 30 November 2006 and 30 November 2007, amounting to 7.4%.

b) Assets and liabilities in foreign currency

Assets and liabilities denominated in foreign currency are translated to Chilean pesos at the "observed US dollar" exchange rate pursuant to Section 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 expressed in Chilean sealed gold pesos 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 prior 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 principal exchange rates used as of each year-end are as follows:

	2007	2006
	Ch\$	Ch\$
United States dollar (Observed exchange rate)	495.82	534.43
Pound sterling	989.46	1,049.34
Euro	725.73	703.38
Special drawing rights (SDR)	782.64	804.00

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 to the IMF, on behalf of the Chilean General Treasury, are valued at acquisition or contribution cost plus restatements, where applicable.

The accounting treatment of the previously mentioned shares and contributions is in conformity with Article 3 of Decree Law 2943 dated 1979, published in the *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 "Reserve Assets".

d) Bank for International Settlements (BIS) shares

During 2003, Board resolutions 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". During 2007, the Bank received a dividend for US\$1.2 million (US\$1.1 million in 2006).

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 foreign governments, institutions and banks, which are valued at the lower of cost or market value.

f) Loans and obligations

Non-adjustable loans receivable and obligations are stated at their original value or the value of the last renewal. 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 as of year-end on transactions with foreign residents are included under "Other Foreign Assets" and "Other Foreign Liabilities" and those related to operations with residents in Chile are included in Domestic assets and Domestic liabilities, respectively.

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

g) Subordinated obligations of financial institutions

In accordance with Law 19.396, loans for subordinate obligations included under "Domestic assets" (note 9) include restated balances as of each year-end and accumulated increases recorded and credited to income on an accrual basis.

During 2006, the Bank provisioned Ch\$446,318.9 million, which was applied in its entirety to cover the balance of the deferred loss as of year-end.

h) Loan provisions

The Bank has not made any loan provisions during 2007 and 2006 since it deems that there is no risk of uncollectability. As of 31 December 2007 and 2006, no provisions are maintained for this concept.

i) Bank premises and equipment

Bank premises and equipment as of 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) Staff 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%. The total amount of the provision as of year-end 2007 is Ch\$6,621.3 million (Ch\$6,415.8 million in 2006).

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 consumer price index (CPI), which was 7.4% in 2007 (2.1% in 2006). Income statement account balances in local currency, except for depreciation and price-level restatement, have not been restated for inflation. Price-level restatement produced a net credit to income of Ch\$139,053.2 million in 2007 (Ch\$66,524.8 million in 2006).

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

Note 3 Reserve assets

Reserve assets include international reserves held by the Bank at each year-end, detailed as follows:

	(US\$ million)	
	2007	2006
Monetary gold	5.4	4.3
Special drawing rights (SDR)	53.4	54.6
Reserve position in the IMF	88.4	113.2
Foreign currencies:		
Foreign currencies-coins and deposits	7,184.2	10,772.2
Bonds issued by foreign governments, organizations and banks	5,331.8	4,522.6
Euro notes	1,190.9	-
Commercial papers	653.5	557.6
Foreign government treasury bills	1,189.1	2,224.1
Notes for discount	1,145.8	1,148.5
Other assets:		
Reciprocal loan agreements	67.6	31.8
Total reserve assets	16,910.1	19,428.9

As of 31 December 2007, monetary gold amounted to US\$5.4 million (US\$4.3 million in 2006) equivalent to 7,940 fine gold troy ounces valued at US\$682.85 per ounce (US\$544.03 in 2006). In respect to 2006, there was no variation in the amount of troy ounces.

The decrease observed as of 31 December 2007 of reserve assets of US\$2,518.8 million, compared to 2006, is mainly explained by the decrease in overnight, weekend and other deposits in the amount of US\$3,640.3 million and time deposits made by the General Treasury in the amount of US\$1,630.7 million, that were offset by increases due to advanced payments received from the General Treasury for the concept of Fiscal Transfer Law 18,768 in the amount of US\$1,107.9 million, of the specific contribution to equity made by the General

Treasury in the amount of US\$736.0 million and the effect of the variation in parity, income from the investment portfolio and other operations in the amount of US\$908.3 million.

The distribution of reserve assets according to investment currency is the following as of each year-end:

	(US\$ million)	
	2007	2006
United States dollars	10,538.2	13,682.5
Euro	6,212.4	4,789.7
Other currencies	159.5	956.7
Total	16,910.1	19,428.9

Note 4 Reserve position in the International Monetary Fund (IMF)

As of each year-end, the balance of the reserve position in the IMF is as follows:

	(Ch\$ million)	
	2007	2006
Subscription installment, contribution	670,020.8	739,239.3
Loan, account N°. 1	74.0	226.6
Deposits	(626,264.2)	(674,484.4)
Total IMF position	43,830.6	64,981.5

Note 5 Accounts receivable from *Corporación de Fomento de la Producción*

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, relate 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, to be assigned as shares of the corresponding financial institutions. As of 31 December 2007 accounts receivable from Corfo amount to Ch\$974.4 million (Ch\$1,007.0 million in 2006), and are 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), which as of 31 December 2007 amounted to Ch\$223,603.9 million, equivalent to UF11.4 million (Ch\$224,408.5 million in 2006, equivalent to UF11.4 million). Based on the available information, the maximum transfer amount established by law is deemed adequate to absorb the discounts.

Likewise, the Central Bank of Chile, in conformity with Article 13 of Law 18,401, requested a preliminary report to the Superintendency of Banks and Financial Institutions in order to

materialize the corresponding government transfer of UF697,630.81, referring to the shares of *Banco Internacional* and UF4,435,114.95, referring to the shares of the former *Banco Concepción*, that were alienated in accordance with the aforementioned law.

Note 6 Loans to commercial banks

Loans to commercial banks mainly include the following operations:

	(Ch\$ million)	
	2007	2006
Credit line on debt restructuring	5,931.4	8,498.0
Purchase of promissory notes issued by the Central Bank of Chile with resale agreements	563,996.3	584,459.6
Total	569,927.7	592,957.6

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 established that the *Caja* being liquidated will cease operations, whether or not it has completed the liquidations entrusted to it in this law, which will include an inventory of all its rights, obligations and equity and those of the *Asociación*. This account will be submitted to the consideration of the President of the Republic through the Ministry of Finance. Likewise, this article provides for the account to be approved by the President of the Republic through a supreme decree issued through the Ministry of Finance, which must be 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 the Decree Law 1263 dated 1975.

As of 31 December 2007, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, was Ch\$592,539.4 million, of which Ch\$544,433.8 million relate to direct loans granted by the Bank and Ch\$48,105.6 million with credit lines for international organizations programs (Ch\$566,448.0 million in 2006, of which Ch\$520,820.4 million relate to direct credits granted by Central Bank of Chile and Ch\$45,627.6 million to credit lines for international organizations programs) and is shown under "Loans to other institutions".

Note 8 General Treasury transfers

General Treasury transfers, included under Domestic Loans, are detailed as follows:

	(Ch\$ million)	
	2007	2006
General Treasury promissory notes Law 18,267	68,785.4	136,698.8
General Treasury transfers Law 18,401	223,603.9	224,408.5
General Treasury promissory notes Law 18,768	-	591,634.3
Total	<u>292,389.3</u>	<u>952,741.6</u>

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 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. The last installment matures on 15 December 2008.

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.

Also 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. In this respect, to date, the amounts corresponding to the *Banco Internacional* and former *Banco Concepción* have been determined, as indicated in note 5.

c) General Treasury promissory notes Law 18,768

This item relates to promissory notes denominated and payable in U.S. dollars, accruing on an annual interest of Libor plus 0.5 point, of which 2% is payable semiannually and the balance is capitalized. The last installment expires on 15 December 2014. However, this year the General Treasury made advance payments for the total remaining principal owed in the amount of US\$1,058.1 million, and interest payments of US\$49.8 million, which were credited to income (in 2006 US\$1,500.7 million principal and interest of US\$58.4 million). The detail of the advance payments made during 2007 by the General Treasury, is as follows:

	(US\$ million)	
	Principal	Interest
28 September	523.9	27.5
28 December	534.2	22.3
Total	<u>1,058.1</u>	<u>49.8</u>

Note 9 Subordinated obligation

The loan for the subordinated obligation represents balances at the end of each year owed to the Central Bank of Chile as a result of the agreement for the modification of payment conditions entered into with the Central Bank of Chile on 8 November 1996, in conformity with Law 19,396. On that date, the parent company, *Sociedad Matriz del Banco de Chile*, previously referred to as *Banco de Chile*, agreed to, in accordance with that indicated in paragraphs three and five of the aforementioned Law 19,396, the transfer of this agreement to *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* Consequently, the obligation must be paid in 40 annual, consecutive and equal installments beginning in April 1997.

During 2007, the Bank received UF4,478,870.6697 from *Sociedad Administradora de la Obligación Subordinada SAOS S.A.*, of which UF2,481,528.8982 was to pay interest on the debt and UF1,997,341.7715 for amortization of the loan for subordinated obligation (in 2006 UF4,302,361.2779 of which UF2,582,394.0184 was for interest and UF1,719,967.2595 amortization).

Likewise, an extraordinary payment was received on 14 September 2007 in the amount of Ch\$1,373,921,952, (equivalent to UF72,056.2234), in conformity with Article 30 of Law 19,396, for the concept of the alienation price of the cash share subscription options corresponding to the capital increase of *Banco de Chile* agreed upon in May 2007, which were sold during the period of preferential offer to the shareholders under the terms indicated in that legal body. That extraordinary payment was imputed to the payment of the fixed annual installment that becomes due on 30 April 2008, leaving a balance of Ch\$956,888.5 million in 2007 (Ch\$1,002,159.7 million in 2006).

Note 10 Bank premises and equipment

As of each year-end, the Bank's premises and equipment mainly includes the following:

	(Ch\$ million)	
	2007	2006
Properties and facilities	7,742.5	8,103.9
Furniture and equipment	3,957.6	3,464.2
Other immovable property	3,523.0	3,419.0
Total	15,223.1	14,987.1

The charge to income for depreciation for the year amounted to Ch\$2,215.2 million (Ch\$1,530.3 million in 2006).

During 2006, the Bank sold the building located at 1175 *Huérfanos*, which was valued at Ch\$4,829.5 million, and had an accumulated depreciation of Ch\$1,569.5 million.

Note 11 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)	
	2007	2006
Ch\$ 20,000	772,983.8	693,826.6
Ch\$ 10,000	1,909,115.1	1,739,771.2
Ch\$ 5,000	278,945.7	252,093.8
Ch\$ 2,000	83,500.4	77,543.9
Ch\$ 1,000	112,008.7	115,042.2
Ch\$ 500	4,810.3	5,211.2
Coins	154,471.6	148,491.6
Total	3,315,835.6	3,031,980.5

Note 12 Deposits and obligations

a) Deposits and obligations with the General Treasury include the following:

	(Ch\$ million)	
	2007	2006
General Treasury current accounts	157,248.2	156,168.3
Other	49,104.1	48,617.8
Time deposits	-	942,062.8
Total	206,352.3	1,146,848.9

b) Other deposits and loan obligations include the following items:

	(Ch\$ million)	
	2007	2006
Liquidity deposits from financial institutions	1,050,015.4	250,090.9
Foreign currency current accounts	116,032.5	563,331.7
Short-term deposits from bank institutions	113,598.2	1,772,000.4
Other	13,303.0	12,659.7
Total	1,292,949.1	2,598,082.7

Note 13 Instruments issued by Central Bank of Chile

As of 31 December 2007 and 2006, the expiration dates of these documents are as follows:

Type of document	(Ch\$ million)						
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2007	Total 2006
Central Bank bonds in UF (BCU)	296,315.7	5,042.8	260,000.2	466,038.2	1,528,997.7	2,556,394.6	2,099,836.1
Central Bank bonds in Chilean pesos (BCP)	42,149.4	186,620.6	320,000.0	711,550.0	674,800.0	1,935,120.0	1,918,403.0
Indexed promissory notes payable in coupons (PRC)	141,213.5	120,973.1	202,735.1	536,198.4	487,223.8	1,488,343.9	2,055,701.3
Central Bank discountable promissory notes (PDBC)	772,300.0	40,000.0	40,000.0	-	-	852,300.0	1,853,187.0
Indexed coupons (CERO) in UF	13,408.0	17,361.6	42,039.0	140,204.0	450,300.9	663,313.5	776,513.3
Central Bank bonds expressed in U.S. dollars (BCD)	198,177.2	-	-	-	-	198,177.2	462,802.3
Exchange differential promissory notes	21.1	-	-	-	-	21.1	22.7
Deposit certificates expressed in U.S. dollars, Resolution 1649	-	-	-	-	-	-	598.6
Total as of 31 December 2007	1,463,584.9	369,998.1	864,774.3	1,853,990.6	3,141,322.4	7,693,670.3	-
Total as of 31 December 2006	2,126,132.0	331,685.2	1,080,173.0	2,687,124.6	2,941,949.5	-	9,167,064.3

Balances include interest and adjustments accrued as of 31 December 2007 and 2006.

Transitory liabilities include net discounts granted but not accrued, net of price differences received but not accrued, generated by instruments issued for Ch\$64,096.7 million (Ch\$71,294.7 million in 2006).

Note 14 Capital and reserves

Changes in capital and reserves during 2007 and 2006 were as follows:

	(Ch\$ million)		
	Capital	Results for the year	Total
Balances as of 1 January 2006	(1,285,535.1)	(1,138,376.8)	(2,423,911.9)
Distribution of 2005 deficit	(1,138,376.8)	1,138,376.8	-
General Treasury contribution			
1st installment	322,745.7	-	322,745.7
Price-level restatement on equity	(50,902.2)	-	(50,902.2)
Surplus for the year	-	8,376.5	8,376.5
Balances as of 31 December 2006	(2,152,068.4)	8,376.5	(2,143,691.9)
Balances as of 31 December 2006 restated for comparison purposes	(2,311,321.5)	8,996.4	(2,302,325.1)
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
Revaluation of beginning capital	(158,633.2)	-	(158,633.2)
Revaluation of General Treasury contribution (5.5%)	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)

Section 5 of the Basic Constitutional Act of the Central Bank of Chile established a start-up capital for the Bank at Ch\$500,000 million (Ch\$1,819,763.3 million restated as of 31 December 2007), 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.

As of 31 December 2007, the Bank has an equity deficit of Ch\$2,176,826.5 million (Ch\$2,302,325.1 million as of 31 December 2006), which is mainly generated as a result of the accumulated effects from this and prior years of decreases generated in exchange gains or losses of assets in foreign currency.

Article 11 of Law 20,128 published in the *Official Gazette* on 20 September 2006 established that the General Treasury, through the Ministry of Finance will be able to make capital contributions to the Central Bank of Chile under the conditions established in the aforementioned law.

On 28 May 2007, the Ministry of Finance made a capital contribution to the Bank of Ch\$386,688.5 million (Ch\$346,628.9 million on 27 December 2006) which was formalized in its equivalent sum in United States dollars US\$736.0 million (US\$605.9 million in 2006), in conformity with Supreme Decree 698 issued by the Ministry of Finance, published in the *Official Gazette* on 22 June 2007. This amount became part of the Bank's international reserves.

The amount of the contribution made by the General Treasury in June 2007, restated as of 31 December 2007 amounted to Ch\$407,956.3 million.

Note 15 Interest received and accrued

As of each year-end, income from interest received and accrued is as follows:

	(Ch\$ million)	
	2007	2006
Investments abroad	444,216.7	423,574.8
Other institutions	49,574.8	33,079.3
General Treasury transfers (Laws 18,768 and 18,267)	47,097.1	76,500.7
Subordinated obligation	46,728.8	49,425.4
Commercial banks	20,975.3	12,988.4
Reciprocal loan agreements	1,592.5	711.8
Total	610,185.2	596,280.4

Note 16 Indexation received and accrued

As of 31 December 2007 and 2006, income from indexation received and accrued is as follows:

	(Ch\$ million)	
	2007	2006
Subordinated obligation	60,896.5	19,146.8
General Treasury transfers (Laws 18,401 and 18,267) <i>Caja Central and Asociación Nacional de Ahorro y Préstamo</i>	21,633.2	8,095.7
Other	14,625.3	4,415.3
	4,323.2	617.1
Total	101,478.2	32,274.9

Note 17 Income from price differences

As of 31 December 2007 and 2006, income from price differences is as follows:

	(Ch\$ million)	
	2007	2006
Central Bank bonds in UF (BCU)	37,271.0	32,695.0
Central Bank bonds in Chilean pesos (BCP)	33,451.8	41,405.9
Central Bank indexed promissory notes (PRC)	7,964.6	10,418.9
Central Bank bonds expressed in U.S. dollars (BCD)	1,289.8	1,585.8
Central Bank bonds in U.S. dollars (BCX)	-	2,999.9
Indexed promissory notes in U.S. dollars (PRD)	-	0.1
Total	79,977.2	89,105.6

Note 18 Net exchange rate income (loss)

As of 31 December 2007 and 2006, net foreign currency exchange rate income and loss are as follows:

	(Ch\$ million)	
	2007	2006
Foreign exchange rate income	199,526.4	684,877.1
Foreign exchange rate losses	(468,866.3)	(118,151.9)
Net foreign exchange rate income (loss)	(269,339.9)	566,725.2

This net foreign exchange rate income (loss) is mainly generated by exchange variations in assets in foreign currency, according to the following detail:

	(Ch\$ million)	
	2007	2006
U.S. dollar	(353,779.4)	178,181.0
Euro	85,430.3	367,708.7
Pound sterling	1,487.7	16,349.2
Other currencies	2,290.7	700.6
IMF special drawing rights (SDR)	(3,235.2)	11,320.0
Subtotal net foreign exchange rate income (loss)	(267,805.9)	574,259.5
Arbitrage and others	(1,534.0)	(7,534.3)
Total net foreign exchange rate income (loss)	(269,339.9)	566,725.2

Note 19 Interest paid and accrued

As of 31 December 2007 and 2006, income from interest paid and accrued is as follows:

	(Ch\$ million)	
	2007	2006
Central Bank bonds in Chilean pesos (BCP)	142,400.1	142,673.2
Central Bank bonds in UF (BCU)	111,221.0	94,633.1
Indexed promissory notes payable in coupons (PRC)	107,298.9	150,320.3
Other notes issued	92,632.1	84,146.2
Central Bank discountable promissory notes (PDBC)	63,704.1	91,109.1
Foreign operations	30,413.6	61,527.0
Central Bank bonds expressed in U.S. dollars (BCD)	17,053.4	22,721.0
Reciprocal loan agreements	226.3	306.3
Central Bank bonds in U.S. dollars (BCX)	-	32,217.5
Indexed promissory notes in U.S. dollars (PRD)	-	972.3
Total	564,949.5	680,626.0

Note 20 Indexation paid and accrued

As of 31 December 2007 and 2006, income from indexation paid and accrued is as follows:

	(Ch\$ million)	
	2007	2006
Central Bank bonds in UF (BCU)	160,157.7	37,350.6
Indexed promissory notes payable in coupons (PRC)	106,187.8	46,238.6
Optional indexed coupons (CERO) in UF	45,793.5	16,901.6
Other notes	946.1	9,031.2
Central Bank bonds expressed in U.S. dollars (BCD)	(19,529.9)	17,155.9
Indexed promissory notes in U.S. dollars (PRD)	-	1,144.5
Total	293,555.2	127,822.4

Note 21 Losses from price differences

As of 31 December 2007 and 2006, income from price differences is as follows:

	(Ch\$ million)	
	2007	2006
Redemption to CERO promissory notes in UF	29,492.2	34,052.8
Indexed promissory notes payable in coupons (PRC)	1,873.4	2,812.7
Other	382.5	853.6
Indexed promissory notes in U.S. dollars (PRD)	-	3.4
Total	31,748.1	37,722.5

Note 22 Monetary base and international reserve asset variations

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 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		
	(Ch\$ million)	
	2007	2006
Beginning Balance	3,657,626.4	3,210,867.2
Increase		
Operations with international organizations	1,485.0	4,110.2
Domestic loans	-	236,041.2
Other assets	3,506.7	-
Notes issued	1,018,553.3	456,022.4
Interest and indexation paid	1,210,951.0	1,628,800.4
Technical reserve	-	142,412.4
Currency exchange operations	5,739.5	-
Other operating expenses	26,357.8	27,002.2
Total increase	<u>2,266,593.3</u>	<u>2,494,388.8</u>
Decrease		
Domestic loans	(97,307.7)	-
Deposits and obligations	(795,179.1)	(253,561.9)
Foreign currency forward sales receivables	(283,114.8)	(479,061.1)
Other liabilities	(23.7)	(200.7)
Other assets	-	(2,564.8)
Interest and indexation received for domestic loans	(824,425.9)	(1,078,548.3)
Currency exchange operations	-	(167,651.5)
Total decrease	<u>(2,000,051.2)</u>	<u>(1,981,588.3)</u>
Change in monetary base for the period	266,542.1	512,800.5
Effect of price-level restatement on beginning balance of monetary base	(252,015.2)	(66,041.3)
Ending Balance	<u>3,672,153.3</u>	<u>3,657,626.4</u>

Variations in international reserve assets		
	(US\$ million)	
	2007	2006
Beginning Balance	19,428.9	16,963.4
Increase		
Domestic loans	1,048.0	1,205.2
Deposits and obligations	-	2,851.4
Capitalization of General Treasury contribution		
Interest received for deposits and other investment instruments abroad	735.9	605.9
	1,038.5	790.7
Total increase	<u>2,822.4</u>	<u>5,453.2</u>
Decrease		
Notes issued	(1.0)	(2,400.0)
Foreign currency forward sales receivables	(529.6)	(886.5)
Deposits and obligations	(5,223.3)	-
Other liabilities	(0.2)	(0.3)
Other assets	(0.1)	(0.2)
Interest paid for foreign liabilities	(172.3)	(121.4)
Currency exchange operations, net (1)	11.2	0.5
Total decrease	<u>(5,915.3)</u>	<u>(3,407.9)</u>
Change in reserves during the year	(3,092.9)	2,045.3
Effect of exchange rate	574.1	420.2
Ending Balance	<u>16,910.1</u>	<u>19,428.9</u>
(1) Currency exchange operations, net, are as follows:		
Currency exchange operations	11.2	(297.6)
Less: Currency exchange operations that do not generate cash flows		
- Treasury transfers	-	248.1
- BCX tender	-	50.0
Total currency exchange operations, net	<u>11.2</u>	<u>0.5</u>

Note 23 Balance in foreign currency

Rights and obligations payable in foreign currency included in the balance sheet as of 31 December 2007 and 2006 are as follows:

	(US\$ million)	
	2007	2006
Assets		
Foreign assets	17,381.1	19,857.9
Reserves	17,130.6	19,610.4
Other foreign assets	250.5	247.5
Domestic assets	-	1,030.8
Domestic loans	-	1,030.8
Other assets	2.9	2.2
Total assets	17,384.0	20,890.9
Liabilities		
Foreign liabilities	296.3	288.5
Other foreign liabilities	102.7	103.8
Special drawing rights (SDR) allocations	193.6	184.7
Domestic liabilities	793.5	5,987.5
Deposits and obligations with the General Treasury	318.5	1,916.5
Other deposits and obligations	475.0	4,070.0
Notes issued	-	1.0
Total liabilities	1,089.8	6,276.0
Net assets	16,294.2	14,614.9

Note 24 Contingencies and commitments

There are lawsuits currently in process against Central Bank of Chile, whose outcomes according to the Bank's legal department will have no material effect on equity.

Note 25 Income tax

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

Note 26 Relevant events

By Supreme Decree 1550 issued by the Ministry of Finance on 4 December 2007, published in the *Official Gazette* on the 29th of the same month and year, the President of the Republic, Ms. Michelle Bachelet Jeria appointed Mr. José De Gregorio Rebeco as Chairman of the Board of the Central Bank of Chile, as of 7 December 2007 and for the remaining time he has as Board Member to the same Body.

By Supreme Decree 1557 issued by the Ministry of Finance on 7 December 2007, published in the *Official Gazette* on the 29th of the same month and year, Mr. Sebastián Claro Edwards was appointed to the position of Board Member of the Central Bank of Chile, for a term of 10 years, beginning on 7 December 2007.

Likewise, by Resolution 1379E-01-071213, dated 13 December 2007, the Board of the Central Bank of Chile decided to appoint Board Member Jorge Desormeaux Jiménez as Deputy Governor of the Central Bank of Chile, beginning on 13 December 2007 until 7 December 2009, inclusive. That Resolution was published in the *Official Gazette* on 13 December 2007.

Note 27 Subsequent events

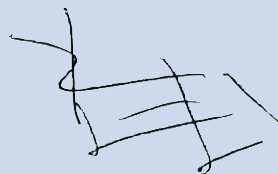
Between 31 December 2007 and the date of issuance of these financial statements, the exchange rate of the observed dollar applied at the closing of the mentioned statements has decreased from Ch\$495.82 to Ch\$478.28 per dollar. This variation would represent a negative effect on income, due to change of value in the amount of Ch\$265,405.5 million in the Bank's exchange position as of 31 December 2007.

Note 28 Fiscal Agency

Law 20,128 on Fiscal Responsibility was published in the *Official Gazette* on 30 September 2006, thereby creating the Economic and Social Stabilization Fund (FEES) "*Fondo de Estabilización Económica y Social*" and the Pension Funds Reserve (FRP) "*Fondo de Reserva de Pensiones*". In conformity with the mentioned law, by Supreme Decree 1383 of 11 December 2006, the Minister of Finance designated the Central Bank of Chile as Fiscal Agency for the administration of the resources in reference to those funds, in accordance with the procedures, conditions, modalities and other standards established in the aforementioned Supreme Decree.

In accordance with Article 5 of the aforementioned Supreme Decree 1383, investments of Government Resources Administrated by the Bank, as a Fiscal Agency, have been performed in accordance with the guidelines established for that purpose by the Minister of Finance. These investments are recorded in accounts outside the Bank's Balance Sheets.

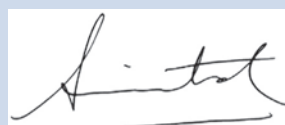
In accordance with Board Resolution 1341 of 28 June 2007, Ernst & Young Ltda. was engaged to audit the "*Fondo de Estabilización Económica y Social*" (FEES) and the "*Fondo de Reserva de Pensiones*" (FRP).



ALEJANDRO ZURBUCHEN SILVA
General Manager



CÉSAR CARO BROWN
General Accountant



SILVIA QUINTARD FLEHAN
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 December 31, 2007 and 2006, and the related statements of income for the years then ended. These financial statements are the responsibility of the management of Central Bank of Chile. Our responsibility is to express an opinion on these financial statements based on 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 the Bank's 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 charge to net income for 2006 of Ch\$446,318.9 million due to the amortization of all accounting losses arising from amendments to the subordinated loan obligation payment agreements of certain banks, in accordance with Law 19,396 (notes 2 g) and 9).

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 December 31, 2007 and 2006 and the results of its operations for the years then ended, in conformity with the accounting policies described in note 2.

5. As indicated in note 14 to the financial statements, as of December 31, 2007, the Central Bank of Chile has a deficit in equity of Ch\$2,176,826.5 million (Ch\$2,302,325.1 million in 2006), which is mainly generated by decreases in variations of exchange rates of foreign currencies.

6. As indicated in Article 11 of Law 20.128, during 2007, the Chilean Government through the Ministry of Finance made a capital contribution to the Bank of Ch\$407,956.3 million (Ch\$346,628.9 million in 2006), in conformity with the Fiscal Responsibility Law.

7. As indicated in note 27 to these financial statements, the observed exchange rate for United States dollars has decreased at the date of issuance of these financial statements.

Enrique Aceituno A.
Santiago, Chile, 17 January 2008

ERNST & YOUNG LTDA.