



Valparaíso

# 04

## FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS

## STATEMENTS OF FINANCIAL POSITION, AS OF 31 DECEMBER 2015 AND 2014 (Ch\$ million)

Assets	Note	2015	2014
<b>Foreign assets</b>		27,504,904.1	24,715,475.6
<b>Reserve assets</b>	11	<u>27,333,427.5</u>	<u>24,566,660.2</u>
Monetary gold		6,009.5	5,716.7
Special drawing rights (SDR)		748,636.0	655,457.2
Reserve position in the International Monetary Fund (IMF)	12	256,805.2	297,408.7
Correspondent banks abroad	6	427,681.3	102,823.3
Investments in foreign currency:		<u>25,865,919.2</u>	<u>23,431,932.7</u>
Securities recorded at fair value through earnings		20,423,129.2	17,557,081.0
Held-for-sale securities		1,926,789.8	2,455,969.3
Held-to-maturity securities		3,516,000.2	3,418,882.4
Reciprocal loan agreements		27,810.8	72,535.4
Other assets	6	565.5	786.2
<b>Other foreign assets</b>		<u>171,476.6</u>	<u>148,815.4</u>
Shares of and contributions to the Inter American Development Bank (IDB)		130,222.5	111,819.7
Shares of Bank for International Settlements (BIS)		41,254.1	36,995.7
<b>Domestic assets</b>		<u>757,238.0</u>	<u>853,784.4</u>
<b>Domestic loans</b>	13	<u>32.2</u>	<u>7,877.6</u>
Loans to banks and financial institutions		32.2	7,877.6
<b>Transactions under specific legal regulations</b>	14	<u>757,205.8</u>	<u>845,906.8</u>
General Treasury transfers Law 18,401		291,761.1	280,354.5
Loan for subordinated liabilities of financial institutions (Laws 18,401 and 19,396)		465,444.7	565,552.3
<b>Other assets</b>		<u>61,642.3</u>	<u>57,000.0</u>
Property, equipment and intangible assets	15	36,436.5	35,738.0
Other securities		21,992.5	18,588.5
Transition assets		<u>3,213.3</u>	<u>2,673.5</u>
<b>Total Assets</b>		<u>28,323,784.4</u>	<u>25,626,260.0</u>

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

STATEMENTS OF FINANCIAL POSITION, AS OF 31 DECEMBER 2015 AND 2014

(Ch\$ million)

Liabilities	Note	2015	2014
<b>Foreign liabilities</b>	16	859,436.1	777,118.6
Reciprocal loan agreements		212.7	8,233.3
Accounts with international organizations		57,802.1	50,189.3
Special drawing rights (SDR) allocations		801,421.3	718,696.0
<b>Domestic liabilities</b>		29,413,433.1	28,377,259.9
<b>Monetary base</b>	17	9,151,628.2	8,183,119.5
Banknotes and coins in circulation		8,417,693.6	7,578,075.9
Deposits from financial institutions (in Chilean pesos)		733,934.6	605,043.6
<b>Deposits and obligations</b>	18	6,767,419.1	7,285,955.5
Deposits and obligations with General Treasury		419,682.6	1,301,785.2
Other deposits and obligations		6,347,736.5	5,984,170.3
<b>Notes issued by Central Bank of Chile</b>	19	13,494,385.8	12,908,184.9
Central Bank of Chile bonds in UF (BCU)		8,306,056.8	8,204,652.4
Central Bank of Chile bonds in Chilean pesos (BCP)		4,154,988.0	3,538,547.5
Central Bank of Chile discountable promissory notes (PDBC)		898,329.7	998,556.7
Optional indexed coupons (CERO) in UF		98,879.9	118,596.9
Indexed promissory notes payable in coupons (PRC)		36,110.3	47,810.3
Other		21.1	21.1
<b>Other liabilities</b>	20	26,715.0	16,356.0
Provisions		17,896.1	15,885.2
Other securities		8,818.9	470.8
<b>Net equity</b>	21	(1,975,799.8)	(3,544,474.5)
Capital		(3,549,232.2)	(3,819,595.3)
Other reserves		8,098.3	4,757.7
Profit for the year		1,565,334.1	270,363.1
<b>Total liabilities and equity</b>		28,323,784.4	25,626,260.0

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

**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**  
(Ch\$ million)

	Note	2015	2014
<b>Net results from international reserves</b>	7	<u>178,755.3</u>	<u>349,119.2</u>
<b>Income</b>		<u>509,668.8</u>	<u>543,973.7</u>
Interest income		309,961.7	293,938.5
Gain on sale of instruments recorded at fair value through earnings		195,019.3	103,248.6
Gain on sale of available-for-sale securities		3,907.9	1,075.9
Fair value adjustments		-	144,358.4
Other		779.9	1,352.3
<b>Expenses</b>		<u>(330,913.5)</u>	<u>(194,854.5)</u>
Interest expenses		(87.6)	(30.6)
Loss on sale of instruments recorded at fair value through earnings		(227,720.5)	(187,889.8)
Fair value adjustments		(99,377.0)	-
Other		(3,728.4)	(6,934.1)
<b>Net results from other foreign transactions</b>	7	<u>(12,258.1)</u>	<u>(954.0)</u>
<b>Income</b>		<u>671.5</u>	<u>1,268.1</u>
Other income		671.5	1,268.1
<b>Expenses</b>		<u>(12,929.6)</u>	<u>(2,222.1)</u>
Interest expense		(407.2)	(650.9)
Other expenses		(12,522.4)	(1,571.2)
<b>Net results from domestic transactions</b>	8	<u>(871,962.7)</u>	<u>(927,754.4)</u>
<b>Income</b>		<u>64,360.5</u>	<u>178,468.0</u>
Interest income and adjustments		54,919.8	174,847.8
Other income		9,440.7	3,620.2
<b>Expenses</b>		<u>(936,323.2)</u>	<u>(1,106,222.4)</u>
Interest expense and adjustments		(935,920.1)	(1,105,052.8)
Other expenses		(403.1)	(1,169.6)
<b>Net results on foreign exchange transactions</b>	9	<u>2,312,258.7</u>	<u>1,979,981.7</u>
Gain on foreign exchange transactions		4,683,353.9	4,169,539.8
Loss on foreign exchange transactions		(2,371,095.2)	(2,189,558.1)

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

STATEMENTS OF COMPREHENSIVE INCOME, CONTINUED  
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014  
(Ch\$ million)

	Note	2015	2014
<b>Issuance and distribution costs</b>	10	(60,383.1)	(43,517.6)
Banknotes		(11,578.9)	(20,546.9)
Coins		(47,524.5)	(22,033.7)
Distribution		(1,279.7)	(937.0)
<b>Personnel and administrative expenses</b>		(52,949.0)	(46,801.1)
Personnel expenses		(33,536.7)	(29,797.7)
Administrative expenses		(18,002.1)	(15,721.4)
Provision for post-employment benefits		(1,410.2)	(1,282.0)
<b>Other (expenses) and income</b>		71,873.0	(1,039,710.7)
Depreciation and amortization	15	(2,652.0)	(2,876.9)
Taxes and contributions		(719.6)	(588.3)
Provision for accumulated impairment			
Sinap liquidation Law 18,900		.	(1,036,259.0)
Other		75,244.6	13.5
<b>Profit for the period</b>		1,565,334.1	270,363.1
<b>Other comprehensive income</b>		3,340.6	5,470.7
<b>Other comprehensive (loss) income that will never be reclassified to profit or loss</b>		(1,700.6)	2,271.5
Actuarial (loss) gain in provision for post-employment benefits		(1,700.6)	2,271.5
<b>Other comprehensive income that may be reclassified to profit or loss</b>		5,041.2	3,199.2
Fair value adjustments of available-for-sale securities		5,041.2	3,199.2
<b>Total comprehensive income</b>		1,568,674.7	275,833.8

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

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**  
(Ch\$ million)

	Capital	Actuarial gain and loss reserve	Fair Value reserve	Other reserves total	Retained earnings	Total
<b>Balances as of 1 January 2014</b>	<u>(4,478,737.6)</u>	<u>(713.0)</u>	-	<u>(713.0)</u>	<u>659,142.3</u>	<u>(3,820,308.3)</u>
<b>Total comprehensive income:</b>						
Profit	-	-	-	-	270,363.1	270,363.1
Other comprehensive income	-	<u>2,271.5</u>	<u>3,199.2</u>	<u>5,470.7</u>	-	<u>5,470.7</u>
<b>Total comprehensive income</b>	-	<u>2,271.5</u>	<u>3,199.2</u>	<u>5,470.7</u>	<u>270,363.1</u>	<u>275,833.8</u>
Capitalization of 2013 surplus	<u>659,142.3</u>	=	=	=	<u>(659,142.3)</u>	=
<b>Balances as of 31 December 2014</b>	<u>(3,819,595.3)</u>	<u>1,558.5</u>	<u>3,199.2</u>	<u>4,757.7</u>	<u>270,363.1</u>	<u>(3,544,474.5)</u>
<b>Balances as of 1 January 2015</b>	<u>(3,819,595.3)</u>	<u>1,558.5</u>	<u>3,199.2</u>	<u>4,757.7</u>	<u>270,363.1</u>	<u>(3,544,474.5)</u>
<b>Total comprehensive income</b>						
Profit	-	-	-	-	1,565,334.1	1,565,334.1
Other comprehensive income	-	<u>(1,700.6)</u>	<u>5,041.2</u>	<u>3,340.6</u>	-	<u>3,340.6</u>
<b>Total comprehensive income</b>	-	<u>(1,700.6)</u>	<u>5,041.2</u>	<u>3,340.6</u>	<u>1,565,334.1</u>	<u>1,568,674.7</u>
Capitalization of 2014 surplus	<u>270,363.1</u>	=	=	=	<u>(270,363.1)</u>	=
<b>Balances as of 31 December 2015</b>	<u>(3,549,232.2)</u>	<u>(142.1)</u>	<u>8,240.4</u>	<u>8,098.3</u>	<u>1,565,334.1</u>	<u>(1,975,799.8)</u>

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

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**  
(Ch\$ million)

	Nota	2015	2014
<b>Cash flows from operating activities:</b>			
<b>Foreign reserves</b>		412,241.1	(328,067.9)
(Acquisition) sales of securities at fair value		(1,194,790.3)	2,346,268.7
(Acquisition) sales of available-for-sale securities		929,655.8	(2,294,437.8)
Redemption (investment) of held-to-maturity securities		372,081.5	(689,453.7)
Interests and commissions received for international reserves		269,992.0	306,304.9
Interests paid in foreign transactions		(83.0)	(30.0)
Taxes paid for investments in reserves		(3,615.8)	(3,658.0)
Cash receipts for reciprocal loan agreements		38,645.1	6,505.9
Interest receipts (payments) for reciprocal loan agreements		376.2	461.6
Interest receipts (payments) for reciprocal loan agreements		(20.4)	(29.5)
<b>Domestic assets</b>		151,206.9	137,723.3
Cash receipts (loans) for loans to banks and financial institutions		7,846.1	(7,609.6)
Interests and adjustments received for loans to financial institutions		504.9	210.3
Cash receipts for subordinated obligation with financial institutions		78,797.7	80,381.3
Interests and adjustments received for subordinated obligations		64,058.2	64,741.3
<b>Domestic liabilities</b>		(1,042,897.9)	(340,850.6)
Placement (redemption) of notes issued		314,848.9	(532,153.8)
Interests and adjustments paid for notes issued		(567,545.9)	(588,907.3)
Decrease (increase) in deposits and obligations in Chilean pesos		(520,873.1)	482,236.7
Interests and adjustments paid for deposits and obligations		(95,135.5)	(96,904.0)
Decrease (increase) in deposits and obligations in foreign currency		(174,192.3)	394,877.8
<b>Other cash flows</b>		(131,500.5)	(105,630.1)
Cash payments for goods and services		(123,725.8)	(93,668.4)
Net cash flows for arbitrage of currencies		(11,839.0)	(12,244.5)
Cash receipts as fiscal agent and other income		4,432.5	3,224.8
Movements in international organizations		(368.2)	(2,942.0)
<b>Net cash used in operating activities</b>		(610,950.4)	(636,825.3)

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

STATEMENTS OF CASH FLOWS, CONTINUED  
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014  
(Ch\$ million)

	Note	2015	2014
<b>Cash flows from investing activities:</b>			
Movements, IMF		50,073.3	69,542.7
Dividends received, BIS		604.7	551.5
Proceeds from sale of property and equipment		33.4	50.8
Acquisition of property and equipment	15	(2,259.2)	(2,360.9)
Acquisition of intangible assets	15	(1,157.5)	(383.3)
<b>Net cash generated from investing activities</b>		<u>47,294.7</u>	<u>67,400.8</u>
<b>Cash flows from financing activities:</b>			
Net increase in banknotes and coins in circulation		839,617.7	660,468.9
<b>Net cash generated from financing activities</b>		<u>839,617.7</u>	<u>660,468.9</u>
<b>Changes in cash and cash equivalents</b>		<u>275,962.0</u>	<u>91,044.4</u>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>		48,761.9	2,126.8
<b>Cash and cash equivalents at the beginning of the reporting period</b>	6	103,630.5	10,459.3
<b>Cash and cash equivalents as of 31 December</b>	6	<u>428,354.4</u>	<u>103,630.5</u>

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



# NOTES TO THE FINANCIAL STATEMENTS

as of 31 December 2015 and 2014

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## Note 1

### Incorporation and description of business

Banco Central de Chile (hereinafter the "Central Bank of Chile") was formed on 21 August 1925, by Decree Law 486. Central Bank of Chile is a constitutionally autonomous entity, with 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.

## Note 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 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:

	2015 Ch\$	2014 Ch\$
United States dollar		
(observed exchange rate)	707.34	607.38
Euro	771.95	739.53
Canadian dollar	510.71	521.54
Australian dollar	515.85	494.61
Special drawing rights (SDR)	980.98	879.72

**(e) Statement of cash flows**

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

e.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.

e.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.

e.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.

e.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.

#### (f) 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.

#### (g) International reserve measurement criteria

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

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

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

Includes bonds issued by foreign governments, mid-term bonds issued by Bank for International Settlements (BIS), treasury bills, discount notes, inflation-linked bonds, secured bonds from public institutions issued by German banks, agency non-prepayable bonds, agency prepayable bonds, agency bills, and agency discount notes.

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

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

Floating rate notes, certificates of deposit, commercial papers, short-term investments at fixed rate with BIS (discounted and

at interest rate, both tradable 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.

##### g.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.

##### g.iv Other reserve assets

g.iv.1 Monetary gold: corresponds to gold held as international reserve, expressed in Chilean minted gold, is valued at the average quotation of the London Gold Fixing (U.S. dollar per fine troy ounce) and the differences arising from updating the gold positions are recorded as profit or loss for the year.

g.iv.2 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.

g.iv.3 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).

g.iv.4 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.

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

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

The accounting treatment of the previously mentioned shares and contributions is in conformity with Article 3 of DL 2943 dated 1979, published in the *Official Gazette* on 16 November of the same year, according to which such shares and contributions as well as the 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 SDR132.0 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 2015, the remaining balance of the IMF revolving credit facility amounted to SDR1,228.0 million in practice the mechanism operates by calculating quarterly capitalization periods that include the stakeholders' maximum contribution during that period.

#### **(i) Bank for International Settlements (BIS) Shares**

During 2003, Central Bank of Chile's Board Resolutions 1073-04 dated 10 July, 2003 and 1084-02 dated 16 September, 2003, authorized the incorporation of Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September, 2003, in accordance with these resolutions, Central Bank of Chile acquired 3,000 shares of the BIS for SDR42.0540 million which are valued at acquisition cost and are shown under "Other Foreign Assets." During 2015, dividends were received in the amount of US\$0.9 million (US\$1.0 million in 2014).

#### **(j) Domestic loans**

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

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

#### **(k) 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.

#### **(l) 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 2015 and 2014, the Bank recognized costs related to the acquisition of licenses and the Open Market Transaction System (SOMA).

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

	Years	
	2015	2014
Buildings	50 to 80	50 to 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
Intangibles	5	5

#### (m) Monetary base

Mostly include liabilities of Central Bank of Chile freely-circulating banknotes and coins, plus deposits made by the financial system in Central Bank of Chile.

#### (n) Deposits and obligations

Deposits and obligations are financial liabilities for deposits and other 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.

#### (o) Notes issued by Central Bank of Chile

Notes issued by Central Bank of Chile are financial liabilities issued in order to adopt the decisions of the monetary and debt

policy, initially measured at fair value, and are not affected by transaction costs. Subsequently, they are measured at amortized cost pursuant to the effective interest rate method through earnings. Unadjustable balances are stated at their nominal value. Adjustable balances include the effect of the accrued adjustments at the reporting date.

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

#### (p) Impairment

##### p.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.

##### p.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.

#### (q) Employee benefits

##### q.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 the collective agreement between Central Bank of Chile and the Labor Union of Central Bank of Chile, signed on 26 June 2015 and in effect through 30 June 2019; 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 and 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 5.66%.
- Discount rate: Central Bank of Chile used the nominal rate for BCP instruments at 10 years at the calculation date. For 2015, the discount rate was 4.62% (2014: 4.36%).

#### q.ii Short-term benefits

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

#### (r) Provisions and contingent liabilities

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

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

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

#### (s) Financial derivative instruments

Financial derivative contracts corresponding to forward exchange contracts 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" in asset and liability, respectively.

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

#### (t) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis by Central Bank of Chile's senior management in order to quantify some assets, liabilities, income, expenses and uncertainties. The revision 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 (l) Property and equipment, and intangible assets, determination of useful life, depreciation or amortization and residual value.
- Note 3 Methodology applied for the measurement of fair value.
- 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.

#### (u) 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 2016, 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.

### Note 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 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  $PX \text{ Mid} = (PX \text{ Bid} + PX \text{ Last})/2$ .

Where:

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

On the other hand, the system calculates the gains and losses from investments on a daily basis using the following formula for 2015 and 2014:

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

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.

#### Note 4 Changes in accounting policies

As of 31 December 2015, the accounting policies have been consistently applied in relation to the year ended 31 December 2014.

#### Note 5 Financial instrument risks

The goal of Central Bank of Chile is to monitor the stability of the Chilean currency; i.e. maintain a low and stable inflation rate over time. Additionally, the Bank should promote the stability and effectiveness of the financial system, safeguarding the normal performance of internal and external payments.

In order to meet such goal, Central Bank of Chile disposes of its international reserves, liquid assets in foreign currency which are mainly comprised of financial instruments that are traded and kept in custody abroad such as bonds and government notes, bank deposits, among others.

Additionally, 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 financial instruments related to the management of debt and open-market transactions made by the local market through the issuance of notes and time deposits received.

Central Bank of Chile's financial risks are related to those risks arising from managing the asset and liability portfolio and their effect on the Bank's equity. Such risks can be classified as: Market risk, Credit risk, Liquidity risk, and Operational risk.



The financial risk management is established and conditioned by general policies approved by Central Bank of Chile's Board. In this respect, the definition of guidelines and assets and debt exposure limits are proposed to the General Management and the Board by the Management of the Financial Operations Division for their approval.

Both Managements of International Market and Domestic Market, which report to the Financial Operation Division, are responsible for implementing the policies established by the Board. While, within the same hierarchical line, the Financial Service Management records, processes and performs the settlement of transactions, and manages the technological infrastructure in which these are carried out.

The Financial Risk Administration and Evaluation Management monitors the compliance with the established limits, measures management results and risks and reports them to the Manager of Financial Operation Division and to the General Management. In addition, the Bank's Controllership, which reports directly to the Board, assesses the effectiveness and efficiency of the internal control, risk management and governance of the financial asset and liability portfolio process.

Finally, the Bank's Audit and Compliance Committee, which is an external advisor entity for the Board, is responsible, among other functions, for reporting on the effectiveness of the systems and the internal control procedures used in the financial asset and liability portfolio management, and assesses the reliability, integrity and timeliness of the information of the financial statements.

#### (a) 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. Risks are identified mainly by fluctuations in currencies and interest rates. Market risk affecting the Bank's statement of financial position is dominated by international reserves mainly due to the increased volatility of currencies composing their investments, while for liabilities, the greatest impact arises from fluctuations in the inflation-adjusted unit which impacts the long-term debt.

Market risk of international reserves is limited by the investment policy by establishing maturity and composition margins of currencies around referential parameters of the portfolios and through the diversification of currencies, securities and investment periods. 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.

Table 5.1 sets out the different monitored market risk measurements.

**TABLE 5.1 MARKET RISK, INVESTMENT PORTFOLIO AS OF 31 DECEMBER 2015 AND 2014**

		2015	2014
Amount (Ch\$ million)*		23,439,468.2	20,892,279.3
Length (months)	Portfolio	22.8	23.6
	Departure	-0.7	-0.1
Breakdown by currency (%)	US\$	62.0	49.8
	EUR	16.8	22.9
	JPY	0.6	2.1
	Other	20.6	25.2
VaR** Domestic investment portfolio	Absolute (%)	2.1	2.5
	Tracking Error (bp)	20.3	13.7
VaR** Investment portfolio abroad	Absolute (%)	4.1	4.5
	Tracking Error (bp)	61.0	52.6

Source: BCCh.

\* The amounts correspond solely to the Investment Portfolio portion within the International Reserves. Amounts related to the Cash Portfolio or Other Assets, are not considered.

\*\* *VaR and TE*: a parametric estimate methodology for VaR is used through a portfolio decomposition in risk factors related to changes in currencies, fiscal rates and spread. For those factors, we have developed a variance and covariance matrix, using a data window of 550 days, with an exponential decline factor of 0.94. The VaR is presented with a confidence level of 84%, equivalent to a standard deviation. VaR and TE are measured in U.S. dollars and are presented relative to the Investment Portfolio.

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 5.2 and 5.3 display these indicators.

**TABLE 5.2 STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2015**

Instrument	Ch\$ million	UF %	Holding period (months)
Short-term	898,329.7	-	0.7
Long-term	12,596,056.1	67	55.8
<b>Total</b>	<b>13,494,385.8</b>	<b>63</b>	<b>52.3</b>

Source: BCCh.

**TABLE 5.3 STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2014**

Instrumento	Ch\$ million	UF %	Holding period (months)
Short-term	998,556.7	-	0.6
Long-term	11,909,628.2	70	62.7
<b>Total</b>	<b>12,908,184.9</b>	<b>65</b>	<b>58.2</b>

Source: BCCh.

#### (b) Credit risk

Credit risk is the risk of potential losses due to a counterparty failing to make a payment. The main source of risk arises from the investments in international reserves in debt instruments issued

by foreign countries and financial institutions. A second source of credit risk comes from open market transactions and facilities that provide liquidity to the domestic financial system (Repo and FPL).

For international investments, the credit risk is mitigated by controls and limits established in the investment policies considering limits by type of risk (Sovereign, Supranational, Agencies and Banking), by type of instrument, issuer and counterparty, risk management of brokers and custodians. Additionally, there are restrictions and controls by credit ranking related to the issuer of the instrument, which is calculated using the median of ratings obtained from Fitch, Moody's, Standard and Poor's and DBRS; if solely two ratings are available, the lowest will prevail; and in the event of only one rating is available, such rating will be used.

Tables 5.4 and 5.5 show the breakdown of reserves by credit rating and type of risk.

**TABLE 5.4 BREAKDOWN OF THE INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2015**

Credit rating	Type of credit risk (percent)				Total
	Agency	Banking	Sovereign	International	
AAA	0.7	0.3	77.5	4.5	83.0
AA+, AA, AA-	0.0	1.0	6.7	0.0	7.7
A+, A, A-	0.0	3.3	1.5	0.0	4.8
BBB+	0.0	0.0	4.5	0.0	4.5
<b>Total</b>	<b>0.7</b>	<b>4.6</b>	<b>90.2</b>	<b>4.5</b>	<b>100.0</b>

Source: BCCh.

**TABLE 5.5 BREAKDOWN OF THE INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2014**

Credit rating	Type of credit risk (percent)				Total
	Agency	Banking	Sovereign	International	
AAA	0.7	0.9	73.6	4.8	80.0
AA+, AA, AA-	0.0	0.8	15.2	0.0	16.0
A+, A	0.0	2.3	1.7	0.0	4.0
<b>Total</b>	<b>0.7</b>	<b>4.0</b>	<b>90.5</b>	<b>4.8</b>	<b>100.0</b>

Fuente: BCCh.

Credit risk is associated with open-market transactions and facilities that inject liquidity into the local financial system (Repo, permanent liquidity facility, collateralized credit lines and term liquidity facilities) is mitigated requiring 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.

As of the end of December 2015, the Bank recorded no liquidity injection Repo transactions and recorded no permanent liquidity facility (PLF) transactions. However, the annual average for 2015 amounted to Ch\$11,234.4 million guaranteed exclusively with securities issued by the Central Bank of Chile.

Table 5.6 shows the credit risk exposures related to the open-market transactions and facilities. We can identify that such risk is mitigated by the required collaterals, where Central Bank of Chile's securities are eligible.

**TABLE 5.6 AVERAGE EXPOSURE OF PLF DURING 2015 AND 2014**

	Average amount (Ch\$ million)	
	2015	2014
Gross exposure	11,234.4	4,477.3
Collaterals		
PDBC	(693.7)	(266.8)
BCCCh bonds	(10,654.1)	(4,255.8)
<b>Net exposure</b>	<b>(113.4)</b>	<b>(45.3)</b>

Source: BCCh.

### (c) Liquidity risk

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

To reduce liquidity risk of the international reserves, 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 and bonds from countries with a lower credit rating. The most liquid tranche includes instruments from United States and Germany, as well as, overnight and weekend transactions, representing 60.8% of the internal investment portfolio in 2015 and a 48.8% in 2014.

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. In the event of a decrease in demand for its securities, the Central Bank of Chile could pay its maturities by issuing cash. For further information on maturities for the Central Bank of Chile's financial liabilities, see note 19 to these financial statements.

Tables 5.7 and 5.8 show a summary of the results of the granting of bonds and promissory notes for 2015 and 2014.

TABLE 5.7 RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF  
31 DECEMBER 2015

Instrument	Amount granted (Ch\$ million)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	27,130,000.0	164	102	2.98	3.12	(14.0)
BCP	1,350,000.0	322	100	4.20	4.20	-

Fuente: BCCh.

TABLE 5.8 RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF  
31 DECEMBER 2014

Instrument	Amount granted (Ch\$ million)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	34,550,000.0	136	98	3.63	3.60	3.0

Source: BCCh.

#### (d) Operational risk related to the financial instrument management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events that prevent the normal performance of processes related to the financial instrument management.

The internal organization in BCCh enables an appropriate implementation of the design of processes related to the financial instruments management, considering segregation of duties and responsibilities. Consequently, Management of International Investments and Domestic Market Management with Financial Service Management, which report to the Financial Operation Division, are responsible for making investments and its development, respectively. The Financial Risk Management and Evaluation Management, reporting to the General Management, measures the performance and financial risks and ensure the compliance with investment limits.

Each Management involved in the processes related to the financial instrument management, manages and controls its own operational risks. However, the Strategy and Operating Risk

Management supports the units in the identification, analysis, evaluation and treatment of risks through a methodology that measures the inherent risk based on its feasibility and impact, and in the assessment of the residual risk it measures the effectiveness of the corresponding controls, in order to reduce the impact and/or possibility of occurrence. In addition, it also tracks the action plans related to the risk management system and the business continuity system, including the results arising from the regular tests performed to ensure that the mechanisms developed to face contingency situations are working properly.

The Central Bank of Chile's Controllership, which reports directly to the Board, reviews the regulatory compliance, the existence of an appropriate internal control environment and security of the information technology applications and infrastructure, as well as several issues related to governance, risks management, information and communication.

In addition, there are computer applications operating with market quality standards and are also carried out initiatives to improve operational continuity, maintaining an alternate operation site to ensure the operation in case of problems with the physical infrastructure of the building and an external processing site in

case of eventual technological failures which could affect its main technological processing site. The aforementioned elements ensure that the decision making and management evaluation process within the Bank are appropriately defined.

## Note 6 Cash and cash equivalents

As of 31 December 2015 and 2014, the detail of cash and cash equivalents, is as follows:

	(Ch\$ million)	
	2015	2014
Foreign correspondents	427,681.3	102,823.3
Other reserve assets (foreign currency)	565.5	786.2
Domestic correspondents (*)	107.6	21.0
<b>Total cash and cash equivalents</b>	<b>428,354.4</b>	<b>103,630.5</b>

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

## Note 7 Net income from international reserves

### International reserves

For the years ended 31 December 2015 and 2014, this caption is composed of the following:

	(Ch\$ million)	
	2015	2014
(a) Net interests and commissions on:		
Securities recorded at fair value through earnings	281,340.5	277,987.1
Held-to-maturity securities	27,266.6	15,769.1
Available-for-sale securities	688.1	153.8
Foreign correspondents	578.9	(2.1)
Subtotal for net interest and commissions	309,874.1	293,907.9
(b) Sales of securities:		
Recorded at fair value through earnings	(32,701.2)	(84,641.2)
Available for sale	3,907.9	1,075.9
Subtotal for adjustments at fair value	(28,793.3)	(83,565.3)
(c) Adjustments at fair value		
Gain adjustments at fair value	7,892.7	145,422.4
Loss adjustments at fair value	(107,269.7)	(1,064.0)
Subtotal for adjustments at fair value	(99,377.0)	144,358.4
(d) On other income	(2,948.5)	(5,581.8)
<b>Total net income from international reserves</b>	<b>178,755.3</b>	<b>349,119.2</b>

### Other foreign transactions

Net gain or loss on foreign transactions comprise the following:

	(Ch\$ million)	
	2015	2014
On revaluation of accounts with international agencies	(10,791.3)	661.5
On interest	(407.2)	(650.9)
Other net income and expenses	(1,059.6)	(964.6)
<b>Total net income from foreign transactions</b>	<b>(12,258.1)</b>	<b>(954.0)</b>

## Note 8

### Net income from domestic transactions

For the years ended 31 December 2015 and 2014, this caption is composed of the following:

	(Ch\$ million)	
	2015	2014
(a) Income for domestic loans		
Interest	505.1	211.9
Adjustments	26.4	248.0
Other	9,440.7	3,620.2
Total income from domestic loans	9,972.2	4,080.1
(b) Income from transactions under specific legal regulations		
Interest	24,559.5	109,343.4
Adjustments	29,595.4	61,434.8
Total income from transactions under specific legal regulations	54,154.9	170,778.2
(c) Income from deposits and obligations held by Central Bank of Chile		
Interest	(91,597.5)	(100,005.5)
Other	(403.1)	(1,169.6)
Total income from deposits and obligations held by Central Bank of Chile	(92,000.6)	(101,175.1)
(d) Income from notes issued by Central Bank of Chile		
Interest	(513,697.8)	(560,398.8)
Adjustments	(330,391.4)	(441,038.8)
Total income from notes issued by Central Bank of Chile	(844,089.2)	(1,001,437.6)
<b>Total net income from domestic transactions</b>	<b>(871,962.7)</b>	<b>(927,754.4)</b>

## Note 9

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

For the years ended 31 December 2015 and 2014, this caption is composed of the following:

	(Ch\$ million)	
	2015	2014
Gain from foreign exchange transactions	4,683,353.9	4,169,539.8
Loss from foreign exchange transactions	(2,371,095.2)	(2,189,558.1)
<b>Total</b>	<b>2,312,258.7</b>	<b>1,979,981.7</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)	
	2015	2014
U.S. dollar	2,005,733.0	1,432,734.0
Euro	85,096.5	97,564.9
Yuan	61,409.7	61,307.1
Canadian dollar	(59,385.4)	112,349.1
Korean won	49,717.7	44,897.4
Other currency	188,896.3	245,209.0
Subtotal net (loss) gain from foreign exchange transactions	2,331,467.8	1,994,061.5
Arbitrage and other	(19,209.1)	(14,079.8)
<b>Total net (loss) gain from foreign exchange transactions</b>	<b>2,312,258.7</b>	<b>1,979,981.7</b>

## Note 10

### Issuance and distribution costs

For the years ended 31 December 2015 and 2014, this caption is composed of the following:

	(Ch\$ million)	
	2015	2014
Banknotes	(11,578.9)	(20,546.9)
Coins	(47,524.5)	(22,033.7)
Distribution	(1,279.7)	(937.0)
<b>Total</b>	<b>(60,383.1)</b>	<b>(43,517.6)</b>

## Note 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)	
	2015	2014
Monetary gold	8,5	9,4
Special drawing rights (SDR)	1.058,4	1.079,2
Reserve position in the IMF	363,1	489,7
Correspondent banks abroad	604,6	169,3
Investments :	36.567,9	38.578,7
Instruments recorded at fair value through earnings:		
Level 1 market value	28.873,2	28.906,3
Available-for-sale securities:		
Level 1 market value	2.724,0	4.043,5
Held-to-maturity securities	4.970,7	5.628,9
Reciprocal loan agreements	39,3	119,4
Other assets	0,8	1,2
<b>Total reserve assets</b>	<b>38.642,6</b>	<b>40.446,9</b>

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

Statement of financial position BCCh (Ch\$ million)	Carrying amount	2015			2014		
		Fair value	Difference	Carrying amount	Fair value	Difference	
International reserves	27,333,427.5	27,333,427.5	-	24,566,660.2	24,566,660.2	-	
Other foreign assets	171,476.6	171,476.6	-	148,815.4	148,815.4	-	
Loans to banks and financial institutions	32.2	32.2	-	7,877.6	7,877.6	-	
<b>Assets</b>	<b>291,761.1</b>	<b>215,043.0</b>	<b>(76,718.1)</b>	<b>280,354.5</b>	<b>211,106.4</b>	<b>(69,248.1)</b>	
Subordinated liabilities (Laws 18,401 and 19,396)	465,444.7	493,081.6	27,636.9	565,552.3	586,812.6	21,260.3	
Other securities and asset account	61,642.3	61,642.3	-	57,000.0	57,000.0	-	
<b>Total assets</b>	<b>28,323,784.4</b>	<b>28,274,703.2</b>	<b>(49,081.2)</b>	<b>25,626,260.0</b>	<b>25,578,272.2</b>	<b>(47,987.8)</b>	
Monetary base	9,151,628.2	9,151,628.2	-	8,183,119.5	8,183,119.5	-	
Bank borrowings	6,347,736.5	6,347,736.5	-	5,984,170.3	5,984,170.3	-	
Obligations with General Treasury	419,682.6	419,682.6	-	1,301,785.2	1,301,785.2	-	
<b>Liabilities</b>	<b>13,494,385.8</b>	<b>14,155,319.9</b>	<b>660,934.1</b>	<b>12,908,184.9</b>	<b>13,818,397.2</b>	<b>910,212.3</b>	
Notes issued by Central Bank of Chile	13,494,385.8	14,155,319.9	660,934.1	12,908,184.9	13,818,397.2	910,212.3	
Foreign liabilities	859,436.1	859,436.1	-	777,118.6	777,118.6	-	
Other liabilities	26,715.0	26,715.0	-	16,356.0	16,356.0	-	
<b>Total liabilities</b>	<b>30,299,584.2</b>	<b>30,960,518.3</b>	<b>660,934.1</b>	<b>29,170,734.5</b>	<b>30,080,946.8</b>	<b>910,212.3</b>	
<b>Equity</b>	<b>Net equity</b>	<b>(1,975,799.8)</b>	<b>(2,685,815.1)</b>	<b>(710,015.3)</b>	<b>(3,544,474.5)</b>	<b>(4,502,674.6)</b>	<b>(958,200.1)</b>

	(Ch\$ million)	
	2015	2014
<b>Total reserve assets</b>	<b>27,333,427.5</b>	<b>24,566,660.2</b>

As of 31 December 2015, monetary gold amounted to US\$8.5 million (US\$9.4 million in 2014) equivalent to 7,940 fine gold troy ounces valued at US\$1,070.1 per ounce (US\$1,185.5 in 2014). There was no change in the amount of troy ounces compared to 2014.

As of 31 December 2015 and 2014, the distribution of investments in foreign currencies by currency is as follows:

	(US\$ million)	
	2015	2014
U.S. dollar	24,609.2	21,789.3
Euro	5,559.6	7,888.1
Other currency	8,473.8	10,769.5
<b>Total</b>	<b>38,642.6</b>	<b>40,446.9</b>

## Note 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)	
	2015	2014
Subscription installment, contribution	839,816.2	753,126.0
Loan, account No.1	6.5	10.7
New Arrangement to Borrow (NAB)	129,503.8	143,648.9
Deposits	(712,521.3)	(599,376.9)
<b>Total position in the IMF</b>	<b>256,805.2</b>	<b>297,408.7</b>

## Note 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)	
	2015	2014
Line of credit on debt restructuring	32.2	130.2
Central Bank of Chile repurchase agreements (Repo)(*)	-	7,747.4
<b>Total</b>	<b>32.2</b>	<b>7,877.6</b>

(\*) As of 31 december 2015, the Bank records no reverse repurchase agreements.

## Note 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 General Treasury Transfers includes the following amounts:

	(Ch\$ million)	
	2015	2014
<b>General Treasury transfer</b>		
<b>Law 18,401</b>	<b>291,761.1</b>	<b>280,354.5</b>

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 2015 amount to Ch\$291,761.1 million, equivalent to approximately UF11.4 million (Ch\$280,354.5 million in 2014, equivalent to UF11.4 million).

Executive Decree 1526 issued by the Ministry of Finance in 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 of 1976 and 2824 of 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.

The Central Bank of Chile granted the mentioned loans with charge to its own resources through credit facilities for refinancing to organizations which were part of *Sinap*. In addition, the former *Caja Nacional de Ahorros y Préstamos*, part of *Sinap*, was also granted loans by the Chilean Government, with charge of the external resources from the Credit Program Agreement "AID



513-HG-006" entered into by the Republic of Chile, and applied through the Central Bank of Chile, as Fiscal Agent and Financial Agent, in accordance with Executive Decree 20 of the Finance Ministry of 1976.

Subsequently, through Law 18,900 *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 establishes 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*.

Likewise, Article 5 of the aforementioned law establishes that the General Treasury shall be responsible for any obligations of the *Sinap* 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.

The recovery of such amounts depends on the determination of a specific date for the payment of that loans, from the General Treasury in favor of Central Bank of Chile. For this reason it is not possible to determine because the Ministry of Finance has not issued the Decree approving the account for the *Caja* and the *Asociación*.

Accordingly, based on considerations solely for accounting and financial reporting purposes, as provided in Articles 18 N°.9 and 75 et seq. of the Basic Constitutional Act regulating the Central Bank of Chile, the criteria and standards on International Financial Reporting Standards (IFRS), the Bank has determined that starting from the current year-end this Institution's financial statements will recognize an allowance for its losses in equity of Central Bank of Chile for the total amount of debt owed to the Bank has

recorded by the entities comprising *Sinap* which are indefinitely in the process of liquidation.

Likewise, the obligation by the General 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 had 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. Additionally, 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.

Additionally, in relation to the part of the debt of the former *Caja Nacional de Ahorros y Préstamos* assumed by such entity in accordance with Executive Decree 20 of the Ministry of Finance of 1976, considering that: (i) this transaction refers to an obligation in which the Central Bank of Chile was Fiscal Agent and Financial Agent of the General Treasury and (ii) once the condition established in Article 5 of Law 18,900 has been complied with, the General Treasury will have the double status of creditor and debtor of such obligation. During this year, the Central Bank of Chile has determined that it is not applicable to recognize such part of the debt of the former *Caja Nacional de Ahorros y Préstamos* in its

financial statements, and therefore, it derecognized such item from the Bank's asset and liability account. But whilst the mentioned condition is not verified, it will be registered at its adjusted value in order accounts, under the name and on behalf of the General Treasury, for identification purposes, in order to distinguish it clearly from the higher part of the debt of the former SINAP corresponding to such other part financed directly by the Bank using its own resources, adjusting also the impairment recognized as of 31 December 2014.

In this respect, as of 31 December 2015, the amount owed by the Central Bank of Chile for the settlement of the institutions that were part of *Sinap* for the concept of credit facilities for refinancing granted directly to them charged to the Bank's own resources, amounts to Ch\$1,050,244.0 million (Ch\$961,073.1 million in 2014), included the impairment mentioned above. In addition, the updated value of the debt of the former *Caja Nacional de Ahorros y Préstamos*, member of *Sinap*, corresponding to the loans to related parties financed by the Chilean Government, through Central Bank of Chile, in accordance with Executive Decree 20 stated above, amounts to Ch\$78,514.3 million (Ch\$75,185.9 million in 2014), which has been recognized in order accounts maintained by the Bank acting as Fiscal Agent of Chile.

#### 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 equal installments beginning in April 1997.

During 2015, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF5,770,842.8725 to Central Bank of Chile, of which UF1,125,717.1800 were allocated to the payment of interests of the debt and UF4,645,125.6926 to the credit amortization for subordinated liability (during 2014, a payment of UF6,104,408.2806 was made, from which UF1,365,931.6217 was destined to the payment of interest, and UF4,738,476.6589 to the repayment of principal owed).

As of 31 December 2015, the balance amounts to Ch\$465,444.7million, equivalent to UF18,160,796.3183 (Ch\$565,552.3 million in 2014, equivalent to UF22,964,630.4720).

## Nota 15

### Property, equipment and intangible assets

	(Ch\$ million)	
	2015	2014
Property and equipment, net	33,254.9	33,345.3
Intangible assets, net	3,181.6	2,392.7
<b>Total property, equipment and intangible assets</b>	<b>36,436.5</b>	<b>35,738.0</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 of 31. Dec.15
	Balance as of 31. Dec.14	Acquisitions	Disposals	Depreciation	Transfers	
Real estate and facilities	20,795.6	343.6	-	(269.4)	-	20,869.8
Furniture and equipment	7,160.1	1,646.1	(35.9)	(1,971.6)	208.8	7,007.5
Transport material	191.9	38.9	(30.3)	(42.4)	-	158.1
Collection of banknotes and coins(*)	3,337.0	149.0	-	-	-	3,486.0
Works of art	1,651.9	-	-	-	-	1,651.9
Work in progress	208.8	81.6	-	-	(208.8)	81.6
<b>Net property, plant and equipment</b>	<b>33,345.3</b>	<b>2,259.2</b>	<b>(66.2)</b>	<b>(2,283.4)</b>	<b>-</b>	<b>33,254.9</b>

(\*) Difference of \$149.0 million is due to variations in foreign currency exchange of gold pesos.

As of 31 December 2015 and 2014, the caption Depreciation and Amortization in the statement of comprehensive income includes Ch\$2,283.4 million and Ch\$2,549.6 million, respectively.

#### b) Reconciliation of intangible assets carrying amounts

Composition and movements of intangible assets

	Balance as of 31. Dec.14	Acqui- sitions	Amor- tiza- tion	Trans- fers	Balance as of 31. Dec.15
Computer programs	954.8	1,153.9	(368.6)	1,321.0	3,061.1
Computer programs under development	1,437.9	3.6	-	(1,321.0)	120.5
<b>Intangible asset, net</b>	<b>2,392.7</b>	<b>1,157.5</b>	<b>(368.6)</b>	<b>-</b>	<b>3,181.6</b>

As of 31 December 2015 and 2014, the amortization of intangible assets of Ch\$368.6 million and Ch\$327.3 is recorded on a straight-line basis in the caption depreciation and amortization in the statement of income.

#### c) Operating lease contracts

As of 31 December 2015 and 2014, there are no non-cancellable operating lease contracts.

#### Note 16 Foreign liabilities

This caption includes the following transactions:

	(Ch\$ million)	
	2015	2014
Reciprocal loan agreements	212.7	8,233.3
Accounts with international bodies	57,802.1	50,189.3
Special drawing rights (SDR) allocations	801,421.3	718,696.0
<b>Total foreign liabilities</b>	<b>859,436.1</b>	<b>777,118.6</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)	
	2015	2014
Promissory note obligations with IDB	56,474.8	48,493.8
Inter American Development Bank (IDB)	362.7	732.8
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)	30.6	28.7
<b>Total accounts with international organizations</b>	<b>57,802.1</b>	<b>50,189.3</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.

## Note 17 Monetary base

This caption is composed of the following:

	(Ch\$ million)	
	2015	2014
Banknotes and coins in circulation	8,417,693.6	7,578,075.9
Deposits from financial institutions	733,934.6	605,043.6
<b>Total monetary base</b>	<b>9,151,628.2</b>	<b>8,183,119.5</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:

Banknotes denomination	(Ch\$ million)	
	2015	2014
\$ 20,000	3,294,372.1	2,414,066.6
\$ 10,000	4,019,344.2	4,076,067.4
\$ 5,000	387,417.5	439,862.7
\$ 2,000	83,054.8	95,623.1
\$ 1,000	250,482.3	209,836.4
\$ 500	4,742.6	4,743.1
Other	251.4	61.7
<b>Total</b>	<b>8,039,664.9</b>	<b>7,240,261.0</b>

Currency denomination	(Ch\$ million)	
	2015	2014
\$ 10-000	348.4	348.4
\$ 2-000	98.6	98.6
\$ 500	165,848.7	139,180.2
\$ 100	126,047.9	119,395.5
\$ 50	24,342.0	22,283.2
\$ 10	46,057.4	41,500.2
\$ 5	10,606.6	10,360.6
\$ 1	4,607.0	4,575.9
Other	72.1	72.3
<b>Total</b>	<b>378,028.7</b>	<b>337,814.9</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.

### Note 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)	
	2015	2014
Deposits and obligations with the General Treasury	419,682.6	1,301,785.2
Other deposits and obligations	6,347,736.5	5,984,170.3
<b>Total</b>	<b>6,767,419.1</b>	<b>7,285,955.5</b>

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

	(Ch\$ million)	
	2015	2014
General Treasury current accounts	419,682.6	1,226,599.3
Other	-	75,185.9
<b>Total</b>	<b>419,682.6</b>	<b>1,301,785.2</b>

(b) "Other Deposits and Obligations" include:

	(Ch\$ million)	
	2015	2014
Permanent Deposit Facility (PDF) in local currency	3,572,444.8	3,398,719.2
Current accounts in foreign currency	665,576.4	769,974.7
Short-term deposits from bank institutions in foreign currency	2,065,432.8	1,761,402.0
Other	44,282.5	54,074.4
<b>Total</b>	<b>6,347,736.5</b>	<b>5,984,170.3</b>

### Note 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 2015 and 2014, maturities of these instruments are as follows:

	(Ch\$ million)						Total	Total
	Up to 90 days	91 to 180 days	181 days to 1 year	1 -3 years	Over 3 years	Total 2015	Total 2014	
Central Bank bonds in UF (BCU)	1,128,913.4	-	573,336.1	2,580,409.9	4,023,397.4	8,306,056.8	8,204,652.4	
Central Bank bonds Ch\$ (BCP)	398,031.8	-	321,074.6	945,747.4	2,490,134.2	4,154,988.0	3,538,547.5	
Central Bank promissory notes (PDBC)	898,329.7	-	-	-	-	898,329.7	998,556.7	
Adjustable issuance coupons (CERO) in UF	10,744.7	5,912.3	21,455.1	35,319.5	25,448.3	98,879.9	118,596.9	
Adjustable promissory notes with payments in coupons (PRC)	454.4	476.9	1,021.3	10,015.0	24,142.7	36,110.3	47,810.3	
Other	21.1	-	-	-	-	21.1	21.1	
<b>Total as of 31 December</b>	<b>2,436,495.1</b>	<b>6,389.2</b>	<b>916,887.1</b>	<b>3,571,491.8</b>	<b>6,563,122.6</b>	<b>13,494,385.8</b>	<b>12,908,184.9</b>	

Balances include interest and adjustment accrued as of 31 December 2015 and 2014.

## Note 20

### Other liability accounts

This caption is composed of the following financial liabilities:

	(Ch\$ million)	
	2015	2014
Provisions	17.896,1	15.885,2
Other securities	8.818,9	470,8
<b>Total</b>	<b>26.715,0</b>	<b>16.356,0</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 2011-2015 and 2015-2019 accounted for in accordance with the actuarial method of projected cost. At the same time, the benefits granted to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile and healthcare benefits for retirement plans are also included and detailed as follows:

	(Ch\$ million)	
	2015	2014
Provision for the year:		
Severance indemnity	11,671.7	9,917.7
Special indemnity Resolution and agreed deposit for retirement plan 1651	1,350.5	1,076.0
Subtotal provision for severance indemnity	13,022.2	10,993.7
Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile		
- Healthcare benefits for retirement plan	2,563.5	2,576.3
- Pending accrued vacations of personnel	5.4	7.8
- Special indemnity, Resolution 572-05-961226	2,010.0	2,037.9
- Incentive allocation	3.0	3.0
Subtotal provision for severance indemnity	292.0	266.5
Subtotal provision for severance indemnity	4,873.9	4,891.5
<b>Total</b>	<b>17,896.1</b>	<b>15,885.2</b>

	(Ch\$ million)	
	2015	2014
Movements in provisions for severance indemnities (*):		
Current value of liabilities as of 1 January	10,993.7	13,737.3
Service cost	902.6	686.0
Interest cost	507.9	548.1
Benefits paid	(716.0)	(1,305.7)
Actuarial gains (losses)	1,334.0	(2,672.0)
<b>Total</b>	<b>13,022.2</b>	<b>10,993.7</b>

\* This excludes benefits for the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile, retirement healthcare plans and incentive payments.

	(Ch\$ million)	
	2015	2014
Post-employment benefit expenses		
Current value of service costs	783.0	570.2
Interest cost	627.2	651.4
<b>Total</b>	<b>1,410.2</b>	<b>1,221.6</b>

As of 31 December 2015, 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 (%)	4.62	3.62	5.62
Effect on provision for severance indemnity payments (Ch\$ million)	13,022.2	14,056.2	12,131.8
Effect on provision for severance indemnity payments (%)	-	7.94	-6.84

Calculation of probable payment of the provision for severance indemnity payments	(Ch\$ million)
Short-term provisions for severance indemnity payments (up to one year)	1,462.0
Long-term provisions for severance indemnity payments (over one year)	11,560.2
<b>Balance as of 31 December</b>	<b>13,022.2</b>

## Note 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 Ch\$500,000 million, which at 31 December 2015 corresponds to Ch\$2,367,503.2 million adjusted to the Consumer Price Index as of that date, with a time lag of one month, 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 2015, Central Bank Chile has negative equity of Ch\$1,975,799.8 million (negative equity of Ch\$3,544,474.5

million as of 31 December 2014) arisen mainly from differences between international reserve returns and the cost of liabilities at domestic interest rate due to gains and losses from variations 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 2015, the negative capital price-level adjustment recognized in memorandum accounts amounted to a negative equity of Ch\$161,427.6 million (negative equity of Ch\$237,789.3 million in 2014), which resulted in adjusted capital at the reporting date of Ch\$4,300,569.1 million (negative equity of Ch\$4,409,531.6 million in 2014). The amount to price-level adjusted is capital at the reporting date which includes the capital adjusted at the prior year-end, plus the profit or loss from such year and its 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 and during 2015, there were no capital contributions by the General Treasury.

	Capital as of 31. Dec. 15 before price-level adjustment	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31. Dec. 15
Balances as of 31 December 2015	(4,139,168.5)	(161,427.6)	(4,300,596.1)

## Note 22 Foreign currency balances

The statement of financial position includes assets and liabilities payable in foreign currencies, whose balances as of 31 December 2015 and 2014 are as follows:

	(US\$ million)	
	2015	2014
<b>Assets</b>		
<b>Foreign assets</b>	38,885.0	40,691.9
Reserves	38,642.6	40,446.9
Other foreign assets	242.4	245.0
<b>Other asset accounts</b>	16.1	22.9
<b>Total assets</b>	<b>38,901.1</b>	<b>40,714.8</b>
<b>Liabilities</b>		
<b>Foreign liabilities</b>	1,213.1	1,276.7
Other foreign liabilities	80.1	93.4
Special drawing rights (SDR) allocations	1,133.0	1,183.3
<b>Domestic liabilities</b>	4,096.1	4,406.3
Deposits and General		
Treasury liabilities	173.9	178.8
Other deposits and obligations	3,922.2	4,227.5
<b>Other liability accounts</b>	0.1	-
<b>Total liabilities</b>	<b>5,309.3</b>	<b>5,683.0</b>
<b>Net assets</b>	<b>33,591.8</b>	<b>35,031.8</b>

## Note 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.

## Note 24 Income taxes

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

## Note 25 Fiscal agency

Law 20,128 related to General Treasury Liability created the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP)". In conformity with the provisions of the aforementioned law, through Executive Decree 1383, dated 2006 of the Minister of Finance, 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 decree.

Executive Decree 19 in 2011, issued by the Minister of Finance, appointed Central Bank of Chile as Fiscal Agent for the administration of the Strategic Contingency Fund.

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.

On 18 June 2015, by Resolution 1909-02, the current execution guidelines for the Pension Reserve Fund and the Economic and Social Stabilization Fund, respectively, were approved. On 18 July 2013, through Resolution 1765-04, the current execution guidelines for the Strategic Contingency Fund were approved.

## Note 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 Central Bank of Chile's Basic Constitutional Act.

The total gross compensation paid to the Board and key executives during 2015 amounted to Ch\$1,394.4 million (Ch\$1,361.1 million in 2014).

#### Note 27 Relevant events

(a) On 16 September 2015, the Chilean Senate approved the decision of the Chilean President of appointing Mr. Mario Marcel Cullell as Board Member of the Central Bank of Chile starting from 26 October 2015 replacing Mr. Enrique Marshall Rivera after his resignation and for the time remaining to legally complete his period in that position; i.e., until 23 December 2015. On 22 December 2015, the Chilean Senate approved the proposal by the President of the Republic of renewing the appointment of Mr. Mario Marcel Cullell as Board Member of Central Bank of Chile, for a period of 10 years starting from 24 December 2015.

(b) At the Extraordinary Meeting 1923E-01, held on 21 August 2015, the Central Bank of Chile's Board agreed to the appointment of Mr. Sebastián Claro Edwards as Deputy Governor of the Board and of the Central Bank of Chile. At the Meeting 1937-01, held on 29 October 2015, Mr. Claro was reappointed as Deputy Governor for his remaining period as Board Member of the Central Bank of Chile.

#### Note 28 Subsequent events

In the opinion of Management, between 31 December 2015 and the date of issuance of these financial statements the following subsequent events which could significantly affect the amounts presented in the financial statements have occurred:

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

The exchange rate for U.S. dollar as of 25 January 2016 amounted to Ch\$715.63 per US\$1.00 representing an increase of Ch\$8.29 compared with the exchange rate prevailing as of 31 December 2015. This represents an improvement in Central Bank of Chile's equity of Ch\$171,228.9 million.

The exchange rate for euro as of 25 January 2016 amounted to Ch\$773.40 per €1.00, representing an increase of Ch\$1.45 compared with the exchange rate prevailing as of 31 December 2015. This represents an improvement in Central Bank of Chile's equity of Ch\$7,375.9 million.

The total increase in Central Bank of Chile's equity because of the increase in the exchange rate for United States dollar and euro on 25 January 2016 amounts to Ch\$178,604.8 million.

**(b) Approval of financial statements**

The financial statements for the year ended 31 December 2015 were presented by the General Manager to the Central Bank of Chile's Board on 28 January 2016 and approved for issue at the Meeting 1955.

**(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.



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ALEJANDRO ZURBUCHEN SILVA

General Manager



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JUAN CARLOS SALAZAR TAPIA

General Accountant



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SILVIA QUINTARD FLEHAN

General Auditor

# Independent Auditors' Report

The Governor and Board Members of  
Banco Central de Chile:

## ***Report on the financial statements***

We have audited the accompanying financial statements of Banco Central de Chile, which comprise the statements of financial position as of 31 December 2015 and 2014, 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 Banco Central de Chile as of 31 December 2015 and 2014 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.

KPMG Ltda.

Santiago, 28 January 2016