



BANCO CENTRAL DE CHILE

**VIII MEETING ON CENTRAL BANKS ACCOUNTING AND
BUDGETARY ASPECTS**

CONFERENCE PAPER

EFFECTS OF INFLATION IN FINANCIAL STATEMENTS

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CENTRAL BANK OF CHILE

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EFFECTS OF INFLATION IN FINANCIAL STATEMENTS

1. INTRODUCTION

Between 25 and 28 September, the Central Banks Accounting and Budget Committee met at the Central Bank of the Dominican Republic to deal with various subjects of interest to all the Central Banks affiliated to the Centro de Estudios Monetarios Latinoamericanos (CEMLA).

One of the subjects dealt with was the need to delve into the effects of inflation in financial statements, considering the different approaches to the criteria used to record and show such effects in financial statements.

Thus, it was agreed that this subject should be included in the agenda of the VIII Meeting on Central Banks Accounting and Budgetary Aspects. Central Bank of Chile was commissioned to prepare and submit a reference paper on the “Effects of Inflation in Financial Statements”.

Consequently, in this paper we will analyze, from a conceptual point of view, inflation and its effects, price-level restatement techniques usually applied by Chilean companies, and mechanisms used by the Chilean financial system. Finally, we will present the way in which inflation-related adjustments are made by Central Bank of Chile.



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2. CONCEPTS

2.1. Inflation

In the dictionary of the Royal Academy of the Spanish Language *inflation* is defined as “the excess of money supply in relation to its cover, which unleashes a general rise in prices”.

Technically, one of the definitions most often used is the one that describes *inflation* as the economic phenomenon consisting in a positive and sustained variation in the overall price level in a region or country during a specific period. This means rises in the price of goods and services, and therefore, the need to use a larger number of monetary units to acquire the same number of products; or, to acquire only a part of such goods and services with the same monetary units.

In accordance with the above, inflation produces losses in the purchasing power of money or, in other words, reduces its purchasing power.

A concept that is the reverse of inflation, but also detrimental to the economy, is *deflation*, which is the decline in prices as a result of reductions in the amount of money or due to overproduction of goods and services and lack of purchasing power.

2.2 Causes of inflation

The causes of inflation are varied and belong to the macroeconomic front of economic systems. We will not analyze them in this paper.



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2.3 Effects of inflation in accounting

We will refer to the effects of inflation in accounting, but it should be taken into account that both macroeconomic and microeconomic effects are very important.

It may be said that the objective of accounting is to provide significant, comprehensive, economical and timely quantitative information about the operations of a business entity in an organized and systematic way. Accounting takes into account the economic events affecting such business entity so that such entity and third parties can make social, economic and political decisions. For the entity itself, this is very important in terms of control, operating efficiency and planning.

One way to achieve this objective, to some extent, is to prepare financial statements according to a set of previously agreed and generally accepted rules or conventions. For this purpose, Accounting Principles have been defined under two basic hypotheses:

- a) Company continuity hypothesis or going-concern assumption
- b) Monetary stability hypothesis

Under the *company continuity hypothesis or going-concern assumption*, accounting assumes that, barring proof of the contrary, a company or business entity will continue to operate for a long and indefinite period in the future. The entity is considered as an economic unit which adds value to the resources it uses and its results are measured by the difference between the sale value of the good or service and the value of the resources used to obtain such income. Similarly, the resources acquired and not sold are presented at their acquisition or cost value and not at their sale value.



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Under the *monetary stability hypothesis* (constant monetary unit), accounting assumes that the purchasing power of money will remain constant over time. If this were so, all accounting entries could be made in the currency that is the common denominator and the respective figures would be homogeneous and comparable, and the information obtained would be reliable and representative of the real situation of a company's economic-financial operations.

However, most of the world economies are affected to different extents by the inflationary phenomenon which gradually erodes the purchasing power of money. This leads to the loss of homogeneity of accounting figures, since such figures have been recorded using a currency which, due to the inflationary process, represents different purchasing powers during the same accounting period.

One of the accounting principles is "Historical Cost" (valuation at cost), which establishes that goods and services should be recorded at their acquisition cost at the moment the transaction is carried out.

Therefore, if there is inflation, the company's operations will be expressed in monetary units of different value over time, that is, economic events will be recorded at their historical cost at the time they were incurred. Thus, when determining the results of the company's operations, historical costs of different purchasing power will be compared. This will necessarily lead to unreal results, which may induce the company management to make wrong decisions.

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In periods of inflation, a balance sheet based on historical costs will be far removed from economic values, and its usefulness as a measure of the resources used will be seriously impaired, since it will not show the effects of inflation on monetary assets and liabilities.

The following example illustrates the above in a very simple way:

- a) A company's initial capital, totally represented by money, amounts to \$100

<u>ASSETS</u>		<u>LIABILITIES</u>	
CASH	<u>\$100</u>	CAPITAL	<u>\$100</u>

- b) In January the single business operation of the total accounting period takes place, and the comparison between initial capital and final capital shows the following:

<u>ASSETS</u>		<u>LIABILITIES</u>	
CASH	\$110	CAPITAL	\$100
		PROFIT	10
TOTAL	<u>\$110</u>	TOTAL	<u>\$110</u>

From this example we may draw the following conclusions:

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- 1) If during the accounting period the purchasing power of money has remained unchanged, the accounting balance will be correct, since it will be based on the comparison of homogeneous figures.
- 2) If, on the contrary, during the accounting period there has been an inflation of, for example, 100%, the accounting balance will be incorrect since the \$10 profit was determined by comparing different values, given that during the accounting period the purchasing power of money was reduced to half.

In this situation, if we want to know the company's real income, first the figures to be compared must be expressed in currency of equal purchasing power, that is, its current value at the end of the accounting period.

To do this, the initial capital of \$100 has to be restated or revalued by the percentage of inflation of the accounting period to obtain a figure that, at year-end, accounts for the same purchasing power that the company had with the initial \$100.

Initial capital	:	\$100
Plus: 100% revaluation	:	<u>\$100</u>
Adjusted capital	:	<u>\$200</u>

Only after the initial capital has been restated is it possible to compare it with the final capital recorded by the company at the end of the accounting period, making it possible to find out the economic profit or loss made by the transaction during the year.

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Final capital	:	\$110
Adjusted capital	:	<u>\$200</u>
Loss for the accounting period	:	<u>\$ 90</u>

or:

ASSETS**LIABILITIES**

CASH	\$110	CAPITAL	\$100
LOSS	<u>\$ 90</u>	REVALUATION OF CAPITAL	<u>\$100</u>
TOTAL	<u>\$200</u>	TOTAL	<u>\$200</u>

As shown above, if the figures are converted into currency of equal purchasing power at the same date, the result differs from that reached by comparing heterogeneous values. This shows the distorting effect of inflation on the presentation of financial statements if these are not previously restated in terms of the variation in the purchasing power of money.

Consequently, for as long as inflation persists, its negative effects on companies, and therefore on financial accounting, will be resolved by using price-level restatement in financial statements.

3. PRICE-LEVEL RESTATEMENT

In general terms, price-level restatements are the regular adjustments made to some Asset and Liability entries *to correct the effects of inflation on such entries*, in order to present them at their real value at Balance Sheet date. This permits to evaluate a



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company's economic and financial transactions in a better way, and confirm the real increase or reduction in its capital.

This correction of inflationary effects is made by using some adjustment factors, which are applied according to the nature of the asset or liability to be restated.

In this context, the objectives of price-level restatement are:

- a) To remove the inflationary effect from results in order to reflect more accurate increases or decreases in the company's equity.
- b) To present the values of assets, liabilities, equity, and income accounts, making adjustments for inflationary effects at the end of the accounting period, that is, to present all the values in currency of equal purchasing power.

To meet the above objectives, the methodological sequence includes the following overall steps:

- 1) To differentiate *monetary from non-monetary values* in financial statements.
- 2) To correct *non-monetary values* with the respective indicators or factors.
- 3) To apply the specified price-level restatement to *the non-monetary values* of financial statements.

3.1. Factors or indicators of restatement or correction

The most frequently used restatement factors are the following:

- Consumer price index (CPI)
- Indexed unit of account (UF)
- Exchange rate change



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- Other agreed restatement indexes
- Replacement cost

Consumer price index (CPI)

The CPI is determined by the National Statistics Bureau. It is used for the monetary restatement of fixed assets accounts, other non-monetary asset accounts, non-monetary liabilities and equity. This index shows the monthly inflation measured by the price variation of a series of products which make up a family basket of goods. This price variation is expressed in percentages of inflation for each monthly period.

Indexed unit account (UF)

The UF is a daily value determined by Banco Central de Chile. It is fixed according to the average geometrical rate of variation experienced by the Consumer Price Index in the month immediately preceding the period for which such unit is calculated. In general, money lending operations are indexed under this modality, which has extended to other transactions such as service contracts, lease contracts, etc.

Exchange rate change

It is used to restate assets and liabilities denominated in foreign currency, and in general, lending and borrowing agreed on in currencies other than the peso (domestic currency).



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In Chile, the exchange rate used for price-level restatement is the one regularly determined by Central Bank. Assets and liabilities in dollars are restated on the basis of the value of the dollar at the date of preparation of the financial statements.

Other agreed restatement indexes

This involves applying the indexes and factors agreed on by the parties concerned. These indexes and factors are included in the clauses of the contracts stipulating the operations carried out (wholesale price index, indexes by sector, tax unit, etc.).

Replacement cost

This factor is used to restate the balance of the inventory item, which includes stock, raw materials, among others. In Chile, companies apply the tax regulations in force, which establish a methodology that is very similar to the replacement cost, and therefore no new financial adjustments are involved.

3.2. Monetary and non-monetary values

Monetary values are values not protected against inflation and therefore not subject to price-level restatements. Non-monetary items are values protected against inflation and therefore subject to price-level restatements.

Thus, both assets and liabilities are classified as monetary and non-monetary.



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Monetary assets generate losses. This becomes clear when we consider, for example, cash. If there is inflation, money loses its purchasing power and, with the passage of time, its real value is lower and fewer products can be bought with the same money.

Monetary liabilities produce profits because, since they are not subject to price-level restatements, the real value of the debt is reduced by the effect of inflation. At the time of payment, although the original amounts of the debt are paid, this is done with money that has less purchasing power, which means that in real terms one pays less than the amount owed.

Among monetary assets we can mention cash, accounts receivable and deposits not subject to price-level restatements. On the other hand, monetary liabilities are all obligations not subject to price-level restatements, such as creditors in current accounts, suppliers or other non-indexed loans.

In short, monetary assets and liabilities are those whose *real value* is actually reduced by the effects of inflation, and therefore are not subject to price-level restatements.

Non-monetary assets and liabilities are those whose *real value* tends to remain constant and invariable relative to inflation, and therefore their book or historical value must be carried to *real value* by making the relevant adjustments in conformity with the guidelines established for price-level restatement.

Among non-monetary assets we have accounts receivable subject to price-level or foreign currency restatements, investments, fixed assets, and inventories. Among non-



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monetary liabilities we can mention indexed obligations or obligations in foreign currency, such as bank loans, foreign currency indexed loans and obligations to suppliers or creditors. The entries under shareholders' equity are also non-monetary items.

3.3. Outline of the different phases of price-level restatement

3.3.1. Determining shareholders' equity

The company's equity or net worth has to be determined. This corresponds to the amount that is intended for the company's businesses which is exposed to the effects of inflation, without discriminating between items which actually undergo devaluation and items which are hedged against inflation. Equity or net worth is the value contributed by the owners of the company as capital investment, including reserves and retained earnings.

The background information for the assessment of the entity's equity is obtained from the Balance Sheet of the previous year or from the opening entry in the case of the first accounting period.

3.3.2. Revaluation of equity

To express equity in currency of a purchasing power equivalent to the one recorded at the beginning of the accounting period, such equity has to be revalued by applying 100% of CPI variation in the accounting period.



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The total revaluation amount is charged to income, since such amount represents the reduction experienced by the company's capital as a result of inflation.

This loss is charged to the "Price-level Restatement" income account, and the same amount is credited to the "Provisional Revaluation of Equity" account between January and November of each year. In December, the "Revaluation of Equity" account, under "Capital and Reserves" is credited.

3.3.3. Revaluation of increases in equity

Every new capital contribution made during the accounting period must be revalued, taking into account the effective date of the investment. This is recorded as described in section 3.3.2.

3.3.4. Revaluation of decreases in equity

If capital withdrawals are made during the accounting period, the charge made to "Loss on Price-Level Restatement" must have its cross entry. The amount is charged to the "Provisional Revaluation of Equity" account and credited to the "Price-Level Restatement" account.

3.3.5. Revaluation of non-monetary assets

The assets that are hedged against inflation due to their characteristics should be revalued.



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The amount of this revaluation is charged to the respective Asset accounts, entering it under income by crediting the “Price-level Restatement” account.

By means of this entry we can cross-enter the charge to “Loss from Revaluation of Equity”, and detect gains on asset allocation and/or earnings during the accounting period.

3.3.6. Revaluation of non-monetary current liabilities

The company’s obligations expressed in historical values subject to either index-linked terms or contracted in local currency must be revalued.

The amount of this revaluation generates a charge to income, since the “Price-level Restatement” account is debited and the respective Liability account is credited.

3.3.7. Revaluation of income accounts

Income accounts may be restated by following the same methods used to correct non-monetary assets and liabilities, that is, by applying the appropriate price-level restatement factors to each entry according to its date of origin. In practice, this procedure is long and cumbersome, and does not result in higher accuracy. Therefore, adjustments may be made by using the average price-level restatement factor of the accounting period. The revaluation of income accounts has no effect on the company’s final result.



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3.3.8. Accounting diagram of price-level restatement

	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
D	PRICE-LEVEL RESTATEMENT		H
1. Revaluation of equity	3. Revaluation of decreases in equity	<input type="checkbox"/>	<input type="checkbox"/>
2. Revaluation of increases in equity	4. Revaluation of non-monetary assets	<input type="checkbox"/>	<input type="checkbox"/>
5. Revaluation of non-monetary liabilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
D	REVALUATION OF EQUITY		H
3. Revaluation of decreases in Equity	1. Revaluation of Equity	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	2. Revaluation of increases in Equity	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
D	NONMONETARY ASSET ACCOUNTS		H
4. Revaluation or restatement of assets and/or investments at the date of the Balance Sheet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
D	NON-MONETARY LIABILITY ACCOUNTS		H
<input type="checkbox"/>	5. Revaluation or restatement of obligations at Balance Sheet date	<input type="checkbox"/>	<input type="checkbox"/>

4. ADJUSTMENTS FOR INFLATION APPLIED BY THE CHILEAN FINANCIAL SYSTEM



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4.1. General approach

The accounting procedures used by banking institutions have been established by the Superintendency of Banks and Financial Institutions of Chile using for this purpose the financial price-level restatement methodology.

Not all adjustments for inflation are included in the term 'price-level restatement'. The results for adjustments relative to indexed investments and obligations and those derived from assets and liabilities in foreign currency, originating from operations inherent to banking companies, are recorded in different accounts and presented as operating results in the financial statements.

4.2. Balances subject to price-level restatement

The following balances should be restated when denominated in local currency:

a) Assets and other debit balances

Balances corresponding to tangible fixed assets and investments in related companies, and physical assets, shares and rights received in lieu of payment or awarded at judicial sale are subject to price-level restatements.

Balances of intangible assets, deferred expenses, prepaid expenses and inventories of operating supplies are also subject to price-level restatements.

b) Liabilities, capital and income



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Provisions for taxes and provisions for staff severance payments are subject to price-level restatements.

Capital and reserve accounts must be individually restated.

According to the instructions of the Superintendency of Banks and Financial Institutions, income accounts are not subject to price-level restatements.

4.3. Journalization

Balances subject to price-level restatement are restated on a monthly basis by directly recording the price-level restatement in the respective accounts, charging or crediting the “Price-Level Restatement” income account. In the case of the asset and debit balance accounts, balances are increased by charging the price-level restatement amount and crediting the “Price-level Restatement” account. In the case of liabilities, the balance of the respective account is credited and, to comply with the double-entry format, the “Price-level Restatement” account is charged.

The price-level restatement of the financial shareholders’ equity is treated in a way that differs in part. The adjustment is not directly charged to each of the capital and reserve accounts, but temporarily entered in an account denominated “Provisional revaluation of equity” with charge to the “Price-level Restatement” account. This provisional revaluation is reverted the last day of each month, when the new price-level restatement is calculated and recorded. The restatement amounts of the capital and reserve accounts are definitively credited to each of these accounts only at year-end.



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With regard to presentation in the Income Statement, the “Price-level Restatement” account is presented at the end of “Non-operating income”.

4.4. Treatment of indexed and foreign currency operations

a) Adjustment mechanisms

In the Chilean financial system, deposit and financial mediation operations are usually contracted with adjustment clauses, in conformity with the adjustment systems authorized by the Central Bank of Chile, which is legally empowered for such effects. The most common mechanisms are the indexed unit of account (UF) and the US dollar exchange rate.

If one of these authorized systems is used, the document issued may be either denominated in domestic currency indicating the adjustment system to be applied, or it may be denominated in the respective value unit.

b) Calculation and journalization

Adjustments to assets and liabilities are recognized on an accrual basis and are recorded monthly. In this way, on the closing day of each month, both adjustments receivable and adjustments payable are recorded for the amounts accrued from non-monetary asset and liability operations which are not subject to price-level restatement.

The accrued adjustments are recorded in complementary accounts of the asset and liability accounts, in which the respective indexed balances are recorded.



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The assets complementary accounts are denominated “Adjustments receivable” and are charged with credit to the respective “Adjustments earned” accounts.

Similarly, the liability complementary accounts are denominated “Adjustments payable” and are credited with charge to the respective “Adjustments paid” accounts.

The “Interest revenue” and “Interest expense” accounts are presented in the Income Statement under “Operating Results”.

c) Adjustment of “exchange” accounts

In financial institutions, the monthly adjustment of “Exchange” accounts is made according to the conversion table provided by Central Bank of Chile with charge or credit, as appropriate, to an account denominated “Adjustment of Exchange Position” under “Operating Results”.

5 ADJUSTMENTS FOR INFLATION APPLIED BY CENTRAL BANK OF CHILE

5.1. General approach

Like the institutions of the Chilean financial system, Central Bank of Chile makes the necessary adjustments so that its financial statements should reflect the effect of variations in the purchasing power of money. Every month entries are recorded in the balance sheet in currency of equal purchasing power.



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These asset and liability adjustments have as cross-entry the generation of results, which are shown in the Income Statement as income or expense under the denomination “Price-level Restatement” or “Income relating to change in the value of assets and liabilities”, depending on the type of non-monetary asset or liability being restated.

5.2. Price-level Restatement

The adjustments applied to shareholders’ equity and some non-monetary assets and liabilities are recorded with charge or credit to the “Price-level Restatement” income account. These adjustments are mainly calculated on the basis of the variation experienced by the Consumer Price Index (CPI), and the results are presented in the Income Statement separate from operating results and non-operating results. Within non-monetary assets we have fixed assets, other assets and temporary assets.

Within non-monetary liabilities we have provisions and other values received in advance.

Shareholders’ equity is adjusted monthly with charge to the “Price-level restatement” account and credit to the equity account “Provisional revaluation of shareholders’ equity”. Every month this entry is reverted and the new calculation is made for the time elapsed from the beginning of the accounting period. At the end of the accounting period, it is definitively recorded in the “Capital” account, and the balance is eliminated from the “Provisional revaluation of shareholders’ equity” account.



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Following the banking system accounting practices, income accounts are not subject to price-level restatements since these do not affect the bottom line.

5.3. Results relating to change in the value of assets and liabilities

These results are derived from operations directly connected with the functions pertaining to the objective of Central Bank of Chile, and are a part of the operating results.

a) Indexed operations in local currency

Within these operations we have “Domestic Loans” in assets and “Notes Issued by Central Bank” in liabilities.

These assets and liabilities in local currency are adjusted on an accrual basis and are recorded at the end of each month in complementary accounts of the accounts in which the respective indexed balances are recorded.

Assets adjustments are recorded by charging the respective complementary “Adjustments receivable” accounts, with credit to the respective “Adjustments earned” accounts. Thus, both interests accrued at the end of the accounting period and adjustments already earned are recorded in the latter accounts.

Liability adjustments are recorded with credit to the complementary “Adjustments payable” accounts, with charge to the respective “Adjustments paid” accounts. In this way, the latter also include both adjustments payable and adjustments already paid.



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These operations are adjusted according to either the variation in the UF or the variation in the exchange rate, as appropriate.

b) Settlement of exchange position

At Central Bank of Chile, operations relating to the purchase and sale of foreign currency are recorded in the “Exchange” and “Conversion” accounts. The purpose is to be able to relate accounting in local currency with accounting in foreign currency, and thus comply with the double entry format in both accountings. The “Exchange” account is used in local currency and the “Conversion” account in foreign currency. Based on these accounts we can determine the “Exchange Position” in each of the currencies in which operations have been carried out. At the same time we can determine the “Income relating to change in the value of foreign currencies” by means of the “Settlement of Exchange Position”, which consists in matching the balance in local currency of the “Exchange” account with the balance in local currency of the “Conversion” account.

In this way, the adjustment for the exchange rate change experienced by the different foreign currencies owned by the Bank is recorded, in general terms, by charging the “Exchange” account with credit to “Gain on Exchange” when there is a positive exchange rate change, and crediting the “Exchange” account with charge to “Loss on Exchange” when there is a negative exchange rate change.

5.4. Balances in foreign currency



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One of the characteristics of the accounting system of central banks is the entry of transactions in the currency of origin, which means that there are separate accounting records for each of the currencies in which operations are carried out.

However, for the preparation and presentation of financial statements, balances of the same account, which may include simultaneous entries in different currencies, must be consolidated by denominating them in domestic currency. This is done with an exchange rate called “accounting rate”, which usually corresponds to the market value at the monthly closing of operations. This translation or conversion of balances in foreign currency into local currency does not have any effects on equity.

5.5. Balance Sheet and Income Statement of Central Bank of Chile

The following Balance Sheet and Income Statement diagrams show the main groups to provide an overall view of the adjustments made.

In the Balance Sheet there are two columns: a) foreign currency, and b) domestic currency. These columns show the currency in which the transactions are recorded in each entry and the type of adjustment that accounts in local currency are subject to, or if balances are not indexed. The classification of each entry is shown in the respective cells.

Some entries may be subject to more than one adjustment, or some entries may even include balances in foreign currency and local currency at the same time, which shows the inclusion of transactions under those different modalities.



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In the case of domestic currency, the symbols used show in which group of the Income Statement the adjustments made are recorded.

The subject we are interested in, “Results relating to changes in the value of assets and liabilities”, are classified in: 1) Indexed operations, which show income from transactions in UF and transactions in foreign currency, and 2) Exchange operations, which show income from the settlement of the exchange position.

Income from adjustments originated in the revaluation of shareholders’ equity, fixed assets and others are shown under “Price-level Restatement”. Thus, in each cell, the following meanings apply:

- “OR” means that the balances of accounts grouped under that entry correspond to transactions whose revaluation is recorded with charge or credit, as appropriate, to income accounts which are presented in the subgroup “Indexed operations”.
- “NR” shows that the balances of accounts grouped under that entry correspond to monetary items, and therefore are not subject to adjustment.
- “LP” shows that the balances of accounts grouped under that entry correspond to transactions whose adjustment is recorded with charge or credit, as appropriate, to income accounts which are presented under the entry “Settlement of Exchange Position” of the subgroup “Exchange Operations”.
- “CM” shows that the balances of accounts grouped under that entry correspond to transactions whose revaluation is recorded with charge or credit, as appropriate, to income accounts which are presented in the group “Price-level Restatement”.



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- “RC” means that the balances of accounts grouped under that entry are in foreign currency and therefore are not affected by domestic inflation. For presentation in financial statements they are recorded in local currency at the accounting exchange rate.



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Balance Sheet as of
(In millions of Chilean pesos)

ASSETS AND DEBIT BALANCES	M/E	Local currency				LIABILITIES AND CREDIT BALANCES	M/E	Local currency						
		UF	TC	IPC	NR			UF	TC	IPC	NR			
FOREIGN ASSETS						OVERSEAS LIABILITIES								
RESERVE ASSETS						RESERVE LIABILITIES								
Monetary gold		RC				Swap arrangements		RC						
IMF special drawing rights (SDR)		RC												
IMF reserve position		RC		OR										
Foreign currency		RC				OTHER OVERSEAS LIABILITIES								
Other assets		RC				Loans		RC						
						Accounts with international agencies				OR				
OTHER FOREIGN ASSETS						SDR allocations		RC						
IDB shares and contributions		RC		OR										
						DOMESTIC LIABILITIES								
DOMESTIC ASSETS						ISSUE								
DOMESTIC LOANS						Bank notes and coins in circulation								NR
Loans to public entities		RC	OR			Financial institutions deposits (domestic currency)								NR
Loans to Banco del Estado de Chile		RC	OR											
Loans to commercial banks		RC	OR			DEPOSITS AND OBLIGATIONS								
Loans to other institutions			OR			Deposits and obligations with the Treasury		RC	OR					NR
Treasury transfers (Laws 18,267, 18,401 and 18,768)		RC	OR			Other deposits and obligations		RC	OR					NR
Loans to financial institutions with subordinated debt (Law 18,401)			OR											
						NOTES ISSUED BY THE CENTRAL BANK								
OTHER ASSET ACCOUNTS						Indexed promissory notes payable in coupons (PRC)			OR					
Fixed assets					CM	Central bank indexed promissory notes (PRBC)			OR					
Other assets					CM	Central Bank discountable promissory notes (PDBC)								NR
Temporary assets					CM	Central Bank indexed promissory notes in dollars (PRD)				OR				
Exchange rate					LP	Indexed coupons (CERO) in indexed units UF			OR					
						Promissory notes stated in indexed units UF (Resolution 1836) arising from US dollars certificates			OR					
EXPENSE ACCOUNTS						Commercial notes from redenomination of foreign exchange securities			OR					
						Floating interest rate promissory notes (PTF)			OR					
						Indexed coupons (CERO) in dollars				OR				
						Deposit certificates stated in dollars, Resolution 1649				OR				
						Securities issued on rescheduling of foreign debt, Chapter, XIX, of the Compendium of Foreign-Exchange Regulations				OR				
						Bonds issued by Banco Central in Ch\$ (BCP)								NR
						Bonds issued by Banco Central in UF (BCU)			OR					
						Bonds issued by Banco Central in US\$ (BCD)				OR				
						OTHER LIABILITY ACCOUNTS								
						Provisions		RC			CM			
						Other accounts		RC			CM			
						Conversion		RC						
						INCOME ACCOUNTS								NR
						CAPITAL AND RESERVES								
						Capital					CM			
						Provisional revaluation of equity								NR
TOTAL ASSETS AND DEBIT BALANCES						TOTAL LIABILITIES AND CREDIT BALANCES								
Symbols used:														
M/E : Balances in foreign currency														
UF : Balances in local currency adjusted in UF														
TC : Balances in local currency adjusted for changes in the accounting exchange rate														
IPC : Balances in local currency adjusted for changes in the consumer price index														
NR : Accounting balances not subject to price-level restatement														
RC : Balances converted into local currency at the accounting exchange rate														
OR : Transactions subject to price-level restatement														
LP : Settlement of exchange position														
CM : Price-level restatement														

**BANCO CENTRAL DE CHILE****INCOME STATEMENT OF CENTRAL BANK OF CHILE**

*For the year ended December 31st ...
(In millions of Chilean pesos)*

	INCOME	EXPENSES	NET INCOME
A). INCOME FROM INTERNATIONAL OPERATIONS			
<u>1. RESERVE OPERATIONS</u>			
1.1. INVESTMENT INSTRUMENTS			
1.2. SDR HOLDINGS AND ALLOCATIONS			
1.3. SWAP ARRANGEMENTS			
<u>2. OTHER INTERNATIONAL OPERATIONS</u>			
B). INCOME FROM DOMESTIC OPERATIONS			
<u>1. DOMESTIC OPERATIONS</u>			
1.1. TREASURY TRANSFERS			
1.2. LOAN FOR SUBORDINATED DEBT			
1.3. NOTES ISSUED BY THE BANK			
1.4. LOANS AND DEPOSITS TO BANKS AND FINANCIAL INSTITUTIONS			
1.5. LOANS AND DEPOSITS TO GOVERNMENT INSTITUTIONS			
1.6. PURCHASE AND SALE OF FOREIGN CURRENCY			
1.7. OTHER OPERATIONS			
<u>2. ISSUE OPERATIONS</u>			
2.1. ISSUE OF BANK NOTES AND COINS			
C). INCOME DUE TO CHANGE IN THE VALUE OF ASSETS AND LIABILITIES			
<u>1. OPERATIONS SUBJECT TO PRICE-LEVEL RESTATEMENT</u>			
1.1. OPERATIONS IN UF			
1.2. OPERATIONS IN FOREIGN CURRENCY			
<u>2. EXCHANGE OPERATIONS</u>			
2.1. SETTLEMENT OF EXCHANGE POSITION			
<u>3. ADJUSTMENT AT MARKET VALUE</u>			
3.1. ADJUSTMENT OF FOREIGN INVESTMENTS			
TOTAL INCOME FROM OPERATIONS OF CENTRAL BANK			
D). OTHER EXPENSES			
1. PERSONNEL EXPENSES			
2. ADMINISTRATIVE EXPENSES			
3. DEPRECIATION, AMORTIZATION AND WRITE-OFFS			
4. TAXES AND CONTRIBUTIONS			
INCOME BEFORE WRITE-OFFS AND PROVISIONS FOR LOAN LOSSES			
WRITE-OFFS AND PROVISIONS FOR LOAN LOSSES			
NET MARGIN (TOTAL OPERATING INCOME)			
E). NON-OPERATING INCOME			
INCOME BEFORE PRICE-LEVEL RESTATEMENT			
F). PRICE-LEVEL RESTATEMENT			
1. EQUITY			
2. FIXED ASSETS AND OTHER ASSETS			
SURPLUS (DEFICIT)			



BANCO CENTRAL DE CHILE

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