



**04** **FINANCIAL  
STATEMENTS**

04



# FINANCIAL STATEMENTS

## STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2014 AND 2013

(Ch\$ million)

Assets	Note	2014	2013
<b>Foreign assets</b>		<u>24,715,475.6</u>	<u>21,653,565.9</u>
<b>Reserve assets</b>	11	<u>24,566,660.2</u>	<u>21,523,220.5</u>
Monetary gold		5,716.7	5,050.3
Special drawing rights (SDR)		655,457.2	600,805.7
Reserve position in the IMF	12	297,408.7	335,578.0
Correspondent banks abroad	6	102,823.3	10,011.6
Investments in foreign currency:		<u>23,431,932.7</u>	<u>20,501,943.4</u>
Securities recorded at fair value through earnings		17,557,081.0	18,144,375.8
Held-for-sale securities		2,455,969.3	-
Held-to-maturity securities		3,418,882.4	2,357,567.6
Reciprocal loan agreements		72,535.4	69,397.1
Other assets	6	786.2	434.4
<b>Other foreign assets</b>		<u>148,815.4</u>	<u>130,345.4</u>
Shares of and contributions to the Inter American Development Bank (IDB)		111,819.7	96,425.1
Shares of Bank for International Settlements (BIS)		36,995.7	33,920.3
<b>Domestic assets</b>		<u>853,784.4</u>	<u>1,853,189.6</u>
<b>Domestic loans</b>	13	<u>7,877.6</u>	<u>256.9</u>
Loans to banks and financial institutions		7,877.6	256.9
<b>Transactions under specific legal regulations</b>	14	<u>845,906.8</u>	<u>1,852,932.7</u>
General Treasury transfers Law 18.401		280,354.5	265,355.6
Loan for subordinated liabilities of financial institutions (Laws 18.401 and 19.396)		565,552.3	649,521.0
Sinap Liquidation Law 18.900		1,036,259.0	938,056.1
Provision for accumulated impairment, Sinap Liquidation Law 18.900		<u>(1,036,259.0)</u>	-
Sinap Liquidation Law 18.900 (Net)		-	938,056.1
<b>Other assets</b>		<u>57,000.0</u>	<u>53,866.8</u>
Property, equipment and intangible assets	15	35,738.0	36,476.9
Other securities		18,588.5	16,073.9
Transition assets		<u>2,673.5</u>	<u>1,316.0</u>
<b>Total assets</b>		<b><u>25,626,260.0</u></b>	<b><u>23,560,622.3</u></b>

Accompanying notes from 1 to 28 are an integral part of these financial statements.

## STATEMENTS OF FINANCIAL POSITION, CONTINUED AS OF 31 DECEMBER 2014 AND 2013

(Ch\$ million)

Liabilities	Note	2014	2013
<b>Foreign liabilities</b>	16	<u>777,118.6</u>	<u>710,092.8</u>
Reciprocal loan agreements		8,233.3	4,629.7
Accounts with international organizations		50,189.3	46,455.0
Special drawing rights (SDR) allocations		718,696.0	659,008.1
<b>Domestic liabilities</b>		<u>28,377,259.9</u>	<u>26,651,957.2</u>
<b>Monetary base</b>	17	<u>8,183,119.5</u>	<u>8,754,473.9</u>
Banknotes and coins in circulation		7,578,075.9	6,917,607.4
Deposits from financial institutions (in Chilean pesos)		605,043.6	1,139,731.0
Deposits for technical reserve		-	697,135.5
<b>Deposits and obligations</b>	18	<u>7,285,955.5</u>	<u>4,864,461.1</u>
Deposits and obligations with General Treasury		1,301,785.2	384,665.8
Other deposits and obligations		5,984,170.3	4,479,795.3
<b>Notes issued by Central Bank of Chile</b>	19	<u>12,908,184.9</u>	<u>13,033,022.2</u>
Central Bank of Chile bonds in UF (BCU)		8,204,652.4	7,830,132.7
Central Bank of Chile bonds in Chilean pesos (BCP)		3,538,547.5	4,080,623.4
Central Bank of Chile discountable promissory notes (PDBC)		998,556.7	925,319.1
Optional indexed coupons (CERO) in UF		118,596.9	135,669.2
Indexed promissory notes payable in coupons (PRC)		47,810.3	61,256.7
Other		21.1	21.1
<b>Other liabilities</b>	20	<u>16,356.0</u>	<u>18,880.6</u>
Provisions		15,885.2	18,502.7
Other securities		470.8	377.9
<b>Net equity</b>		<u>(3,544,474.5)</u>	<u>(3,820,308.3)</u>
Capital		(3,819,595.3)	(4,478,737.6)
Other reserves		4,757.7	(713.0)
Profit (loss) for the year		<u>270,363.1</u>	<u>659,142.3</u>
<b>Total liabilities and equity</b>		<b><u>25,626,260.0</u></b>	<b><u>23,560,622.3</u></b>

Accompanying notes from 1 to 28 are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED AS OF 31 DECEMBER 2014 AND 2013

(Ch\$ million)

	Note	2014	2013
<b>Net income from international reserves</b>	7	<u>349,119.2</u>	<u>48,246.2</u>
<b>Income</b>		<u>543,973.7</u>	<u>366,332.7</u>
Interest income		293,938.5	302,700.6
Gain on sale of instruments recorded at fair value through earnings		103,248.6	62,330.0
Gain on sale of available-for-sale securities		1,075.9	-
Fair value adjustments		144,358.4	-
Other		1,352.3	1,302.1
<b>Expenses</b>		<u>(194,854.5)</u>	<u>(318,086.5)</u>
Interest expenses		(30.6)	(4.8)
Loss on sale of instruments recorded at fair value through earnings		(187,889.8)	(248,275.9)
Fair value adjustments		-	(66,556.1)
Other		(6,934.1)	(3,249.7)
<b>Net income (loss) from other foreign transactions</b>	7	<u>(954.0)</u>	<u>5,136.9</u>
Income		<u>1,268.1</u>	<u>7,137.1</u>
Other income		1,268.1	7,137.1
<b>Expenses</b>		<u>(2,222.1)</u>	<u>(2,000.2)</u>
Interest expense		(650.9)	(588.1)
Other expenses		(1,571.2)	(1,412.1)
<b>Net loss from domestic transactions</b>	8	<u>(927,754.4)</u>	<u>(755,512.7)</u>
<b>Income</b>		<u>178,468.0</u>	<u>130,002.1</u>
Interest income and adjustments		174,847.8	127,347.9
Other income		3,620.2	2,654.2
<b>Expenses</b>		<u>(1,106,222.4)</u>	<u>(885,514.8)</u>
Interest expense and adjustments		(1,105,052.8)	(884,610.6)
Other expenses		(1,169.6)	(904.2)
<b>Net gain (loss) on foreign exchange transactions</b>	9	<u>1,979,981.7</u>	<u>1,462,900.5</u>
Gain on foreign exchange transactions		4,169,539.8	2,670,308.0
Loss on foreign exchange transactions		(2,189,558.1)	(1,207,407.5)
<b>Issuance and distribution costs</b>	10	<u>(43,517.6)</u>	<u>(54,452.7)</u>
Banknotes		(20,546.9)	(29,882.1)
Coins		(22,033.7)	(24,007.6)
Distribution		(937.0)	(563.0)

Accompanying notes from 1 to 28 are an integral part of these financial statements.

Continued

	Note	2014	2013
<b>Personnel and administrative expenses</b>		<u>(46,801.1)</u>	<u>(43,761.5)</u>
Personnel expenses		(29,797.7)	(27,891.8)
Administrative expenses		(15,721.4)	(14,440.5)
Provision for post-employment benefits		(1,282.0)	(1,429.2)
<b>Other (expenses) and income</b>		<u>(1,039,710.7)</u>	<u>(3,414.4)</u>
Depreciation and amortization	15	(2,876.9)	(2,782.4)
Taxes and contributions		(588.3)	(546.2)
Provision for accumulated impairment Sinap liquidation Law 18.900	14	(1,036,259.0)	-
Other		13.5	(85.8)
<b>Profit for the period</b>		<b><u>270,363.1</u></b>	<b><u>659,142.3</u></b>
<b>Other comprehensive income</b>		<u>5,470.7</u>	<u>(201.1)</u>
<b>Other comprehensive income that will never be reclassified to profit or loss</b>		<u>2,271.5</u>	<u>(201.1)</u>
Actuarial gain (loss) in provision for post-employment benefits		2,271.5	(201.1)
<b>Other comprehensive income that may be reclassified to profit or loss</b>		<u>3,199.2</u>	<u>-</u>
Fair value adjustments of available-for-sale securities		3,199.2	-
<b>Total comprehensive income</b>		<b><u>275,833.8</u></b>	<b><u>658,941.2</u></b>

Las notas adjuntas 1 al 28 forman parte integral de estos estados financieros.

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED AS OF 31 DECEMBER 2014 AND 2013

(Ch\$ million)

	Capital	Actuarial gain and loss reserve	Fair value reserve	Other reserves	Retained earnings	Total
Balances as of 1 January 2013	(2,355,778.8)	(511.9)	-	(511.9)	(2,122,958.8)	(4,479,249.5)
<b>Total comprehensive income:</b>						
Profit	-	-	-	-	659,142.3	659,142.3
Other comprehensive income	-	(201.1)	-	(201.1)	-	(201.1)
<b>Total comprehensive income</b>	-	(201.1)	-	(201.1)	659,142.3	658,941.2
Capitalization of 2012 loss	(2,122,958.8)	-	-	-	2,122,958.8	-
<b>Balances as of 31 December 2013</b>	<b>(4,478,737.6)</b>	<b>(713.0)</b>	<b>-</b>	<b>(713.0)</b>	<b>659,142.3</b>	<b>(3,820,308.3)</b>
<b>Balances as of 1 January 2014</b>	<b>(4,478,737.6)</b>	<b>(713.0)</b>	<b>-</b>	<b>(713.0)</b>	<b>659,142.3</b>	<b>(3,820,308.3)</b>
<b>Total comprehensive income:</b>						
Profit	-	-	-	-	270,363.1	270,363.1
Other comprehensive income	-	2,271.5	3,199.2	5,470.7	-	5,470.7
<b>Total comprehensive income</b>	-	2,271.5	3,199.2	5,470.7	270,363.1	275,833.8
Capitalization of 2013 profit	659,142.3	-	-	-	(659,142.3)	-
<b>Balances as of 31 December 2014</b>	<b>(3,819,595.3)</b>	<b>1,558.5</b>	<b>3,199.2</b>	<b>4,757.7</b>	<b>270,363.1</b>	<b>(3,544,474.5)</b>

Accompanying notes from 1 to 28 are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AS OF 31 DECEMBER 2014 AND 2013

(Ch\$ million)

	Note	2014	2013
<b>Cash flows from operating activities:</b>			
<b>Foreign reserves</b>		<u>(328,067.9)</u>	<u>40,965.2</u>
Sale (acquisition) of securities at fair value		2,346,268.7	(246,168.1)
Acquisition of available-for-sale securities		(2,294,437.8)	-
(Investment) redemption of held-to-maturity securities		(689,453.7)	21,609.3
Interests and commissions received for international reserves		306,304.9	305,058.3
Interests paid in foreign transactions		(30.0)	-
Taxes paid for investments in reserves		(3,658.0)	(3,241.8)
Cash receipts (payments) for reciprocal loan agreements		6,505.9	(36,748.6)
Interests received for reciprocal loan agreements		461.6	540.9
Interests paid for reciprocal loan agreements		(29.5)	(84.8)
<b>Domestic assets</b>		<u>137,723.3</u>	<u>1,262,937.1</u>
(Loans) cash receipts for loans to banks and financial institutions		(7,609.6)	1,097,278.6
Interests and adjustments received for loans to financial institutions		210.3	14,099.0
Cash receipts for subordinated obligation with financial institutions		80,381.3	84,644.1
Interests and adjustments received for subordinated obligations		64,741.3	66,915.4
<b>Domestic liabilities</b>		<u>(340,850.6)</u>	<u>(1,993,022.6)</u>
(Redemption) placement of notes issued		(532,153.8)	199,728.4
Interests and adjustments paid for notes issued		(588,907.3)	(844,546.5)
Increase (decrease) in deposits and obligations in Chilean pesos		482,236.7	(1,201,130.4)
Interests and adjustments paid for deposits and obligations		(96,904.0)	(94,318.5)
Increase (decrease) in deposits and obligations in foreign currency		394,877.8	(52,755.6)
<b>Other cash flows</b>		<u>(105,630.1)</u>	<u>(91,927.6)</u>
Cash payments for goods and services		(93,668.4)	(105,172.0)
Net cash flows for arbitrage of currencies		(12,244.5)	9,009.5
Cash receipts as fiscal agent and other income		3,224.8	3,639.6
Movements in international organizations		(2,942.0)	595.3
<b>Net cash used in operating activities</b>		<b><u>(636,825.3)</u></b>	<b><u>(781,047.9)</u></b>

Accompanying notes from 1 to 28 are an integral part of these financial statements.



**STATEMENTS OF CASH FLOWS, CONTINUED FOR THE YEARS ENDED AS OF  
31 DECEMBER 2014 AND 2013**

(Ch\$ million)

	Note	2014	2013
<b>Cash flows from investing activities:</b>			
Movements, IMF		69,542.7	61,151.6
Dividends received, BIS		551.5	716.7
Proceeds from sale of property and equipment		50.8	352.0
Acquisition of property and equipment	15	(2,360.9)	(998.8)
Acquisition of intangible assets	15	<u>(383.3)</u>	<u>(655.0)</u>
<b>Net cash generated from investing activities</b>		<u>67,400.8</u>	<u>60,566.5</u>
<b>Cash flows from financing activities:</b>			
Net increase in banknotes and coins in circulation		<u>660,468.9</u>	<u>722,489.2</u>
<b>Net cash generated from financing activities</b>		<u>660,468.9</u>	<u>722,489.2</u>
<b>Changes in cash and cash equivalents</b>		<u>91,044.4</u>	<u>2,007.8</u>
Effect of exchange rate fluctuations on cash and cash equivalents		2,126.8	(1,796.7)
<b>Cash and cash equivalents at the beginning of the reporting period</b>	6	<u>10,459.3</u>	<u>10,248.2</u>
<b>Cash and cash equivalents at 31 December</b>	6	<u>103,630.5</u>	<u>10,459.3</u>

Accompanying notes from 1 to 28 are an integral part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2014 and 2013

## 1 Incorporation and description of business

Central Bank of Chile was formed 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 monitor 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 transactions 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 1180 Agustinas street.

## 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, and 1867-01 dated 20 November 2014, having a favorable report by the Superintendence of Banks and Financial Institutions, pursuant to Section 75 of Central Bank of Chile's Basic Constitutional Act. The policies approved by the Board (note 4 "Accounting Changes") are consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

---

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 transactions by clearly identifying whether they are undertaken by domestic or foreign agents. With this information it is possible to determine Central Bank of Chile's share in the domestic supply of monetary assets and credit and the related effects on 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.

#### **(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis. The abovementioned excludes transactions corresponding to foreign investments in financial instruments that are reported at their fair value through net income and available-for-sale securities through equity, 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.

The translation of these financial statements 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.

#### **(c) Functional and presentation currency**

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

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

#### **(d) Transactions in foreign currency and foreign currency translation**

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 to be denominated in "foreign currency". The balances of the financial statements expressed in these currencies are translated into Chilean pesos as follows:

**d.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*).

**d.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.

**d.iii** Translation of foreign currencies other than the U.S. dollar is done 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.

**d.iv** Special Drawing Rights (SDR) are adjusted for 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 arising from the update of the holdings 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:

	2014	2013
	Ch\$	Ch\$
United States dollar (observed exchange rate)	607.38	523.76
Euro	739.53	721.04
Canadian dollar	521.54	489.63
Australian dollar	494.61	465.36
Special Drawing Rights (SDR)	879.72	806.59

#### **(e) General principles used in the preparation of the financial statements**

The financial statements have been prepared using as a base the recognition of assets, liabilities and income when the flow of future economic benefits is probable from or to Central Bank of Chile and it is possible to reliably measure its costs, considering the following accounting principles:

##### **e.i** Accrual basis

The determination of operating results and the financial position takes into account all the resources and obligations for 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 are 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.

##### **e.ii** Going concern

The financial statements are normally prepared on the assumption that Central Bank of Chile 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 transactions.

##### **e.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 threshold setting the limits of what is significant or not, and the best considerations should be applied to resolve matters in each instance according to the circumstances, taking into account factors such as the relative effects on assets, liabilities, equity, or on earnings for the year.



**e.iv Substance over form**

If information is to faithfully represent 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.

**(f) Statement of cash flows**

The following factors are taken into account when developing the statement of cash flows:

**f.i** Cash flows: cash inflows and outflows and cash equivalents, i.e. highly liquid short-term investments and low risk of changes in value, as: deposits in foreign banks and cash balances in foreign currency and deposits in domestic banks.

**f.ii** Operating activities: corresponds to normal activities carried out by Central Bank of Chile and other activities that cannot be classified as investing or financing activities.

**f.iii** Investing activities: corresponds to the acquisition, disposal or disposition by other means of long-term assets and other investments not included in cash and cash equivalents.

**f.iv** Financing activities: these activities generate changes in the size and composition of net equity and liabilities that are not part of operating or investing activities.

**(g) 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 since 2010 in order to adopt 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 system governing Central Bank of Chile as a legal public entity, as well as related to the payment of the initial balance of 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 system related to the incorporation of Central Bank of Chile's initial balance of 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 initial balance of capital for 2014, in memorandum accounts, on the basis of the Consumer Price Index variation which occurred between 30 November 2013 and 30 November 2014, which was 5.7%.



## (h) Interest income and expenses, adjustments and commissions

Interest income and expenses, adjustments and commissions are recognized in profit or loss for the year when earned. Interest is recognized on the basis of its effective rate.

## (i) 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, they are classified in accordance with IFRS, in the following categories and composition:

### i.i Investments recorded at fair value through earnings

Includes bonds issued by foreign governments, institutions and banks, mid-term bonds issued by Bank for International Settlements (BIS), treasury bills, discount notes, notes 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, and spot rate exchange transactions.

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.

### i.ii Available-for-sale securities

Floating rate notes, certificates of deposit, floating rate certificates of deposit, commercial papers, banker's acceptances, discounted time deposits issued by BIS, for trading with BIS, time deposits at interest rate issued by BIS, for trading with BIS, floating rate notes with BIS and BISIP (collective investments through BIS).

These are investments in financial instruments, which provided when certain market conditions are met they may become effective prior to their maturity dates. These are recorded at their fair value, and changes are directly recognized in equity until the investment is disposed of or impaired, which results in accumulated gains or losses previously recorded in equity being recognized in net income. The methods used to measure fair value are described in note 3.

### i.iii 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.



#### **i.iv Other financial assets**

i.iv.1 Reserve position in the International Monetary Fund (IMF): corresponds to the net difference between the assets (payments made to the IMF for subscription, and loans granted by Central Bank of Chile to the IMF for the participation in the financing program “New Arrangement to Borrow” (NAB) and liabilities (deposits maintained by the IMF in domestic currency) and is classified as a held-to-maturity investment, measured at the cost indexed to Special Drawing Rights (SDR).

i.iv.2 Reciprocal Loan Agreements (debit): 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 through such method. Their classification corresponds to non-derivative, held-to-maturity financial instruments, measured at amortized cost using the effective interest method.

#### **(j) 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 is in conformity with Article 3 of DL 2943 dated 1979, published in the *Official Gazette* on November 16 of the same year, according to which such shares and contributions as well as the notes evidencing them, must be recorded by Central Bank of Chile as investments with a charge to its own resources for accounting purposes.

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 SDR163.3 million. Such loans are disbursed against the revolving credit facility in favor of the IMF approved by Central Bank of Chile’s Board on 24 September 2009 up to SDR1,360.0 million. While as of 31 December 2014, the remaining balance of the IMF revolving credit facility amounted to SDR1,196.7 million, in practice the mechanism operates by calculating quarterly capitalization periods that include the stakeholders’ maximum contribution during that period.

#### **(k) 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 2014, dividends were received in the amount of US\$1.0 million (US\$1.4 million in 2013).

### (l) 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.

### (m) Transactions under specific legal regulation

Correspond to non-derivative financial assets subject to specific regulatory and legal restrictions, 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.

### (n) Property, equipment and intangible assets

Property and equipment are mainly measured at acquisition cost, net of accumulated depreciation and any accumulated impairment losses. The goods that have met their useful life are stated at their residual value considering market reference prices. Depreciation is calculated on a straight-line basis.

Property and equipment are measured at acquisition cost, net of accumulated depreciation and any accumulated impairment losses. Amortization is calculated on a straight-line basis. In 2014 and 2013, the Bank has recognized costs related to the acquisition of licenses and the Open Market Transaction System - *Soma* (currently under implementation).

Depreciation for 2014 is recognized as expense and has been calculated considering the following estimated useful lives:

	Years	
	2014	2013
Buildings	80	80
Facilities	10 to 20	10 to 20
Furniture and other equipment	5 to 10	5 to 10
Computer equipment	3 to 5	3 to 5
Vehicles	5	5
Intangible assets	5	5



---

### **(o) Monetary base**

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

### **(p) Deposits and obligations**

Deposits and obligations are financial liabilities for deposits and other transactions 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.

### **(q) Notes issued by the Central Bank of Chile**

Notes issued by Central Bank of Chile are financial liabilities issued in order to adopt the decisions of monetary and debt policy, initially measured at fair value, and is not affected by transaction costs. Subsequently, they are measured at amortized cost pursuant to the effective interest rate method through 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.

Notes 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.

### **(r) Impairment**

#### **r.i Financial assets**

Impairment standards will be applied on financial assets other than those measured at fair value through earnings. For cases where the current value of estimated cash flows, discounted at the effective interest rate, is lower than the amount recognized in the accounting records, their impairment should be recognized in earnings.

#### **r.ii Non-financial assets**

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.



## (s) Employee benefits

### s.i Long-term benefits

Post-employment benefits: correspond to 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 provided 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 estimation is made through an actuarial calculation that considers, in both cases, demographic and financial variables. It is measured at the present value of all future payments using an annual discount interest rate, affected by the expected employment duration and life expectancy of beneficiaries.

The actuarial calculation is based on the following assumptions for both years:

- Mortality rate: Central Bank of Chile used the RV-2009 mortality table to determine the expected lives in the calculation of benefits associated with severance indemnity payments, 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 remaining an employee 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 4.19%.
- Discount rate: Central Bank of Chile used the annual average of the nominal rate for BCP instruments at 10 years. For 2014, the discount rate was 4.36% (2013: 5.25%).

### s.ii Short-term benefits

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

## (t) 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:

- 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.

#### **(u) Financial derivative instruments**

Financial derivative contracts corresponding to forward exchange contracts that are initially recognized in the statement of financial position at fair value at the date in which the contract is entered into. 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.

#### **(v) 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 of 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(m) Property and equipment, and intangible assets, determination of useful life, depreciation or amortization and residual value.
- Note 3 Methodology applied for the measurement of international reserve fair values.
- Note 14(b) *Caja Central de Ahorros y Préstamos* and *Asociación Nacional de Ahorro y Préstamo*.
- Note 20 Provisions, including severance indemnity and post-employment benefits.
- Note 3(b) Indicates the measurement of fair values.

#### **(w) Issued but not yet effective IFRSs**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

---

IFRS 9 "Financial Instruments" (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities.

On 24 July 2014, the IASB issued the fourth and latest version of its new standard on financial assets, IFRS 9; which includes guidance on the classification and measurement of financial assets, including impairment, and supplements new hedge accounting principles issued in 2013.

The application date corresponds to Financial Statements issued for period beginning on or after 1 January 2018. Early adoption is permitted.

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

### 3 Methodology applied for the measurement of fair value

The methodology for the calculation of fair value is applied to financial instruments held as foreign investments, classified as securities at fair value through net income, and available-for-sale securities.

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 market prices obtained from Bloomberg at the closing of current day transactions. The price corresponds to  $PX\ Mid = (PX\ Bid + PX\ Last)/2$ .

- *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 2014 and 2013:

---

$$IR\ Profit/Loss = Total\ Gain\ Loss - Accrued\ Interest - FX\ Gain/Loss$$

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 happens with the treatment of deposits.

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

- Level 1, fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities, for which the Bank has the ability to access at the measurement date.
- Level 2, fair value measurements using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3, fair value measurements using unobservable inputs for the asset or liability.

For financial assets and financial liabilities not recognized at fair value, fair value will be disclosed collectively in groups to allow comparison with the related carrying amounts, as shown in note 11.

## **4 Changes in accounting policies**

As stated in 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 Central Bank of Chile shall conform, to be prepared for periods of one year ending on 31 December of each year. During 2014, new accounting criteria were submitted to the Superintendence of Banks and Financial Institution obtaining a favorable report. Such accounting criteria were approved by the Board of Central Bank of Chile through Resolution 1867-01 dated 20 November 2014. Main changes in the accounting criteria comprise the inclusion, beginning in 2014, of the Statements of Comprehensive Income, Cash Flows and Changes in Equity. For comparative purposes, such statements contain information for the year ended 31 December 2013.

---

## 5 Financial instrument risks

The assets of Central Bank of Chile are mainly comprised 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 transactions made by Central Bank of Chile with institutions of the local market through the issuance of notes and time deposits received.

### (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 monitoring 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 efficiently provide secure access to international liquidity and monitor 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 referential structure, the investment portfolio is made up of three portfolios: (a) Short-term liquidity; (b) Mid-term liquidity, and (c) Diversification. This structure considers the following percentages: 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 24.1 months.

Table 5.1


**BENCHMARK APPLICABLE AS OF 31 DECEMBER 2014 AND 2013**

Portfolio		Share			Length (months)		Benchmark ratios
		% over total investment portfolio	% on internal admin.	% on subportfolio	2014	2013	
Short-term liquidity	USD	24.00	24.69	100.00	4.02	3.88	Merrill Lynch 0 - 1 Y
	<b>Total</b>	<b>24.00</b>	<b>24.69</b>	<b>100.00</b>	<b>4.00</b>	<b>3.90</b>	
Mid-term liquidity	USD	23.79	24.47	39.00	24.82	24.49	Barclays 1 - 3 Y and 3 - 5 Y
	EUR	21.96	22.59	36.00	22.47	22.68	
	CAD	9.15	9.41	15.00	23.03	23.10	
	AUD	6.10	6.27	10.00	24.62	23.60	
	<b>Total</b>	<b>61.00</b>	<b>62.74</b>	<b>100.00</b>	<b>23.69</b>	<b>23.54</b>	
Diversification	CHF	1.96	2.00	16.00	69.63	68.77	Barclays 5 - 7 Y and 7 - 10 Y Bank deposit CNH
	CNH	1.83	1.89	15.00	1.50	1.50	
	GBP	1.83	1.89	15.00	66.22	66.02	
	JPY	2.44	2.51	20.00	71.21	71.48	
	KRW	1.83	1.89	15.00	65.97	68.44	
	NZD	1.47	1.51	12.00	64.30	60.07	
	SGD	0.86	0.88	7.00	69.48	69.03	
	<b>Total</b>	<b>12.22</b>	<b>12.57</b>	<b>100.00</b>	<b>58.00</b>	<b>57.70</b>	
<b>Total internal administration</b>		<b>97.22</b>	<b>100.00</b>	<b>-</b>	<b>23.14</b>	<b>22.99</b>	
External administrators	CHF	0.44	-	16.00	69.63	68.77	Barclays 5 - 7 Y and 7 - 10 Y Bank deposit CNH
	CNH	0.42	-	15.00	1.50	1.50	
	GBP	0.42	-	15.00	66.22	66.02	
	JPY	0.56	-	20.00	71.21	71.48	
	KRW	0.42	-	15.00	65.97	68.44	
	NZD	0.33	-	12.00	64.30	60.07	
	SGD	0.19	-	7.00	69.48	69.03	
<b>Total</b>	<b>2.78</b>	<b>-</b>	<b>100.00</b>	<b>58.02</b>	<b>57.73</b>		
<b>Total Investment Portfolio</b>		<b>100.00</b>	<b>-</b>	<b>-</b>	<b>24.12</b>	<b>23.95</b>	

USD United States dollar  
 EUR Euro  
 CAD Canadian dollar  
 AUD Australian dollar

CNY Chinese yuan renminbi  
 CHF Swiss franc  
 CNH Extra continental Chinese  
 JPY Japanese yen

KRW South Korean won  
 GBP Pound sterling  
 NZD New Zealand dollar  
 SGD Singapore dollar



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 Departments of International Desk of the Management of International Investments together with the Transaction Register and Control and 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.

**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 150 bps and 100 average bps for one month are 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 monthly management report, prepared by the Department of Manager 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.



Table 5.2

**MARKET RISK, INTERNAL INVESTMENT PORTFOLIO AS OF 31 DECEMBER 2014 AND 2013**

		2014	2013
Amount (US\$ million)		33,325.6	34,483.2
Length (months)	Portfolio	23.1	23.4
	departure	0.0	0.4
Breakdown by currency (%)	USD	51.1	49.4
	EUR	23.6	22.3
	JPY	1.6	2.5
	Other	23.7	25.8
VaR	Absolute (%)	2.5	2.4
	Tracking Error (bp)	13.7	3.6

Annualized VaR and TE calculated using the Variance/Covariance method, with a decline ratio of 0.94 and a standard deviation confidence interval.

Source: BCCh.

Table 5.3

**MARKET RISK FOR EXTERNAL ADMINISTRATOR INVESTMENT PORTFOLIO AS OF 31 DECEMBER 2014 AND 2013**

		2014	2013
Amount (US\$ million)		968.6	991.7
Length (months)	Portfolio	51.4	47.9
	departure	(6.6)	(9.0)
Breakdown by currency (%)	USD	4.8	2.0
	EUR	0.0	0.0
	JPY	17.5	17.0
	Other	77.7	81.0
VaR	Absolute (%)	4.5	3.7
	Tracking Error (bp)	52.6	44.4

Annualized VaR and TE calculated with a decline ratio of 0.94 and a standard deviation confidence interval.

Sources: BCCh and JPMorgan.

#### a.v Management of credit risk

The policies on credit risk refer, 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 others, 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, Standard and Poor's and DBRS 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, mortgage-backed securities. Finally, supranational risk is related to the investment in multilateral official issuer securities; deposits, bills, floating rate notes and nominal bonds.

We note an increase in bank risk involvement related to 2013 figures in the Investment Internal Portfolio. Additionally, and despite the fact that sovereign risk remains constant, the concentration of AA risk related to AAA has increased. For foreign administrators, we note a decrease in bank risk involvement fostering international and agency risks.

Table 5.4

#### **BREAKDOWN OF THE INTERNAL INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2014**

Credit rating	Type of credit risk (%)				Total
	Agency	Banking	Sovereign	International	
AAA	0.7	0.9	73.6	4.8	80.0
AA+	0.0	0.0	1.9	0.0	1.9
AA	0.0	0.0	11.4	0.0	11.4
AA-	0.0	0.8	1.9	0.0	2.7
A+	0.0	1.2	1.7	0.0	2.9
A	0.0	1.1	0.0	0.0	1.1
<b>Total</b>	<b>0.7</b>	<b>4.0</b>	<b>90.5</b>	<b>4.8</b>	<b>100.0</b>

Source: BCCh.

Table 5.5

**BREAKDOWN OF THE INTERNAL INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2013**

Credit rating	Type of credit risk (%)				Total
	Agency	Banking	Sovereign	International	
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
<b>Total</b>	<b>3.5</b>	<b>2.0</b>	<b>89.3</b>	<b>5.2</b>	<b>100.0</b>

Source: BCCh.

Table 5.6

**BREAKDOWN OF THE EXTERNAL ADMINISTRATOR INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2014**

Credit rating	Type of credit risk (%)				Total
	Agency	Banking	Sovereign	International	
AAA	1.1	0.0	26.3	2.9	30.3
AA+	0.0	0.0	10.4	0.0	10.4
AA	0.0	0.0	11.8	0.0	11.8
AA-	0.0	5.4	15.5	0.0	20.9
A+	0.0	3.5	19.8	0.0	23.3
A	0.0	3.3	0.0	0.0	3.3
<b>Total</b>	<b>1.1</b>	<b>12.2</b>	<b>83.8</b>	<b>2.9</b>	<b>100.0</b>


Source: BCCh.

Table 5.7

**BREAKDOWN OF THE EXTERNAL ADMINISTRATOR INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2013**

Credit rating	Type of credit risk (%)				Total
	Agency	Banking	Sovereign	International	
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
<b>Total</b>	<b>0.0</b>	<b>15.4</b>	<b>83.6</b>	<b>1.0</b>	<b>100.0</b>

Source: BCCh.



Credit risk may imply possible losses due to the noncompliance with financial transactions 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 transactions**

The Recording and Control of Transactions, and 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.

**a.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 and the Bank for International Settlements (BIS).

**a.ix External administrators**

Starting from October 2012, the mandate issued to external administrators, contained in 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 Central Bank of Chile's portfolio.

**(b) Open-market transactions**

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 transactions, 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 transactions are mainly performed through periodical biddings of promissory notes issued by Central Bank of Chile, based on a previously indicated schedule of 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 of promissory notes and bonds 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 Transaction 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 a 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 transactions, respectively and the Management and Financial Risk Evaluation Manager reporting to the General Management is responsible for issuing and evaluating financial risks managed in the administration of open-market and debt transactions.

**b.ii Management of credit risk**

Credit risk is associated with open-market transactions and facilities that inject liquidity to the financial system (Repo, permanent liquidity facility, collateralized credit lines and term liquidity facilities). 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 transactions prepared by the Management and Financial Risk Evaluation Manager 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 in 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 the end of December 2014, the Bank recorded no liquidity injection Repo transactions. However, FPL transactions recognized amounted to Ch\$7.7474 billion guaranteed exclusively with securities issued by the 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 transactions, 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 an increase in the length, and an increase in the proportional share of instruments denominated in UF in the debt structure and VaR between year-end 2014 and 2013.

Table 5.8

**STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2014**

Instrument	Ch\$ billion	% UF	Holding period (months)
Short-term	999	0	0,6
Long-term	11,909	70	62.7
<b>Total</b>	<b>12,908</b>	<b>65</b>	<b>58.2</b>

Source: BCCh.

Table 5.9

**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
<b>Total</b>	<b>13,033</b>	<b>62</b>	<b>61.0</b>

Source: BCCh.

#### 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 transactions, 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 governs 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 granting of bonds and promissory notes for 2014 and 2013. In those tables it can be noted that prices or interest rates for the award of bonds and promissory notes at bids are similar to market rates and demand has been higher than the scheduled security supply. Compared with 2013, during 2014 the demand for and granting of securities offered was slightly lower with bidding rates marked to market.

Table 5.10

#### RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2014

Instrument	Amount granted (Ch\$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	33,778	136	98	3.6	3.6	0.0
BCP	-	0	0	0	0	0.0
BCU	-	0	0	0	0	0.0

Source: BCCh.

Table 5.11

#### RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2013

Instrument	Amount granted (Ch\$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	27,210	145	105	4.9	5.0	(10.0)
BCP	735	323	100	5.2	5.2	0.0
BCU	1,004	260	100	2.4	2.4	0.0

Source: BCCh.

## 6 Cash and cash equivalents

As of 31 December 2014 and 2013, the detail of cash and cash equivalents, is as follows:

Other foreign transactions	(Ch\$ million)	
	2014	2013
Foreign correspondents	102,823.3	10,011.6
Other reserve assets (foreign currency)	786.2	434.4
Domestic correspondents (*)	21.0	13.3
<b>Total cash and cash equivalents</b>	<b><u>103,630.5</u></b>	<b><u>10,459.3</u></b>

(\*) These are included in the caption "Other securities" in the Statement of Financial Position.

## 7 Net income from international reserves

### International reserves

For the years ended 31 December 2014 and 2013, this caption is composed of the following:

	(Ch\$ million)	
	2014	2013
(a) Net interests and commissions on:		
- Securities recorded at fair value through earnings	277,987.1	289,042.1
- Held-to-maturity securities	15,769.1	13,653.6
- Available-for-sale securities	153.8	-
- Foreign correspondents	(2.1)	0.1
Subtotal for net interest and commissions	<u>293,907.9</u>	<u>302,695.8</u>
(b) Sales of securities:		
- Recorded at fair value through earnings	(84,641.2)	(185,945.9)
- Available for sale	1,075.9	-
Subtotal for sales of securities	<u>(83,565.3)</u>	<u>(185,945.9)</u>
(c) (Loss) gain adjustments at fair value	144,358.4	(66,556.1)
(d) On other income	(5,581.8)	(1,947.6)
<b>Total net income from international reserves</b>	<b><u>349,119.2</u></b>	<b><u>48,246.2</u></b>



Net gain or loss on foreign transactions comprise the following:

Other foreign transactions	(Ch\$ million)	
	2014	2013
- On revaluation of accounts with international agencies	661.5	1,317.3
- On interest	(650.9)	(588.1)
- Other net income and expenses	<u>(964.6)</u>	<u>4,407.7</u>
<b>Total net income from foreign transactions</b>	<b>(954.0)</b>	<b>5,136.9</b>

## 8 Net income from domestic transactions

For the years ended 31 December 2014 and 2013, this caption is composed of the following:

	(Ch\$ million)	
	2014	2013
a) Income for domestic loans		
Interest	211.9	10,018.2
Adjustments	248.0	64.1
Other	<u>3,620.2</u>	<u>2,654.2</u>
Total income from domestic loans	<u>4,080.1</u>	<u>12,736.5</u>
b) Income from transactions under specific legal regulations		
Interest	109,343.4	86,251.1
Adjustments	<u>61,434.8</u>	<u>23,794.6</u>
Total income from transactions under specific legal regulations	<u>170,778.2</u>	<u>110,045.7</u>
c) Income from deposits and obligations held by Central Bank of Chile		
Interest	(100,005.5)	(92,498.2)
Other	<u>(1,169.6)</u>	<u>(904.2)</u>
Total income from deposits and obligations held by Central Bank of Chile	<u>(101,175.1)</u>	<u>(93,402.4)</u>
d) Income from notes issued by Central Bank of Chile		
Interests	(560,398.8)	(605,586.4)
Adjustments	<u>(441,038.8)</u>	<u>(179,306.1)</u>
Total income from notes issued by Central Bank of Chile	<u>(1,001,437.6)</u>	<u>(784,892.5)</u>
<b>Total net income from domestic transactions</b>	<b>(927,754.4)</b>	<b>(755,512.7)</b>

## 9 Net gain (loss) from foreign exchange transactions

For the years ended 31 December 2014 and 2013, this caption is composed of the following:

	(Ch\$ million)	
	2014	2013
Gain from foreign exchange transactions	4,169,539.8	2,670,308.0
Loss from foreign exchange transactions	(2,189,558.1)	(1,207,407.5)
<b>Total</b>	<b>1,979,981.7</b>	<b>1,462,900.5</b>

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

	(Ch\$ million)	
	2014	2013
U.S. dollar	1,432,734.0	768,495.0
Euro	97,564.9	508,913.3
Canadian dollar	112,349.1	32,319.1
Australian dollar	86,263.2	(66,875.2)
SDR	28,542.8	24,931.1
Other currency	<u>236,607.5</u>	<u>182,712.6</u>
Subtotal net (loss) gain from foreign exchange transactions	1,994,061.5	1,450,495.9
Arbitrage and other	(14,079.8)	12,404.6
<b>Total net (loss) gain from foreign exchange transactions</b>	<b>1,979,981.7</b>	<b>1,462,900.5</b>

## 10 Issuance and distribution costs

For the years ended 31 December 2014 and 2013, this caption is composed of the following:

	(Ch\$ million)	
	2014	2013
Banknotes	(20,546.9)	(29,882.1)
Coins	(22,033.7)	(24,007.6)
Distribution	(937.0)	(563.0)
<b>Total</b>	<b>(43,517.6)</b>	<b>(54,452.7)</b>

The decrease in currency issuance and distribution costs during 2014 compared to 2013 is due to a decrease in costs and in the number of coins and banknotes produced. The detail of banknotes is provided in note 17(a).

## 11 Reserve assets and fair values

### a) Reserve assets

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

	(US\$ million)	
	2014	2013
Monetary gold	9.4	9.6
Special drawing rights (SDR)	1,079.2	1,147.1
Reserve position in the IMF	489.7	640.7
Correspondent banks abroad	169.3	19.1
Investments:	<u>38,578.7</u>	<u>39,143.8</u>
Instruments recorded at fair value through earnings:		
Level 1 market value	28,906.3	34,642.6
Available-for-sale securities:		
Level 1 market value	4,043.5	-
Held-to-maturity securities	5,628.9	4,501.2
Reciprocal loan agreements	119.4	132.5
Other assets	<u>1.2</u>	<u>0.9</u>
<b>Total reserve assets</b>	<b><u>40,446.9</u></b>	<b><u>41,093.7</u></b>
	(Ch\$ million)	
<b>Total reserve assets</b>	<b><u>24.566.660,2</u></b>	<b><u>21.523.220,5</u></b>

As of 31 December 2014, monetary gold amounted to US\$9.4 million (US\$9.6 million in 2013) equivalent to 7,940 fine gold troy ounces valued at US\$1,185.5 per ounce (US\$1,214.5 in 2013). There was no change in the amount of troy ounces compared to 2013.

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* Agreements on Reciprocal Payments and Credits for the exports conducted by Chilean entities. 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 2014 of US\$646.8 million, compared to 2013, is mainly explained by the decrease in securities at fair value through net income of US\$5,736.2 million, and in Reserve position in the IMF of US\$151.1 million, offset by the increase in available-for-sale securities of US\$4,043.5 million and in held-to-maturity securities of US\$1,127.7 million.

As of 31 December 2014 and 2013, the distribution of investments in foreign currencies by currency is as follows:

	(US\$ million)	
	2014	2013
U.S. dollars	21,789.3	20,620.2
Euro	7,888.1	7,714.0
Other currency	10,769.5	12,759.5
<b>Total</b>	<b>40,446.9</b>	<b>41,093.7</b>

#### b) Fair values as of 31 December

Statement of Financial Position BCCh (Ch\$ million)		2014			2013		
		Carrying Amount	Fair value	Difference	Carrying Amount	Fair value	Difference
Assets	International reserves	24,566,660.2	24,566,660.2	-	21,523,220.5	21,523,220.5	-
	Other foreign assets	148,815.4	148,815.4	-	130,345.4	130,345.4	-
	Loans to banks and financial institutions	7,877.6	7,877.6	-	256.9	256.9	-
	General Treasury transfers (Laws 18.401 and 18.267)	280,354.5	211,106.4	(69,248.1)	265,355.6	168,813.7	(96,541.9)
	Subordinated liabilities (Laws 18.401 and 19.396)	565,552.3	586,812.6	21,260.3	649,521.0	673,088.3	23,567.3
	<i>Sinap</i> liquidation (Law 18.900)	-	-	-	938,056.1	-	(938,056.1)
	Other assets	57,000.0	57,000.0	-	53,866.8	53,866.8	-
<b>Total Assets</b>	<b>25,626,260.0</b>	<b>25,578,272.2</b>	<b>(47,987.8)</b>	<b>23,560,622.3</b>	<b>22,549,591.6</b>	<b>(1,011,030.7)</b>	
Liabilities	Monetary base	8,183,119.5	8,183,119.5	-	8,754,473.9	8,754,473.9	-
	Bank borrowings	5,984,170.3	5,984,170.3	-	4,479,795.3	4,479,795.3	-
	Obligations with General Treasury	1,301,785.2	1,301,785.2	-	384,665.8	384,665.8	-
	Notes issued by Central Bank of Chile	12,908,184.9	13,818,397.2	910,212.3	13,033,022.2	13,459,080.4	426,058.2
	Foreign liabilities	777,118.6	777,118.6	-	710,092.8	710,092.8	-
	Other liabilities	16,356.0	16,356.0	-	18,880.6	18,880.6	-
	<b>Total liabilities</b>	<b>29,170,734.5</b>	<b>30,080,946.8</b>	<b>910,212.3</b>	<b>27,380,930.6</b>	<b>27,806,988.8</b>	<b>426,058.2</b>
Equity	<b>Net equity</b>	<b>(3,544,474.5)</b>	<b>(4,502,674.6)</b>	<b>(958,200.1)</b>	<b>(3,820,308.3)</b>	<b>(5,257,397.2)</b>	<b>(1,437,088.9)</b>

## 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)	
	2014	2013
Subscription installment, contribution	753,126.0	690,520.6
Loan, account No.1	10.7	27.9
New Arrangement to Borrow (NAB)	143,648.9	142,467.3
Deposits	<u>(599,376.9)</u>	<u>(497,437.8)</u>
<b>Total position in the IMF</b>	<b><u>297,408.7</u></b>	<b><u>335,578.0</u></b>

## 13 Loans to banks and financial institutions

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

	(Ch\$ million)	
	2014	2013
Line of credit on debt restructuring	130.2	256.9
Central Bank of Chile repurchase agreements (Repo) (*)	<u>7,747.4</u>	<u>—</u>
<b>Total</b>	<b><u>7,877.6</u></b>	<b><u>256.9</u></b>

(\*) As of 31 December 2013, the Bank records no reverse repurchase agreements.

## 14 Transactions under specific legal regulations

This caption mainly includes the following transactions 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.

### a) General Treasury transfers

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

	(Ch\$ million)	
	2014	2013
General Treasury transfer Law 18,401	280,354.5	265,355.6

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 UF15.0 million, will be covered by the General Treasury through future transfers which as of 31 December 2014 amount to Ch\$280,354.5 million, equivalent to approximately UF11.4 million (Ch\$265,355.6 million in 2013, equivalent to UF11.4 million).

Executive Decree 1526 issued by the Ministry of Finance, dated 14 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 in annual installments 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***

Through Decree Laws 1381 dated 23 March 1976 and 2824 dated 6 August 1979 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*) was regulated, because of the financial position affecting organizations 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 the law established that *Caja Central de Ahorros y Préstamos* shall cease its transactions 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 granting 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 transactions 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.

As of 31 December 2014, the amount payable to Central Bank of Chile from the liquidation of these institutions was Ch\$1,036,259.0 million, this amount includes interest accrued for Ch\$733,050.5 million (Ch\$938,056.1 in 2013).

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.

Accordingly, based on considerations solely for accounting and financial reporting purposes, as provided in Articles 18 No.9 and No. 75 et seq. of the Basic Constitutional Act regulating the Central Bank of Chile, the criteria and standards on International Financial Reporting Standards (IFRS), and considering the recommendations by the Bank's Audit and Compliance Committee, the Bank has determined that starting from the current year-end this Institution's financial statements will:

(i) Recognize in accordance with IFRS, an allowance for according its losses in equity of Central Bank of Chile for the total amount of debt owed to the Bank records by the entities comprising *Sinap* which are indefinitely in the process of liquidation.

(ii) Likewise, the obligation by the Chilean Treasury established in Law 18.900, which guarantees the obligations of the abovementioned entities which could not be covered by the amount resulting from their liquidation, as indicated in several opportunities by the Ministry of Finance, is subject to the legal budget and the publication in the *Official Gazette* of the executive decree approving the liquidation account for such entities, because this has not yet occurred or has a determined verification date; the Central Bank of Chile has opted to reflect this situation in the notes to the financial statements to comply with the requirement of substantiating the rationale behind these decisions.

(iii) Also, expressly indicate that the information contained in the preceding paragraph will only affect the method for recognizing the "*Sinap* liquidation Law 18.900" loan for reporting purposes, in accordance with IFRS standards. Accordingly, this should not and cannot be deemed, in any case, as a waiver by Central Bank of Chile of its right to continue to require the total and full payment of such debt.

Prior to making the decision mentioned above, the Bank informed the Minister of Finance. In response, the Minister responded the Bank that even though the President of Chile will approve such account through an executive decree issued by the Ministry of Finance, such approval has not been formalized because the requirement established by law for such purpose has not been met. In addition, the Minister indicated that because of this situation the Ministry of Finance was unable to express any opinion with respect to the balances in such account but acknowledged the information provided by the Bank.

### (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 2014, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF6,104,408.2806 to Central Bank of Chile, of which UF1,365,931.6217 were allocated to the payment of interests of the debt and UF4,738,476.6589 to the credit amortization for subordinated liability (during 2013, a payment of UF6,203,926.6500 was made, from which UF1,214,159.3521 was destined to the payment of interest, and UF4,989,767.2979 to the repayment of principal owed. During this year, prepayment of interest were done to the amount of UF404,725.7508).

As of 31 December 2014, the balance amounts to Ch\$565,552.3 million, UF22,964,630.4720 (Ch\$649,521.0 million in 2013, UF27,865,005.0834).

## 15 Property, equipment and intangible assets

	(Ch\$ million)	
	2014	2013
Property and equipment, net	33,345.3	34,140.2
Intangible assets, net	<u>2,392.7</u>	<u>2,336.7</u>
<b>Total property, equipment and intangible assets</b>	<b><u>35,738.0</u></b>	<b><u>36,476.9</u></b>



### a) Reconciliation of property, equipment and intangible assets carrying amounts

This caption is mainly composed of the following balances and movements

	(Ch\$ million)					Balance as 31.Dec.14
	Balance as 31.Dec.13	Acquisitions	Disposals	Depreciation	Transfers	
Real estate and facilities	21,082.8	-	(7.8)	(279.4)	-	20,795.6
Furniture and equipment	7,838.8	1,736.5	(550.6)	(2,161.6)	297.0	7,160.1
Transport material	257.7	75.8	(34.4)	(107.2)	-	191.9
Collection of banknotes and coins (*)	2,998.6	338.4	-	-	-	3,337.0
Works of art	1,651.9	-	-	-	-	1,651.9
Other	13.4	1.4	(13.4)	(1.4)	-	-
Work in progress	<u>297.0</u>	<u>208.8</u>	-	-	<u>(297.0)</u>	<u>208.8</u>
<b>Net property, equipment and intangible assets</b>	<b><u>34,140.2</u></b>	<b><u>2,360.9</u></b>	<b><u>(606.2)</u></b>	<b><u>(2,549.6)</u></b>	<b><u>-</u></b>	<b><u>33,345.3</u></b>

(\*) This figure includes Ch\$338.4 million due to variations in foreign currency exchange of gold pesos.

As of 31 December 2014 and 2013, the caption Depreciation and Amortization in the statement of comprehensive income includes Ch\$2,549.6 million and Ch\$2,455.1 million, respectively.

### b) Reconciliation of Intangible Assets carrying amounts

Composition and movements of intangible assets

	(Ch\$ million)				Balance as 31.Dec.14
	Balance as 31.Dec.13	Acquisitions	Disposals	Amortization	
Computer programs	1,282.1	-	-	(327.3)	954.8
Computer programs under development	<u>1,054.6</u>	<u>383.3</u>	-	-	<u>1,437.9</u>
<b>Intangible assets, net</b>	<b><u>2,336.7</u></b>	<b><u>383.3</u></b>	<b><u>-</u></b>	<b><u>(327.3)</u></b>	<b><u>2,392.7</u></b>

As of 31 December 2014 and 2013, the amortization of intangible assets of Ch\$327.3 million is recorded on a straight-line basis in the caption depreciation and amortization in the statement of income.

## 16 Foreign liabilities

This caption includes the following transactions

	(Ch\$ million)	
	2014	2013
Reciprocal loan agreements	8,233.3	4,629.7
Accounts with international bodies	50,189.3	46,455.0
Special drawing rights (SDR) allocations	718,696.0	659,008.1
<b>Total foreign liabilities</b>	<b>777,118.6</b>	<b>710,092.8</b>

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 conducted by Chilean entities. 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 interest, but maintain their value for the fluctuations in the United States dollar.

This caption is composed of the following:

	(Ch\$ million)	
	2014	2013
Promissory note obligations with IDB	48,493.8	41,817.5
Inter-American Development Bank (IDB)	732.8	3,690.3
Agency for International Development (AID)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	32.9	32.9
International Bank for Reconstruction and Development (IBRD)	28.7	13.2
<b>Total accounts with international organizations</b>	<b>50,189.3</b>	<b>46,455.0</b>

The assignments of Special Drawing Rights (SDRs) correspond to SDR816.959.995 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)	
	2014	2013
Banknotes and coins in circulation	7,578,075.9	6,917,607.4
Deposits from financial institutions	605,043.6	1,139,731.0
Deposits for technical reserve	-	697,135.5
<b>Total monetary base</b>	<b>8,183,119.5</b>	<b>8,754,473.9</b>

### (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)	
	2014	2013
\$ 20.000	2,414,066.6	2,093,132.6
\$ 10.000	4,076,067.4	3,756,732.9
\$ 5.000	439,862.7	453,165.3
\$ 2.000	95,623.1	117,038.5
\$ 1.000	209,836.4	184,682.6
\$ 500	4,743.1	4,745.6
Other	61.7	250.1
Coins	337,814.9	307,859.8
<b>Total</b>	<b>7,578,075.9</b>	<b>6,917,607.4</b>

### (b) Deposits from financial institutions

Deposits from financial institutions reflect the movements in drafts and deposits in local currency resulting from the transactions performed by financial institutions with Central Bank of Chile. Their balance represents the funds or reserves in favor of financial institutions and is used 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 of 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 hold 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 notes 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)	
	2014	2013
Deposits and obligations with the General Treasury	1,301,785.2	384,665.8
Other deposits and obligations	<u>5,984,170.3</u>	<u>4,479,795.3</u>
<b>Total</b>	<b><u>7,285,955.5</u></b>	<b><u>4,864,461.1</u></b>

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

	(Ch\$ million)	
	2014	2013
General Treasury current accounts	1,226,599.3	313,057.4
Other	<u>75,185.9</u>	<u>71,608.4</u>
<b>Total</b>	<b><u>1,301,785.2</u></b>	<b><u>384,665.8</u></b>

### (b) "Other Deposits and Obligations" include:

	(Ch\$ million)	
	2014	2013
Permanent Deposit Facility in local currency	3,398,719.2	2,601,914.2
Current accounts in foreign currency	769,974.7	878,171.3
Short-term deposits from bank institutions in foreign currency	1,761,402.0	958,480.8
Other	<u>54,074.4</u>	<u>41,229.0</u>
<b>Total</b>	<b><u>5,984,170.3</u></b>	<b><u>4,479,795.3</u></b>

## 19 Notes issued by Central Bank of Chile

The issuance of notes of Central Bank of Chile is the main supporting element for the implementation of the monetary and debt policy in order to provide liquidity to the market and deepen its transactions 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 2014 and 2013, maturities of these instruments are as follows:

	(Ch\$ million)					Total 2014	Total 2013
	Up to 90 days	91-180 days	181 days to 1 year	1-3 years	Over 3 years		
Central Bank bonds UF (BCU)	-	-	199,034.1	2,470,919.1	5,534,699.2	8,204,652.4	7,830,132.7
Central Bank bonds CLP (BCP)	201,438.5	471,205.3	76,892.3	1,082,963.9	1,706,047.5	3,538,547.5	4,080,623.4
Central Bank discountable promissory notes (PDBC)	998,556.7	-	-	-	-	998,556.7	925,319.1
Adjustable issuance coupons (CERO) UF	104,696.6	1,618.9	2,782.4	7,082.0	2,417.0	118,596.9	135,669.2
Adjustable promissory notes with payments in coupons (PRC)	1,935.6	1,266.7	943.7	13,949.0	29,715.3	47,810.3	61,256.7
Other	21.1	-	-	-	-	21.1	21.1
<b>Total as of 31 December</b>	<b>1,306,648.5</b>	<b>474,090.9</b>	<b>279,652.5</b>	<b>3,574,914.0</b>	<b>7,272,879.0</b>	<b>12,908,184.9</b>	<b>13,033,022.2</b>

Balances include interest and adjustments accrued as of 31 December 2014 and 2013.

As of 31 December 2014, the net variation of Ch\$124,837.3 million, these liabilities compared to 2013, is explained mainly by no issuance of BCPs, and an increase of domestic currency due to BCUs adjustment.

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)	
	2014	2013
Provisions	15,885.2	18,502.7
Other securities	470.8	377.9
<b>Total</b>	<b>16,356.0</b>	<b>18,880.6</b>

## 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:

Provision for the year:	(Ch\$ million)	
	2014	2013
- Severance indemnity	9,917.7	10,301.2
- Special indemnity Resolution 1414 and agreed deposit for retirement plan	-	1,614.6
- Special indemnity Resolution 1651 and agreed deposit for retirement plan	<u>1,076.0</u>	<u>1,821.5</u>
Subtotal provision for severance indemnity	<u>10,993.7</u>	<u>13,737.3</u>
- Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	2,576.3	2,571.1
- Healthcare benefits for retirement plans	7.8	18.7
- Pending accrued vacations of personnel	2,037.9	1,966.2
- Special indemnity Resolution 572-05-961226	3.0	3.0
- Incentive allocation	<u>266.5</u>	<u>206.4</u>
Subtotal other provision	<u>4,891.5</u>	<u>4,765.4</u>
<b>Total</b>	<b><u>15,885.2</u></b>	<b><u>18,502.7</u></b>

Movements in provisions for severance indemnities (*):	(Ch\$ million)	
	2014	2013
- Current value of liabilities as of 1 January	13,737.3	13,844.7
- Service cost	686.0	652.9
- Interest cost	548.1	726.5
- Benefits paid	(1,305.7)	(1,687.9)
- Actuarial gains (losses)	<u>(2,672.0)</u>	<u>201.1</u>
<b>Total</b>	<b><u>10,993.7</u></b>	<b><u>13,737.3</u></b>

\* This does not include benefits for the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile, retirement health care plans and incentive payments.

Post-employment benefit expenses	(Ch\$ million)	
	2014	2013
- Current value of service costs	570.2	652.9
- Interest cost	651.4	726.5
<b>Total</b>	<b><u>1,221.6</u></b>	<b><u>1,379.4</u></b>

As of 31 December 2014, 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
- Discount interest rate (%)	4.36	3.36	5.36
Effect on provision for severance indemnity payments (Ch\$ million)	10,993.7	12,161.1	10,485.9
Effect on provision for severance indemnity payments (%)	0.00	10.62	-4.62

Calculation of probable payment of the provision for severance indemnity payments	(Ch\$ million)
- Short-term provisions for severance indemnity payments (up to one year)	2,058.0
- Long-term provisions for severance indemnity payments (over one year)	<u>8,935.7</u>
<b>Balance as of 31 December</b>	<b><u>10,993.7</u></b>

## 21 Capital and reserves

### (a) Capital and reserves

Section 5 of the Basic Constitutional Act of Central Bank of Chile established an initial capital for Central Bank of Chile at \$500,000 million, which at 31 December 2014 corresponds to \$2,278,636.4 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 capital.

As of 31 December 2014, Central Bank Chile has negative equity of Ch\$3,544,474.5 million (negative equity of Ch\$3,820,308.3 million as of 31 December 2013) arisen mainly from differences between international reserve returns and the cost of liabilities at domestic interest rate due to gains and losses from changes in the exchange rates of assets in foreign currencies, and for the recognition of an allowance for impairment losses of the total debt receivable from the entities which compose the Loans and Saving National System (*Sinap*).

## (b) Price-level adjusted capital

The Board decided to no longer apply comprehensive price-level adjustment to financial statements beginning in 2010, and therefore price-level adjustment on capital is no longer presented in the statement of financial position nor in the statement of comprehensive 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 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 2014, the negative capital price-level adjustment recognized in memorandum accounts amounted to Ch\$237,789.3 million (Ch\$113,235.9 million in 2013), which resulted in adjusted capital of Ch\$4,409,531.6 million (Ch\$4,831,396.5 million in 2013). 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 31.Dec.14	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31.Dec.14
Balances as of 31 December 2014	(4,171,742.3)	(237,789.3)	(4,409,531.6)

## 22 Foreign currency balances

The statement of financial position includes assets and liabilities payable in foreign currencies, whose balances as of 31 December 2014 and 2013 are as follows:



	(US\$ million)	
	2014	2013
<b>Assets</b>		
<b>Foreign assets</b>	<u>40,691.9</u>	<u>41,342.6</u>
Reserves	40,446.9	41,093.7
Other foreign assets	245.0	248.9
<b>Other asset accounts</b>	<u>22.9</u>	<u>20.9</u>
<b>Total assets</b>	<u>40,714.8</u>	<u>41,363.5</u>
<b>Liabilities</b>		
<b>Foreign liabilities</b>	<u>1,276.7</u>	<u>1,346.9</u>
Other foreign liabilities	93.4	88.7
Special drawing rights (SDR) allocations	1,183.3	1,258.2
<b>Domestic liabilities</b>	<u>4,406.3</u>	<u>3,766.2</u>
Deposits and General Treasury liabilities	178.8	214.0
Other deposits and obligations	<u>4,227.5</u>	<u>3,552.2</u>
<b>Total liabilities</b>	<u>5,683.0</u>	<u>5,113.1</u>
<b>Net assets</b>	<b>35,031.8</b>	<b>36,250.4</b>

## 23 Contingencies and commitments

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

## 24 Income taxes

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

---

## 25 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 Agent, 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, the 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, the 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 resources 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 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 is not 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,” noted that the accounting of *FRP* and *FEES* funds should also comply with mandates and instructions issued by Ministry of Finance. Accordingly, during 2013 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 solely for control purposes, it maintains a subsidiary ledger at notional level for the externally managed portfolio of each fund.

Through Resolution 1775 of the Board, dated 25 September 2013, *KPMG Auditores y Consultores Ltda.* was appointed the audit of the financial statements of Central Bank of Chile and Fiscal Agency Fund “Economic and Social Stabilization Fund” (*FEES*) and the “Pension Reserve Fund” (*FRP*), and Strategic Contingency Fund (*FCE*) between 2014 and 2016.

## 26 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 2014 amounted to Ch\$1,361.1 million (Ch\$1,322.4 million in 2013).

---

## 27 Relevant events

(a) 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 as the replacement of Mr. Manuel Marfán Lewis who leaved the position on 18 December 2013.

(b) At the Extraordinary Meeting 1803E, held on 17 February 2014, Central Bank of Chile's Board agreed to the appointment of Mr. Enrique Marshall Rivera as Deputy Governor of Central Bank of Chile up to 23 December 2015, inclusive, since this date corresponds to the period-end of his position as Board Member of the Bank.

(c) At the Ordinary Meeting, held on 17 April 2014, the Board accepted the resignation of Mr. Miguel Ángel Nacur Gazali as General Counsel and Certifying Officer starting from 20 June 2014, appointing as replacement the attorney Mr. Juan Pablo Araya Marco.

(d) Through agreement 1820-01 dated 30 April 2014, Central Bank of Chile's Board agreed to the appointment of Mr. José Luis Cea Egaña as member and Chairman of the Audit & Compliance Committee of Central Bank of Chile for a three years term, as replacement of Mr. Luis Bates Hidalgo who ended his period.

## 28 Subsequent events

In the opinion of Management, between 31 December 2014 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 US dollar and euro exchange rate

The exchange rate for U.S. dollar as of 27 January 2015 amounted to Ch\$625.67 per US\$1.00 representing an increase of Ch\$18.29 compared with the exchange rate prevailing as of 31 December 2014. This represents an improvement in Central Bank of Chile's equity of Ch\$316,564.5 million.

The exchange rate for euro as of 27 January 2015 amounted to Ch\$705.30 per €1.00, representing a decrease of Ch\$34.23 compared with the exchange rate prevailing as of 31 December 2014. This represents a decrease in Central Bank of Chile's equity of Ch\$218,686.0 million.

---


The total increase in Central Bank of Chile's equity because of the increase in the exchange rate for United States dollar and a decrease in the exchange rate for euro on 27 January 2015 amounts to Ch\$97,878.5 million.

**(b) Approval of financial statements**

The financial statements for the year ended 31 December 2014 were presented by the General Manager to the Board on 29 January 2015 and approved for issue at the Meeting 1881.

**(c) Other**

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



---

JUAN CARLOS SALAZAR TAPIA  
General Accountant



---

ALEJANDRO ZURBUCHEN SILVA  
General Manager



---

SILVIA QUINTARD FLEHAN  
General Auditor





# Independent Auditors' 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, which comprise the statements of financial position as of 31 December 2014 and 2013, and the related statements of comprehensive income, changes in equity, and cash flows 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 International Financial Reporting Standards; 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.

## *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The above translation of the auditor's 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 2015

KPMG Ltda.