04

FINANCIAL STATEMENTS OF THE CENTRAL BANK OF CHILE

STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2013 AND 2012
(Ch$ million)

Assets	Note	2013	2012
Foreign assets		21,653,565.9	20,052,478.3
Reserve assets	11	21,523,220.5	19,933,433.5
Monetary gold		5,050.3	6,290.6
Special drawing rights (SDR)		600,805.7	579,847.7
Reserve position in the IMF	12	335,578.0	331,087.3
Correspondent banks abroad		10,011.6	9,953.3
Investments in foreign currency:		20,501,943.4	18,967,149.6
Securities at fair value through profit or loss		18,144,375.8	16,783,042.3
Held-to-maturity securities		2,357,567.6	2,184,107.3
Reciprocal loan agreements		69,397.1	38,819.6
Other assets		434.4	285.4
Other foreign assets		130,345.4	119,044.8
Shares of and contributions to the Inter American Development Bank (IDB)		96,425.1	88,111.1
Shares of Bank for International Settlements (BIS)		33,920.3	30,933.7
Domestic assets		1,853,189.6	3,002,363.2
Domestic loans	13	256.9	1,110,964.2
Loans to banks and financial institutions		256.9	1,110,964.2
Transactions under specific legal regulations	14	1,852,932.7	1,891,399.0
General Treasury transfers (Laws 18.267 and 18.401)		265,355.6	260,018.7
Loan for subordinated liabilities of financial institutions (Laws 18,401 and 19,396)		649,521.0	754,321.6
Sinap Liquidation Law 18.900		938,056.1	877,058.7
Other assets		53,866.8	45,002.8
Premises, equipment and intangible assets	15	36,476.9	38,386.8
Other securities		16,073.9	6,146.7
Transition assets		1,316.0	469.3
Total assets		**23,560,622.3**	**23,099,844.3**

Accompanying notes from 1 to 29 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION, CONTINUED AS OF 31 DECEMBER, 2013 AND 2012

(Ch$ million)

Liabilities	Note	2013	2012
Foreign liabilities	16	710,092.8	656,457.2
Reciprocal loan agreements		4,629.7	13,253.0
Accounts with international organizations		46,455.0	42,254.1
Special drawing rights (SDR) allocations		659,008.1	600,950.1
Domestic liabilities		26,651,957.2	26,903,859.3
Monetary base	17	8,754,473.9	7,890,603.7
Banknotes and coins in circulation		6,917,607.4	6,195,118.2
Deposits from financial institutions (in Chilean pesos)		1,139,731.0	965,242.2
Deposits for technical reserve		697,135.5	730,243.3
Deposits and obligations	18	4,864,461.1	6,108,201.1
Deposits and obligations with General Treasury		384,665.8	694,763.0
Other deposits and obligations		4,479,795.3	5,413,438.1
Documents issued by Central Bank of Chile	19	13,033,022.2	12,905,054.5
Central Bank of Chile bonds in UF (BCU)		7,830,132.7	8,535,033.3
Central Bank of Chile bonds in Chilean pesos (BCP)		4,080,623.4	3,905,683.5
Central Bank of Chile discountable promissory notes (PDBC)		925,319.1	-
Optional indexed coupons (CERO) in UF		135,669.2	230,094.7
Indexed promissory notes payable in coupons (PRC)		61,256.7	234,221.9
Other		21.1	21.1
Other liabilities	20	18,880.6	18,777.3
Provisions		18,502.7	18,365.6
Other securities		377.9	411.7
Net equity	21	(3,820,308.3)	(4,479,249.5)
Capital		(4,478,737.6)	(2,355,778.8)
Valuation accounts		(713.0)	(511.9)
Surplus (deficit) for the year		659,142.3	(2,122,958.8)
Total liabilities and equity		**23,560,622.3**	**23,099,844.3**

Accompanying notes from 1 to 29 are an integral part of these financial statements.

STATEMENTS OF INCOME FOR THE YEARS ENDED AS OF 31 DECEMBER, 2013 AND 2012

(Ch$ million)

	Note	2013	2012
Net income for international reserves	7	48,246.2	203,540.7
Income		366,332.7	707,477.1
Interest income		302,700.6	282,697.8
Gain on sale of instruments at fair value through profit or loss		62,330.0	416,695.8
Gain on sale of available-for-sale securities		-	6,847.6
Other		1,302.1	1,235.9
Expenses		(318,086.5)	(503,936.4)
Interest expenses		(4.8)	(12.5)
Loss on sale of instruments at fair value through profit or loss		(248,275.9)	(247,160.9)
Loss on sale of available-for-sale securities		-	(4.3)
Adjustments at fair value		(66,556.1)	(255,983.3)
Other		(3,249.7)	(775.4)
Net income (loss) from other foreign transactions	7	5,136.9	(8,658.6)
Income		7,137.1	662.9
Other income		7,137.1	662.9
Expenses		(2,000.2)	(9,321.5)
Interest expense		(588.1)	(724.5)
Other expenses		(1,412.1)	(8,597.0)
Net loss from domestic operations	8	(755,512.7)	(781,373.1)
Income		130,002.1	139,008.6
Interest income and adjustments		127,347.9	134,574.9
Other income		2,654.2	4,433.7
Expenses		(885,514.8)	(920,381.7)
Interest expense and adjustments		(884,610.6)	(919,868.6)
Other expenses		(904.2)	(513.1)
Net gain (loss) on foreign exchange transactions	9	1,462,900.5	(1,452,858.9)
Gain on foreign exchange transactions		2,670,308.0	661,232.7
Loss on foreign exchange transactions		(1,207,407.5)	(2,114,091.6)
Issuance and distribution costs	10	(54,452.7)	(37,879.7)
Banknotes		(29,882.1)	(7,884.3)
Coins		(24,007.6)	(29,304.3)
Distribution		(563.0)	(691.1)
Personnel and administrative expenses		(43,761.5)	(42,962.0)
Personnel expenses		(27,891.8)	(26,783.9)
Administrative expenses		(14,440.5)	(12,231.6)
Provision for post-employment benefits		(1,429.2)	(3,946.5)
Other (expenses) and income		(3,414.4)	(2,767.2)
Depreciation and amortization	15	(2,782.4)	(2,196.6)
Taxes and contributions		(546.2)	(593.6)
Other		(85.8)	23.0
Surplus (deficit) for the year		**659,142.3**	**(2,122,958.8)**

Accompanying notes from 1 to 29 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December, 2013 and 2012

1 Incorporation and description of business

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

Central Bank of Chile's objective is to look after the stability of both the Chilean currency and the normal functioning of domestic and foreign payments.

In order to meet its objectives, Central Bank of Chile 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, Central Bank of Chile is exclusively empowered to issue banknotes and to mint coins.

Central Bank of Chile is domiciled in *Santiago de Chile*, and its main office is located at *Agustinas* 1180.

2 Summary of significant accounting policies

(a) Basis of preparation of the financial statements

These financial statements have been prepared in conformity with the "Policies of presentation and preparation of financial reports of Central Bank of Chile" approved by the Central Bank of Chile's Board, pursuant to Resolution 1456-01 dated 15 January 2009 and 1519-01 dated 14 January 2010, having a favorable report by the Superintendence of Banks and Financial Institutions, pursuant to Section 75 of the Central Bank of Chile's Basic Constitutional Act. The policies approved by the Board are consistent with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), in all areas in which the application of these international accounting standards does not affect legally specified provisions that govern Central Bank of Chile or the compliance with its public duties. Should there be any disagreement; the standards issued by the Board of Central Bank of Chile shall prevail, as in the case of:

a.i The credits related to the liquidation of the *Sinap* governed by Law 18,900, stated in the caption "Operations Under Specific Legal Regulation" are explained in notes 2(k) and 14(b) and valued at amortized cost through profit or loss. The Board of Central Bank of Chile has decided to maintain the accounting treatment this asset had at the original accounting date, as it corresponds to operations arising from specific legal clauses inherent to the Central Bank of Chile's institutional duties.

a.ii Provisions, assets and contingent liabilities. The Board decided to adopt the criterion of the international standards, however, it will be able to use the power granted by the Central Bank of Chile's Basic Constitutional Act to record global or individual provisions based upon the risk that may be estimated for certain investing or credit operations. During 2013 and 2012, no provisions were recorded in this regard.

a.iii The statement of changes in equity is not presented. Instead, note 21 Capital and reserves is included; containing movements in capital during 2013 and 2012.

a.iv A statement of cash flows is not presented. Instead, as part of the notes to the financial statements, a statement of variations in monetary base and a statement of variations in international reserves is presented in note 22.

a.v The statements of comprehensive income are not presented, instead, the statements of income for 2013 and 2012 are presented.

a.vi The fair value of documents issued and assets under specific regulations are not disclosed.

The presentation of these financial statements is framed within an economic and accounting framework that fairly reflects the financial position of Central Bank of Chile, and at the same time, contributes to the economic analysis of Central Bank of Chile's operations by clearly identifying whether they are undertaken by domestic or foreign agents. From this information it is possible to determine the Central Bank of Chile's share in the domestic supply of monetary assets and credit and the related effects on the Central Bank of Chile's foreign creditor position. For this reason, the economic concepts of international reserves and currency issuance are shown under the captions reserve assets and monetary base liabilities, respectively.

The financial statements have been prepared on the historical cost basis. The abovementioned excludes operations corresponding to foreign investments in financial instruments that are reported at their fair value through profit or loss, which basis of measurement has been performed taking the fair value as reference.

The methods used to measure fair values are presented in note 3.

(b) Functional and presentation currency

As the Central Bank of Chile's main objective is to look after the stability of the Chilean currency, which implies that open-market operations play a significant role in the development of the monetary policy, accordingly, its main activity is the issuance of banknotes and coins, in Chilean peso, which has been defined as the functional and presentation currency for the financial statements.

The figures of such statements are stated in millions of Chilean pesos, while the figures of these notes are stated in millions of Chilean pesos or U.S. dollars, as applicable, rounded to the nearest decimal.

(c) Transactions in foreign currency and foreign currency translation

The Central Bank of Chile's functional currency is the Chilean peso. Consequently, all balances and transactions denominated in currencies other than the Chilean peso are considered as denominated in "foreign currency". The balances of the financial statements expressed in this currency are translated into Chilean pesos as follows:

c.i U.S. dollars are translated into Chilean pesos at the closing date "observed U.S. dollar" exchange rate pursuant to Section 44 of the Basic Constitutional Act, that governs Central Bank of Chile, 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*).

c.ii Assets and liabilities stated in Chilean minted gold, are valued at the average London morning quotation of the "Gold Fixing" rate (U.S. dollars per fine troy ounce), in the morning of the closing business day of the financial statements.

c.iii Translation of foreign currencies other than U.S. dollars is made at the exchange rates published daily by Central Bank of Chile in the *Official Gazette*, which are always based upon the period-end "observed U.S. dollar" rate.

c.iv Special Drawing Rights (SDR) are adjusted at the exchange rates for each of the business days of the month, reported by Central Bank of Chile, except for the last business day of the month in which the exchange rate reported by the International Monetary Fund (IMF) is considered.

The results from the purchase and sale of foreign currency, as well as the differences arisen from the update of the belongings in foreign currency, as a result of the variation of the exchange rates of such foreign currencies compared to the Chilean peso, are recorded as profits or losses for the year.

The main exchange rates to the Chilean peso used as of each year-end are as follows:

	2013 Ch$	2012 Ch$
United States dollar (observed exchange rate)	523.76	478.60
Euro	721.04	632.90
Canadian dollar	489.63	481.01
Australian dollar	465.36	496.32
Special Drawing Rights (SDR)	806.59	735.57

(d) General principles used in the preparation of the financial statements

The financial statements have been prepared using as base the recognition of assets, liabilities and results when the flow of future economic benefits is probable from or towards Central Bank of Chile and it is possible to determine a cost reliably, considering for such purpose, the following accounting principles:

d.i Accrual basis
The determination of operating results and the financial position must take into account all the resources and obligations of the period, whether or not they are received or paid, in order for costs and expenses to be properly matched to the revenues they generate. In this regard, the effects of the transactions must be recognized to the extent they generate the right to receive revenues or the obligation to pay for a cost or disbursement rather than when the payment is made or received.

d.ii Going concern
The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or significantly curtail the scale of its operations.

d.iii Materiality

The relevance of information is affected by its nature and relative importance. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Of course, there is no boundary line setting the limits of what is significant or not, and the best criterion should be applied to resolve the issues in each case according to the circumstances, taking into account factors such as the relative effects on assets, liabilities, equity, or on earnings for the year.

d.iv Substance over form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

d.v Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

(e) Price-level adjustment

The Board decided, upon the favorable report of the Superintendence of Banks and Financial Institutions, to cease the application of comprehensive price-level adjustment as from 2010 in order to adopt the Central Bank of Chile's financial statements to IFRS, with the condition to protect the application in relation to its equity, from the specific legal regime governing Central Bank of Chile as a public law entity, as well as regarding the payment of paid-in capital and the distribution of the annual surplus to the General Treasury covered by Sections 5, 75, 77, and transitory Article 2 of the Basic Constitutional Act of Central Bank of Chile.

The effect of variations in the exchange rates for assets and liabilities in foreign currencies and indexation on loans and liabilities is included within profit or loss.

In addition, with the purpose of applying the legal regime related to the incorporation of the Central Bank of Chile's paid-in capital and distribution of surpluses to Tax Authorities as dealt with in Section 5 of the abovementioned legislation, in relation to Sections 75, 77 and transitory Article 2 of the same legislation, Central Bank of Chile decided to record price-level adjustment on paid-in capital for 2013, in memorandum accounts, on the basis of Consumer Price Index variation occurred between 30 November 2013 and 30 November 2012, which was 2.4%.

(f) Interest income and expenses, adjustments and commissions

Interest income and expenses, adjustments and commissions are recognized as net income for the year when earned. Interests are recognized on the basis of their effective rate.

(g) International reserve measurement criteria

International reserves are liquid assets in foreign currency held by Central Bank of Chile. They are instruments supporting monetary and foreign exchange policies, in order to meet Central Bank of Chile's objective of safeguarding currency stability and the normal functioning of internal and external payment systems. Reserve assets comprise those external assets under the control of the monetary authority, which can dispose of them immediately in order to fund the imbalances of the balance of payments and to indirectly regulate the magnitude of those imbalances.

Investments in foreign financial instruments are recognized at the date of the purchase at its fair value. In addition, these are classified in accordance with IFRS, in the following categories and composition:

g.i Investments at fair value with effect on net income

Includes bonds issued by foreign governments, institutions and banks, mid-term bonds issued by Bank for International Settlements (BIS), treasury bills, discount notes, bills payable in coupons, indexed bonds, secured bonds from public institutions issued by German banks, agency nonprepayable bonds, agency prepayable bonds, agency bills, agency discount notes.

The principle considerations used to classify instruments focus on their high liquidity. They are recorded at fair value and their changes are recognized directly in earnings. The methods used to measure fair values are described in note 3.

g.ii Held-to-maturity securities

Includes mostly term and overnight deposits and are investments in financial assets that the entity has the positive intent and ability to hold until maturity; they are valued at amortized cost using the effective interest method. These financial assets are not affected by transaction costs.

g.iii Other financial assets

g.iii.1 Reserve position in the International Monetary Fund (IMF): represents the net difference between the assets (installments paid to the IMF for subscription and the net of purchases and repurchases of SDR) and liabilities (deposits made by the IMF) and is classified as a held-to-maturity investment, measured at the cost indexed to Special Drawing Rights (SDR).

g.iv.2 Reciprocal loan agreements: represent the amount owed to Central Bank of Chile by the central banks comprising *Aladi's* Agreement on Reciprocal Payments and Credits for the exports made by Chilean entities. Their classification corresponds to non-derivative held-to-maturity financial instruments, measured at amortized cost.

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

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

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

Shares and contributions to IDB are shown under "Other foreign assets". Contributions to the IMF are recorded under "Reserve position in the IMF" in "Foreign reserve assets". The "Reserve Position in the IMF" includes the loans granted by Central Bank of Chile to the IMF for involvement in the financing program referred to as "New Arrangements to Borrow" (NAB) and which at year-end was SDR160.5 million. Such loans are a part of the revolving credit facility in favor of the IMF approved by the Central Bank of Chile's Board on 24 September, 2009 up to SDR1,360.0 million. While as of 31 December, 2013 the IMF remaining balance of the revolving credit facility amounted to SDR1,183.4 million, in practice the mechanism operates by calculating quarterly capitalization periods that include the stakeholders' maximum contribution during that period.

(i) Bank for International Settlements (BIS) Shares

During 2003, Central Bank of Chile's Board Resolutions 1073-04 dated 10 July, 2003 and 1084-02 dated 16 September 2003, authorized the incorporation of Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September 2003, in accordance with these resolutions, Central Bank of Chile acquired 3,000 shares of the BIS for SDR42,054,000 which are valued at acquisition cost and are shown under "Other Foreign Assets." During 2013, dividends were received in the amount of US$1.4 million (US$1.4 million in 2012).

(j) Domestic loans

Domestic loans are non-derivative financial assets that correspond to loans granted in Chile, classified as held-to-maturity securities, stated with interests and adjustments accrued at year-end and measured at amortized cost pursuant to the effective interest rate method, and are not affected by transaction costs.

Non-adjustable loans are shown at original value or at their latest renewal value and adjustable balances or denominated in foreign currency include the accrued exchange rate and adjustments at the reporting date.

(k) Operations under specific legal regulation

Correspond to non-derivative financial assets subject to specific regulatory and legal restrictions such as the loans related to the *Sinap* Liquidation governed by Law 18,900, which are classified as held-to-maturity securities and are measured at amortized cost pursuant to the effective interest rate method, and are not affected by transaction costs.

(l) Premises, equipment and intangible assets

Premises and equipment are measured at acquisition cost, net of accumulated depreciation. The goods that have met their useful life are stated at their residual value considering market reference prices. Depreciation is calculated using the straight-line method.

In 2013 and 2012, the Bank has recognized costs related to acquisition of licenses and the development of an Integrated Management System

(ERP), as well as costs incurred for the *SOMA* System that is at development stage, as intangible assets. Historical costs are amortized using the straight-line method of accounting over their assigned useful lives.

Depreciation for 2013 and 2012 is recognized as expense and has been calculated considering the following estimated useful lives:

	Years	
	2013	2012
Buildings	80	80
Furniture and office equipment	10	10
Computer equipment	3 to 5	3 to 5
Vehicles	5	5
Intangible assets	5	5

(m) Monetary base

Mostly include liabilities of Central Bank of Chile that are part of money, or other financial instruments contribute including freely-circulating banknotes and coins, plus deposits made by the financial system in Central Bank of Chile.

(n) Deposits and obligations

Deposits and obligations are financial liabilities for deposits and other operations made with the General Treasury and financial institutions, initially measured at fair value, and which are not affected by transaction costs. Subsequently, they are measured at amortized cost pursuant to the effective interest rate method with an effect in earnings. Unadjustable balances are stated at nominal value. Adjustable balances or those denominated in foreign currency include the effect of the accrued exchange rate and adjustments at the reporting date.

(o) Documents issued by Central Bank of Chile

The documents issued by Central Bank of Chile are financial liabilities issued in order to adopt the decisions of monetary policy, initially measured at fair value, and are not affected by transaction costs. Subsequently, they are measured at amortized cost pursuant to the effective interest rate method with effect in earnings. Unadjustable balances are stated at nominal value. Adjustable balances or those denominated in foreign currency include the effect of the accrued exchange rate and adjustments at the reporting date.

Documents issued comprise: Central Bank of Chile bonds in UF (BCU), Central Bank of Chile bonds in Chilean pesos (BCP), Central Bank of Chile discountable promissory notes (PDBC), Indexed-promissory notes payable in coupons (PRC), and Optional indexed coupons (CERO) in UF.

(p) Impairment of financial assets at amortized costs

Regardless of the classification or reclassification of the instruments, in the event it is determined that the recoverable value (fair value) is lower than the earning value recorded in accounting, their impairment shall be recognized with a debit to earnings, except loans referred in note 2a(i). Pursuant to this policy, during 2013 and 2012, Central Bank of Chile has not recognized any impairment of these financial assets.

(q) Employee benefits

q.i Post-employment benefits

Post-employment benefits are employee benefits which are payable after the completion of employment in Central Bank of Chile, as stipulated in: collective contract between Central Bank of Chile and the Labor Union of Central Bank of Chile, signed on 1 June 2011 and in force up to 30 June 2015; for special resolutions approved by the Board and for special benefits delivered to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile. These benefits include: severance indemnities, special indemnity Resolution 1414-01 dated 5 June 2008, special supplementary severance indemnity under the retirement plan per Resolution 1651-06 dated 29 December 2011, special benefits to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

This recognition is made through an actuarial calculation that considers in both cases demographic and financial variables. It is measured at the current value of all future payments using an annual discount effective interest rate, affected by the expected employment duration and expected lives of beneficiaries.

Actuarial calculation is based on the following assumptions for both years, except for the discount rate which presented a change compared to 2012:

- Mortality rate: Central Bank of Chile used the M-95 mortality table to determine the expected lives of beneficiaries to calculate severance indemnities and RV-2009 to determine the expected lives of beneficiaries for the calculation of post-employment benefits associated with the retirement plan's health plan and benefits of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

- Employee turnover: The probabilities of permanence of the employees of Central Bank of Chile were calculated on the basis of the tables prepared by Central Bank of Chile organized in tranches by years of service.

- Salary growth rate: calculated as the annual average composed of the salary growth rate for a five-year period of 5.10.

- Discount rate: Central Bank of Chile used the annual average of the nominal rate for BCP instruments at 10 years. For 2013, the discount rate was 5.25% (2012: 5.42%).

q.ii Accrued vacations

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

(r) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing or amount. These are recognized in the statement of financial position when the following requirements are met:

- Is a present obligation arising from past events and,

- At the date of the financial statements it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

A contingent liability is an obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of Central Bank of Chile.

(s) Financial derivative instruments

Financial derivative contracts corresponding to forward exchange contracts are initially recognized in the statement of financial position at cost and subsequently measured at fair value. Derivative contracts are reported as an asset when their fair value is positive and as a liability when is negative and are included in the captions "Other securities" and "Other deposits and obligations", respectively.

When signing a derivative contract, this is designated by Central Bank of Chile as a derivative security held for trading, as it is not used for hedge accounting purposes.

(t) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis by Central Bank of Chile's senior management in order to quantify some assets, liabilities, income, expenses and uncertainties. The revision to accounting estimates is recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following notes:

- Note 2(l) Premises and equipment, determination of useful life, depreciation and residual value.
- Note 3 Methodology applied for the measurement of international reserve fair values.
- Note 20 Provisions, including severance indemnity and post-employment benefits.

(u) Issued but not yet effective IFRSs

As of the date of these financial statements, there are standards issued by the International Accounting Standards Board (IASB) but they are not effective yet nor is their application mandatory. The following standard and amendments will have an effect on these financial statements when becoming effective:

In the future, IFRS 9 Financial Instruments will replace the portion related to the classification and measurement of financial assets in the current IAS 39. This standard has no defined date of application by the IASB. It includes relevant differences compared with the current standard, among others, the adoption of a new model for the classification of financial assets based on two unique categories of amortized cost and fair value, the removal of the current classifications of "Held-to-maturity investments" and "Available-for-sale financial assets", the analysis of impairment only for assets measured at amortized cost and includes the treatment and classification of financial liabilities.

Additionally, other standards have been issued but are not yet effective, which address matters that do not affect or will affect the Bank's operations.

3 Methodology applied for the measurement of fair values

The methodology for the calculation of fair values is applied to financial instruments held as foreign investments, classified as securities at fair value through profit or loss.

The management of international reserves is performed through a world class computer system that includes a methodology for the calculation of fair value. The methodology distinguishes two types of calculation to establish the fair value: priced and non-priced securities.

(a) Priced securities (source: Bloomberg)

The system uses the prices obtained from Bloomberg at the closing of the markets of the current day. The price corresponds to PX Mid = (PX Bid + PX Last)/2.

Where:
- PX Mid: Average price.
- PX Bid: The last purchase price available for an issuance in a particular day.
- PX Last: The last price at which an issuance has been measured in a particular day.

On the other hand, the system calculates the gains and losses from investments on a daily basis using the following formula for 2013 and 2012:

IR Profit/Loss = Total Gain Loss - Accrued Interest – FX Gain/Loss

Where:
- IR Profit/Loss: Interest gain/loss due to price and reference rate changes.
- Total Gain Loss: Total gains and losses.
- Accrued Interest: Portion over the next coupon payment accrued from the last coupon until the calculation date.
- FX Gain/Loss: Gain/Loss due to the effects of foreign currency exchange differences.

(b) Non-priced securities (reference rate)

In regard to the purposes of compliance control, the change in the market value of those securities that do not have any reference prices, it will only have to reflect the straight-line accrual of the reward/discount over the life of the transaction.

The abovementioned, completely removes the effect in the measurement resulting from the changes in the rates (Libid or Libor) and the effect is similar to what it happens with the treatment of deposits.

The fair value of international reserve securities is classified per level as shown in note 11:

- Level 1, quoted market value.
- Level 2, measurement with market price.
- Level 3, measurement without reference to market price.

4 Segment reporting

In order to meet its objectives, Central Bank of Chile has a number of operating functions and attributions related to the regulation of the money and credits in circulation, the regulation of the financial system and the capital market, the attributions to look after the stability of the financial system, the issuance of banknotes and coins, the functions as fiscal agent, the attributions on international matters and related to operations of international changes and statistic functions.

The Central Bank of Chile's primary function is the implementation of the monetary policy in Chile. Over 97% of the reserve assets of Central Bank of Chile are managed by Central Bank of Chile's Financial Operations Division. Additional information on the composition of international reserve assets is presented in note 5.

5 Financial instrument risks

The assets of Central Bank of Chile are mainly composed of financial instruments from international reserves that are traded and kept in custody abroad such as bonds and government notes, bank deposits, among others. The liabilities are comprised of financial instruments related to the management of debt and open-market operations made by the Central Bank of Chile with institutions of the local market through the issuance of notes and time deposits received, among others.

(a) International reserves

International reserves are liquid assets in foreign currency held by Central Bank of Chile to support its monetary and exchange policies. They constitute one of the instruments that Central Bank of Chile has in order to be able to meet the permanent objective of looking after the stability of the currency and normal functioning of domestic and foreign payments.

Consistent with the function of international reserves, as well as with its benefits and costs, the objective of its management aims to provide efficiently a secure access to international liquidity and look after the financial equity of Central Bank of Chile. To achieve this, it acts in conformity with the institutional framework set out in Section 38 of its Basic Constitutional Act, where it is explicitly empowered to manage, maintain and dispose of its international reserves. Central Bank of Chile uses the Wall Street Suite (WSS) system to support its control, investment and operation improvement processes.

a.i Investment policy and referential structure

The investment policy of international reserves considers liquid financial assets meeting the legal requirements established for its administration. It is designed based on its impact on the earnings and risks of Central Bank of Chile statement of financial position and on the characteristics of the potential foreign currency liquidity needs searching for the preservation of capital in case of possible market fluctuations. However, the new investment policy approved in 2012 particularly included the objective of reducing the cost of maintaining reserves in the margin.

International reserves are grouped in two main portfolios: the investment and liquidity portfolio.

On the basis of the new referential structure, the investment portfolio is made up of three portfolios: (a) Short-term Liquidity; (b) Mid-term Liquidity, and (c) Diversification. This new structure considers lower percentages in U.S. dollars and euros and higher percentages in other currencies; i.e., 47.8% in U.S. dollars, 22.0% in euros, 9.2% in Canadian dollars, 6.1% in Australian dollars, 3.0% in Japanese yen, 2.4% in Swiss francs and 9.5% in other foreign currencies. Additionally, the revised life of the referential portfolio is 24 months.

The liquidity portfolio is intended to cover the forecasted requirements of funds in the short term. The referential structure of this portfolio is matched in currencies and terms in respect to the forecasted disbursements. The referential structure of the currencies of the liquidity portfolio is defined according to the effective composition of the currencies and the forecasted disbursements and the deposits and withdrawals made by commercial or public sector banks.

a.ii Risk policy and management

The risk management policy defines a number of admissible deviations in respect of the referential structure in terms of maturity, periods, currency and limits over the different types of investment. This policy delimits liquidity, market and credit risks. The operational risk is controlled through the segregation of duties and responsibilities, the application of controls, and internal and external audit exercises over permanent and regular basis. The Department of International Desk—wich reports to the Management of International Markets— together with Departments of Recording and Control of Operations, and of Payments of the Financial Services Management are responsible for the investments, and their formalization, respectively, while the Manager of Management and Financial Risk Evaluation which reports to the General Manager measures the performance and risks and verifies the compliance with investment limits.

Table 5.1
Benchmark applicable as of 31 December 2013 and 2012.

Portfolio		Share (%) on total investment portfolio	Share (%) internal admin.	Share (%) on subportfolio	Length (months) 2013	Length (months) 2012	Benchmark indices
Short-term liquidity	USD	24.0	24.7	100.0	3.9	3.7	Merrill Lynch 0 - 1 Y
	Total	24.0	24.7	100.0	3.9	3.7	
Mid-term liquidity	USD	23.8	24.5	39.0	24.5	24.5	Barclays 1 - 3 Y and 3 - 5 Y
	EUR	22.0	22.6	36.0	22.7	22.7	
	CAD	9.2	9.4	15.0	23.1	22.7	
	AUD	6.0	6.3	10.0	23.6	23.2	
	Total	61.0	62.7	100.0	23.5	23.5	
Diversification	CHF	2.0	2.0	16.0	68.8	65.8	Barclays 5 - 7 Y and 7 - 10 Y Bank deposit CNH
	CNH	1.8	1.9	15.0	1.5	1.5	
	GBP	1.8	1.9	15.0	66.0	66.8	
	JPY	2.4	2.5	20.0	71.5	70.9	
	KRW	1.8	1.9	15.0	68.4	61.1	
	NZD	1.5	1.5	12.0	60.1	60.7	
	SGD	0.9	0.9	7.0	69.0	69.2	
	Total	12.2	12.6	100.0	57.7	56.3	
Total Internal Administration		97.2	100.0	-	23.0	22.7	
External administrators	CHF	0.4	-	16.0	68.8	65.8	Barclays 5 - 7 Y and 7 - 10 Y Bank deposit CNH
	CNH	0.4	-	15.0	1.5	1.5	
	GBP	0.4	-	15.0	66.0	66.8	
	JPY	0.6	-	20.0	71.5	70.9	
	KRW	0.4	-	15.0	68.4	61.1	
	NZD	0.4	-	12.0	60.1	60.7	
	SGD	0.2	-	7.0	69.0	69.2	
	Total	2.8	-	100.0	57.7	56.3	
Total Invesment Portfolio		100.0	-	-	24.0	23.7	

USD	United States dollar	CNY	Chinese yuan	KRW	South Korean won
EUR	Euro	CHF	Swiss franc	GBP	Pound sterling
CAD	Canadian dollar	CNH	Extra Continental Chinese yuan	NZD	New Zealand dollar
AUD	Australian dollar	JPY	Japanese yen	SGD	Singapore dollar

a.iii Management of liquidity risk

To reduce liquidity risk, a portfolio is mainly structured comprising fixed income securities traded in secondary markets of high liquidity and depth, and to a lesser extent short-term deposits in international commercial banks, with different due dates.

a.iv Management of market risk

Market risk implies possible losses due to variations in the price of investments. The investment policy limits the market risk arising from variations on interest rates and parities by establishing maturity and composition margins of currencies around referential parameters of the portfolios and through the diversification of currencies, securities and investment periods. In the particular case of the diversification portfolio, a risk budget equivalent to 100 basis points is established (ex - ante tracking error). Market risk is monitored through the daily measurement of the maturity and composition of currencies, and by the follow-up of VaR and tracking error. The international reserve management monthly report, prepared by the Department of Managment and Financial Risk Evaluation, includes the measurements of performance and risk in an absolute manner and as compared to a benchmark, and presents an evaluation of the implemented investment strategy.

Tables 5.2 and 5.3 set out the different monitored market risk measurements, where the effect of changing the benchmark can be noted, both in terms of length and currency of the portfolios.

Table 5.2
Market Risk. Internal Investment Portfolio as of 31 December, 2013 and 2012.

		2013	2012
Amount (US$ million)		34,483.2	34,868.4
Length (months)	Portfolio	23.4	23.1
	departure	0.4	0.4
Breakdown by currency (%)	USD	49.4	49.3
	EUR	22.3	22.5
	JPY	2.5	2.4
	Other	25.8	25.8
VaR	Absolute (%)	2.4	2.2
	Tracking error (b.p.)	3.6	4.4

Annualized VaR and TE calculated using the Variance/Covariance method, with a decline ratio of 0.06 and a standard deviation confidence interval.

Tabla 5.3
Market Risk for External Administrator Investment Portfolio as of 31 December, 2013 and 2012.

		2013	2012
Amount (US$ million)		991.7	1,024.2
Length (months)	Portfolio	47.9	55.0
	departure	-9.0	-0.9
Breakdown by currency (%)	USD	2.0	0.4
	EUR	0.0	0.0
	JPY	17.0	17.9
	Other	81.0	81.7
VaR	Absolute (%)	3.7	2.4
	Tracking error (b.p.)	44.4	29.9

Source: JP Morgan.

Annualized VaR and TE calculated using the Monte Carlo methodology, with a decline ratio of 0.06 and a standard deviation confidence interval.

a.v Management of credit risk

The policy on credit risk refers, on one hand, to the level of diversification allowed among the types of risk, and on the other, to the standards setting the transactions that can be performed by Central Bank of Chile and the method used for performing them. The current policy defines the securities, issuers and counterparties, among other eligible, that may be considered for the investment of international reserves.

Tables 5.4 to 5.7 show the breakdown of reserves by credit rating and type of risk. While the credit rating is an average of the ratings reported by agencies Fitch, Moody's and Standard and Poor's, the types of risks relate to the issuer of the instrument. Banking risk is related to the investment in bank financial instruments: deposits, secured bonds from public institutions issued by German banks. Sovereign risk consists of the investment in securities from sovereign states: deposits, bills, floating rate notes, nominal and indexed bonds. Agency risk is related to the investment in securities from U.S., French and German government agencies: bills, nominal bonds, and mortgage-backed securities. Finally, supranational risk is related to the investment in multilateral official issuer securities: deposits, bills, floating rate notes and nominal bonds.

In the Internal Investment Portfolio, and as noted at the end of 2012 sovereign risks concentrate in AAA risk rating, whereas instruments issued by banks concentrate in A+ categories. For external portfolios, sovereign risk decreased its share of AAA risk rating compared to the prior year-end and increased that in AA+.

Table 5.4
Breakdown of the internal investment portfolio according to credit risk as of 31 December 2013.

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	3.5	0.0	81.4	5.2	90.1
AA+	0.0	0.0	1.9	0.0	1.9
AA	0.0	0.0	1.5	0.0	1.5
AA-	0.0	0.7	4.5	0.0	5.2
A+	0.0	1.3	0.0	0.0	1.3
Total	**3.5**	**2.0**	**89.3**	**5.2**	**100.0**

Table 5.5
Breakdown of the internal investment portfolio according to credit risk as of 31 December 2012.

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	0.0	0.0	92.0	0.0	92.0
AA	0.0	0.0	1.5	0.0	1.5
AA-	0.0	1.8	4.3	0.0	6.1
A+	0.0	0.4	0.0	0.0	0.4
Total	**0.0**	**2.2**	**97.8**	**0.0**	**100.0**

Table 5.6
Breakdown of the external administrator investment portfolio according to credit risk as of 31 December 2013.

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	0.0	0.0	24.8	0.5	25.3
AA+	0.0	0.0	13.6	0.5	14.1
AA	0.0	0.0	12.2	0.0	12.2
AA-	0.0	10.7	33.0	0.0	43.7
A	0.0	4.7	0.0	0.0	4.7
Total	**0.0**	**15.4**	**83.6**	**1.0**	**100.0**

Tabla 5.7
Breakdown of the external administrator investment portfolio according to credit risk as of 31 December 2012.

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	0.0	0.0	37.0	1.8	38.8
AA	0.0	2.6	12.9	0.0	15.5
AA-	0.0	7.5	34.1	0.0	41.6
A+	0.0	1.2	0.0	0.0	1.2
A	0.0	2.9	0.0	0.0	2.9
Total	**0.0**	**14.2**	**84.0**	**1.8**	**100.0**

Credit risk may imply possible losses due to the noncompliance with financial operations by the issuers and/or counterparties of Central Bank of Chile.

The investment policy limits the exposures to credit risk of countries, counterparties and issuers, setting amounts and maximum investment maturities that rely on risk ratings reported by rating agencies Moody's, Standard & Poor's and Fitch, and of criteria such as equity and debt, among others. Likewise, the Manager of Management and Financial Risk Evaluation monitors the credit risk on a daily basis by measuring the exposures to different countries, counterparties and issuers and updating regularly risk ratings and other criteria that determine the limits and investment margins.

a.vi Settlement of operations

The Recording and Control of Operations, and the Payments Departments—which report to the Financial Service Management—are in charge of this process which corresponds to the stage at which the transactions of financial instruments are executed. They also provide instructions for the transfer of funds from and to other checking accounts that Central Bank of Chile holds abroad.

vii Compliance control

The compliance control function is carried out by the Manager of Management and Financial Risk Evaluation and consists of verifying compliance with the limits established in the investment policy. The aspects monitored include: composition of currencies, duration and exposure to credit risk, tracking error limits, among others.

a.viii Custody of securities

Central Bank of Chile operates with the custodians of the following institutions that qualify in accordance with the policies established by the Board: JP Morgan Chase, State Street Bank NA, State Street Bank and Federal Reserve Bank of New York.

a.ix External administrators

Starting from October 2012, the mandate granted to external administrators, composed of Pacific Investment Management Company (Pimco) and Goldman Sach Asset Management (GSMA) was amended by standardizing the benchmark to the corresponding internal administration diversification portfolio.

The purpose of such program is to add value to the foreign currency portfolio, obtain knowledge transfer and technology and constitute an active comparison benchmark for the Central Bank of Chile's portfolio.

(b) Open-market operations

Central Bank of Chile implements its monetary policy through the definition of an objective level for the nominal inter-bank interest rate, known as the Monetary Policy Rate (*Tasa de Política Monetaria*, *TPM* in Spanish). In order for the inter-bank rate to be determined at this level, Central Bank of Chile regulates the availability of liquidity (or reserves) of the financial system through several instruments: open-market operations, permanent liquidity and deposit facilities. Cash positions over deposits are also included in the tools of Central Bank of Chile, although Central Bank of Chile does not use them as an active instrument of monetary policy. Open-market operations are mainly performed through periodical biddings of promissory notes issued by Central Bank of Chile, forward purchase and sale contracts for promissory notes and bonds issued by Central Bank of Chile, purchases of debt securities with agreements to resale (Repo), liquidity deposits and foreign currency swaps. In the biddings or auctions the following institutions can participate: financial institutions, pension fund administrators, unemployment fund administrators, insurance companies, mutual funds, brokers and security agents, which operate through the Open-market Operation System (*Soma* in Spanish), owned and operated by Central Bank of Chile.

The transitory injection of liquidity is performed through overnight Repo transactions with maturities of less than 90 days through permanent liquidity facilities. In the opposite situation, where there is excess of liquidity and the inter-bank rate falls below the objective rate (i.e., the *TPM*), the transitory excess is withdrawn through liquidity deposits with maturities up to 15 days and a permanent overnight deposit facility. Other instruments used by Central Bank of Chile correspond to the line of credit for liquidity in local currency for secured banks and to the line of credit for liquidity in domestic currency used in special situations.

In order to adequately regulate the daily liquidity of the financial system, Central Bank of Chile prepares a monetary projection detailing the cash position requirement covering the period of measurement.

b.i Risk management policy

Central Bank of Chile's financial risk management policy controls credit, market and liquidity risks. Operational risk is controlled through the segregation of duties and accountabilities, the application of controls and the performance of external and internal audits on permanent and regular basis. The Domestic Market Management and the Financial Service Management which report to the Financial Operation Division are responsible for performing and formalizing operations, respectively and the Manager of Management and Financial Risk Evaluation reporting to the General Management is responsible for issuing and evaluating financial risks managed in the administration of open-market and debt operations.

b.ii Management of credit risk

Credit risk is associated to open-market operations and facilities that inject liquidity to the financial system (Repo and permanent liquidity facility). To mitigate the risk associated to loans to banking institutions under these methods, Central Bank of Chile requires collaterals eligible according to their credit quality, which are valued at market prices at the time of their receipt and subject to the application of discounts or haircuts according to the instrument specific characteristics. The monthly management report on open-market and debt operations prepared by the Manager of Management and Financial Risk Evaluation includes monitoring the exposure to counterparty and collateral risk, as well as measuring debt management and compliance with promissory note and bond bidding programs.

Additionally, Central Bank of Chile conducts the settlement process under the delivery versus payment (DVP) principle with the effective transfer of positions to the account maintained by Central Bank of Chile with *Depósito Central de Valores* (*DCV*), thereby eliminating the main risk. The settlement of the cash component is performed through the payment system referred to as Real Time Gross Settlement System (*Sistema de Liquidación Bruta en Tiempo Real - LBTR* in Spanish), which is owned and managed by Central Bank of Chile, which determines the position of each participant on real time on an individual payment-to-payment basis. This automatically avoids overdrafts and as it simultaneously uses accounts in Central Bank of Chile as settlement asset, it mitigates credit risk.

As of 31 December 2013, the Bank records no liquidity injection transactions using any of the available instruments.

As of 31 December 2012, loans amounted to Ch$1,065.4708 billion for Repo transactions and Ch$31.5352 billion for permanent liquidity facility agreements. Hundred percent of credit securities received corresponds to bonds and promissory notes issued by Central Bank of Chile.

b.iii Management of market risk

Market risk is the risk of potential losses from changes affecting the price or final value of a financial instrument or group of financial instruments. For open-market operations, this risk is mainly associated with changes in the market value of bonds and promissory notes issued by Central Bank of Chile, and the change in value of collaterals received in liquidity injection transactions. For collaterals the risk of value loss is mitigated by using margins and haircuts that write-down their value and allow the effective amount lent to be lower than the collateral received.

For the placement of bonds and promissory notes, risk is mitigated in line with the provisions in current legislation contained in the *Compendium of Financial Regulations* ruling the placement and adjudication of debt that contemplates the use of competitive bidding processes among financial institutions. Upon issuance of instruments, the main risk is associated with changes in inflation that affect bonds issued in UF.

Monitored market risk indicators include the length and VaR. Tables 5.8 and 5.9 display these indicators and show a decrease in the length, the proportional share of instruments denominated in UF in the debt structure and VaR between 2013 and 2012 year-ends. This change is mainly explained by the transitory decision made by Central Bank of Chile of not renewing short-term debt (PDBC) during December 2012.

Table 5.8
Structure and risk of the debt portfolio of Central Bank of Chile as of 31 December, 2013.

Instrument	Ch$ billion	% UF	Holding period (months)
Short-term	925	0	0.5
Long-term	12,108	66	65.0
Total	**13,033**	**62**	**61.0**

Table 5.9
Structure and risk of the debt portfolio of Central Bank of Chile as of 31 December, 2012.

Instrument	Ch$ billion	% UF	Holding period (months)
Short-term	0	0	0.0
Long-term	12,905	70	62.0
Total	**12,905**	**70**	**62.0**

b.iv Management of liquidity risk

Liquidity risk is the risk of not being able to settle an instrument when necessary or incurring losses when it is necessary to sell it due to a lack of market depth.

For open-market operations, this risk relates to the possibility of issuing bonds and promissory notes or rolling them over in the primary market at prices that are too high compared to securities with similar characteristics traded in the secondary market. This type of risk is mitigated through the provisions in current legislation contained in the *Compendium of Financial Regulations* that rule the placement and adjudication of debt and by monitoring both secondary and primary markets and their institutions

Tables 5.10 and 5.11 show a summary of the results of the awarding of bonds and promissory notes for 2013 and 2012. In those tables it can be noted that prices or interest rates for the award of bonds and promissory notes at bids are very similar to market rates and demand has been higher than the scheduled security supply. Comparing 2013 with 2012, during 2013 the demand for securities offered was slightly lower; however, spreads with respect to market rates were more favorable and bids of all papers were performed at lower rates.

Table 5.10
Results of the bidding of debt instruments of Central Bank of Chile as of 31 December 2013.

Instrument	Amount awarded in (Ch$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	27.210	145	105	4,89	4,98	-9,0
BCP	735	323	100	5,24	5,24	-0,1
BCU	1.004	260	100	2,36	2,37	-1,5

Demand and award in respect to the annual bond placement program and monthly discountable promissory notes placement program.
Bidding and market rates correspond to the weighted average for bidding processes during the year.

Table 5.11
Results of the bidding of debt instruments of Central Bank of Chile as of December 31, 2012.

Instrument	Amount awarded in (Ch$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	30,095	152	106	5.00	5.08	-7.6
BCP	950	342	100	5.35	5.35	0.2
BCU	1,096	285	100	2.43	2.43	-0.2

Demand and award in respect to the annual bond placement program and monthly discountable promissory notes placement program
Bidding and market rates correspond to the weighted average for bidding processes during the year.

6 Changes in accounting policies

As stated in the Central Bank of Chile's Basic Constitutional Act, title VI, the Board shall, with a prior favorable report from the Superintendence of Banks and Financial Institutions, issue the regulations containing the requirements and general conditions to which the financial statements of the Central Bank of Chile shall conform, to be prepared for periods of one year ending on 31 December of each year.

Starting from 1 January 2013, the Bank applies IAS 9 "Employee benefits" as amended, which establishes that the determination of new measurement for the defined benefit liability that comprise actuarial gains and losses, must be recognized in other comprehensive income within equity.

In addition, starting from 1 January 2013, the Bank applies IFRS 13 "Fair Value Measurement."

During 2013, there were no changes in accounting policies compared to 2012.

7 Net income for international reserves

International reserves

For the years ended 31 December 2013 and 2012, this caption is composed of the following:

	(Ch$ million)	
	2013	2012
(a) Net interests and commissions on:	289,042.1	265,084.6
- Securities at fair value with effect on income	13,653.6	16,911.6
- Held-to-maturity securities	-	25.1
- Available-for-sale securities	0.1	664.0
- Foreign correspondents		
Subtotal for net interests and commissions	302,695.8	282,685.3
(b) Sales of securities:		
- At fair value with effect on income	(185,945.9)	169,534.9
- Available-for-sale	-	6,843.3
Subtotal for sales of securities	(185,945.9)	176,378.2
(c) (Loss) gain adjustments at fair value	(66,556.1)	(255,983.3)
(d) On other income	(1,947.6)	460.5
Total net income for international reserves	**48,246.2**	**203,540.7**

Other foreign operations	(Ch$ million)	
	2013	2012
Net gain or loss on foreign operations comprise the following:		
- On revaluation of accounts with international agencies	1,317.3	(7,006.0)
- On interest	(588.1)	(724.5)
- Other net income and expenses	4,407.7	(928.1)
Total net income for foreign operations	**5,136.9**	**(8,658.6)**

8 Net income for domestic operations

For the years ended 31 December 2013 and 2012, this caption is composed of the following:

	(Ch$ million)	
	2013	2012
(a) Income for domestic loan		
Interests	10,018.2	10,754.5
Adjustments	64.1	129.4
Other	2,654.2	4,433.7
Total income for domestic loan	12,736.5	15,317.6
(b) Income for operations under specific legal regulations		
Interests	86,251.1	89,563.9
Adjustments	23,794.6	31,074.9
Total income for operations under specific legal regulations	110,045.7	120,638.8
(c) Income for deposits and obligations held by Central Bank of Chile		
Interests	(92,498.2)	(96,338.5)
Other	(904.2)	(513.1)
Total income for deposits and obligations held by Central Bank of Chile	(93,402.4)	(96,851.6)
(d) Income for documents issued by Central Bank of Chile		
Interests	(605,586.4)	(613,565.0)
Adjustments	(179,306.1)	(206,912.9)
Total income for documents issued by Central Bank of Chile	(784,892.5)	(820,477.9)
Total net income for domestic operations	**(755,512.7)**	**(781,373.1)**

9 Net gain (loss) on foreign exchange operations

For the years ended 31 December 2013 and 2012, this caption is composed of the following:

	(Ch$ million)	
	2013	2012
Gain on foreign exchange operations	2,670,308.0	661,232.7
Loss on foreign exchange operations	(1,207,407.5)	(2,114,091.6)
Total	**1,462,900.5**	**(1,452,858.9)**

Net gain (loss) on foreign exchange operations for each year ended, resulting mainly from the effect of exchange rate differences on foreign currency assets, as follows:

	(Ch$ million)	
	2013	2012
U.S. dollar	768,495.0	(777,356.0)
Euro	508,913.3	(475,842.3)
Canadian dollar	32,319.1	(61,197.5)
Australian dollar	(66.875.2)	(55,763.6)
SDR	24,931.1	(19,824.5)
Other currency	182,712.6	(59,590.2)
Subtotal net (loss) gain on foreign exchange operations	1,450,495.9	(1,449,574.1)
Arbitrage and other	12,404.6	(3,284.8)
Total net (loss) gain on foreign exchange operations	**1,462,900.5**	**(1,452,858.9)**

10 Issuance and distribution costs

For the years ended 31 December 2013 and 2012, this caption is composed of the following:

	(Ch$ million)	
	2013	2012
Banknotes	(29,882.1)	(7,884.3)
Coins	(24,007.6)	(29,304.3)
Distribution	(563.0)	(691.1)
Total	**(54,452.7)**	**(37,879.7)**

The increase in currency issuance and distribution costs during 2013 compared to 2012 is due to an increase in the number of coins and banknotes produced and the increase in costs mainly in banknotes. The detail of banknotes is provided in note 17(a).

11 Reserve assets

This caption includes international reserves held by Central Bank of Chile and is detailed as follows:

	(US$ million)	
	2013	2012
Monetary gold	9.6	13.1
Special drawing rights (SDR)	1,147.1	1,211.5
Reserve position in the IMF	640.7	691.8
Correspondent banks abroad	19.1	20.8
Investments in foreign currency:	39,143.8	39,630.5
Instruments at fair value with effect on net income	34,642.6	35,067.0
Level 1 market value*	34,642.6	35,067.0
Held-to-maturity securities	4,501.2	4,563.5
Reciprocal loan agreements	132.5	81.1
Other assets	0.9	0.7
Total reserve assets	**41,093.7**	**41,649.5**
	(Ch$ million)	
Total reserve assets	**21,523,220.5**	**19,933,433.5**

*As of 31 December 2013 and 2012, the carrying amounts of instruments at fair value through profit or loss amount to Ch$18,144,375.8 million and Ch$16,783,042.3 million, respectively and correspond to the fair value of such instruments at those dates.

As of 31 December 2013, monetary gold amounted to US$9.6 million (US$13.1 million in 2012) equivalent to 7,940 fine gold troy ounces valued at US$1,214.5 per ounce (US$1,655.5 in 2012). There was no change in the amount of troy ounces compared to 2012.

Special drawing rights (SDR) correspond to reserve assets, equivalent to foreign currencies, assigned by the International Monetary Fund (IMF) to the member countries proportionally to the installment paid and valued in Chilean pesos considering the current parity reported by the International Monetary Fund.

Reciprocal Loan Agreements (debits) represent the amount payable to Central Bank of Chile from the central banks comprising *Aladi's* Agreements on Reciprocal Payments and Credits for the exports performed. Its classification corresponds to non derivative held-to-maturity securities, valued at amortized cost at effective rate.

The decrease observed in reserve assets for the year ended 31 December 2013 of US$555.8 million, compared to 2012, is mainly explained by a decrease in held-to-maturity securities of US$62.3 million, securities at fair value through profit or loss of US$424.4 million Special drawing rights (SDR) of US$64.4 million, Reserve position in the IMF of US$51.1 million and increase of reciprocal loan agreements of US$51.4 million.

As of 31 December 2013 and 2012, the distribution of investments in foreign currencies by currency is as follows:

	(US$ million)	
	2013	2012
U.S. dollar	20,620.2	21,050.7
Euro	7,714.0	7,870.3
Other currency	12,759.5	12,728.5
Total	**41,093.7**	**41,649.5**

12 Reserve position in the International Monetary Fund (IMF)

The reserve position balance in the IMF at each year-end is detailed as follows:

	(Ch$ million)	
	2013	2012
Subscription installment, contribution	690,520.6	629,721.5
Loan, account No.1	27.9	21.2
New Arrangement to Borrow (NAB)	142,467.3	118,072.3
Deposits	(497,437.8)	(416,727.7)
Total position in the IMF	**335,578.0**	**331,087.3**

13 Loans to banks and financial institutions

This caption includes the following operations, which are defined as non-derivative financial instruments held-to-maturity, valued at amortized cost through the effective rate:

	(Ch$ million)	
	2013	2012
Line of credit on debt restructuring	256.9	518.8
Central Bank of Chile repurchase agreements (Repo)	-	1,110,445.4
Total	**256.9**	**1,110,964.2**

During 2013, the Bank records no reverse repurchase agreements. The average purchase rate for Central Bank of Chile repurchase agreements (Repo) was 5.07% in 2012.

14 Operations under specific legal regulations

This caption mainly includes the following operations from specific laws that are defined as non-derivative financial instruments held-to-maturity, valued at amortized cost recognized in profit or loss through the effective rate and which have not been subject to any impairment tests.

a) General Treasury transfers

The item "Tax transfers" under the specific legal regulation in the caption Operations includes the following amounts:

	(Ch$ million)	
	2013	2012
General Treasury transfer Law 18,401	265,355.6	260,018.7

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million, will be covered by the General Treasury through future taxes which as of 31 December 2013 amount to Ch$265,355.6 million, equivalent to approximately UF11.4 million (Ch$260,018.9 million in 2012, equivalent to UF11.4 million).

Executive Decree 1526 issued by the Ministry of Finance, dated 31 December 2010, determined the total amount of the transfer that the General Treasury has to perform in favor of Central Bank of Chile because of the application of the above mentioned law for UF11,383,983.4695 and equivalent, at least, to one twentieth of the aforementioned total sum, starting on the eleventh year subsequent to the year in which the aforementioned Decree was processed, which corresponds to 25 January 2011. However, this Decree expressly contemplates that the General Treasury will be able to make prepayments.

b) *Caja Central de Ahorros y Préstamos* and *Asociación Nacional de Ahorro y Préstamo*

Decree Laws 1381 dated 23 March 1976 and 2824 dated 6 August 1979 regulated the obligation imposed by Central Bank of Chile of granting loans to organizations which were part of the former National Savings and Loan System (*Sinap*), because of the financial position affecting organization in that system.

Through Law 18,900 dated 16 January 1990 *Caja Central de Ahorros y Préstamos* (*CCAP*) and *Asociación Nacional de Ahorro y Préstamo* (*Anap*) ceased to exist and a procedure was established through which the respective equity would be liquidated and used to pay shareholders and the obligations of the institutions.

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

Article 5 of the aforementioned law establishes that the General Treasury shall be responsible for any obligations of the *CCAP* and the *Anap* that are not covered upon liquidating shareholders' equity, the funds for which should be requested from the national budget, in conformity with Article 21 of Decree Law 1263 dated 1975.

This loan arises from the grant of refinancing credit lines by Central Bank of Chile to the *Sinap* which had express legal recognition prior to the liquidation of *Caja Central de Ahorros y Préstamos* and *Asociación de Ahorro y Préstamo* set out by Law 18,900, in conformity with the aforementioned Decree Laws, and as included in the operations as of the closing of business on the day before the Central Bank of Chile's Basic Constitutional Act was enforced, as established in the transitory Article 2 of the law. Consequently, such operations are the opening capital of Central Bank of Chile referred to in Article 5 of such law. The Board has determined to continue applying the accounting treatment this asset had at the date of its initial recognition, as these operations arise from legal specific provisions.

As of 31 December 2013, the amount payable to Central Bank of Chile from the liquidation of these institutions, was Ch$938,056.1 million (this amount includes interest accrued for Ch$595,120.3 million to that date), of which Ch$866,447.7 million correspond to direct loans granted by Central Bank of Chile and Ch$71,608.4 million with credit lines for international organization programs (Ch$877,058.7 million in 2012, of which Ch$808,497.7 million relate to direct loans granted by Central Bank of Chile and Ch$68,561.0 million to credit lines for international organizations programs).

The recovery of such amounts depends on the determination of a specific date for the payment of that loan, from the General Treasury in favor of Central Bank of Chile. For this reason it is not possible to determine the specific date or other conditions on which that payment will be made.

c) Loan for subordinated liability

The balances as of each year-end represent a subordinated liability of *Banco de Chile* with Central Bank of Chile as established in the agreement amending payment terms dated 8 November 1996, in accordance with the provisions of Law 19,396.

On that date, the parent company *Sociedad Matriz del Banco de Chile*, previously referred to as *Banco de Chile*, agreed to transfer the liability to *SAOS S.A.* (*Sociedad Administradora de la Obligación Subordinada*), based on paragraphs three and five of the aforementioned law. Consequently, the liability must be paid in 40 annual, consecutive and equal installments beginning in April 1997.

During 2013, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF6,203,926.6500 to Central Bank of Chile, of which UF1,214,159.3521 were allocated to the payment of interests of the debt and UF4,989,767.2979 to the credit amortization for subordinated liability (in 2012 UF5,503,988.6769, of which UF1,548,166.6602 were destined to the payment of interest and UF3,955,822.0167 to amortization).

As of 31 December 2013 the balance amounts to Ch$649,521.0 million, UF27,865,005.0834 (Ch$754,321.6 million in 2012, UF33,025,256.0975).

15 Premises, equipment and intangible assets

	(Ch$ million)	
	2013	2012
Premises and equipment, net	34,140.2	36,377.8
Intangible assets, net	2,336.7	2,009.0
Total premises, equipment and intangible assets	**36,476.9**	**38,386.8**

This caption is mainly composed of the following balances and movements:

	(Ch$ million)				
	Balances as of 31.Dec. 2012	Acquisitions	Disposals	Depreciation	Balances as of 31.Dec. 2013
Real estate and facilities	21,358.4	9.6	-	(285.2)	21,082.8
Furniture and equipment	9,399.8	636.1	(132.3)	(2,064.8)	7,838.8
Transport material	326.3	55.4	(19.0)	(105.0)	257.7
Collection of banknotes and coins (*)	3,628.0	0.6	(630.0)	-	2,998.6
Works of art	1,651.9	-	-	-	1,651.9
Other	13.4	0.1	-	(0.1)	13.4
Work in progress	-	297.0	-	-	297.0
Net, premises and equipment	36,377.8	998.8	(781.3)	(2,455.1)	34,140.2

(*) This figure includes Ch$630.0 million due to variations in foreign currency exchange of gold pesos.

As of 31 December 2013 and 2012, the caption Depreciation and Amortization in the Statement of Income includes Ch$2,455.1 million and Ch$2,169.3 million, respectively.

Composition and movements of intangible assets

	(Ch$ million)				
	Balances as of 31.Dec.12	Acquisitions	Disposals	Amortization	Balances as of 31.Dec.13
Computer programs	1,609.4	-	-	(327.3)	1,282.1
Computer programs under development	399.6	655.0	-	-	1,054.6
Intangible assets, net	2,009.0	655.0	-	(327.3)	2,336.7

As of 31 December 2013 and 2012, the amortization of intangible assets of Ch$327 and Ch$27.3 million is recorded under Depreciation and Amortization in the Statement of Income.

16 Foreign liabilities

This caption includes the following operations

	(Ch$ million)	
	2013	2012
Reciprocal loan agreements	4,629.7	13,253.0
Accounts with international bodies	46,455.0	42,254.1
Special drawing rights (SDR) allocations	659,008.1	600,950.1
Total foreing liabilities	**710,092.8**	**656,457.2**

Reciprocal Loan Agreements (credits) represent the amount owed by Central Bank of Chile to the central banks comprising *Aladi's* Agreements on Reciprocal Payments and Credits for the imports performed. Its classification corresponds to non-derivative held-to-maturity securities, valued at amortized cost at effective rate.

Accounts with international bodies correspond to resources held in local currency by such organizations for its drawing and to obligations of Central Bank of Chile acting as a fiscal agent, with IDB, for promissory notes subscribed in foreign currency in payment of the subscription of shares and capital increases. They do not bear interests, but they do maintain value for the variations of SDR (IMF) and United States dollar by other agencies.

This caption is composed of the following:

	(Ch$ million)	
	2013	2012
Promissory note obligations with IDB	41,817.5	38,211.9
Inter-American Development Bank (IDB)	3,690.3	3,094.8
Agency for International Development (AID)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	32.9	33.0
International Bank for Reconstruction and Development (IBRD)	13.2	13.3
Total accounts with international organizations	**46,455.0**	**42,254.1**

The assignments of Special Drawing Rights (SDRs) correspond to SDR817,029,890 (Ch$659,008.1 million) assigned to Chile through Central Bank of Chile, by the International Monetary Fund, which are subject to possible restitution; they accrue interests on the basis of a rate determined by the IMF on a weekly basis.

17 Monetary base

This caption is composed of the following:

	(Ch$ million)	
	2013	2012
Banknotes and coins in circulation	6,917,607.4	6,195,118.2
Deposits from financial institutions	1,139,731.0	965,242.2
Deposits for technical reserve	697,135.5	730,243.3
Total monetary base	**8,754,473.9**	**7,890,603.7**

(a) Banknotes and coins in circulation

Includes the amount of banknotes and coins of legal tender issued by Central Bank of Chile held by third parties, resulting from the total banknotes and coins received from suppliers and recorded as liabilities at their face value, less the banknotes and coins that are in the cash of Central Bank of Chile and in its vault.

Banknotes and coins in circulation are recorded at face value. The costs of printing and coining are recorded as expense in the caption Issuance and distribution costs.

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

Denomination	(Ch$ million)	
	2013	2012
$ 20000	2,093,132.6	1,808,594.2
$ 10000	3,756,732.9	3,390,659.5
$ 5000	453,165.3	418,003.6
$ 2000	117,038.5	134,675.5
$ 1000	184,682.6	161,221.8
$ 500	4,745.6	4,746.8
Other	250.1	249.9
Coins	307,859.8	276,966.9
Total	**6,917,607.4**	**6,195,118.2**

(b) Deposits from financial institutions

Deposits from financial institutions reflect the movements in drafts and deposits in local currency resulting from the operations performed by financial institutions with Central Bank of Chile. Their balance represents the funds or resources in favor of financial institutions and is useful for the constitution of cash positions.

(c) Deposits for technical reserve

Deposits for technical reserve refer to compliance with the obligation on technical reserve required from bank institutions under Article 65 of the General Banking Law, which establishes the alternative of maintaining deposits with Central Bank of Chile for those purposes. This law establishes that deposits in current accounts and other demand deposits received by a bank as well as the amounts that it should destine to pay demand obligations which it assumes as a result of performing its line of business, to the extent that they exceed by two and a half times its cash equity, will have to be maintained on hand or in a technical reserve in deposits in Central Bank of Chile or in documents issued by Central Bank of Chile or the General Treasury at any term valued at market price.

18 Deposits and obligations

Deposits and obligations correspond to financial liabilities, classified as held to maturity for deposits held in Central Bank of Chile, by the General Treasury, as well as by financial institutions and are composed of the following:

	(Ch$ million)	
	2013	2012
Deposits and obligations with the General Treasury	384,665.8	694,763.0
Other deposits and obligations	4,479,795.3	5,413,438.1
Total	**4,864,461.1**	**6,108,201.1**

(a) "Deposits and obligations with the General Treasury" include:

	(Ch$ million)	
	2013	2012
General Treasury current accounts	313,057.4	626,202.1
Other	71,608.4	68,560.9
Total	**384,665.8**	**694,763.0**

(b) "Other Deposits and Obligations" include:

	(Ch$ million)	
	2013	2012
Permanent Deposit Facility in local currency	2,601,914.2	3,987,877.9
Current accounts in foreign currency	878,171.3	499,231.0
Short-term deposits from bank institutions in foreign currency	958,480.8	890,196.0
Other	41,229.0	36,133.2
Total	**4,479,795.3**	**5,413,438.1**

19 Documents issued by Central Bank of Chile

The issuance of documents of Central Bank of Chile is the main supporting element for the implementation of the monetary policy in order to provide liquidity to the market in an efficient manner. These financial liabilities are classified as held-to-maturity and valued at amortized cost through the effective interest method.

As of 31 December, 2013 and 2012, maturities of these instruments are as follows:

	(Ch$ million)						
	Up to 90 days	91-180 days	181 days to 1 year	1-3 years	Over 3 years	Total 2013	Total 2012
Central Bank of Chile bonds in UF (BCU)	-	41,152.7	-	1,761,317.9	6,027,662.1	7,830,132.7	8,535,033.3
Central Bank of Chile bonds in pesos (BCP)	129,760.4	396,459.3	-	1,479,167.3	2,075,236.4	4,080,623.4	3,905,683.5
Central Bank of Chile Bank discountable promissory notes (PDBC)	925,319.1	-	-	-	-	925,319.1	-
Optional indexed coupons (CERO) in UF	8,959.7	7,779.3	12,884.1	56,977.4	49,068.7	135,669.2	230,094.7
Indexed promissory notes payable in coupons (PRC)	658.3	322.7	2,515.1	13,430.4	44,330.2	61,256.7	234,221.9
Other	21.1	-	-	-	-	21.1	21.1
Total as of 31 December	1,064,718.6	445,714.0	15,399.2	3,310,893.0	8,196,297.4	13,033,022.2	12,905,054.5

Balances include interest and adjustments accrued as of 31 December 2013 and 2012.

As of 31 December 2012, the net variation of Ch$127,967.7 million, compared to 2012, is explained mainly by an increase in the issuance of BCPs and PDBCs, and a decrease in BCUs.

In addition, decreases in CEROs in UF and PRCs are due to maturities that have not been renewed during the period.

20 Other liability accounts

This caption is composed of the following:

	(Ch$ million)	
	2013	2012
Provisions	18,502.7	18,365.6
Other securities	377.9	411.7
Total	**18,880.6**	**18,777.3**

Provisions

Central Bank of Chile has recorded provisions for severance indemnity, a benefit established in the Collective Labor Agreement in force for the periods 2007-2012 and 2012-2015 accounted for in accordance with the actuarial method of projected cost. At the same time, the benefits granted to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile and healthcare benefits for retirement plans are also included and detailed as follows:

	(Ch$ million)	
	2013	2012
Provision for the year:		
- Severance indemnity	10,301.2	10,531.0
- Special indemnity Resolution 1414 and agreed deposit for retirement plan	1,614.6	1,561.3
- Special indemnity Resolution 1651 and agreed deposit for retirement plan	1,821.5	1,752.4
Subtotal provision for severance indemnity	13,737.3	13,844.7
- Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	2,571.1	2,672.9
- Healthcare benefits for retirement plan	18.7	8.6
- Pending accrued vacations of personnel	1,966.2	1,836.3
- Special indemnity Resolution 572-05-961226	3.0	3.0
- Incentive allocation	206.4	-
Subtotal other provisions	4,765.4	4,520.8
Total	**18,502.7**	**18,365.5**

	(Ch$ million)	
	2013	2012
Movements in provisions for severance indemnities:		
- Current value of liabilities at the beginning of the year	13,844.7	10,878.3
- Service cost	652.9	627.5
- Interest cost	726.5	589.6
- Benefits paid	(1,687.9)	(515.0)
- Actuarial gains (losses)	201.1	511.9
- Past service cost (effect of new benefits)	-	1,752.4
Total	**13,737.3**	**13,844.7**

	(Ch$ million)	
	2013	2012
Post-employment benefit expenses		
- Current value of service costs	652.9	627.5
- Interest cost	726.5	589.6
- Past service cost (effect of new benefits)	-	1,752.4
Total	**1,379.4**	**2,969.5**

As of 31 December 2013, the sensitivity of the actuarial liability amount from post-employment benefits considering changes indicated in actuarial assumptions generates the following effects:

Calculation of variable sensitivity analysis impact	Base scenario	Scenario 1	Scenario 2	Scenario 3
- Discount interest rate (%)	5.25	-10.0	10.0	-
- Dismissal rate (%)	4.74	10.0	-10.0	10.0
- Voluntary redundancy rate (%)	3.59	10.0	-10.0	10.0
- Annual turnover rate of employees entitled to severance indemnity payments (%)	8.50	10.0	-10.0	10.0
- Margin applied to mortality rate M-95 table (%)	67.00	10.0	-10.0	-20.0
Effect on provision for post-employment benefits (Ch$ million)	-	1,423.2	(1,300.0)	677.2
Effect on provision for post-employment benefits (%)	-	10.36	-9.46	4.93

Calculation of probable payment of the provision for severance indemnity payments	(Ch$ million)
- Short-term provisions for severance indemnity payments (up to one year)	1,461.0
- Long-term provisions for severance indemnity payments (over one year)	12,276.3
Balance as of 31 December	**13,737.3**

21 Capital and reserves

(a) Capital and reserves

Changes in capital and reserves during 2013 and 2012 were as follows:

	(Ch$ million)				
	Capital	Reserves for actuarial gains or losses	Valuation accounts	Net income (loss)	Total
Balances as of 1 January 2012	(3,447,503.0)	(341.0)	1,905.7	1,091,724.2	(2,354,214.1)
Distribution of 2011 surplus	1,091,724.2	-	-	(1,091,724.2)	-
Other comprehensive income	-	(170.9)	-	-	(170.9)
Other reserves	-	-	(1,905.7)	-	(1,905.7)
(Deficit) for the year	-	-	-	(2,122,958.8)	(2,122,958.8)
Balances as of 31 December 2012	(2,355,778.8)	(511.9)	-	(2,122,958.8)	(4,479,249.5)
Balances as of 1 January 2013	(2,355,778.8)	(511.9)	-	(2,122,958.8)	(4,479,249.5)
Distribution of 2012 deficit	(2,122,958.8)	-	-	2,122,958.8	-
Other comprehensive income		(201.1)	-	-	(201.1)
Surplus for the year	-	-	-	659,142.3	659,142.3
Balances as of 31 December 2013	**(4,478,737.6)**	**(713.0)**	**-**	**659,142.3**	**(3,820,308.3)**

Section 5 of the Basic Constitutional Act of Central Bank of Chile established a paid-in capital for Central Bank of Chile at Ch$500,000 million, which at 31 December 2013 corresponds to Ch$2,155,764.0 million adjusted to the Consumer Price Index as of that date, which has to be paid according to transitory Article 2 of the Basic Constitutional Act.

In accordance with Section 77 of the Basic Constitutional Act of Central Bank of Chile, the deficit produced in any year will be absorbed with a debit to constituted reserves.

When there are no reserves or they are insufficient, the deficit produced in any period will be absorbed with a debit to paid-in capital.

As of 31 December 2013, Banco Central de Chile has an equity deficit of Ch$3,820,308.3 million (equity deficit of Ch$4,479,249.5 million as of 31 December 2012) which arises mainly from the gains and losses from changes in the exchange rates of assets in foreign currencies.

(b) Price-level adjusted capital

The Board decided no longer to apply comprehensive price-level adjustment to financial statements beginning in 2010, and therefore price-level adjustment on capital is no longer presented in the Balance sheet nor in the Statement of Income, however in order to comply the provisions of Section 5 of the Basic Constitutional Act of Central Bank of Chile, paragraph 2, which states "The capital may be increased by decision of the majority of the Board Members, through capitalization of reserves and adjusted by means of price-level adjustment", as well as stated in Title VI of the same legislation, regarding the distribution of the Central Bank of Chile's surpluses included in Section 77, and the payment of the initial capital referred to in transitory Article 2. Once the initial capital, properly adjusted as stated in the terms of Section 5 is paid, the resulting surplus for each year, will be determined and calculated for the purposes of surplus distribution to the General Treasury as contained in Section 77, considering the annual adjustment to the equity recorded in memorandum accounts.

As of 31 December 2013 the negative capital price-level adjustment recognized in memorandum accounts amounted to Ch$113,235.9 million Ch$53,367.8 million in 2012), which resulted in a negative adjusted capital of Ch$4,831,396.5 million (Ch$2,594,689.9 million in 2012). The amount to price-level adjusted is capital at the reporting date and its respective contributions by the General Treasury, if any, which does not consider valuation accounts. Note that as of to-date the related deficit has not been distributed yet.

	Capital as of 31.Dec.13	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31.Dec.13
Balances as of December 31, 2013	(4,718,160.6)	(113,235.9)	(4,831,396.5)

22 Variations in the monetary base and international reserves

According to note 2.(a.vi) and in consideration of Central Bank of Chile's unique operations, beginning in 2001, instead of preparing a statement of cash flows, Central Bank of Chile discloses a statement of variations in monetary base and a statement of variations in international reserves, defined as follows:

Monetary base: Central Bank of Chile's liabilities that form part of money, or otherwise contribute to the formation of monetary aggregates including freely circulating banknotes, coins and checks issued by Central Bank of Chile, plus deposits made by the financial system in Central Bank of Chile.

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

Variations in the monetary base	(Ch$ million)	
	2013	2012
Initial balance of monetary base	7,890,603.7	6,851,171.5
Increase		
Foreign exchange operations	-	2,941.6
Interest and indexation paid	995,523.8	947,203.3
Deposits and obligations	1,335,590.6	-
Domestic loans	-	134,712.0
Operating support expenses	36,814.7	35,759.3
Securities issued	-	256,732.4
Operations with international bodies	-	5,416.8
Other minor foreign exchange changes	96,732.0	-
Other assets	3,572.3	1,342.6
Total increase	2,468,233.4	1,384,108.0
Decrease		
Deposits and obligations	-	(220,498. 0)
Operations under specific legal standards	(19,651.2)	-
Loans granted to commercial banks	(1,097,237.9)	-
Interest and indexation received for domestic operations	(155,401.1)	(118,078.2)
Securities issued	(331,463.7)	-
Other minor foreign exchange changes	-	(6,091.9)
Transactions with international bodies	(595.3)	-
Other liabilities	(14.0)	(7.7)
Total decrease	(1,604,363.2)	(344,675.6)
Variation of monetary base for the year	863,870.2	1,039,432.4
Final balance of monetary base	**8,754,473.9**	**7,890,603.7**

Variations in international reserve assets	(US$ million)	
	2013	2012
Initial reserve balance	41,649.5	41,979.3
Increase		
Foreign exchange operations	-	3.0
Other liabilities	43.7	-
Interests received for deposits and other investment instruments abroad	26.2	589.6
Total increase	69.9	592.6
Decrease		
Other assets	(16.4)	(0.1)
Deposits and obligations	(152.4)	(890.6)
Interest paid for other transactions abroad	(22.1)	(83.8)
Total decrease	(190.9)	(974.5)
Variation in reserves for the year	(121.0)	(381.9)
Effect of exchange rate	(434.8)	52.1
Final reserve balance	**41,093.7**	**41,649.5**

23 Foreign currency balances

The balance sheets include assets and liabilities payable in foreign currencies, whose balances as of December 31, 2013 and 2012 are as follows:

Assets	(US$ million)	
	2013	2012
Foreign assets	41,342.6	41,898.3
Reserves	41,093.7	41,649.5
Other foreign assets	248.9	248.8
Other asset accounts	20.9	6.3
Total assets	41,363.5	41,904.6
Liabilities		
Foreign liabilities	1,346.9	1,363.1
Other foreign liabilities	88.7	107.5
Special drawing rights (SDR) allocations	1,258.2	1,255.6
Domestic liabilities	3,766.2	3,921.3
Deposits and General Treasury liabilities	214.0	977.6
Other deposits and obligations	3,552.2	2,943.7
Total liabilities	5,113.1	5,284.4
Net assets	**36,250.4**	**36,620.2**

24 Contingencies and commitments

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

25 Income taxes

Pursuant to Article 7 of Decree Law 3345 dated 1980, Central Bank of Chile is exempt from income taxes.

26 Fiscal agency

Law 20,128 related to General Treasury Liability published in the *Official Gazette* as of 30 September 2006, created the "Economic and Social Stabilization Fund" (*FEES*) and the "Pension Reserve Fund" (*FRP*)". A portion of FRP funds is invested in sovereign bonds and other related assets, inflation-indexed sovereign bonds managed by Central Bank of Chile as Fiscal agency and the other portion is invested in corporate bonds and shares managed by an external administrator. In conformity with the provisions of the aforementioned law, the Minister of Finance through Executive Decree 1383, dated 11 December 2006, appointed Central Bank of Chile as Fiscal Agent for the administration of resources referred to such funds, in conformity with the procedures, conditions, methods and other standards established in the aforementioned executive decree.

On 10 January 2011, the Strategic Contingency Fund (*FCE*) has been incorporated in accordance with Executive Decree 19 issued by the Ministry of Finance.

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

In accordance with Ordinary Official Letter 1637 of 18 November 2011 issued by the Ministry of Finance, Central Bank of Chile is empowered to outsource part or all of the management of government funds in the *FRP*. Accordingly, in November 2011 BlackRock Institutional Trust Company, N.A. and Rogge Global Partners Plc were selected as portfolio managers for corporate bonds. For share portfolios, BlackRock Institutional Trust Company, N.A. and Mellon Capital Management Corporation were selected as managers and JP Morgan Chase Bank N.A. was selected as custodian, which provides compliance, risk/return assessment, accounting and bookkeeping services.

On 18 April 2013, Ministry of Finance published Executive Decree 1618 of 6 December 2012 in the *Official Gazette*, amending Executive Decree 1383 of 11 December 2006 issued by the Ministry of Finance, which appointed Central Bank of Chile as Fiscal Agent, to act on behalf of the General Treasury in the performance of all or part of the functions associated with the resources in the Pension Reserve Fund (*FRP*) and the Economic and Social Stabilization Fund (*FEES*).

In the Executive Decree 1618 two portfolios are distinguished within the Fiscal Agenda. One portfolio comprises resources that may be invested in instruments classified as eligible for investment in international reserves of Central Bank of Chile or debt securities that are not secured by foreign countries, except for corporate bonds, the resources of which may be invested directly by the Fiscal Agent or its appointed external trustees and/or tendered external trustees. For tendered external trustees, they will report directly to the Ministry of Finance. This portfolio has been referred as "Portfolio substantially equivalent to international reserves". The second portfolio comprises other fiscal recourses invested in shares, corporate bonds and any other type of securities' portfolios or securities different from the aforementioned, and has been referred as "Externally managed portfolio".

With respect to the externally managed portfolio, a distinction should be made between the "fully functional" situation beginning on 1 January 2014, and the situation during the transition period that was extended up to 31 December 2013. With respect to the "fully functional" situation, i.e., starting from 1 January 2014, the Bank will not be considered to be the manager of Fiscal Resources comprising the externally managed portfolio for the Fiscal Agency.

Although the accounting effects of changes to *FRP* and *FEES* made by the Fiscal Agency do not meet the requirements of IAS 39 to derecognize financial assets from the "Externally managed portfolio," note that the accounting of *FRP* and *FEES* funds should also comply with mandates and instructions issued by Ministry of Finance. Accordingly, Central Bank of Chile as Fiscal Agent outsourced the management of this portfolio to the external Trustees that report the performance of each fund directly to the Ministry of Finance. The Ministry of Finance substantially controls resources in each fund as it assumes the risks and rewards generated by such portfolio, i.e., Central Bank of Chile is not responsible for losses that this may generate.

Because Central Bank of Chile, starting from the transition period has no responsibility for managing this portfolio, the Bank derecognized it from the accounting records, and during the transition period, solely for control purposes, it maintained a subsidiary ledger at notional level for the externally managed portfolio of each Fund.

Through Resolution 1406 of the Board, dated 24 April 2008, *KPMG Auditores y Consultores Ltda.* was assigned as the auditor of the "Economic and Social Stabilization Fund" (*FEES*) and the "Pension Reserve Fund" (FRP) for 2012 and 2011. Through an addendum to the audit contract with the audit firm *KPMG Auditores Consultores Ltda.* on 1 October 2011, the audit services on the Strategic Contingency Fund (*FCE*) were incorporated.

27 Transactions with related parties

(a) Central Bank of Chile does not have any related companies

(b) Compensation of the Board and key executives:

According to Central Bank of Chile's Basic Constitutional Act, compensation of the Board is set by the President of the Republic for periods not exceeding two years, following a proposal made by a commission formed by former governors and deputy governors of the entity, appointed by the President of the Republic. In order to propose compensation, the act requires them to be based on this compensation paid to the highest-ranked executive positions in bank institutions within the private sector.

Compensation corresponding to the General Manager, the General Counsel and General Auditor of Central Bank of Chile, are at level one of the compensation structure, as they are positions established in Sections 24 through 26 of the Basic Constitutional Act.

The total gross compensation paid to the Board and key executives during 2013 amounted to Ch$1,322.4 million (Ch$1,275.5 million in 2012).

28 Relevant events

(a) On 18 December 2013, subsequent to the expiration of his period of 10 years as Board Member of Central Bank of Chile, Mr. Manuel Marfán Lewis left office.

(b) On 15 January 2014, the Chilean Senate at meeting 86/361 approved the appointment of Mr. Pablo García Silva as Board Member of Central Bank of Chile for a 10-year period.

(c) By way of Agreement 1753-01 of 16 May 2013, the Board of Central Bank of Chile agreed to appoint Mr. Santiago Meersohn Ernst as member of the Audit and Compliance Committee of Central Bank of Chile, for a three-year period replacing Mr. Vivian Clarke Levi who left office.

29 Subsequent events

In the opinion of Management, between 31 December 2012 and the date of issuance of these financial statements the following subsequent events which could significantly affect the amounts presented in the financial statements have occurred:

(a) Change in U.S dollar and euro exchange rate

The exchange rate for U.S. dollar as of 28 January 2014 amounted to Ch$548.34 per US$1.00 representing an increase of Ch$24.58 compared with the exchange rate prevailing as of 31 December 2013. This represents an improvement in Central Bank of Chile's equity of Ch$418,919.8 million.

The exchange rate for euro as of January 28, 2014 amounted to Ch$749.82 per €1.00, representing an increase of Ch$28.78 compared with the exchange rate prevailing as of December 31, 2013. This represents an improvement in Central Bank of Chile's equity of Ch$161,632.8 million.

The total increase in Central Bank of Chile's equity because of the increase in the exchange rate for United States dollar and euro on 28 January 2014 amounts to Ch$580,552.6 million.

(b) Approval of financial statements

The financial statements for the year ended 31 December 2012 were presented by the General Manager to the Board on 30 January 2014 and approved for issue at the Meeting 1800.

(c) Other

There are no other subsequent events that might have a significant effect on the figures presented herein or in the Central Bank of Chile's economic or financial position.

ALEJANDRO ZURBUCHEN SILVA
General Manager

JUAN CARLOS SALAZAR TAPIA
General Accountant

SILVIA QUINTARD FLEHAN
General Auditor

Independent Auditor's Report

The Governor and Board Members of
Central Bank of Chile:

Report on the financial statements

We have audited the accompanying financial statements of Central Bank of Chile (the Bank), which comprise the statement of financial position as of 31 December 2013 and 2012, the statement of income for the years then ended and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles described in note 2(a); this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor´s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 2013 and 2012 and the results of its operations for the years then ended, in conformity with the accounting principles described in note 2(a) to the financial statements.

Basis of accounting

Note 2(a) to the financial statements describes the basis of accounting on which the financial statements of Central Bank of Chile are prepared in accordance with standards issued by the Central Bank of Chile's Board, as approved by the Chilean Superintendence of Banks and Financial Institutions, as established in Section 75 of the Bank of Chile's Basic Constitutional Act. These standards are consistent with International Financial Reporting Standards (IFRS). Should there be any discrepancy, the standards issued by the Central Bank of Chile' s Board shall prevail, including those discussed in note 2(a) to the financial statements in relation to the following matters: a) Accounting treatment of the *Sinap* Liquidation Account Law 18,900 dated January 16, 1990, which is presented within the caption Operations Under Specific Legal Regulation and explained in note 14(b) to the financial statements; and b) Replacement of the Statements of Changes in Equity, Cash Flows and Comprehensive Income with note 21 on Capital and Reserves, note 22 on Variations in Monetary Base and International Reserve Assets, and Statements of Income, respectively and c) Not presenting the fair value of notes issued and assets under the specific legal framework. Our audit opinion is not modified in regard to these three matters.

Emphasis on the equity deficit

As discussed in note 21(a) to the financial statements, as of 31 December 2013, Central Bank of Chile has net equity deficit of Ch$3,820,380.3 million (Ch$4,479,249.5 million in 2012), which is explained mainly by changes resulting from the exchange rates of assets denominated in foreign currency. Our audit opinion is not modified in regard to this matter.

Other matters

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

Cristián Bastián E.
Santiago, 30 January 2014

KPMG Ltda.