

FINANCIAL STATEMENTS OF
CENTRAL BANK OF CHILE

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

as of 31 December, 2016 and 2015

(Ch\$ million)

Assets	Note	2016	2015
Foreign assets		<u>27,181,581.1</u>	<u>27,504,904.1</u>
Reserve assets	11	<u>27,021,006.9</u>	<u>27,333,427.5</u>
Monetary gold		6,070.8	6,009.5
Special drawing rights (SDR)		485,453.8	748,636.0
Reserve position in the International Monetary Fund (IMF)	12	143,497.2	256,805.2
Correspondent banks abroad	6	683,756.5	427,681.3
Investments in foreign currency:		<u>25,691,282.3</u>	<u>25,865,919.2</u>
Securities recorded at fair value through earnings		18,322,931.3	20,423,129.2
Held-for-sale securities		3,085,235.9	1,926,789.8
Held-to-maturity securities		4,283,115.1	3,516,000.2
Reciprocal loan agreements		10,014.5	27,810.8
Other assets		931.8	565.5
Other foreign assets		<u>160,574.2</u>	<u>171,476.6</u>
Shares of and contributions to the Inter American Development Bank (IDB)		122,849.2	130,222.5
Shares of Bank for International Settlements (BIS)		37,725.0	41,254.1
Domestic assets		<u>667,452.8</u>	<u>757,238.0</u>
Domestic loans	13	<u>12,501.8</u>	<u>32.2</u>
Loans to banks and financial institutions		12,501.8	32.2
Transactions under specific legal regulations	14	<u>654,951.0</u>	<u>757,205.8</u>
General Treasury transfers Law 18,401		299,945.0	291,761.1
Loan for subordinated liabilities of financial institutions (Laws 18,401 and 19,396)		355,006.0	465,444.7
Other assets		<u>58,970.5</u>	<u>61,642.3</u>
Property, equipment and intangible assets	15	41,605.6	36,436.5
Other securities		14,101.2	21,992.5
Transition assets		<u>3,263.7</u>	<u>3,213.3</u>
Total assets		<u>27,908,004.4</u>	<u>28,323,784.4</u>

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

STATEMENTS OF FINANCIAL POSITION
as of 31 December 2016 and 2015
(Ch\$million)

Liabilities	Note	2016	2015
Foreign liabilities	16	<u>790,794.1</u>	<u>859,436.1</u>
Reciprocal loan agreements		49.9	212.7
Accounts with international organizations		57,681.3	57,802.1
Special drawing rights (SDR) allocations		733,062.9	801,421.3
Domestic liabilities		<u>31,298,960.3</u>	<u>29,413,433.1</u>
Monetary base	17	<u>10,342,493.8</u>	<u>9,151,628.2</u>
Banknotes and coins in circulation		8,651,831.2	8,417,693.6
Deposits from financial institutions (in Chilean pesos)		1,690,662.6	733,934.6
Deposits and obligations	18	<u>5,842,324.2</u>	<u>6,767,419.1</u>
Deposits and obligations with General Treasury		780,412.4	419,682.6
Other deposits and obligations		5,061,911.8	6,347,736.5
Notes issued by Central Bank of Chile	19	<u>15,114,142.3</u>	<u>13,494,385.8</u>
Central Bank of Chile bonds in UF (BCU)		6,777,119.7	8,306,056.8
Central Bank of Chile bonds in Chilean pesos (BCP)		4,037,484.6	4,154,988.0
Central Bank of Chile discountable promissory notes (PDBC)		4,206,282.1	898,329.7
Optional indexed coupons (CERO) in UF		66,314.1	98,879.9
Indexed promissory notes payable in coupons (PRC)		26,930.3	36,110.3
Other		11.5	21.1
Other liabilities		<u>24,131.6</u>	<u>26,715.0</u>
Provisions	20	19,203.8	17,896.1
Other securities		4,927.8	8,818.9
Net equity	21	<u>(4,205,881.6)</u>	<u>(1,975,799.8)</u>
Capital		(1,983,898.1)	(3,549,232.2)
Other reserves		10,789.2	8,098.3
Retained earnings		<u>(2,232,772.7)</u>	<u>1,565,334.1</u>
Total liabilities and equity		<u>27,908,004.4</u>	<u>28,323,784.4</u>

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

STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2016 and 2015
(Ch\$ million)

	Note	2016	2015
Net gain from international reserves	7	<u>213,716.6</u>	<u>178,755.3</u>
Income		<u>494,317.9</u>	<u>509,668.8</u>
Interest income		312,609.9	309,961.7
Gain on sale of instruments recorded at fair value through earnings		168,893.6	195,019.3
Gain on sale of available-for-sale securities		12,108.4	3,907.9
Other		706.0	779.9
Expenses		<u>(280,601.3)</u>	<u>(330,913.5)</u>
Interest expenses		(1.5)	(87.6)
Loss on sale of instruments recorded at fair value through earnings		(216,442.7)	(227,720.5)
Fair value adjustments		(60,837.9)	(99,377.0)
Other		(3,319.2)	(3,728.4)
Net gain (loss) from other foreign transactions	7	<u>37,388.9</u>	<u>(12,258.1)</u>
Income		<u>39,729.4</u>	<u>671.5</u>
Other income		39,729.4	671.5
Expenses		<u>(2,340.5)</u>	<u>(12,929.6)</u>
Interest expense		(614.0)	(407.2)
Other expenses		(1,726.5)	(12,522.4)
Net loss from domestic transactions	8	<u>(774,429.0)</u>	<u>(871,962.7)</u>
Income		<u>46,996.2</u>	<u>64,360.5</u>
Interest income and adjustments		39,222.6	54,919.8
Other income		7,773.6	9,440.7
Expenses		<u>(821,425.2)</u>	<u>(936,323.2)</u>
Interest expense and adjustments		(821,012.6)	(935,920.1)
Other expenses		(412.6)	(403.1)
Net (loss) gain on foreign exchange transactions	9	<u>(1,623,174.1)</u>	<u>2,312,258.7</u>
Gain on foreign exchange transactions		2,354,367.4	4,683,353.9
Loss on foreign exchange transactions		(3,977,541.5)	(2,371,095.2)
Issuance and distribution costs	10	<u>(26,154.2)</u>	<u>(60,383.1)</u>
Banknotes		(9,727.7)	(11,578.9)
Coins		(14,741.0)	(47,524.5)
Distribution		(1,685.5)	(1,279.7)
Personnel and administrative expenses		<u>(56,065.5)</u>	<u>(52,949.0)</u>
Personnel expenses		(35,587.9)	(33,536.7)
Administrative expenses		(18,619.6)	(18,002.1)
Provision for post-employment benefits	20	(1,858.0)	(1,410.2)
Other (expenses) and income		<u>(4,055.4)</u>	<u>71,873.0</u>
Depreciation and amortization	15	(3,433.4)	(2,652.0)
Taxes and contributions		(623.0)	(719.6)
Other		1.0	75,244.6
(Loss) profit for the period		<u>(2,232,772.7)</u>	<u>1,565,334.1</u>
Other comprehensive income		<u>2,690.9</u>	<u>3,340.6</u>
Other comprehensive (loss) income that will not be reclassified to profit or loss		<u>223.7</u>	<u>(1,700.6)</u>
Actuarial (loss) gain in provision for post-employment benefits		223.7	(1,700.6)
Other comprehensive income that may be reclassified to profit or loss		<u>2,467.2</u>	<u>5,041.2</u>
Fair value adjustments of available-for-sale securities		<u>2,467.2</u>	<u>5,041.2</u>
Total comprehensive income		<u>(2,230,081.8)</u>	<u>1,568,674.7</u>

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 2016 and 2015
(Ch\$ million)

	Capital	Actuarial gain or loss reserve	Fair value reserve	Total other reserves	Retained earnings	Total
Balances as of 1 January 2015	<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>
Total comprehensive income:						
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>
Total comprehensive income	-	<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 profit	<u>270,363.1</u>	-	-	-	<u>(270,363.1)</u>	-
Balances as of 31 December 2015	<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>
Balances as of 1 January 2016	<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>
Total comprehensive income:						
(Loss)	-	-	-	-	(2,232,772.7)	(2,232,772.7)
Other comprehensive income	-	<u>223.7</u>	<u>2,467.2</u>	<u>2,690.9</u>	-	<u>2,690.9</u>
Total comprehensive income	-	<u>223.7</u>	<u>2,467.2</u>	<u>2,690.9</u>	<u>(2,232,772.7)</u>	<u>(2,230,081.8)</u>
Capitalization of 2015 profit	<u>1,565,334.1</u>	-	-	-	<u>(1,565,334.1)</u>	-
Balances as of 31 December 2016	<u>(1,983,898.1)</u>	<u>81.6</u>	<u>10,707.6</u>	<u>10,789.2</u>	<u>(2,232,772.7)</u>	<u>(4,205,881.6)</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 2016 and 2015

(Ch\$ million)

	Note	2016	2015
Cash flows from operating activities			
International reserves		<u>(1,224,488.8)</u>	<u>412,241.1</u>
Purchase (sale) of securities at fair value		616,743.3	(1,194,790.3)
Purchase (sale) of available-for-sale securities		(1,281,847.2)	929,655.8
(Investments in) redemption of held-to-maturity securities		(903,323.4)	372,081.5
Interests and commissions received for international reserves		329,735.5	269,992.0
Interests paid in foreign transactions		-	(83.0)
Taxes paid for investments in reserves		(3,514.1)	(3,615.8)
Cash receipts for reciprocal loan agreements		17,496.2	38,645.1
Interest receipts (payments) for reciprocal loan agreements		221.6	376.2
Interest paid (payments) for reciprocal loan agreements		(0.7)	(20.4)
Domestic assets		<u>128,888.3</u>	<u>151,206.9</u>
Cash receipts (loans) for loans to banks and financial institutions		(12,466.4)	7,846.1
Interests and adjustments received for loans to financial institutions		740.4	504.9
Cash receipts for subordinated obligation with financial institutions		76,971.4	78,797.7
Interests and adjustments received for subordinated obligations		63,642.9	64,058.2
Domestic liabilities		<u>947,467.8</u>	<u>(1,042,897.9)</u>
Placement of notes issued		1,762,806.0	314,848.9
Interests and adjustments paid for notes issued		(869,185.7)	(567,545.9)
Increase in deposits and obligations in Chilean pesos		(1,067,234.3)	(520,873.1)
Interests and adjustments paid for deposits and obligations		(95,263.3)	(95,135.5)
Decrease (increase) in deposits and obligations in foreign currency		1,216,345.1	(174,192.3)
Other cash flows		<u>(93,115.9)</u>	<u>(131,500.5)</u>
Cash payments for goods and services		(85,965.9)	(123,725.8)
Net cash flows for arbitrage of currencies		(14,521.2)	(11,839.0)
Cash receipts as fiscal agent and other income		4,255.0	4,432.5
Movements in international organizations		<u>3,116.2</u>	<u>(368.2)</u>
Net cash used in operating activities		<u>(241,248.6)</u>	<u>(610,950.4)</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 2016 and 2015

(Ch\$ million)

continued

	Note	2016	2015
Cash flows from investing activities			
Movements, IMF		321,440.0	50,073.3
Dividends received, BIS		595.4	604.7
Sale of property and equipment		-	33.4
Acquisition of property and equipment	15	(8,586.4)	(2,259.2)
Acquisition of intangible assets	15	<u>(74.3)</u>	<u>(1,157.5)</u>
Net cash generated from investing activities		<u>313,374.7</u>	<u>47,294.7</u>
Cash flows from financing activities			
Net increase in banknotes and coins in circulation		<u>234,137.6</u>	<u>839,617.7</u>
Net cash generated from financing activities		<u>234,137.6</u>	<u>839,617.7</u>
Changes in cash and cash equivalents		<u>306,263.7</u>	<u>275,962.0</u>
Effect of exchange rate fluctuations on cash and cash equivalents		(49,753.0)	48,761.9
Cash and cash equivalents at the beginning of the reporting period	6	<u>428,354.4</u>	<u>103,630.5</u>
Cash and cash equivalents as of 31 December	6	<u>684,865.1</u>	<u>428,354.4</u>

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

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2016 and 2015

Note 1

INCORPORATION AND DESCRIPTION OF BUSINESS

Banco Central de Chile was formed on August 22, 1925, by Decree Law 486. Central Bank of Chile is a constitutionally autonomous entity, has full legal capacity, its own assets and has 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 their 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 a "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 principal exchange rates to translate Chilean peso used as of each year-end are as follows:

	2016	2015
	pesos	pesos
United States dollar (observed exchange rate)	667.29	707.34
Euro	698.51	771.95
Canadian dollar	493.74	510.71
Australian dollar	480.93	515.85
Special drawing rights (SDR)	897.06	980.98

(e) Statement of cash flows

The following factors are taken into account when preparing 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 earnings 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), General 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, mortgage backed securities 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 earnings. The methods used to measure fair values are described in note 3.

g.iii Held-to-maturity securities.

Term and overnight deposits. Correspond to investments in financial assets that the entity has the 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 IMF.

g.iv.3 Reserve position in the 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 presented under "Other foreign assets".

(i) Bank for International Settlements (BIS) Shares

During 2003, Central Bank of Chile's Board Resolutions 1073-04 dated 10 July, 2003 and 1084-02 dated 16 September 2003, authorized the incorporation of Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September 2003, in accordance with these resolutions, Central Bank of Chile acquired 3,000 shares of the BIS for SDR42,054,000 which are valued at acquisition cost and are shown under "Other Foreign Assets." During 2016, dividends were received in the amount of US\$0.9 million (US\$0.9 million in 2015).

(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 their 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 2016 and 2015, the Bank recognized as intangible assets the costs related to the acquisition of licenses and the Open Market Transaction System - Soma.

Depreciation for 2016 has been calculated considering the following estimated useful lives:

	Years	
	2016	2015
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
Intangible assets	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 received and obligations are financial liabilities for deposits and other transactions made with the General Treasury and financial institutions, 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 and 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 is not affected by transaction costs. Subsequently, they are measured at amortized cost pursuant to the effective interest rate method with the effect recorded in 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 starting from 1 July 2015 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.

An estimate is made through an actuarial calculation that considers, demographic and financial variables. It is measured at the present value of all future payments using an annual discount rate, affected by the expected duration of employment and life expectancy of beneficiaries.

The actuarial calculation is based on the following assumptions:

- Mortality rate: for 2016 the Central Bank of Chile used the RV-2014 (RV-2009 for 2015) 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 5.57%.
- Discount rate: Central Bank of Chile used the nominal rate for BCP instruments at 10 years at the calculation date. For 2016, the discount rate was 4.50% (2015: 4.62%).

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 for which there exists uncertainty related to their timing or amount. These provisions are recognized in the statement of financial position when both of 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; or
- A present obligation, as a result of past events, which has not been recognized because:
 - It is not probable that an outflow of economic benefits will be required to settle the obligation; or
 - The amount cannot be estimated reliably.

(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 changes from accounting estimates are 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.

IFRS 16 "Leases" issued on 13 January 2016, this standard will require companies to bring all leases on-balance sheet from 1 January 2019. Companies with operating leases will be more asset-rich but also more heavily indebted. The larger the lease portfolio, the greater the impact on key reporting metrics.

This standard is effective for periods beginning on or after 1 January 2019. 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 current 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 $PX\ Mid = (PX\ Bid + PX\ Last)/2$.

Where:

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

On the other hand, the system calculates the gains and losses from investments on a daily basis using the following formula for 2016 and 2015:

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

Where:

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

(b) Non-priced securities (reference rate)

In regard to the purposes of compliance control, the change in the market value of those securities that do not have any quoted prices, it will only reflect the straight-line accrual of the premium/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 Central Bank of Chile 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 2016, the accounting policies have been consistently applied in relation to the year ended 31 December 2015.

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 promotes the stability and effectiveness of the financial system, safeguarding the normal performance of internal and external payments.

In order to meet that 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.

Financial Risk Management is established and based on 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 Council for the Management of the Financial Markets Division (Former Financial Operations Division) for their approval.

International Market Management and Domestic Market Management, which report to the Financial Markets Division (Former Financial Operation Division), are responsible for implementing the policies established by the Board. While, within the same hierarchical line, the Management of Operations and Payment Systems records, processes and performs the settlement of transactions. Additionally, they manage the technological infrastructure in which these are carried out.

Financial Risk Management and Evaluation Management, which report to the General Management, monitor the compliance with the established limits, measures management results and risks and reports them to the Manager of the Financial Markets Division (Former Financial Operation Management) and 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, Central Bank of Chile'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 Central Bank of Chile 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 term and detail by currency and through the follow-up of Value at Risk (VaR) and risk related to the Referential Buyer (Tracking Error or TE).

Table 5.1 sets out the different monitored market risk measurements.

Table 5.1
MARKET RISK, INVESTMENT PORTFOLIO AS OF 31 DECEMBER 2016 AND 2015

		2016	2015
Amount (Ch\$ million)		2,401,089.9	23,439,468.2
Length (Months)*	Portfolio	23.8	22.8
	Departure	(0.1)	(0.7)
Breakdown by currency (%)	US\$	64.6	62.0
	EUR	16.3	16.8
	JPY	0.5	0.6
	Other	18.6	20.6
VaR** Internal Investment Portfolio	Absolute (%)	2.5	2.1
	Tracking Error (p.b.)	11.2	20.3
VaR** External Investment Portfolio Blackrock***	Absolute (%)	5.2	-
	Tracking Error (p.b.)	26.9	-
VaR** External Investment Portfolio Amundi***	Absolute (%)	4.9	-
	Tracking Error (p.b.)	89.4	-

Source: BCCh.

* The amounts correspond solely to the Investment Portfolio portion within the International Reserves. We do not consider amounts related to the Cash Portfolio or Other Assets.

** Value at Risk (VaR) and Tracking Error: 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.

*** Starting from 23 February 2016, BLACKROCK was appointed as the new external administrator of BCCh, replacing Goldman Sachs which was the external administrator through 31 January 2015. Starting from 9 September AMUNDI was appointed as the new external administrator of BCCh replacing PIMCO, which was the external administrator through 8 September.

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 term and currency of notes issued. Tables 5.2 and 5.3 show such indicators.

Table 5.2
STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31
DECEMBER 2016

Instrument	Ch\$ million	% UF	Holding pe- riod (months)
Short-term	4,206,282.1	-	0.7
Long-term	10,907,860.2	63	57.2
Total	15,114,142.3	45	42.3

Source: BCCh.

Table 5.3
STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31
DECEMBER 2015

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

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, the Company considers restrictions and controls by credit ranking related to the issuer of the instrument, which is calculated using the average 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 2016.

Credit rating	Type of credit risk (%)				Total
	Agency	Banking	Sovereign	Supranational	
AAA	0.1	0.7	78.8	4.6	84.2
AA+, AA, AA-	0.0	1.2	9.3	0.0	10.5
A+, A, A-	0.0	2.5	1.9	0.0	4.4
BBB+	0.0	0.0	0.9	0.0	0.9
Total	0.1	4.4	90.9	4.6	100.0

Source: BCCh.

Table 5.5
BREAKDOWN OF THE INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31
DECEMBER, 2015.

Credit rating	Type of credit risk (%)				Total
	Agency	Banking	Sovereign	Supranational	
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
Total	0.7	4.6	90.2	4.5	100.0

Source: 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 2016, the Bank recorded no liquidity injection Repo transactions and recorded no FPL transactions. As of 31 December 2016, the Bank recorded FPL transactions amounted to Ch\$12.4908 billion. However, the annual average for 2016 amounted to Ch\$ 10.6110 billion 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.

Tabla 5.6
AVERAGE EXPOSURE FPL DURING 2016 AND 2015.

	Average amount		(Ch\$ million)
	2016	2015	
Gross exposure	10,611.0	11,234.4	
Collaterals:			
PDBC	(776.6)	(693.7)	
BCCh bonds	(10,184.9)	(10,654.1)	
Net exposure	(350.5)	(113.4)	

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 the United States and Germany, as well as, overnight and weekend transactions, representing 62.3% of the internal investment portfolio in 2016 and a 60.8% in 2015.

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 2016 and 2015.

Table 5.7
RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2016

Instrument	Amount granted in Ch\$ million	Demand (%)	Award (%)	Binding rate (%)	Market rate (%)	Spread (pb)
PDBC	36,550,000.0	146	101	3.47	3.55	(8.0)
BCP	800,000.0	145	75	3.89	3.88	1.0

Source: BCCh.

Table 5.8
RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2015

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

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 Central Bank of Chile enables for an appropriate implementation of the design of processes related to financial instruments management, considering segregation of duties and responsibilities. Consequently, the International Investments Management and Domestic Market Management with the Operations and Payment Systems Management, which report to the Financial Markets Division (Formerly – the Financial Operations Division), are responsible for making investments and their settlement, respectively. The Financial Risk Management and Evaluation Management, reporting to the General Management, is responsible for issuing 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, which reports to the Management and Institutional Services Division, 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 we measure the effectiveness of the corresponding controls, in order to reduce the impact and/or possibility of occurrence. In addition, we track 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 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, we have computer applications operating with market quality standards and we 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 Central Bank of Chile are appropriately defined.

Note 6

CASH AND CASH EQUIVALENTS

The detail of balances under cash and cash equivalents and their reconciliation to the statement of cash flows at each year-end is as follows:

	(Ch\$ million)	
	2016	2015
Correspondent banks abroad	683,756.5	427,681.3
Other reserve assets (foreign currency)	931.8	565.5
Domestic correspondents (*)	176.8	107.6
Total cash and cash equivalents	684,865.1	428,354.4

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

Note 7

NET INCOME FROM INTERNATIONAL RESERVES

(a) Foreign reserves

For the years ended 31 December 2016 and 2015, this caption is composed of the following:

	(Ch\$ million)	
	2016	2015
(a) Net interests and commissions on:		
Securities recorded at fair value through earnings	275,424.2	281,340.5
Held-to-maturity securities	31,922.3	27,266.6
Held-for-sale securities	1,894.0	688.1
Foreign correspondents	3,367.9	578.9
Subtotal for net interest and commissions	312,608.4	309,874.1
(b) Sales of securities:		
Recorded at fair value through earnings	(47,549.1)	(32,701.2)
Available for sale	12,108.4	3,907.9
Subtotal for sales of securities	(35,440.7)	(28,793.3)

continued

	(Ch\$ million)	
	2016	2015
(c) Fair value adjustments:		
Gains from fair value adjustments	8,041.3	7,892.7
Losses from fair value adjustments	(68,879.2)	(107,269.7)
Subtotal for fair value adjustments	(60,837.9)	(99,377.0)
(d) On other income	(2,613.2)	(2,948.5)
Total net income from international reserves	213,716.6	178,755.3

(b) Other foreign transactions

Net gain or loss on foreign transactions comprise the following:

	(Ch\$ million)	
	2016	2015
Revaluation of accounts with international agencies	39,128.9	(10,791.3)
Interest	(614.0)	(407.2)
Net income and expenses	(1,126.0)	(1,059.6)
Total income from foreign transactions	37,388.9	(12,258.1)

Note 8

NET GAIN FROM DOMESTIC TRANSACTIONS

For the years ended 31 December 2016 and 2015, this caption is composed of the following:

	(Ch\$ million)	
	2016	2015
(a) Income from domestic loans		
Interest	744.9	505.1
Adjustments	(333.6)	26.4
Other income	7,773.6	9,440.7
Total income from domestic loans	8,184.9	9,972.2
(b) Income from transactions under specific legal regulations		
Interest	19,518.0	24,559.5
Adjustments	18,841.4	29,595.4
Total income from transactions under specific legal regulations	38,359.4	54,154.9

continued

	(Ch\$ million)	
	2016	2015
(c) Income from deposits and obligations held by Central Bank of Chile		
Interest	(94,357.4)	(91,597.5)
Adjustments	(412.6)	(403.1)
Total income from deposits and obligations held by Central Bank of Chile	(94,770.0)	(92,000.6)
(d) Income from notes issued by Central Bank of Chile		
Interest	(529,455.1)	(513,697.8)
Adjustments	(196,748.2)	(330,391.4)
Total income from notes issued by Central Bank of Chile	(774,429.0)	(871,962.7)

Note 9

NET GAIN (LOSS) FROM FOREIGN EXCHANGE TRANSACTIONS

For the years ended 31 December, 2016 and 2015, this caption is composed of the following:

	(Ch\$ million)	
	2016	2015
Gain on foreign exchange transactions	2,354,367.4	4,683,353.9
Loss on foreign exchange transactions	(3,977,541.5)	(2,371,095.2)
Total	(1,623,174.1)	2,312,258.7

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)	
	2016	2015
U.S. dollar	(865,207.0)	2,005,733.0
Euro	(377,503.7)	85,096.5
Yuan	(67,670.0)	61,409.7
Canadian dollar	(34,209.4)	(59,385.4)
Korean won	(55,330.1)	49,717.7
Other currencies	(217,765.3)	188,896.3
Subtotal net (loss) gain from foreign exchange transactions	(1,617,685.5)	2,331,467.8
Arbitrage and other	(5,488.6)	(19,209.1)
Total net (loss) gain from foreign exchange transactions	(1,623,174.1)	2,312,258.7

Note 10

ISSUANCE AND DISTRIBUTION COSTS

For the years ended 31 December 2016 and 2015, this caption is composed of the following:

	(Ch\$ million)	
	2016	2015
Banknotes	(9,727.7)	(11,578.9)
Coins	(14,741.0)	(47,524.5)
Distribution	(1,685.5)	(1,279.7)
Total	(26,154.2)	(60,383.1)

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:

	(Ch\$ million)	
	2016	2015
Monetary gold	6,070.8	6,009.5
Special drawing rights (SDR)	485,453.8	748,636.0
Reserve position in the International Monetary Fund (IMF)	143,497.2	256,805.2
Correspondent banks abroad	683,756.5	427,681.3
Investments	<u>25,691,282.3</u>	<u>25,865,919.2</u>
Instruments recorded at fair value through earnings:		
Level 1 market value	18,322,931.3	20,423,129.2
Held-for-sale securities:		
Level 1 market value	3,085,235.9	1,926,789.8
Held-to-maturity securities	4,283,115.1	3,516,000.2
Reciprocal loan agreements	10,014.5	27,810.8
Other assets	<u>931.8</u>	<u>565.5</u>
Total reserve assets	27,021,006.9	27,333,427.5

	(Ch\$ million)	
	2016	2015
Monetary gold	9.1	8.5
Special drawing rights (SDR)	727.5	1,058.4
Reserve position in the International Monetary Fund (IMF)	215.0	363.1
Correspondent banks abroad	1,024.7	604.6
Investments	<u>38,501.0</u>	<u>36,567.9</u>
Instruments recorded at fair value through earnings:		
Level 1 market value	27,458.8	28,873.2
Held-for-sale securities:		
Level 1 market value	4,623.5	2,724.0
Held-to-maturity securities	6,418.7	4,970.7
Reciprocal loan agreements	15.0	39.3
Other assets	<u>1.4</u>	<u>0.8</u>
Total reserve assets	40,493.7	38,642.6

As of 31 December 2016, monetary gold amounted to US\$9.1 million (US\$8.5 million in 2015) equivalent to 7,940 fine gold troy ounces valued at US\$1,145.9 per ounce (US\$1,070.1 in 2015). There was no change in the amount of troy ounces compared to 2015.

As of 31 December 2016 and 2015, the distribution of investments in foreign currencies by currency is as follows:

	(Ch\$ million)	
	2016	2015
U.S. dollar	18,456,296.0	17,407,070.0
Euro	3,662,447.3	3,932,499.1
Other currencies	4,902,263.6	5,993,858.4
Total	27,021,006.9	27,333,427.5

	(Ch\$ million)	
	2016	2015
U.S. dollar	27,658.6	24,609.2
Euro	5,488.5	5,559.6
Other currencies	7,346.6	8,473.8
Total	40,493.7	38,642.6

(b) Fair values as of 31 December

Statement of Financial Position BCCh (Ch\$ million)	Carrying amount	2016			2015		
		Fair value	Difference	Carrying amount	Fair value	Difference	
International reserves	27,021,006.9	27,021,006.9	-	27,333,427.5	27,333,427.5	-	
Other foreign assets	160,574.2	160,574.2	-	171,476.6	171,476.6	-	
Loans to banks and financial institutions	12,501.8	12,501.8	-	32.2	32.2	-	
Assets General Treasury transfers (Law 18.401)	299,945.0	231,814.5	(68,130.5)	291,761.1	215,043.0	(76,718.1)	
Subordinated liabilities (Laws 18,401 and 19,396)	355,006.0	367,254.4	12,248.4	465,444.7	493,081.6	27,636.9	
Other assets	58,970.5	58,970.5	-	61,642.3	61,642.3	-	
Total assets	27,908,004.4	27,852,122.3	(55,882.1)	28,323,784.4	28,274,703.2	(49,081.2)	
Monetary base	10,342,493.8	10,342,493.8	-	9,151,628.2	9,151,628.2	-	
Other deposits and obligations	5,061,911.8	5,061,911.8	-	6,347,736.5	6,347,736.5	-	
Obligations with General Treasury	780,412.4	780,412.4	-	419,682.6	419,682.6	-	
Assets Notes issued by Central Bank of Chile	15,114,142.3	15,893,661.4	779,519.1	13,494,385.8	14,155,319.9	660,934.1	
Foreign liabilities	790,794.1	790,794.1	-	859,436.1	859,436.1	-	
Other liabilities	24,131.6	24,131.6	-	26,715.0	26,715.0	-	
Total liabilities	32,113,886.0	32,893,405.1	779,519.1	30,299,584.2	30,960,518.3	660,934.1	
Equity Net equity	(4,205,881.6)	(5,041,282.8)	(835,401.2)	(1,975,799.8)	(2,685,815.1)	(710,015.3)	

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)	
	2016	2015
Subscription installment, contribution	1,564,744.5	839,816.2
Loan, account No.1	-	6.5
New Arrangement to Borrow (NAB)	108,680.5	129,503.8
Deposits	(1,529,927.8)	(712,521.3)
Total position in the IMF	143,497.2	256,805.2

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)	
	2016	2015
Line of credit on debt restructuring	11.0	32.2
Central Bank of Chile repurchase agreements (Repo)(*)	12,490.8	-
Total	12,501.8	32.2

(*) 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 Transactions includes the following amounts:

	(Ch\$ million)	
	2016	2015
General Treasury transfer Law 18,401	299,945.0	291,761.1

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 2016 amount to Ch\$299,945.0 million, equivalent to approximately UF11.4 million (Ch\$291,761.1 million in 2015, 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.

Central Bank of Chile granted the mentioned loans with a charge to its own resources through credit facilities for refinancing to organizations which were part of Sinap. In addition, the former *Caja Central 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 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 Nacional 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 Sections 18, 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 year-end 2014 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 Chilean Treasury established in Law 18,900, which guarantees the obligations of the abovementioned entities which could not be covered by the amount resulting from their liquidation, as indicated in several opportunities by the Ministry of Finance, is subject to the legal budget and the publication in the *Official Gazette* of the executive decree approving the liquidation account for such entities, because this 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 Central de Ahorros y Préstamos* assumed by such entity in accordance with 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 Central 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 2016, 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\$1,134,052.7 million (Ch\$1,050,244.0 million in 2015), included the impairment mentioned above. In addition, the updated value of the debt of the former *Caja Central 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 Decree 20 stated above, amounts to Ch\$81,702.0 million (Ch\$78,514.3 million in 2015), 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 and equal installments beginning in April 1997.

During 2016, *Sociedad Administradora de la Obligación Subordinada* SAOS S.A. paid UF5,426,250.9493 to Central Bank of Chile, of which UF897,552.1146 were allocated to the payment of interests of the debt and UF4,528,698.8348 to the credit amortization for subordinated liability (during 2015, a payment of UF5,770,842.8725 was made, from which UF1,125,717.1800 was destined to the payment of interest, and UF4,645,125.6926 to the repayment of principal owed).

As of 31 December 2016, the balance amounts to Ch\$355,006.0 million, equivalent to UF13,473,746.9114 (Ch\$465,444.7 million in 2015, equivalent to UF18,160,796.3183).

Note 15

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	(Ch\$ million)	
	2016	2015
Property and equipment, net	39,172.0	33,254.9
Intangible assets, net	2,433.6	3,181.6
Total property, equipment and intangible assets	41,605.6	36,436.5

(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	Acquisitions	Disposals	Depreciation	Transfers	Balance as of 31. Dec. 16
Real estate and facilities	20,869.8	7,090.6	.	(264.1)	-	27,696.3
Furniture and equipment	7,007.5	1,298.4	(40.7)	(2,322.0)	88.0	6,031.2
Transport material	158.1	105.2	(17.5)	(25.0)	-	220.8
Collection of banknotes and coins (*)	3,486.0	31.1	-	-	-	3,517.1
Works of art	1,651.9	-	-	-	(6.5)	1,645.4
Work in progress	81.6	61.1	-	-	(81.5)	61.2
Net property, plant and equipment	33,254.9	8,586.4	(58.2)	(2,611.1)	-	39,172.0

(*) Variation of \$31.1 million is due to variations in foreign currency exchange of gold peso.

As of 31 December 2016 and 2015, the caption Depreciation and Amortization in the statement of comprehensive income includes Ch\$2,611.1 million and Ch\$2,283.4 million, respectively.

(b) Reconciliation of Intangible Assets carrying amounts

Composition and movements of intangible assets

	(Ch\$ million)				
	Balance as of 31. Dec. 15	Acquisitions	Amortization	Transfers	Balance as of 31. Dec. 16
Computer programs	3,061.1	-	(822.3)	-	2,238.8
Computer programs under development	120.5	74.3	-	-	194.8
Intangible assets, net	3,181.6	74.3	(822.3)	-	2,433.6

As of 31 December 2016 and 2015, the amortization of intangible assets of Ch\$822.3 million and Ch\$368.6 million 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 2016 and 2015, there are no non-cancellable operating lease contracts.

Note 16

FOREIGN LIABILITIES

This caption includes the following transactions:

	(Ch\$ million)	
	2016	2015
Reciprocal loan agreements	49.9	212.7
Accounts with international organizations	57,681.3	57,802.1
Special drawing rights (SDR) allocations	733,062.9	801,421.3
Total foreign liabilities	790,794.1	859,436.1

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 U.S. dollar.

This caption is composed of the following:

	(Ch\$ million)	
	2016	2015
Promissory note obligations with IDB	53,277.2	56,474.8
Inter-American Development Bank (IDB)	3,445.9	362.7
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)	24.2	30.6
Total accounts with international organizations	57,681.3	57,802.1

The assignments of special drawing rights (SDRs) correspond to SDR817,183,786 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)	
	2016	2015
Banknotes and coins in circulation	8,651,831.2	8,417,693.6
Deposits from financial institutions	1,690,662.6	733,934.6
Total monetary base	10,342,493.8	9,151,628.2

(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)		Coins denomination	(Ch\$ million)	
	2016	2015		2016	2015
\$ 20.000	3,820,699.0	3,294,372.1	\$ 10.000	348.4	348.4
\$ 10.000	3,720,204.8	4,019,344.2	\$ 2.000	98.6	98.6
\$ 5.000	349,155.5	387,417.5	\$ 500	183,695.2	165,848.7
\$ 2.000	74,930.9	83,054.8	\$ 100	139,910.4	126,047.9
\$ 1.000	267,264.1	250,482.3	\$ 50	26,183.4	24,342.0
\$ 500	4,742.2	4,742.6	\$ 10	48,699.2	46,057.4
Various	251.4	251.4	\$ 5	10,847.1	10,606.6
Total	8,237,247.9	8,039,664.9	\$ 1	4,728.9	4,607.0
			Other currencies	72.1	72.1
			Total	414,583.3	378,028.7

(b) Deposits from financial institutions

Deposits from financial institutions reflect the movements in drafts and deposits in local currency resulting from 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.

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)	
	2016	2015
Deposits and obligations with the General Treasury	780,412.4	419,682.6
Other deposits and obligations	5,061,911.8	6,347,736.5
Total	5,842,324.2	6,767,419.1

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

	(Ch\$ million)	
	2016	2015
General Treasury current accounts	780,412.4	419,682.6
Total	780,412.4	419,682.6

(b) Other Deposits and Obligations include:

	(Ch\$ million)	
	2016	2015
Permanent Deposit Facility in local currency	1,380,669.1	3,572,444.8
Current accounts in foreign currencies	1,124,993.3	665,576.4
Short-term deposits from bank institutions in foreign currencies	2,532,365.6	2,065,432.8
Other	23,883.8	44,282.5
Total	5,061,911.8	6,347,736.5

Note 19

NOTES ISSUED BY CENTRAL BANK OF CHILE

The issuance of notes of Central Bank of Chile is the main element supporting 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 using the effective interest method.

As of 31 December 2016 and 2015, maturities of these instruments are as follows:

	(Ch\$ million)						
	Up to 90 days	91 - 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2016	Total 2015
Central Bank of Chile bonds in UF (BCU)	335,635.7	203,878.0	332,668.0	1,799,367.4	4,105,570.6	6,777,119.7	8,306,056.8
Central Bank of Chile bonds in Chilean pesos (BCP)	180,222.9	176,446.2	-	1,197,751.4	2,483,064.1	4,037,484.6	4,154,988.0
Central Bank of Chile discountable promissory notes (PDBC)	3,983,914.4	222,367.7	-	-	-	4,206,282.1	898,329.7
Optional indexed coupons (CERO) in UF	3,464.5	5,008.1	10,507.2	34,570.6	12,763.7	66,314.1	98,879.9
Indexed promissory notes payable in coupons (PRC)	1,245.1	827.9	1,793.0	3,841.0	19,223.3	26,930.3	36,110.3
Other	11.5	-	-	-	-	11.5	21.1
Total as of 31 December	4,504,494.1	608,527.9	344,968.2	3,035,530.4	6,620,621.7	15,114,142.3	13,494,385.8

Balances include interest and adjustments accrued as of 31 December 2016 and 2015.

Note 20

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)	
	2016	2015
Provision for the year:		
Severance indemnity	12,259.7	11,671.7
Special indemnity Resolution 1651 and agreed deposit for retirement plan	1,593.9	1,350.5
Subtotal provision for severance indemnity	13,853.6	13,022.2
Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	2,448.9	2,563.5
Healthcare benefits for retirement plans	12.3	5.4
Pending accrued vacations of personnel	2,571.0	2,010.0
Special indemnity Resolution 572-05-961226	1.1	3.0
Incentive allocation	316.9	292.0
Subtotal other provisions	5,350.2	4,873.9
Total	19,203.8	17,896.1

	(Ch\$ million)	
	2016	2015
Movements in provisions for severance indemnities (*):		
Current value of liabilities as of 1 January	13,022.2	10,993.7
Current value of service costs	1,275.0	902.6
Interest cost	586.0	507.9
Benefits paid	(532.2)	(716.0)
Actuarial gains (losses)	(497.4)	1,334.0
Total	13,853.6	13,022.2

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

	(Ch\$ million)	
	2016	2015
Post-employment benefit expenses		
Current value of service costs	1,156.4	783.0
Interest cost	701.6	627.2
Total cost of post-employment benefits	1,858.0	1,410.2

As of 31 December 2016, 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 rate (%)	4.50	3.50	5.50
Effect on provision for severance indemnity payments (Ch\$ million)	13,853.6	14,978.1	12,888.3
Effect on provision for severance indemnity payments (%)	-	8.12	-6.97

Calculation of probable payment of the provision for severance indemnity payments	(Ch\$ million)
Short-term provisions for severance indemnity payments (up to one year)	1,518.4
Long-term provisions for severance indemnity payments (over one year)	12,335.2
Balance as of 31 December	13,853.6

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 \$500,000 million, which at 31 December 2016 corresponds to \$2,436.1608 billion 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 2016, Central Bank Chile has a negative equity of Ch\$4,205.8816 billion (negative equity of Ch\$1,975.7998 billion as of 31 December 2015) arisen mainly from differences between international reserve returns and the cost of liabilities at domestic interest rate due to gains and losses from changes in the exchange rates of assets in foreign currencies.

(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 2016, the negative capital price-level adjustment recognized in memorandum accounts amounted to a negative equity of Ch\$79.3226 billion (negative equity of Ch\$161.4276 billion in 2015), which resulted in adjusted capital at the reporting date of Ch\$2,814.5845 billion (negative equity of Ch\$4,300.5961 billion in 2015). 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 2016, there were no capital contributions by the General Treasury.

	Capital as of 31.Dec.16 before price-level adjustment	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31.Dec.16
Balances as of 31 December 2016	(2,735,261.9) (*)	(79,322.6)	(2,814,584.5)

(*) Corresponds to price-level adjusted capital as of 31 December 2015 plus profit or loss for the same year.

Note 22

FOREIGN CURRENCY BALANCES

The statement of financial position includes assets and liabilities payable in foreign currencies, whose balances as of 31 December 2016 and 2015 are as follows:

	(Ch\$ million)	
	2016	2015
Assets		
Foreign assets	40,734.4	38,885.0
Reserves	40,493.7	38,642.6
Other foreign assets	240.7	242.4
Other asset accounts	11.0	16.1
Total assets	40,745.4	38,901.1
Liabilities		
Foreign liabilities	1,178.5	1,213.1
Other foreign liabilities	79.9	80.1
Special drawing rights (SDR) allocations	1,098.6	1,133.0
Domestic liabilities	5,994.6	4,096.1
Deposits and obligations with General Treasury	474.2	173.9
Other deposits and obligations	5,520.4	3,922.2
Other liability accounts	0.2	0.1
Total liabilities	7,173.3	5,309.3
Net assets	33,572.1	33,591.8

Note 23

CONTINGENCIES AND COMMITMENTS

There are no lawsuits that are in process against Central Bank of Chile; accordingly, the Bank has recorded no contingencies that are 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 taxes.

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 Ministry of Finance amended Executive Decree 1618 dated 2012, and 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 Ministry 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, as amended by Decree 1618, 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 Ministry of Finance. These investments have been recorded in off balance sheet accounts.

On 18 June 2015, via 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, via 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 2016 amounted to Ch\$1,493.8 million (Ch\$1,394.4 million in 2015).

Note 27

RELEVANT EVENTS

(a) On 26 October 2016, the Ministry of Finance enacted Decree 1404, which appoints Mr. Mario Marcel Cullell as Chairman of the Board of the Central Bank of Chile starting on 11 December 2016, for a five year term replacing Mr. Rodrigo Vergara Montes, who left office and resigned prior to completing the period for which he was appointed as Board Member.

(b) On 2 June 2016, by Resolution 1983-01, the Board agreed to appoint Mr. Jesús Riveros Gutiérrez as member of the Audit and Compliance Committee of Central Bank of Chile for a three-year term replacing Mr. Santiago Meersohn Ernst who ended his period.

(c) Starting from 30 January 2017, the President of the Republic appointed Mrs. Rosanna Costa Costa as Board Member of Central Bank of Chile replacing Mr. Rodrigo Vergara Montes to complete the remaining legal period of ten years required for the position.

Note 28

Subsequent events

In the opinion of Management, between 31 December 2016 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 23 January 2017 amounted to Ch\$659.49 representing a decrease of Ch\$7.80 compared with the exchange rate prevailing as of 31 December 2016. This represents a decrease in Central Bank of Chile's equity of Ch\$168,774.6 million.

The exchange rate for euro as of 23 January 2017 amounted to Ch\$704.43 representing an increase of Ch\$5.92 compared with the exchange rate prevailing as of 31 December 2016. This represents an improvement in Central Bank of Chile's equity of Ch\$30,114.2 million.


The total decrease in Central Bank of Chile's equity because of the decrease in the exchange rate for U.S. dollar and euro on 23 January 2017 amounts to Ch\$138,630.4 million.

(b) Approval of financial statements

The financial statements for the year ended 31 December 2016 were presented by the General Manager to the Central Bank of Chile's Board on 26 January 2017 and approved for issue at the Meeting 2036.

(c) Other

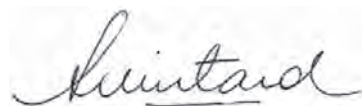
There are no subsequent events that might have a significant effect on the amounts presented herein or in Central Bank of Chile's economic or financial position.



ALEJANDRO ZURBUCHEN SILVA
General Manager



JUAN CARLOS SALAZAR TAPIA
General Accountant



SILVIA QUINTARD FLEHAN
Auditor General

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 2016 and 2015, 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 controls 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 generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 2016 and 2015 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 auditors' report is provided as a free translation from the Spanish language original, which is the official and binding version. Such translation has been made solely for the convenience of non-Spanish readers.

Cristián Bastián E.

KPMG Ltda.

Santiago, 26 January 2017