



IV. Financial Statements Central Bank of Chile

Balance sheets as of 31 December 2006 and 2005

(In millions of Chilean pesos)

ASSETS	NOTE	2006	2005
Foreign assets		10,515,690.0	9,034,204.9
Reserve assets	3	10,383,410.9	8,905,916.9
Monetary gold		2,308.5	1,750.3
Special drawing rights (SDR)		29,186.4	27,619.9
Reserve position in the IMF		60,504.2	99,117.4
Foreign currencies		10,274,378.3	8,761,886.0
Other assets		17,033.5	15,543.3
Other foreign assets		132,279.1	128,288.0
Shares and contributions to the IDB		98,467.7	96,731.8
Bank for International Settlements (BIS) shares		33,811.4	31,556.2
Domestic assets		3,013,097.5	3,604,147.0
Domestic loans		3,013,097.5	3,604,147.0
Loans to state-owned companies	4	1,232.0	2,004.7
Loans to <i>Banco del Estado de Chile</i>		112,138.4	4,765.4
Loans to commercial banks	5	552,102.0	424,093.9
Loans to other institutions	6	527,419.0	502,617.8
Treasury transfers (Laws 18,267, 18,401 and 18,768)	7	887,096.5	1,704,111.4
Loan for subordinated obligations of financial institutions (Laws 18,401 and 19,396)	8	933,109.6	966,553.8
Other assets		300,575.8	1,181,021.7
Bank premises and equipment, net	9	13,954.5	17,042.0
Other securities		3,489.4	419,481.2
United States dollars purchased with resell agreement		283,131.9	744,498.5
Total assets		13,829,363.3	13,819,373.6

The accompanying notes 1 to 26 are an integral part of these financial statements.

Balance sheets as of 31 December 2006 and 2005

(In millions of Chilean pesos)

(From previous page)

LIABILITIES	NOTE	2006	2005
Foreign liabilities		188,388.4	187,274.9
Reciprocal loan agreements		7,281.0	8,671.8
Loans		87.0	256.6
Accounts with international organizations		82,330.7	86,401.6
Special drawing rights (SDR) allocations		98,689.7	91,944.9
Domestic liabilities		15,427,953.7	15,299,802.3
Currency issuance		3,405,611.2	2,989,634.3
Banknotes and coins in circulation	10	2,823,073.1	2,518,111.9
Deposits from financial institutions (domestic currency)		181,538.1	197,486.0
Deposits for technical reserves		401,000.0	274,036.4
Deposits and obligations	11	3,486,900.9	1,822,651.6
Deposits and obligations with the Treasury		1,067,829.5	142,364.7
Other deposits and obligations		2,419,071.4	1,680,286.9
Instruments issued by Central Bank of Chile	12	8,535,441.6	10,487,516.4
Central Bank bonds in UF (BCU)		1,955,154.7	1,643,266.2
Indexed promissory notes payable in coupons (PRC)		1,914,060.8	2,561,511.4
Central Bank bonds in Chilean pesos (BCP)		1,786,222.5	1,712,505.9
Central Bank discountable promissory notes (PDBC)		1,725,500.0	1,978,289.6
Indexed coupons (CERO) in UF		723,010.5	772,566.5
Central Bank bonds expressed in US dollars (BCD)		430,914.6	423,317.9
Other		578.5	1,105.9
Central Bank bonds in US dollars (BCX)		-	1,251,426.8
Commercial notes from redenomination of foreign debt securities		-	83,338.6
Promissory notes indexed in US dollars (PRD)		-	60,187.6
Other liabilities		356,713.1	807,110.4
Provisions		7,116.8	7,013.7
Other securities		187.7	132.6
Temporary liabilities		66,313.8	56,419.9
Creditors on foreign currency purchased with resale agreements		283,094.8	743,544.2
Capital and reserves	13	(2,143,691.9)	(2,474,814.0)
Capital		(2,152,068.4)	(1,312,531.3)
Surplus (deficit) for the year		8,376.5	(1,162,282.7)
Total liabilities		13,829,363.3	13,819,373.6

The accompanying notes 1 to 26 are an integral part of these financial statements.

Statements of Income for the years ended as of 31 December 2006 and 2005

(In millions of Chilean pesos)

Operating results	Note	2006	2005
Operating income		1,306,653.2	907,803.3
Interest received and accrued	14	555,195.9	473,337.7
Readjustments received and accrued	15	30,051.2	59,247.5
Income on price differences	16	82,966.1	152,685.7
Exchange earnings	17	637,688.2	221,948.6
Other operating income		751.8	583.8
Operating expenses		(916,764.6)	(2,108,172.8)
Interest paid and accrued	18	633,730.0	696,547.8
Indexation paid and accrued	19	119,015.3	152,864.5
Loss due to price differences	20	35,123.4	71,573.4
Exchange losses	17	110,011.1	1,180,569.8
Other operating expenses		18,884.8	6,617.3
Gross margin		389,888.6	(1,200,369.5)
Other operating expenses		(27,362.8)	(25,864.3)
Personnel expenses		18,040.6	17,036.9
Administrative expenses		7,435.7	6,709.7
Depreciation, amortization and write-offs		1,424.9	1,642.3
Taxes and contributions		461.6	475.4
Income before provisions and write-offs		362,525.8	(1,226,233.8)
Provisions and write-offs		(415,578.9)	-
Net margin (Total operating results)		(53,053.1)	(1,226,233.8)
Non-operating results		(511.6)	940.0
Non-operating income		606.5	940.1
Non-operating expenses		(1,118.1)	(0.1)
Results before price-level restatement		(53,564.7)	(1,225,293.8)
Price-level restatement		61,941.2	63,011.1
Surplus (deficit) for the year		8,376.5	(1,162,282.7)

The accompanying notes 1 to 26 are an integral part of these financial statements.

Notes to the Financial Statements 31 December 2006 and 2005

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 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, 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

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 rules are consistent with Chilean GAAP, except for the method used in recording losses on subordinated loan obligations, which is explained in letter g) below.

Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States ("US GAAP") or International Financial Reporting Standards ("IFRS"). For the convenience of the reader, these financial statements and their accompanying notes have been translated from Spanish to English.

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 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 reserve change (note 22) are disclosed.

For comparative purposes, the 2005 figures have been restated according to changes in the Chilean consumer price index for the period between 30 November 2005 and 30 November 2006, amounting to 2.1%.

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 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 expressed in Chilean sealed gold pesos are valued at the average London morning quotation of the “Gold Fixing” rate (United States dollars per fine troy ounce) for all business days in the prior 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:

	2006 Ch\$	2005 Ch\$
United States dollar (Observed exchange rate)	534.43	514.21
Pound sterling	1,049.34	886.26
Euro	703.38	608.60
Special Drawing Rights (SDR)	804.00	734.94

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

Shares issued by and contributions made to the IDB, and contributions to the IMF, on behalf of the Chilean Treasury, are valued at 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 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 “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 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 the year, the Bank received a dividend for US\$1.1 million (US\$1.0 million in 2005).

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 or market value.

f) Loans receivable 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 8) include restated balances as of each year-end and accumulated increases recorded and credited to income on an accrual basis.

Accounting losses arising from changes in payment terms of the subordinated debt from the banks *BHIF, Internacional, Concepción and Santiago*, have been deferred in conformity with 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 “.

During 2006, the Bank provisioned Ch\$415,566.9 million, which was applied in its entirety to cover the balance of the deferred loss as of year-end (during 2005 no provision was made for this concept). As of 31 December 2005, the deferred loss amounted to Ch\$415,566.9 million and is included under “Other securities” within “Other assets”.

h) Loan provisions

The Bank has not made any loan provisions during 2006 and 2005. As of 31 December 2006 and 2005, no provisions are maintained for this concept.

During 2005, the Bank wrote-off amounts with a charge to provisions made in 1989 of Ch\$8,782.7 million.

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 is Ch\$5,973.7 million (Ch\$5,958.9 million in 2005).

k) Vacation accrual

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

D) Price-level restatement

Capital, 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), which was 2.1% in 2006 (3.6% in 2005). 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\$61,941.2 million in 2006 (Ch\$63,011.1 million in 2005).

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)	
	2006	2005
Monetary gold	4.3	3.3
Special drawing rights (SDR)	54.6	52.6
Reserve position in the IMF	113.2	188.8
Foreign currencies:		
Coins and deposits	10,772.2	8,900.4
Bonds issued by governments, organizations and foreign banks	4,522.6	4,105.6
Commercial papers	557.6	-
Foreign government treasury bills	2,224.1	3,042.2
Notes for discount	1,148.5	640.9
Other assets:		
Reciprocal loan agreements	31.8	29.6
Total reserve assets	19,428.9	16,963.4

As of 31 December 2006, monetary gold amounted to US\$4.3 million (US\$3.3 million in 2005) equivalent to 7,940 fine gold troy ounces valued at US\$544.03 per ounce. In respect to 2005, there was no variation in the amount of troy ounces.

The increase observed as of 31 December 2006 of reserve assets of US\$2,465.5 million, compared to 2005, is explained by the capital contribution to the Central Bank of Chile by the Chilean Treasury of US\$605.9 million (note 13), for deposits made by the Chilean Treasury of US\$604.0 million and the remaining amount, mainly, to overnight deposits by financial institutions.

Note 4. 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 2006, accounts receivable from *CORFO* amount to Ch\$937.6 million (Ch\$1,148.3 million in 2005), 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 Treasury through future transfers (note 7), which as of 31 December 2006 amounted to Ch\$208,946.5 million, equivalent to UF11.4 million (Ch\$209,127.6 million in 2005 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* that were disposed in accordance with the above mentioned law.

Note 5. Loans to Commercial Banks

Loans to commercial banks mainly include the following operations:

	(Millions of Ch\$)	
	2006	2005
Credit lines on debt restructuring	7,912.4	11,510.9
Credit lines to finance the sale of mortgage portfolio of former ANAP	-	6,736.9
Purchase of promissory notes issued by the Central Bank of Chile with resale agreements	544,189.6	405,846.1
Total	552,102.0	424,093.9

Note 6. *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 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 dated 1975.

As of 31 December 2006, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, was Ch\$527,419.2 million, of which Ch\$484,935.2 million relate to direct loans granted by the Bank and Ch\$42,483.8 million with credit lines for international organizations programs (Ch\$502,617.8 million in 2005, of which Ch\$462,367.5 million relate to direct credits granted by Central Bank of Chile and Ch\$40,250.3 million to credit lines for international organizations programs) and is shown under "Loans to other institutions".

Note 7. Treasury transfers

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

	(Millions of Ch\$)	
	2006	2005
Treasury promissory notes Law 18,267	127,280.1	189,193.9
Treasury promissory notes Law 18,768	550,869.9	1,305,789.9
Treasury transfers Law 18,401	208,946.5	209,127.6
Total	887,096.5	1,704,111.4

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 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) Treasury promissory notes Law 18,768

This item relates to promissory notes denominated and payable in US dollars, accruing on an annual interest 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 period, the Bank received principal payments of US\$1,500.7 million and interest payments of US\$58.4 million, which were credited to income (in 2005, principal of US\$1,957.1 million and interest of US\$43.1 million).

c) 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, as explained in note 4.

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.

Note 8. 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 with the Central Bank of Chile on 8 November 1996, in conformity with Law 19,396. On that date, the parent company of *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 2006, the Bank received UF1,719,967.2595 from *Sociedad Administradora de la Obligación Subordinada SAOS S.A.*, for the amortization of the loan for subordinated obligation (UF1,222,985.2857 in 2005). The remaining balance amounts to Ch\$ 933,109.6 million in 2006 (Ch\$966,553.8 million in 2005).

Note 9. Bank's premises and equipment

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

	(Millions of Ch\$)	
	2006	2005
Properties and facilities	7,545.6	11,167.7
Furniture and equipment	3,225.5	2,951.7
Other immovable property	3,183.4	2,922.6
Total	13,954.5	17,042.0

The charge to income for depreciation for the year amounted to Ch\$1,424.9 million (Ch\$1,642.3 million in 2005).

During 2006, the Bank sold the building located at 1175 Huérfanos, which was valued at Ch\$4,496 million and had accumulated depreciation of Ch\$1,461.4 million.

Note 10. Banknotes and coins in circulation

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

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

Denomination	(Millions of Ch\$)	
	2006	2005
Ch\$ 20,000	646,021.1	551,973.1
Ch\$ 10,000	1,619,898.7	1,447,555.7
Ch\$ 5,000	234,724.2	218,859.8
Ch\$ 2,000	72,201.0	72,551.6
Ch\$ 1,000	107,115.7	97,080.0
Ch\$ 500	4,852.1	5,013.9
Coins	138,260.3	125,077.8
Total	2,823,073.1	2,518,111.9

Note 11. Deposits and obligations

Deposits and obligations with the Chilean Treasury include the following:

	(Millions of Ch\$)	
	2006	2005
Current accounts, Chilean Treasury	145,408.1	99,849.6
Time deposits	877,153.4	-
Other	45,268.0	42,515.1
Total	1,067,829.5	142,364.7

Other deposits and loan obligations include the following items:

	(Millions of Ch\$)	
	2006	2005
Foreign currency current accounts	524,517.4	382,341.7
Short-term deposits from bank institutions	1,649,907.3	1,157,876.4
Liquidity deposits from financial institutions	232,859.3	131,342.8
Other	11,787.4	8,726.0
Total	2,419,071.4	1,680,286.9

Note 12. Instruments issued by Central Bank of Chile

As of 31 December 2006 and 2005, the expiration dates of these documents are as follows:

Type of document	(Millions of Ch\$)						Total 2006	Total 2005
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years			
Central Bank bonds in UF (BCU)	29,199.7	1,652.8	255,324.9	710,534.7	958,442.6	1,955,154.7	1,643,266.2	
Indexed promissory notes payable in coupons (PRC)	163,872.7	140,564.7	245,287.7	713,720.4	650,615.3	1,914,060.8	2,561,511.4	
Central Bank bonds in Chilean pesos (BCP)	37,276.8	136,795.7	232,500.0	755,000.0	624,650.0	1,786,222.5	1,712,505.9	
Central Bank discountable promissory notes (PDBC)	1,725,500.0	-	-	-	-	1,725,500.0	1,978,289.6	
Indexed coupons (CERO) in UF	15,038.0	29,818.5	58,321.2	114,295.4	505,537.4	723,010.5	772,566.5	
Central Bank bonds expressed in US dollars (BCD)	8,714.9	-	213,772.0	208,427.7	-	430,914.6	423,317.9	
Deposit certificates expressed in US dollars, Resolution 1649	15.5	-	541.9	-	-	557.4	1,084.4	
Exchange differential promissory notes	21.1	-	-	-	-	21.1	21.5	
Central Bank bonds in US dollars (BCX)	-	-	-	-	-	-	1,251,426.8	
Commercial notes from redenomination of foreign debt securities	-	-	-	-	-	-	83,338.6	
Promissory notes indexed in US dollars (PRD)	-	-	-	-	-	-	60,187.6	
Total as of 31 December 2006	1,979,638.7	308,831.7	1,005,747.7	2,501,978.2	2,739,245.3	8,535,441.6	-	
Total as of 31 December 2005	2,622,152.4	724,264.3	1,183,726.3	2,946,912.4	3,010,461.0	-	10,487,516.4	

Balances include interest and adjustments accrued as of 31 December 2006 and 2005.

Transitory liabilities include net discounts granted but not accrued, net of price differences received but not accrued, generated by notes issued for Ch\$66,382.4 million (Ch\$56,652.9 million in 2005).

Note 13. Capital and reserves

Changes in capital and reserves during 2006 and 2005 were as follows:

	Capital	(Millions of Ch\$) Results for the year	Total
Balances as of 1 January 2005	(558,372.6)	(682,491.4)	(1,240,864.0)
Distribution of the 2004 deficit	(682,491.4)	682,491.4	-
Price-level restatement on equity	(44,671.1)	-	(44,671.1)
Deficit for the year	-	(1,138,376.8)	(1,138,376.8)
Balances as of 31 December 2005	(1,285,535.1)	(1,138,376.8)	(2,423,911.9)
Balances as of 31 December 2005 restated for comparison purposes	(1,312,531.3)	(1,162,282.7)	(2,474,814.0)
Balances as of 1 January 2006	(1,285,535.1)	(1,138,376.8)	(2,423,911.9)
Distribution of the 2005 deficit	(1,138,376.8)	1,138,376.8	-
Contribution by the Chilean Treasury, 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)

Article 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\$1,694,379.2 million restated as of 31 December 2006), to be paid according to Transitory Article 2 of Law 18,840.

In accordance with Article 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 2006, the Bank has an equity deficit of Ch\$2,143,691.9 million, which is mainly generated, as a result of the accumulated effects from prior years of decreases generated in exchange gains or losses of assets in foreign currency.

As of 31 December 2005, the Central Bank of Chile had an equity deficit of Ch\$2,474,814.0 million. The negative variation in equity as of 31 December 2005 is generated as a result of the deficit for the year of Ch\$1,162,282.7 million, which is mainly explained by the decrease in the exchange rate of United States dollars and euros for 2005, which had an unfavorable effect on the asset position in foreign currency maintained by the Bank.

Article 11 of Law 20,128 published in the Official Gazette on 30 September 2006 established that the Chilean 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 27 December 2006, the Chilean Treasury made a capital contribution to the Bank of Ch\$322,745.7 million, which was formalized in its equivalent sum in United States dollars (US\$605.9 million), in conformity with Decree No. 1,272 dated 29 November 2006 issued by the Ministry of Finance, published in the Official Gazette on 23 December 2006. This amount was directly credited to equity and relates to the first annual contribution indicated in Article 11 of Law 20,128 on Fiscal Responsibility. This amount, through its equivalent sum in United States dollars, became a part of the Bank's international reserves.

Note 14. Interest received and accrued

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

	(Millions of Ch\$)	
	2006	2005
Investments abroad	394,389.9	298,990.7
Treasury transfers (Laws 18,768 and 18,267)	71,229.7	78,194.1
Subordinated obligation	46,019.9	47,061.2
Other institutions	30,800.1	33,413.1
Commercial banks	11,983.0	14,906.2
Reciprocal loan agreements	662.8	262.7
<i>Banco del Estado de Chile</i>	110.5	509.7
Total	555,195.9	473,337.7

Note 15. Indexation received and accrued

As of 31 December 2006 and 2005, income from indexation received and accrued is as follows:

	(Millions of Ch\$)	
	2006	2005
Subordinated obligation	17,827.6	34,155.0
Treasury transfers (Laws 18,401 and 18,267)	7,537.9	15,962.3
<i>Caja Central and Asociación Nacional de Ahorro y Préstamo</i>	4,111.1	7,636.0
Other	574.6	1,494.2
Total	30,051.2	59,247.5

Note 16. Income from price differences

As of 31 December 2006 and 2005, income from price differences is as follows:

	(Millions of Ch\$)	
	2006	2005
Central Bank bonds in Chilean pesos (BCP)	38,553.0	86,431.9
Central Bank bonds in UF (BCU)	30,442.3	26,736.5
Central Bank indexed promissory notes (PRC)	9,701.0	11,787.1
Central Bank bonds in US dollars (BCX)	2,793.2	20,732.7
Central Bank bonds expressed in US dollars (BCD)	1,476.5	6,204.4
Indexed promissory notes in US dollars (PRD)	0.1	793.1
Total	82,966.1	152,685.7

Note 17. Net exchange rate income (loss)

As of 31 December 2006 and 2005, net foreign currency exchange rate income and loss are as follows:

	(Millions of Ch\$)	
	2006	2005
Foreign exchange rate income	637,688.2	221,948.6
Foreign exchange rate losses	(110,011.1)	(1,180,569.8)
Net foreign exchange rate income (loss)	<u>527,677.1</u>	<u>(958,621.2)</u>

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

	(Millions of Ch\$)	
	2006	2005
U.S. dollar	165,904.1	(246,695.0)
Euro	342,373.1	(647,051.5)
Pound sterling	15,222.7	(28,863.4)
IMF special drawing rights (SDR)	10,540.0	(20,171.8)
Other currencies	652.4	(6,968.1)
Subtotal net foreign exchange rate income (loss)	534,692.3	(949,749.8)
Arbitrage and others	(7,015.2)	(8,871.4)
Total net foreign exchange rate income (loss)	<u>527,677.1</u>	<u>(958,621.2)</u>

Note 18. Interest paid and accrued

As of 31 December 2006 and 2005, income from interest paid and accrued is as follows:

	(Millions of Ch\$)	
	2006	2005
Indexed promissory notes payable in coupons (PRC)	139,963.0	183,249.0
Central Bank bonds in Chilean pesos (BCP)	132,842.8	162,054.9
Central Bank bonds in UF (BCU)	88,112.8	72,740.1
Central Bank discountable promissory notes (PDBC)	84,831.6	53,732.5
Other notes issued	78,348.4	33,446.0
Foreign operations	57,287.7	64,040.2
Central Bank bonds in US dollars (BCX)	29,997.7	72,987.5
Central Bank bonds expressed in US dollars (BCD)	21,155.5	35,110.2
Indexed promissory notes in US dollars (PRD)	905.3	18,995.6
Reciprocal loan agreements	285.2	191.8
Total	<u>633,730.0</u>	<u>696,547.8</u>

Note 19. Indexation paid and accrued

As of 31 December 2006 and 2005, income from indexation paid and accrued is as follows:

	(Millions of Ch\$)	
	2006	2005
Indexed promissory notes payable in coupons (PRC)	43,052.7	100,173.4
Central Bank bonds in UF (BCU)	34,777.1	56,344.8
Central Bank bonds expressed in US dollars (BCD)	15,973.8	(12,755.6)
Optional indexed coupons (CERO) in UF	15,737.1	29,318.4
Other notes	8,409.0	5,706.5
Indexed promissory notes in US dollars (PRD)	1,065.6	(21,146.6)
Optional indexed coupons (CERO) in US dollars	-	(4,776.4)
Total	119,015.3	152,864.5

Note 20. Losses from price differences

As of 31 December 2006 and 2005, income from price differences is as follows:

	(Millions of Ch\$)	
	2006	2005
Redemption to CERO promissory notes in UF	31,706.5	35,853.3
Indexed promissory notes payable in coupons (PRC)	2,618.9	6,824.1
Indexed promissory notes in US dollars (PRD)	3.2	164.6
Other	794.8	225.1
Central Bank bonds in Chilean pesos (BCP)	-	23,802.3
Redemption to CERO promissory notes in US dollars	-	4,704.0
Total	35,123.4	71,573.4

Note 21. Relevant Events

Through Board Resolution 1284E-01-060803, the Board of the Central Bank of Chile appointed Mr. Alejandro Zurbuchen Silva as General Manager beginning on 7 August 2006.

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

	(Millions of Ch\$)	
	2006	2005
BEGINNING BALANCE	2,989,634.3	2,463,714.5
INCREASE		
Operations with international organizations	3.827.0	10.792.8
Foreign currency forward sales receivables	-	744,498.5
Domestic loans	219,777.7	-
Deposits and obligations	-	579,635.6
Notes issued	424,601.9	1,914,869.4
Interest and indexation paid	1,516.573.9	365.575.6
Technical reserve	132,600.0	274,036.4
Other operating expenses	25,141.7	23,820.2
TOTAL INCREASE	<u>2,322,522.2</u>	<u>3,913,228.5</u>
DECREASE		
Domestic loans	-	(665,463.2)
Deposits and obligations	(236,091.1)	-
Foreign currency forward sales receivables	(446,053.2)	-
Other liabilities	(186.9)	-
Other assets	(2,388.1)	(10,864.7)
Interest and indexation received for domestic loans	(1,004,234.9)	(135,067.5)
Currency exchange operations	(156,100.1)	(2,490,301.5)
TOTAL DECREASE	<u>(1,845,054.3)</u>	<u>(3,301,696.9)</u>
Change in monetary base for the period	<u>477,467.9</u>	<u>611,531.6</u>
Effect of price-level restatement on beginning balance of monetary base	(61,491.0)	(85,611.8)
ENDING BALANCE	<u>3,405,611.2</u>	<u>2,989,634.3</u>

VARIATIONS IN INTERNATIONAL RESERVE ASSETS

	(US\$ million)	
	2006	2005
BEGINNING BALANCE	16,963.4	16,016.0
INCREASE		
Domestic loans	1,205.2	17.1
Deposits and obligations	2,851.4	2,412.9
Foreign currency forward sales receivables	-	1,416.3
Capitalization of Treasury contribution		
Interest received for deposits and other investment instruments abroad	605.9	-
	<u>790.7</u>	<u>681.6</u>
TOTAL INCREASE	5,453.2	4,527.9
DECREASE		
Notes issued	(2,400.0)	(2,510.8)
Foreign currency forward sales receivables	(886.5)	-
Other liabilities	(0.3)	(0.3)
Other assets	(0.2)	-
Interest paid for foreign liabilities	(121.4)	(119.5)
Currency exchange operations, net (*)	0.5	(95.5)
TOTAL DECREASE	<u>(3,407.9)</u>	<u>(2,726.1)</u>
Change in reserves during the year	2,045.3	1,801.8
Effect of exchange rate	420.2	(854.4)
FINAL BALANCE	<u>19,428.9</u>	<u>16,963.4</u>
(*) Currency exchange operations, net, are as follows:		
Currency exchange operations	(297.6)	(4,357.7)
Less: Currency exchange operations that do not generate cash flows		
Treasury transfers	248.1	1,912.2
BCX tender	50.0	2,350.0
Total currency exchange operations, net	<u>0.5</u>	<u>(95.5)</u>

Note 23. Balance in foreign currency

Rights and obligations payable in foreign currency included in the balance sheet as of 31 December 2006 and 2005, are as follows:

	(US\$ million)	
	2006	2005
ASSETS		
FOREIGN ASSETS	19,857.9	17,299.5
Reserves	19,610.4	17,055.1
Other foreign assets	247.5	244.4
DOMESTIC ASSETS	1,030.8	2,487.2
Domestic loans	1,030.8	2,487.2
OTHER ASSETS	2.2	2.6
Total assets	<u>20,890.8</u>	<u>19,789.3</u>
LIABILITIES		
FOREIGN LIABILITIES	288.5	282.1
Reserves	13.6	16.5
Other foreign liabilities	90.2	90.5
Special drawing rights (SDR) allocations	184.7	175.1
DOMESTIC LIABILITIES	5,987.5	5,513.3
Deposits and obligations with the Treasury	1,916.5	192.5
Other deposits and obligations	4,070.0	2,935.1
Notes issued	1.0	2,385.7
Total liabilities	<u>6,276.0</u>	<u>5,795.4</u>
NET ASSETS	<u>14,614.8</u>	<u>13,993.</u>

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 3,345 dated 1980, the Bank's income is tax exempt.

Note 26. Subsequent events

Between 31 December 2006, and the date of issuance of these financial statements there have been no significant subsequent events that may affect them.



ALEJANDRO ZURBUCHEN SILVA
General Manager



SILVIA QUINTARD FLEHAN
General Auditor



CÉSAR CARO BROWN
General Accountant



Report of
independent auditors

**To the President 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 2006 and 2005, 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 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 deferral of accounting losses arising from amendments to the subordinated loan obligation payment agreements of certain banks, in accordance with Law 19,396 (notes 2g) and 8). As of 31 December 2005, these losses amounted to Ch\$415,566.9 million, which were paid in full as of 31 December 2006, with a charge to net income for the year.
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 2006 and 2005 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 13 to these financial statements, as of 31 December 2006, the Central Bank of Chile presents an equity deficit of Ch\$2,143,691.9 million (Ch\$2,474,814 million in 2005), which is mainly due to decreases in foreign currency exchange rates in 2005 and prior years.
6. As indicated in Article 11 of Law 20,128, during 2006, the Chilean Treasury, through the Ministry of Finance, made a capital contribution to the Central Bank of Chile of Ch\$322,745.7 million, in accordance with the Fiscal Responsibility Law.

Enrique Aceituno A.
Santiago, Chile, 19 January 2007

ERNST & YOUNG LTDA.