



IV. Financial statements of the Central Bank of Chile



Balance sheets as of 31 December 2005 and 2004

(Millions of Chilean pesos)

Assets	2005	2004
Foreign assets	8,848,388.7	9,433,654.1
Reserve assets	8,722,739.3	9,289,040.3
Monetary gold	1,714.3	1,743.8
Special drawing rights (SDR)	27,051.8	30,525.0
Reserve position in the IMF	97,078.7	258,457.4
Foreign currencies	8,581,670.9	8,987,063.9
Other assets	15,223.6	11,250.2
Other foreign assets	125,649.4	144,613.8
Shares and contributions to the IDB	94,742.2	106,860.9
Bank for International Settlements (BIS) shares	30,907.2	37,752.9
Domestic assets	3,530,016.7	5,536,736.6
Domestic loans	3,530,016.7	5,536,736.6
Loans to state-owned companies	1,963.5	3,553.9
Loans to <i>Banco del Estado de Chile</i>	4,667.4	386,772.8
Loans to commercial banks	415,371.1	710,143.3
Loans to other institutions	492,279.9	468,013.4
Treasury transfers (Laws 18,267, 18,401 and 18,768)	1,669,061.1	3,000,444.0
Loan for subordinated obligations of financial institutions (Laws 18,401 and 19,396)	946,673.7	967,809.2
Other assets	1,156,730.4	439,657.7
Bank premises and equipment, net	16,691.5	17,317.5
Other securities	410,853.3	422,340.2
Foreign currency purchased with resell agreement	729,185.6	-
Total assets	13,535,135.8	15,410,048.4

The accompanying notes 1 to 19 are an integral part of these financial statements.

Liabilities	2005	2004
Foreign liabilities	183,423.0	222,723.1
Reciprocal loan agreements	8,493.4	9,211.6
Loans	251.3	472.1
Accounts with international organizations	84,624.5	103,186.3
Special drawing rights (SDR) allocations	90,053.8	109,853.1
Domestic liabilities	14,985,115.1	16,408,820.7
Monetary base	2,928,143.3	2,413,040.6
Banknotes and coins in circulation	2,466,319.2	2,220,533.4
Deposits from financial institutions (domestic currency)	193,424.1	192,507.2
Deposits for technical reserves	268,400.0	-
Deposits and obligations	1,785,163.1	1,472,353.2
Deposits and obligations with the Treasury	139,436.5	205,758.5
Other deposits and obligations	1,645,726.6	1,266,594.7
Instruments issued by Central Bank of Chile	10,271,808.7	12,523,426.9
Indexed promissory notes payable in coupons (PRC)	2,508,826.1	3,268,057.9
Central Bank discountable promissory notes (PDBC)	1,937,600.0	1,693,860.0
Central Bank bonds in Chilean pesos (BCP)	1,677,283.0	1,988,195.6
Central Bank bonds in UF (BCU)	1,609,467.4	1,313,389.6
Central Bank bonds in US dollars (BCX)	1,225,687.4	1,472,511.3
Indexed coupons (CERO) in UF	756,676.3	852,229.7
Central Bank bonds expressed in US dollars (BCD)	414,611.1	1,320,436.9
Commercial notes from redenomination of foreign debt securities	81,624.5	82,895.5
Promissory notes indexed in US dollars (PRD)	58,949.7	409,342.6
Other	1,083.2	1,802.5
Indexed coupons (CERO) in US dollars	-	120,705.3
Other liabilities	790,509.6	64,039.7
Provisions	6,869.4	8,353.4
Other securities	129.9	190.3
Temporary liabilities	55,259.4	55,496.0
Creditors on foreign currency purchased with resale agreement	728,250.9	-
Capital and reserves	(2,423,911.9)	(1,285,535.1)
Capital	(1,285,535.1)	(578,474.0)
Deficit for the year	(1,138,376.8)	(707,061.1)
Total liabilities	13,535,135.8	15,410,048.4

The accompanying notes 1 to 19 are an integral part of these financial statements.

Statements of income for the years ended as of 31 December 2005 and 2004

(Millions of Chilean pesos)

Operating results	2005	2004
Operating income	889,131.6	956,821.7
Interest received and accrued	463,602.1	431,538.3
Readjustments received and accrued	58,028.9	38,431.4
Income on price differences	149,545.3	143,110.3
Foreign exchange rate income	217,383.5	343,416.8
Other operating income	571.8	324.9
Operating expenses	(2,064,811.9)	(1,666,682.5)
Interest paid and accrued	682,221.2	732,998.7
Indexation paid and accrued	149,720.4	54,538.4
Loss due to price differences	70,101.3	60,246.2
Foreign exchange rate losses	1,156,287.8	811,962.8
Other operating expenses	6,481.2	6,936.4
Gross margin	(1,175,680.3)	(709,860.8)
Other operating expenses	(25,332.3)	(26,060.7)
Personnel expenses	16,686.5	16,703.5
Administrative expenses	6,571.7	7,253.2
Depreciation, amortization and write-offs	1,608.5	1,612.2
Taxes and contributions	465.6	491.8
Income before provisions and write-offs	(1,201,012.6)	(735,921.5)
Provisions and write-offs	-	60.5
Net margin (Total operating results)	(1,201,012.6)	(735,861.0)
Non-operating results	920.7	761.6
Non-operating income	920.8	787.3
Non-operating expenses	(0.1)	(25.7)
Income before price-level restatement	(1,200,091.9)	(735,099.4)
Price-level restatement	61,715.1	28,038.3
Deficit for the year	(1,138,376.8)	(707,061.1)

The accompanying notes 1 to 19 are an integral part of these financial statements.

Notes to the Financial Statements

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 entity of technical nature, full legal capacity, its own assets and indefinite duration, created in accordance with Sections 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 stability of the currency and the normal functioning of domestic and foreign payments.

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

2. Summary of significant accounting policies

a) Basis of preparation of the financial statements

The financial statements have been prepared in conformity with generally accepted accounting principles in Chile ("Chilean GAAP") and regulations issued by the Board of the Central Bank of Chile, upon approval by the Chilean Superintendency of Banks and Financial Institutions, as established in Section 75 of the Basic Constitutional Act of the Central Bank of Chile. These policies are consistent with Chilean GAAP, except for the method used in recording losses on subordinated loan obligations, which is explained in letter g) below.

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 14) are disclosed.

For comparative purposes, the 2004 figures have been restated according to changes in the Chilean consumer price index for the period between 30 November 2004 and 30 November 2005, amounting to 3.6%.

b) Assets and liabilities and 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 stated in minted Chilean gold, are valued at the average London morning quotation of the “Gold Fixing” rate (US dollars per fine troy ounce), for all business days in the preceding quarter, less 10%.

Settlement of foreign currencies other than US dollars is made at the exchange rates published daily by Central Bank of Chile, in the *Official Gazette*, which are always based upon the “observed US dollar” rate.

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

	2005 Ch\$	2004 Ch\$
United States dollar (Observed exchange rate)	514.21	559.83
Pound Sterling	886.26	1,072.88
Euro	608.60	759.71
Special Drawing Rights (SDR)	734.94	866.53

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 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 2,943 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 accounting purposes of the Central Bank of Chile as investments with a charge to 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 dividends were received in the amount of US\$1.0 million (US\$0.5 million in 2004).

e) Financial investments

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

f) Loans receivable and obligations

Non-indexed loans receivable and obligations are shown at original value or at their latest renewal value, except for commercial instruments purchased and discounted notes, which are shown at nominal value upon maturity. Indexed balances include accrued indexation adjustments as of the balance sheet date, and balances denominated in foreign currency include the related exchange rate adjustments.

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

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

g) Subordinated obligations of financial institutions

Loans for subordinate obligations included under Domestic Assets (note 9), includes restated balances as of each year-end and accumulated increases recorded and credited to income on an accrual basis, according to Law 19.396.

Accounting losses arising from changes in payment terms of the subordinated debt from the banks *BHIF*, *Internacional*, *Concepción* and *Santiago*, have been deferred in conformity with Article 19 of Law 19,396 which states: "Any losses incurred by the Central Bank of Chile in its capacity as creditor of a subordinated obligation may be deferred and absorbed by any surpluses generated in future periods. To this effect, the Central Bank of Chile is entitled to allocate such surplus to set up provisions to absorb any such losses".

As of 31 December 2005, deferred losses amounted to Ch\$407,019.5 million (Ch\$407,01.5 million in 2004) and are shown under "Other securities" in "Other Asset Accounts". During 2005 and 2004 no provisions have been made for this concept.

h) Loan provisions

The Bank has not established any loan provisions in 2005 and 2004. As of 31 December 2005 no provisions have been recorded for this concept, whereas in 2004 the balance of these provisions amounted to Ch\$9,702.5 million and is disclosed deducting the related assets.

During 2005, write-offs were made with a charge to provisions established in 1989 in the amount of Ch\$8,602.1 million (Ch\$8.1 million in write-offs and Ch\$60.5 million of recovery in 2004).

i) Bank premises and equipment

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

j) 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\$5,836.3 million (Ch\$7,330.1 million in 2004).

k) Vacation accrual

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

l) 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). Income statement account balances in local currency, except for depreciation and price-level restatement, have not been restated for inflation. The effect of the application of price-level restatement originated a net credit to income of Ch\$61,715.1 million in 2005 (Ch\$28,038.3 million in 2004).

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.

3. Relevant events

As stated in resolution 1211E-01-050812, the Board of the Central Bank of Chile accepted the resignation of the General Manager Mr. Camilo Carrasco Alfonso, effective 31 August 2005. Mr. Camilo Carrasco was assigned to this position through resolution 328-02-931223, on 1 February 1994. In his replacement, through resolution 1211E-02-050812, the Board assigned Mr. Enrique Marshall Rivera, who assumed the position on 1 September 2005.

Through resolution of the Board 1237E-01-051222, the Bank's Board accepted the resignation of Mr. Enrique Marshall Rivera from the position of General Manager, due to his assignment by executive decree 1,534 (Ministry of Finance), dated 22 December 2005, to the position of Board Member of the Central Bank of Chile, as of 23 December 2005, taking over for Ms. María Elena Ovalle Molina, whose assignment as Board Member expired on 6 December 2005.

Taking over for Mr. Enrique Marshall Rivera, through resolution 1237E-01-051222, the Board assigned Mr. Leonardo Hernández Tagle, as the Interim General Manager, as of 23 December 2005.

4. Reserve assets

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

	(US\$ million)	
	2005	2004
Monetary gold	3.3	3.0
Special drawing rights (SDR)	52.6	52.6
Reserve position in the IMF	188.8	445.6
Foreign currencies:		
Coins and deposits	8,900.4	7,604.1
Bonds issued by governments, organizations and foreign banks	4,105.6	5,824.0
Commercial papers	-	972.4
Foreign government treasury bills	3,042.2	712.7
Floating rate bills	640.9	282.0
Other foreign investment instruments	-	100.2
Other assets:		
Reciprocal loan agreements	29.6	19.4
Total reserve assets	16,963.4	16,016.0

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

Domestic loans to banks, financial institutions and other institutions or companies, which amounted to Ch\$914,281.9 million (Ch\$1,568,483.4 million in 2004), mainly include the following :

	(Millions of Ch\$)	
	2005	2004
Receivables from <i>Corfo</i> (note 6)	1,124.7	1,329.9
Credit line on debt restructuring	11,946.2	17,897.6
Liquidity credit lines	-	39,373.0
Credit lines to finance the sale of mortgage portfolio of former <i>Anap</i>	10,593.8	20,548.6
Credit lines for programs of international organizations	838.8	2,017.3
Credit lines for deposits, Resolution 1,686	-	239.0
Former <i>Caja Central de Ahorros y Préstamos</i> and former <i>Anap</i> (note 7)	492,279.9	468,013.4
Purchase of Central Bank of Chile promissory notes with resale agreement	397,498.5	1,018,857.6
Other	-	207.0
Total	914,281.9	1,568,483.4

6. 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, for the assignment of shares of the corresponding financial institutions. As of 31 December 2005, accounts receivable from *Corfo* amount to Ch\$1,124.7 million (Ch\$1,329.9 million in 2004), and is included under Loans to state-owned companies.

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million, will be covered by the Treasury through future transfers (note 8) which as of 31 December 2005 amounted to Ch\$204,826.3 million, equivalent to UF11.4 million (Ch\$204,434.9 million in 2004, 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 to the Superintendency of Banks and Financial Institutions the previous report mentioned in that legal provision, for the purpose of the corresponding government transfer in the amount of UF697,630.81, referring to the shares of *Banco Internacional* that were disposed in accordance with above mentioned law.

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 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 the Decree Law 1,263 of 1975.

As of 31 December 2005, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, was Ch\$492,279.9 million, of which Ch\$452,857.5 million relate to direct loans granted by the Bank and Ch\$39,422.4 million with credit lines for international organizations programs (Ch\$468,013.4 million in 2004, of which Ch\$430,734.8 million relate to direct credits granted by Central Bank of Chile and Ch\$37,278.6 million to credit lines for international organizations programs) and is shown under “Loans to other institutions”.

8. Treasury transfers

Treasury transfers, included under Domestic Loans, are the following:

	(Millions of Ch\$)	
	2005	2004
Treasury promissory notes Law 18,267	185,302.5	244,156.3
Treasury promissory notes Law 18,768	1,278,932.3	2,551,852.8
Treasury transfers Law 18,401	204,826.3	204,434.9
Total	1,669,061.1	3,000,444.0

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 current year, the Bank received principal prepayments of US\$1,957.1 million, and interest of US\$43.1 million, which were credited to income (in 2004 US\$488.2 million for principal and US\$12.1 million for interest).

Law 20,083 on public sector budgets for 2006 was published in the *Official Gazette* on 29 November 2005. Article 18 of this law states:

“Article 18°. The President of the Republic is authorized to substitute the promissory notes issued by virtue of Article 75 of Law 18,768, through one or more executive decrees from the Ministry of Finance, for other documents or bonds issued by the Treasury, the expiration period of which will be equal to or less than the expiration of debt referred to in Law 18,358. The substitution

procedure, interest rate, and other characteristics, conditions and types of those instruments will be determined in the respective decree.

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

c) 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 6.

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.

9. Subordinated obligation

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

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 is as follows:

Denomination	(Millions of Ch\$)	
	2005	2004
20,000	540,620.1	467,951.4
10,000	1,417,782.3	1,266,635.0
5,000	214,358.3	202,667.7
2,000	71,059.3	66,894.0
1,000	95,083.2	94,595.3
500	4,910.8	5,226.6
Coins	122,505.2	116,563.4
Total	2,466,319.2	2,220,533.4

11. Deposits and loan obligations

Other deposits and loan obligations include the following items:

	(Millions of Ch\$)	
	2005	2004
Foreign currency current accounts	374,477.6	79,754.7
Deposits in foreign currency, Resolutions 1,657 and 1,686	1.2	133.1
Short-term deposits	1,271,070.1	1,186,467.9
Current accounts in domestic currency	177.7	239.0
Total	1,645,726.6	1,266,594.7

12. Maturities of instruments issued by the Central Bank of Chile, as of 31 December 2005 and 2004

Type of document	(Millions of Ch\$)					Total 2005	Total 2004
	Up to 90 days	91 to 180 days	181 days to 1 year	over 1 year to 3 years	Over 3 years		
Indexed promissory notes payable in coupons (PRC)	190,970.1	161,900.5	283,958.6	913,572.8	958,424.1	2,508,826.1	3,268,057.9
Central Bank discountable promissory notes (PDBC)	1,937,600.0	-	-	-	-	1,937,600.0	1,693,860.0
Central Bank bonds in Chilean pesos (BCP)	33,803.5	178,379.5	164,970.0	680,780.0	619,350.0	1,677,283.0	1,988,195.6
Central Bank bonds in indexed units UF (BCU)	22,927.3	1,620.2	-	731,116.4	853,803.5	1,609,467.4	1,313,389.6
Central Bank bonds in US dollars (BCX)	320,867.0	313,478.9	591,341.5	-	-	1,225,687.4	1,472,511.3
Indexed coupons (CERO) in UF	25,674.1	22,986.3	36,968.0	154,083.7	516,964.2	756,676.3	852,229.7
Central Bank bonds expressed in US dollars (BCD)	8,385.2	-	-	406,225.9	-	414,611.1	1,320,436.9
Commercial notes from redenomination of foreign debt securities	-	4.5	81,620.0	-	-	81,624.5	82,895.5
Promissory notes indexed in US dollars (PRD)	27,952.0	30,997.7	-	-	-	58,949.7	409,342.6
Deposit certificates expressed in US dollars, Resolution 1649	19.5	-	521.3	521.3	-	1,062.1	1,780.7
Exchange differential promissory notes	21.1	-	-	-	-	21.1	21.8
Indexed coupons (CERO) in US dollars	-	-	-	-	-	-	120,705.3
Total as of 31 December 2005	2,568,219.8	709,367.6	1,159,379.4	2,886,300.1	2,948,541.8	10,271,808.7	
Total as of 31 December 2004	2,473,037,0	836,433,9	2,629,748,6	2,794,040,8	3,790,166,6		12,523,426,9

Balances include interest and adjustments accrued as of 31 December 2005 and 2004.

Transitory liabilities include net discounts granted but not accrued, net of price differences received but not accrued, generated by notes issued for Ch\$55,487.7 million (Ch\$55,571.3 million in 2004).

13. Capital and reserves

Changes in capital and reserve during 2005 and 2004 were as follows:

	Capital	(Millions of Ch\$) Results for the year	Total
Balances as of 01 January 2004	885,786.5	(1,430,540.3)	(544,753.8)
Distribution of the 2003 deficit	(1,430,540.3)	1,430,540.3	-
Price-level restatement on equity	(13,618.8)	-	(13,618.8)
Deficit for the year	-	(682,491.4)	(682,491.4)
Balances as of 31 December 2004	(558,372.6)	(682,491.4)	(1,240,864.0)
Balances as of 31 December 2004 restated for comparison purposes	(578,474.0)	(707,061.1)	(1,285,535.1)
Balances as of 01 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)

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\$1,659,529.1 million restated as of 31 December 2005), to be paid according to Interim 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 2005, the Bank has a capital deficit of Ch\$2,423,911.9 million (deficit of Ch\$1,285,535.1 million in 2004).

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

14. 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 unbalances, indirectly regulating such unbalances through exchange market intervention and/or for other purposes.

Variations In the monetary base		
(Millions of Ch\$)		
	2005	2004
Beginning balance monetary base		
increase of monetary base	2,413,040.6	2,224,061.2
Operations with international organizations	10,570.8	13,403.0
Foreign currency forward sales receivables	729,185.6	-
Domestic loans	-	336,327.2
Deposits and obligations	567,713.6	-
Notes issued	1,875,484.2	1,511,956.8
Interest and indexation paid	358,056.4	507,816.0
Technical reserve	268,400.0	-
Other assets	-	11,670.1
Operating support expenses	23,330.3	23,569.9
Total increase	3,832,740.9	2,404,743.0
Decrease of monetary base		
Domestic loans	(651,775.9)	-
Deposits and obligations	-	(220,519.1)
Other assets	(10,641.2)	-
Interest and indexation received for domestic loans	(132,289.4)	(89,771.6)
Currency exchange operations, net (1)	(2,439,080.8)	(1,851,227.6)
Total decrease	(3,233,787.3)	(2,161,518.3)
Change in monetary base	598,953.6	243,224.7
Effect of price-level restatement on		
beginning balance of monetary base	(83,850.9)	(54,245.3)
Ending balance monetary base	2,928,143.3	2,413,040.6
<i>Currency exchange operations, net are comprised of:</i>		
<i>Currency exchange operations</i>	<i>(2,439,080.8)</i>	<i>(2,682,809.2)</i>
<i>Currency exchange operations that do not generate cash flows</i>	<i>-</i>	<i>831,581.6</i>
<i>Currency exchange operations, net</i>	<i>(2,439,080.8)</i>	<i>(1,851,227.6)</i>

Variations in international reserve assets		
(US\$ million)		
	2005	2004
Beginning reserves balance	16,016.0	15,851.2
Reserve increase		
Domestic loans	17.1	0.7
Deposits and obligations	2,412.9	479.5
Other obligations	1,416.3	-
Interest received for deposits and other		
investment instruments abroad	681.6	559.1
Total increase	4,527.9	1,039.3
Reserve decrease		
Notes issued	(2,510.8)	(1,001.4)
Other liabilities	(0.3)	(0.3)
Interest paid for foreign liabilities	(119.5)	(0.7)
Currency exchange operations, net (2)	(95.5)	(130.3)
Total decreases	(2,726.1)	(1,132.7)
Change in reserves during the year	1,801.8	(93.4)
Effect of exchange rate	(854.4)	258.2
Final asset reserve balance	16,963.4	16,016.0
<i>(2) Currency exchange operations, net are as follows:</i>		
<i>Currency exchange transactions</i>	<i>(4,357.7)</i>	<i>(4,282.3)</i>
<i>Less: Currency exchange operations that do not generate cash flows</i>		
<i>Treasury transfers</i>	<i>1,912.2</i>	<i>966.7</i>
<i>BCX tender</i>	<i>2,350.0</i>	<i>1,874.0</i>
<i>Promissory notes exchange</i>	<i>-</i>	<i>1,311.3</i>
<i>Total currency exchange operations, net</i>	<i>(95.5)</i>	<i>(130.3)</i>

15. Balances in foreign currency

Rights and obligations paid in foreign currency included in the balance sheet as of 31 December 2005 and 2004, are as follows:

	(US\$ million)	
	2005	2004
Assets		
Foreign assets	17,299.5	16,123.8
Reserves	17,055.1	15,874.5
Other foreign assets	244.4	249.3
Domestic assets	2,487.2	4,400.2
Domestic loans	2,487.2	4,400.2
Other assets	2.6	12.5
Total assets	19,789.3	20,536.5
Liabilities		
Foreign liabilities	282.1	296.1
Reserves	16.5	15.9
Other foreign liabilities	90.5	90.8
Special drawing rights (SDR) allocations	175.1	189.4
Domestic liabilities	5,513.3	3,274.6
Deposits and Treasury obligations	192.5	282.5
Other deposits and obligations	2,935.1	450.2
Notes issued	2,385.7	2,541.9
Total liabilities	5,795.4	3,570.7
Net assets	13,993.9	16,965.8

16. Contingencies and commitments

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

17. Income taxes

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

18. Income from interest, indexation and price differences

Income generated by interest, indexation and price-differences, as of 31 December 2005 and 2004, is as follows:

	(Millions of Ch\$)	
	2005	2004
Interest received and accrued originated from:		
Investments abroad	292,841.0	286,327.5
Treasury transfers (Laws 18,768 and 18,267)	76,585.8	66,211.5
Subordinate obligations	46,093.3	47,253.6
Other institutions	32,725.8	28,012.1
Commercial banks	14,599.6	2,680.9
<i>Banco del Estado de Chile</i>	499.2	912.4
Reciprocal loan agreements	257.4	140.3
Total	463,602.1	431,538.3
Indexation received and accrued related to:		
Subordinated obligations	33,452.5	21,423.0
Treasury transfers (Laws 18,401 and 18,267)	15,634.0	10,993.7
<i>Caja Central and Asociación Nacional de Ahorro y Préstamo</i>	7,478.9	4,677.1
Other	1,463.5	1,337.6
Total	58,028.9	38,431.4
Income on price differences originated from:		
Central Bank bonds in Chilean pesos (BCP)	84,654.2	71,460.7
Central Bank bonds in UF (BCU)	26,186.6	18,722.2
Central Bank bonds in US dollars (BCX)	20,306.3	9,463.1
Central Bank indexed promissory notes (PRC)	11,544.7	13,353.7
Central Bank bonds expressed in US dollars (BCD)	6,076.8	28,320.6
Indexed promissory notes in US dollars (PRD)	776.7	1,728.3
Redemption to CERO promissory notes in US dollars	-	61.7
Total	149,545.3	143,110.3

	(Millions of Ch\$)	
	2005	2004
Interest paid and accrued from:		
Indexed promissory notes payable in coupons (PRC)	179,479.9	229,417.4
Central Bank bonds in Chilean pesos (BCP)	158,721.8	160,058.7
Central Bank bonds in US dollars (BCX)	71,486.3	23,380.5
Central Bank bonds in UF (BCU)	71,243.9	55,874.7
Foreign operations	62,723.0	61,900.4
Central Bank discountable promissory notes (PDBC)	52,627.3	45,145.0
Central Bank bonds expressed in US dollars (BCD)	34,388.1	95,031.6
Other notes issued	32,758.0	21,806.6
Indexed promissory notes in US dollars (PRD)	18,604.9	40,289.5
Reciprocal loan agreements	188.0	94.3
Total	682,221.2	732,998.7
Indexation paid and accrued from:		
Indexed promissory notes payable in coupons (PRC)	98,113.0	77,918.5
Central Bank bonds in UF (BCU)	55,185.8	27,551.0
Optional indexed coupons (CERO) in UF	28,715.4	21,006.4
Optional indexed coupons (CERO) in US dollars	(4,678.2)	6,123.6
Other notes	5,589.2	4,436.9
Central Bank bonds expressed in US dollars (BCD)	(12,493.2)	(69,915.0)
Indexed promissory notes in US dollars (PRD)	(20,711.6)	(12,583.0)
Total	149,720.4	54,538.4
Loss due to price differences corresponds to:		
Redemption to CERO promissory notes in UF	35,115.8	40,707.5
Central Bank bonds in pesos (BCP)	23,312.8	-
Indexed promissory notes payable in coupons (PRC)	6,683.7	4,566.3
Redemption to CERO promissory notes in US dollars	4,607.3	13,683.5
Other	220.4	693.3
Indexed promissory notes in US dollars (PRD)	161.3	595.6
Total	70,101.3	60,246.2

19. Subsequent events

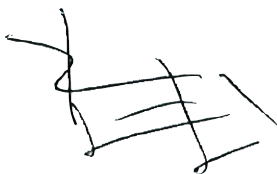
Between 31 December 2005, and the date of issuance of these financial statements there have been no significant subsequent events that may affect them.



LEONARDO HERNÁNDEZ TAGLE
Interim General Manager



CÉSAR CARO BROWN
General Accountant



ALEJANDRO ZURBUCHEN SILVA
General Auditor



Report of independent auditors

(Translation of a report originally issued in Spanish – see note 2 a)

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

1. We have audited the accompanying balance sheets of Central Bank of Chile (the “Bank”) as of 31 December 2005 and 2004, and the related statements of income for the years then ended. These financial statements (including the related notes) are the responsibility of the management of Central Bank of Chile. Our responsibility is to express an opinion on these financial statements based upon our audits.
2. We conducted our audits in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 of Ch\$407,019.5 million in 2005 (Ch\$407,019.5 million in 2004), 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 31 December 2005 and 2004 and the results of its operations for the years then ended, in conformity with the accounting policies described in note 2.
5. As of 31 December 2005, the Bank recorded a deficit in equity of Ch\$2,423,911.9 million (Ch\$1,285,535.1 million as of 31 December 2004). As in the prior year, the negative variation in equity as of 31 December 2005 is a consequence of the deficit for the year of Ch\$1,138,376.8 million (Ch\$707,061.1 million in 2004), which is mainly explained by the decrease in the observed exchange rate of the United States dollar and euro in 2005, and by the decrease in the observed exchange rate of the United States dollar and by variations in the exchange rates of other foreign currencies during 2004, which unfavorably affected the foreign currency asset position of the Bank.
6. As explained in note 2 g), during 2005 and 2004, the Bank did not amortize accounting losses generated by the modification of the payment conditions of the subordinated loan obligation due to the Bank had a deficit in both periods.

Enrique Aceituno A.

ERNST & YOUNG LTDA.
Santiago, Chile 16 January 2006