ANNUAL REPORT
2008

Annual Report 2008

CENTRAL BANK OF CHILE

Contents

Annual Report 2008

Senior Authorities of the Central Bank of Chile

AS OF 31 DECEMBER 2008

José De Gregorio Rebeco
Governor

Jorge Desormeaux Jiménez
Deputy Governor

Manuel Marfán Lewis
Board Member

Enrique Marshall Rivera
Board Member

Sebastián Claro Edwards
Board Member

GENERAL MANAGER
Alejandro Zurbuchen Silva

DEPUTY GENERAL MANAGER
Leonardo Hernández Tagle

GENERAL COUNSEL
Miguel Ángel Nacrur Gazali

GENERAL AUDITOR
Silvia Quintard Flehan

DIVISION DIRECTORS

Kevin Cowan Logan
Financial policy

Beltrán De Ramón Acevedo
Financial Operations

Pablo García Silva
Research

Luis González Bannura
Corporate Management and Services

Ricardo Vicuña Poblete
Statistics

MANAGERS

Luis Álvarez Vallejos
Communications Advisor

Matías Bernier Bórquez
Domestic Financial Markets

Mabel Cabezas Bullemore
Logistical Services

Rodrigo Cifuentes Santander
Financial Stability

Cecilia Feliú Carrizo
Human Resources

Osvaldo Garay Hidalgo
Strategic and Risk Management

José Manuel Garrido Bouzo
Financial Regulation and Infrastructure

Pablo Herrera Fones
Informatics (I)

Juan Esteban Laval Zaldívar
Chief Counsel of Corporate Legal Services

Sergio Lehmann Beresi
International Analysis

Pablo Mattar Oyarzún
Chief Counsel of Normative Legal Services

Iván Montoya Lara
Treasury

Gloria Peña Tapia
Statistical Information

Francisco Ruiz Aburto
Macroeconomic Statistics

Cristián Salinas Cerda
International Investment

Jorge Selaive Carrasco
Economic Research (I)

Claudio Soto Gamboa
Macroeconomic Analysis

Mario Ulloa López
Chief Auditor

Claudia Varela Lertora
Corporate Affairs

Jorge Zúñiga Mayorga
Security

Central Bank of Chile Employee Profile

AS OF 31 DECEMBER 2008 (*)

Total staff	622
By gender	
Women	204
Men	418
By age (years)	
Under 25	18
25 to 35	172
36 to 45	129
46 to 55	174
56 to 65	122
Over 65	7
By educational level	
PhD	25
Professional	377
Administrative	220
Average years of service	15
Annual turnover (%)	8.8

(*) Excluding Board Members.

BANCO CENTRAL
DE CHILE

Santiago, 20 April 2009

Mr. Andrés Velasco B.
Minister of Finance
Santiago

Pursuant to Sections 78 and 79 of the Basic Contitutional Act of the Central Bank of Chile, contained in Article One of Law 18,840, I hereby submit this institution´s *Annual Report,* 2008.

Yours sincerely,

Jose De Gregorio R.
Governor

BANCO CENTRAL
DE CHILE

Santiago, 20 April 2009

Mr. Jovino Novoa V.
President
The Senate
VALPARAÍSO

Pursuant to Sections 78 and 79 of the Basic Contitutional Act of the Central Bank of Chile, contained in Article One of Law 18,840, I hereby submit to the Senate this institution´s *Annual Report,* 2008.

Yours sincerely,

José De Gregorio R.
Governor

I. Financial management and policies of the Central Bank of Chile in 2008

A. Economic overview

The macroeconomic scenario underwent dramatic changes during 2008. Developed economies, particularly the United States and the euro zone, showed a slowdown as early as in the first half of the year, due to the impact of the financial crisis which had derived from the subprime mortgage market. During the first quarter of the year, important turbulence took place in the developed financial markets, triggered by Bear Stearns going bankrupt in March. Emerging economies did not yet show at the time signs of major damage, although it could already be seen that the dimensions of the crisis in the developed economies would be quite considerable. In fact, commodities prices, which had started a strong rising path in 2007, went on soaring and reaching record highs, thereby causing a serious inflationary problem globally. Oil price soared almost up to US$150 per barrel halfway through 2008. This outlook caused a relevant difference between the economic policy of developed economies and that of emerging economies. In the former, main concern was oriented towards avoiding a deepening of the effects of the complex financial system, thus preventing the subprime crisis from becoming a systemic disaster. Therefore, most central banks relaxed their interest rates or kept them unchanged, despite the inflationary problem, under the assumption that the slowdown of their economies would provide enough strength to reduce inflation. On the other hand, emerging economies faced up to the complex inflationary outlook through more contractionary monetary policies and, in some cases, with the implementation of subsidies and controls on those prices recording the highest increases.

Halfway through September, the global economic outlook changed radically. After a series of events involving relevant financial institutions in the U.S. and Europe, a global concern materialized regarding sustainability of the financial system of developed economies and the availability of resources for all kind of institutions and countries. In this way, sharp drops in stock exchanges, commodities prices, and value of currencies with respect to the U.S. dollar, together with increases in sovereign spreads and, in general, a significant worsening in consumers' and businessmen's expectations broke out at a global level. As a result of this process, during the last quarter of 2008, most economies recorded a significant drop in output, the extent of which was unprecedented in manufacturing production and international trade. Prices of commodities plunged down to levels they had not seen in many years, and inflation started to recede strongly in several economies.

These events were not alien to Chilean economy. The year 2007 ended up with an annual inflation of 7.8%. During the first quarter of 2008, the appreciation that the peso had started to show in the last quarter of 2007 became more pronounced and, although inflation went on rising, it did so to a lesser degree than expected. By mid year, with an exchange rate starting to depreciate gradually and commodities prices reaching very high levels in international markets, the inflationary issue reemerged strongly. Thus, inflation rose again almost reaching an annual 10% from the end of the third quarter to the beginning of the fourth quarter. The change in the world scenario also had an impact on the domestic economy. Drops in the prices of commodities, particularly oil, started to show up in the domestic market. Moreover, in the last two months of 2008, month-to-month inflation rates were negative, and they reached a 7.1% annual increase by year-end, with prospects of a quick drop towards the inflation target. Actually, inflation expectations, which during most of the year had anticipated an annual two-year ahead inflation rates over 4%, showed a fast adjustment to figures which were more compatible with the 3% target. Economic activity also suffered the effect of the changes that were taking place in the external scenario. Between the first and third quarter of the year, the economy grew at an annual average of 4.2%, and in the last quarter of the year, it rose a tiny 0.2%, with a clear slowdown in the manufacturing and retail sectors. Domestic demand, particularly domestic consumption, also showed a major slowdown during the last quarter of the year, since it moved from growing at around a 10% average rate in the first three quarters of the year to falling a 0.2% in the fourth quarter.

B. Monetary policy in 2008

In the late months of 2007, annual CPI inflation rose significantly, well above projections, to an almost 8% annual rate, affected by price increases in food, fuels and electric rates. Output was losing momentum and the international scenario was more and more uncertain, although the international crisis was still confined and localized. In this context, the Monetary Policy Rate (MPR) had been raised by 75 basis points since September 2007, to 6.25% annually in January; and the Board considered further adjustments could be necessary. This could make it possible to address a scenario where inflation was anticipated to rise during the first quarter of 2008, to approach the target by mid year and enter the tolerance range by early 2009. The main developments during early 2008 were a sustained weakening of the cyclical situation in the U.S. associated with an exacerbation of the financial upheavals—which, in turn, prompted the internal decision to increase international liquidity levels via a reserve accumulation program; a significant appreciation of the peso which, if continued, would have important disinflationary effects; and a scenario where inflationary surprises

The Board of the Central Bank of Chile

seemed to be easing up. Thus, between February and May, the Board considered that the best options were either to keep the MPR unchanged or to increase it by 25 basis points, and in April press releases on MPR showed a neutral bias. Inflationary projections contained in the *Monetary Policy Report* of May slightly differed from those of January, and growth projections for 2008 had been slightly changed from a 4.5%-5.5% range to a 4%-5% range.

Between June and September, the inflationary scenario significantly and surprisingly deteriorated, and the CPI annual inflation exceeded 9%, much higher than earlier projections. Several factors may account for this increase. Cost pressures, mainly related to higher international prices of food and energy, could have had an effect on final prices stronger than expected, in a context where domestic demand continued growing vigorously and power restrictions tended to reduce productive capacity. In addition, a scenario of high inflation may have caused the reemergence of indexation practices and/or increased inflation expectations in price-setting agents. Irrespective of the real causes that triggered an inflationary outburst, the monetary policy conclusions were clear. Therefore, the Board increased the MPR by a total of 200 basis points between June and September, and stated that, in the most likely scenario, the MPR would continue to rise during the fourth quarter, even exceeding market expectations at that time. This showed that the MPR could increase other additional 100 basis points above the 8.25% it had already reached. Despite the fact that the foreign scenario was still highly uncertain, domestic activity and demand were still dynamic, and expansion was expected around 4.5%-5% for 2008 and 3.5%-4.5% for 2009. In fact, the international scenario, based on consensus forecasts, could not be a disinflationary drive in itself, and therefore, a more restrictive monetary policy was required in the short term. These conceptions changed dramatically after the collapse of leading banking firms in the U.S. and Europe, and the occurrence, between mid September and mid October, of unprecedented upheavals, uncertainty and volatility.

This sudden turn in the external scenario seriously disturbed the international financial markets, which reverberated at a local level, and caused a reduction of liquidity in the peso- and dollar-denominated money markets, and a sharp drop in commodities prices and in global growth perspectives, particularly in the developed world. This led the Bank to take various actions regarding its financial and exchange policies. As regards monetary policy, this sudden turn generated expectations that such a stringent monetary policy as planned would not further be necessary, because the deterioration of the foreign scenario would suffice to curb domestic inflationary pressures. During the fourth quarter, interest rates of the Bank's securities plummeted and the different inflationary expectations also dropped from the high levels they had been so far, despite the sharp depreciation of the peso, in both real and nominal terms. Within this context, the MPR remained stable at 8.25% during October, November and December, but the Board clearly changed the bias and perspectives of the short-term monetary policy, by validating the expectations of aggressive reductions in the MPR which would be implemented in first quarter of 2009.

C. Foreign exchange management and policies

The Central Bank of Chile applies a floating exchange rate regimen, where the exchange rate is determined by the market. This regimen allows for the conduct of an independent monetary policy, facilitates economic adjustments in case of shocks, and prevents sharp exchange rate misalignments, thereby also preventing more costly adjustments in terms of output variability, attenuating the flow of speculative capitals. Under this floating exchange rate regimen, the Bank reserves the right to intervene in exceptional circumstances, in case of an overreaction of the exchange rate which could eventually cause adverse effects. The exchange rate is said to overreact when, without much variation of its fundamentals, it rises and falls sharply within a short period of time, and which ups and downs may be followed by movements in the opposite direction within a limited time frame. The adverse effects of this fluctuation include a loss of confidence of economic agents, because they have an impact on inflation that requires that monetary policy measures be taken which are inadequate to cope with the current condition within the economic cycle; an increase in volatility of financial markets; and misleading price signals that may impair an efficient allocation of resources.

On 10 April 2008, the Board considered that the complex situation of financial markets in developed economies had increased the risk of additional harsh alterations in those markets, with negative effects on Chile's financial conditions. Accordingly, the Bank started a reserve acquisition program to strengthen the international liquidity position of the Chilean economy by increasing its reserves by US$8 billion, with daily purchases of US$50 million between 14 April and 12 December 2008. When these international financial risks materialized by mid September, the Board decided—on 29 September¬—to end the reserve accumulation program, which had so far increased by US$5.75 billion. In order to allow the normal operation of the foreign exchange market and interbank liquidity in foreign currency, additional measures were implemented, such as auctions of foreign exchange swaps.

As a consequence of the heavy turbulence of the international financial markets, the Bank took some measures oriented at improving liquidity management of the institutions which make up the local financial system. Banking and savings and loans institutions were temporarily authorized (from 9 October 2008 to 8 April 2009) to meet their reserve requirements in foreign currency, i.e. U.S. dollars, euro or yens. As from 10 October 2008, promissory notes or term deposit certificates issued by banks in pesos and to the order of their beneficiaries were authorized to be eligible for REPO transactions, among other fixed income securities issued by banks. Later, effectiveness of these measures was extended to the whole of 2009.

D. Financial regulations

Under the new regulatory framework introduced in recent years governing financial risk management of local banks, in January 2008the Bank reduced from 30 to 7 days the minimum term for deposits, once the Superintendency of Banks and Financial Institutions had issued a favorable report thereon. This reduction is applicable to the following cases: a) non-indexed term deposits in any currency, and b) term deposits in local currency, indexed to the U.S. dollar or other authorized currencies. To ensure that banking firms have enough time to adapt their management and control systems to the new regulations, 26 February 2008 was scheduled as the effective date thereof.

In line with bankruptcy legislation, on 17 January 2008, the Bank granted the status provided for in said law to the derivatives master agreements "1992 ISDA Master Agreement" and "2002 ISDA Master Agreement" for transactions among non-banking counterparties. On 7 August 2008, the Bank decided that said status be applicable also to banking counterparties. Thus, obligations arising from derivatives contracts entered into within the scope of the aforementioned master agreements may be reciprocally offset if one of the non-banking counterparties goes bankrupt, or if a banking counterparty is subject to a mandatory liquidation, in compliance with the provisions of the General Banking Law.

As regards the legal framework introduced by the Reform of the Social Security System enacted in March 2008 (Law 20,255), in September, the Bank amended its regulations on investment caps for Pension Funds and other related matters, following the guidelines of the aforementioned law. These changes became effective on 1 October 2008 and mainly included the establishment of new caps on investments abroad, both on a global and a per fund basis, which were gradually increased between 1 October 2008 and 3 August 2009. By the end of this period the global limit will reach a maximum of 60%, and limits for A, B, C, D and E funds will be increased to 80%, 70%, 60%, 30%, and 25%, respectively. For unhedged foreign currency investments, limits of A, B, C D and E funds will increase to reach their caps on 1 April 2009, i.e. 50%, 40%, 35%, 25%, and 15%, respectively. Caps for investments in foreign securities with higher relative risk for A,B,C and D funds are, as from 1 October 2008, of 20%, 17%, 14%, and 10%, respectively.

E. Financial management

E.1. Monetary management

Through its monetary management, the Bank supports the implementation of monetary policy, monitors market liquidity and uses available mechanisms for the interbank interest rate (TIB, by its acronym in Spanish) to be around the MPR. To fulfill this objective, monthly monetary management schedules are prepared to determine, at different terms, the auction of Central Bank Discountable Promissory Notes (PDBC) of the following reserve requirement period, together with other open market operations. Additionally, liquidity projections are followed-up on a monthly basis, allowing the Bank to carry out the necessary fine-tuning to have the TIB converge to the MPR.

The foreign currency purchase program announced by the Bank on 10 April caused extraordinary changes in the open market operation schedule to include liquidity deposits and PDBC in 30, 90, 180 and 360 day terms. As from May, monetary sterilization was implemented mainly by increasing the supply of bonds issued by the Bank, as explained below.

During 2008, the Bank managed its monetary policies in an increasingly uncertain environment regarding external credit conditions. In this scenario, monetary management tools were used more intensively, and, during the second half, new flexibilizations were introduced, additional to those introduced in 2007, such as the increase of PDBC and bonds auction margins, temporary changes in foreign exchange reserve regulations, and regular and periodic schemes for repo operations aimed at injecting liquidity at a floating rate, using deposits with other banks as collateral.

Thanks to this monetary schedule and daily follow-up of the system's liquidity, and also to the implementation of the aforementioned measures, the average deviation between the TIB and the MPR during 2008 was 3 basis points.

E.2 Management of foreign exchange reserves

The purpose of foreign exchange reserve management is to provide efficient and secure access to international liquidity and to safeguard the financial equity of the Bank. This management is based on the legal framework defined by the Basic Constitutional Act of the Bank, which governs its operation, and on a series of internal policies and practices in line with the recommendations from international bodies.

As of 31 December 2008, the Investment Portfolio, which includes short- and long-term assets to deal with contingencies and long-term requirements, stood at US$21.55 billion. The Liquidity Portfolio, which includes assets for covering requirements foreseeable in the short term, stood at

US$1.3 billion. Total foreign exchange reserves reached an aggregate amount of US$23.16 billion by year-end.

As of 31 December 2008, foreign exchange reserves rose by US$6.25 billion as compared to the end of 2007. This is mainly attributable to the foreign reserve accumulation program implemented from April to September, which increased such reserves by US$5.75 billion, and to the capital payments made by the General Treasury, which amounted to US$730 million. In addition, current account balances and deposits by the General Treasury and commercial banks increased by US$271 million. Finally, a US$469 million increase was recorded as a consequence of changes in parity rates, investment portfolio results and other operations. These increases were partially offset by swap operations worth US$969 million, which program will be extended during 2009 by the Bank.

Reserve liquidity was ensured by investing in a short-term deposit portfolio in international commercial banks and in fixed income instruments traded at highly liquid secondary markets. As of 31 December 2008, current account and time deposits accounted for 24% of foreign exchange reserves; short-term papers, 36%; bonds, 39%; and other assets, 1%.

To safeguard Central Bank equity, investment resources are administered according to policies and controls approved by the Board and designed to limit operating and financial risks. Investment credit risk was controlled through restrictions on issuers, instruments, intermediaries and custodians. Furthermore, in order to mitigate the effects of the financial crisis, the cap on exposure to bank risk of the investment portfolio was lowered from 45% to 25%, thereby limiting to 5% the exposure to A and A+ rated banks. As of 31 December 2008, 74% of reserves were invested in AAA rated instruments, issued by banks, sovereigns, supranational or US financial institutions. The other 26% was invested in A to AA+ rated instruments, mainly in the banking sector. Market risk was controlled by diversifying investment currencies, instruments and maturities and taking into consideration the impact of decisions regarding these parameters on the balance sheet of the Central Bank. At year's end, 60.8% of reserves were held in U.S. dollar-denominated instruments, 37.9% in euro-denominated instruments and 1.3% in instruments denominated in other currencies, and portfolio duration averaged 16 months. Operating risk was managed by separating duties and responsibilities and by applying internal and external control mechanisms.

Throughout 2008, two independent administrators continued to perform the long-term general mandate for the external administration of part of the bank's foreign exchange reserves. Each of them managed a portfolio of around US$290 million. The risk evaluation method also continued to be applied, based on a risk budget, whereby administrators are authorized to take a maximum risk not to exceed 100 basis points of tracking error against the respective benchmark. The mandate specializing in Mortgage-Backed Securities (MBS) also remained unchanged, and it managed a portfolio which amounted to around US$400. The project for streamlining the informatics system

used to manage foreign exchange reserves continued to be developed. In December, the operation phase started to be implemented concurrently, so that in January 2009, it could become the Bank's official system for managing foreign exchange reserves.

During 2008, the total return from foreign exchange reserve management was 5.70%, as measured in foreign currencies (benchmark basket of currencies of the Investment Portfolio), and 4.14%, as measured in U.S. dollars. The differential return obtained with respect to the benchmark applied to guide and assess investment performance was 33 basis points. The total operating cost involved in managing foreign exchange reserves for this fiscal year was 4.6 basis points of the total reserves under management, while income from the securities lending program amounted to around 3.9 basis points of foreign exchange reserves.

As per bank policy, appendix IV provides a more detailed report on the foreign exchange reserve management, presented herein.

E.3 Debt management

The Bank's debt policy aims at minimizing its financing cost within the limits defined for financial risk and, wherever possible, at promoting development of the domestic capital market. For the third year running, the Board decided to announce its 2008 annual schedule of bond auctions in January. In this way, and in line with international standards in this field, the Board continued to implement its transparency policy, thus providing the public and the market with information in advance, thereby making it easier to make decisions within a stable and defined period of time. At the same time, the Ministry of Finance also expressed its interest on the Central Bank's carrying out, in its capacity as fiscal agent, the placement of debt instruments issued by the General Treasury during 2007.

The debt plan announced included monthly auctions of self-issued securities, denominated in pesos, with 2- and 5-year maturity (BCP-2 and BCP-5), and denominated in UF (*Unidades de Fomento*), maturing in five and ten years (BCU-5 and 10), as well as General Treasury securities as defined by the Ministry of Finance.

Late in February 2008, the Bank accepted to act as the fiscal agency requested for the placement of bonds issued by the General Treasury in the domestic capital market, including the service thereof as they fell due. This involved making placements of UF-denominated General Treasury bonds with 20- and 30-year maturity (BTP-20 and BTP-30) and peso-denominated General Treasury bonds maturing in 10 years (BTP-10). During the year, peso-denominated securities (BCP-2 and BCP-5), UF-denominated securities (BCU-5), and the remaining securities denominated in foreign exchange payable in pesos (BCD-5) came due.

In order to sterilize the plan for increasing reserves, the original debt plan was temporarily modified from May to September. Therefore, additional debt amounts were included, equivalent to the purchases of foreign currency on the same original due dates, and new issuances of peso-denominated debt securities maturing in ten years (BCP-10) and UF-denominated debt securities with 2- and 20-year maturity (BCU-2 and BCU-20) were added. Additionally, the Ministry of Finance resumed issuances and increased the placements of UF-denominated General Treasury bonds with 20- and 30-year maturity (BTU-20 and BTU-30), which were carried out through the Central Bank in its capacity as fiscal agent.

E.4 High-value payment service provision

The Central Bank of Chile is responsible for safeguarding the normal operation of both domestic and external payments. For such purpose, it is vested with powers of regulation and supervision thereon. It also plays an operating role in rendering settlement services for transfers of funds through the Real Time Gross Settlement System (RTGS). The Bank is the operator of said system, while communications take place through the Swift network.

The systemic importance of the RTGS, which mainly processes high-value payments and settles other payment systems, institutes the need for preventing any risk or alteration that may cause large-scale harmful effects among participants. Thus, during 2008, the Bank focused on initiatives aimed at mitigating any potential RTGS operational risks, in consistency with its business continuity approach.

A potential high-impact scenario among the RTGS participants would be an application failure at the Alternate Processing Site (APS), after the Main Processing Site (MPS) has failed. Although this is a low-probability event, the impact of its occurrence is high, since it would render payment transfers among participants impossible. Therefore, the Bank has developed and implemented the "Bypass Application", which is meant to obtain balances of the participants' accounts in the absence of the application that supports the RTGS. This, to allow prioritization of payments. With this application, the Bank can ensure availability of payments if the main application should fail. This application is planned to be strengthened in the future with more practical features for its users.

At the same time, an External Contingency Room (ECR) was enabled to operate outside the main site for payment processing functions and liquidity facilities. In December 2008, the Bank operated all its functions from the ECR with no material incidents to report and without affecting the performance of the RTGS. The Bank will continue to operate from the ECR on a periodical basis.

The RTGS is highly dependent on its technological infrastructure for its normal operation, since all payment messages are sent to its central processor. Therefore, if the MPS were not available, the control of the operations would shift to its APS, in which the different system components are replicated. In December 2008, a drill was carried out aimed at testing the ability of the Bank to operate in such contingency, by shifting sites during business hours. The result was positive, and it made it possible to improve certain functions of internal proceedings and to increase familiarity of the staff therewith. Similar drills shall be planned for 2009.

Liquidity facilities operation requires a complex interconnection with different institutions and service providers in the market. During 2008, the Bank began developing a set of service level agreements with the Central Securities Deposits (*Depósito Central de Valores S.A.* DCV) and with the National System of Financial Communications (*Sistema Nacional de Comunicaciones Financieras S.A.*, Sinacofi). These have made it possible to attain a high performance level and an adequate management of operational risk, by means of the integral review and follow-up of the incidents occurred, in order to ensure proper management and remedy.

In another field, the Bank entered into a contract with LOGICA, the supplier of the application on which the RTGS runs. Said company is based in the United Kingdom and renders services to other central banks. The purpose of the contract is to include additional features in the application so that it can operate, among other things, as the technological platform on which the Foreign Currency Current Accounts System of the Bank runs. The update of this new function is expected to start running in the early second half of 2009.

Appendix V contains a detailed report on the services rendered to the financial system consisting of high-value payments and liquidity facilities.

E.5 Administration of fiscal funds (ESSF and PRF)

In early 2007, as per Law 20,128 on Fiscal Responsibility, the Ministry of Finance requested that the Central Bank, through Executive Decree 1383 (Agency Decree), act as its fiscal agent in the administration of all or part of the fiscal resources held in the Economic and Social Stabilization Fund, ESSF (*Fondo de Estabilización Económica y Social*) and in the Pension Reserve Fund, PRF (*Fondo de Reserva de Pensiones*).

After having analyzed the regulatory framework provided by the Basic Constitutional Act and the economies of scale and scope that the Central Bank could contribute in managing such fiscal resources, the Board accepted the request and empowered the Director of the Financial Operations Division to institute the internal procedures necessary to perform the entrusted task as an agent to manage such resources, provided for in Article 4 of the agency decree and in the related execution guidelines.

During 2008, the Central Bank administered these resources aiming at principal preservation and growth, in consistency with the risk standards defined by the Ministry of Finance in its execution guidelines and accepted by the Central Bank.

Along said period, the Bank continued to hire the services of a general custodian, which also measured the performance, risk and compliance of the administration of the resources entrusted to the Bank according to the guidelines and parameters included in said execution guidelines.

During 2008, the Bank received ESSF additional resources for administration purposes amounting to US$5.0 billion, which reached a market value of US$20.21 billion as of 31 December 2008. In the same year, it received PRF additional resources for administration purposes amounting to US$909.07 million, which reached a market value of US$2.5 million as of the same date. The market value of the Funds at the closing of the fiscal year 2008 totaled US$22.72 billion. Since the Bank accepted the fiscal agency assignment, the General Treasury has made contributions for a total amount of US$20.36 billion.

The resources administered by the Bank were invested according to policies and controls developed for the purpose of limiting operational and financial risks, with standards equivalent to those used to manage foreign exchange reserves. Credit risk was controlled through restrictions on issuers, instruments, brokers and custodians, as defined in the above mentioned guidelines. As of 31 December 2008, 75.31% of these resources were invested in AAA rated instruments, and 24.69%, in instruments rated from A- to AA+. Market risk was controlled by diversifying investment instruments, currencies and maturities. At year-end, 82.4% of the funds was invested in sovereign bonds and 17.6% in bank securities. In terms of currency composition, 50.91% was held in U.S. dollar instruments, 38.98% in euro, and 10.11% in yens; portfolio maturity averaged 28 months.

In 2008, ESSF resources received by the Bank for administration yielded a 7.65% absolute return as measured in U.S. dollars. This meant a 13 basis points return differential against its benchmark, both of them measured by using the Time Weighted Rate of Return (TWRR)[1]/. In the same period, as per the same method, PRF resources managed by the Central Bank yielded an absolute return of 7.61% as measured in U.S. dollars, i.e. 17 basis points lower than its benchmark. Since the Bank began to serve as a fiscal agent, it has delivered daily, monthly and quarterly reports to the Ministry of Finance and the General Treasury, including measurements of performance, risk and compliance

[1]/ This method generates a rate of return adjusted by the impact of any contributions (either capital contributions or those generated by the securities lending program) and withdrawals (either capital withdrawals or related to payment to third parties), making it possible to isolate, from the administrator's management result, the impact on the fund performance of changes which are exogenous to the size of the portfolio. This method also enables the comparison of the portfolio administrator performance against its benchmark.

with respect to pertinent benchmarks, as agreed. Regarding compensation for the agent, the fund management costs were transferred to the General Treasury, which in 2008 amounted to 0.45 annual basis points over the total managed resources.

In line with the institutional reporting policy and with the conditions set forth in the agency decree, appendix VI provides a more detailed report on the administration of fiscal resources.

F. Miscellaneous

F.1 Technical Secretariat for the Commission against Price Distortion

The National Commission against Price Distortions (*Comisión Nacional de Distorsiones*) is in charge of investigating the existence of distortions in the prices of imported goods. It is a technical body composed of representatives of public institutions of the economic sector. Its task is to advise the President of Chile on the application of antidumping and countervailing duties, and precautionary measures. The Commission operates independently from the Bank. Nonetheless, the law has settled its Technical Secretariat at the Central Bank. Its duties include gathering background information in connection with inquiries, preparing technical reports, carrying out communications among parties and giving pertinent notices.

In 2008, the Technical Secretariat provided support to the National Commission against Price Distortions, which held twelve meetings, started one investigation and completed three. At year-end, an anti-dumping duty on wheat flour imports from Argentina was in force.

F.2 Chilean Copper Commission (Cochilco)

Until 21 October 2008, the Board had two representatives at the Chilean Copper Commission (*Comisión Chilena del Cobre*, Cochilco): Mr. Beltrán De Ramón Acevedo and Mr. Felipe Hernán Jaque Sarro, both of whom had been appointed in 2006. They held office until 22 October 2008, when they were replaced by Mr. Matías Bernier Bórquez and Mr. Eduardo López Escobedo, through internal opposition of backgrounds. These representatives shall hold office for two years.

F.3 Tribunal for the Defense of Free Competition (TDLC, by its acronym in Spanish)

By virtue of Resolution adopted at session 1404E, held on 23 April 2008, the Board created the pertinent lists of three candidates and proposed them to the President of the Republic for the offices of lawyer Incumbent Minister and economist Incumbent Minister, as members of the Tribunal for

the Defense of Free Competition (TDLC), to replace for those whose term of office finished on 12 May 2008, as per Articles 6, 7 and 12 of the Law on Defense of Free Competition.

The above mentioned lists of three candidates were composed by the following lawyers, in alphabetical order: Radoslav Vicente Depolo Razmilic, Pedro Mattar Porcile and Juan José Romero Guzmán; and by the following economists: Eduardo Nesim Bitrán Colodro, Andrea Nélida Butelman Peisajoff and Ricardo Jorge Raineri Bernain.

Also, by virtue of Resolutions 1405E-01-080423 and 1408E-01-080507 adopted at sessions held on 23 April and 7 May 2008, respectively, the Board created the pertinent lists of three candidates for the offices of economist Alternate Minister and lawyer Alternate Minister, as members of the above Tribunal in replacement for those members whose term of office ended on 12 May 2008.

Therefore, the above mentioned lists of three candidates were composed by the following economists —in alphabetical order: Ms. María de la Luz Domper Rodríguez, Mr. José Luis Lima Reina and Mr. Martín Humberto Osorio Campusano; and by the following lawyers: Mr. Jaime Gustavo Arancibia Mattar, Mr. Claudio Osorio Johannsen and Mr. Juan José Romero Guzmán.

Said lists were prepared in accordance with the rules stipulated by the Board itself, at the pertinent calls for opposition of backgrounds.

G. The balance sheet

G.1 Balance sheet levels and structure

In April 2008, the decreasing trend of the balance sheet volume, which had prevailed since the adoption of the floating exchange rate system, came to a halt. This because, the Board had considered timely and appropriate to strengthen the foreign exchange position of the Bank. In adopting this decision, the Board took into account the symptoms prefiguring external financial turbulence and the current status of the foreign exchange market.

From April 2008 onwards, two distinct periods can be identified in the management of the Central Bank for the year. Before September, when the international financial crisis worsened, foreign currency had been accumulated in line with the policies defined by the Board and the related currency issuance had been greatly sterilized through the placement of Central Bank promissory notes. The rest of the year, marked by financial stability, was characterized by operations which supplied the bank with liquidity. In the initial phase, to prevent a reduction in the external financing inflows, the

Bank provided foreign exchange currency by means of swap operations[2]/. This uncertain scenario also fostered the demand of domestic currency by banks, which initiated REPO operations, with increases in the liquidity and current account deposits at the Bank by banks.

In terms of interest gain, profitability of the balance sheet worsened during 2008. This resulted from the accumulation of reserves, the profitability of which is usually lower than the financial cost incurred to buy them, and the adverse evolution of interest rates accrued by assets and liabilities of the Bank for the year. However, the accounting result yielded a remarkable positive balance due to the capital gains generated by the rising exchange rate.

As a result of the foreign exchange operations carried out from March to September, foreign exchange reserves rose from 9.8% to 15.8% of GDP (table I.1) in 2008. Although this increase in foreign exchange reserves is quite significant, it is still moderate from a long-term perspective, particularly when compared with the second half of the 1990s and early 2000s (average 22% of the GDP). On the other hand, the reduced balance of General Treasury promissory notes which were outstanding by the end of 2007 was completely repaid by the government, as per its maturity schedule. Monetary policy instruments rose from 0.7% to 1.7% of GDP between year-end 2007 and year-end 2008, while the other monetary policy liabilities rose from 1.4% to 2.3% of GDP in the same period. These last increases are related to the liquidity provided to banks during the last quarter of the year. Finally, it is worth singling out the growth of the monetary policy promissory notes over GDP, which financing is related to the hoarding of foreign exchange reserves from April to September.

The accumulation of foreign exchange reserves during 2008 caused a worsening of the long-term balance sheet profitability, which delays convergence to structurally positive results. This is so when abstraction is made of the proceeds from exchange rate variations, which are not realized until reserves are sold and may be quickly reversed if the exchange rate falls. However, capital contributions by the government partially offset these negative effects.

G.2 Trends in asset profitability, liability costs and changes in equity

Favorable interest rate trends perceived in recent years were reversed in 2008 by the drop in international interest rates, which mainly affected assets (foreign exchange reserves), and by the increase in domestic interest rates, which mainly affected liabilities (Bank's promissory notes). The gap between the average interest rate on assets minus the average interest rate on liabilities was negative: -0.2 percentage points, in contrast with the positive result: 1.2 percentage points in

[2]/ Simultaneously, the government deposited part of its assets in foreign currency with local banks.

2007. These results include a high weight of the average interest rate accrued on foreign exchange reserves, which fell from 4.3% in 2007 to 3.1% in 2008, while the rate for monetary policy promissory notes stayed around 4.9%. This means that the cost of maintaining foreign exchange reserves grew compared to 2007.

Variations in exchange rates, which mostly affect assets, and shifts in UF, which mostly affect liabilities, produced a favorable 20% gap for implicit rates of changes in value (adjustment) of assets and liabilities (-3.2% in 2007).

Therefore, as usual, the factor with the greatest impact on the accounting results of 2008 was exchange rate variations. From late 2007 through late 2008, the value of the U.S. dollar against the peso rose by 27%. The value increase in pesos of the reserves was 31%, while the higher value of the net balance of all assets less liabilities in foreign currency of the balance sheet (foreign exchange position) was 29%. The differences between the latter rates and the rate of change in the dollar exchange rate are due to the appreciation of other foreign currencies which are part of the reserves. The value of the yen rose by 26% in U.S. dollars, while the euro fell by 3%.

Accordingly, the 2008 Statement of Income of the Central Bank discloses profits for Ch$2.55 trillion (table I.1), as per the following breakdown: earnings of Ch$2.48 trillion resulting from changes in value of assets and liabilities; earnings of Ch$186 billion resulting from revaluation of original capital (negative); losses of Ch$56 billion from interest; and losses of Ch$61 billion from non-financial costs. If the capital contribution made by the General Treasury in the year, worth Ch$428 billion, is added in, there is a positive capital variation in an amount of Ch$2.98 trillion, which explains the real change in equity, from its revalued starting value at -$2.36 billion to its closing value at Ch$618 billion. The capital contribution was deposited directly into equity, generating an equivalent rise in the balance of assets less liabilities in foreign currency of the Bank[3]/.

Again, the positive balance of net worth this year is mainly explained by the increase of the exchange rate. However, in view of the volatility of the price of the dollar in the last decade, it is highly probable that the Bank's net worth will be negative again in the coming years. This is why capital contributions authorized by the fiscal responsibility Law are so important, since they have a long-lasting positive impact on the assets of the Bank.

[3]/ In addition, by applying the International Financial Reporting System (IFRS) to compare net assets at end-2009 with those at end-2008, there is an increase of Ch$ 200 billion. This increase is mainly due to the inclusion of the higher market value of part of the foreign currency holdings.

TABLE I.1

Central Bank of Chile Balance Sheet

(balances in Ch$ billion and as percent of GDP, as of 31December of each year)

					Profitability rate (%) (2)			
	2007		2008		2007		2008	
	Balance	%GDP	Balance	%GDP	Interest	△Value	Interest	△Value
Assets (1)	**10,940**	**12.8**	**18,233**	**19.8**	**4.6**	**-1.5**	**3.4**	**25.6**
Net foreign reserves	8,384	9.8	14,572	15.8	4.3	-2.6	3.1	31.5
General Treasury promissory notes	69	0.1	0	0.0	14.1	-5.5	1.5	12.7
Other public sector assets	772	0.9	873	0.9	6.3	4.1	7.5	5.2
Subordinate debt	957	1.1	990	1.1	5.1	6.7	5.2	8.8
Monetary policy instruments (3)	564	0.7	1.562	1.7	3.8	0.0	1.5	1.3
Other	194	0.2	235	0.3	2.9	-3.3	3.0	18.0
Liabilities (1)	**13,117**	**15.3**	**17,615**	**19.1**	**3.4**	**1.7**	**3.6**	**5.6**
Monetary base	3.672	4.3	4,230	4.6	1.0	0.0	0.8	0.0
Monetary policy promissory notes (4)	7.758	9.1	10,617	11.5	4.9	3.6	4.9	5.8
Other monetary policy liabilities (5)	1.163	1.4	2.156	2.3	2.8	-2.0	3.6	10.4
Current accounts and reserve requirement in foreign currency	116	0.1	231	0.3	0.0	-3.5	0.0	22.6
General Treasury and other public sector deposits	207	0.2	136	0.1	2.1	0.0	3.3	33.7
Other	201	0.2	245	0.3	2.0	0.7	1.1	37.4
Equity (1)	**-2,177**	**-2.54**	**617.7**	**0.67**	**698**			
Revalued initial capital	-2,281		-2,363					
Nominal initial capital	-2,144		-2,177					
Own capital revaluation	-137		-186					
Net result	-282		2,551					
Non-financial results (6)	-51		-61					
Net interest (6)	70		-56					
Changes in value (7)	-438		2,482					
Less: own capital revaluation	137		186					
Capital contributions	387		428					

(1) Equity assessed is equivalent to accounting measure; however, total assets and total liabilities differ, mainly reflecting the different treatment of provisions, temporary assets and temporary liabilities.

(2) Implicit rates are calculated based on estimates of average balances and losses/profits due to interests or changes in value. The resulting rates may be distorted if end-of-month balances used to estimate the average balances are not representative.

(3) Includes credits to banks guaranteed using foreign currency deposits (foreign currency swaps) or with risk-free securities (repos) and liquidity lines in national and foreign currency.

(4) Includes PDBC, BCP, PRC, CERO UF, BCU, and PRD.

(5) Short-term remunerated bank deposits in domestic and in foreign currency. Deposits in foreign currency, except daily ones, guarantee credits in domestic currency (note 3).

(6) The foreign currency component of these items is translated to pesos using average exchange rates.

(7) Includes indexation in domestic currency and the effect of foreign exchange rate fluctuations on assets and liabilities in foreign currency. In 2006, it also includes deferred loss write-off.

Source: Central Bank of Chile.

G.3 Balance sheet positions

Currency positions disclosed in the balance sheet allow assessing the net worth exposure to foreign exchange (forex) risk. Moreover, as it breaks down the nature of the flows which shape the changes in the balance, it is possible to track the Bank policies more precisely, by separating the variation derived from transactions per se (exchanges) from the variation derived from interest and changes in value.

The position of the Bank denominated and payable in foreign currency rose by US$5.8 billion (Ch$2.87 trillion) from exchange operations, which represents 36% of the starting value in dollars of said position (tables I.2 and I.3). This amount includes purchases of foreign currency in an amount of US$5.75 billion of the reserve accumulation program. The rest is related to smaller exchange transactions with the government, habitually carried out by the Bank in order to make management of the General Treasury easier.

This growth in the foreign currency position included an increase in foreign exchange reserves amounting to US$5.72 billion, a delivery of funds by the government in an amount of US$534 million, an increase in the net credit to banks for US$554 million, and the growth of the net credit balance for other operations for US$64 million (table I.3).

TABLE I.2

Central Bank of Chile Balance Sheet Positions

(balances as of 31 December of each year and annual flows in Ch$ billion)

	Balance 2007	Flows year 2008 (3) Exchanges (4)	Profits and △capital (5)	Balance 2008
Denominated and payable in pesos (1)	**-9,948**	**-3,067**	**-850**	**-13,865**
Monetary base (2)	-3,672	-527	-30	-4,230
Central Bank promissory notes	-7,560	-2,096	-959	-10,614
Banks	-435	-326	-35	-796
Other	1,719	-119	175	1,775
Denominated in foreign currency and payable in pesos (1)	**-198**	**196**	**-1**	**-3**
Denominated and payable in foreign currency (1)	**7,969**	**2,871**	**3,645**	**14,485**
EQUITY (1)	**-2,177**	**0**	**2,795**	**618**

(1) The positions are defined as assets minus liabilities; thus, the sum thereof is equivalent to equity. Because assets are added and liabilities are subtracted, the resulting signs of both balances and flows must be assimilated, with the same sign, as positive or negative contributions to equity.

(2) Because the monetary base is a negative component of the position denominated and payable in domestic currency, its negative flows (due to exchanges or net profits) correspond to increases of the position while positive flows correspond to decreases. Exchange flows of other entries, are the balancing entry of its increase or decrease due to exchanges.

(3) Flows are, generally, the result of operations or imputations, which are translated into changes in balances.

(4) Exchange flows are produced whenever an asset or liability is modified as a consequence of the opposite variation of other asset or liability. In aggregate terms, exchanges do not modify, by themselves, the level of equity.

(5) Includes interests, price-level restatements and other changes in value and profits minus non-financial losses.

Source: Central Bank of Chile.

TABLE I.3

Positions Denominated in Foreign Currency in the Central Bank of Chile Balance Sheet

(balances as of 31 December of each year and annual flows in US$ million)

	Balance 2007	Flows year 2008 (2) Exchanges (3)	Flows year 2008 (2) Profits and △ capital (4)	Balance 2008
Denominated in foreign currency and payable in pesos	**-400**	**395**	**0**	**-5**
Denominated and payable in foreign currency	16,073	5,801	1,151	23,025
International reserves (1)	16,910	5,717	535	23,162
Central Government (net)	-319	-534	724	-128
Banks (net)	-463	554	-48	43
Central Bank bonds and promissory notes	**0**	**0**	**0**	**0**
Other (net)	**-56**	**64**	**-60**	**-52**
TOTAL	**15,673**	**6,196**	**1,152**	**23,020**

(1) Because international reserves are a positive component of the position denominated and payable in foreign currency, its flows reflect, with the same sign, the direction of its variations. Exchange flows of other entries, but with the opposite sign, are the balancing entry of its increase or decrease due to exchanges.

(2) Flows are, in general, the result of operations or imputations that translate into changes in balances.

(3) Exchange flows are produced whenever an asset or liability is modified as a consequence of the opposite variation of other asset or liability. In aggregate terms, exchanges do not modify, by themselves, the level of equity.

(4) Includes interests, price-level restatements and other changes in value, profits minus non-financial losses, and capital contributions.

Source: Central Bank of Chile.

The above mentioned assets and liabilities suffered additional variations due to the interests and changes in value affecting them and also due to the disbursement (collection) of non-financial costs (income). Foreign exchange reserves grew by US$6.25 billion, US$535 million of which correspond to interest accrued and changes in the dollar value thereof. Likewise, against the net cash flow of the government at the Central Bank for an amount of US$534 million, US$731 million were charged for the capital contribution from the General Treasury and US$7 million were paid in interests earned for such deposits. Thus, the net balance of the liabilities to the government fell by US$190 million, from US$319 to US$128 million (table I.3). The US$554 million cash flow from transactions with banks mainly results from the measures taken when the international financial crisis intensified last September. The Bank provided foreign exchange liquidity to the banking system by means of swap operations in an amount of US$988 million. This flow was partly offset by the increase in deposits from banks with the Bank, both in current accounts and in dollar-liquidity deposits, for a total amount of US$434 million.

Cash flows from forex operations, which raised the Bank's foreign exchange position –denominated and payable in foreign currency— to Ch$2.87 trillion, necessarily caused an equivalent net decline in the position payable in domestic currency. Thus, the position denominated and payable in domestic currency decreased by Ch$3.1 trillion and the position payable in pesos, but denominated in foreign currency increased by Ch$196 billion. The negative variation of Ch$3.07 billion of the position denominated and payable in domestic currency materialized in cash flows which increased the monetary base by Ch$527 billion, the promissory note indebtedness by Ch$2.1 trillion, the net debt with banks by Ch$326 billion, as well as in cash flows which reduced the net balance of other assets of the Bank by Ch$119 billion. All these assets and liabilities suffered additional reductions of Ch$850 billion resulting from interests, indexation and non-financial costs incurred throughout the fiscal year. The positive cash flow of Ch$196 billion for the position denominated in foreign currency but payable in domestic currency, resulted from the redemption of almost all the BCD in January 2008.

In 2008, the total increase of the monetary base, considering the interests paid for the operating reserve (MPR less 100 basis points), reached Ch$558 billion, thereby achieving real growth higher than the GDP growth. This is partly attributable to the reserve accumulation program. Notwithstanding the above, the share of the monetary base on total liabilities fell from 28% by year-end 2007 to 24% by year-end 2008. It should be noted that a lower share of monetary base on financing worsens the profitability of the balance sheet because its financial cost is negative in real terms and is certainly lower than the real positive cost of most of the remaining liabilities. In the medium term, as the monetary policy becomes more expansionary, the monetary base is expected to grow at rates over those of the GDP and also to increase its share in the liabilities of the Bank.

The net increase in liabilities with banks for Ch$326 billion includes a Ch$374 billion expansion resulting from repo operations and liquidity line, and a Ch$698 billion contraction resulting from liquidity deposits made by banks, mainly attributable to the dollar repurchase agreement. The breakdown of the Ch$120 billion decrease of the net balance of other assets include: servicing by the General Treasury of the last installment of fiscal promissory notes in UF ($73 billion), servicing by shareholders of banks of subordinated debt owed to the Bank ($98 billion), and a remaining net expansion of Ch$55 billion, mainly resulting from non-financial results in pesos of the Bank.

Along with the above described cash flows, which are balancing items for changes in monetary base and foreign exchange reserves, the other assets and liabilities in the balance sheet fluctuate with accrued interests and changes in value. These combined factors account for the changes in balances described above. In short, it is worth noting that there was an increase —both nominal and as GDP share— of assets and liabilities of the balance sheet, mainly resulting from purchase of reserves and operations with banks. The decrease in assets and liabilities with the government was more than offset by the increase in assets in foreign exchange reserves resulting from the purchase of foreign currency and capital contributions, and the increase of liabilities resulting from the issue of promissory notes in domestic currency, as well as increases in assets and liabilities resulting from operations with banks. Finally, as a result of the accumulation of reserves and of the changes in the

interest rates accrued by the Bank's assets and liabilities, during 2008, the balance sheet interest profitability declined; that is, after excluding capital gain that may be temporary, since they depend on the exchange rate, which has recently shown significant fluctuations.

G.4 Capitalization of the Central Bank

Law 20,128, governing fiscal responsibility, empowers the General Treasury to make up to five capital contributions to the Bank, each worth up to 0.5% of the GDP of the previous fiscal year. Last August, pursuant to said Law and with Executive Decree 600 issued by the Ministry of Finance on 25 April 2008, the government carried out the third specific contribution to the net worth of the Bank. Such contribution was charged to the effective fiscal surplus of 2007, in an amount of Ch$428.2 billion. Said contribution was made in its equivalent value in U.S. dollars in an amount of US$730.7 million, which was incorporated as part of the foreign exchange reserves of the Central Bank of Chile, as per the policy established by the Board by Resolution 1289-02, adopted in the Session held on 31 August 2006. This specific contribution was completed in two opportunities: in August and October of 2008. In 2006, this contribution reached Ch$323 billion (US$606 million), and in 2007, it reached Ch$387 billion (US$736 million).

G.5 Prepayments by the General Treasury

The liability for fiscal promissory notes issued in foreign currency, as per Article 75 of Law 18,768, was cancelled during fiscal year 2007, in agreement with the pertinent Board Resolutions whereby it was resolved to accept the early payment of the fiscal promissory notes of this kind which were still outstanding. The liability for fiscal promissory notes issued in domestic currency expired when the last installment was paid in late 2008.

II. Institutional management and governance

A. Organization and operation

A.1 The Board

The Board has five Members, one of whom chairs it and serves as the Central Bank's Governor. The Board is responsible for the senior governance and management of the Central Bank of Chile, in its nature as an institution of constitutional rank under public law. Board Members are appointed by the President of Chile by means of an Executive Decree issued by the Ministry of Finance, with prior approval of the Senate. Members hold office for a renewable period of ten years, and the Board is renewed on a partial basis every two years, i.e. one member is changed at each time [1]/.

The Central Bank Governor is appointed by the President of Chile from among the Board Members. The Governor holds office for five years or until his/her appointment as Board Member expires, whichever comes first, and he may be reappointed for new periods. Along with chairing the Board, the Governor is responsible for representing the Central Bank on non-judicial matters and directing institutional relations with public authorities, financial institutions, and international bodies. Mr. José De Gregorio Rebeco was appointed Governor on 7 December 2007 to hold office for the time left until his term of office as Board Member expires, i.e. until 9 December 2011.

The Deputy Governor is appointed by the Board, which will also specify the applicable term of office. It is the Deputy Governor's duty to replace for the Governor and to perform any other task entrusted to him. Mr. Jorge Desormeaux Jiménez, who had been appointed Board Member in December 1999, was now appointed Deputy Governor on 13 December 2007. His term of office will expire on 7 December 2009, on which date his term of office as Board Member expires as well.

[1]/ Title II of the Central Bank's Basic Constitutional Act, as per Articles 108 and 109 of the Chilean Constitution, includes the regulations governing the Board and the specific laws applicable to Board Members in terms of their appointment, compensation, incompatibilities, conflicts of interest, causes for termination of office, and other legal obligations inherent to the fulfillment of their duties. The last amendment to that Title was Article 7 of Law 20,088 on Equity Affidavit.

The other Board Members are: Mr. Manuel Marfán Lewis (appointed in December 2003), Mr. Enrique Marshall Rivera (appointed in December 2005), and Mr. Sebastián Claro Edwards (December 2007). All of them were appointed for a 10-year term.

Generally, the Board is responsible for exercising the authority and fulfilling the tasks entrusted to the Central Bank by law to comply with its mission: To ensure monetary stability and normal operation of domestic and external payments. The Board therefore determines the general policies of the Central Bank, issues regulations governing its operation, and supervises the upper levels of the Central Bank. For such purposes, it also conducts ongoing assessments in compliance with the general rules and policies it has established and on the development of institutional activities.

Rules governing Board sessions and resolutions

The Central Bank operates essentially through agreements and other resolutions passed by the Board according to the organizational statute to which it is subject.

The Board must hold regular sessions at least once a week, and special meetings when these are called by the Governor, per se or in response to a written request from two or more Board Members. Resolutions adopted must be included in the minutes of the meeting at which they were adopted.

Board resolutions must be adopted by a minimum quorum of three Members present and must have the favorable vote of the majority of the members present, except where the law requires a special quorum for certain resolutions, by reason of their importance and relevance[2]/. The Board Member chairing the session will have the casting vote in case of a tie. The Board generally holds its meetings at its offices in Santiago, but is nonetheless empowered to meet and validly pass legal resolutions, regulations or otherwise make decisions elsewhere within the territory of Chile.

A.2 Coordination and transparency mechanisms within the institutional structure of the Bank

The Central Bank's Basic Constitutional Act establishes the relationships that allow the Central Bank to adequately fulfill its duties in coordination with the Executive Power and the other governmental bodies, thereby ensuring suitable control of its acts. Provisions in this sense include:

[2]/ Among other reasons, special quorum is required to approve internal regulations governing Board and Central Bank operation; to insist on the approval of a resolution that has been suspended or vetoed by the Finance Minister; to adopt, renew or early terminate foreign exchange restrictions; to receive deposits from the General Treasury or other governmental bodies; and to waive immunity from enforcement proceedings in respect of international contracts entered into by the Central Bank on economic and financial matters.

i) Section 6, subsection two of the Basic Constitutional Act, which defines coordination between the Board and the government, states that on passing resolutions, the Board shall keep in mind the general direction of the economic policy of the government.

ii) Before 30 April of each year, the Central Bank must submit to the Minister of Finance and the Senate a report on its activities of the previous year, including policies and programs implemented during that period. This *Annual Report* must include the financial statements with their respective notes and the opinion of external auditors.

iii) In terms of information about policies adopted and annual programs, the Basic Constitutional Act also requires that the Central Bank report to both the Minister of Finance and the Senate, no later than 30 September of each year.

iv) It is the Bank's duty to report to the President of Chile and the Senate regarding general rules and policies it approves in exercising its powers, and to advise the Executive Power, when the latter requires so, on all matters having to do with the Bank's duties.

v) The Minister of Finance can attend Board meetings with the right to speak, and can propose the adoption of certain resolutions. For this purpose, the Minister must be given written advance notice of all calls to Board meetings and agendas to be dealt with thereat.

vi) The Minister of Finance can suspend any Board agreement or resolution for up to 15 days, unless all Board Members unanimously insist on the application thereof, in which case the Minister's suspension will not take effect.

vii) The Minister of Finance has the right to veto Board resolutions which impose, terminate or modify foreign exchange restrictions referred to in Section 49 of the Basic Constitutional Act. In the event of a veto, the related restriction can only be adopted through unanimous vote of all Board Members.

These last two items aim to promote dialogue with the Executive Power before the adoption of highly important resolutions. This should prevent any possible disruption caused by any suspension or veto thereof, thus overcoming the differences in criteria that may arise with regard to economic measures, giving priority in all cases to the Central Bank's autonomy and technical nature.

Aside from these legal regulations, the Board has established different regulatory provisions aimed at keeping both the authorities and the general public permanently informed about any measures adopted, within the context of transparency of its acts, and keeping in mind that its decisions play a crucial role in the general public's and market's perception of Central Bank policies and their impact on the economy. Consistently with this principle, it continuously incorporates the best international practices with the purpose of making its decisions transparent.

These measures include providing advance notice of the dates of Monetary Policy Meetings and publication of the minutes arising therefrom, along with those arising from resolutions regarding monetary, credit, financial or foreign exchange regulations. Likewise, special consideration should be granted to the adoption of Board Resolution 1289-01, issued on 31 August 2006, on institutional policy regarding information disclosure. It stipulates a systematic scheme on the manner and frequency of information to said authorities and to the general public is to be rendered. This aims at contributing efficiently to the timely and periodical knowledge of the measures adopted by the Central Bank regarding monetary, foreign exchange and capital market regulatory policies, and the grounds on which they are based.

In the same context, the *Monetary Policy Report* is submitted to the Honorable Senate and it is published three times a year, in January, May and September also, the *Financial Stability Report* is published twice a year, in June and January. Additionally, it also reports regularly on foreign exchange reserve management, included in this *Annual Report* and the *Report on the Balance Sheet*, included in its *Monthly Bulletin*.

Law 20,285 on Access to Public Information was published in the *Official Gazette* on 20 August 2008 and will come into force on 20 April 2009. Based on the Bank's nature as public body in which the Constitution has vested autonomy and technical character, this law provides for the inclusion of a new Section 65 bis in its Basic Constitutional Act, and for the replacement of the first subsection of its Section 66, which deals with the confidentiality duty applicable thereto. In this way, the application of said legislation was adjusted to the constitutional framework of the Central Bank of Chile.

The first aforementioned legal provision expressly declares that the Bank is governed by the principle of transparency in the exercise of its public function, and publicity of and access to information shall be governed by Law 20,285. Furthermore, it empowers the Board to enact the rules and instructions necessary to comply with the above mentioned legal provisions, and it provides for the application of the illegality resource specified by the Basic Constitutional Act itself, so that any person may exercise the right to claim for the non-delivery of information within the term established or for the denial of the pertinent request, before the Honorable Court of Appeals of Santiago. Said law also amended the first subsection of Section 66 of the Basic Constitutional Act in relation with the confidentiality obligation of the Bank, restricting said duty to the specific situations specified in the new legal text. Likewise, the decision by the Honorable Constitutional Court regarding the bill pertinent to said Law, by means of Judgment Rol No. 1051-08-CPR, on this same issue should be taken into account.

The Board of the Central Bank of Chile, in accordance with the legal system in force regarding transparency and access to public information, decided to create during 2008 a multidisciplinary group within itself, which has led and coordinated all tasks related to this project. It also created an internal committee presided over by the Deputy Governor of the Bank and composed of the General Manager, General Counsel, General Auditor, and the Division Directors, to see the progress of the project. The tasks to be performed by the project group include: personnel training, through a series of lectures aimed at creating awareness of the Law and its impact on the Bank; design of IT systems, enabling the complete and timely publication of the information required by law and the ability to answer information requests from the public; analysis of the existing institutional information, so as to classify it as either public or confidential; and, finally, proposals to the Board of rules and internal procedures to enforce the above legal provisions on access to public information.

A.3 Board regulations

The current regulations in force applicable to the operation of the Board include general rules applicable to Board meetings, with regard to callings, agenda, participation and debate, minutes, and information releases to public on the matters dealt with, through the pertinent minutes. They also include special rules related to monetary policy meetings, dealing primarily with their frequency, participants, agenda and debate, minutes, summary of discussions, and release of resolutions through a public news release, sent out once the meeting ends.

In view of their importance and to make them as widely available as possible, these regulations were published in the *Official Gazette* and may be accessed directly in the website of the Bank at www.bcentral.cl.

A.4 General Management, General Counsel and Audits

Clauses 24, 25, and 26 in the Basic Constitutional Act stipulate that the General Manager will manage and supervise the Central Bank, according to the instructions and powers provided by the Board. The General Counsel must, as its sole task, safeguard the Bank's legal structures and control legal risk associated with the Central Bank acts. In turn, the General Auditor is responsible for inspecting and enforcing internal regulations regarding accounts, operations and administrative rules.

Since 7 August 2006, Mr. Alejandro Zurbuchen Silva has served as General Manager, and Mr. Leonardo Hernández Tagle, as Deputy General Manager. On 9 December 2008, Mr. Leonardo Hernández Tagle resigned to his office as Deputy General Manager, which was accepted by the Board and became effective on 5 February 2009. Mr. Miguel Ángel Nacrur Gazali has served as General Counsel and Certifying Officer since 1997. Ms. Silvia Quintard Flehan has served as General Auditor since 1 January 2007.

A.5 Audit and Compliance Committee

Through Resolution 1330-01-070419, the Board created the Audit and Compliance Committee and approved the organizational statute governing it. As an advisory body to the Board, this Committee fulfils its role by performing tasks that involve reporting on the effectiveness of internal control systems and procedures; assessing and reporting on the implications for the Bank's capital and reputation of complying with its obligations; assessing confidentiality, integrity and timeliness of information forming part of the financial statements; coordination with the Central Bank's General Auditor in terms of the roles assigned by the Basic Constitutional Act; and proposing the hiring of external auditors. This Committee is chaired by Mr. Luis Bates Hidalgo and composed by Mr. Vivian Clarke Levi and Mr. Francisco Mobarec Asfura.

During 2008, seven meetings were held, which allowed the following actions: To assess and propose the hiring of the independent auditing firm, to review the annual auditing plan and its final opinion, and to learn of the activities of the internal audit and of the information, internal control, and risk management systems, with the purpose of enforcing the provisions of the statute governing it. The Committee rendered account of its main activities and proposals, as provided for in Article 21 of its statute, at the Special Board Meeting held on 20 June 2008.

B. Internal administration

B.1 Strategic planning

During 2008, the Central Bank of Chile prepared the guidelines of the strategic plan to be implemented between 2009 and 2012, in consistency with its permanent mission: "to contribute to the good performance of economy and the well-being of the community, ensuring the stability of the currency and the normal functioning of the internal and external payment systems". The

Alejandro Zurbuchen Silva
General Manager

strategic plans prepared by the Central Bank are connected with the term of office of each Governor. Thus, in 2008 the former plan corresponding to the 2006-2008 period was concluded.

The most relevant items of the strategic plan prepared for the 2009-2012 period are as follows:

- Leadership is of the essence: To return inflation to the target range and preserve financial stability, handling the global crisis at the lowest possible cost.

- Efficient management in a friendly working environment: To achieve strategic and operational leadership at a regional level.

- Modernity and tradition: New family of banknotes and coins.

Based on these definitions and the budget set forth by the Board, the different work units aligned their strategic objectives and the specific initiatives that will be developed during the following years.

B.2 Internal organization, restructuring and appointment of executives

During 2008, the Bank implemented some changes in its internal structure to advance in the process of the management streamlining process implemented by virtue of Resolution 1152E, passed on 22 September 2004, and to fulfill the strategic goal set for the 2006-2008 period, with a view to improving internal management. Within this context, and aiming at consolidating the statistical function, the Board decided to modify the internal organization as per Resolution 1402-02 dated 17 April 2008, and created the Statistics Division, to be in charge of the preparation and dissemination of domestic macroeconomic statistics, in compliance with the Bank's Basic Constitutional Act. This Division is made up of the Macroeconomic Statistics Management and the Statistics Information Management.

On the other hand, as from the implementation of the Integral Security Policy approved by the Board, the specific objectives and functions of the Security Area were revised, which made it necessary to reassign the tasks and functions and to create the Security Operations Department. The creation of this Department was decided at Board meeting 1409, held on 8 May 2008.

As regards appointment of executives, in May 2008 Mr. Matías Bernier Bórquez was appointed Domestic Financial Markets Manager; Mr. Pablo Herrera Fones, Interim IT Manager; Mr. Ricardo Vicuña Poblete, Statistics Division Director, and Mr. Claudio Soto Gamboa, Macroeconomic Analysis Manager. In July 2008, Mr. Francisco Ruiz Aburto was appointed Macroeconomic Statistics Manager, and Mr. Juan Pablo Medina Guzmán, Head of Models and Projections Department. In August 2008, Mr. Luis Felipe Céspedes was appointed Economic Research Manager, and he took office on

16 March 2009. In the meantime, Mr. Jorge Selaive Carrasco acted as Interim Economic Research Manager. In October 2008, Ms. Carmen Gloria Escobar Jofré was appointed Head of the Domestic Accounts Department. In December 2008, Mr. Juan Eduardo Chackiel was appointed Head of the Balance of Payments and Foreign Debt Department, and he took office in 2 January 2009. In January 2009, Mr. Leonardo Jadue Jadue was appointed Informatics Manager, and he took office on 16 February 2009. In February 2009, Ms. María Inés Urbina De Luiggi was appointed Logistic Services Manager.

B.3 Human resources management

Following with the general program for the human resources streamlining process launched in 2004, and on the basis of the individual management policies adopted by the Board by late 2007, during 2008 the regulations applicable to those policies were developed, thus regularizing a set of changes already made in the field of human resources management. In 2008, the Bank continued with the competency-based project.

Individual management policies

A key element for these new policies and regulations is to view human resources as a major corporate asset. They are focused on generating dynamism and efficiency to keep the value of human capital over time. The review and update of the Bank's individual management policies included relevant information from the existing literature, and also introduced the experience acquired during the past years by other central banks and private sector organizations regarding human resources management.

These policies reflect the major trends observed in the employee working cycle within the Bank, since they develop the various concepts and implications of each of the different stages that employees go through during their career.

The different systems considered in these policies and regulations start with personnel planning, then continue with employee hiring, induction and integration, compensations, training and development, and end with the career development, performance evaluation and retirement.

The following is a summary of the main aspects associated with each of the human resources systems.

(a) Personnel Planning System

Human resources planning seeks to identify and plan qualitative and quantitative personnel needs, with a view to strategic planning of the real corporate requirements necessary to the Bank's business. A responsible and efficient resource planning is essential to an adequate personnel planning.

Based on its short- and mid-term strategic planning, the Board annually approves the payroll for the following year, and the General Manager decides the distribution of the workforce within the Bank and determines the compensation corresponding to each position.

(b) Recruiting, Selection, Hiring and Induction

An important source of personnel development within the Bank is its internal mobility, because it is an efficient way to acquire new knowledge and skills and handle professional challenges to both employees and the Bank. Accordingly, the Bank represents that its first recruiting source is its own staff, to which end internal opposition of backgrounds are conducted to ensure operational continuity in the Bank, and to contribute to employees' development through internal mobility and to promote an outstanding performance.

Also, as a rule of thumb, any person hired by the Bank will be incorporated under an open-ended employment contract. Exceptions to this rule are handled as term contracts, entered into only for specific projects and for a specific term.

In the case of new hires, the Bank has an institutional induction program which is implemented by the Human Resources Management. This is the first contact of the employees with the Bank's authorities, which consists of a guided tour of its main facilities and the presentation of a general view of the Bank's strategic planning, mission, values, and also the relevant regulatory and administrative aspects. New employees also receive induction at their new positions, where the heads of each department deliver all the information that is needed for the proper performance of their duties.

(c) Compensations

The Bank's compensation structure is based on three essential issues: compensation (base or fixed), incentives (payable on a one-time basis) and benefits. As part of its policy, the Bank offers equitable compensations and benefits, in line with the position held, and competitive as compared with a market benchmark. This compensation model aims at recruiting, fostering and keeping the top performing employees within the Bank's scope.

This compensation structure consists of eleven position levels, defined as benchmarked against a group of companies, which is reviewed on a regular basis to keep figures updated. Based on this structure, policies and regulations set forth a set of regulations for promotions and compensation adjustments to ensure continuity, consistency and transparency to the model of individual development within the Bank.

Also, employees compensation has a variable component, which is an incentive associated with the achievement of the Bank's overall goals, of the goals of each work unit and of goals at an individual level. This incentive is a performance bonus hinging on the achievement of goals, and it is paid on a yearly basis.

(d) Career Development

The Bank's policy is to promote the development of all of its personnel, favoring employee horizontal transfers and promotions within the Bank, and giving its employees the possibility to harmonize their development expectations with the Bank's needs and opportunities.

The options for career development offered by the Bank are based on the evaluation of the employees' potential skills, and there are a number of development tools among which the following stand out: in-house training for the position to be taken (teacher-apprentice); institutional training/development activities; coaching; internships and academic exchanges and visits; external transfers, post-graduate programs.

The Bank represents that the development of its employees is each employee's own responsibility. The Bank is responsible for providing the necessary tools and support to achieve such development. As an exception, the Bank may take more direct actions to foster development of those employees that will be appointed to critical positions.

(e) Performance Evaluation

To carry out an adequate individual management it is necessary to have objective control and measurement tools, validated by all members, so as to properly motivate, develop and train the Bank's in-house personnel.

The performance evaluation system is intended to learn about, assess, identify and modify the employees' effectiveness in the performance of their tasks over a specific period of time. A major element to be taken into account is how the employee performs the tasks he has been assigned and his attitude at work under different scenarios, paying special attention to those concepts related to organizational values.

(f) Training and Development

In the current management model, individuals are responsible for their own development within the Bank; however, heads of the different areas continue to be responsible for training promotion and for guiding the development of their working teams.

One of the main aspects to be taken into consideration in this system, both at the training and the development level, is the integration of requirements arising from the different stages of the employee's cycle within the Bank. And, because of limited resources, development and training actions are necessarily oriented to those activities most closely related to organizational strategy, both related to the everyday operations and to future requirements of skills and knowledge necessary for the future development and efficient continuity of the organization.

(g) Personnel Retirement

In line with the importance rendered in the policies in favor of individual development over their job cycle, the Bank developed during 2008 a retirement policy aimed at favoring the retirement of those employees who already fulfill or are about to fulfill all the legal requirements for retirement. This policy is permanent in nature and provides for an incentive for early retirement (up to three years prior to the legal retirement age) which decreases over time. It also includes additional retirement benefits and other benefits associated to health and education.

This retirement policy has as main objectives to recognize the services rendered by employees, to facilitate an adequate conclusion of the job cycle in the Bank, and to provide job mobility to employees within the organization.

Other Projects Developed in 2008

With the clear intention to train and develop the Bank's top managers, the second stage of the competency-based management project was implemented in 2008. The goal of this stage was to evaluate job skills of executives and managers by means of individual measurements. These measurements will generate, as from 2009, specific action plans to handle the main gaps identified during the evaluation. This project will be implemented jointly with the management skills training plan that the Bank has been implementing since 2006.

Besides, in 2008 the plans to improve the working environment in all the Bank's areas continued to be implemented, based on the results of the working environment surveys conducted in 2006 and 2007. During the last two years, work teams received support and interventions aimed at improving the working environment, thereby making it easier to achieve the objectives of the work unit and the Bank. A thorough research on the working environment will be conducted in 2009, and every two years thereafter.

B.4 Control management

The Comptroller's activities focus on helping the Board and management to fulfill their duties, through an independent, objective and systematic evaluation of the design and effectiveness of risk management, internal controls and corporate governance. It also carries out consulting activities that, combined with the above, add value and contribute to the achievement of the institutional objectives.

In 2008, the main challenges were oriented to: contributing to the consolidation of Audit and Compliance Committee activities, maintaining the certification and quality of the audit process and of its personnel, and implementing an audit plan based on international practices.

B.5 Main contracts and consultancies

Below we provide the main contracts executed by the Bank, worth more than Ch$100 million. Their purpose is to provide goods and services necessary to the normal operation of the Bank (tables II.1 and II.2). On the issuing of banknotes and coins, section E.3 provides general information on contracts executed pursuant to the 2008 issue schedule.

TABLE II.1
Contracts entered into in 2008
(amounts over Ch$100 million while in effect)

Name of provider	Contract purpose	Effective	Ending
Alemparte y Cía. Ltda.	Building services	25-04-2008	25-09-2008
KPMG Auditores Consultores Ltda. (1)	Independent audit	08-05-2008	08-05-2013
Logica Cmg Uk Limited	Informatic and technological services	11-06-2008	22-07-2009
S&A Consultores Asoc. Chile S.A.	Informatic and technological services	19-05-2008	30-06-2008
Sodexho Pass Chile S.A. (2)	Food services	09-07-2008	09-07-2011
Nous Medina Silva Ltda. (2)	Informatic and technological services	03-10-2008	03-10-2011
Logica Cmg Uk Limited	Informatic and technological services	11-06-2008	Open
Transportes Nueva Apoquindo Ltda. (2)	Radio taxi service	01-11-2008	31-10-2011
Transportes Nuevo Flash S.A. (2)	Radio taxi service	01-11-2008	31-10-2011
Xperience Consult. y Serv. Comp. Ltda.	Informatic and technological services	12-03-2008	08-06-2008

(1) Three-year contract with the possibility of two renewals for one additional year each.
(2) One-year contract with the possibility of two renewals for one additional year each.

Source: Central Bank of Chile.

TABLE II.2
Expenditures in consulting, surveys, studies and seminars
(millions of Ch$ of 2008) (*)

	2004	2005	2006	2007	2008
Consultancies	506.8	442.2	508.0	1,662.5	1,293.0
Surveys and studies	686.0	466.1	271.2	304.7	418.0
Seminars	161.9	134.7	146.1	229.9	199.8

(*)The average CPI was used to update older figures to pesos of 2008.

Source: Central Bank of Chile.

C. Operating expenses

Operating expenses include personnel compensations and benefits, use and consumption of goods and services, and other associated expenses necessary for carrying out the Bank's activities (table II.3). In the income statement, these expenses are broken down as follows: i) personnel; ii) administration; iii) depreciation, amortization and write-offs; and iv) taxes, contributions and levies. Of the total operating expenses, personnel accounts for 61%; administration, 30%; depreciation, amortization and write-offs, 8%; and taxes, contributions and levies, 1%.

Personnel expenses

From 2004 to 2008, personnel expenditures rose by 17.6% in real terms, from Ch$19.5 billion in 2004 to Ch$22.9 billion in 2008. This reflects a gradual evolution in the personnel structure, with a trend towards professionalization and a decline in administrative, secretarial and service personnel. From December 2004 to December 2008, employees rose 4.0%, from 598 to 622 officers. Professionals, along with executives and senior management accounted for 51% of total staff in 2004 and 65% of total staff in December 2008. For the future, this trend toward a larger proportion of professionals is expected to continue. The real annual 2.9% increase in personnel expenditures in 2008 mainly reflected a rise in severance payment expenditures for years of service.

Administrative expenses

Administrative expenses rose by 33.1% in real terms from 2004 to 2008, from Ch$8.46 billion to Ch$11.27 billion. The rise mainly reflects higher expenses for computer services, and consulting and professional services. The yearly real 10.4% rise in administrative expenditures in 2008 mainly reflects higher expenses related to maintenance of fixed assets and computer expenses.

TABLE II.3

Main operating expenditures

(millions of Ch$ of 2008) (*)

	2004	2005	2006	2007	2008
Operating expenditures					
Personnel expenditures	19,492.8	19,590.0	20,476.1	22,288.9	22,925.7
Administrative expenditures	8,464.5	7,715.2	8,439.5	10,208.7	11,269.2
Depreciations, amortizations and write-offs	1,881.4	1,888.4	1,617.3	2,407.9	2,913.4
Taxes and contributions	573.8	546.6	523.9	486.2	495.1
Total	**30,412.5**	**29,740.2**	**31,056.8**	**35,391.7**	**37,603.4**
A. Personnel expenditures					
Wages and other employer contributions	15,732.7	15,664.7	16,360.0	18,348.5	18,017.9
Welfare	2,105.0	2,174.1	2,242.8	2,287.3	2,418.6
Training	329.9	489.4	698.2	682.9	570.0
Provisions for severance payments	1,325.1	1,261.8	1,175.0	970.3	1,919.2
Total	**19,492.7**	**19,590.0**	**20,476.0**	**22,289.0**	**22,925.7**
B. Administrative expenditures					
Utilities	690.2	696.0	690.6	801.8	902.3
General services	2,925.3	3,047.5	3,129.4	3,276.5	3,550.4
Maintenance of fixed assets	1,100.3	465.1	958.1	741.2	1,173.4
Expenditure in informatics and technological development	2,393.9	2,463.6	2,736.1	3,192.2	3,732.3
Consultancies, surveys, studies and seminars	1,354.7	1,043.0	925.3	2,197.0	1,910.8
Total	**8,464.4**	**7,715.2**	**8,439.5**	**10,208.7**	**11,269.2**

(*) The average CPI was used to update older figures to pesos of 2008.

Source: Central Bank of Chile.

D. Communication and diffusion

D.1 Main publications

Throughout 2008, the main purpose behind the Central Bank's publications policy was to increase transparency in the delivery of economic information, improve its timeliness, and provide the public with information on key economic issues.

The main publications through which the Bank has communicated its policies are: the *Monetary Policy Report* and the *Financial Stability Report*. The *Monetary Policy Report*, published in January, May, and September 2008, contains an assessment on the recent and anticipated evolution of inflation and its implications for the monetary policy formulation in the medium term, and provides information for agents to adequately prepare their price and economic growth estimates. In addition, in November 2008 the *Update of the Recent Projection Scenario* was published to account for the significant changes occurring in the baseline external scenario compared to what had been described as the most likely scenario in the *Monetary Policy Report* of September 2008. This document analyzed the main foreign scenario variables relevant for Chile and their impact on the domestic scenario and monetary policy decisions. On the other hand, the *Financial Stability Report* is intended to inform, on a semi-annual basis, on recent macroeconomic and financial developments which may have an effect on the financial stability of the Chilean economy. It reflects the policies and measures implemented for the normal operation of the internal and external payment system, with a view to promoting information and public discussion on the Bank's actions in fulfillment of such duty. This publication also includes different articles summarizing recent research work performed by the Central Bank on issues affecting financial stability.

In the field of economic research, the Bank published volume 12 of the series *Central Banking, Economic Policies and Analysis*, entitled *Current Account and External Financing,* in August 2008. This publication mainly focuses on discussing and promoting issues related to transmission and absorption of foreign shocks –both financial and real- in emerging economies, and contains revised versions of the papers presented at the Tenth Annual Conference of the Central Bank of Chile, held in November 2006.

The economic research task carried out by the Central Bank was also reflected in the *Economía Chilena* journal. Twelve papers and eight research articles were published in the issues of April, August, and December 2008, which mainly involved the Chilean economy, with a major empirical content or relevance or in terms of economic policy conduct. *Economía Chilena* celebrated its tenth anniversary with its August 2008 issue. Given the significance of its articles, its publication continuity and timing, as well as the diversity of authors and subjects, *Economía Chilena* was included by Thomson Scientific (property of Thomson Reuters) in its select list of scientific publications called ISI Journal List. This recognition is tantamount to obtaining the highest scientific quality certification.

In 2008, six issues of the *Economic Policy Documents* series were published. These issues disclose the opinion of Bank authorities on relevant economic and monetary policy topics. The subjects discussed related to the financial integration process of the Chilean and foreign economies from 1998 to 2008; the relationship between monetary policy, stability and risks of an inflationary surge at global level from the perspective of emerging economies; the role of transparency and communication in modern central banking; the origin and legitimization of the Central Bank of Chile's autonomy; tensions in the global economy; and some thoughts on price stability and financial stability in the context of the current global financial crisis.

Likewise, fifty-four *Working Papers* were published in 2008. This series has become one of the most important series internationally in the field of specialized economics, as per the number of Internet visits. Its purpose is primarily to facilitate the exchange of ideas and make preliminary economic research results better known, for discussion and comment purposes.

Throughout 2008, the Bank also published seven new papers within the series *Studies in Economic Statistics*. The purpose of this series is mainly to disclose research works on economic statistics, with a greater empirical and conclusive content. These works include those dealing with the methodology and results of the capital stock measurement in Chile for the 1985-2005 period; estimation of investments by economic activity in Chile from 2004 to 2005; a methodology for collection and validation of currency derivatives in the Central Bank of Chile; and the freight cost of Chilean exports between 2000 and 2008.

Additionally, and in accordance with Section 53 of its Basic Constitutional Act, in order to provide information on the main domestic macroeconomic statistics, the Central Bank carried out its annual program of periodical publications, including: *Informativo Diario* (Daily Report), *Boletín Mensual* (Monthly Bulletin), *Indicadores de Comercio Exterior* (Foreign Trade Indicators), *Indicadores Macroeconómicos y de Coyuntura* (Macroeconomic Indicators and Current Indicators*), and the following yearbooks: *Cuentas Nacionales* (National Accounts), Balanza de Pagos (Balance of Payments), Deuda Externa de Chile (Chilean External Debt*), *Síntesis Monetaria y Financiera* (Monetary and Financial Synthesis), and *Síntesis Estadística de Chile* (Statistical Synthesis of Chile*).

(*) English version available.

D.2 Visits to the Senate and Chamber of Representatives

As per the provisions in the Basic Constitutional Act regarding the requirement to report to the Senate on policies and regulations issued, the Board submitted its *Monetary Policy Report* for January and May before the Senate Finance Commission and the *Monetary Policy Report* for September to the Senate in full session. In January, it presented the *Financial Stability Report* together with the *Monetary Policy Report* corresponding to the second half of 2008.

In April, the Governor of the Central Bank of Chile was invited by the Senate to present the Bank's view on the foreign exchange situation and, in October, on the severe financial crisis faced by global economy and its impact on Chile. The Governor was also invited by the Chamber of Representatives in March to explain the foreign exchange policy and the exchange rate situation as of such date. He was also invited by the Economy Commission of such body in July to speak about the inflationary scenario and the complex economic situation then prevailing, and on the Bank's conduct of monetary policy.

D.3 Seminars and conferences

On 23 January 2008, the Bank for International Settlements (BIS) held a meeting at the Bank with the Global Financial System Committee on Home Financing in Latin America and the Caribbean, with the intent to review the access to home financing in American countries.

The IV Meeting of Monetary Policy Advisors, organized by the *Centro de Estudios Monetarios Latinoamericanos* (Cemla) and the Central Bank of Chile, was held on 27 and 28 March, with the purpose of analyzing certain relevant aspects for the monetary policy in Latin America. The aforesaid meeting was attended by representatives of the central banks of the European Union, Spain, United States of America, Canada, Mexico, Brazil, Colombia, Chile and Peru. One of the issues considered was the world impact of the subprime crisis and its implications for the monetary policy of region countries.

From 21 to 25 April, an International Training Seminar for Journalists was jointly organized by the Reuters Foundation, the World Bank, and the Central Bank of Chile. This Seminar analyzed the situation of Latin American economies, their fiscal policy, their fight against inflation, among other items. It was attended by journalists from Argentina, Paraguay, Peru, Uruguay, and Chile.

Several activities were developed in October. The II Bank for International Settlements (BIS) Meeting of Heads of Internal Audit from Latin American and Caribbean Central Banks was held on 9 and 10 October and was attended by Audit heads from twenty-two American, European and Oceania countries, as well as by representatives of the BIS and the Cemla. Attendants were able to update their knowledge and discuss on matters related to internal audit at central banks and its contribution to good corporate governance, risk management at financial institutions, IT audit and its integration with traditional audit practices, etc.

On 23 October, the Central Bank organized the Workshop on Inflation Forecasting, which was attended by Chilean and foreign academics and central bank researchers to discuss theoretical and empirical pioneer research works on the way to improve inflation forecasts. Representatives of the central banks of Sweden, Mexico, Colombia, Argentina and Chile, and economists from Duke and Wisconsin-Madison universities presented their papers at this workshop before Chilean and foreign economists, academics and executives.

On 6 and 7 November, the Bank held its 12th Annual Conference (*Duodécima Conferencia Annual del Banco Central de Chile*), which focused on financial stability, monetary policy and central banking. This conference sought to contribute to the study and analysis of these matters, and to draw conclusions and recommendations for better safeguarding financial stability and management of systemic macrofinancial risks. The Conference brought together academicians, researchers and authorities of international economic bodies, all of them experienced in pioneer research (both theoretical and empirical) on financial stability and on the role of economic authorities. Lecturers included Jaime Caruana, Director of the Monetary and Capital Markets Department of the International Monetary Fund; professor Charles Calomiris, from Columbia University; and British economist Martin Wolf, associate editor and chief economics commentator at the Financial Times.

Between 17 and 29 November the National Accounts System seminar was held, jointly organized with Cemla. The meeting brought together professionals responsible for data collection and analysis of a National Account System of the central banks of Chile, Brazil, Colombia, Dominican Republic, Guatemala, Honduras, and Venezuela, in addition to representatives of the National Statistics Bureau (INE), and of the Economic Commission for Latin America and the Caribbean (Eclac).

In 2008, the Central Bank continued to hold its seminars on macroeconomics and finance, which involved 29 talks during the year. They focused on spreading information on academic and applied work produced by researchers, university professors, students and Central Bank staff. Lecturers included researchers from central banks, foreign institutions and universities, and some of the issues dealt with were the role of interbank markets in monetary policy, estimate of models for analysis of monetary policy in emerging countries, deposit insurance, pension funds, how international risks are shared in this globalization era, credit and foreign exchange markets.

D.4 "Economics for the Majority" program

As part of its community outreach program "Economics for the Majority", the Central Bank continued to develop its guided tour program, which started in 2004 and consists of a visit to the main premises of the Bank. During the year, 3,913 people visited the Bank's headquarters, most of them high school and university students.

For the fourth year running, the Bank carried out the contest "Economics from a closer view", designed to bring economics closer to students and to foster greater awareness of the Central Bank's role and functions and of its autonomy. This initiative is organized by the Bank and sponsored by the Ministry of Education. The contest, promoted in the website www.economiamascerca.cl, is addressed to third- and fourth-year high school students from all over the country, who work in groups under the guidance of a professor on a project that, from a down-to-earth perspective, deals with the impact that Central Bank decisions have on the country, region, municipal area or household.

During 2008, the Bank received 404 papers from 215 schools all over Chile, 62% of which came from subsidized private schools, 23% from municipal schools, and 15% from private schools. The winning team was *Instituto Nacional*, with the paper *Radiografía de la estabilidad de precios: Huella sobre el quehacer de la Nación* (X-ray of Price Stability: Footprints of the Nation's Chores). The team of *Liceo Comercial Talagante* came second, with the paper entitled *¿Por qué es importante que el Banco Central de Chile sea autónomo?* (¿Why is it important that the Central Bank of Chile be autonomous?), and the team of *Colegio Pumahue de Temuco* came third, with the paper entitled *Niñas y niños empresarios de la Araucanía; actitudes, emociones y rasgos de la nacionalidad que influyen en la toma de decisions económicas en un entorno económico simulado* (Entrepreneur girls and boys in Araucanía: attitudes, emotions and features of rationality that affect economic decision-making in a simulated economic environment).

In order to promote this contest and to explain teachers and third and fourth-year students key economic concepts, functions and importance of the Central Bank autonomy, and how its decisions

affect Chileans' everyday life, seven seminars were held in the Santiago Metropolitan Region and in Valdivia between April and June, and they were attended by 445 people from 59 schools.

D.5 Visits to regions

During 2008, the Bank continued to present its main reports, *Monetary Policy Report* and *Financial Stability Report*, during the so-called Regional Meetings. These meetings are intended to promote people's learning and getting acquainted with the Bank's objectives, policies, tools and projections, and to facilitate a better understanding of the Bank's acts and the effectiveness of its policies. These meetings are held concurrently with the publishing of the *Monetary Policy Report*, that is, every four months. The statements contained in this *Report* and in the *Financial Stability Report* are complemented by other presentations on the Central Bank's policies and instruments and by panel discussions on the development perspectives about the visited region. In 2008, these meetings were held in Temuco, Copiapó, Osorno, Valdivia, Arica and Talca, and were chaired by the Bank's Governor, Mr. José De Gregorio; the Deputy Governor, Mr. Jorge Desormeaux; and Board Members Mr. Manuel Marfán and Mr. Enrique Marshall.

The Bank organizes these meetings in association with a university or regional business group, and this constitutes a highly valuable opportunity to get closer to the community, business people, and regional authorities, thereby promoting direct and fluent dialogue to foster greater mutual awareness between the Bank and different economic sectors in each region of the country. Attendance to these events fluctuated around 80 to 250 people at each meeting.

Board Members and other senior executives also made several presentations outside Santiago, in response to invitations from academic bodies, union associations, and mass media.

D.6 Cultural outreach

For the fifth year running, the Central Bank participated in Chile's National Heritage Day, organized by the government and involving the participation of more than 50 cultural heritage buildings. The Governor and other senior authorities hosted almost 1,350 people and explained to them the Central Bank's role and main functions.

As part of the outreach program for the diffusion of the Bank's valuable paintings collection, from 30 January to 23 March 2008, a paintings exhibition entitled "Collection of the Central Bank of Chile" was held at the Cultural Center of Viña del Mar (Carrasco Palace), together with the Municipality of said city. The exhibition featured thirty-nine paintings of the collection and was visited by 23,000 persons, approximately. This figure includes students from the Valparaíso Region who attended the heritage program "Steps", aimed at disseminating and organizing workshops related to this exhibition. Later, during May and June, the exhibition "Chilean Sea Paintings" was presented in the Senate in Valparaíso, where four thousand visitors could appreciate eighteen sea paintings belonging to the Bank's collection.

E. Miscellaneous

E.1 Technological changes

In 2008, the multi-year plan, started in mid-2004 to improve the technological infrastructure, IT services and support systems, was completed. To that purpose, better practices were implemented, such as the Information Technology Infrastructure Library (ITIL) for the management of technological infrastructure, the Project Management Institute (PMI) for project management, and ISO-27000 standards for IT security.

As regards technological infrastructure, one of the main achievements this year was the implementation of new storage and centralized backup solutions, which are essential to strengthening technological contingency mechanisms that support the Bank's critical services. As regards IT security, the Bank reviewed and updated its IT security policies, carried out campaigns for the awareness of IT better practices oriented to final users and introduced vulnerability detection tools that allow a timely and effective eradication thereof.

Finally, in 2008, the Bank consolidated the projects office (PMO) for the follow up, control and implementation of corrective measures in the execution of all the Bank's technological projects conducted by the IT Management. As regards applications development and maintenance, some applications were changed and adapted to meet the International Financial Reporting Standards IFRS. Finally, in 2008, the Bank completed the implementation of the project for streamlining the IT system for administration of foreign exchange reserves by the International Investment Management. The Bank also continued to develop the project of the new time statistics series manager of the Statistics Information Management, and commenced the implementation of the foreign exchange current account project of the Domestic Financial Markets Management.

E.2 Appointment of independent auditors

Subsection 2 of Section 76 of the Basic Constitutional Act stipulates that the Bank's financial statements must include the opinion rendered by independent auditors, who shall be appointed by the Board from among those registered with the Superintendency of Banks and Financial Institutions. As a result of a tender conducted to hire auditing services for an initial three-year period, and upon submission of a report prepared by the Audit and Compliance Committee, the Board appointed, through Resolution 1406-01-080424, *KPMG Auditores y Consultores Ltda*. to audit its financial statements for the fiscal period 2008-2010.

E.3 Banknotes and coins

As of December 2008, the number of banknotes in circulation stood at 491.18 million, a 9.5% increase as compared to late 2007 (448.73 million). The total number of coins increased by 7.1%, to 8.5 billion. To meet growing public demand, during the year, the Bank entered into contracts for banknote and coin additional supply with local suppliers, for 40 million Ch$100 coins, and 94 million Ch$10 coins. In addition, the Bank entered into two-year contracts for the supply of banknotes with international suppliers for 768.6 million banknotes, as follows: 66.1 million Ch$20,000 banknotes; 369.2 million Ch$10,000 banknotes; 92.9 million Ch$5,000 banknotes; 85.3 million Ch$2,000 banknotes; and 155.1 million Ch$1,000 banknotes. Banknotes and coins issued by the Central Bank during 2008 were manufactured in Germany, Australia, Canada, Chile, France and England.

In 2008, the Central Bank continued its training program to help the community become acquainted with its banknotes and with the way of checking their genuineness. During 2008, the Bank trained approximately 1,000 commercial bank tellers and 4,200 trade cashiers in Santiago and regions; it distributed more than 14,000 leaflets and 8,000 posters to banks, stores and public institutions; and it participated in mass events such as the *Feria Mundo Almacén* 2008, sponsored by the Retail Trade and Tourism Confederation, and the Ninth Alvi Retail Meeting, organized by *Alvi Supermercados Mayoristas S.A.* In the latter event, the Bank delivered two lectures that were attended by over 2,000 people.

In 2008, the Bank completed the international tender for manufacturing the new banknotes series, and started the process of preparation of the original material for those banknotes. The first banknote of the new series is expected to go into circulation during the second half of 2009. The other banknotes will be sequentially put into circulation during an estimated two-year term. The new banknotes will keep their current denomination and characters, but will have a different size to make their recognition easier for the general public and, particularly, for the visually impaired. Three denominations of these new banknotes will be issued in polymer substrate and the other two will be issued in paper. State-of-the-art technological processes will be used for issuing these banknotes.

E.4 International relations activities

In 2008, the Central Bank continued to promote Chile's integration into the concert of nations, through its regular activities and an intense agenda of special activities. Regular activities included the participation of Central Bank authorities and senior executives in bi-monthly and annual BIS meetings, the spring Institute of International Financing (IIF) and International Monetary Fund (IMF) Meetings, annual Inter-American Development Bank (IDB) and IIF meetings, the joint annual IMF and World Bank meeting, the Mercosur and associated countries central bank governors meeting, Cemla governors meeting, along with visits to other central banks. Two of these regular meetings were of utmost importance: the IMF Article IV Mission which was held on 19-20 May, and the XIVth Mercosur and associated countries (Bolivia, Chile, Peru and Venezuela) central bank governors meeting which was held on 25 January, where representatives of the eight participating countries analyzed their respective economies and the global macroeconomic scenario, and agreed on the need to develop robust policies aimed at strengthening their economies' ability to deal with the conjuncture.

Special activities included international seminars and special meetings held in Santiago, special meetings abroad, and visits from senior authorities and technical personnel from other central banks. International seminars and special meetings included the Seminar on Bank Financing to SMEs (small and medium enterprises): "What's going on in the world?" delivered by World Bank experts and organized by the Financial Policy Division (in June); meeting of Risk Management in Banks and the Role of Top Management, organized by the Financial Policy Division (in August); course on Banking Microeconomics, by Spanish professor Xavier Freixas, organized by the Financial Policy Division (in September); the presentation in Chile of the Regional Economic Outlook (REO) by the International Monetary Fund (in October); the special meeting of central bank governors of the region, held in Santiago, with the participation of the governors of the Central Bank of Argentina, Brazil, Colombia, Chile, Mexico and Peru (in October); and a special Mercosur meeting held in Brasilia, Brazil (in October) which was attended by the Governor of the Central Bank of Chile. As part of the IMF Article IV Mission, the Bank organized a seminar for discussion of the papers submitted thereat (in May).

Among the authorities welcomed by the Bank, it is worth singling out the visit of the Assistant Governor of Business Services of the Reserve Bank of Australia (in March); the General Manager of the Central Bank of Bolivia (June); the Deputy Director of Monetary Policy and Surveillance of the Bank Negara Malaysia (July); the Member of the Board of Governors of the Federal Reserve of the United States of America, Mr. Randall Kroszner (August); the Governor of the Central Bank of China (in November); and the Governor of the Central Bank of Bolivia (December). Likewise, during 2008 the Bank received the visit of technical staff of the Central Bank of Costa Rica (in July) and of Russia (December).


BANCO CENTRAL
DE CHILE

Appendix I: Press releases on Monetary Policy Meetings, 2008

10 January

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate (MPR) by 25 basis points, to 6.25% (annual).

This decision is consistent with prospects of higher inflation due to recent surprises, and allows annual inflation to converge to 3% over the policy horizon.

Internationally, although the markets' liquidity shortage is now milder, the risk of further deceleration in the U.S. economy with potential implications on other developed economies has increased. Meanwhile, prices of oil, copper and several foodstuffs remain high and above projections. Inflation has continued to rise in many economies. This configures an external scenario relevant to the Chilean economy with more adverse risks in the near future.

Domestically, the most recent output information does not modify the scenario considered for the second half of the year in the past meeting. On the domestic demand side, both consumption and investment indicators remain dynamic. Salaried employment continues to grow, albeit at lower rates.

In December, monthly CPI inflation was surprisingly high, taking annual inflation to nearly 8%. This was influenced by a slower seasonal reversal of prices of perishables and significant increases in a varied range of products. The various measures of trend inflation, including the CPIX1 (which excludes fuels, perishables and some regulated utilities), continued to increase. Although inflation expectations for the coming quarters have increased, long-term inflation expectations remain anchored around 3% per annum.

The Board considers that it is appropriate to indicate that, although the future path of the MPR will depend on incoming information and its implications on inflation projections, additional adjustments may be necessary in order to ensure convergence of inflation to its target. Developments in the international scenario will be particularly important, along with changes in the output gap and the possible propagation of recent inflationary shocks to other prices.

7 February

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the MPR at 6.25% (annual).

Internationally, the outlook for the U.S. economy has deteriorated significantly, thereby creating high volatility in global financial markets. The U.S. policy rate was reduced by 125 basis points (bp) in the last month and external long-term rates have declined. Although the price of copper has remained high and the oil price has decreased, the external scenario relevant to the Chilean economy presents greater adverse risks.

Domestically, economic activity has been somewhat less dynamic than projected earlier, due to reduced growth in some specific sectors. Investment indicators continue to be dynamic, consumption is showing some signs of deceleration, and salaried employment continues to grow.

Annual inflation has remained significantly above the tolerance range. The moderate inflation in January reflected the drop in domestic fuel price and a rapid normalization of the high prices of perishables. Core inflation measures, including the CPIX1 (which excludes fuels, perishables and some regulated utilities), though still high, have ceased to increase. Wages have evolved as expected, while the exchange rate has appreciated substantially. Annual CPI inflation will continue to increase in coming months. Long-term inflation expectations remain anchored around 3% per annum.

The Board considers that, although the future path of the MPR will depend on incoming information and its implications on projected inflation, it may be necessary to adjust the MPR once again in order to ensure convergence of inflation to its target. Developments in the global scenario will be particularly important, along with persistence of the recent exchange rate appreciation, and the possible propagation to other prices of last year's inflationary shocks.

13 March

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the MPR at 6.25% (annual).

Internationally, the U.S. scenario has deteriorated further, thereby generating high volatility and increased risk in global financial markets. Central banks of the main developed countries have adopted additional measures to face liquidity problems. So far, emerging economies have not been severely affected, although the risk of adverse scenarios has increased. Prices of commodities have recorded significant increases.

Domestically, the latest information confirms that first-quarter output growth has been somewhat less dynamic than anticipated in the *Monetary Policy Report*. Investment indicators are still dynamic, while consumption shows signs of some slowdown. Unemployment has remained stable, within a context of significant increases in employment.

Annual inflation is still substantially above its target. Core inflation measures, including the CPIX1 (which excludes fuels, perishables and some regulated utilities), remain high, but have ceased to rise. Wages have increased in line with their usual dynamics, while the peso showed a significant additional appreciation in real terms.

Annual CPI inflation will rise in coming months and it will then descend over the course of the second half, within a context of high market uncertainty about expected monthly figures. This greater uncertainty has pushed upward the risk premium contained in breakeven inflation measures implicit in financial asset prices, even for longer maturities. Long-term inflation expectations remain anchored around 3% per annum.

The Board considers that, although the future path of the MPR will depend on incoming information and its implications for inflation projections, it may be necessary to adjust the MPR once again in order to ensure convergence of inflation to its target. Implication on inflation of the developments in the global scenario will be particularly important, along with persistence of the real exchange rate appreciation, and the possible propagation of recent months' inflationary shocks to other prices.

10 April

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 6.25% (annual).

Internationally, the U.S. outlook has weakened further, and there is a high probability that this economy is or will soon be in a recession. In addition, there is still a strong stress in global financial markets, and global credit conditions have deteriorated. Growth forecasts for emerging economies have been adjusted downward, despite of the high prices of commodities.

Domestically, the latest information available confirms that the economic activity of the first quarter was somewhat less dynamic than anticipated in the *Monetary Policy Report*. Investment indicators are still dynamic, while consumption is still showing some signs of deceleration. Unemployment has remained stable.

Although inflation in March was somewhat less than expected, annualized figures are still high. Food prices have risen again, but inflationary propagation is limited and in line with projections.

Core inflation measures, including the CPIX1 (which excludes fuels, perishables and some regulated utilities), remain high, but have ceased to rise. Wages have increased consistent with their usual trend, while the peso has remained appreciated in real terms.

The latest data reaffirms the prospects that the annual CPI inflation will start to decrease over the next few months, although uncertainty about expected monthly figures continue to affect inflation risk premiums in the valuation of financial assets. Long-term inflation expectations remain anchored around 3% per annum.

The Board reaffirms its commitment to conduct monetary policy so as to ensure that projected inflation converges to 3% in the policy horizon. Future changes in the MPR will depend on incoming information. Implication on inflation of the developments in the global scenario will be particularly important, along with persistence of the real exchange rate appreciation, and the possible propagation of past months' inflationary shocks to other prices.

8 May

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 6.25% (annual).

Internationally, the U.S. outlook is still weak and financial markets are still under stress. However, markets do not anticipate further reductions in the interest rate and the U.S. dollar has stopped falling with respect to other currencies. Commodities prices remain high and, specifically, oil prices have increased even further.

Domestically, the latest information shows that the first-quarter economic growth was below earlier projections. Private consumption indicators show a slowdown trend, while investment continues to grow fast. Unemployment has remained stable.

Inflation in April stayed within the expected range and the annual figure, although far above the target, showed a slight decrease. As expected, a limited inflationary propagation is still being observed. However, food prices rose again, thereby affecting core inflation measures, which remain high. Wages have risen, consistent with their usual dynamics, while the peso has depreciated substantially since the last monetary policy meeting.

The latest data reaffirm the prospects that the annual CPI inflation will continue to decrease over the next few months, although uncertainty about expected monthly figures continue to affect inflation risk premiums. Long-term inflation expectations remain anchored around 3% per annum.

The Board reaffirms its commitment to conduct monetary policy so as to ensure that projected inflation converges to 3% in the policy horizon. Future changes in the MPR will depend on incoming information. Implication on inflation of the developments in the complex global scenario will be particularly important, along with the degree of propagation of the recent months' inflationary shocks to other prices, and the emergence of new inflationary pressures.

10 June

At its monthly monetary policy meeting, the Board of the Central Bank decided to raise the monetary policy interest rate by 50 basis points, to 6.75% (annual).

In view of the aggravation of the inflationary outlook, this increase of the policy rate is necessary to avoid an unwanted postponement of the convergence of inflation to 3%.

Internationally, growth prospects for developed economies remain weak and financial markets are still under stress. Oil prices have risen significantly, prices of most commodities remain high, and inflationary pressures around the world have increased.

Domestically, the latest information shows that expected second-quarter economic growth is consistent with the growth prospects contained in the last *Monetary Policy Report*. Domestic demand continues to grow strongly, particularly its imported component, and unemployment has remained stable.

Inflation in May exceeded expectations substantially due to new increases in prices of energy and, mainly, food products. Core inflation measures and several measures of inflation expectations have risen. Wage dynamics remain in line with historical patterns.

The Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% in the policy horizon. In doing so, it contributes to keep private expectations anchored to the inflation target. Implications on inflation of the developments in the complex global scenario will be particularly important for future changes in the policy rate, along with the degree of propagation of the past months' inflationary shocks to other prices and wages, and the emergence of additional inflationary pressures.

10 July

At its monthly monetary policy meeting, the Board of the Central Bank decided to raise the monetary policy interest rate by 50 basis points, to 7.25% (annual).

In view of the aggravation of the inflationary outlook, this increase in the policy rate is necessary to ensure convergence of inflation to 3% over the policy horizon.

Internationally, output prospects for developed economies remain weak and global financial markets are still under stress. Oil prices have remained high, while prices of most commodities have risen further. Inflationary pressures around the world have also increased.

Domestically, the latest second-quarter output data is consistent with the growth prospects for the year contained in the last *Monetary Policy Report*. Domestic demand continues to grow strongly, particularly its imported component, and unemployment has remained stable.

Inflation in June significantly exceeded expectations due to new price hikes for energy and food products. Core inflation measures and several measures of inflation expectations have risen, which suggests an inflationary propagation stronger than projected. Wage dynamics remain in line with historical patterns.

The Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% over the policy horizon. This is essential to align inflationary dynamics with the price stability objective. The future path of the MPR will depend on incoming information and its implications on projected inflation, although it is most probable that additional adjustments will need to be made in order to ensure convergence of inflation to its target.

14 August

At its monthly monetary policy meeting, the Board of the Central Bank decided to raise the monetary policy interest rate by 50 basis points, to 7.75% (annual).

In view of the aggravation of the inflationary outlook, this increase of the policy rate is necessary to ensure convergence of inflation to 3% over the policy horizon.

Internationally, output prospects for developed economies remain weak and global financial markets are still under stress. Oil prices have decreased, as well as the prices of several other commodities. However, these prices are still high and inflationary pressures around the world are still strong.

Domestically, the latest second-quarter output data is consistent with the growth prospects for the year contained in the last *Monetary Policy Report*. Domestic demand continues to grow strongly, particularly its imported component, and unemployment has remained stable.

Inflation in July exceeded forecasts due to rises in most of the items. All the different core inflation measures of inflation expectations have risen, which suggests an inflationary propagation stronger than predicted. To date, wage dynamics continue to be within historical patterns.

The Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% in the policy horizon. This is essential to align inflationary dynamics with the price stability objective. The future path of the MPR will depend on incoming information and its implications on projected inflation, although in the most likely scenario additional adjustments will need to be made in order to ensure convergence of inflation to its target.

4 September

At its monthly monetary policy meeting, the Board of the Central Bank decided to raise the monetary policy interest rate by 50 basis points, to 8.25% (annual).

In view of the adverse inflationary outlook, this increase of the policy rate is necessary to ensure convergence of inflation to 3% over the policy horizon.

Internationally, output prospects for developed economies remain weak and global financial markets are still under stress. Oil prices have continued to fall but, the same as other commodities, they are still high. Inflationary pressures in the world are still strong, particularly in emerging economies.

Domestically, the latest third-quarter output information is consistent with the prospects that year-on-year economic growth during the second half of 2008 will be significantly higher than in the first. Domestic demand is still growing at a fast pace, particularly in its imported component, and unemployment has remained stable.

Inflation in August was consistent with expectations, although still high. All the different core inflation measures of inflation are still high, which confirms that inflationary propagation has been stronger than projected a few months ago. To date, wage dynamics continue to be within historical patterns.

The Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% in the policy horizon. This is essential to align inflationary dynamics with the price stability objective. The future path of the monetary policy interest rate considers additional adjustments in order to ensure convergence of inflation to its target, at a rate that will depend on incoming information and its implications on projected inflation.

9 October

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 8.25% (annual).

Inflation has remained high and the risk of alternative scenarios has increased. Given the uncertainty surrounding the global economy and its impact on projected inflation, the Board considers that this decision is necessary to reassess with more information the monetary policy course contained in the baseline scenario of the *Monetary Policy Report.*

Internationally, the global financial system has endured extraordinary stress, affecting liquidity, access to credit and asset prices. Markets foresee a significant slowdown of the global economy, while commodities, in particular copper and oil, have shown significant price declines. A number of central banks and governmental authorities have taken exceptional measures.

Domestically, available third-quarter output data is consistent with prospects that the economy's annual expansion will be greater in the second half of this year than it was in the first. Local financial conditions have tightened.

Inflation in September was somewhat above predictions, mainly due to the behavior of domestic fuel prices. The various measures of core inflation are still high, wage dynamics continue to be within historical patterns, and medium-term inflation expectations have fallen.

The Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% over the policy horizon. This is essential to align inflationary dynamics with the price stability objective. Although the future path of the monetary policy rate considers future adjustments to ensure convergence of inflation to the target, the Board will evaluate in its future decisions the implications of financial developments in progress on projected inflation.

13 November

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 8.25% (annual).

This decision is consistent with the Board's update of the baseline scenario considered in the last *Monetary Policy Report*, which accounts for the drastic changes observed in the global economy and their impact on projected inflation. This update will be published tomorrow at 4.30 p.m.

Internationally, measures adopted by a number of central banks and governmental authorities have averted more extreme scenarios, although access to credit and asset prices continue under high stress. Markets foresee a significant slowdown of the global economy, while commodities, in particular copper and oil, have shown significant price declines.

Domestically, the available information on output for the second half of 2008 is consistent with a higher annual expansion than in the first half, but in a decelerating path. Although domestic demand is still growing at high year-on-year rates, a slowdown is perceived in some components of durable consumption. Unemployment has remained stable and tight lending standards persist.

In October, monthly inflation was high, and the various measures of core inflation are still high. Meanwhile, wage dynamics continue to be within historical patterns and medium-term inflation expectations have fallen.

The Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% in the policy horizon.

11 December

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 8.25% (annual).

This decision is consistent with the Board's update of the baseline scenario contained in the last *Monetary Policy Report*, due to the drastic changes observed in the global scenario and their impact on forecasted inflation.

Internationally, access to credit and asset prices continue under high stress. Latest data confirm a significant slowdown in the global economy. Commodities, in particular copper and oil, have fallen again.

Domestically, the available information on imported components of internal demand shows smaller than predicted levels, while output remain in a decelerating path. Unemployment has remained stable and tight credit conditions persist.

In November, due to the lower price of fuels, monthly inflation was negative, but the various measures of core inflation have remained high. Meanwhile, the peso has depreciated, while wage dynamics continue to be within historical patterns and medium-term inflation expectations have fallen.

The Board considers that, in the most likely scenario, a process of monetary easing will begin, the pace of which will depend on inflation prospects. Accordingly, the Board reaffirms its commitment to conduct monetary policy so as to reduce the current high inflation rates to 3% in the policy horizon.

Appendix II: Press releases on foreign exchange and financial measures for 2008

10 April

The complex circumstances affecting financial markets in developed economies, caused by the mortgage crisis in the U.S., have raised the risk of severe alterations in such markets, with a negative impact on the financial conditions facing the Chilean economy.

Although macroeconomic policies—based on foreign exchange flexibility, inflation targeting, the fiscal rule, and prudent financial supervision—place the Chilean economy in a favorable position to cope with turbulence, the depth of a contingent international financial crisis and its consequences are highly uncertain.

With this background, the Board of the Central Bank has decided today to intervene in the foreign exchange market with a view to reinforcing the international liquidity position of the Chilean economy. This increase in international reserves will allow the Bank to better cope with new contingent, severe and sudden deterioration of the external scenario.

In the framework of inflation targeting and foreign exchange flexibility, in force since 2 September 1999, the aforesaid is justified by the exceptional degree of uncertainty over the evolution of international financial markets. In addition, this action is compatible with the determination that the current real exchange rate is below the level that is expected to prevail once real and financial conditions are back to normal in the world economy.

The Board of the Central Bank of Chile has adopted the following measure: To increase international reserves by US$8 billion, by purchasing foreign currency, from Monday 14 April and until 12 December 2008. The Central Bank of Chile will timely communicate reserve purchase programs and may revise them depending on market conditions. The first reserve purchase program, in force from 14 April to 9 May, will consist of daily purchases for about US$50 million, through competitive auctions.

The monetary effects of this measure will be set off so that the peso liquidity provision in the market is consistent with the monetary policy interest rate. During the period corresponding to the first aforementioned program, this will be implemented through short-term operations.

This exceptional measure is consistent with the overall direction of monetary policy, which intends to place inflation at 3% most of the time, with a +/- 1% tolerance range. The current MPR allows the current high inflation to reach 3% within the usual policy horizon; however, future adjustments in either direction cannot be ruled out, depending on future inflationary prospects.

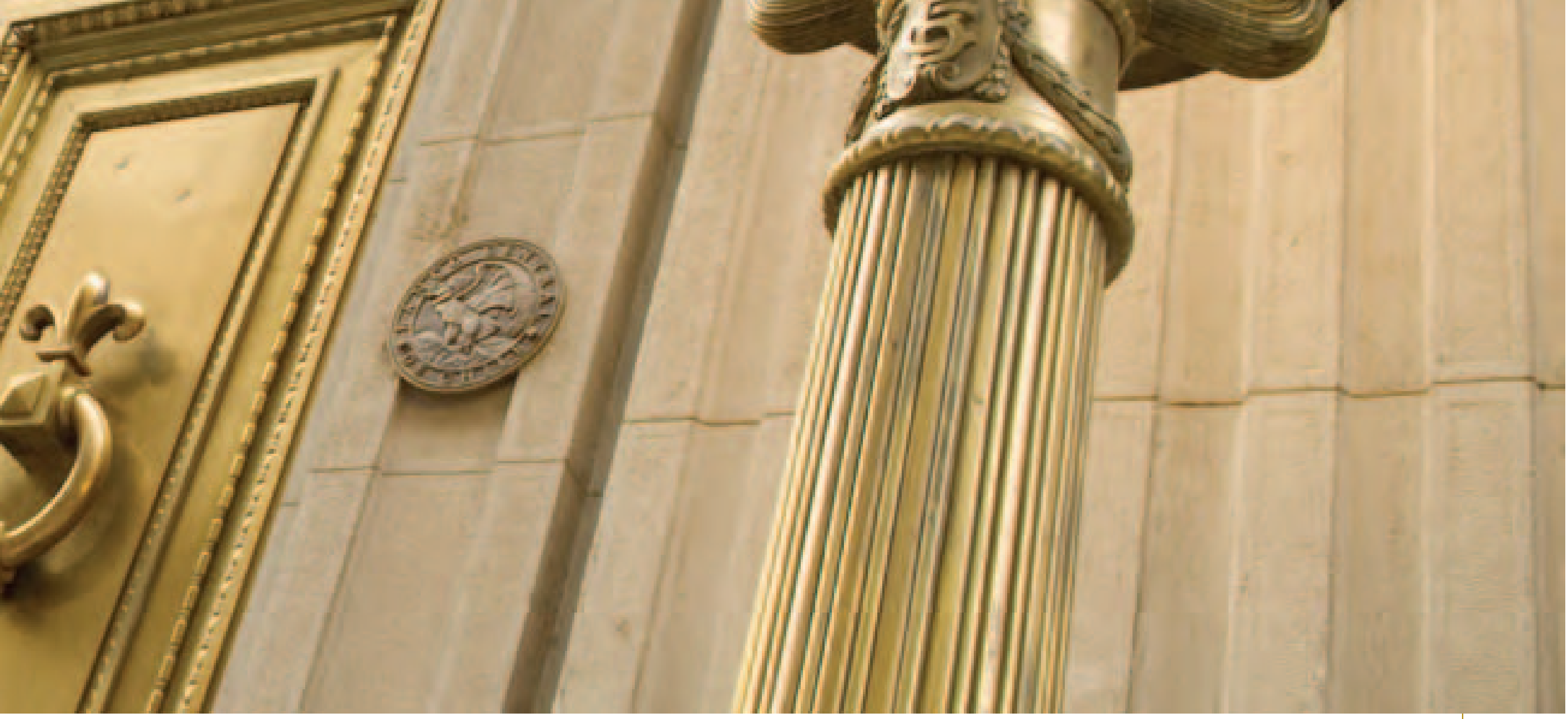
The Central Bank will continue to flexibly use all of its available tools in order to achieve its targets under the law.

29 September

On 10 April of the current year, the Board of the Central Bank announced a program to intervene in the foreign exchange market with a view to reinforcing the international liquidity position of the Chilean economy and better coping with a contingent worsening of the foreign scenario.

The condition of the global financial markets has worsened in recent days. Therefore, the Board has decided to terminate today its reserve accumulation program, so as to mitigate the impact on Chile of the turbulence in global interbank markets.

Throughout the application of this program, the Central Bank increased its international reserves by US$5.75 billion, i.e. 70% of the initially announced program, and which means a 30% increase in its international liquidity over the levels recorded by late March of this year.



Although it is premature to quantify the final impact of international events on global markets and economy, our current reserve level, our tax savings accumulated abroad as per a prudent fiscal policy, our monetary policy oriented to price stability, our floating exchange rate system and our strong financial system, make it possible for the Chilean economy to be ready to adequately face the upheavals in the international markets.

In addition, to facilitate the normal operation of the foreign exchange market and the interbank liquidity in foreign currency, the Central Bank of Chile will reactivate auctions of foreign exchange swaps as from tomorrow. The conditions of such transactions will be informed prior to market opening.

The Board of the Central Bank will continue to use all of its available tools in order to ensure financial stability of the Chilean economy and the normal operation of internal and external payments.

10 October

The Board of the Central Bank of Chile informs that new measures were adopted today, which are intended to flexibilize liquidity management in the domestic financial system, in response to a new deterioration of international financial markets.

These measures, which will be implemented next week, include:

1. To extend from one to six months the U.S. dollar swap purchase program. These swaps will be offered at 60 and 90 days, alternately each week for US$500 million at each auction. This measure implies offering a maximum amount of up to US$5 billion.

2. As a complement to the aforesaid program, to offer repo operations aimed at injecting liquidity in pesos at similar terms.

3. To offer, every week and during the same six-month term, renewable 7-day repo operations, which may have bank deposits as collateral. This measure allows expanding the universe of eligible collaterals for financing transactions.

The Central Bank of Chile will continue to closely monitor the evolution of the international scenario and the impact it may have on our financial system liquidity and will timely adopt any measures that may be required.

3 December

The Central Bank of Chile informs that, to complement the measures announced through Board press releases dated last 29 September and 10 October, it will temporarily extend the term for foreign currency swap purchase auction.

These transactions will be offered during December at a 180-day term for the same US$500 million amount at each auction.

The Central Bank of Chile will continue to closely monitor the evolution of the international scenario and the impact it may have on our financial system liquidity and will timely adopt any measures that may be required.

10 December

The Board of the Central Bank of Chile informs that, according to Board press releases dated last 29 September, 10 October and, 3 December, it has adopted the following additional measures intended to flexibilize the liquidity management of the domestic financial system:

1. The effective term of the program announced on 10 October will be extended to the whole of 2009. This includes the weekly foreign exchange swap purchase auction for US$500 million, in maturities of up to 180 days at each auction. Additionally, it includes the weekly program for 28-day repo operations with securities issued by the Central Bank of Chile and the weekly program for 7-day repo operations with bank deposits as collaterals.

2. As from 15 December of the current year, and throughout 2009, a weekly program will be offered of 28-day repo operations, with bank deposits as collaterals.

3. As from January 2009, a complementary mechanism will be implemented for liquidity purposes at maturities exceeding 28 days based on a credit facility including bonds issued by the General Treasury and bank term deposits as eligible collaterals.

The Central Bank of Chile will continue to closely monitor the evolution of the international scenario and the impact it may have on our financial system liquidity and will timely adopt any measures that may be required.

Appendix III: Main measures taken by the Central Bank of Chile during 2008

January

3

The Central Bank of Chile decided, pursuant to the provisions of Section 35 of its Basic Constitutional Act, to reduce from 30 to 7 calendar days the minimum term for deposits from banking institutions and other non-indexed term deposits, irrespective of the currency in which they are denominated; and also decided that term deposits denominated in local currency be indexed to the exchange rate for the U.S. dollar and other currencies authorized by the Bank. In addition, the minimum 90-day term remained in force for term deposits in UF or according to any other indexation system allowed by the Bank in money credit operations in domestic currency carried out by banks. This decision was adopted in the context of the streamlining of the rules on deposits and financial intermediation implemented by the Bank as from 2007. This process considers that the legal and regulatory framework is subject to supervision by the Superintendency of Banks and Financial Institutions as regards assessment of solvency and management, including the adoption by banks of policies aimed at controlling financial risks as well as liquidity, taking into account the experience of other countries. The new minimum maturities with regard to deposits became effective on 26 February 2008.

4

The Central Bank of Chile presented its program for tendering the issuance and placement of open market securities in 2008. For the purpose of tendering these debt instruments, the program continued to hold one monthly auction, for both the peso-denominated bonds (BCP) maturing in two and five years and those denominated in *Unidades de Fomento* (BCU) maturing in five and ten years.

Besides, the Ministry of Finance requested that the Central Bank of Chile act as fiscal agent in the placement and administration of debt instruments issued by the General Treasury of Chile in 2008, as per the respective legal authorization for borrowing, contained in the national Budget Law.

10

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to increase the monetary policy interest rate by 25 basis points, to 6.25% (annual).

17

By Resolution 1385-04-080117 and in accordance with the powers granted in the bankruptcy law, by reason of the amendments made thereto by Law 20,190, which includes the second reform to capital markets, also called MKII, the Board of the Central Bank of Chile granted the status provided for in said law derivatives master agreements "1992 ISDA Master Agreements" and "2002 ISDA Master Agreement", as regards compensation agreements in case of bankruptcy as stipulated in such master agreements. By virtue thereof, the parties to any one of the agreements having been granted such status by the Bank may reciprocally offset related obligations incurred for derivatives operations under the aforesaid agreement, if any one of the parties is declared bankrupt pursuant to Chilean laws.

It should be noted that the above mentioned granted status does not imply in any manner whatsoever authorization or approval of derivatives operations and neither does it apply to banks established in Chile, taking into account their submission to mandatory liquidation provisions contemplated by the Banking Law, unless the other party is subject to bankruptcy proceedings. The Central Bank of Chile then also stated that by a separate resolution it would regulate the aforesaid status as well as the general terms and conditions applying to the aforementioned master agreements to which any bank established in Chile or any other institutional investor is a party, taking into account the economic public policy rules governing them.

The above-mentioned measure is especially relevant as it has an impact on the legal validity of the counterparty risk mitigation mechanism in derivatives operations, consisting in the application of the aforesaid voluntary compensation agreements in case of bankruptcy or mandatory liquidation regarding master derivative agreements whose status was granted by the Central Bank of Chile, pursuant to Article 69 of the Bankruptcy Law included in Book IV of the Code of Commerce and Article 136 of the General Banking Law.

This Resolution was published in the *Official Gazette* on 23 January 2008.

17

By Resolution 1385-01-080117, the regulations governing the operation of the Board were amended to require the favorable vote of at least three Board Members for the adoption of Resolutions related to the approval or amendment of the Annual Budget of the Central Bank.

February

21

By Board Resolution 1390-01-080221, and pursuant to the provisions in Articles 6, 7 and 12 of Decree Law 211 dated 1973, which established the Rules for the Defense of Free Competition, currently included in Decree with Force of Law (DFL)1, of the Ministry of Economy, Development and Reconstruction, the Board of the Central Bank of Chile opened the process and approved the terms of reference for the public opposition of backgrounds commended by the aforesaid law, with the intent to submit to the President of the Republic of Chile the lists of three candidates to fill two posts of Incumbent Minister and two offices of Alternate Minister of the Tribunal for the Defense of Free Competition, a lawyer and an economist, in each case, to replace the Ministers whose statutory terms of office expire on 12 May 2008.

22

The Central Bank of Chile decided to restart the process of sale at the Stock Exchange of the remaining options corresponding to the subscription rights arising from the *Banco de Chile* capital increase adopted by a Special Shareholders' Meeting of the Bank held on 17 May 2007, and which had not been purchased in the previous sale process in November 2007. The aforementioned options relate to shares of the *Banco de Chile* held by SAOS S.A. and pledged to the Central Bank of Chile to secure payment of the outstanding subordinated obligation. The aforementioned stock exchange process ended on 5 March 2008 and the Central Bank of Chile instructed the sale of the aforesaid options through an auction by an auctioneer at the Santiago Stock Exchange (*Bolsa de Comercio de Santiago S.A., Bolsa de Valores*), in lots of 30 million options at a minimum price of Ch$1.36 per option, under the auction terms and conditions reported by SAOS S.A. and the dealer to the Santiago Stock Exchange. By reason of such stock sale, the Central Bank of Chile received Ch$163.5 million, which were charged to payment of the next installment of the subordinated obligations falling due on 30 April 2008.

28

Through Resolution 1392-01-080228, the Board of the Central Bank accepted to act as fiscal agent for the placement of bonds issued by the General Treasury in the local capital market, including servicing these securities as they fell due.

28

Through Resolution 1392-02-080228, the Board of the Central Bank decided to accept the new guidelines for execution for the fiscal agency established in the Law on Fiscal Responsibility, for managing resources held in the Economic and Social Stabilization Fund (*Fondo de Estabilización Económica y Social*) and the Pension Reserve Fund (*Fondo de Reserva de Pensiones*) as well as the annual compensation to which the Bank shall be entitled in such capacity.

March

17

By Resolution 1396E-01-080317, the term was extended for calling and receiving professional and personal background records for public opposition of backgrounds as contemplated by Resolution 1390-01-080221, adopted at the session held on 21 February 2008.

20

The Central Bank of Chile updated the list of international risk rating agencies included in Chapter III.B.5 on "Financial Investments and Credit Operations of Banks Abroad" of the *Compendium of Financial Regulations*. The aforesaid list was extended to include the Canadian agency Dominion Bond Rating Service (DBRS).

24

The Central Bank of Chile announced its Resolution regarding the project to update the design of Chilean banknotes series within the context of the celebration of the bicentennial of the Republic, since it considers it is an appropriate time to renew the artistic design and to reinforce security of banknotes, thereby providing citizens with safer and more recognizable means of payment.

April

3

Through Resolution 1399-04-080403, the Central Bank decided to amend Chapter III.F.4 "Limits on Pension Funds Investments" of the *Compendium of Financial Regulations*, raising the cap on pension fund investments in foreign securities to 45%. Such measure was adopted in the context of the gradual increase in the aforementioned limit by the Central Bank of Chile, as per its authority under Article 45, Decree Law 3500 (1980), as amended by Law 20,210. This new cap came into effect on 24 December 2008.

10

The Board of the Central Bank of Chile announced its decision to intervene in the foreign exchange market and reinforce the international liquidity position of the Chilean economy. In such regard, the Board considered that the increase in international reserves in the agreed terms will allow the Central Bank to better cope with a contingent additional, severe and abrupt deterioration in the foreign scenario. International reserves will rise to US$8 billion, by purchasing foreign currency by interactive auctions from 14 April and until 12 December 2008 pursuant to reserve purchase programs to be timely determined by the Bank, which may be reviewed to establish the conditions corresponding to the period from 14 April to and including 9 May depending on current market conditions. Likewise, it was determined that the monetary effects of this measure be compensated so that the peso liquidity provision in the market is consistent with the monetary policy interest rate.

11

The Central Bank of Chile announced the updating of the open market operations schedule between 9 April and 8 May 2008. This schedule included the following operations: Seven days' liquidity deposit at the monetary policy rate; Central Bank of Chile discountable promissory notes (PDBC) maturing in 30, 90, 180, and 360 days; and foreign currency swap purchases maturing in seven days.

17

By Board Resolution 1402-03-080417, Mr. Beltrán de Ramón Acevedo was appointed representative of the Central Bank of Chile before the Board of the Chilean Copper Commission (Cochilco) as from 21 April 2008 and for a six-month term, in compliance with Article 4 of Decree Law 1349 dated 1976.

21

The Central Bank of Chile announced a change in the time for tendering U.S. dollars from 10:00 a.m. to 10:30 a.m., intended to grant greater flexibility to the daily tender process for purchasing U.S. dollars related to the decision to increase the international reserve level, as well as to have more information on the day's prices in the foreign exchange market. Moreover, the Central Bank of Chile reserved the right to change the daily time for purchasing U.S. dollars, without prior notice.

23

The Central Bank of Chile informed the Minister of Economy, Development and Reconstruction of the lists of three candidates to fill two positions as Incumbent Minister at the Tribunal for the Defense of Free Competition, a lawyer and an economist, as per the public opposition of backgrounds called by Board Resolution 1390-01-080221. The corresponding lists of three candidates were determined by Board Resolutions 1404E-01-080423 and 1404E-02-080423.

May

7

The Board of the Central Bank of Chile decided to change the debt securities program announced in January 2008. This change was intended to compensate the monetary effects of the increase of international reserves announced on April 10, 2008. In the quarter from 9 May to 8 August, the tender of Central Bank of Chile bonds increased by US$1 billion per month until completing US$3 billion. The securities issues by the Central Bank of Chile included debt instruments denominated in pesos maturing in two, five, and ten years, as well as securities denominated in *Unidades de Fomento* maturing in two, five, ten and twenty years. Likewise, it was determined that the schedule corresponding to the remaining period from 9 August to 12 December 2008 would be announced soon.

7

The Central Bank of Chile informed the Minister of Economy, Development and Reconstruction of the lists of three candidates to fill two positions as Alternate Minister at the Tribunal for the Defense of Free Competition, a lawyer and an economist, as per the public opposition of backgrounds called by Board Resolution 1390-01-080221. The corresponding lists of three candidates were determined by Board Resolutions 1405E-01-080423 and 1408E-01-080507.

9

The Central Bank of Chile informed that under its second program for monthly purchase of reserves for the period between 12 May and 6 June 2008, it will maintain daily purchases for US$50 million, as contemplated in the first program.

15

By Resolution 1410-02-080515, the Board of the Central Bank of Chile appointed one Incumbent Member and one Alternate Member to the Technical Investment Committee, under the powers granted by Social Security Reform Law 20.255, which amended Decree Law 3500, dated 1980, on Pension Funds.

June

6

The Central Bank of Chile informed that in its third program for monthly purchase of reserves for the period between 9 June and 8 July 2008, it will maintain daily purchases for US$50 million, in the same terms as previous programs.

10

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to increase the monetary policy interest rate by 50 basis points to 6.75% (annual).

19

By Board Resolution 1418-02-080619, published in the *Official Gazette* dated 24 June 2008, it was decided that the interest rate of deferred payment installments of customs duties during the semi-annual period ended 31 December 2008 would be 5.5% annual rate, in U.S. dollars, pursuant to the provisions of paragraph c), Article 10 of Law 18.634.

July

3

Through Resolution 1421-04-080703, the Board of the Central Bank of Chile agreed to act as fiscal agent in the placement and management of bonds issued by the General Treasury in the Chilean capital market, specifically the new opening of bond series BTU-20 and BTU-30 decided by Executive Decree 708 issued by the Ministry of Finance, dated 22 May 2008.

3

Through Resolution 1421-03-080703, the Board of the Central Bank of Chile decided to flexibilize the regulatory provisions related to the procedure for the award of tenders of debt instruments issued by the Bank, with a view to increasing by up to 25% or decreasing by down to 20% the total amount of the offer of Central Bank of Chile discountable promissory notes PDBC or of bonds BCP, BCU, BCD and BCX tendered, to prevent that such processes be declared void and to match award prices to those of the secondary market.

8

The Central Bank of Chile informed that in its fourth program for monthly purchase of reserves for the period between 9 July and 8 August 2008, it will maintain daily purchases for US$50 million, as in previous programs.

10

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to increase the monetary policy interest rate by 50 basis points to 7.25% (annual).

17

The Board of the Central Bank of Chile agreed on a new schedule for the debt program which became effective on 9 August 2008. In the next two months, between 9 August and 8 October, the additional offer will be maintained of Central Bank of Chile bonds for about US$1 billion per month, plus the amounts of the debt plan defined in early 2008 for an approximate monthly value of US$250 million. This program contemplates the issue of indexed bonds at terms of two, five, and ten years and the issue of nominal securities is suspended for this period as well as the issue of securities denominated in *Unidades de Fomento* maturing in 20 years.

24

By Board Resolution 1425-01-080724, Mr. Felipe Jaque Sarro was appointed representative of the Central Bank of Chile before the Board of the Chilean Copper Commission (Cochilco, as per its Spanish acronym) from 25 July 2008 to 21 October 2008, in compliance with Article 4 of Decree with Force of Law 1349, dated 1976.

August

7

By Resolution 1427-02-080807, the Board of the Central Bank of Chile resolved to complement the Resolution adopted at session 1385-04-080117, to extend the status granted to compensation agreements contemplated by the aforementioned master agreements establishing the general terms and conditions of derivatives, a party to which is a banking institution established in Chile whose authorization to operate is revoked by the Superintendency of Banks and Financial Institutions, provided that the obligations being compensated are the result of a derivatives operation authorized by the Central Bank of Chile to such banking institution.

Likewise, this Resolution stipulated, as a part of the general terms and conditions of the above mentioned master agreements to which a Chile-based bank or any other institutional investor is a party, that said entities may consider, in executing any of the framework agreements having been granted pertinent status or in executing specific derivatives operations by virtue thereof, as events of early enforceability generating said obligation compensation arising from the respective agreement.

This Resolution was published in the *Official Gazette* on 11 August 2008 and is related to counterparty risk mitigation in derivatives operations, which will enable a greater deepening of such market, ensuring the Bank's duty to guarantee the normal operation of the payment system and exercise of the powers granted to economic area Superintendencies regarding institutions subject to their supervision.

8

The Central Bank of Chile informed that under the fifth program for monthly purchase of reserves for the period between 11 August and 8 September 2008, it will maintain daily purchases for US$50 million, as in previous programs.

14

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to increase the monetary policy interest rate by 50 basis points to 7.75% (annual).

21

By Resolution adopted at the session held on 21 August 2008, the Board of the Central Bank of Chile was informed of Official Letter 840, issued by the Minister of Finance on said date, whereby the Bank was informed that, by virtue of the power granted by Article 11 of Law 20,128, during 2008 a specific contribution will be made to the institutional equity for a total amount of Ch$428.2 billion, and a contribution equivalent to US$400 million will be made on the same date, corresponding to Ch$208.31 billion. Likewise, in such Official Letter the Minister of Finance stated that subsequent contributions will be timely reported to the Bank, pursuant to the provisions in Decree 600 issued by such Ministry on 25 April 2008.

28

By Board Resolution 1432-01-080828, Mr. Patricio Gajardo Bórquez was appointed alternate representative of the Central Bank of Chile before the National Commission in Charge of Investigating Price Distortions Affecting Imported Goods effective 21 August 2008, pursuant to Article 11 of Law 18,525. The aforesaid Board Resolution was published on 3 September 2008.

September

3

By Board Resolution 1432-03-080828, published in the *Official Gazette* on 3 September 2008, it was resolved that the Central Bank of Chile will exchange banknotes that may no longer be used as a result of the security deterrence devices employed by securities carriers, consisting in the use of special inks in case of accidents or robbery attempts, provided the precautions established by the Central Bank of Chile are complied with.

4

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to increase the monetary policy interest rate by 50 basis points to 8.25% (annual).

4

By Resolution 1433-01-080904, the Board of the Central Bank of Chile decided to change its regulatory provisions on pension fund investment caps and other related matters, as provided for by Law 20,255, on Retirement and Pension System Reform, which amended Decree Law 3500 dated 1980. Relevant main amendments include: i) the establishment of caps on foreign investments, both globally and on a per fund basis, pursuant to law, relative to the value of managed funds. Consistently with prior decisions made on the subject, caps on foreign investments were gradually raised under the terms of applicable legal provisions; ii) the establishment of a cap on investments in unhedged foreign exchange, where a gradual and explicit expansion schedule was also adopted; iii) the determination of caps per fund on investments in higher relative risk instruments.

It was assumed that the expansion of diversification alternatives of pension funds will provide an adequate profitability and security for those retirement and pension funds. It should be noted that, as in previous circumstances, in relation to the decisions the Central Bank of Chile must make on these subjects and considering its legal mandate, the Bank takes into account the developments in financial markets, taking steps for contingent adjustments in the investment portfolios of pension funds to be made without altering the normal operation of internal and external payments or the adequate implementation of the monetary policy. The new regulations were published in the Official Gazette on 8 September 2008 and became effective on 1 October 2008.

8

The Central Bank of Chile informed that in the sixth program for monthly purchase of reserves for the period between 9 September and 8 October 2008, it will maintain daily purchases for US$50 million, as in previous programs.

29

The Board of the Central Bank of Chile decided to terminate its reserve accumulation program, announced on 10 April 2008 to strengthen the international liquidity position of the Chilean economy and better face a contingent deterioration of the foreign scenario. The decision was the result of the significant worsening observed in global financial markets, as a way to mitigate the implications of such turbulence may have in Chile. Throughout the application of this program, the Central Bank increased its international reserves by US$5.75 billion, i.e. 70% of the initially announced program, and which means a 30% increase in its international liquidity over the levels recorded by late March 2008.

Moreover, the Bank announced it will reactivate foreign exchange swap purchases with a view to facilitating the normal operation of the foreign exchange market and the foreign currency interbank liquidity. Consistently, the debt program intended to sterilize the monetary effects of reserve purchase was terminated.

On the same date, the appendices to chapter IV.D.1.2 of the *Compendium of Financial Regulations* of the Central Bank of Chile were amended to include a new method for presentation of foreign currency swap purchase offers by banks.

October

2

The Central Bank of Chile announced to banking institutions a foreign currency swap tender program for an amount of at least US$500 million, to take place on 7, 14, and 21 October 2008, pursuant to the terms, conditions and methods established to these effects.

8

The Central Bank of Chile announced the updating of the debt program for the period between 9 October and 8 November 2008, maintaining the monthly issue amount of the schedule defined in January 2008, an approximate amount of US$250 million.

9

By Resolution 1439-01-081009, the Board of the Central Bank of Chile appointed Mr. Matías Bernier Bórquez and Mr. Eduardo López Escobedo as representatives of the Central Bank of Chile before the Board of the Chilean Copper Commission (Cochilco) effective 22 October 2008 for a two-year term, pursuant to Article 4 of Decree Law 1349, dated 1976.

9

By Resolution 1439-02-081009, published on 10 de October 2008, the Board of the Central Bank of Chile decided to temporarily modify the rules contained in chapter III A.1 of the *Compendium of Financial Regulations*, related to reserve requirements to be observed by banks and savings and loans cooperative companies. Such modification provides for the possibility of complying with reserve requirements in foreign currency, not only in U.S. dollars but also in euros, yens and local currency. This modification shall be effective from 9 October

2008 to 8 April 2009. It was implemented from the monthly reserve requirement period then prevailing and, within the context of the measures recently adopted by the Central Bank of Chile, it is intended to flexibilize liquidity management within the global scenario facing the Chilean economy.

10

The Board of the Central Bank of Chile announced the adoption of new measures intended to flexibilize liquidity management in the domestic financial system in response to a further deterioration of international financial markets. These measures include:

1) Extending from one to six months the U.S. dollar swap purchase program, to be offered at 60 and 90 days, alternately each week and for an amount of US$500 million at each auction. This measure implies offering a maximum amount of up to US$5 billion.

2) As a complement to the aforesaid program, offering repo operations intended to inject more liquidity in pesos at similar terms.

3) In addition, to offer, every week and during the same six-month term, renewable 7-day REPO operations, which may have bank deposits as collateral. This measure allows expanding the universe of eligible securities in operations funding the financial system.

Accordingly, on the same date the "Operating Regulations" of chapter IV.B.8.5 of the *Compendium of Financial Regulations* on security purchasing operations with buyback clauses (REPO) were amended to include promissory notes and term certificates of deposit issued by banking institutions, as eligible for REPO operations, excluding self-issued deposits.

16

By Board Resolution 1440-01-081016, Mr. Claudio Vicuña Urqueta was appointed as Alternate Technical Secretary of the National Commission in Charge of Investigating Price Distortions Affecting Imported Goods, as from 16 October 2008, pursuant to Law 18,525. This Board Resolution was published on 22 October 2008.

24

By Resolution 1442E-01-081024, published on 27 October 2008, the Board of the Central Bank of Chile accepted the Execution Guidelines given by the Minister of Finance through Official Letter 1089, dated 23 October 2008, under the fiscal agency entrusted by Executive Decree 1383 of the Ministry of Finance, dated 2006, published in the *Official Gazette* on 17 February 2007.

The aforementioned Execution Guidelines are related to the management of a portion of seasonal surpluses in U.S. dollars of the Treasury Banking Account and to compensation payable to the fiscal agent under the terms stated in a) and b) of Article 9 of the Agency Decree above mentioned, and under law 20,128, on Fiscal Responsibility.

November

3

By Resolution adopted at session held on 3 November 2008, the Board of the Central Bank of Chile was informed of the Official Letter 1138 issued by the Minister of Finance on 30 October 2008, which announces that, under the powers granted by Article 11 of Law 20,128 on Fiscal Responsibility, the General Treasury will make the second and last capital contribution payment to the Central Bank of Chile pertinent to 2008. At such session, the Board also learned of the capital contribution made on 30 October 2008, for a total amount of US$330.67 billion, corresponding to Ch$219.88 trillion.

7

The Board of the Central Bank of Chile announced the updating of the debt program schedule, effective between 9 November 2008 and 8 January 2009, which concludes the debt plan for 2008. Such schedule comprised the monthly issue of approximately US$250 million, maintaining the amount defined in the plan for January 2008. This continuity schedule contemplated the issue of inflation-pegged bonds maturing in five and ten years, as well as nominal bonds maturing in two and five years.

This schedule is aimed at keeping a limited effect on the equity of the Central Bank of Chile, and resuming the debt plan approved for the year in question, which was temporarily modified by the additional issue which had to be made by reason of the aforementioned international reserve purchase program.

10

The Central Bank of Chile, in its capacity of fiscal agent, informed of the beginning of the investment of seasonal surpluses in U.S. dollars of the Treasury Banking Account through bank deposit auctions. The first two auctions were made for US$350 million each.

13

The Central Bank of Chile announced the *Updating of the Recent Projection Scenario* included in the *Monetary Policy Report* for September 2008. This updating was made due to the dramatic changes occurred in the international scenario with direct impact on the Chilean economy and, therefore, on the regular assessment by the Board of the factors determining the convergence of inflation to its target and the path of the Monetary Policy Rate (MPR) consistent with the achievement of the inflation target.

24

With a view to meeting frequent information requests and to facilitate access by users to data on balance of trade and investments abroad broken down by geographic area and/or by sector or product type, the Central Bank of Chile announced that it had changed its statistical tables published in the Monthly Bulletin (*Boletín Mensual*). Such changes allow, on one hand, to have annual and monthly series which facilitate the analysis in time periods and, on the other hand, to reflect their relation with the aggregates registered in the balance of trade and financial account flows. The aforesaid also facilitates the alignment of publication and revision dates so that broken down figures are updated each time the relevant series of the balance of payments are revised.

December

3

The Central Bank of Chile informed that, to complement the measures announced on 29 September and 10 October 2008, it had extended during December 2008 the term for tender of foreign exchange swaps, which will be offered in the future at 180 days, maintaining the amount of US$500 million in each tender.

10

The Central Bank of Chile announced the adoption of additional measures to flexibilize the management of the liquidity in the domestic financial system. The first of the aforementioned measures consisted in extending the effective term of the program announced on 10 October 2008 throughout the whole of 2009, which includes the weekly schedule for purchase of foreign currency swap; the weekly schedule of 28-day repo operations with Central Bank of Chile securities, and the weekly schedule of 7-day repo operations which contemplates the use of bank deposits as collateral. The second measure refers to a weekly program of 28-day repo operations which also uses bank deposits as collateral as from 15 December 2008 and throughout 2009; and the third measure consists in the implementation of a complementary mechanism for liquidity provision at terms exceeding 28 days on the basis of a pledge-backed loan facility which includes bonds issued by the General Treasury and bank term deposits as eligible collateral, as from January 2009.

19

The Central Bank of Chile informed that the gradual renewal of circulating banknote designs, announced on 24 March 2008, would begin as from the second half of 2009, within the Bicentennial celebrations of the Chilean Independence. The new banknotes, which will be sequentially put in circulation during a term of about two years, will keep their current denominations and characters, but will have a different size to make it easier for the general public to recognize them and, particularly, the visually impaired. Three denominations of these new banknotes will be issued in polymer substrate and the other two will be issued in paper. State-of-the-art technological processes will be used to issue these banknotes.

The Bank also informed that, as part of this process, the companies in charge of printing these new banknotes have already been selected and awarded the task.

24

By Resolution 1453-04-081224, published in the *Official Gazette* on 30 December 2008, the Board of the Central Bank of Chile decided to amend chapter II.B.1.1 of the *Compendium of Financial Regulations*, on "Permanent Liquidity Facility and Liquidity Credit Facilities in Domestic Currency for Banks", to include a new method called "Pledge-Backed Liquidity Credit Facility in Domestic Currency for Banks". It also authorized banking institutions to agree with the Central Bank of Chile on the opening of this new financing credit facility and the execution of credit operations under such facility for a term ending on 26 January 2010.

24

By Board Resolution 1453-05-081224, published in the *Official Gazette* dated 30 December 2008, it was decided that, pursuant to the provisions in paragraph c), Article 10 of Law 18.634, the interest rate of deferred payment installments of customs duties during the semi-annual period ended 30 June 2009 shall be 7.9% annually, in U.S. dollars.

Appendix IV: Management of foreign exchange reserves

A. Introduction

Foreign exchange reserves are liquid assets in foreign currency held by the Central Bank of Chile to support its monetary and foreign exchange policies. These reserves are one of the instruments available to the Bank to meet its permanent objective of safeguarding currency stability and the normal operation of internal and external payment systems.

The current floating exchange rate system, combined with an inflation targeting regime, solid fiscal policies, prudent financial regulation and supervision, and full financial integration with the global scenario, constitutes a consistent framework that makes it possible to keep essential macroeconomic balances and to deal with the different shocks facing our economy, thereby reducing their impact. Notwithstanding the above, the Bank reserves the right to intervene in the foreign exchange market under exceptional and specified circumstances.

Consistently with the purpose, benefits and costs of foreign exchange reserves, their administration aims at guaranteeing secure, efficient access to foreign exchange liquidity and at safeguarding the financial equity of the Bank. To achieve this, the Bank acts according to the legal framework stipulated in Section 38 of its Basic Constitutional Act, which specifically empowers it to manage, maintain and dispose of its foreign exchange reserves, abroad.

In line with its transparency policies[1]/, the Bank must report on the annual management of foreign exchange reserves during 2008. The next section reports on the investment policies and benchmark structure used in managing such reserves. The third section reports on the applications of external administrators and on the development of the new IT system for their administration. The fourth section summarizes the risk management policies and the results of the foreign exchange reserve management.

[1]/ Board Resolution 1289-01-060831 dated 31 August 2006.

B. Investment policy and benchmark structure

The foreign exchange reserve investment policy considers liquid financial assets meeting the legal requirements applicable to their management. This policy was designed in terms of its impact on the Bank's financial balance sheet results and risks, and of the characteristics of the potential needs for liquidity in foreign currency, essentially seeking to preserve principal in view of possible market fluctuations.

B.1 Investment portfolio and liquidity portfolio

In 2008, foreign exchange reserve investments were grouped mainly in two portfolios: the investment portfolio and the liquidity portfolio. The investment portfolio included short- and long-term foreign exchange assets. The short-term component acted as a buffer to deal with shifts in foreign exchange liquidity needs. Investments of this subportfolio were held in bank deposits and money market instruments maturing in up to one year. Similarly, the long-term subportfolio included investments in nominal and indexed bonds[2]/, maturing mainly in one to ten years. This subportfolio was designed to deal with unforeseeable contingencies and long-term requirements. At the same time, a portion of the investment portfolio was administered by external administrators, which were empowered to manage a long-term global portfolio and a Mortgage-Backed Securities (MBS)[3]/ portfolio, as detailed in section C of this appendix.

Regarding the portfolio composition, 20% was invested in bank deposits, 16.6% in U.S. agencies, and the remaining 63.4% in sovereign and supranational risk. Within the latter, investments in Germany (44.6%) and in the U.S. (39.5%) stand out. The remaining 16% was invested in Austria, Belgium, Canada, Spain, France, Greece, Netherlands, Ireland, Italy, and Portugal, and in supranational investments.

Investments in deposits of the investment portfolio fell by US$1.56 billion, while investments in securities rose by US$7.75 billion. The liquidity portfolio was allocated to covering financing needs foreseeable in the short term and represented the preferred source for dealing with daily requirements arising from withdrawals from foreign exchange accounts that the public sector and commercial banks held in the Central Bank. It consisted mainly of bank deposits (overnight, weekend and time deposits) and money market instruments. As of 31 December, the foreign exchange reserves held by the Bank stood at US$23.16 billion, with US$21.55 billion in the investment portfolio and

[2]/ Indexed bonds are bonds denominated in U.S. dollars and referred to as TIPS, Treasury Inflation-Protected Securities.

[3]/ Mortgage-backed securities, that is, debt securities secured by mortgages.

US$1.3 billion in the liquidity portfolio. Of total reserves, 60.8% were invested in U.S. dollars, 37.9% in euros, and 1.3% in other currencies (table 1, appendix IV).

TABLE 1 APPENDIX IV
Breakdown of international reserves
(US$ million)

		2007		2008	
Type of portfolio	Currency	December	%	December	%
I. Investment portfolio		**15,355.0**	**90.8**	**21,548.1**	**93.0**
Currencies and deposits	Dollar	3,338.9	19.7	2,372.0	10.2
	Euro	2,504.7	14.8	1,880.1	8.1
	Other	0.4	0.0	30.7	0.1
Securities	Dollar	5,791.5	34.2	10,356.8	44.7
	Euro	3,707.7	21.9	6,887.3	29.7
	Other	11.8	0.1	21.2	0.1
Total	Dollar	9,130.4	54.0	12,728.8	55.0
	Euro	6,212.4	36.7	8,767.4	37.9
	Other	12.2	0.1	51.9	0.2
II, Liquidity portfolio		**1,340.3**	**7.9**	**1,300.5**	**5.6**
Currencies and deposits	Dollar	1,340.3	7.9	1,277.2	5.5
	Euro			0.0	
	Other	0.0	0.0	23.3	0.1
Securities	Dollar				
Total	Dollar	1,340.3	7.9	1,277.2	5.5
	Euro			0.0	
	Other	0.0	0.0	23.3	0.1
III, Other Assets		**214.9**	**1.3**	**313.8**	**1.4**
Monetary gold	Other	5.4	0.0	5.7	0.0
IMF SDR	Other	53.4	0.3	57.2	0.2
IMF reserve position	Other	88.4	0.5	167.9	0.7
Reciprocal credit agreements	Dollar	67.6	0.4	83.0	0.4
International reserves (I + II + III)		**16,910.1**	**100.0**	**23,162.3**	**100.0**
	Dollar	10,538.2	62.3	14,088.9	60.8
	Euro	6,212.4	36.7	8,767.4	37.9
	Other	159.5	0.9	306.0	1.3

Source: Central Bank of Chile.

During 2008, foreign exchange reserves rose by US$6.25 billion as compared to 2007. This increase was mainly due to the reserve accumulation program implemented from April to September, whereby US$5.75 billion were accumulated, and to the capital payments made by the General Treasury, which amounted to US$730 million. In addition, current account balances and deposits by the General Treasury and commercial banks increased by US$271 million. Finally, a US$469 million increase was recorded, arising from changes in parity rates, investment portfolio results and other transactions. These increases were partially offset by swap operations (spot sale of foreign currency and forward purchase thereof) worth US$969 million. The Bank will keep this program in force during 2009, with the purpose of supplying the domestic financial system with foreign currency liquidity.

B.2 Investment portfolio benchmark structure

The investment portfolio benchmark structure establishes the basic parameters guiding currency composition, duration, distribution of credit risk by type of risk and instrument, and the respective benchmarks for comparison purposes.

With regard to the benchmark structure of the internally managed investment portfolio, in January and October 2008, the investment policy was revised, and updates were introduced as to portfolio benchmarks, credit risk and duration, with a view to better face up to the volatility of global financial markets and to safeguard the Bank's equity. Specifically, benchmark composition for banking risk was lowered from 37% to 30% in January, and from 30% to 20% in October, and for sovereign risk was raised from 63% to 80%. At the same time, the cap for bank risk investments was reduced from 45% to 35% in January, and from 35% to 25% in October. Also, minimum risk rating of eligible banks was raised from A- to A, and investments in A and A+ rated banks were restricted to a 5% of the investment portfolio (table 2, appendix IV).

Regarding the duration of the internal administration investment portfolio, the benchmark duration was 30 months, with a range of zero to eight months permitted over and above the benchmark maturity of this portfolio. For the short-term investment portfolio, the benchmark maturity was three months. In 2008, short- and long-term shares were shifted from 70% and 30% to 65% and 35% in January, and 60% and 40% in October, respectively. Thereby, duration of the internal administration investment portfolio rose from 11.3 to 13.9 months, with an accepted minimum of zero-month duration and a maximum deviation of six months above the benchmark value. Currency composition was kept the same, i.e. dollar investment was prioritized: 59% in dollars and 41% in euros. Deviation margins allowed were kept at ±5% and corrected for hedging requirements for a predetermined amount of liquidity in foreign currency (table 3, appendix IV).

TABLE 2 APPENDIX IV
Benchmark structure of investment portfolio by risk and purchaser

Structure	Credit risk	Previous share (%)	Previous benchmark	Present share (%)	Present benchmark
Short-term portfolio	Banks	37	6-month Libid lagged 3 months US$ Libid at 6 months lagged 3 months EUR	20	Merrill Lynch indices: 6-month Libid US$ and EUR average
	Sovereign, Agency and Supranational	33	FIX BIS at 6 months lagged 3 months US$ FIX BIS at 6 months lagged 3 months EUR	40	Merrill Lynch indices: U.S. Treasury Bills German Gov. Bill Index
Long-term portfolio	Sovereign, Agency, Supranational and Banks	27	JP Morgan bond index for different segments from 1 to 10 years in the U.S. and Germany	36	JP Morgan bond index for different segments from 1 to 10 years in the U.S. and Germany
	Tips	3	Barclays bond Index for 1- to 10-year segments in the U.S.	4	Barclays bond index for 1- to 10-year segments in the U.S.
Total		100		100	

Source: Central Bank of Chile.

The portion of the investment portfolio administered by independent administrators, through a general long-term mandate and a MBS portfolio, was kept unchanged as to applicable benchmarks (JP Morgan 1-10 years U.S., and Germany, Barclays Tips Index 1-10 years and Barclays MBS index), credit risk and duration.

B.3 Liquidity portfolio benchmark structure

Currencies and maturities of the investments in this portfolio matched disbursements anticipated in the balance sheet of the Bank. The benchmark currency structure of the liquidity portfolio was defined according to the actual currency composition required by anticipated disbursements and by deposits and withdrawals by commercial banks and public sector. Benchmark interest rates for the investments in this portfolio were computed on overnight, weekend and time interest rates of the currencies composing this portfolio, in terms of the characteristics of the anticipated disbursements.

TABLE 3 APPENDIX IV

Currency structures, terms and duration of internally managed benchmark portfolio

		USD		EUR		Total	
		Share (%)	Duration (months)	Share (%)	Duration (months)	Share (%)	Duration (months)
I. Short-term portfolio							
Banks		11.8	3.0	8.2	3.0		
Sovereign, Agency and Supranational		23.6	3.0	16.4	3.0		
Subtotal		**35.4**	**3.0**	**24.6**	**3.0**	**60.0**	**3.0**
II. Long-term portfolio							
Non-indexed bonds							
Maturity ranges	1-3 years	13.7	20.6	11.5	20.9		
	3-5 years	3.9	44.0	3.3	42.6		
	5-7 years	1.0	60.9	0.8	62.8		
	7-10 years	1.0	80.7	0.8	83.4		
Indexed bonds							
Maturity ranges	1-10 years	4.0	29.9				
Subtotal		**23.6**	**30.2**	**16.4**	**30.5**	**40.0**	**30.3**
Total portfolio		**59.0**	**13.9**	**41.0**	**14.0**	**100.0**	**13.9**

Source: Central Bank of Chile.

C. External management program and IT streamlining project

C.1 External portfolio management programs

During 2008, the Central Bank had two external portfolio management programs in force. The first one was a long-term general mandate, whose selection of administrators was completed in 2006 and became effective in January 2007. This mandate focused on a portfolio similar to the long-term investment portfolio managed internally, except that external administrators are allowed to invest in mortgage-backed securities (MBS). The purpose of this program remain three-fold: to add value to the foreign currency portfolio; to obtain transfers of know-how and technologies; and to act as an active benchmark for the Central Bank portfolio. This program kept its two external administrators during 2008, each with a portfolio of around US$290 million. The method for assessing risks was an administration based on a risk budget, whereby administrators are allowed to take risk up to a maximum of 100-basis-point tracking error (deviation from the benchmark).

The second program involved a MBS-specific mandate, which was kept in force in 2008. Its main objective was to add value to the portfolio and to achieve a know-how transfer through dialogue between the administrators and the staff of the Central Bank. This program continued to have one external administrator in 2008, which managed a portfolio that reached approximately US$400 million as of 30 December. Measurements of performance, risk assessment, and benchmark compliance for both programs continued to be outsourced by the custodian bank.

C.2 Development of the new IT system for managing reserves

During 2008, the project to streamline the IT system used to administer foreign exchange reserves was continued, led by the International Investment Management, with the support of an external consultant. This IT system adds the highest quality standards to foreign exchange reserve management. The different stages included in the implementation of the IT system were completed: the parallel operation phase started in December, and it became the official system of the Bank for managing foreign exchange reserves in January 2009.

D. Risk management and results of foreign exchange reserve management

D.1 Risk management within foreign exchange reserve management

When managing foreign exchange reserves, the Bank applied the criteria necessary to limit liquidity, credit, market and operating risks. To reduce liquidity risk, the portfolio consisted solely of maturity-diversified, short-term deposits with international commercial banks, and fixed-income instruments traded at very deep and liquid secondary markets. Credit risk management involved restrictions to external bank, sovereign, supranational and financial institutions risks, as well as restrictions to applicable counterparties (table 4, appendix IV).

Market risk was kept under control by diversifying investment currencies, instruments and maturities, and by measuring and restraining the limits of exposure to currency and maturity risks, as noted above. Regarding operating risk, the Bank kept a correct separation of responsibilities and duties on an institutional and hierarchical basis, with an efficient application of control devices so as to mitigate this risk related to reserve management. IT applications were also implemented enabling operation under market quality standards. The Bank also improved its operational continuity standards by keeping a contingency unit, which ensured operational continuity regarding foreign exchange reserves and fiscal resources in case any problems arose which affected the physical and technological infrastructure of the Bank's building. This, combined with internal and external audits, has ensured that decision-making processes and management assessment within the Bank remain clearly defined.

TABLE 4 APPENDIX IV
Breakdown of international reserves by credit risk rating (1) (2)
(percent as of 31 December 2008)

	Rating							
Type of credit risk	AAA	AA+	AA	AA-	A+	A	A- (3)	Total
Agency	16.6	0.0	0.0	0.0	0.0	0.0	0.0	16.6
Banking	0.3	0.0	7.1	14.8	1.5	0.2	0.4	24.2
Sovereign	56.8	0.4	0.2	0.6	0.0	0.9	0.0	58.9
Supranational	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Total	**74.0**	**0.4**	**7.3**	**15.4**	**1.5**	**1.0**	**0.4**	**100.0**

(1) Banking risks relates to investment in banks' financial instruments (deposits, forex -spot/forward-, pfandbriefes). The sovereign risk relates to investment in instruments from sovereign states (deposits, bills, floating rate notes, indexed and non-indexed bonds). The agency risk is associated with investment in instruments from U.S. government agencies (bills, non-indexed bonds, mortgage-backed securities). The supranational risk relates to investment in instruments from a multilateral official issuer (deposits, bills, floating rate notes, non-indexed bonds).

(2) Risk rating shown is the average of ratings from the agencies Fitch, Moody's, and Standard & Poor's.

(3) On 24 October 2008, the average rating from an eligible bank was downgraded from A to A-, so it became non-eligible for the purposes of the Central Bank of Chile's international reserves investments, as it failed to meet the minimum established by the Bank.

Source: Central Bank of Chile.

D.2 Returns on foreign exchange reserve management

In 2008, the total return from foreign exchange reserve management was 5.7% as measured in foreign currency, i.e. in terms of the reference basket of currencies of the investment portfolio. As measured in dollars, this return was 4.14%. The differential return obtained against the benchmark structure was 32.7 basis points. For the 2000-2008 period, the average annual return, as measured in foreign currency, was 4.19%, with a 22 basis point differential return against the benchmark (table 5, appendix IV).

TABLE 5 APPENDIX IV

Absolute returns on international reserves and benchmark

(percent)

	In foreign currencies		In U.S. dollars		
	International reserves	Benchmark	International reserves	Benchmark	Differential
2008	5.70	5.37	4.14	3.81	0.33
2007	4.81	4.78	8.86	8.83	0.03
2006	2.45	2.39	6.84	6.78	0.06
2005	2.90	2.85	-1.72	-1.77	0.05
2004	1.84	1.95	4.08	4.20	-0.11
2003	2.31	1.78	6.64	6.12	0.53
2002	5.25	4.69	9.34	8.78	0.57
2001	5.57	5.27	3.90	3.60	0.30
2000	6.88	6.65	4.84	4.61	0.22

Source: Central Bank of Chile.

D.3 Operational costs and securities lending program

During 2008, total operating costs involved in the administration of the foreign exchange reserves held by the Bank amounted to about 4.6 basis points of the total managed portfolio. The securities lending program with the custodians for foreign exchange reserves was kept in force during the period under analysis. This program consists in lending securities owned by the Bank to primary dealers, and requiring them to set up a guarantee deposit equivalent to a 102% of the value of the instrument which is being lent. The contractual relationship with the loan agent, i.e. the custodian, also includes a clause that demands from the latter, in the event of the debtor's default, to be held accountable for the lent positions, thereby transferring risk from the debtor to the custodian. The custodian must keep the positions of the Bank in separate accounts, so that there is no credit risk for the lender. In 2008, this program generated income to the Bank in 3.9 basis points of the foreign exchange reserves.

ANNEX 1

Eligible banks and permitted limits as of 31 December 2008

Country	Bank	Amount (US$ million)	Term (months)	Country	Bank	Amount (US$ million)	Term (months)
Germany	Bayerische Hypo-und Vereinsbank AG (HVB)	180	6	Finland	Nordea Bank Finland Plc	432	9
Germany	Bayerische Landesbank	180	6	France	BNP Paribas S.A	432	12
Germany	Commerzbank AG	180	6	France	Calyon Corporate and Investment Bank	432	9
Germany	DekaBank Deutsche Girozentrale	180	6	France	HSBC France	432	12
Germany	Deutsche Bank AG	432	9	France	Credit Agricole S.A.	432	9
Germany	Dresdner Bank AG	180	6	France	Crédit Industriel et Commercial (CIC)	432	9
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	180	6	France	Dexia Crédit Local SA	324	9
Germany	HSH Nordbank AG	180	6	France	Natixis	180	6
Germany	Landesbank Baden-Württemberg	180	6	France	Société Générale	432	9
Germany	Landesbank Hessen-Thüringen Girozentrale	180	6	The Netherlands	ABN AMRO Bank NV	432	9
Germany	Norddeutsche Landesbank Girozentrale	180	6	The Netherlands	ING Bank NV	432	9
Australia	Australia & New Zealand Banking Group Limited	432	12	The Netherlands	NV Bank Nederlandse Gemeenten	585	12
Australia	Commonwealth Bank of Australia	432	12	The Netherlands	Rabobank Nederland	702	12
Australia	National Australia Bank Ltd	432	12	Ireland	Allied Irish Banks	432	9
Australia	Westpac Banking Corporation	432	12	Ireland	Bank of Ireland	432	9
Austria	Erste Group Bank AG	180	6	Italy	Banca Monte dei Paschi di Siena SpA	180	6
Austria	Raiffeisen Zentralbank Österreich AG (RZB)	180	6	Italy	Intesa Sanpaolo SpA	432	9
Belgium	Dexia Bank Belgium SA	432	9	Italy	Unicredit SpA	180	6
Belgium	Fortis Bank SA/NV	180	6	Japan	Mizuho Corporate Bank Ltd.	180	6
Belgium	ING Belgium SA/NV	432	9	Japan	Sumitomo Mitsui Banking Corporation	180	6
Belgium	KBC Bank NV	180	6	Japan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	180	6
Canada	Bank of Montreal	432	9	Japan	The Norinchukin Bank	180	6
Canada	Canadian Imperial Bank of Commerce	432	9	Japan	The Shizuoka Bank Ltd.	432	9
Canada	National Bank of Canada	180	6	Norway	DnB NOR Bank ASA	432	9
Canada	Royal Bank of Canada	432	12	Norway	Nordea Bank Norge ASA	432	9
Canada	The Bank of Nova Scotia	432	9	Portugal	Banco Espirito Santo S.A.	180	6
Canada	The Toronto-Dominion Bank	432	9	Portugal	Caixa Geral de Depositos SA	432	9
Denmark	Danske Bank Aktieselskab	432	9	United Kingdom	Alliance & Leicester Plc	324	9
Denmark	Nordea Bank Danmark A/S	432	9	United Kingdom	Bank of Scotland Plc	432	12
Spain	Banco Bilbao Vizcaya Argentaria SA	432	12	United Kingdom	Barclays Bank Plc	432	12
Spain	Banco Santander Central Hispano S.A.	432	12	United Kingdom	HSBC Bank Plc	432	12
Spain	Caja de Ahorros and Pensiones de Barcelona	432	9	United Kingdom	LloydsTSB Bank Plc	432	12
Spain	Caja de Ahorros and Monte de Piedad de Madrid	432	9	United Kingdom	National Westminster Bank Plc	432	9
United States	The Bank of New York Mellon	432	12	United Kingdom	Standard Chartered Bank	180	6
United States	Bank of America NA	432	9	United Kingdom	The Royal Bank of Scotland Plc	432	9
United States	Citibank, NA	180	6	Sweden	Skandinaviska Enskilda Banken AB (Publ) (SEB)	180	6
United States	Comerica Bank	180	6	Sweden	Svenska Handelsbanken AB (publ)	432	9
United States	Deutsche Bank Trust Company Americas	432	9	Switzerland	Credit Suisse	432	9
United States	HSBC Bank USA N.A.	432	12	Switzerland	UBS AG	180	6
United States	J.P. Morgan Chase Bank	432	9	Switzerland	Zürcher Kantonalbank	702	12
United States	Keybank National Association	180	6				
United States	BNY Mellon Bank National Association	432	12				
United States	PNC Bank NA	432	9				
United States	Regions Bank	180	6				
United States	State Street Bank & Trust Company	432	9				
United States	Suntrust Bank	432	9				
United States	The Northern Trust Company	324	9				
United States	U.S. Bank N.A.	432	12				
United States	Wachovia Bank, NA	432	12				
United States	Wells Fargo Bank, NA	432	12				

Source: Central Bank of Chile.

ANNEX 2

Financial institutions with deposits outstanding at 31 December 2008

Category	Bank	US$ million	
AA, AA+, AAA	BANCO BILBAO VIZCAYA ARG.SA, MADRID		
	BANCO SANTANDER CENTRAL HISPANO SA, MADRID		
	BANK OF SCOTLAND PLC, LONDON	Minimum	38
	BARCLAYS BANK PLC, LONDON	Maximum	301
	ING BANK NV, AMSTERDAM	Category average	171
	ING BELGIUM SA/NV, BRUSSELS		
	NATIONAL AUSTRALIA BANK LTD, MELBOURNE		
	ZURCHER KANTONALBANK, ZURICH		
AA-	ABN AMRO BANK NV, AMSTERDAM	Minimum	26
	ALLIED IRISH BANKS, DUBLIN	Maximum	420
	BANK OF IRELAND INTERNATIONAL BANKING DUBLIN	Category average	156
	BANK OF MONTREAL, LONDON		
	CAJA DE AH. Y MONTE DE PIEDAD DE MADRID, MADRID		
	CALYON CORPORATE AND INVESTMENT BANK(D), N.YORK		
	CANADIAN IMPERIAL BANK OF COMMERCE, TORONTO		
	CREDIT INDUSTRIEL ET COMMERCIAL (CIC), PARIS		
	DANSKE BANK AKTIESELSKAB, COPENHAGEN		
	DEXIA BANK BELGIUM SA, BRUSSELS		
	DNB NOR BANK ASA, OSLO		
	INTESA SANPAOLO SPA, N.YORK		
	NORDEA BANK FINLAND PLC, HELSINKI		
	SOCIÉTÉ GÉNÉRALE, PARIS		
	SVENSKA HANDELSBANKEN AB (PUBL), STOCKHOLM		
	THE ROYAL BANK OF SCOTLAND PLC, EDINBURGH		
A, A+	BANK AUSTRIA CREDITANSTALT AG, VIENNA	Minimum	32
	DEPFA BANK PLC, DUBLIN	Maximum	167
	FORTIS BANK SA/NV, BRUSSELS	Category average	105
	NATIXIS, PARIS		

Source: Central Bank of Chile.

ANNEX 3

Intermediaries used during 2008

1	BANK OF AMERICA SEC. LLC, USA	20	GOLDMAN, SACHS & CO., USA
2	BANK FOR INTERNATIONAL SETTLEMENTS, BASLE	21	GREENWICH CAPITAL MARKETS, INC., USA
3	BARCLAYS CAPITAL INC., USA	22	HSBC SECURITIES (USA) INC., USA
4	BARCLAYS CAPITAL, U.KINGDOM	23	J.P. MORGAN SEC. LTD., U.KINGDOM
5	BAYERISCHE HYPO-UND VEREINSBANK AG, MUNICH	24	J.P.MORGAN SECURITIES, INC., USA
6	BNP PARIBAS SA, PARIS	25	LANDESBANK BADEN-WÜRTTEMBERG, STUTTGART
7	BNP PARIBAS SECURITIES CORP., USA	26	LEHMAN BROTHERS INC., USA
8	CALYON CORPORATE AND INVESTMENT BANK(I) NY.	27	MERRILL LYNCH GOV. SEC. INC., USA
9	CITIGROUP GLOBAL MK. LTD., U.KINGDOM	28	MERRILL LYNCH INTL., U.KINGDOM
10	COMMERZBANK A.G., FRANKFURT	29	MIZUHO SECURITIES USA INC., USA
11	CREDIT SUISSE SECURITIES (USA) LLC, USA	30	MORGAN STANLEY & CO. INC., USA
12	CREDIT SUISSE SECURITIES(EUROPE) LIMITED, U.KINGDOM	31	NATIXIS, FRANCE
13	DEUTSCHE BANK AG (LONDON BRANCH), U.KINGDOM	32	ROYAL BANK OF SCOTLAND, U.KINGDOM
14	DEUTSCHE BANK AG, FRANKFURT	33	SOCIÉTÉ GÉNÉRALE, FRANCE
15	DEUTSCHE BANK AG, LONDON	34	THE ROYAL BANK OF SCOTLAND PLC TCM, LONDON
16	DEUTSCHE BANK SECURITIES INC., USA	35	THE ROYAL BANK OF SCOTLAND PLC, LONDON
17	DRESDNER BANK AG, FRANKFURT	36	UBS LIMITED, U.KINGDOM
18	DRESDNER KLEINWORT SEC. LLC, USA	37	UBS SECURITIES LLC, USA
19	DZ BANK AG DEUTSCHE ZENTRAL-GENOSS., FRANKFURT		

Source: Central Bank of Chile.

Appendix V: Real time gross settlement system (RTGS)

A. Introduction

Payment systems are a key component of the financial infrastructure. As most transactions are settled through them, their safe and efficient operation is critical for the good performance of the economy, for the effective monetary policy and financial stability, and, in particular, for the control of the systemic risk which could affect financial institutions.

The Central Bank of Chile must ensure the normal operation of payment systems. For such purpose, it has been vested with powers to regulate and supervise several of their features. Since these payments are of major systemic importance, compliance with the "Basic Principles" recommended by the Payment and Settlement Systems Committee of the Bank for International Settlements[1]/ (BIS) is an essential requirement in the operations of such systems.

In Chile, high value payment systems (HVPS) are formed by the Real Time Gross Settlement (RTGS) system which is owned and managed by the Central Bank, and the deferred netting system of the High Value Payment Clearing House (HVPCH), run by ComBanc S.A. as a supporting company.

In the RTGS system, settlement of payments is on a gross and individual basis. The HVPCH is a multilateral clearing (netting) system whereby, once a business cycle has been completed, the net result of the process is settled through the RTGS system. Both systems process transactions—interbank and delivery versus payment (DVP)—on behalf of clients. This DVP procedure allows synchronizing transfers of securities in the Central Securities Deposit (DCV, by its Spanish acronym) with settlements of payments in the RTGS system or in the HVPCH, and it is implemented by *ComBanc S.A.* This institution acts on behalf of the purchasing participant for the issuance of payment (Switch function).

[1]/ "Basic Principles for Systematically Relevant Payment Systems," Payment and Settlements Systems Commitee. BIS (2001).

B. The RTGS system

The RTGS system is the Real Time Gross Settlement system existing in Chile since April 2004. The system is run by the Central Bank itself and provides settlement services, while communications take place through the Swift network. All banks keep a single settlement account with the Central Bank and, since banks need to meet reserve requirements based on averages over a given period, fund balances may be used for settlement during the day. As of December 2008, it had 25 direct participants. There is no indirect participation in the system. The criteria for direct participation are that banks hold a current account with the Central Bank and have the capacity to connect to the system; therefore, they are required to be part of a Swift closed user group.

The system manages transactions irrespective of their value. Participants may only start fund transfers by debiting amounts from their account by sending a Swift message, while the Bank and the Switch (operated by *ComBanc* for delivery versus payment transfers) may carry out debits and credits against participants' accounts.

Transactions processed by the RTGS system include payments on behalf of clients, interbank payments for a bank's own account and delivery versus payment (DVP) transactions for settlement of funds in securities transactions. Bank transactions for settlement of open market transactions, permanent deposit and loan facilities, cash transactions (withdrawals and currency deposits), among others, are directly debited or credited by the Bank in participants' accounts.

To make a payment, a participant must issue a Swift message to a recipient participant, which message is captured and withheld by the Swift FIN Copy service. This service transmits a partial copy of the payment message to the RTGS system, including the following data: BIC of issuing participant, BIC of recipient participant, transaction reference number (TRN), value date, transaction currency and amount. The RTGS system reviews the message format and verifies the existence of sufficient funds in the issuing participant's account to settle the payment, and settles it on a real time basis by transferring funds from one account to the other. The settlement is carried out promptly on a transaction by transaction basis, and may not be repealed by the issuer. When the issuing participant has insufficient funds in its account, the payment is placed on a queue until sufficient funds are available. There are about one hundred priority levels in the system and, whenever additional funds are available, payments are settled as per the FIFO principle within each priority.

The Central Bank provides intraday credit at no interest against delivery of collaterals through repo operations (Intraday Liquidity Facility, ILF), which may become a one-day term Permanent Liquidity Facility (PLF) which accrues interest if no sufficient funds are available at day closing.

C. Initiatives

In 2008, several initiatives were put into practice aiming at strengthening the RTGS system. One of them was the start-up of Bypass Application, which is intended to allow the Central Bank a prompt recovery of balances in participants' accounts, based on Swift messaging analysis, in those events where the system may not be accessed. In addition, an External Contingency Room (ECR) was set up, which will allow continuity in the delivery of high value transfer services in the event of some barrier to accessing central facilities.

During 2008, the Central Bank, in line with international standards on this matter, conducted drills on operational continuity, such as a full management of a daily business cycle from the ECR and a switch test from the Main Processing Site (MPS) to the Alternate Processing Site (APS) during business hours. Assessment of these drills resulted in information which will allow improving the plans designed for operational continuity. In addition, they contribute to comply with "High Level Principles for Operational Continuity"[2]/, which include aspects such as the validation of the efficiency of the operational continuity strategy and the staff getting acquainted with operational continuity plans by conducting regular drills. In future, the development of this line of work is expected to continue, as well as the conduction of drills including a wider scope of industry stakeholders.

The operational effectiveness of the RTGS system and of the ILF depends on the availability and performance of all the components thereof, including market infrastructures, network and other interconnected system suppliers. For such reason, during the year, the Bank held meetings with representatives from the Central Securities Deposit and the National System of Financial Communications (Sinacofi by its Spanish acronym) in order to explain in more detail the range of services rendered and, thus, to start developing a set of Service Level Agreements (SLA) on each of them. This is intended to ensure a strong global operational performance level.

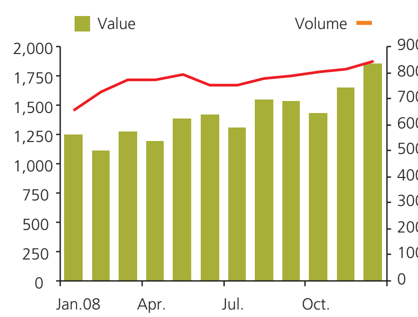
[2]/ "High-level Principles for Business Continuity", The Joint Forum, Basle Commitee on Bank Supervision. BIS (2006).

Finally, by the end of the first half of 2008, the Central Bank and its supplier LOGICA agreed to start a migration process of its LCSS/CAS application, on which the RTGS system runs, from the current 3.40 to the future 3.50 version. The new version will include multicurrency features which will render it the technological platform on which the Foreign Currency Current Account System of the Bank will simultaneously run.

Recovery and business continuity procedures of the RTGS system require high standards. Therefore, in order to strengthen their resilience, major developments were carried out during the year, which include: the startup of the centralized storage in the APS, which made it possible to access centralized storage of Swift and Oracle Data Base (elements of SOMA procurement); the change in the network partner of Swift net links in the MPS so that it was different from that of APS; approval of the architecture of the communications network in the APS, changing from a simple one-layer architecture to a three-layer one; and the start-up of the email service and the SYBASE database in the APS.

Figure 1

ITFs settled under RTGS system (*)
(Ch$ billion, number of operations)



(*) Month's daily average.

Source: Central Bank of Chile.

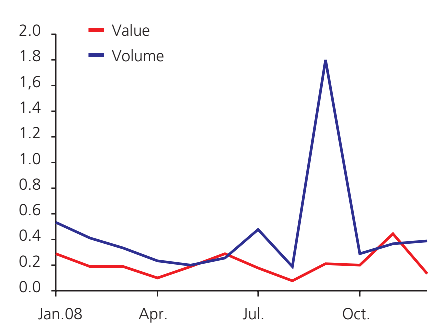
D. Statistics report

The RTGS system processes interbank fund transfer instructions (FTIs), on behalf of clients and delivery versus payment (DVP) transactions. During 2008, 191,286 payments were settled, 13.9% higher than in the previous year. The total settled amount grew by an annual 19.6%, thereby reaching Ch$349.8 trillion. This is equal to a daily average of 770 payments for a total amount of Ch$1.41 trillion. In general, both the value and the volume of payments settled in the RTGS system increased at the beginning of the year, they then experienced a period of more stable activity, which ended with new increases during the last quarter of the year (figure 1). The average value of each payment settled in the system amounted to Ch$1.83 billion.

As the RTGS system is defined as a gross settlement system, payments are settled on a one by one basis while there are sufficient funds in the participants' accounts; otherwise, they are placed on queue until additional funds are available to allow their settlement, until they are paid by the institution which sent them, or else until they are rejected by the RTGS system itself. This rejection may happen for a series of reasons such as errors in the validation process at the time messages are received, closing of the payment entry process for the type of payment being received, or closing of the daily settlement process (5:30 p.m.) while the payment is queued. The RTGS system presents a low percentage of rejection of payments sent by participants, both in terms of value (0.2%) and in terms of volume (0.5%); most rejections are delivery of payments after the hours set for receipt (figure 2).

Figure 2

ITFs rejected under RTGS system (*)
(percentage of Total value/volume)

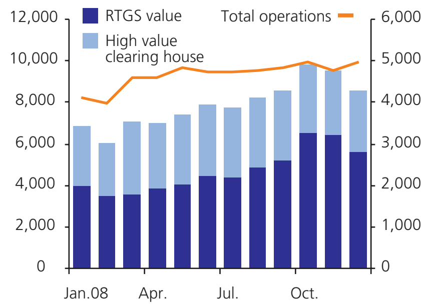


(*) Month's daily average.

Source: Central Bank of Chile.

Figure 3

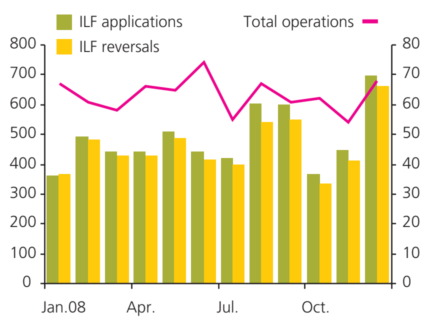
Payments settled under the high value payment system HVPS (*)
(Ch$ billion, number of operations)



(*) Month's daily average.
Source: Central Bank of Chile.

Figure 4

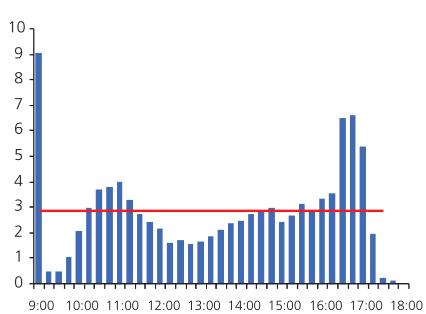
Intraday liquidity facility (ILF) operations (*)
(Ch$ billion, number of operations)



(*) Month's daily average.
Source: Central Bank of Chile.

Figure 5

Intraday pattern of ITFs settled during 2008 (*)
(percent, every 15 minutes)



(*) Year's daily average.
Source: Central Bank of Chile.

In Chile, two high-value payment systems (HVPS) operate: the RTGS system and the HVPCH. In 2008, operations settled using the HVPS averaged 4,680 daily payments, 16% higher than the previous year. The total value of settled payments recorded a daily average of Ch$7.91 trillion, with an increase in the same period somewhat higher than 6%. Of the total value of settled payments, approximately 60% was processed in the RTGS system, while the remaining 40% was processed in the HVPCH. The Central Bank carries out all of its monetary policy operations in the RTGS system, including debt security placements, payments falling due, repos, and permanent deposit facilities, among others.

The growth of the settled value was especially noteworthy towards the last quarter of 2008. This is due to several Central Bank precautionary operations settled in the RTGS system related to a greater liquidity provision to bank institutions across the counters for repos and swaps. All the foregoing is the result of the uncertainty recorded in international financial markets (figure 3).

As the RTGS system operates on a gross basis, this imposes a greater liquidity demand to participants than if the system operated on a deferred net basis (such as the case of the HVPCH). These liquidity demands are met by the Central Bank by means of intraday loans through purchase operations with same-day buyback clauses (repos). These operations are available on every business day after the RTGS system opens for business (09:00 a.m.) through the Open Market Operations System (SOMA, by its Spanish acronym). The requested ILF is automatically redeemed by participants after closing of business (5:30 p.m.) with return of received securities. If funds are insufficient, the difference not covered becomes a permanent liquidity facility (PLF), with the corresponding interest charge. In 2008, daily ILF operations averaged 63 (31 requested and 32 resales). Financial institutions requested such facility in the morning and by 11:00 a.m. somewhat more than 80% of the day demands had accumulated, which were mostly redeemed by 5:00 p.m. manually and then automatically after the closing process. The average daily value amounted to Ch$486 billion, while the average reverse value was Ch$459 billion (figure 4).

The intraday pattern in the value of payments settled in the RTGS system showed a relatively consistent distribution, although it still records a high concentration right after system opening. This is due to the posting of bonds by banks for the start of the operation in the HVPCH. So, such volume went down from 11% to 9% between 2007 and 2008, because of the higher level of general activity in the system. In addition, a greater activity was recorded after 4:30 p.m., concurrently with the closing of the HVPH business cycle. This leaves the RTGS system as the sole mechanism for settlement of operations, mainly for clients' transfers, interbank loans and DVP securities market operations (figure 5).

The Check Clearing House provides for paper-based payment orders to be exchanged, cleared and settled among banks. It is managed by a banking institution acting as a clearing institution on duty. Debit or credit amounts are determined based on the physical exchange of documents and reported through a Sinacofi message. Determination of final positions in ATMs is the responsibility of the manager of the ATM network (*Redbanc S.A.*, a supporting company). In 2008, the daily average value settled in the RTGS system on account of net check and other document positions amounted to Ch$48 billion, while in the case of ATMs it was of Ch$8 billion (figure 6).

The HVPCH determines at all times the net positions of participants according to the exchange of SWIFT payment messages and real time observance of bilateral and multilateral limits. In addition, there is a mechanism which ensures settlement in the RTGS system, even when the participant recording the greatest debit balance does not have sufficient funds for settlement (known as the "Lamfalussy Principle"). In 2008, the average amount settled on a daily basis by the HVPCH was Ch$194 billion, i.e. 5% more than the previous year.

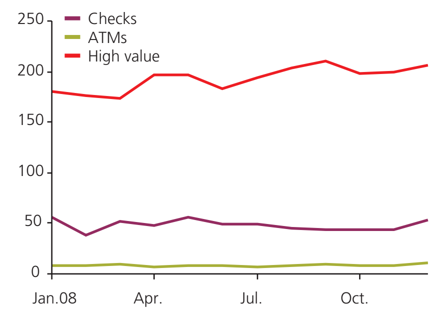
Delays in the settlement of net positions for each deferred netting system accumulated on a monthly basis in terms of operating hours were slightly lower in 2008. In the case of the check clearing house, non-availability of sufficient funds at the beginning of the settlement process by a participant with a debit balance resulted in delays in March and June. The HVPCH only recorded a significant delay in October, which was due to a problem in network communication. The ATM clearing house operated regularly without any inconvenience, given lower transacted volumes (figure 7).

An important aspect in the design of the reserve requirement mechanism is that bank balances may vary on a daily basis according to the preferences of the bank throughout a "monthly maintenance period". This characteristic does away with the obligation of banks to "tally" with the Central Bank on a daily basis, but only towards the end of the maintenance period. Therefore, as balances may freely vary to meet daily liquidity needs, such balances act as a buffer to accommodate unanticipated incoming or outgoing flows during the day, reducing intraday credit needs. The available liquidity amount to finance payments rose from 102% to 122% between 2007 and 2008, due to the greater relative availability of the funds maintained in current accounts by financial institutions (figure 8).

Figure 6

Amounts settled through clearing houses (*)

(Ch$ billion)

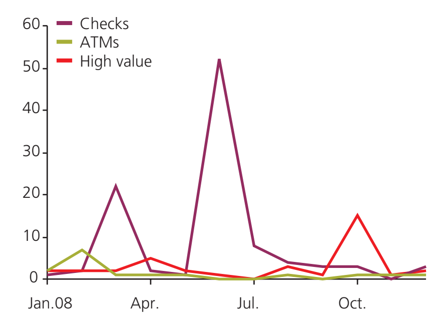


(*) Month's daily average.

Source: Central Bank of Chile.

Figure 7

Accumulated delay in clearing house settlements (*)
(minutes)



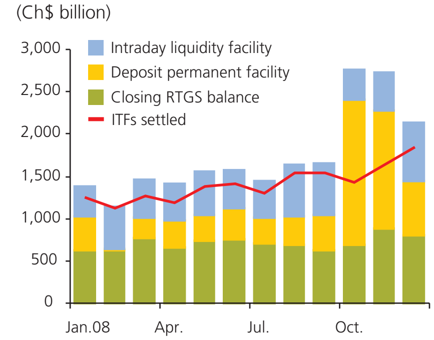
(*) Monthly.

Source: Central Bank of Chile.

Figure 8

Liquidity RTGS system (*)

(Ch$ billion)

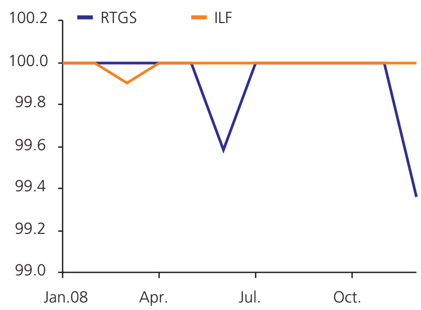


(*) Month's daily average.

Source: Central Bank of Chile.

Figure 9

Availability of RTGS and ILF (*)
(percent)

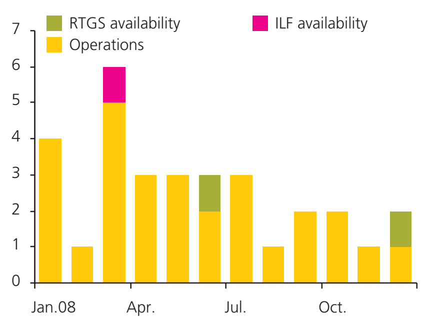


(*) Monthly average.

Source: Central Bank of Chile.

Figure 10

Incidents from critic RTGS and ILF (*)
(number)



(*) Monthly.

Source: Central Bank of Chile.

The RTGS system and the relevant SOMA system for intraday credits maintained a high availability level during the year, in line with their systemic importance. The operational performance remain strong, with only two months during which no 100% availability was reached in the RTGS system (June and December). In the SOMA system, this only happened in March. On a yearly basis, RTGS and SOMA system availability was 99.91% and 99.99%, respectively (figure 9).

As the RTGS system operates on a gross and real time basis, it eliminates the settlement risk by making banks rely on its infrastructure to manage their liquidity during the day on an on-going basis. This renders the operational risk management a key internal activity of the Bank, as there is a scheme which systemizes the follow-up of all incidents recorded in the RTGS and SOMA systems. This allows the analysis and assessment of the reasons for each incident, and the ways to cope with it in order to prevent possible risks. During the year, 31 incidents were recorded, 28 of which were considered minor because they only affected specific operations. It should be noted that the incident affecting the availability of the RTGS system in December resulted from the site switching test between the MPS and APS conducted by the Bank itself, in line with the best practices on the matter (figure 10).

Appendix VI: Management of fiscal funds (ESSF and PRF)

A. Introduction

In its capacity as fiscal agent, the Central Bank of Chile manages resources in the name and on behalf of the General Treasury. These resources are an integral part of the Economic and Social Stabilization Fund (ESSF) and of the Pension Reserve Fund (PRF). The following sections provide details on the institutional context in which this fiscal agency operates. They also report on investment policy, structure of funds, reporting system, administration results, and costs related to managing these resources.

B. Institutional framework

Law 20,128 on Fiscal Responsibility, created the ESSF and the PRF. Under this law, the Ministry of Finance issued Executive Decree 1383, whereby the Bank is vested with the representation of the General Treasury for investing all or part of the resources arising from the ESSF and PRF, once the Bank has formally accepted this assignment, in accordance with its Basic Constitutional Act.

Through Board Resolution 1321-01, issued on 22 February 2007, the Bank resolved to accept such representation. This acceptance included the execution guidelines, which govern the acts of the fiscal agent. Although the execution guidelines then accepted remained in force during the whole 2008, the Board has accepted new guidelines, whose effective date shall be defined by the Ministry of Finance. This Resolution also empowered the Director of the Financial Operations Division (FOD) to establish the internal procedures necessary to regulate fulfillment of these tasks, on observance of the above mentioned decree and guidelines.

The operational management of this fiscal agency lies in the International Investment Management (IIM) under the FOD. All procedures used in foreign exchange reserve management were considered and applied to the administration of fiscal resources. This has ensured equivalent quality standards in portfolio management and in the processes for controlling financial and operating risk. This was possible thanks to the economies of scale arising within the FOD and the synergies derived from procedures that have ensured a solid operation of the IIM.

C. Investment objectives and policies

The investment policy objectives for each fund (fiscal portfolios) and the risk-return profile associated with each of them reflect decisions made by the Ministry of Finance. The Central Bank must manage said fiscal resources in pursuance of the relevant decrees and execution guidelines, which it must previously accept.

Execution guidelines contain investment principles which define a reference benchmark and restrictions applicable to the administration of fiscal portfolios. The benchmark structure implicitly includes return-risk objectives established by the Ministry of Finance. Performance of the fiscal agency is assessed against this benchmark portfolio. Investment guidelines determine and restrict the different risks to which fiscal portfolios will be exposed, such as foreign exchange, interest rate and credit risk. To limit foreign exchange risk, the benchmark requires that funds be distributed as follows: 50% in U.S. dollars, 40% in euros, and 10% in yens, with ±5% maximum deviation from central figures defined for each of these currencies. These guidelines also include other nine eligible currencies[1]/. However, investment in these secondary currencies depends on the existence of an underlying asset and hedging in one of the main currencies. Regarding interest rate risk exposure, these investment guidelines stipulate a benchmark portfolio duration of around thirty months and that duration of fiscal portfolios cannot be less than zero months; maximum deviation from these standards is five months exceeding the duration of the benchmark portfolio. Credit risk exposure is controlled by stipulating restrictions on the issuers in which funds may be invested. They allow investment in sovereign risk (up to 100% of the portfolio), supranational risk (60% cap), bank risk (50% cap) and U.S. agencies (30% cap). Besides, the universe of eligible instruments includes balances held in current accounts, overnight deposits, time deposits, certificates of deposit, bank acceptances, commercial papers, bills, notes, discount notes, bonds, and floating rate notes. Investment guidelines establish other criteria and restrictions as complementary measures to minimize credit risk: eligibility criteria by issuer, maximum exposure by risk type, eligible operations, treatment of derivatives and eligible intermediaries.

[1]/ Pound sterling, Canadian dollar, Norwegian krone, Australian dollar, Swedish krona, Danish krone, Swiss franc, New Zealand dollar and Singapore dollar.

Investment guidelines define a reference portfolio consisting of a short-term portfolio (30%) and a long-term term portfolio (70%). The bank risk benchmark for the short-term portion is composed of six-month Libid rates, lagged by three months. The short-term portion composed of sovereign risk is benchmarked against government six-month Treasury bill rates, also lagged by three months. The nominal long-term portion is benchmarked against total return indices provided by JP Morgan Chase (Government Global Bond Index for different maturity tranches). The long-term portion composed of U.S. Treasury Inflation-Protected securities is benchmarked against the total return index provided by Barclay's Capital (1-10 year U.S. TIPS).

D. Structure of fiscal portfolios

The management mandate officially began in March 2007. Since then, the ESSF has received contributions amounting to US$18.1 billion, and the PRF, US$2.26 billion. In 2008, the Central Bank received additional resources for management, amounting to US$5 billion from the ESSF, and US$909.07 million from the PRF. As of 31 December 2008, the market value of the resources managed by the Bank rose to US$22.72 billion, US$20.21 billion of which came from the ESSF and US$2.5 billion to the PRF. This meant an increase of US$2.36 billion in the market value of the resources delivered for management, with respect to the total contributions received (table 1, appendix VI).

TABLE 1 APPENDIX VI
FEES and FRP
(as of 31 December 2008)

Sector	Market value (US$ million) FRP	FEES	Total	% of Market value
Agency	**0**	**0**	**0**	**0**
USD	0	0	0	
Banking risk	**404.2**	**3,593.5**	**3,997.7**	**17.6**
USD	212.3	1,718.2	1,930.5	
EUR	117.2	1,264.7	1,381.9	
JPY	74.7	610.6	685.3	
Sovereign risk	**2,102.5**	**16,617.2**	**18,719.8**	**82.4**
USD	1,066.2	8,568.7	9,634.9	
EUR	857.9	6,614.9	7,472.8	
JPY	178.5	1,433.6	1,612.1	
Total	**2,506.8**	**20,210.7**	**22,717.4**	**100.0**

Currency	Market value (US$ million) FRP	FEES	Total	% of Market value
USD	1,278.4	10,286.8	11,565.3	50.9
EUR	975.1	7,879.6	8,854.8	39.0
JPY	253.2	2,044.2	2,297.4	10.1
Total	**2,506.8**	**20,210.7**	**22,717.4**	**100.0**

Currency	Duration (years) FRP	FEES
USD	2.12	2.21
EUR	2.52	2.43
JPY	2.62	2.63
Total	**2.31**	**2.34**

Source: J.P. Morgan N.A.

E. Reports

Executive Decree 1383 and the execution guidelines define the contents and frequency of reports that the Bank must deliver to the Ministry of Finance and to the General Treasury of the Republic. The rule of thumb is that the custodian bank, in its middle office role, must provide the relevant information which is needed to prepare reports, and the fiscal agent must report daily, monthly, quarterly and annually on the status of the resources under administration. Daily reports deliver information on market value and duration of each portfolio, under items sorted by currency and risk type. Monthly, quarterly and annual reports offer more detailed information on portfolios. These reports describe changes in financial markets, inform on the compliance with investment caps, provide details on the changes of the market value of each fund, and report on the absolute returns and differentials obtained.

As a complement to the tasks entrusted to the custodian bank, i.e., measuring performance and assessing compliance with investment guidelines, the Central Bank also monitors and assesses the information supplied thereby. For this purpose, it uses its own computation methods based on systematically recorded information. In addition, the fiscal agent must annually report on the performance of the custodian bank to the Ministry of Finance and to the General Treasury of the Republic.

F. Management results

During 2008, the ESSF and PRF resources achieved positive absolute returns. The ESSF attained an absolute return of 7.65%[2]/ as measured in U.S. dollars, i.e. 13 basis points return differential against its benchmark, both measured by using the Time Weighted Rate of Return (TWRR)[3]/. In the same period, as per the same method, the PRF resources generated an absolute return of 7.61%[4]/ as measured in U.S. dollars, i.e. 17 basis points return differential against its benchmark (table 2, appendix VI).

[2]/ This return is consistent with a 6.81% annual IRR as measured in dollars (JP Morgan N.A.).

[3]/ This method generates a rate of return adjusted by the impact of any contributions (either capital contributions or those generated by the securities lending program) and withdrawals (either capital withdrawals or related to payment to third parties), making it possible to isolate, from the administrator's management result, the impact on the fund performance of changes which are exogenous to the size of the portfolio. This method also enables the comparison of the portfolio administrator performance against its benchmark performance.

[4]/ This return is consistent with a 6.43% annual IRR as measured in dollars (JP Morgan N.A.).

TABLE 2 APPENDIX VI
Time-Weighted Rate of Return (TWRR) in 2008
(percent)

	Foreign currencies (*)	U.S. dollar
FEES	7.21	7.65
FRP	7.17	7.61

(*) Benchmark currency basket relevant for the portfolio (50% USD, 40% EUR and 10% JPY).

Source: JP Morgan N.A.

G. Retribution to the fiscal agent

According to the stipulations of Section 37 of the Basic Constitutional Act, the Bank acting as state representative is entitled to charge the state a fee which, according to Article 9, letter a) of the Executive Decree 1383, shall be set annually considering the fiscal agent´s estimate of direct cost and expenses incurred by the exercise of its assigned functions. For the period March 2008 to February 2009 the Ministry of Finance set the annual retribution at US$888,650. This amount is coherent with the Basic Constitutional Act wich stipulates that the Bank shall not give financing tho the General Treasury. This amount is coherent with the Basic Constitutional Act which stipulates that the Bank shall not give financing to the General Treasury. This retribution correspond to 0.45 basis point of the total resources managed in the year.

ANNEX 1
Financial institutions with deposits outstanding at 31 December 2008

1	ABN AMRO BANK NV, AMSTERDAM	13	CREDIT INDUSTRIEL ET COMMERCIAL (CIC), LONDON
2	ALLIANCE AND LEICESTER PLC, LEICESTER	14	DANSKE BANK AKTIESELSKAB, COPENHAGEN
3	ALLIED IRISH BANKS, DUBLIN	15	DEXIA BANK BELGIUM SA, BRUSSELS
4	BANCO BILBAO VIZCAYA ARG.SA, N.YORK	16	DEXIA CREDIT LOCAL SA, PARIS
5	BANCO SANTANDER CENTRAL HISPANO SA, N.YORK	17	DNB NOR BANK ASA, OSLO
6	BANK OF IRELAND, DUBLIN	18	ING BANK NV, AMSTERDAM
7	BARCLAYS BANK PLC, LONDON	19	ING BELGIUM SA/NV, BRUSSELS
8	BAYERISCHE HYPO-UND VEREINSBANK AG, MUNICH	20	KBC BANK NV, BRUSSELS
9	BAYERISCHE LANDESBANK, MUNICH	21	MIZUHO CORPORATE BANK LTD., LONDON
10	BNP PARIBAS SA, N.YORK	22	SVENSKA HANDELSBANKEN AB (PUBL), N.YORK
11	CAIXA GERAL DE DEPOSITOS SA, N.YORK	23	SVENSKA HANDELSBANKEN AB (PUBL), STOCKHOLM
12	CALYON CORPORATE AND INVESTMENT BANK, LONDON	24	THE BANK OF NOVA SCOTIA, LONDON

Source: Central Bank of Chile.

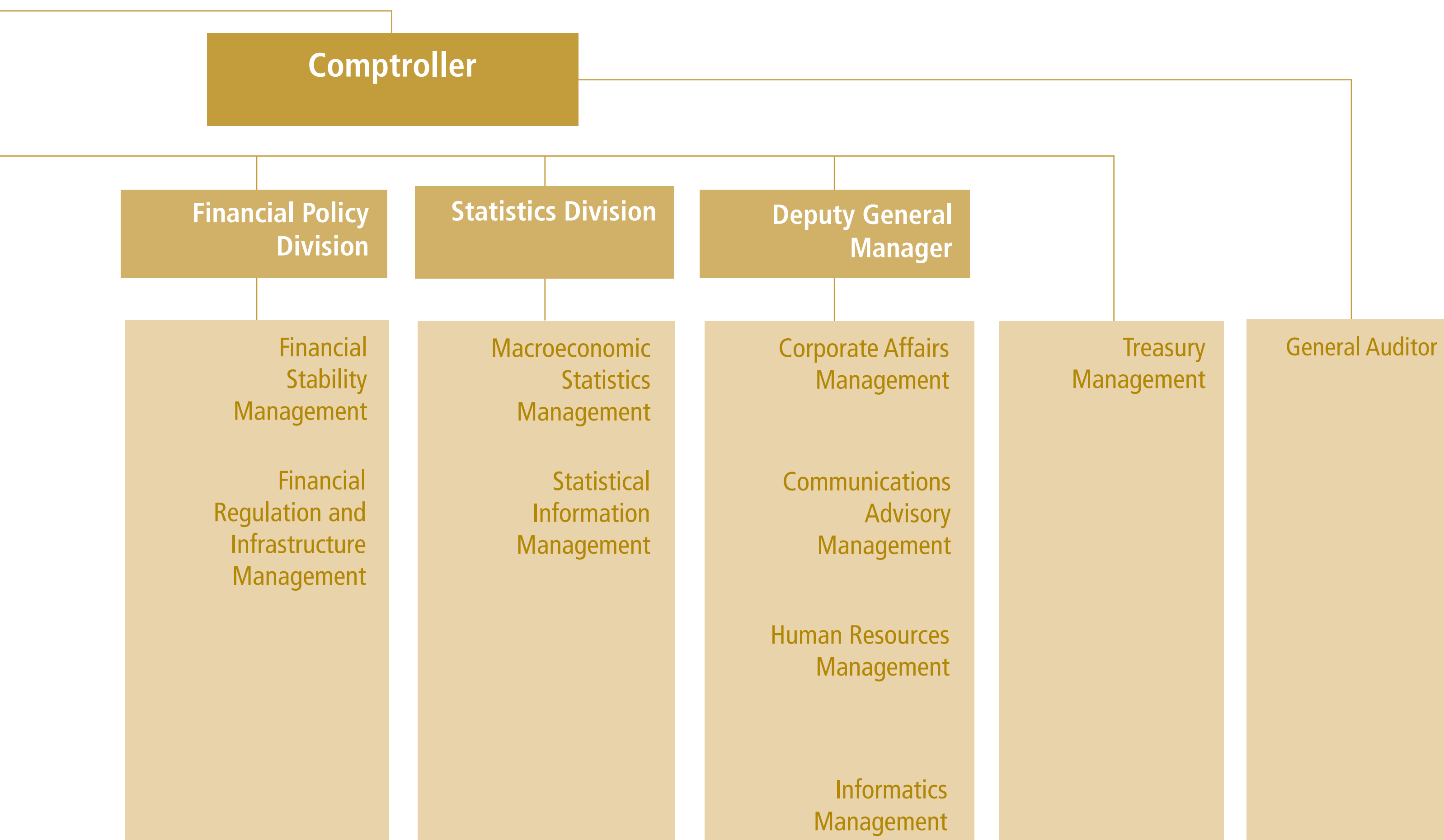
ANNEX 2

Intermediaries used during 2008

1	BANK OF AMERICA SEC. LLC, USA	17	HSBC SECURITIES (USA) INC., USA
2	BARCLAYS CAPITAL INC., USA	18	J.P. MORGAN SEC. LTD., U.KINGDOM
3	BARCLAYS CAPITAL, U.KINGDOM	19	J.P.MORGAN SECURITIES, INC., USA
4	BAYERISCHE HYPO-UND VEREINSBANK AG, MUNICH	20	LANDESBANK BADEN-WÜRTTEMBERG, STUTTGART
5	BNP PARIBAS SA, PARIS	21	LEHMAN BROTHERS INC., USA
6	BNP PARIBAS SECURITIES CORP., USA	22	MERRILL LYNCH GOV. SEC. INC., USA
7	CALYON CORPORATE AND INVESTMENT BANK(I) NY.	23	MERRILL LYNCH INTL., U.KINGDOM
8	COMMERZBANK A.G., FRANKFURT	24	MIZUHO SECURITIES USA INC., USA
9	CREDIT SUISSE SECURITIES (USA) LLC, USA	25	MORGAN STANLEY & CO. INC., USA
10	CREDIT SUISSE SECURITIES (EUROPE) LIMITED, U.KINGDOM	26	NATIXIS, FRANCE
11	DEUTSCHE BANK AG, FRANKFURT	27	SOCIÉTÉ GÉNÉRALE, FRANCE
12	DEUTSCHE BANK SECURITIES INC., USA	28	THE ROYAL BANK OF SCOTLAND PLC TCM, LONDON
13	DRESDNER BANK AG, FRANKFURT	29	THE ROYAL BANK OF SCOTLAND PLC, LONDON
14	DZ BANK AG DEUTSCHE ZENTRAL-GENOSS., FRANKFURT	30	UBS LIMITED, U.KINGDOM
15	GOLDMAN, SACHS & CO., USA	31	UBS SECURITIES LLC, USA
16	GREENWICH CAPITAL MARKETS, INC., USA		

Source: Central Bank of Chile.

Organizational structure


Comptroller
Financial Policy Division
Statistics Division
Deputy General Manager
Financial Stability Management
Financial Regulation and Infrastructure Management
Macroeconomic Statistics Management
Statistical Information Management
Corporate Affairs Management
Communications Advisory Management
Human Resources Management
Informatics Management
Treasury Management
General Auditor

III. Financial Statements

Balance Sheets as of 31 December 2008 and 2007

(Ch$ million)

ASSETS	NOTE	2008	2007
Foreign Assets		14,728,435.1	9,265,824.6
Reserve Assets	3	14,571,665.2	9,130,576.8
Monetary gold		3,595.1	2,927.4
Special drawing rights (SDR)		35,961.7	28,840.5
Reserve position in the IMF	4	105,644.5	47,731.5
Foreign currencies	3	14,374,260.9	9,014,567.6
Other assets		52,203.0	36,509.8
Other foreign assets		156,769.9	135,247.8
Shares and contributions to the IDB		115,820.2	99,405.3
Bank for International Settlements (BIS) shares		40,949.7	35,842.5
Domestic assets		2,873,224.7	2,627,515.7
Domestic loans		2,873,224.7	2,627,515.7
Loans to state-owned companies	5	1,065.3	1,125.5
Loans to commercial banks	6	958,275.3	620,651.3
Loans to other institutions	7	679,201.1	645,275.4
General Treasury transfers (Laws 18,267 and 18,401)	8	244,456.0	318,411.9
Loan for subordinated liabilities of financial institutions (Laws 18,041 and 19,396)	9	990,227.0	1,042,051.6
Other assets		665,536.4	20,910.2
Premises and equipment	10	17,043.1	16,578.0
Temporary assets		35,633.4	-
Other securities		4,374.4	4,332.2
Repurchase agreements	11	608,485.5	-
Total Assets		18,267,196.2	11,914,250.5

The accompanying notes 1 to 28 form an integral part of these financial statements.

Balance Sheets as of 31 December 2008 and 2007

(Ch$ million)

(Continued)

LIABILITES	NOTE	2008	2007
Foreign liabilities		217,440.6	195,219.4
Reciprocal loan agreements		7,444.3	6,875.1
Accounts with international organizations		91,047.4	83,811.5
Special drawing rights (SDR) allocations		118,948.9	104,532.8
Domestic liabilities		16,786,220.0	14,010,121.1
Monetary base		4,229,786.8	3,998,974.9
Banknotes and coins in circulation	12	3,685,750.7	3,610,945.0
Deposits from financial institutions (domestic currency)		544,036.1	355,359.9
Deposits for technical reserves		-	32,670.0
Deposits and liabilities	13	1,903,849.9	1,632,739.2
Deposits and liabilities with the General Treasury		135,513.5	224,717.6
Other deposits and liabilities		1,768,336.4	1,408,021.6
Instruments issued by Central Bank of Chile	14	10,652,583.3	8,378,407.0
Central Bank bonds in UF (BCU)		5,484,696.2	2,783,913.7
Central Bank bonds in pesos (BCP)		2,232,432.5	2,107,345.7
Central Bank discountable promissory notes (PDBC)		1,144,250.0	928,154.7
Indexed promissory notes payable in coupons (PRC)		1,140,524.1	1,620,806.5
Optional Indexed coupons (CERO) in UF		645,572.4	722,348.4
Central Bank bonds expressed in U.S. dollars (BCD)		2,941.7	215,815.0
Central Bank indexed promissory notes (PRBC)		2,145.3	-
Other		21.1	23.0
Other liabilities		645,836.9	79,474.1
Provisions		8,728.7	8,589.3
Other securities		291.6	1,083.5
Temporary liabilities		-	69,801.3
Repurchase agreements	11	636,816.6	-
Capital and reserves	15	617,698.7	(2,370,564.1)
Capital		(1,934,992.9)	(2,062,967.6)
Surplus (deficit) for the year		2,552,691.6	(307,596.5)
Total Liabilities		18,267,196.2	11,914,250.5

The accompanying notes 1 to 28 form an integral part of these financial statements.

Statements of Income years ended as of 31 December 2008 and 2007

(Ch$ million)

OPERATING RESULTS	NOTE	2008	2007
Operating income		3,849,228.4	1,081,117.9
Interest received and accrued	16	803,764.2	664,491.7
Readjustments received and accrued	17	130,000.0	110,509.8
Income on price differences	18	61,931.0	87,095.2
Exchange earnings	19	2,846,584.3	217,284.2
Other operating income		6,948.9	1,737.0
Operating expenses		(1,450,621.4)	(1,505,350.4)
Interest paid and accrued	20	714,677.6	615,230.0
Indexation paid and accrued	21	546,309.5	319,681.6
Loss due to price differences	22	36,847.7	34,573.7
Exchange losses	19	120,424.4	510,595.4
Other operating expenses		32,362.2	25,269.7
Gross margin		2,398,607.0	(424,232.5)
Other operating expenses		(37,603.4)	(35,456.9)
Personnel expenses		22,925.7	22,329.9
Administrative expenses		11,269.2	10,227.5
Depreciation, amortization and write-offs	10	2,913.4	2,412.4
Taxes and contributions		495.1	487.1
Income before provisions and write-offs		2,361,003.6	(459,689.4)
Provisions and write-offs		-	-
Net margin (total operating results)		2,361,003.6	(459,689.4)
Non-operating results		879.9	664.0
Non-operating income		890.5	769.2
Non-operating expenses		(10.6)	(105.2)
Results before price-level adjustment		2,361,883.5	(459,025.4)
Price-level adjustment		190,808.1	151,428.9
Surplus (Deficit) for the year		2,552,691.6	(307,596.5)

The accompanying notes 1 to 28 form an integral part of these financial statements.

Notes to the Financial Statements as of 31 December 2008 and 2007

Note 1
Description of Business

Central Bank of Chile was established on 21 August 1925, by Decree Law 486. The Bank is an autonomous entity of technical nature, full legal capacity, its own assets and indefinite duration, created in accordance with Articles 108 and 109 of the Political Constitution of Chile and ruled by the Basic Constitutional Act contained in Article One of Law 18,840 and its modifications.

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

In order to meet its objectives, the Bank regulates the amount of money and credit in circulation and executes credit operations and international exchange, such as, dictating regulations on monetary credit, and financial and international exchange matters. Additionally, the Bank is exclusively empowered to issue banknotes and to mint coins.

Note 2
Summary of Significant Accounting Policies

(a) Basis of preparation of the financial statements

These financial statements have been prepared in conformity with regulations issued by the Board of Central Bank of Chile, upon approval by the Superintendency of Banks and Financial Institutions, as established in Section 75 of the Basic Constitutional Act of the Central Bank of Chile. These policies are consistent with generally accepted accounting principles (Chilean GAAP). Should there be any disagreement, the regulations issued by the Bank's Board shall prevail, as it is the case of the credit resulting from the Sinap Liquidation Account Law 18,900 "Loans to other institutions" and explained in note 7. The Bank's Board has decided to maintain the accounting treatment this asset had at the original accounting date, as it corresponds to operations arising from specific legal clauses.

The presentation of these financial statements is within an economic and accounting framework that provides an understanding of the financial and accounting position of the Bank, and at the same time, contributes to the economic analysis of the Bank's operations by clearly identifying whether they are undertaken by domestic or foreign agents. From this information it is possible to determine the Bank's share in the domestic supply of monetary assets and credit and the related effects on the Bank's foreign creditor position. For this reason the economic concepts of international reserves and currency issuance are shown under the captions Reserve Assets and Liability and Monetary Base, respectively. Therefore, and especially considering the unique operating features of Central Bank of Chile, the statement of cash flows is not presented. Instead, notes to the financial statements containing the monetary base change and another detailing the international asset reserve change (note 23) are disclosed.

For comparative purposes, the 2007 figures have been price-level adjusted based on changes in Chilean consumer price index for the period from 30 November 2007 to 30 November 2008, which was 8.9%.

(b) Foreign currency translation

Assets and liabilities denominated in foreign currency are translated to Chilean pesos at the "observed U.S. dollar" exchange rate pursuant to Section 44 of the Basic Constitucional Act, that governs the Bank, 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*).

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), for all business days in the preceding quarter, less 10%.

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

The main exchange rates used as of each year-end are as follows:

	2008 Ch$	2007 Ch$
United States dollar (observed exchange rate)	629.11	495.82
Pound Sterling	913.74	989.46
Euro	889.33	725.73
Special Drawing Rights (SDR)	973.74	782.64

(c) 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 *Official Gazette* on 16 November of the same year, according to which such shares and contributions as well as the documents evidencing them, must be recorded for the Bank's accounting purposes as investments with a charge to its own resources.

Shares and contributions to IDB are shown under "Other Foreign Assets". Contributions to the IMF are recorded under Reserve position in the IMF in Foreign Reserve Assets.

(d) Bank for International Settlements (BIS) shares

During 2003, Board Resolutions 1073-04-030710 and 1084-02-030916, 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 million which are valued at acquisition cost and are shown under "Other Foreign Assets". During 2008 dividends were received in the amount of US$1.3 million (US$1.2 million in 2007).

(e) Financial investments

Foreign financial investments including interest receivable are shown under "Foreign Currency" in "Reserve Assets" and include mainly bonds and securities issued by foreign governments, institutions and banks, which are valued at the lower of cost and market value.

(f) Loans and liabilities

Loans, investments and liabilities are stated including interest and adjustment accrued as of each year-end.

Non-indexed loans receivable and liabilities are shown at original value or at their latest renewal value. Indexed balances include accrued indexation adjustments as of the balance sheet date, and balances denominated in foreign currency include the related exchange rate adjustments.

Interest accrued at year-end on transactions with foreign residents is included under "Other Foreign Assets" and "Other Foreign Liabilities". Interest on transactions with domestic residents is included in "Domestic Assets" and "Domestic Liabilities", respectively.

Interest paid and not accrued from obligations, and interest earned and not accrued from loans is shown as "Temporary Assets" under "Other Assets" or as "Temporary Liabilities" under "Other Liabilities", according to the net balance.

(g) Subordinated loans from financial institutions

Loans related to subordinated liabilities included under "Domestic Assets" (note 9), include adjusted balances as of each year-end and accumulated increases recorded and credited to income on an accrual basis, according to Law 19,396.

(h) Allowances for loan losses and other assets

As of 31 December 2008 and 2007, the Bank has not established any allowance for loan losses and other assets, as it estimates there is no uncollectibility risk. As of 31 December 2008 and 2007, no provisions have been maintained for this concept.

(i) Premises and equipment

Premises and equipment at each year-end are stated at cost plus price-level adjustment, net of accumulated depreciation under "Other Assets" (note 10). Depreciation has been calculated using the straight-line method based on the estimated useful lives of assets.

(j) Severance indemnity

Severance payments have been determined using present value method (accrued cost of the benefit), with an annual interest rate of 6%. The total amount of the provision as of year-end for 2008 is Ch$7,251.8 million (Ch$7,210.6 million in 2007).

(k) Employee vacation

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

(l) Price-level restatement

Equity, fixed assets and and other assets and liabilities have been adjusted in accordance with the basis of variations in the Chilean Consumer Price Index (CPI) which amounted to 8.9% in 2008 (7.4% in 2007). Revenues and expenses in local currency, except for depreciation and price-level restatement, have not been adjusted. The application of this adjustment resulted in a net charge to income of Ch$190,808.1 million in 2008 (Ch$151,428.9 million in 2007).

The effect of variations in the exchange rates for assets and liabilities in foreign currencies and indexation on loans and liabilities is included within the operating results, separate from price-level restatement.

(m) Repurchase agreements

These agreements correspond to foreign currency swaps performed through the sale or purchase of foreign currency with banking companies established in Chile and initially stated at the exchange rate determined at the date of the operation, where both parties agree to re-sell or re-purchase irrevocably, the referred foreign currency at a specific date in the future and at a pre-agreed price established in the agreement. As of 31 December 2008, foreign currency rights are valued at the observed U.S. dollar exchange rate (note 11).

Note 3

Reserve Assets

Reserve assets include international reserves held by the Bank as of 31 December 2008 and 2007, detailed as follows:

	(US$ million) 2008	2007
Monetary gold	5.7	5.4
Special drawing rights (SDR)	57.2	53.4
Reserve position in the IMF	167.9	88.4
Foreign currencies:		
Coins and deposits	5,583.2	7,184.2
Bonds issued by foreign governments. organizations and banks	9,059.7	5,331.8
Euronotes	1,968.9	1,190.9
Commercial papers	-	653.5
Foreign government treasury bills	3,062.0	1,189.1
Discount notes	3,174.7	1,145.8
Other assets:		
Reciprocal loan agreements	83.0	67.6
Total reserve assets	23,162.3	16,910.1

As of 31 December 2008, monetary gold amounted to US$5.7 million (US$5.4 million in 2007), equivalent to 7,940 fine gold troy ounces valued at US$719.77 per ounce (US$682.85 in 2007). There was no change in the amount of troy ounces compared to 2007.

The US$6,252.2 million increase as of 31 December 2008 in reserve assets, compared to 2007, is explained mainly by the purchase of currency in the amount of US$5,750.0 million by Central Bank of Chile in accordance with the Reserve Acquisition Program established by the Bank's Board on 10 April 2008 as well as the specific contribution of US$730.7 million to the Bank's equity by the General Treasury, under Decree 600 issued by the Ministry of Finance on 25 April 2008.

Foreign currency in reserve assets is detailed as follows:

	(US$ million) 2008	2007
U.S. dollar	14,088.9	10,538.2
Euro	8,767.4	6,212.4
Other currencies	306.0	159.5
Total	23,162.3	16,910.1

Note 4

Reserve Position in the International Monetary Fund (IMF)

The reserve position balance in the IMF is as follows:

	(US$ million)	
	2008	2007
Subscription installment. contribution	833,617.6	729,652.6
Loan. account No.1	81.5	80.5
Deposits	(728,054.6)	(682,001.6)
Total position in the IMF	105,644.5	47,731.5

Note 5

Accounts Receivable from *Corporación de Fomento de la Producción* (Corfo)

Balances receivable from Corfo, in accordance with Law 18,401 dated 1985 and its modifications, and Law 18,577 dated 1986, relate to loans granted to financial institutions that were sold by Central Bank of Chile to Corfo in order to finance the acquisition, on behalf of third parties, of shares of these financial institutions.

Corfo amortizes its debt by transferring securities that it recovers from shareholders, for the assignment of shares of the corresponding financial institutions. As of 31 December 2008, accounts receivable from Corfo amount to Ch$1,065.3 million (Ch$1,061.1 million in 2007), and is included under "Loans to state-owned companies".

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million, will be covered by the General Treasury through future transfers (note 8(b)) which as of 31 December 2008, amount to Ch$$244,456.0 million, equivalent to UF11.4 million ($243,504.6 million in 2007, equivalent to UF11.4 million). Based on the available information, the maximum transfer amount established by law is deemed adequate to absorb the discounts.

In conformity with this law, General Treasury transfers will be completed in a period not exceeding 30 years, with a 10-year grace period, beginning on the date of final determination of the total amount. To date, the amounts corresponding to *Banco Internacional* (UF697,630.81) and former *Banco Concepción* (UF4,435,114.95) have been determined and reviewed by external auditors appointed by the Superintendency of Banks and Financial Institutions and the amounts corresponding to former *Banco de Santiago* (UF2,267,715.40) and *Banco de Chile* (UF3,994,724.75) are under the final review process. The prior report to the Superintendency of Banks and Financial Institutions shall be requested during the first quarter of 2009. This legal requirement is necessary to define such transfer.

Note 6

Loans to Commercial Banks

Loans to commercial banks mainly include the following operations:

	(Ch$ million)	
	2008	2007
Credit line on debt restructuring	4,267.1	6,459.3
Central Bank promissory notes acquired under repurchase agreement	954,008.2	614,192.0
Total	958,275.3	620,651.3

Note 7

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

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

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

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

This loan arises from the closing of business on the day before the Bank's Basic Constitutional Act was enforced, as established in the transitory Article 2 of the law. Consequently, such operations are the opening capital of Central Bank of Chile referred to in Article 5 of such law. The Board has determined to continue the treatment this asset had at the date of its initial recognition, as these operations arise from legal specific provisions.

As of 31 December 2008, the amount payable to the Bank from the liquidation of these institutions,including accrued interest as of such date, was Ch$679,201.1 million (this amount includes interest accrued for Ch$414,417.6 million to that date), of which Ch$624,456.4 million relate to direct loans granted by the Bank and Ch$54,744.7 million with credit lines for international organizations programs (Ch$645,275.4 million in 2007, of which Ch$592,888.4 million relate to direct credits granted by Central Bank of Chile and Ch$52,387.0 million to credit lines for international organizations programs) and is shown under "Loans to other institutions".

The recovery of such amounts depends on the approval established in the Law and the determination of a specific date for the payment of that loan, from the General Treasury in favor of the Bank which is the reason why a specific date and other conditions under which the General Treasury collateral shall be enforced cannot be determined.

Note 8

General Treasury Transfers

"General Treasury transfers", included within Domestic Loans, are the following:

	(Ch$ million)	
	2008	2007
General Treasury promissory notes Law 18,267	-	74.907,3
General Treasury transfer Law 18,401	244.456,0	243.504,6
Total	244.456,0	318.411,9

a) General Treasury promissory notes Law 18,267

In conformity with Law 18,267, the General Treasury transferred Ch$100,000 million to the Bank by issuing 40 General Treasury promissory notes over a 25-year term, denominated in UF with an annual interest rate of 1%, capitalized and amortized on a semiannual basis with a five-year grace period. As of 31 December 2008, these promissory notes were fully amortized.

b) General Treasury transfer Law 18,401

The balance of this account relates to discounts of up to UF15 million, as indicated in Article 13 of Law 18,401, that have been granted to shareholders who are subject to the aforementioned law (note 5).

Note 9

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 2008, *Sociedad Administradora de la Obligación Subordinada* SAOS S.A. paid UF4,909,338.5553 to Central Bank of Chile, of which UF2,320,178.0464 were allocated to the payment of interests of the debt and UF2,589,160.5089 to the credit amortization for subordinated liability (in 2007 UF4,478,870.6697 of which UF2,481,528.8982 corresponded to interest and UF1,997,341.7715 to amortization).

Likewise, an extraordinary payment of Ch$1,373,921,952 (equivalent to UF72,056.2234) was received as of 14 September 2007, in conformity with Article 30 of Law 19,396, for the concept of disposal price of options for the subscription of payment shares corresponding to the capital increase of *Banco de Chile* agreed in May 2007, which were sold to shareholders during the special preference share offer under the terms specified in such clause. Such extraordinary payment was allocated to the payment of the annual final installment whose maturity was on 30 April 2008. As of 31 December 2008, the balance amounts to Ch$990,227.0 million (Ch$1,042,051.6 million in 2007).

Note 10

Premises and Equipment

The depreciation charge to net income for the year amounted to Ch$2,913.4 million (Ch$2,412.4 million in 2007).

	(Ch$ million)	
	2008	2007
Real estate and facilities	7,919.3	8,431.6
Furniture and equipment	4,983.6	4,309.8
Other fixed assets	4,140.2	3,836.6
Total	17,043.1	16,578.0

Note 11

Foreign Currency Repurchase Agreement

As of 31 December 2008, Central Bank of Chile maintains the right to repurchase US$967.2 million, as it has been established in Chapter IV D 1.2 of the *Compendium of Financial Regulations*, equivalent to Ch$608,485.5 million. The obligation of Ch$636,816,6 million arising from these operations is shown in liabilities. The above mentioned values are shown under "Repurchase agreements", in assets as well as in liabilities.

Note 12

Banknotes and Coins in Circulation

Banknotes and coins in circulation are recorded at face value. The costs of printing and coining are recorded as operating expenses.

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

Denomination	(Ch$ million)	
	2008	2007
$ 20,000	902,824.8	841,779.4
$ 10,000	2,084,265.4	2,079,026.3
$ 5,000	302,702.8	303,771.9
$ 2,000	89,347.8	90,931.9
$ 1,000	122,826.0	121,977.5
$ 500	4,785.6	5,238.4
Currency	178,998.3	168,219.6
Total	3,685,750.7	3,610,945.0

Note 13

Deposits and Liabilities

a) "Deposits and liabilities with the General Treasury" include:

	(Ch$ million) 2008	2007
General Treasury current accounts	67,191.8	171,243.3
Other	68,321.7	53,474.3
Total	135,513.5	224,717.6

b) "Other deposits and liabilities" include:

	(Ch$ million) 2008	2007
Liquidity deposits of financial institutions	1,168,759.7	1,143,466.8
Current accounts in foreign currency	231,208.7	126,359.4
Short-term deposits from banking companies	350,414.3	123,708.4
Other	17,953.7	14,487.0
Total	1,768,336.4	1,408,021.6

Note 14

Instruments Issued by Central Bank of Chile

Maturities of these instruments as of 31 December 2008 and 2007 are as follows:

	(Ch$ million)						
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2008	Total 2007
Central Bank bonds in indexed units UF (BCU)	51,712.7	14,278.9	257,430.8	1,155,649.9	4,005,623.9	5,484,696.2	2,783,913.7
Central Bank bonds in Chilean pesos (BCP)	207,510.0	5,222.5	423,000.0	679,450.0	917,250.0	2,232,432.5	2,107,345.7
Central Bank discountable promissory notes (PDBC)	751,250.0	293,000.0	100,000.0	-	-	1,144,250.0	928,154.7
Indexed promissory notes payable in coupons (PRC)	114,757.5	97,682.5	166,899.4	365,246.8	395,937.9	1,140,524.1	1,620,806.5
Indexed coupons (CERO) in UF	14,192.9	12,466.5	27,461.6	235,889.9	355,561.5	645,572.4	722,348.4
Central Bank bonds expressed in U.S. dollars (BCD)	47.8	-	2,893.9	-	-	2,941.7	215,815.0
Central Bank indexed promissory notes (PRBC)	2,145.3	-	-	-	-	2,145.3	-
Other	21.1	-	-	-	-	21.1	23.0
Total as of 31 December 2008	1,141,637.3	422,650.4	977,685.7	2,436,236.6	5,674,373.3	10,652,583.3	-
Total as of 31 December 2007	1,593,844.0	402,927.9	941,739.2	2,018,995.8	3,420,900.1	-	8,378,407.0

Balances include interest and adjustments accrued as of 31 December 2008 and 2007.

The increase as of 31 December 2008, of these liabilities for Ch$2,274,176.3 million, compared to 2007, is explained mainly by the necessity to neutralize the monetary expansion due to the purchase of currency for US$5,750.0 million by Central Bank of Chile between 14 April and 29 September 2008, under the Program for Reserves Acquisition established by the Bank's Board.

"Temporary assets" include net discounts granted but not accrued, net of price differences received but not accrued, generated by securities issued for Ch$35,633.4 million ("Temporary liabilities" for Ch$69,801.3 million in 2007).

Note 15

Capital and Reserves

Changes in capital and reserves during 2008 and 2007 were as follows:

	Capital	(Ch$ million) Results for the year	Total
Balances as of 1 January 2007	(2,152,068.4)	8,376.5	(2,143,691.9)
Distribution of 2006 surplus	8,376.5	(8,376.5)	-
General Treasury contribution 2nd installment	386,688.5	-	386,688.5
Price-level restatement on equity	(158,633.2)	-	(158,633.2)
Price-level restatement of General Treasury contribution	21,267.8	-	21,267.8
Deficit for the year	-	(282,457.7)	(282,457.7)
Balances as of 31 December 2007	(1,894,368.8)	(282,457.7)	(2,176,826.5)
Balances as of 31 December 2007 adjusted for comparison purposes	(2,062,967.6)	(307,596.5)	(2,370,564.1)
Balances as of 1 January 2008	(1,894,368.8)	(282,457.7)	(2,176,826.5)
Distribution of the 2007 deficit	(282,457.7)	282,457.7	-
General Treasury contribution 3rd installment	428,199.1	-	428,199.1
Price-level restatement on equity	(193,737.5)	-	(193,737.5)
Price-level restatement of General Treasury contribution	7,372.0	-	7,372.0
Surplus for the year	-	2,552,691.6	2,552,691.6
Balances as of 31 December 2008	(1,934,992.9)	2,552,691.6	617,698.7

Section 5 of the Basic Constitutional Act of Central Bank of Chile established a start-up capital for the Bank at Ch$500,000 million (Ch$1,981,722.2 million adjusted as of 31 December 2008), to be paid according to Transitory Article 2 of Law 18,840.

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

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

At 31 December 2008, the bank has net assets amounting to Ch$617,698.7 million (at 31 December 2007 there was a deficit of Ch$2,370,564.1 million) mainly as a consequence of US$5,750 million by way of the Foreign Exchange Acquisition Program and by US$730.7 million in Treasury capital contributions.

Article 11 of Law 20,128 published in the Official Gazete as of 30 September 2006, stated that the General Treasury may make capital contributions to Central Bank of Chile through the Ministry of Finance, under the conditions established in such law.

In conformity with the Executive Decree 600 of the Ministry of Finance, dated 25 April 2008 (and the Executive Decree 698 of the Ministry of Finance, dated 28 May 2007, published in the *Official Gazette* on 22 June 2007), the General Treasury made a contribution to the Bank equity which amounted to Ch$428,199.1 million (Ch$421,103.8 million in 2007), equivalent to U.S. dollars for the amount of US$730.7 million (US$736.0 million in 2007), which became part of Central Bank of Chile international reserves.

The amount of the contribution made by the General Treasury in 2008, adjusted as of 31 December 2008, amounted to Ch$435,571.1 million (Ch$444,264.4 million in 2007).

Note 16

Interest Received and Accrued

Interest received and accrued as of 31 December 2008 and 2007, is as follows:

	(Ch$ million)	
	2008	2007
Investments abroad	672,099.5	483,752.0
Other institutions	64,666.4	53,987.0
Subordinated liability	48,934.8	50,887.7
Commercial banks	15,847.7	22,842.1
Reciprocal loan agreements	1,706.0	1,734.2
General Treasury transfers Law 18,267	509.8	51,288.7
Total	803,764.2	664,491.7

Note 17

Indexation Received and Accrued

Indexation received and accrued as of 31 December 2008 and 2007, is as follows:

	(Ch$ million)	
	2008	2007
Subordinated liability	82,540.4	66,316.3
General Treasury transfers Laws 18,401 and 18,267	24,953.8	23,558.5
Caja Central y Asociación Nacional de Ahorro y Préstamo	20,806.6	15,927.0
Other	1,699.2	4,708.0
Total	130,000.0	110,509.8

Note 18

Income from Price Differences

Income from price differences as of 31 December 2008 and 2007, is as follows:

	(Ch$ million) 2008	2007
Central Bank bonds in UF (BCU)	32,639.7	40,588.1
Central Bank bonds in Chilean pesos (BCP)	22,721.8	36,429.0
Central Bank indexed promissory notes (PRC)	6,566.9	8,673.5
Central Bank bonds in U.S. dollars (BCD)	2.6	1,404.6
Total	61,931.0	87,095.2

Note 19

Net Gain (Loss) on Foreign Exchange Transactions

Net gain (loss) on foreign exchange transactions as of each year-end are as follows:

	(Ch$ million) 2008	2007
Gain on foreign exchange transactions	2,846,584.3	217,284.2
Loss on foreign exchange transactions	(120,424.4)	(510,595.4)
Net gain (loss) on foreign exchange transactions	2,726,159.9	(293,311.2)

Net gain (loss) on foreign exchange transactions as of each year-end, result mainly from the effect of exchange rate differences in foreign currency assets, as follows:

	(Ch$ million) 2008	2007
U.S. dollar	1,762,566.5	(385,265.8)
Euro	931,593.4	93,033.6
SDR IMF	28,460.8	(3,523.1)
Pound Sterling	2,157.9	1,620.1
Other currency	1,068.8	2,494.6
Subtotal net gain (loss) on foreign exchange transactions	2,725,847.4	(291,640.6)
Arbitrage and other	312.5	(1,670.6)
Total net gain (loss) on foreign exchange transactions	2,726,159.9	(293,311.2)

Note 20

Interest Paid and Accrued

Interest paid and accrued as of each year-end is as follows:

	(Ch$ million) 2008	2007
Central Bank bonds in pesos (BCP)	145,990.0	155,073.7
Central Bank bonds in UF (BCU)	150,354.3	121,119.7
Foreign operations	149,249.2	33,120.4
Other notes issued	97,343.4	100,876.3
Central Bank discountable promissory notes (PDBC)	87,759.7	69,373.8
Indexed promissory notes payable in coupons (PRC)	83,730.2	116,848.5
Reciprocal loan agreements	176.8	246.4
Central Bank bonds expressed in U.S. dollars (BCD)	74.0	18,571.2
Total	714,677.6	615,230.0

Note 21

Indexation Paid and Accrued

Indexation paid and accrued as of each year-end is as follows:

	(Ch$ million) 2008	2007
Central Bank bonds in UF (BCU)	349,311.3	174,411.7
Indexed promissory notes payable in coupons (PRC)	110,462.3	115,638.5
Optional indexed coupons (CERO) in UF	58,019.0	49,869.2
Other notes	27,782.1	1,030.3
Central Bank bonds expressed in U.S. dollars (BCD)	734.8	(21,268.1)
Total	546,309.5	319,681.6

Note 22

Loss from Price Differences

Loss from price differences as of each year-end is as follows:

	(Ch$ million) 2008	2007
Redemption to CERO promissory notes in UF	27,038.8	32,117.0
Central Bank bonds in pesos	5,282.1	-
Central Bank bonds in UF	3,124.1	-
Indexed promissory notes payable in coupons (PRC)	1,369.3	2,040.1
Other	33.4	416.6
Total	36,847.7	34,573.7

Note 23

Monetary Base and International Reserve Asset Change

According to note 2 a) and in consideration of the Bank’s unique operations, beginning in 2001, instead of a statement of cash flows, the Bank discloses a statement of variations in monetary base and a statement of variations in international reserves, further defined as follows:

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

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

Variations in the monetary base	(Ch$ million)	
	2008	2007
Opening balance monetary base	3,998,974.9	3,983,155.2
Increase		
Foreign exchange operations	2,854,447.6	6,250.3
Interest and indexation paid	769,370.8	1,318,725.6
Domestic loans	353,976.9	-
Operating support expenses	29,411.4	28,703.6
Operations with international organizations	2,259.2	1,617.2
Other liabilities	38.3	-
Other assets	-	3,818.8
Securities issued	-	1,109,204.5
Total increase	4,009,504.2	2,468,320.0
Decrease		
Other assets	(2,999.8)	-
Deposits and liabilities	(121,095.6)	(865,950.0)
Interest and indexation received for domestic operations	(174,658.8)	(897,799.8)
U.S. dollar sale with repurchase agreement	(618,261.6)	-
Securities issued	(2,534,854.9)	-
Domestic loans	-	(105,968.1)
Foreign currency forward sales receivables	-	(308,312.0)
Other liabilities	-	(25.8)
Total decrease	(3,451,870.7)	(2,178,055.7)
Variation in monetary base for the year	557,633.5	290,264.3
Effect of price-level restatement on opening balance of monetary base	(326,821.6)	(274,444.6)
Ending balance	4,229,786.8	3,998,974.9

Variations in international reserve assets	(US$ million) 2008	2007
Opening balance reserves	16,910.1	19,428.9
Increase		
Foreign exchange operations	5,830.5	11.2
Domestic loans	-	1,048.0
Capitalization of General Treasury contribution	730.7	735.9
Deposits and liabilities	252.1	-
Interests received for deposits and other investment instruments abroad	1,015.2	1,038.5
Total increase	7,828.5	2,833.6
Decrease		
Securities issued	-	(1.0)
Foreign currency forward sales receivables	-	(529.6)
U.S. dollar sale with repurchase agreement	(969.9)	-
Deposits and liabilities	-	(5,223.3)
Other liabilities	-	(0.2)
Other assets	-	(0.1)
Interest paid for foreign liabilities	(18.0)	(172.3)
Total decreases	(987.9)	(5,926.5)
Variation in reserves for the year	6,840.6	(3,092.9)
Effect of exchange rate	(588.4)	574.1
Ending balance	**23,162.3**	**16,910.1**

Note 24

Foreign Currency Balances

The balance sheets include assets and liabilities payable in foreign currencies, which balances as of 31 December 2008 and 2007 are as follows:

	(US$ million)	
	2008	2007
Assets		
Foreign assets	23,546.5	17,381.1
Reserves	23,297.3	17,130.6
Other foreign assets	249.2	250.5
Domestic assets	-	-
Domestic loans	-	-
Other assets	970.1	2.9
Total assets	24,516.6	17,384.0
Liabilities		
Foreign liabilities	290.9	296.3
Other foreign liabilities	101.8	102.7
Special drawing rights (SDR) allocations	189.1	193.6
Domestic liabilities	1,055.2	793.5
Deposits and General Treasury liabilities	128.3	318.5
Other deposits and liabilities	926.9	475.0
Securities issued	-	-
Total liabilities	1,346.1	1,089.8
Net assets	**23,170.5**	**16,294.2**

Note 25

Contingencies and Commitments

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

Note 26

Income Tax

Pursuant to Article 7 of Decree Law 3345 dated 1980, the Bank's income is tax exempt.

Note 27

Fiscal Agency

Law 20,128 related to General Treasury Liability published in the *Official Gazette* as of 30 September 2006, created the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP)". In conformity with the provisions of the aforementioned law, the Minister of Finance through Executive Decree 1383, dated 11 December 2006, appointed Central Bank of Chile as Fiscal Agent, for the administration of resources referred to such Funds, in conformity with the procedures, conditions, methods and other standards established in the aforementioned Executive Decree.

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

Through Resolution 1406 of the Board, dated 24 April 2008, *KPMG Auditores y Consultores* Ltda. company was assigned as the auditor of the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP) for 2008.

In addition, through Resolution 1341 of the Board, dated 28 June 2007, *Ernst & Young Ltda.* company was assigned as the auditor of the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP) for 2007.

Note 28

Subsequent Events

Pursuant to Resolution 1456 dated 15 January 2009 the Board approved new policies for the presentation and preparation of the financial statements of Central Bank of Chile, upon approval of the Superintendency of Banks and Financial Institutions as established in Section 75 of the Bank's Basic Constitutional Act. The new policies from 2009, are intended to comply with the requirements established by the international reporting standards as applicable to Central Bank of Chile, as well as comply with the guidelines prepared by the technical organizations in Chile and the Board own policies.

ALEJANDRO ZURBUCHEN SILVA
General Manager

CÉSAR CARO BROWN
General Accountant

SILVIA QUINTARD FLEHAN
General Auditor

Independent Auditors' Report

The Governor and Board Members
Central Bank of Chile:

1. We have audited the accompanying balance sheet of Central Bank of Chile "the Bank" as of 31 December 2008 and the related statement of income for the year then ended. The preparation of these financial statements (including their notes) is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Central Bank of Chile for the year ended 31 December 2007, were audited by other auditors, whose report thereon dated 17 January 2008 expressed an unqualified opinion on those statements.

2. We conducted our audit in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As discussed in note 2 to the financial statements, the Bank prepares its financial statements in accordance with standards issued by the Board, upon approval by the Chilean Superintendency of Banks and Financial Institutions, as established in Section 75 of the Bank's Basic Constitutional Act. These standards are consistent with accounting principles generally accepted in Chile. Should there be any disagreement, the standards issued by the Board of the Bank shall prevail, as it is the case of the credit resulting from the Sinap Liquidation Account Law 18,900 dated 16 January 1990, which is stated within the caption "Loans to other institutions" and explained in note 7 to the financial statements. The Board of the Bank has decided to maintain the accounting treatment this asset had at the original accounting date, as it corresponds to operations arising from specific legal clauses.

4. In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Chile as of 31 December 2008 and the results of its operations for the year then ended, in conformity with the accounting principles described in note 2 to the financial statements.

5. In accordance with Article 11 of Law 20,128, during 2008 the General Treasury through the Ministry of Finance, made a specific capital contribution to Central Bank of Chile which amounted to Ch$435,571.1 million (Ch$444,264.4 million in 2007), in accordance with the Fiscal Responsibility Law.

6. As discussed in note 15 to the financial statements, as of 31 December 2008 Central Bank of Chile records equity in the amount of Ch$617,698.7 million (equity deficit of Ch$2,370,564.1 million as of 31 December 2007), which is explained by gains resulting from variations in the exchange rates of assets in foreign currency, which increased by US$5,750.0 million through the Reserve Acquisition Program and the capital contributions of US$730.7 million made by the General Treasury.

7. As discussed in note 28 to the financial statements, in accordance with Resolution 1456 dated 15 January 2009, the Board approved new policies for the presentation and preparation of the Bank's financial statements, which also have been approved by the Superintendency of Banks and Financial Institutions pursuant to Section 75 of the Bank's Basic Constitutional Act. The purpose of these new policies is for the financial statements from 2009 to comply with the requirements established by international financial reporting standards as applicable to the Bank, as well as the guidelines prepared by the technical organizations in Chile and the Board own policies.

8. 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 readers outside of Chile.

Alejandro Cerda G. KPMG Ltda.
Santiago, 22 January 2009

CENTRAL BANK OF CHILE
1180 Agustinas St., Santiago, Chile • P. O. Box 967, Santiago, Chile
Zip Code 834-0454 Santiago
Tel: 56-2-670 2000 • Fax: 56-2-670 2231 • www.bcentral.cl • bcch@bcentral.cl

BANCO CENTRAL
DE CHILE