BANCO CENTRAL DE CHILE

annual report 2011

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Senior authorities of the Central Bank of Chile

31 December 2011

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DEPUTY GOVERNOR

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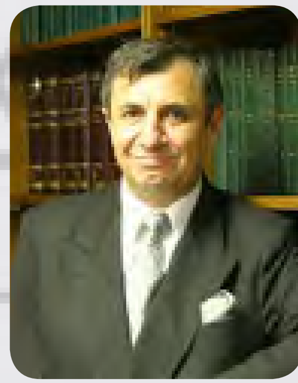
BOARD MEMBER

Sebastián Claro Edwards
BOARD MEMBER

Alejandro Zurbuchen Silva
GENERAL MANAGER



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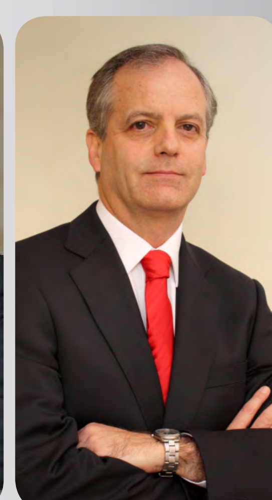

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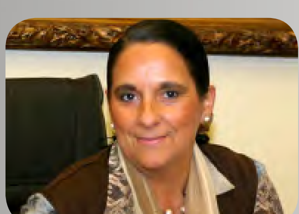

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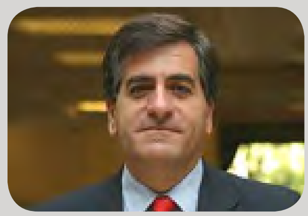

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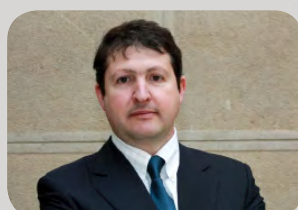

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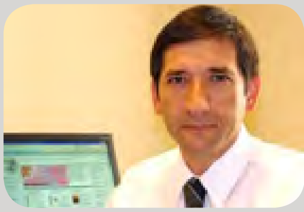

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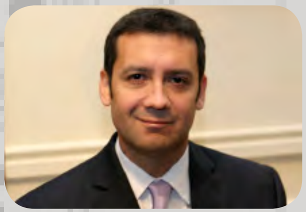

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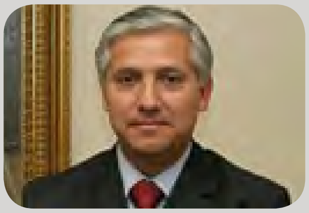

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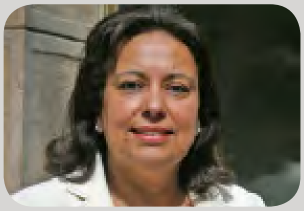

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Claudia Varela Lertora
CORPORATE AFFAIRS

Jorge Zúñiga Mayorga
SECURITY

Employee profile

31 DECEMBER 2011

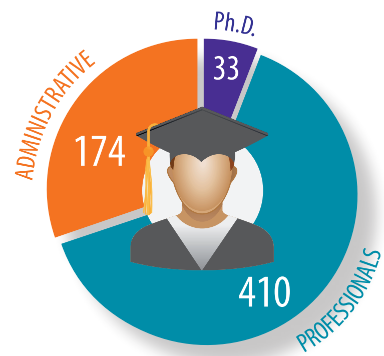
Excluding Board Members

Total staff 617

Average years of service **13**

Annual turnover **9.5%**

By education level



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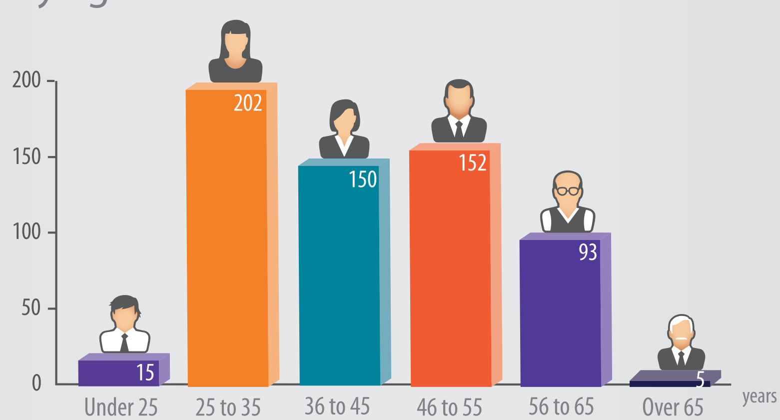
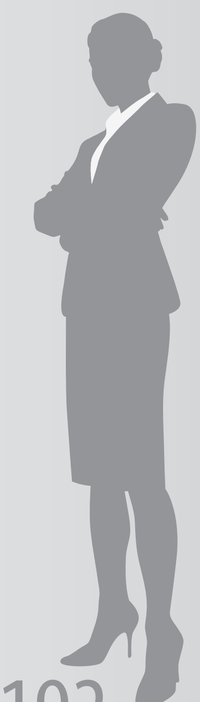
By age





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BANCO CENTRAL
DE CHILE

Santiago, 30 April 2012

Mr. Felipe Larraín B.
Minister of Finance
Santiago

Pursuant to Sections 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile, contained in Article One of Law 18,400, I hereby submit this institution´s *Annual Report, 2011*.

Sincerely,

Rodrigo Vergara M.
Governor

BANCO CENTRAL
DE CHILE

Santiago, 30 April 2012

Mr. Camilo Escalona M.
President of the Senate
Valparaíso

Pursuant to Sections 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile, contained in Article One of Law 18,400, I hereby submit this institution´s *Annual Report, 2011.*

Sincerely,

Rodrigo Vergara M.
Governor

Chapter I

Financial management and policies of the Central Bank of Chile in 2011

A. Economic overview

In the first half of 2011, the world economic scenario was characterized by a widening of the difference in the growth rates of developed and emerging economies, with a steady worsening of the growth outlook in the former and dynamic growth in the latter. In the developed economies, the slow recovery of the labor market, the deleveraging process underway and the scarce options for implementing additional monetary and fiscal stimulus measures continued to undermine economic activity. The emerging economies, in contrast, continued to record dynamic output, driven by China and other emerging Asian economies. This, in turn, generated a marked increase in some commodity prices, especially oil and foods. Given that several emerging economies had very little excess capacity, this triggered an outbreak of inflation fears, which led the authorities in several emerging economies to speed up the process of raising their monetary policy rates.

In the second half of the year, this scenario underwent a dramatic shift. Doubts about the fiscal, banking and economic situation in the euro area intensified, and the outlook for that region became increasingly complex as the solutions became more difficult and more costly to implement. Thus, the risks of a sudden collapse generated substantial stress in the international financial markets, with hikes in risk and liquidity premiums, increased volatility and downward adjustments in various asset prices. The greater uncertainty affected the growth outlook not only for the economies involved, but also for the rest of the world, through the contractionary effects of the financial market turbulence, the drop in commodity prices, the reduction in manufacturing exports and the spending decisions of consumers and businesses. This led to an easing of inflationary pressures in several emerging economies, and the central banks halted their rate hike cycles from the first half of the year and some even promoted more expansive policies.

In Chile, output and demand continued to ease over much of the year, consistent with a convergence toward growth rates in line with trend growth. This reflected, in part, the lower external impetus and the monetary policy adjustments. However, demand did not slow as much as expected, due to robust private consumption and dynamic gross capital formation, led by machinery and equipment. The high rate of installed capacity utilization, a tight labor market and renewed hikes in various international commodity prices—especially fuels and foods—heightened inflation concerns in the first part of 2011. Over the course of the second half, inflation fears were calmed due to the actions taken by the Bank, the gradual deterioration in the international scenario and the resulting lower commodity prices.

The deterioration in the international scenario in the second half of the year was reflected in some domestic financial market variables, such as stock prices and the exchange rate. Toward the end of the year, the money markets also showed signs of stress. The external events had limited effects on output, which were only manifested in the October statistics. That month saw the tensest moments of the international situation, accompanied by a momentary, but substantial, drop in the copper price.

B. Monetary policy

In 2010, the Board began the process of normalizing the monetary policy rate (MPR), after having lowered it to the minimum in 2009 to mitigate the adverse effects of the global recession and to prevent inflation from falling below the 3% target in a two-year horizon.

In early 2011, the national economy continued to be strongly dynamic and was estimated to be near full capacity utilization. In addition, international commodity prices began to rise sharply in the external markets, increasing inflationary pressures. In this context, the Board increased the MPR by 200 basis points in the first half, which exceeded market expectations. Thus, the MPR was 5.25% in June 2011. Inflation expectations, which had risen temporarily in the first months of the year, returned to around 3% in the monetary policy horizon.

Over the course of the second half, the outlook for the international and national scenarios changed significantly. The increased financial stress in the euro area and fears of a cessation of payments in some of the countries triggered an episode of stress in global financial markets, which gave rise to a situation that was similar to what happened after the Lehman Brothers bankruptcy in September 2008: there was a significant increase in global uncertainty, a drop in commodity prices and a general outlook for a weaker global economic performance in the coming quarters. Domestically, the economy began to cool, largely due to convergence toward trend growth rates. The effects of the external scenario were limited through the end of 2011. With regard to inflation, the annual CPI increase was in the upper part of the target range toward the end of 2011. Some specific items, such as meat and transport, and the depreciation of the peso combined to push inflation somewhat higher than forecast. The year-end result was further affected by the higher food and fuel prices recorded in 2011. Market expectations did not change significantly at the one- and two-year horizons, however, staying around 3%.

The change in the macroeconomic scenario caused the Board to modify the bias of its monetary policy decisions, from a situation that would probably require new MPR hikes to a neutral position in August 2011. In October, when the external situation became even more complex, the Board announced that, if necessary, monetary policy would become more expansive to mitigate the effects of a more adverse external scenario. At the end of 2011, the MPR had not changed, and it recorded its first drop, of 25 basis points, in January 2012.

C. Foreign exchange policy

Since September 1999, the Central Bank of Chile has applied a floating exchange rate regime, in which the exchange rate is determined by the market. This regime allows for the conduct of an independent monetary policy, facilitates the economy's adjustment to shocks and prevents large exchange rate misalignments, thereby avoiding a more costly adjustment in terms of output variability and, in principle, attenuating speculative capital flows. Under this floating exchange rate regime, the Bank retains the option to buy or sell on the foreign exchange market either to adjust its international liquidity position or in the event of an overreaction of the exchange rate that could potentially cause adverse effects. The exchange rate is said to overreact when, without much variation in its fundamentals, it rises or falls sharply within a short period, possibly followed by movements in the opposite direction. The adverse effects of this fluctuation include a loss of confidence among economic agents, stemming from inflationary effects requiring monetary policy measures that are inadequate given the economic cycle, an increase in the volatility in the financial markets and misleading price signals that may interfere with the efficient allocation of resources.

On 3 January 2011, the Board decided to initiate a foreign exchange purchase program to strengthen its international liquidity position. The objective of this initiative was to bring foreign exchange reserves to a level consistent with values seen in other economies similar to Chile. The intervention would also soften the effects of the exchange rate adjustment underway in the Chilean economy. To implement this program, the Bank accumulated additional foreign exchange reserves for an amount of US$12 billion in 2011, through daily foreign exchange purchases of US$50 million. The program started on 5 January and ended on 16 December 2011. The monetary effects of this measure were offset

with the goal of maintaining the provision of liquidity in pesos in the market, consistent with current monetary policy[1]/.This was carried out primarily through the issue of long-term debt and, to a lesser extent, the issue of Central Bank discount notes denominated in pesos (PDBC) and the use of liquidity facilities and deposits.

D. Financial regulations

In the exercise of its authority on foreign exchange issues, and in accordance with the general orientation of the government's economic policy, the Board of the Central Bank expanded the authorization for nonresident issuers to issue peso-denominated bonds in the local market (known as *huaso* bonds), effective in April. Previously, the only entities that could issue these bonds were corporate issuers eligible to trade their securities on stock exchanges authorized by the Risk Rating Commission. The modification allows *huaso* bonds to be issued by corporations that are legally incorporated in countries with the following characteristics: (i) their sovereign debt has at least three risk ratings; (ii) they are members of the Financial Action Task Force (FATF) or an equivalent regional inter-governmental organization; and (iii) they are not classified as non-cooperative territories in terms of money laundering and financial terrorism by the FATF or as tax havens by the OECD. Furthermore, foreign states and supranational organizations can now issue *huaso* bonds in the country, which was not the case under the previous regulatory statutes. In addition to the Central Bank Resolution, SVS General Regulation 304 establishes the procedures for listing these instruments in the Securities Registry, offering them for sale, their diffusion, placement and reporting obligations.

[1]/ For more details on the measure, see http://www.bcentral.cl/prensa/comunicados-consejo/otros-temas/03012011.pdf.

E. Financial management

E.1 Monetary management

To support the implementation of monetary policy, the Bank monitors market liquidity and employs the mechanisms and instruments at its disposal to ensure that the interbank interest rate remains around the MPR.

This is achieved through the short- and medium-term liquidity management schedule, which specifies the auction of Central Bank discountable promissory notes (PDBC) and bonds, as well as other open market operations and standing facilities. In addition, market liquidity forecasts are revised daily and, when necessary, monetary adjustment operations are carried out to facilitate the convergence of the interbank rate to the MPR.

In the fourth quarter, liquidity spreads gradually increased in the money market, especially in December. To mitigate the effects of this trend, the Bank adopted a series of measures, such as significantly reducing the supply of PDBCs for the reserve maintenance period that began on 9 December, offering 19-day repos on 21 December, and announcing a weekly program of floating-rate repos for terms of up to 91 days, which was offered from 22 December to 7 February 2012.

With all of these instruments, the interbank interest rate stayed around the MPR, with an average deviation of 2 basis points.

E.2 International reserve management

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

In 2011, the Bank held sufficient international reserves to face potential and predictable foreign currency liquidity needs. As of 31 December, the investment portfolio, which includes short- and long-term assets to be used for dealing with unforeseen contingencies and long-term requirements, stood at US$35.33 billion. The liquidity portfolio, which includes short-term assets earmarked for covering foreseeable requirements in the near future, totaled US$4.79 billion. At the aggregate level, including other assets such as monetary gold and special drawing rights (SDRs) issued by the International Monetary Fund (IMF), total international reserves closed the year at US$41.98 billion.

In 2011, international reserves grew US$14.12 billion relative to the close of 2010. This increase is mainly explained by the maturing of foreign exchange swaps carried out in the year (US$12.00 billion) and an increase in the liquidity portfolio (US$1.95 billion).

Reserve liquidity was secured by investing in a short-term deposit portfolio in international commercial banks and in fixed-income instruments traded in highly liquid secondary markets. On 31 December 2011, current account and time deposits represented 20.3% of total reserves; short-term papers, 39.5%; bonds 35.8%; and other assets, 4.4%.

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. Credit risk was controlled through restrictions on issuers, instruments, intermediaries and custodians. As of 31 December, 89.8% of reserves were invested in AAA-rated instruments issued by banks, sovereigns, external financial institutions or supranationals. The remaining 9.9% was invested in instruments rated A to AA+, mainly from the banking sector[2]/. Market risk was controlled by diversifying investment currencies, instruments and maturities and by taking into consideration the impact of decisions regarding these parameters on the Bank's balance sheet.

As a result of the economic and financial developments in the euro area, nonsignificant holdings of government securities of Italy, Spain, Slovenia and Belgium were reduced over the course of 2011. Exposure to French sovereign risk was also reduced, in favor of investments in securities issued by Germany. For bank investments, operations focused on institutions from countries with a better credit risk outlook.

At year-end, 52.6% of reserves were held in U.S. dollar-denominated instruments, 30.1% in euro-denominated instruments and 17.2% in instruments denominated in other currencies. Portfolio duration averaged around 18 months. Operating risk was managed by separating duties and responsibilities and applying internal and external control mechanisms.

Through November 2011, a share of the investment portfolio was managed by an independent external administrator, authorized to manage a fixed-income portfolio under a general long-term mandate. In December, the external administration was modified to include investments in mortgage-backed securities (MBS)[3]/and a second independent administrator was contracted.

Total returns from international reserve management in the year were 2.48% measured in foreign currencies (a reference basket of currencies in the investment portfolio) and 1.22% measured in dollars. The differential return relative to the benchmark that is used to guide and assess investment performance was 2.4 basis points. The total operating costs of managing the Bank's international reserves for this fiscal year were 2.1 basis points of the total reserves under management. Income from the securities lending program was around 0.8 basis point of international reserves.

[2]/ The remaining 0.3% is invested in a time deposit in a banking institution whose credit rating dropped from A to BBB+ after the deal was closed.
[3]/ Debt securities whose underlying assets are mortgages.

Main entrance hall of the Central Bank of Chile

In accordance with institutional policy on the provision of information, appendix IV presents a more detailed report on the international reserve management described in this section.

E.3 Debt management

The Bank's debt management policy aims to minimize financing costs, within specified limits on financial risk, and to promote the development of local capital markets.

In early January, the Bank announced its annual bond auction calendar, which considered the usual debt rollover for the current year as well as the monetary measures to sterilize the reserve accumulation program announced on the same date. The debt plan included the issue of peso-denominated Central Bank securities with maturity dates of 2, 5 and 10 years (BCP 2, 5 and 10) for annual amounts of Ch$230.00 billion, Ch$700.00 billion and Ch$470.00 billion, respectively; and Central Bank securities denominated in UFs (*unidad de fomento*, an inflation-indexed unit of account) with maturity dates of 2, 5, 10, 20 and 30 years (BCU 2, 5, 10, 20 and 30) for annual amounts of UF22 million, UF55 million, UF44 million, UF28 million and UF28 million, respectively.

As in previous years, the Central Bank accepted the role of fiscal agent in the placement of Treasury bonds to be issued in the year. This involved the reopening of UF-denominated and peso-denominated instruments issued in 2010 (BTU 5, 7, 10, 20 and 30 and BTP 10), as well as a new peso-denominated instrument with a seven-year maturity (BTP 7).

Both the Central Bank and Treasury bonds were issued in accordance with the specifications of Article 104 of the Income Tax Law.

E.4 Provision of large-value payment services

The large-value payment system in Chile centers on the real time gross settlement (RTGS) system, which is owned and operated by the Central Bank of Chile. This system is used to clear the Central Bank's operations, as well as a significant share of transactions initiated by participants, which are settled individually, in real time, through settlement accounts maintained in the system. The RTGS system also settles the net multilateral positions generated in the check, ATM and large-value clearinghouses. The payment systems represent one of the basic structures necessary for the normal functioning of the economy, and its smooth operation is indispensable for maintaining the stability of the financial system and of the economy in general.

The RTGS system fully supported the operations stemming from the reserve accumulation program and its sterilization, clearing the payments deriving from these transactions with a high degree of reliability and, more importantly, introducing the payment versus payment (PvP) settlement mechanism in foreign exchange operations. Under this standard, the clearing of a transfer in pesos Is conditioned on the simultaneous clearing of the corresponding transfer in dollars, thereby eliminating the so-called principal risk (in which one of the parties makes the transfer in one currency without receiving the counter-transfer in the other).

In 2011, the RTGS system cleared an average of Ch$8.12 trillion a day (about US$16.80 billion), handling 72.6% of total large-value payments. The remaining 27.4% was settled through the large-value payment clearinghouse (LVPCH) operated by ComBanc S.A. The amount settled increased 13% in the year. The segment that recorded the largest growth was payment instructions initiated by participants, which grew 36% and had an average daily value of Ch$3.05 trillion. An important share of this increase was explained by the start-up of the securities clearinghouse (*Cámara de Compensación y Liquidación de Valores S.A.*, or *CCLV*), which is required to use the RTGS system to settle its total balances paid. With regard to operations between the Central Bank and the banks, the intraday liquidity facility and the standing deposit facility continued to be the most important mechanisms, accounting or 45.1% of the total. In terms of volume, the RTGS system settled a total of 334,356 payments, for a daily average of 1,327 payments and growth of 22% in the year.

System availability was 99.89%, due to two incidents. The rejection rate, as a percentage of the value received for settlement, was 0.25% and mainly reflected payments sent after closing. The intraday distribution of the value cleared through the RTGS system changed in 2011, because the operating hours of the *CCLV* are concentrated in the 14:00 to 15:00 time slot. Approximately 50% of the value of daily payments was completed by around 14:05, with a slight deferral of 10 minutes. The concentration of the four most active banks in terms of payment and reception of funds was stable.

Over the course of the year, the migration phase was nearly completed in the move from version 3.50 to 3.60 of the technology platform that supports the RTGS system. This upgrade is essential for ensuring operational continuity with the new version of the SWIFT network, which will begin operating live in 2012. Additionally, the Bank completed the implementation of the PvP product option, which will allow the RTGS system to settle transactions under the PvP standard in operations involving more than one currency.

Appendix V presents more detail on the provision of high-value payment services.

E.5 Administration of fiscal funds

In early 2007, in accordance with Law 20,128 on Fiscal Accountability, the Ministry of Finance requested, through Executive Decree 1383 (agency decree), that the Central Bank 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) and the Pension Reserve Fund (PRF).

After analyzing the regulatory framework provided by the Basic Constitutional Act and considering 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 task entrusted to the Bank as fiscal agent to manage these resources, as established in Article 4 of the agency decree and in the related performance guidelines.

Starting in April 2011, the Bank also administers, in the name of the Treasury, the strategic contingency fund (SCF) in accordance with the specifications in the SCF fiscal agency decree and other specific instructions given through official communications. The Bank's objectives in administering the SCF resources are to obtain monthly yields in line with benchmark comparators, based on a passive management strategy, while complying with the risk standards defined by Ministry of Finance in its performance guidelines and accepted by the Bank.

Since May 2011, when new performance guidelines became effective[4]/ the Bank has managed the fiscal resources with the objective of obtaining monthly yields, following a passive management strategy, while complying with the risk standards defined by Ministry of Finance in its performance guidelines and accepted by the Bank.

At the same time, the Bank applied the same standards to the administration of these resources as to its own reserve management, ensuring the preservation of the managed capital and adequate liquidity protection.

[4]/ By Board Resolution 1604-02-110421, the Bank accepted new performance guidelines for the fiscal portfolios, which replaced the guidelines in effect since September 2009.

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 in accordance with the standards and parameters outlined in the performance guidelines.

In 2011, the ESSF did not receive new contributions, and on 31 December it had a market value of US$13.16 billion. After the close of the year, on 30 January 2012, the ESSF received a contribution of US$1.70 billion. In 2011, the PRF received additional resources totaling US$443.3 million, and it closed the year with a market value of US$4.41 billion. Since the Bank accepted the fiscal agent assignment through year-end 2011, the Treasury has made total contributions to the two funds of US$23.34 billion and withdrawals of US$9.43 billion.

Credit risk was controlled through restrictions on issuers, instruments, intermediaries and custodians, as defined in the aforementioned performance guidelines. As of 31 December, 90.5% of these resources were invested in AAA-rated countries and 9.5% in countries with a rating of A– to AA+. Market risk was controlled through the diversification of investment instruments, currencies and maturities. At year-end, 83.1% of the funds were invested in sovereign bonds and 16.9% in bank securities. In terms of currency composition, 49.9% was held in instruments denominated in U.S. dollars, 40.0% in euros and 10.1% in yen. Portfolio duration averaged 29.6 months.

In 2011, the ESSF resources administered by the Bank earned an absolute return of 3.42% measured in dollars, which implies a yield differential of 0.6 basis points over the benchmark, both measured using the time-weighted rate of return (TWRR) methodology[5]/. Using the same methodology, the PRF resources earned an absolute return of 3.42% measured in dollars, or 0.7 basis points over the benchmark.

With regard to agency fees, the costs of administering the funds were charged to the Treasury. In 2011 annual charges were 0.47 basis point of the total resources under administration.

[5]/ The TWRR methodology yields a rate of return that has been adjusted for the impact of possible contributions (capital contributions or contributions generated through the securities lending program) and withdrawals (capital withdrawals or payments to third parties), which allows the analyst to isolate the effect of exogenous changes in the size of the portfolio on the funds' performance and to compare the portfolio administrator's performance with a reference benchmark.

Since the Bank accepted the fiscal agent assignment, it has provided daily, monthly, quarterly and annual reports to the Finance Minister and the Treasurer, including measures of performance, risk and compliance with the relevant benchmarks.

In accordance with institutional policy on the provision of information and with specifications in the agency decree, appendix V presents a more detailed report on the administration of fiscal resources.

F. Miscellaneous

F.1 Commission on Price Distortions

The National Commission on Price Distortions is in charge of investigating the existence of price distortions on imported goods. It is a technical body composed of representatives from public institutions in the economic sector. Its task is to advise the President of Chile on the application of antidumping measures, countervailing duties and safeguard measures. The Commission operates independently from the Bank, although by law the Technical Secretariat resides within the Bank. Its functions include gathering background information for investigations, preparing technical reports, channeling communications among the parties involved and carrying out pertinent notifications.

In 2011, the Technical Secretariat provided support to the Commission on Price Distortions, which held nine meetings and opened one investigation. A provisional antidumping duty on wheat flour imports from Argentina was in force at the end of the year.

F.2 Chilean Copper Commission (*Cochilco*)

The Board of the Central Bank of Chile is responsible for appointing two representatives to the Chilean Copper Commission (*Cochilco*), in accordance with letter (d) of Article 4 of Decree Law 1349, of 1976, established by Law 18,940. By the express regulations outlined in that legal standard, these representatives serve a two-year term, unless the appointing authority revokes their appointment before the end of the term. The aforementioned legal precept further specifies that the appointments can be renewed and that the representatives appointed by the Board do not have to be Board Members.

The Central Bank's two *Cochilco* representatives are currently Mr. Pablo Pincheira Brown and Mr. Eduardo López Escobedo, both appointed to a two-year term starting on 23 October 2010.

F.3 Competition Tribunal

Article 6° of Statutory Decree One, of 2005, of the Ministry of Economy, Development and Reconstruction (DFL One), which establishes the revised, coordinated and systematized text of Decree Law 211, of 1973 and which was published in the *Official Gazette* on 7 March 2005, together with its modifications (henceforth, DL 211), stipulates that the Competition Tribunal (*Tribunal de Defensa de la Libre Competencia*, or *TDLC*) will be made up of five Judges and two Alternates. The decree also stipulates that the President of the Republic will appoint the President of the Tribunal, who must be a certified lawyer, choosing from a list of candidates provided by the Supreme Court following a public call for nominees.

In accordance with the aforementioned decree, the Board is responsible for appointing a Judge / Legal Counsel and a Judge / Economist, as well as an Alternate Judge / Economist, following a public call for nominees. The Board also provides the President of the Republic with a short list for choosing a Judge / Legal Counsel and a Judge / Economist, as well as an Alternate Judge / Legal Counsel, following a public call for nominees.

Once chosen by the proper authority, the Judges are officially appointed to a six-year term by Executive Decree from the Ministry of Economy, Development and Tourism, which is cosigned by the Minister of Finance. The terms are staggered, so that the Tribunal is partially renewed every two years.

In 2011 there were no public calls for nominees for these positions. In 2012, a public call will be issued for the two Judges who are appointed by the Board, to replace the Judges whose terms end on 12 May 2012.

Law 20,361 modified Article 6° of DL 211 to reduce the number of Alternate Judges from four to two, which will come into effect with the appointments made starting in 2014. Consequently, the two Alternate Judges whose terms end on 12 May 2012 will not be replaced.

G. The balance sheet of the Central Bank of Chile

G.1 Balance sheet levels and structure

The behavior of the economy and the policies adopted by the Central Bank of Chile affect the size and composition of the Bank's balance sheet, which in turn affects the trend in earnings and losses. Thus, the considerable debt in the form of Central Bank promissory notes on the liability side is largely explained by the need to finance the rescue of the financial system following the crisis in the first half of the 1980s and by the need to sterilize the monetary effects of the accumulation of international reserves in the 1990s and, more recently, in 2008 and 2011. The balance sheet also reflects the Bank's ongoing commitment to price stability and its concern for keeping the interest rate structure compatible with the MPR and with the conduct of monetary policy based on inflation targets.

The evolution of the balance sheet in 2011 was marked by an increase in the size of assets and liabilities as a result of the foreign exchange purchase program and its sterilization. Thus, international reserves and debt (monetary policy promissory notes) account for the biggest increases in assets and liabilities, respectively. With regard to equity, 2011 closed with a smaller deficit. This mainly reflected foreign exchange earnings due to the depreciation of the peso against the U.S. dollar, and it was partly offset by the negative profits recorded during the year, stemming from the interest rate differential between assets and liabilities.

G.2 Size and composition of the balance sheet

The size of total assets as a share of GDP grew from 14.5 to 22.1% of GDP between year-end 2010 and year-end 2011. This was mainly due to the implementation of the foreign exchange purchase program.

The largest expansion was in the balance of international reserves, which grew 6.8 percentage points of GDP to reach Ch$21.89 trillion (figure I.1 and table I.1). This was mainly driven by the US$12.00 billion foreign exchange purchase program and an 11.3% depreciation of the peso in the period. Monetary policy instruments grew Ch$955 billion, thus contributing 0.8 percentage points of GDP to asset growth.

On the liability side, Central Bank debt grew 3.1 percentage points of GDP, in line with the sterilization of the foreign exchange purchase program (figure I.2 and table I.1).

Figure I.1
Central Bank of Chile assets (balances)
(Ch$ billion)

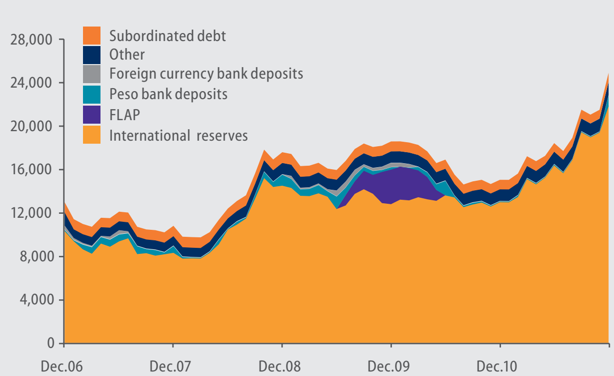

Figure I.2
Central Bank of Chile liabilities (balances)
(Ch$ billion)

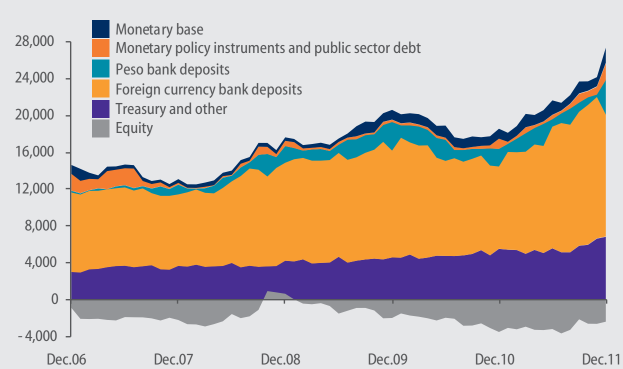

Table I.1

Central Bank balance sheet

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

					Rate of return (2) (%)			
	2010		2011		2010		2011	
	Balance	%GDP	Balance	%GDP	Interest	Δ value	Interest	Δ value
Assets (1)	**15,091**	**14.5**	**24,912**	**22.1**	**1.6**	**-7.1**	**1.4**	**10.3**
Net international reserves	13,051	12.6	21,891	19.4	1.3	-9.4	1.0	11.4
Treasury promissory notes	0	0.0	0	0.0		0.0		
Other public sector assets	938	0.9	1,009	0.9	4.8	1.3	5.6	2.0
Subordinated debt	877	0.8	821	0.7	5.0	2.3	5.0	3.7
Monetary policy instruments (3)	0	0.0	955	0.8	0.5	0.6	1.0	0.0
Other	226	0.2	236	0.2	3.7	-4.5	2.3	6.0
Liabilities (1)	**18,540**	**17.9**	**27,266**	**24.2**	**2.1**	**0.1**	**2.7**	**2.0**
Monetary base	5,525	5.3	6,851	6.1	0.2	0.0	0.3	0.0
Monetary policy promissory notes (4)	8,916	8.6	13,186	11.7	3.8	1.2	5.0	2.3
Other monetary policy liabilities (5)	2,603	2.5	4,790	4.2	0.5	-0.2	1.5	1.3
Current accounts and bank foreign currency reserves	423	0.4	815	0.7	0.0	-7.1	0.0	13.5
Treasury and other public sector deposits	378	0.4	866	0.8	1.2	-3.2	0.7	0.8
Other	695	0.7	758	0.7	0.3	-8.5	-0.1	10.1
Equity (1)	**-3,449**	**-3.3**	**-2,354**	**-2.1**				
Initial capital	-1,960		-3,449					
Valuation accounts	-2		1					
Net result	-1,489		1,092					
Nonfinancial results (6)	-86		-82					
Net interest (6)	-140		-328					
Changes in value (7)	-1,264		1,501					
Capital contributions (8)	2		3					

(1) Assessed equity is equivalent to the accounting measure; however, total assets and liabilities differ, mainly because of differences in the treatment of provisions, temporary assets, and temporary liabilities.
(2) Implicit rates are calculated based on estimates of average balances and losses/profits due to interest or changes in value. The resulting rates may be distorted if the end-of-month balances used to estimate the average balances are not representative.
(3) Includes credit to banks guaranteed with foreign currency deposits (foreign currency swaps) or risk-free securities (repos) and liquidity lines in domestic and foreign currency.
(4) Includes PDBC, BCP, PRC, CERO UF, BCU, and PRD.
(5) Short-term remunerated bank deposits in domestic and foreign currency. Foreign currency deposits, except daily deposits, guarantee credits in domestic currency (note 3).
(6) The foreign currency component of these items is converted 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.
Source: Central Bank of Chile.
(8) The Treasury made available to the Central Bank of Chile the amount of Ch$2.998 billion in 2011 and Ch$2.08 billion in 2010 to pay for liabilities contracted with the IDB. These transfers are recorded in Central Bank of Chile, in its role as fiscal agent, and documented in General Treasury Ordinary Official Letters 2945 of 28 October 2011 and 1405 of 27 August 2010. For accounting purposes, this implied that the Central Bank of Chile recognized a capital increase for this amount.

Source: Central Bank of Chile.

In terms of amount, monetary policy instruments grew 1.7 percentage points of GDP, mainly due to an increase in the balance of the standing deposit facility toward the end of the year. The monetary base increased 0.8 percentage points of GDP. The rest of the increase in liabilities is primarily explained by the banks' foreign exchange accounts (demand accounts and reserves) and by Treasury accounts. The 2011 fiscal year recorded earnings, mainly due to the depreciation of the peso. This caused a reduction in the equity deficit, relative to 2010, of 1.2 percentage points of GDP.

G.3 Return on assets, cost of liabilities and changes in equity

Period earnings can be broken down into profit and losses from the following: (a) return on assets (interest earned) and cost of liabilities; and (b) flows associated with adjustable accounts indexed to either inflation (generally bonds) or the exchange rate (mainly reserves).

With regard to earnings and losses associated with returns and costs, the differential between external and internal interest rates was negative in 2011, as in 2010. This implied that the return on assets was lower than the cost of liabilities. The average return on assets, mainly reserves, is determined by the external interest rate on highly liquid, safe instruments. The cost of liabilities is associated with the MPR and its expected trend, which affects the issue rate of the Bank's promissory notes.

Externally, the majority of the developed economies continued to apply a strong monetary stimulus. The average interest rate earned on international reserves fell from 1.3% in 2010 to 1.0% in 2011. Total assets earned 1.4%. In Chile, the Central Bank increased the MPR in 2011 by 200 basis points over the value at the close of the 2010 accounting period. In this context, the average rate on monetary policy promissory notes rose to 5.0% (versus 3.8% in 2010). Total liabilities cost 2.7%. This produced a differential between the average interest rate on assets and liabilities of –1.3% (table I.1), and earnings from interest therefore recorded losses in 2011.

Flows associated with indexed (adjustable) accounts recorded accounting losses in 2011. This was mainly due to the gains on assets stemming from exchange rate fluctuations and to the cost of UF-indexed liabilities (debt). In terms of the rates implicit in changes in the (adjustable) value of indexed assets and liabilities, fluctuations in the exchange rate and the UF (*unidad de fomento*, an inflation-indexed unit of account) translated into a positive differential of 8.3% (versus –7.2% in 2010).

As is usually the case, exchange rate fluctuations had the strongest impact on accounting earnings in 2011, mainly through their effect on international reserves. Between year-end 2010 and year-end 2011, the peso-dollar parity increased 11.3%. The value of reserves in pesos fell 11.4% due to the exchange rate effect alone.

In sum, the Bank's 2011 balance sheet posts negative equity of Ch$2.35 trillion (table I.1), which breaks down as follows: earnings of Ch$1.50 trillion due to changes in the value of assets and liabilities; expenses of Ch$328 billion in interest; and nonfinancial costs of Ch$82 billion, mainly personnel and administration costs and currency issue and distribution costs. In 2011, the Treasury remitted Ch$3 billion to the Bank to pay liabilities with the Inter-American Development Bank (IDB), which were accounted as capital contributions. Net earnings for the period were Ch$1.09 trillion, due to a real equity change from an initial revalued amount of –$3.45 trillion to a closing value of –$2.35 trillion.

G.4 Balance sheet positions

The currency positions on the balance sheet can be used to assess equity exposure to foreign exchange risk. Furthermore, by clarifying the nature of the flows that determine changes in the balance—separating out changes stemming from transactions per se (exchanges) versus changes due to interest and fluctuations in value—it is possible to track the Bank's policies more closely.

The Bank's position denominated and payable in foreign currency increased US$12.02 billion (table I.2b). This was due to greater reserves (US$13.84 billion), a reduction in Government funds (US$755 million), a reduction in net credit to banks (US$1.09 billion) and a contraction of the net credit balance for other operations (US$30 million).

Assets and liabilities recorded additional changes through associated interest and fluctuations in value, as well as payment (or receipt) of nonfinancial costs (income). Of the US$14.12 billion growth of reserves, US$12.00 billion was from the reserve accumulation program. Another US$279 million came from interest earned and changes in the dollar value. The foreign exchange deposits maintained with the Central Bank

Table I.2a
Central Bank balance sheet positions
(Balances as of 31 December of each year and annual flows in Ch$ billion)

	Balance 2010	2011 flows (4) Exchanges (5)	2011 flows (4) Earnings and Δ capital (6)	Balance 2011
Denominated and payable in pesos (1)	**-14,609**	**-5,794**	**-772**	**-21,175**
Monetary base (2)	-5,525	-1,306	-20	-6,851
Central Bank promissory notes	-8,916	-3,484	-786	-13,186
Banks	-1,852	-888	-44	-2,784
Other	1,683	-116	79	1,647
Denominated in foreign currency and payable in pesos (1)	**0**	**0**	**0**	**0**
Denominated and payable in foreign currency (1)	**11,160**	**5,794**	**1,866**	**18,821**
EQUITY (1)	**-3,449**	**0**	**1,095**	**-2,354**

Table I.2b
Foreign currency positions on the Central Bank balance sheet
(Balances as of 31 December of each year and annual flows in US$ million)

	Balance 2010	2011 flows (4) Exchanges (5)	2011 flows (4) Earnings and Δ capital (6)	Balance 2011
Denominated in foreign currency and payable in pesos	**0**	**0**	**0**	**0**
Denominated and payable in foreign currency	**23,828**	**12,018**	**247**	**36,093**
International reserves (3)	27,864	13,837	279	41,979
Central government (net)	-529	-755	0	-1,284
Banks (net)	-2,375	-1,094	0	-3,468
Central Bank bonds and promissory notes	0	0	0	0
Other (net)	-1,132	30	-32	-1,134
TOTAL	**23,828**	**12,018**	**247**	**36,093**

(1) The positions are defined as assets minus liabilities, so the difference is equivalent to equity. Because assets are added and liabilities are subtracted, the resulting signs of both balances and flows must be incorporated, 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 increases in the position, while positive flows correspond to decreases. Exchange flows of other entries are the balancing entry or its increase or decrease due to exchanges.
(3) Because international reserves are a positive component of the position denominated and payable in foreign currency, its flows reflect the direction of its variations (with the same sign). Exchange flows of other entries with the opposite sign are the balancing entry of its increase or decrease due to exchanges.
(4) Flows are, in general, the result of operations or imputations that translate into changes in balances.
(5) Exchange flows are produced whenever an asset or liability is modified as a consequence of the opposite variation of another asset or liability. In aggregate terms, exchanges alone do not change the equity level.
(6) Includes interests, price-level restatements, and other changes in value, profits minus nonfinancial losses, and capital contributions.
Source: Central Bank of Chile.

by commercial banks increased US$1.09 billion, including both demand accounts and liquid dollar deposits, while the net balance of the Central Government fell US$755 million.

The expansion of the Bank's foreign exchange position (denominated and payable in foreign currency) due to operating flows was Ch$5.79 billion, with an equivalent reduction in the position payable in domestic currency (table I.2a). The Ch$5.79 billion reduction in the position denominated and payable in domestic currency can be broken down into flows that expanded the monetary base by Ch$1.31 trillion, increased the debt from promissory notes by Ch$3.48 trillion, increased the net debt with banks by Ch$888 billion and decreased the net balance of other assets held by the Bank by Ch$116 billion. All these assets and liabilities registered additional reductions of Ch$772 billion through interest, nonfinancial readjustments and nonfinancial costs incurred during the year.

The increase in the monetary base, taking into account the interest paid for technical reserves,[6]/ was Ch$1.33 trillion, implying a higher real growth than GDP. The monetary base reduced its share in liabilities (excluding equity) from 30 to 25% between year-end 2010 and year-end 2011.

The Ch$888 billion increase in net liabilities with commercial banks includes a Ch$950 billion increase in monetary policy assets and a Ch$1.83 trillion increase in liquidity deposits by the banks. This trend was strongly influenced by movements in these balances in December. The reduction in the net balance of other assets (Ch$116 billion) mainly includes subordinated debt service paid to the Bank by bank shareholders (Ch$128 billion), an increase in fiscal deposits (Ch$60 billion) and a net expansion of Ch$73 billion mainly from the Bank's nonfinancial income in domestic currency and growth of other liabilities.

G.5 Capitalization of the Central Bank of Chile by the Treasury

Law 20,128 on Fiscal Accountability, published in the *Official Gazette* on 30 September 2006, authorizes the Treasury (through the Ministry of Finance) to make annual capital contributions to the Central Bank of Chile. Each contribution can be up to 0.5% of the previous year's GDP.

In accordance with this law, the Treasury did not make any contributions in 2009, 2010 and 2011, following the guidelines governing these specific contributions as established in Article 11 of the legal text. This authority is granted to the Minister of Finance for a period of five years from the date of publication of the law, and it requires the fulfillment of budgetary stipulations with regard to the existence of an effective surplus vis-à-vis one year previous to the date the contribution is made, after deducting the contribution to the Pension Reserve Fund established in the same law.

The Bank has already received three annual capital contributions. The remaining are contingent on an economic-financial study to be carried out by the Ministry of Finance to evaluate the impact of past contributions on the Bank's projected balance sheet for a period of twenty years.

These past three contributions were added to the Bank's international reserves, as established by the Board through Resolution 1289-02 of 31 August 2006. The value of these contributions was Ch$323 billion in 2006 (US$606 million); Ch$387 billion in 2007 (US$736 million); and Ch$428 billion in 2008 (US$730.7 million).

Ministry of Finance Decree 1357, published in the *Official Gazette* on 21 October 2011, modified Ministry of Finance Decree 637 of 2010, which established the basis for fiscal policy in accordance with the stipulations o Article 1° of Law 20,128. The new decree changed the fiscal policy objective, to convergence toward a structural deficit of 1% of GDP for 2014.

Decree 1357 further specified that public expenditures should act "to avoid inflationary pressures, alleviate pressure on the interest rate and avert excessive exchange rate appreciation. This Administration will implement a normalization of fiscal policy such that, on average, the growth of public expenditures in the current presidential period will tend to be equivalent to GDP growth, except in exceptional situations such as an international economic crisis."

[6]/ 0.5% of the CPI of the last reserve maintenance period.


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Chapter II

Institutional management and governance

A. Organization and operation[1]/

A.1 The Board

The Board has five Members, one of whom acts as chair and also serves as the Central Bank's Governor. The Board is responsible for the senior governance and management of the Bank, in its quality as an autonomous, technical public institution with constitutional authority. Board Members are appointed by the President of Chile by means of an Executive Decree issued by the Ministry of Finance, with prior approval from the Senate. Members hold office for a renewable period of ten years, and the Board is reconstituted on a partial basis every two years, when one member is changed at a time[2]/.

The Bank's Governor is appointed by the President of Chile from among the Board Members. The Governor holds office for five years or until his appointment as Board Member expires, whichever comes first, and may be reappointed for new periods. Along with chairing the Board, the Governor is responsible for representing the Central Bank on extrajudicial 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 and held office until his term as Board Member expired on 9 December 2011. On 10 December 2011, Mr. Rodrigo Vergara Montes was appointed Governor for a term of five years, through 10 December 2016. Mr. Vergara was appointed Board Member in December 2009.

The Deputy Governor is appointed by the Board, which also specifies the applicable term of office. The Deputy Governor stands in for the Governor when necessary and performs all other tasks entrusted to him. Mr. Manuel Marfán Lewis, who was appointed Board Member in December 2003, was appointed Deputy Governor for the period from 7 January 2010 to 9 December 2011. On 14 February 2012, Mr. Marfán was reappointed to the office of Deputy Governor until the end of his term as Board Member in December 2013.

The remaining Board Members are Mr. Enrique Marshall Rivera (appointed in December 2005), Mr. Sebastián Claro Edwards (December 2007) and Mr. Joaquín Vial Ruiz-Tagle (6 February 2012). All three were appointed for a ten-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 the 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. To this end, it also conducts ongoing assessments of compliance with the general rules and policies it has established and the development of institutional activities.

1/ Based on institutional data as of 1 March 2012.
2/ Title II of the Central Bank's Basic Constitutional Act, in accordance with 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 Central Bank of Chile Board

Monetary Policy Meeting

Rules governing Board sessions and resolutions

The Central Bank operates essentially through agreements and other resolutions passed by the Board in accordance with the organizational statutes governing the Bank.

The Board must hold ordinary sessions at least once a week and special meetings when called by the Governor, either of his own volition or in response to a written request by two or more Board Members. Any resolutions adopted at the meeting must be recorded in the minutes. Board resolutions must be adopted by a quorum of three Members and must have the favorable vote of the majority of those present, except in cases in which the law requires a special quorum for specific resolutions, by reason of their importance or relevance[3]/.

The Board Member chairing the session will cast the deciding vote in case of a tie. The Board generally holds its meetings at its offices in Santiago, but it is empowered to meet and vote on legal resolutions, regulations or other rulings anywhere 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 Bank to adequately fulfill its duties in coordination with the Executive Branch and other government bodies, thereby ensuring suitable control of its actions. Provisions in this area include the following:

(i) Article 6°, paragraph 2, of the Basic Constitutional Act, which defines the coordination between the Board and the government, states that on adopting resolutions, the Board shall take into account the general orientation of the government's economic policy.

(ii) Before 30 April of each year, the Bank must submit to the Minister of Finance and the Senate a report on its activities in the previous year,

3/ A special quorum is required, for example, to approve internal regulations governing Board and Central Bank operations; to override the Finance Minister's veto or suspension of a resolution; to adopt, renew, or suspend foreign exchange restrictions; to receive deposits from the General Treasury or other governmental bodies; and to waive immunity from the enforcement of international contracts entered into by the Central Bank on economic and financial matters.

including information on the policies and programs implemented in the period. This *Annual Report* must include the financial statements, with their respective notes and the external auditors' opinion.

(iii) With regard to information on the Bank's policies and annual programs, the Basic Constitutional Act further requires that the Central Bank provide a second report to both the Minister of Finance and the Senate no later than 30 September each year.

(iv) It is the Bank's duty to report to the President of Chile and the Senate regarding the general rules and policies it approves in exercising its powers and to advise the Executive Branch, when requested, on all matters associated with the Bank's functions.

(v) The Minister of Finance can attend Board meetings and is accorded the right to speak and to propose the adoption of certain resolutions. The Minister must therefore be given written advance notice of all calls to Board meetings and the scheduled agenda items.

(vi) The Minister of Finance can suspend any Board agreement or resolution for up to 15 days, unless all Board Members unanimously vote to override the suspension, in which case the suspension will not take effect.

(vii) The Minister of Finance has the right to veto Board resolutions that impose, terminate, or modify foreign exchange restrictions covered under Article 49 of the Basic Constitutional Act. In the event of a veto, the resolution in question can only be adopted through a unanimous vote by the Board Members.

The last two items aim to promote dialogue with the Executive Branch before the adoption of highly important resolutions, so as to avoid the disruption caused by a suspension or veto. This gives the two bodies the opportunity to overcome differences in opinion with regard to economic measures, although deference is always given to the Bank's autonomy and technical expertise.

In addition to these legal regulations, the Board has established several regulatory provisions aimed at maintaining ongoing communication with the President of Chile, the Senate and the general public about any measures adopted. This ensures the transparency of its actions and recognizes that the timely dissemination of the Board's decisions plays a crucial role not only in the general public's and the market's perception of the Bank's policies, but also in their impact on the economy.

Consistent with this principle, the Bank continuously incorporates international best practices with the goal of enhancing the transparency of its decisions.

These measures include the provision of advance notice of the dates of the monetary policy meetings and the prompt publication of the meeting minutes and background papers, as well as the dissemination of information on resolutions affecting monetary, credit, financial and foreign exchange regulations. In particular, Board Resolution 1289-01, which was adopted on 31 August 2006, addresses institutional policy on the disclosure of information. This statute was modified via Resolution 1495-01-090820 to establish a systematic schedule and format for the *Monetary Policy Reports* and the *Financial Stability Reports*, which are released to the appropriate authorities and the public. This contributes to the efficient dissemination of regular, timely information on the measures adopted by the Central Bank in the areas of monetary and foreign exchange policy and capital market regulation, as well as the foundations on which these policies are based.

Thus, as outlined in the modifications to Resolution 1495 cited above, the *Monetary Policy Report* is published and presented to the Senate quarterly, in March, June, September and December of each year. The *Financial Stability Report* is published half-yearly in June and December, in conjunction with the *Monetary Policy Report*. The resolution also provides for the dissemination of information on international reserve management, which is contained in this *Annual Report*, and of the Report on the Balance Sheet included in the *Monthly Bulletin*. All of these documents are also available on the Bank's website at www.bcentral.cl.

A.3 Board regulations

The current operating regulations for the Central Bank's Board outlines the general rules for Board meetings, including guidelines on notification, the agenda, participation and debate, the preparation of minutes and the public release of information on the issues discussed, through the respective minutes. They also include special rules on monetary policy meetings, mainly with regard to their frequency, participants, the agenda and debate, minutes, summary of discussions, and the dissemination of resolutions through a public press release issued after the meeting.

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

A.4 Appointment of the new Governor

As indicated earlier, Board Member Mr. Rodrigo Vergara Montes was appointed President of the Board and Governor of the Central Bank, for a five-year term beginning on 10 December 2011. The appointment was put into effect through Executive Decree 1716, of 6 December 2011, which was published in the *Official Gazette* on 30 December 2011.

A.5 General management, general counsel and auditing

Articles 24, 25 and 26 of the Basic Constitutional Act stipulate that the General Manager is responsible for managing and supervising the Central Bank, with the instructions and powers granted by the Board. The General Counsel, in turn, has the sole task of safeguarding the Bank's legal structures and monitoring the legal risks associated with the Bank's actions. The General Auditor is responsible for inspecting and auditing the Bank's accounts, operations and administrative standards.

Mr. Alejandro Zurbuchen Silva has served as General Manager since 7 August 2006. Mr. Miguel Ángel Nacrur Gazali has served as General Counsel and Certifying Officer of the Bank since 1 March 1997. Ms. Silvia Quintard Flehan has served as General Auditor since 1 January 2007.

Alejandro Zurbuchen

General Manager

A.6 Audit and Compliance Committee

Through Resolution 1330-01-070419, the Board created the Audit and Compliance Committee and approved the organizational statutes governing it. As an advisory body to the Board, this Committee reports on the effectiveness of internal monitoring systems and procedures; assesses and reports on the implications for the Bank's equity and reputation of complying with its obligations; assesses the reliability, integrity and timeliness of the information included in the financial statements; coordinates with the Bank's General Auditor in terms of the responsibilities assigned by the Basic Constitutional Act; and proposes the hiring of external auditors.

In 2011 the Committee met seven times to execute the provisions in its governing statutes. The issues addressed at these meetings included assessing the services provided by the independent auditing firm; reviewing the annual auditing plan and final report; learning the activities of the internal auditing division; and reviewing the risk management, internal monitoring and information systems.

The Committee is chaired by Mr. Luis Bates Hidalgo, who was appointed to this position on 31 May 2007. The Board renewed his appointment on 9 June 2011 for a period of three years. In 2011, the other members of the Committee were Mr. Vivian Clarke Levi and Mr. Francisco Mobarec Asfura. Mr. Clarke has been a Committee member since 31 May 2007, and on 3 June 2010 the Board renewed his appointment for a period of three years. Mr. Mobarec has also been a Committee member since 31 May 2007, and on 11 June 2009 the Board renewed his appointment for a period of three years. However, Mr. Mobarec resigned on 31 January 2012. As replacement, the Board appointed Mr. Gustavo Favre Domínguez on 1 March 2012, for a period of three years.

B. Internal administration

B.1 Strategic planning

The Central Bank of Chile's vision is to be widely recognized as a leading, autonomous, technical institution, known for its institutional values and the effectiveness with which it achieves price stability and the normal functioning of the payment system. Its mission is to contribute to the smooth functioning of the economy and the well-being of the community, safeguarding the stability of the currency and the normal operation of the internal and external payment systems.

The Bank's strategic planning plays an important role in the achievement of its vision and mission. The planning horizon is medium term and is tied to the term of office of the Bank's Governor, with a one-year lag. The current medium-term strategic plan was in its third year in 2011; it extends trhough 2012. The strategic focal points for the four-year period are as follows:

- Leadership in essential areas: to return inflation to the target range and to preserve financial stability, handling the global crisis successfully and at the lowest possible cost.

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

- Modernity and tradition: a new family of banknotes and coins.

The 1.000 banknote entrance into circulation

Based on these strategic definitions and the budget set by the Board, the different units worked on their strategic plans and initiatives, giving emphasis and priority to areas aligned with the focal points mentioned above so as to achieve the Bank's objectives.

The main achievements and advances in 2011 were the following:

- Annual conference. The central theme of the conference was capital mobility and monetary policy. The fourth summit of central bank governors was also held.

- A new family of banknotes. The new $1.000 banknote entered into circulation in May, thus completing the introduction and distribution of the new family of banknotes in the community.

- Statistical publications. Publications include the input-output matrix of the *Benchmark Compilation 2008* and the quarterly *National Accounts* by institutional sector since 2005, which contributes to improving data quality and reducing their lags.

- Management of critical situations. In July, the Financial Policy Division coordinated a crisis simulation exercise in conjunction with the Superintendence of Banks and Financial Institutions (SBIF) and the Ministry of Finance, as part of an ongoing effort to develop protocols and procedures for managing critical situations that could affect the financial system.

- Dollar purchase program. A dollar purchase program was carried out, and the effects on the local money market were sterilized.

B.2 Internal organization, restructuring and appointment of executives

In July, the Board changed the name of the Statistics and Data Collection Department to the Monetary and Financial Statistics Department. This change was implemented in consideration of the fact that department titles should reflect the specific functions of the unit, and the task of data collection for the balance of payments was assigned to the Balance of Payments and External Debt Department.

In October, the Board decided on the following modifications: to eliminate the Management and Risk Assessment Department and its respective administration; to create, as of that date, the Financial Risk Assessment and Management Department, under the General Manager; and to change the name of the existing Strategic and Risk Management Department to the Strategic and Operational Risk Management

Department. These changes reflect the broadening and deepening of departmental functions and activities in the areas of management and risk assessment, compliance, consulting and research, as applied to the administration of International Assets and National Liabilities.

The Board also took under consideration the recommendation of an external consultant, who proposed the implementation of a set of methodologies for quantifying financial risks and contributing substantial weight to the Department. This proposal is consistent with the report by the European Central Bank and the Central Bank of Chile's Audit and Compliance Committee.

In November, the Board eliminated the National Accounts Department and its respective administration and created, as of that date, the Annual National Accounts Department, the National Accounts Summary Department and the Institutional National Accounts Department. The goals of this restructuring were to improve the technical supervision of the processes, to reduce operational risks by adequately separating functions and to improve human resource management in departmental administration in accordance with internal procedures.

The following executive appointments were made in 2011. In May, the Board appointed Mr. Claudio Raddatz Kiefer to the position of Manager of Economic Research, within the Research Division. In July Mr. Alberto Naudón Dell'Oro was named Head of the Models and Forecasts Department, in the Macroeconomic Analysis Management, and Mr. Ronald Corovic Corro was designated Head of the Technological Services and Infrastructure Department, in the Informatics Management. In October, Mr. Milcíades Contreras Gosik was appointed manager of Financial Risk Assessment and Management and Mr. Enrique González Vásquez as Head of the Strategy and Risk Department, within the Strategic and Operational Risk Management. In November, Ms. Carmen Gloria Escobar Jofré was named Head of the Annual National Accounts Department, in the Macroeconomic Statistics Management, and Mr. Juan Carlos Piantini Cardoso as Head of the International Desk, within the International Markets Management.

B.3 Human resources management

Human resources management in 2011 was characterized by the continuation of organizational development projects associated with the Administration's mission, namely, to attract, retain and develop high-quality personnel in a challenging, yet balanced work environment. The Bank continued to support transversal projects with an organizational impact, and it underwent a collective bargaining process that resulted in the signing of a new four-year contract. The main advances in these areas are detailed below.

Collective bargaining

In mid-May, a new collective bargaining process was opened with the Central Bank of Chile Workers Union, which unfolded within the stipulated legal time frame and in a context of collaboration by the negotiating parties. It had been four years since the last round of negotiations.

The new contract retains most of the previous benefits and will be in force for four years. At the same time, the parties agreed to modernize several contract clauses, in order to promote a more efficient benefits administration. In particular, advances were made in the Integral Health System, where the Bank has committed to finance basic plans that can be improved on an individual basis, according to the preferences and realities of each worker and his family. This represents an important step toward providing flexible benefits, which is a dominant trend among modern firms looking for more efficient ways to promote greater well-being and cultivate personnel retention.

The collective bargaining process included a series of meetings between the negotiating teams and was carried out within the time frame stipulated by law, including a brief arbitrage period. The Collective Contract was signed on 11 July 2011.

Work environment studies

Work environment studies have been shown to be a good diagnostic measure of where, how and why an organization is leaning in a given point in time, especially in terms of the perceptions and general motivation of the people who make up the organization. The Bank has carried out this type of study since 2006, and the 2011 assessment was the second that surveyed the entire Institution.

The study was launched toward the end of the year and used a data platform managed by an external consultant, to facilitate data entry and processing and to maintain the confidentiality of the responses. The study had a very high participation rate (87%), even higher than in previous years, which was generalized across all the units of the Bank and which signals greater organizational maturity.

In terms of results, the overall average was similar to the last survey (2009), ranked as "Relative Strength." The scope of room for improvement ("Areas of Concern") was also similar to the last survey, although there was also an increase in absolute rankings: (a) Cooperation between units, (b) Recognition and (c) Remuneration.

To capture perceptions of other important factors, this round of the study incorporated an evaluation of the retirement plan (implemented since mid-2008) and institutional values, which received a good general assessment. Other noteworthy elements were identification with the Institution and physical, environmental and security factors.

During the 2012–13 period, support was given to the different units to reinforce those areas that presented the most room for improvement, from the perspective of both the development of group activities and direct support to management. The next measure of the work environment is scheduled of late 2013.

Personnel management

To move forward in the development of personnel management policy initiatives and in line with best practices in the market and in leading central banks, over the course of the year the Bank continued to implement the skills-based management model launched in 2007. In particular, skills development activities were held for the Bank's professional staff, which complements earlier skills work conducted for upper management.

The skills-based management model is considered a key element for strengthening and standardizing selection processes, as well as for supporting the development of replacement plans and support for highly critical positions, defined as having both a high replacement cost and a significant effect on operational continuity. With regard to the latter, the Bank conducted a full review of critical processes in 2011, so as to support and complement the training and development plans for professionals identified as a replacement for a critical position.

The career development and retention of high-performing, high-potential employees was advanced in 2011 through a mapping of the staff in different units of the Bank. Progress was also made in designing the scope and characteristics of the different development programs that the Bank can offer this segment of workers in the medium term. The first steps were also taken in the definition of the career path for specialists, as a way to promote the professional growth and development of experts in the Bank's main areas who do not have the qualifications or interest to pursue management-level positions.

During the year, the Bank's policies on the development and training of high-quality professionals included the initiation of a long internship with the Organization for Economic Cooperation and Development (OECD) for two of the Central Bank's professionals. This joint project aims to establish an active relationship between the two institutions, in which they share experiences, policies and practices. It also seeks to reinforce the professionals' leadership skills and abilities through an interchange of ideas, the acquisition of new information, skills and knowledge, and an expansion of the network of contacts between the two institutions involved.

Support for transversal projects

In 2011 support continued for some strategically important transversal projects with a high organizational impact, such as the development of a Content Administrator and the installation of an Integral Management System in the Bank.

A consultant was brought on to facilitate the change management. A series of activities was organized to support the respective project managers and their team members, in order to fully include them in the designed strategy and prepare them for the different phases of development, prior to the inauguration of these initiatives in 2012.

Entrance into circulation of *ADoc* Comic

B.4 The Comptroller

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

In 2011, the main challenges were in the following areas: implementing the audit plan based on international practices; supporting and responding to the needs of the Audit and Compliance Committee; and maintaining the certification of the quality of the audit process (quality assurance) by the Institute of Internal Auditors (IIA). The IIA Quality Assurance Review verifies that the activities of the Central Bank's Comptroller "comply with international standards for the professional exercise of internal auditing." In addition, the Internal Auditing Service of the Central Bank of Chile maintained its certification under ISO 9001:2008 standards. These endorsements show the Comptroller's commitment to continuously improving its high-quality performance and use of best practices.

B.5 Main contracts for the provision of goods and services

The Bank is subject to the provisions in its Basic Constitutional Act governing the periodic release of information on the fulfillment of its public duties. In this context, this report discloses the main contracts signed by the Bank for an amount greater than Ch$100 million, which are related to the supply of goods and services that allow the Institution to operate normally (table II.1) and annual expenditures on consultant services, surveys, research and seminars (table II.2). With regard to the issue of banknotes and coins, section E.3 provides general information on the contracts signed by the Bank in connection with the 2011 issue program.

C. Personnel, administration and other expenses

These expenses include personnel compensation and benefits; the use and consumption of goods and services; and other expenses necessary for carrying out the Bank's activities (table II.3). On the income statement, they are broken down as follows: (i) personnel and administration; and (ii) other expenses. Of the total personnel, administration and other expenses, personnel represents 45%; administrative expenses, 24%; and retirement benefits, 4%; and other expenses, 27%.

Personnel expenses

Personnel expenditures rose 14% in real terms between 2007 and 2011, from Ch$22.67 billion to Ch$25.88 billion. Salaries represent an important component of personnel expenditures, and the fixed share of salaries has been steadily coming up to market rates over the course of this period, so as to guarantee the incorporation and retention of highly qualified professionals in the Bank. This largely explains personnel expenses in the last five-year period, together the evolution of the personnel structure—characterized by a trend toward the professionalization of the Bank and a decline in administrative, secretarial and service personnel.

Table II.1

Contracts signed in 2011

(Over Ch$100 million over the life of the contract).

N°	Supplier	Contract purpose	Effective	Ending
2225	Power Data America Ltda. (1)	Information and technological services	17-01-11	17-01-14
2227	Giesecke & Devrient Gmbh (2)	Treasury services	31-01-11	03-12-12
2228	Giesecke & Devrient Gmbh (3) (5)	Treasury services	03-12-12	03-12-24
2245	Browse Ingeniería de Software (1)	Information and technological services	14-04-11	14-04-14
2257	Asesorías Profesionales Limitada (7)	General and administration services	01-04-11	01-04-14
2269	Adexus S.A. (1)	Information and technological services	01-05-11	01-05-14
2270	Constructora Antillanca Ltda. (2)	Infrastructure maintenance services	11-05-11	11-08-12
2273	Universidad Alberto Hurtado	Statistical products	15-05-11	15-02-12
2278	Quintec Chile S.A.	Information and technological services	16-05-11	18-10-12
2279	Quintec Chile S.A. (3) (4)	Information and technological services	18-10-12	18-10-17
2283	SAP Chile (8)	Information and technological services	20-05-11	
2293	Bitelco Diebold Chile Ltda. (1)	Security services	07-06-11	07-06-14
2297	CMA Small Systems AB	Information and technological services	06-09-11	09-04-13
2298	CMA Small Systems AB (3) (6)	Information and technological services	09-04-13	09-04-23
2319	Paisajismo Hermano Árbol S.A. (4)	Country club and resort services	01-07-11	01-07-16
2326	Sodexo Soluciones de Motivación Chile S.A. (1)	Human resource management services	07-07-11	07-07-14
2346	Arbol de Color Diseño Ltda. (2)	General and administration services	14-09-11	12-11-12
2355	ST Computación S.A. (2)	Information and technological services	02-09-11	31-01-12
2361	Vendomática S.A. (1)	Bank staff services	10-10-11	10-10-14
2368	Néstor Zamora Neira Inf. y Const. Eirl (2)	Infrastructure maintenance services	17-10-11	04-02-13
2375	Turismo y Transportes Monumental S.A. (1)	Transportation services	28-10-11	28-10-14
2376	Transportes Nuevo Flash S.A. (1)	Transportation services	28-10-11	28-10-14
2379	Agencia de Viajes Forum Ltda. (1)	General and administration services	02-11-11	02-11-14
2380	Travel Security S.A. (1)	General and administration services	02-11-11	02-11-14
2381	Asesores en Viaje S.A. (1)	General and administration services	02-11-11	02-11-14
2390	Paisajismo Hermano Árbol S.A. (4)	Country club and resort services	30-11-11	30-11-16
2395	Goldman Sachs Asset Management L.P. (8)	Financial services	30-11-11	

(1) Initial one-year contract, which is automatically renewable for up to two additional one-year periods.
(2) Ending date includes warrantee period.
(3) Maintenance contract signed in 2011; start date pending. Contract will enter into force once the implementation contract ends.
(4) Initial one-year contract, which is automatically renewable for up to four additional one-year periods.
(5) Ten-year contract, which is automatically renewable for up to two additional one-year periods.
(6) Initial one-year contract, which is automatically renewable for up to nine additional one-year periods.
(7) Initial one-year contract, which is renewable at the request of the Bank for up to two additional one-year periods.
(8) Ending date not specified.

Source: Central Bank of Chile.

Table II.2

Expenditures in consulting, surveys, studies and seminars

(millions of 2011 pesos) (*)

	2007	2008	2009	2010	2011
Consulting, surveys, studies and seminars	2,336.5	2,031.1	1,742.3	1,564.9	1,646.4
Consulting	1,768.0	1,374.5	790.3	934.1	938.6
Surveys and studies	324.0	444.3	730.6	422.9	477.0
Seminars	244.5	212.3	221.4	207.9	230.8

(*) The average CPI was used to update older figures to 2011 pesos.

Source: Central Bank of Chile.

From December 2007 to December 2011, the size of the staff contracted 1.4%, from 626 to 617 employees. Professionals, executives and senior managers accounted for 65% of the total in 2007, versus 72% in December 2011. This trend toward a larger share of professionals is expected to continue in the future.

Retirement benefit costs

To comply with International Financial Reporting Standards (IFRS), since 2008 the benefits calculation has incorporated accounting criteria that include financial parameters and demo figures. The biggest effect is seen in 2008, when the IFRS criteria were first applied.

The 124% real increase in retirement benefit costs between 2007 and 2011 is essentially explained by the application of the benefits accounting criteria and by severance pay for years of service paid out in 2011 to personnel on the retirement and resignation plan started in 2008. In 2011, the amount of the severance payments and the net increase in benefits (relative to 2010) was Ch$385.5 million.

Table II.3
Personnel, administration and other expenses
(millions of 2011 pesos) (*)

	2007	2008	2009	2010	2011
Personnel and administrative expenses					
Personnel expenses	22,672.1	22,329.9	23,653.7	24,942.4	25,877.2
Administrative expenses	10,856.7	11,725.5	11,162.5	12,867.3	13,905.0
Provisions for severance pay	1,031.8	6,869.7	2,190.5	1,924.4	2,309.9
Total	34,560.6	40,925.1	37,006.7	39,734.1	42,092.1
Other expenses					
Depreciation and amortization	2,452.2	2,728.3	2,166.7	1,527.3	1,931.2
Taxes and contributions	495.1	463.7	587.6	490.1	611.7
Other	-	-	-	-	12,262.5
Total	2,947.3	3,192.0	2,754.3	2,017.4	14,805.4
Total personnel, administrative, and other expenses	37,507.9	44,117.1	39,761.0	41,751.5	56,897.5
A. personnel expenses					
Wages and other employer contributions	19,513.3	19,153.0	20,293.8	21,766.8	22,511.3
Employee well-being	2,432.5	2,571.0	2,662.3	2,650.5	2,682.7
Training	726.3	605.9	697.6	525.1	683.2
Total	22,672.1	22,329.9	23,653.7	24,942.4	25,877.2
B. Administrative expenses					
Utilities	852.7	959.1	1,053.1	982.1	975.2
General services	3,484.4	3,520.5	4,193.6	4,477.1	5,082.1
Maintenance of fixed assets	788.3	1,247.3	661.2	1,526.6	1,316.8
Informatics and technological development expenses	3,394.8	3,967.5	3,512.3	4,316.6	4,884.5
Consulting, surveys, studies, and seminars	2,336.5	2,031.1	1,742.3	1,564.9	1,646.4
Total	10,856.7	11,725.5	11,162.5	12,867.3	13,905.0

(*) The average CPI was used to update older figures to 2011 pesos.

Source: Central Bank of Chile.

Publications salesroom

Administrative costs

Administrative costs recorded a real increase of 28% between 2007 and 2011, from Ch$10.86 billion to 13.91 billion. This mainly reflects higher disbursements for utilities, general services, maintenance of fixed assets, and computer and technological development expenses; and a reduction in consulting, surveys, research and seminars.

Between 2010 and 2011, administrative expenses increased 8%, mainly due to increased expenditures on general services and computer and technological development expenses.

Other expenses

The increase in other expenses is due to a reduction in real estate appraisal values of Ch$12.26 billion. In 2011, all Bank properties were reappraised to ensure that they were accounted at fair value. This appraisal value was lower than the value applied in the first IFRS appraisal in 2009, which was based on estimated prices in the absence of an independent appraisal.

D. Communication and diffusion

D.1 Main publications

The main objectives of the Central Bank's publication program is to increase transparency in the delivery and communication of economic information, improve its timeline and provide the public with information on key economic issues.

The main publications through which the Bank communicates its policies are the *Monetary Policy Report* and the *Financial Stability Report*. The former, which is published in March, June, September and December, presents the Board's assessment of the recent and expected evolution of inflation, its implications for monetary policy, the medium-term analytical framework used in monetary policy formulation and the information necessary for agents to adequately formulate their price and economic growth estimates.

The *Financial Stability Report*, which is published half-yearly (in June and December of each year), reports on recent macroeconomic and financial developments that could affect the financial stability of the Chilean economy. The report also presents the policies and measures that support the normal functioning of the internal and external payment systems, with the goal of promoting knowledge and debate on the Bank's actions in carrying out its functions.

In October, a new edition of the publication, *Management of Foreign Exchange Reserves* at the Central Bank of Chile, was released. This report explains the objectives of international reserve management, the institutional framework under which the reserves are managed, the investment policies that form the basis for decisions, the composition and characteristics of the reserves, the external portfolio management programs, risk management and the yields obtained by the Bank through these items. The report also addresses the transparency practices that the Institution has adopted in recent years, in accordance with international standards.

A new edition of the publication, Gestión de Pasivos del Banco Central de Chile (*Liabilities Management at the Central Bank of Chile*), was also released. This report describes the instruments, standing facilities and operations used by the Central Bank to manage market liquidity; explains the objectives of the Bank's open market operations and debt issues; outlines the institutional framework under which these operations are carried out; and provides background information on the debt issued by this Institution as of 30 June 2011.

In November, the Spanish and English versions of the first issue of the *Boletín de Investigación / Research Bulletin* were published. This annual newsletter reports on internal workshops, conferences and training courses; books and studies published by the Bank; presentations by Central Bank economists at national and international events; and papers and reports presented at the various macroeconomic and financial seminars organized by the Institution.

In December, the Bank published the *Cuentas Nacionales de Chile: Compilación de Referencia 2008* (National Accounts of Chile: 2008 Benchmark Compilation), which provides the best measure of the level of the macroeconomic aggregates for that year, given the available data. The Benchmark Compilation establishes the statistical infrastructure that will serve as the basis for subsequent compilations each year, so as to update the national accounts data on an annual and quarterly basis.

This is the sixth Benchmark Compilation carried out in Chile. The previous editions were constructed in 1962, 1977, 1986, 1996 and 2003, with the first four being called an input-output matrix and/or base year. The new compilation thus comes five years after the previous version, which is in line with recommendations by specialized international organizations.

In the area of economic research, the Bank published volumes 15 and 16 of the series, *Central Banking, Analysis and Economic Policies*. Volume 15, entitled *Financial Stability, Monetary Policy and Central Banking*, contains the revised versions of papers presented at the Twelfth Annual Conference of the Central Bank of Chile, held in November 2008. Volume 16, entitled *Monetary Policy under Financial Turbulence*, compiles the revised versions of papers presented at the Thirteenth Annual Conference, held in November 2009. The volumes in this series are intended to promote the discussion and awareness of issues related to the transmission and absorption of external shocks, both real and financial, in emerging economies.

The Bank's economic research is also reflected in the journal *Economía Chilena*, which is published three times a year (in April, August and December). The nine papers and six research notes published in 2011 mainly address issues affecting the Chilean economy, with a strong empirical focus and an emphasis on issues relevant for the conduct of economic policy.

Over the course of 2011, four new papers were published in the *Economic Policy Papers* series. This series discloses the opinion of Bank authorities on relevant economic and monetary policy topics. The subjects discussed were related to the accumulation of international reserves in emerging economies; the progress and challenges of financial inclusion for Chile; the world economy, exchange rate pressures and recent monetary policy in Chile; and the progress and challenges of financial development in Latin America.

In addition, 49 *Working Papers* were published in 2011. This series has become an important series internationally in the field of specialized economics, based on the number of Internet hits. Its purpose is primarily to facilitate the exchange of ideas and to release preliminary economic research results for discussion and commentary.

The Bank also published five new papers in the *Studies in Economic Statistics* series. The purpose of this series is mainly to release research papers in economic statistics, with a strong empirical and factual content. The papers published in 2011 addressed Chilean direct investment in the 2006–09 period; personal remittances from and to Chile; the publication of the Central Bank of Chile's foreign exchange statistics; the national accounts by institutional sector; and a comparative analysis of the Chilean forex market in the international context, for the 2001–10 period.

Finally, in accordance with the provisions of Article 53 of its Basic Constitutional Act, the Bank continued its annual program of periodical publications, aimed at disseminating information on the main national macroeconomic statistics. This year's publications included the following: *Informativo Diario* (Daily Report), *Boletín Mensual* (Monthly Bulletin), *Indicadores de Comercio Exterior* (Foreign Trade Indicators) and *Indicadores Macroeconomicos y de Coyuntura* (Macroeconomic and Current Indicators). The following yearbooks were also published: *Cuentas Nacionales* (National Accounts), *Balanza de Pagos* (Balance of Payments), *Deuda Externa de Chile* (Chilean External Debt), *Síntesis Monetaria and Financiera* (Monetary and Financial Summary) and *Síntesis Estadística de Chile* (Statistical Synthesis of Chile).

D.2 Visits to the Senate and the House of Representatives

On 4 April, the Board presented the March *Monetary Policy Report* to the Senate Finance Committee, at the Committee's offices in Santiago. On 20 June, the Board presented the June *Monetary Policy Report* and the *Financial Stability Report* for the first half, also in Santiago. On 7 September, the September *Monetary Policy Report* was presented to the full Senate at the Senate Building in Valparaíso. On 20 December, just days after his appointment as Governor of the Bank, Mr. Rodrigo Vergara presented the December *Monetary Policy Report* and the *Financial Stability Report* for the second half to the Senate Finance Committee in Valparaíso, accompanied by the Board.

Visits to the House of Representatives included a presentation on 3 May, when Governor José De Gregorio spoke on consumer loan interest rates, in a special session of the full House of Representatives. On 18 July, as Acting Governor, Board Member Enrique Marshall addressed the House of Representatives Commission on the Economy, Development and Reconstruction, which was meeting as an Investigative Commission on the *La Polar* case.

D.3 Seminars and conferences

As part of the visiting professor program organized by the Financial Research Department, the Bank hosted Professor Markus Brunnermeier of Princeton University on 13–14 January, who gave a course on measuring and regulating systemic risk and a master's class entitled The I-Theory of Money. These lectures were attended by students from the country's main universities and economists from the Ministry of Finance, the Superintendence of Banks and Financial Institutions (SBIF) and the Superintendence of Securities and Insurance (SVS).

A few days later, on 17 January, the seminar "Monetary Policy and the Role of the Central Bank in the Post-Crisis Environment" was organized by the Global Interdependence Center. The event was inaugurated by the Governor of the Central Bank of Chile, José De Gregorio, and featured a presentation by the President of the Federal Reserve Bank of Philadelphia, Mr. Charles Plosser.

Two new volumes were published in the Central Banking, Analysis and Economic Policies book series. Volume 15, *Financial Stability, Monetary Policy and Central Banking*, edited by Central Bank economist Rodrigo Alfaro, was launched on 24 January 2011. At the launch, the book was introduced by Professor Simon Gilchrist of Boston University's Economics Department. Volume 16 of the same series, *Monetary Policy under Financial Turbulence*, was launched on 14 March. This volume was edited by Central Bank economists Luis Felipe Céspedes and Diego Saravia, together with Roberto Chang of Rutgers University. At the launch, the book was introduced by Professor Pablo Guidotti of the Universidad Torcuato Di Tella.

President of Philadelphia FED features his presentation at the seminar "Montary policy and the role of the Central Bank in the Post-Crises Enviroment".

As part of the ongoing training program coordinated by the Human Resources Division, an intensive academic program was organized in the Bank in 2011. This program included three high-level courses organized by the Research Division and offered not only to the Bank's economists, but also to professionals from public institutions and graduate students from the main economic schools in the country.

From 18 to 22 April, Professor Sergio Rebelo of the Kellogg School of Management at Northwestern University taught a course in the Lectures in Macroeconomics series. The course addressed issues such as uncovered interest rate parity, real exchange rate movements, nominal rigidities in micro data and real estate markets.

On Friday, 29 April, the Financial Research Department coordinated a seminar on "Implementing a Macroprudential Policy: Processes and Institutions." The main speaker was Christian Upper, Head of the Financial Markets Section at the Bank for International Settlements (BIS). At the seminar, Central Bank economists, national academics and experts from other central banks discussed a range of issues related to the banking system, capital flows and the impact of large institutional investors.

Professor Francis X. Diebold of the University of Pennsylvania gave a course on the Econometrics of Financial Markets from 25 to 28 July. The course covered nowcasting, yield curve modeling and macro-financial interrelations.

On 12–14 September, Central Bank economists Sofía Bauducco and Sergio Salgado taught a course on Learning and Expectations Formation in Macroeconomics. The course covered issues such as modeling adaptive expectations in macroeconomic models, convergence to rational expectations and the introduction of learning into monetary policy, fiscal policy and asset price models.

D.4 "Economics for the Majority" program

In 2011, the Central Bank renewed its efforts to diffuse information on its role and functions and to deepen its relationship with the community. In the fourth quarter, the guided tours which are coordinated as part of the "Economics for the Majority" program, and which have traditionally been aimed at students, were opened to the public at large. Of the 3,666 people who visited the Bank over the course of the year, 122 were from

La economía + cerca

"Economics for the Majority" program

this new segment, in particular senior citizens. The tour includes an informational video, a walk through the main premises of the Bank and a temporary exhibit on the new family of banknotes.

With regard to student visits, 1,188 visitors were undergraduate and graduate students from different universities, while the remaining 2,356 were elementary and high school students. One program that represents a monumental step in the Bank's community relations is the provision of financing for transportation to the guided tours, which was instituted for groups from low-income schools. Interested schools can apply for this benefit, which is allocated proportionally according to the school's need. The program, in effect since November 2011, gave 130 students from extremely poor areas the opportunity to visit the Central Bank of Chile and see downtown Santiago.

Another activity coordinated by the community outreach program was the seventh annual contest "Economics up Close," which is held by the Bank and sponsored by the Ministry of Education. This year, 290 team projects were submitted by 1,125 third- and fourth-year high school students from 136 educational establishments around the country. The winning group, which was from the *Colegio Andrés Bello* in *Cabildo,* submitted a project on "Pelotillehue in crisis: I demand an explanation! (or, What are the benefits of having a solid financial system?)." The group presented and defended their work before the panel of judges. Second place went to a group of students from the *Escuela Agrícola* in *San Felipe* for their project, "The fat lady and her friends," while third place was awarded to a group from the Wenlock School in *Las Condes* for "The story of the gentleman-economist Don Caminante de Ekonomiah and his faithful Tobin, and how they learned about stability."

As usual, preparation for the contest included five workshops in January and July, which were attended by 87 high school teachers. These full-day workshops, which were held at the Central Bank, covered basic economic concepts, inflation, the financial system, monetary policy and the role of the Central Bank. The Bank also conducted four seminars, two in Santiago (attended by representatives from 21 schools in the Metropolitan Region), one in Chillán and one in Arica (regional visits). In addition, economists from the Bank visited four schools in the Santiago Metropolitan region to give talks on issues related to the Bank's duties and the contest, which were attended by a total of 250 people, including teachers and students.

An innovation for this year's "Economics up close" contest was the use of social networks. For the first time, the Central Bank appeared on Twitter, with the goal of using this digital platform to announce the contest and thus to reach a larger audience and develop closer ties with the community.

D.5 Regional visits

In 2011, the Bank continued to present its main reports, the *Monetary Policy Report* and *Financial Stability Report*, at the regional meetings.

These meetings are intended to promote the public's learning and becoming familiar with the Bank's objectives, policies, instruments and forecasts; to facilitate a better understanding of the Bank's actions; and to improve the effectiveness of its policies. The meetings coincide with the quarterly publication of the *Monetary Policy Report*, and the presentation of this *Report* and the *Financial Stability Report* are complemented with other presentations on the Central Bank's policies and instruments.

The Central Bank at the regions

Cultural Outreach program - Grupo Calendamaya

In 2011, the March *Monetary Policy Report* was presented in the Atacama Region, at a meeting organized by the Corporation for the Development of the Atacama Region (*Corproa*), and in the Los Ríos Region (in the city of Valdivia), at a meeting organized in conjunction with the Austral University. In July, the regional meetings to present the June *Monetary Policy Report* and the *Financial Stability Report* for the first half of the year were held in Chillán, in conjunction with the University of Concepción (Chillán campus), and in Arica, in conjunction with the Corporation for the Development of Arica and Parinacota (*Cordap*). The September *Monetary Policy Report* was presented in Concepción, in coordination with the University of Santo Tomás (Concepción campus), and in Puerto Montt, in conjunction with the Austral University (Puerto Montt campus). These regional meetings were led by Central Bank Governor José De Gregorio, Deputy Governor Manuel Marfán and Board Members Enrique Marshall, Sebastián Claro and Rodrigo Vergara.

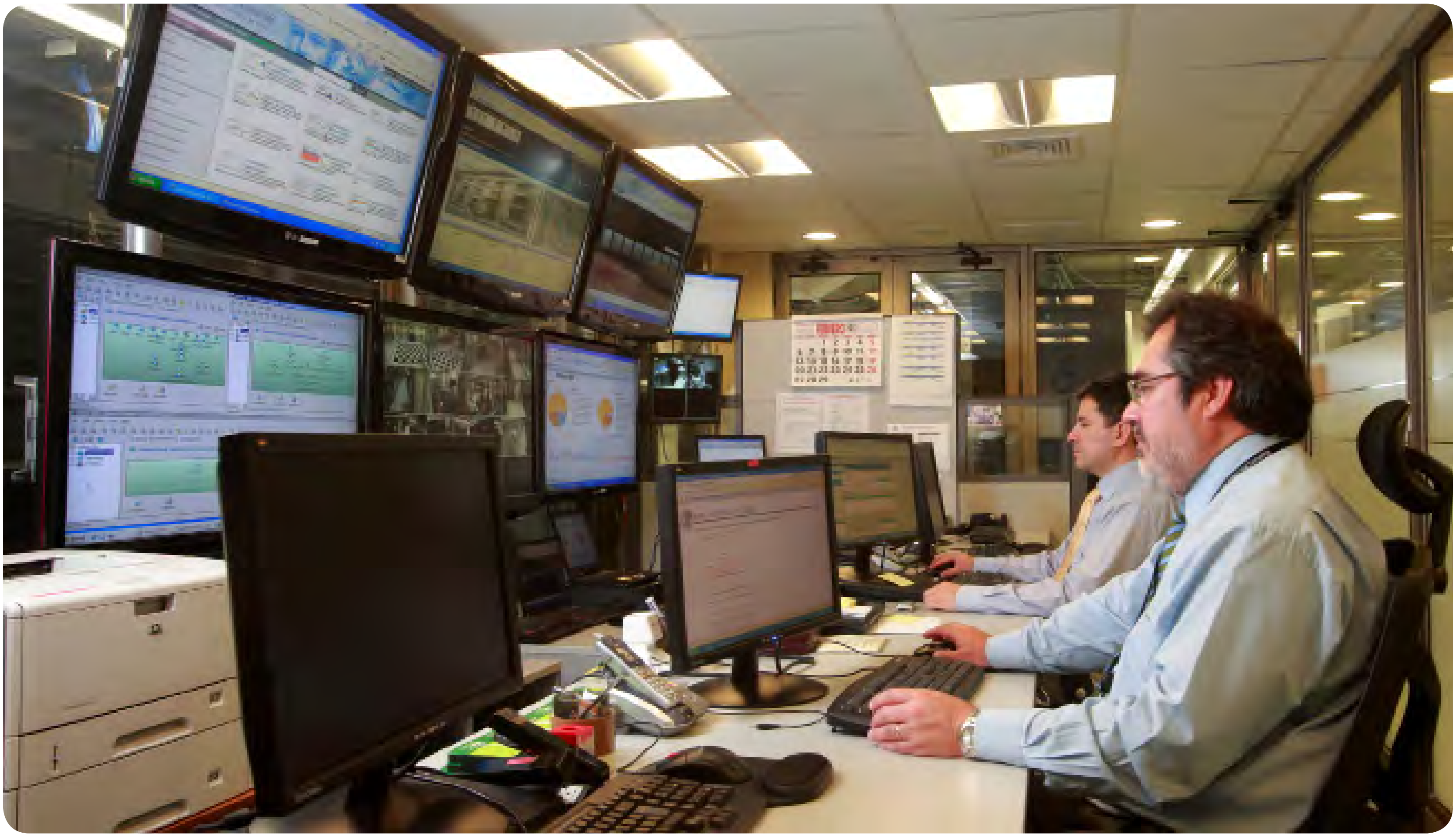
The Bank organizes these meetings in association with a regional university or business group. This offers a valuable opportunity to get closer to the community, business people and regional authorities, thereby promoting direct dialogue and greater mutual awareness between the Bank and different economic sectors in each region of the country. Attendance at these events ranged from 80 to 250 people per event.

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

D.6 Cultural outreach

On Sunday, 29 May, the Central Bank participated in Chile's National Heritage Day for the eighth consecutive year. The event is organized by the government's Monument Committee, and for the day more than 50 cultural heritage buildings open their doors to the public. This year, the Governor and other senior authorities hosted 2,445 people, discussing the Central Bank's most important functions and providing details on the building and the cultural heritage objects. The visitors toured the Board Room, the Governor's Office and the exhibit "Money in Chile: Memoir of a nation." This was the last day that the exhibit was open to the public, as construction then started for the future Central Bank of Chile Numismatic Museum.

New room for processing banknotes



New room for *Data Center*

The inauguration of the new family of banknotes continued with the unveiling of the new $1,000 bill on 16 March; this is the last of the new banknotes to be put into circulation. The inauguration included the installation of a historical exhibit on "Ignacio Carrera Pinto: The nation in his heart," which opened on 25 May. The exhibit featured informative texts on Carrera Pinto's life, as well as personal objects and historical pieces from the time of the War of the Pacific. This exhibit benefited from the collaboration of the Military School, the National Historical Museum, the Chilean Post Office and the newspaper *El Mercurio*. Alongside the historical exhibit was a photographic installation by noted Chilean photographer Nicolás Piwonka, which featured the landscapes and animals depicted on the back side of the new bills: the *Torres del Paine* National Park, *the Nalcas* National Reserve, the *La Campana* National Park, the Alberto de Agostini National Park and the *Salar de Surire* Natural Monument.

E. Miscellaneous

E.1 Technological changes

One of the main technological changes in 2011 was the move to a new external processing site. This undertaking required exhaustive planning and the participation of the entire staff of the Informatics Management, the units that use these services and a series of external suppliers. The new processing site features the technical and environmental conditions to fit the business needs of the Bank and to effectively confront contingencies that could affect the main processing site. Together with the implementation of improvements and testing in the alternate operations site, this will ensure continuity of the Bank's main activities in case it is not possible to access the corporate offices due to some contingency in the vicinity.

To continue improving and strengthening the operational continuity of its services, in 2011 the Bank implemented a series of equipment upgrade projects, including the technological updating of the Bank's internal networks (cable-based and wireless), the renovation of information security measures for network access and the modernization and consolidation of different server platforms in the central network. Progress was also made on the definition of a documentation methodology and standards for the implementation of an IT continuity plan in the event of a disaster, and a pilot exercise was carried out on one of the main business processes of the Bank: the payment system.

During the year, the Bank also incorporated a set of new technologies aimed at replacing internally developed tools with packages that represent market standards in the IT industry. These include tools for integrating applications (messenger services), tools for extracting and processing information from multiple data sources and tools for visualizing and analyzing large volumes of information (data warehousing and business intelligence).

Effie Awards
"New banknote campaign in Chile"

Finally, over the course of 2011 the Informatics Management participated actively in technological projects for other areas of the Bank. In particular, these projects included implementing the solution for improving document management and the administration of the Bank's institutional content; installing the technological infrastructure for launching the corporate enterprise resource planning (ERP) solution; implementing a solution for managing the corporate mail archives; updating the RTGS system, which incorporates new functions and will support the use of the new SWIFT messaging; and developing a data cube series for analysis and report generation, using business intelligence tools for different units within the Bank.

E.2 Appointment of independent auditors

The second paragraph of Section 76 of the Basic Constitutional Act stipulates that the Central Bank's financial statements must include an independent auditors' opinion and that the Board is to appoint the auditors from among those registered with the Superintendence of Banks and Financial Institutions. After issuing a call for tenders to contract financial statement auditing services for an initial period of three years, with a maximum of two contract renewals, and based on a report by the Audit and Compliance Committee, the Board appointed KPMG *Auditores y Consultores* Ltda. to provide professional auditing services for the period 2008–10, through Resolution 1406-01-080424. In 2011 the contract was renewed for the first time, taking into account compliance with the aforementioned conditions.

E.3 Banknotes and coins

As of December 2011, there were 668.6 million individual banknotes in circulation, an increase of 11.3% relative to year-end 2010 (600.7 million). The total number of coins grew 6.7% in the year, to 10.38 billion.

To meet growing public demand, in 2011, the Bank contracted the printing of 735 million new banknotes, as follows: 69 million new $20,000 bills; 498 million new $10,000 bills; 57 million new $5,000 bills; 49 million new $2,000 bills; and 62 million new $1,000 bills. With regard to coins, the Bank contracted the minting of 34 million $500 coins; 197 million $100 coins; 37 million $50 coins; 883 million $10 coins; 177 million $5 coins; and 226 million $1 coins. The banknotes and coins issued by the Bank in 2011 were produced in Sweden, Australia and Chile.

The Bank continued its training program to help the community become familiar with the banknotes in circulation and their security recognition features. In 2011 the Bank held 57 training sessions in Santiago and other regions of the country, 18 of which took place in six regional cities. These workshops trained 2,126 commercial bank tellers and 778 retail cashiers. About 68,772 leaflets and 18,600 posters on banknote security recognition were distributed to banks, stores, the investigative police and cashier training institutes.

The new banknote campaign, which ended in the first half of 2011, achieved the objective of communicating the launch of the new banknotes to the entire community. In particular, the television campaign reached 79.2% of the public. The new banknote campaign was submitted to the Effie Awards for effective marketing, and was awarded first place in the relaunch category.

E.4 International relations activities

In 2011, the Central Bank continued to promote Chile's international integration, through both its regular international activities and a wide range of additional activities. The former included the participation of authorities and executives in the bimonthly and annual meetings of the Bank for International Settlements (BIS) and the International Monetary Fund (IMF); the annual meeting of the Inter-American Development Bank (IDB); the meetings of central bank governors of *Mercosur* and associated countries (held in Santiago on 5 August 2011); the Cemla governor meetings; the spring and annual meetings of the Institute of International Finance (IIF); and visits by authorities and senior executives to other central banks. There were also the preparatory visit for the IMF Article IV mission (January) and the IMF Article IV mission itself (June–July).

The additional activities in which the Bank participated included international seminars and meetings held in Santiago, visits from high-ranking foreign authorities, visits from technical staff from other central banks and governments, and special missions from international organizations. The first group (seminars and meetings) included the seminar on Monetary Policy and Central Banking in the Post-Crisis Environment, organized jointly with the Global Interdependence Center (January); the meeting of the FSB Analytical Group on Vulnerabilities, organized by the Financial Policy Division (February); the workshop on the House Price Index and Related Indicators, organized by the Financial Stability Management (April); the executive meeting of the Irving Fisher Committee, organized by the Statistical Information Management (April); the workshop on Theoretical Questions around the Economic Crisis, organized jointly with the Center for Mathematical Modeling of the University of Chile (May); the presentation in Chile of the Regional Economic Outlook by the IMF (May); and the fourth summit of central bank governors, whose theme was Central Banking Challenges in the Post-Crisis World (November).

Visits from foreign authorities featured the President of the Federal Reserve Bank of Philadelphia, Mr. Charles Plosser (January); the Secretary General of the OECD, Mr. Ángel Gurría (April); and the governor of the Central Bank of Poland, Mr. Marek Belka (May).

The Bank also received a number of technical visits in 2011, including delegations from Bolivia (March), Papua New Guinea (July), Paraguay (August) and Hong Kong (December).

Special missions in the year included visits from the World Bank (May), ROSC (March) and the OECD (October). There was also an update to the Financial Sector Assessment Program (FSAP), which had last been carried out in 2004. The FSAP visit comprised a team of experts from the World Bank, the IMF and outside specialists, who analyzed the stability of the financial system, identified strengths and areas for improvement and made specific recommendations for increasing the soundness of the Chilean financial system.

The Governor of the Bank was elected co-chair of the Financial Stability Board's Regional Consultative Group for the Americas (RCGA) for a period of two years starting in July 2011. As co-chair, he joined Agustín Carstens, Governor of the Bank de México, in presiding over the group's first meeting, held in Mexico City in December. Mr. José De Gregorio was also appointed President of the BIS Consultative Council for the Americas, a position he held from January to December.

During the year, Governor De Gregorio represented Cono Sur (Argentina, Bolivia, Paraguay, Peru and Uruguay) in the regional seat on the IMF's International Monetary and Financial Committee (IMFC) at the IMF's Spring and Annual Meetings.

Finally, in 2011, representatives of the Central Bank of Chile participated in a broad range of world and regional forums, such as the OECD, the Union of South American Nations (*Unasur*) and the Southern Common Market (*Mercosur*). At the OECD, Bank representatives attended Economic Policy Committee meetings, as well as the Short-Term Economic Prospects and Working Party 1 meetings. Work with *Unasur* centered on the working groups on financial integration; international reserve management; and the use of local currencies and payment systems. With regard to *Mercosur* , in addition to the regular meetings of central bank governors, the Bank participated in six teleconferences with member countries and associates. In September and November, Board Member Enrique Marshall gave presentations in Bolivia and Ecuador, respectively, to discuss the Bank's experience with financial development issues relevant for Latin America.

E.5 Transparency Law

In 2011, the Bank received 54 applications for access to information. All the applications were addressed in less time than stipulated in Law 20,285 on Access to Public Information (which allows 20 business days to respond to a request). None of the cases required an extension of this period (table II.4).

Table II.4

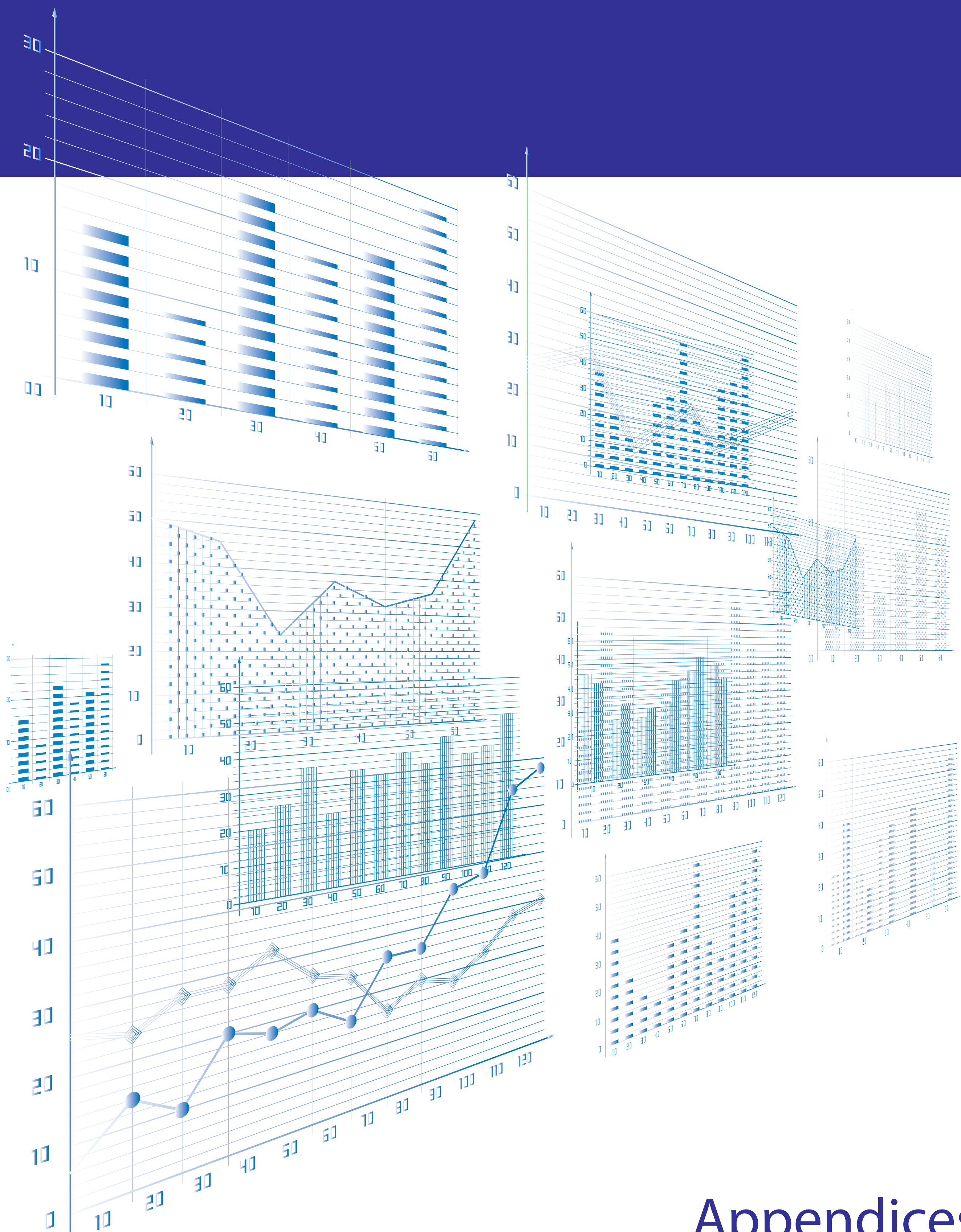
Applications received in the framework of the Transparency Law

Month	Applications received	Web	Physical
January	4	3	1
February	5	2	3
March	1	1	0
April	6	1	5
May	11	2	9
June	11	6	5
July	5	2	3
August	5	3	2
September	0	0	0
October	2		2
November	3	1	2
December	1		1
Total	**54**	**21**	**33**

Responses sent in the framework of the Transparency Law	Quantity
Applications with responses sent	47
Applications with response pending	0
Applications that do not comply with Article 12	1
Applications referred to other organizations	6
Applications waived	0
Total	**54**

Time for response

Type of application	Average business days
Responses that provided the requested information	8
Responses in which the requested information is not in the Bank's domain	5
Responses that denied the requested information	16
Responses that provided some of the requested information	11
Responses in which the requested information is not available in the Bank	6



Appendices

Appendix I

Press releases on monetary policy meetings in 2011

13 January

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.25% in annual terms.

Internationally, the developed economies continue to record modest growth, in contrast with the dynamic emerging economies. Concerns persist about the financial risk of some European economies. The difficult recovery in the developed economies continues to be an important risk factor for the emerging economies. International commodity prices, including food and energy, continue to rise, which is having an effect on inflation in many economies.

Domestically, the output, demand and employment data continue to evolve positively, in line with forecasts in the last *Monetary Policy Report*. Core inflation measures remain low. The peso has depreciated since the announcement of the foreign exchange purchase program. Private inflation expectations show an increase in the monetary policy horizon, but the rise is sharpest in the short-term measures due to specific price increases.

The Board considers that it will be necessary to continue reducing the monetary stimulus in the coming months, in line with forecasts in the last *Monetary Policy Report*, although the rate of withdrawal will depend on the evolution of internal and external macroeconomic conditions. At the same time, it will continue to be flexible in its use of policy in order to keep forecast inflation at 3% in the policy horizon.

17 February

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 at 3.50% in annual terms.

Internationally, the growth outlook has improved for the developed economies, and the emerging economies remain dynamic. Concerns persist about the financial risk of some European economies. The difficult recovery in the developed economies continues to be an important risk factor for the emerging economies. International commodity prices, especially food goods, continue to rise. At the global level, real and expected inflation have increased, and a growing number of economies have been easing the monetary stimulus.

Domestically, the output, demand and employment data continue to evolve positively, in line with forecasts in the last *Monetary Policy Report*. Inflation has behaved as expected, and core inflation measures remain low. Private inflation expectations show an increase, especially in the short term. The peso has appreciated since the last meeting.

The Board considers that it will be necessary to continue reducing the monetary stimulus in the coming months, in line with forecasts in the last *Monetary Policy Report,* although the rate of withdrawal will depend on the evolution of internal and external macroeconomic conditions. At the same time, it will continue to be flexible in its use of policy in order to keep forecast inflation at 3% in the policy horizon.

17 March

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 at 4.00% in annual terms.

Internationally, the political tensions in the Arab countries and the earthquake in Japan have caused greater uncertainty and volatility in the financial and commodity markets. Although concerns persist about the financial risk of some European economies, the developed economies continue to evolve favorably, and the emerging economies remain dynamic. At the global level, real and expected inflation have increased, and a growing number of economies have reduced the monetary stimulus.

Domestically, the output, demand and employment data continue to evolve positively. Inflation has behaved as expected, and core inflation measures remain low. However, the rise in international commodity prices, especially oil, has caused private inflation expectations to increase in the short term.

The Board considers that it will be necessary to continue reducing the monetary stimulus in the coming months, although the rate of withdrawal will depend on the evolution of internal and external macroeconomic conditions. At the same time, it will continue to be flexible in its use of policy in order to keep forecast inflation at 3% in the policy horizon.

12 April

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 at 4.50% in annual terms.

Internationally, oil and food prices have remained high. The recent developments in Portugal have not undermined confidence in the international markets, but concerns persist about the financial risk in Europe. The developed economies continue to evolve favorably, and the emerging economies remain dynamic. At the global level, real and expected inflation have increased, and a growing number of economies have reduced the monetary stimulus.

Domestically, the output, demand and employment data continue to evolve dynamically. Inflation has behaved as expected, and core inflation measures remain low. However, the rise in international commodity prices, especially oil, has kept private inflation expectations high in the short term.

The Board considers that it will be necessary to continue reducing the monetary stimulus in the coming months, although the rate of withdrawal will depend on the evolution of internal and external macroeconomic conditions. At the same time, it will continue to be flexible in its use of policy in order to keep forecast inflation at 3% in the policy horizon.

12 May

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 at 5.00% in annual terms.

Internationally, commodity prices have reversed substantially, but they remain at high levels. Some indicators point to a slowdown in the growth rate of the developed economies, while concerns persist about the financial risk in Europe. At the global level, inflation has continued to increase, and a growing number of economies have reduced the monetary stimulus.

Domestically, the output, demand and labor market data reflect the dynamic economy. Annual CPI inflation has been stable at around 3%, and core inflation measures remain low. Private inflation expectations have turned down, but they are still above the target.

The Board considers that additional increases in the monetary policy rate will be necessary, although the magnitude and timing will depend on the evolution of internal and external macroeconomic conditions. At the same time, it will continue to be flexible in its use of policy in order to keep forecast inflation at 3% in the policy horizon.

14 June

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 at 5.25% in annual terms.

Internationally, the growth rate of the developed economies has slowed, and concerns about the financial risk in Europe have accentuated. Risk spreads have risen on a range of assets. At the global level, inflation has continued to increase, but other indicators point to an easing in inflation expectations. Expectations on the normalization of interest rates in the advanced economies have been pushed back. At the same time, several emerging economies have continued to reduce their monetary stimulus. Commodity prices remain at high levels.

Domestically, the output, demand and labor market data reflect the dynamic economy.

Annual CPI inflation has been stable at around 3%, and core inflation measures remain low. Private inflation expectations have fallen, but some are still above the target.

The Board considers that, under the most probable scenario, additional increases in the monetary policy rate will be necessary, although the timing will depend on the evolution of internal and external macroeconomic conditions. At the same time, it will continue to be flexible in its use of policy in order to keep forecast inflation at 3% in the policy horizon.

14 July

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

Internationally, output indicators confirm that the growth rate has slowed in the United States and Europe, and concerns have heightened about the fiscal and financial risks of these economies, especially in the euro area. Risk spreads have risen on a range of assets. At the global level, inflation expectations have lessened in the medium term. The outlook for the normalization of interest rates in the advanced economies has been pushed back again. At the same time, several emerging economies have continued to reduce their monetary stimulus. Commodity prices remain high.

Domestically, the output, demand and labor market data are dynamic, but show signs of easing in line with the baseline scenario described in the last *Monetary Policy Report*. Annual CPI inflation has been stable at around 3%, and core inflation measures remain low. Private inflation expectations have fallen, but some are still above the target.

The Board considers that, under the most probable scenario, additional increases in the monetary policy rate will be necessary, although the timing will depend on the evolution of internal and external macroeconomic conditions. At the same time, it will continue to be flexible in its use of policy in order to keep forecast inflation at 3% in the policy horizon.

18 August

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

Internationally, output indicators point to a slow growth rate in the United States and Europe, and the consensus forecasts for these economies have been adjusted downward. Concerns have heightened about the fiscal and financial risks of these economies, especially in the euro area. This has caused a generalized increase in financial volatility and greater risk aversion, with a significant adjustment in asset prices. Copper and oil prices have fallen substantially in recent weeks. At the global level, inflation expectations have lessened in the medium term, and the outlook for the normalization of interest rates in the advanced economies has been pushed back again.

Domestically, the output, demand and labor market data are dynamic, with signs of slowing at the margin. However, in the case of output and demand, this slowdown has been less than projected in the baseline scenario of the June *Monetary Policy Report*. Annual CPI inflation has been stable at around 3%, and core inflation measures remain low. Private inflation expectations have fallen significantly and are now around the target.

The Board reasserts its commitment to a flexible monetary policy conduct, in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of internal and external macroeconomic conditions for the inflation outlook.

15 September

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

Internationally, output indicators point to a slow growth rate in the United States and Europe, and the consensus forecasts for these economies continue to be adjusted downward. The fiscal and financial risks of the euro area have increased, which has been reflected in considerable financial volatility and high risk spreads in the international markets. However, commodity prices remain high. The outlook for the normalization of interest rates in the advanced economies has been pushed back again, while the emerging economies have suspended their rate hikes.

Domestically, output and demand data show signs of moderating, in line with forecasts in the baseline scenario of the *Monetary Policy Report*. Labor market conditions remain tight, and nominal wages have increased. Annual CPI inflation has been stable at around 3%, and core inflation measures remain low. Private inflation expectations are around the target.

The Board reasserts its commitment to a flexible monetary policy conduct, in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of internal and external macroeconomic conditions for the inflation outlook.

13 October

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

Internationally, output indicators reveal a slow growth rate in the United States and Europe. Consensus forecasts for these economies continue to be adjusted downward, and the forecasts for the emerging economies have also been reduced. The fiscal and financial risks of the euro area remain high, and there is uncertainty about how this situation will be resolved. Financial volatility is high, and external financial conditions have tightened. International commodity prices have fallen, especially in the case of copper and other metals. The central banks of the main economies have adopted additional measures to make their monetary policy more expansive, while the majority of the emerging economies have suspended their rate hikes and, in some cases, implemented cuts.

Domestically, output and demand data show signs of moderating. In the case of output, the slowdown is somewhat sharper than projected in the baseline scenario of the *Monetary Policy Report,* whereas the opposite is the case with demand. Labor market conditions remain tight. Annual CPI inflation has been stable at around 3%, and core inflation measures remain low. Private inflation expectations are around the target.

The deepening of the trends in the international economy could contribute to a more adverse external environment than considered in the baseline scenario of the *Monetary Policy Report*, with possible consequences for growth and inflation in Chile, as well as for the orientation of monetary policy.

The Board reasserts its commitment to a flexible monetary policy conduct, in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of internal and external macroeconomic conditions for the inflation outlook.

15 November

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

Internationally, output indicators confirm the slow growth rate in the advanced economies. Consensus growth forecasts for the euro area continue to be adjusted downward, while they held stable for the United States. Despite the announcements, the fiscal and financial risks of the European economies remain very high, and there is still uncertainty about how this situation will be resolved. In other regions, financial conditions have improved slightly, although financial volatility remains high. International copper and oil prices have increased.

Domestically, output data have evolved in line with the baseline scenario of the *Monetary Policy Report*, while domestic demand is somewhat more dynamic. Labor market conditions remain tight. Total inflation has been somewhat higher than expected due to the impact of fuel and food. Core inflation measures remain low. Private inflation expectations are around the target.

The persistence of problems in the advanced economies could contribute to a more adverse external environment than considered in the baseline scenario of the *Monetary Policy Report*, with possible consequences for growth and inflation in Chile, as well as for the orientation of monetary policy.

The Board reasserts its commitment to a flexible monetary policy conduct, in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of internal and external macroeconomic conditions for the inflation outlook.

13 December

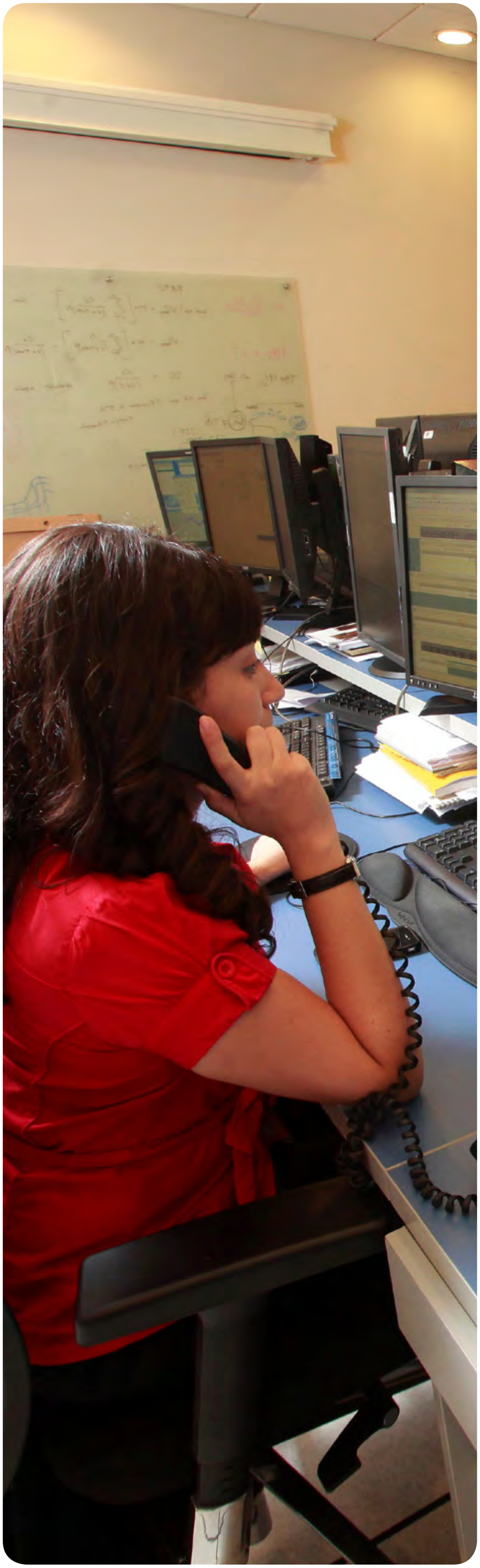
At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

Internationally, the advanced economies continue to record a slow growth rate. Consensus growth forecasts for the euro area and other regions continue to be adjusted downward, while the forecasts for the United States have not changed. Despite the announcements, there is still uncertainty about how the situation in the European economies will be resolved, as the fiscal and financial risks remain very high. International financial conditions remain tight.

Domestically, economic activity has been lower than forecast, while domestic demand continues to be dynamic. Labor market conditions remain tight. In the financial market, conditions have tightened somewhat as a result of the situation in the global markets. Total inflation has been somewhat higher than expected due to the impact of fuel and food. Core inflation measures remain low, and inflation expectations are around the target.

The last few months have seen the evolution of a more adverse external environment than previously projected, which will probably have consequences for growth and inflation in Chile, as well as for the orientation of monetary policy.

The Board reasserts its commitment to a flexible monetary policy conduct, in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of internal and external macroeconomic conditions for the inflation outlook.



Appendix II

Press releases on foreign exchange and financial measures in 2011

3 January

The Board of the Central Bank of Chile has decided to initiate a foreign exchange purchase program to strengthen its international liquidity position. The objective of this initiative is to bring the Bank's international reserves to a level comparable to other economies that are similar to Chile. This intervention should also soften the effects of the exchange rate adjustment that our economy has been experiencing.

The risks in the external scenario are high. The international economy is in an unusual situation, characterized by high commodity prices, low interest rates, a slow recovery in developed economies and a depreciation of the U.S. dollar. The emerging economies are growing strongly, and their currencies are appreciating. The key risks include an escalation of the financial tensions in Europe, the maintenance of high unemployment rates in the developed economies and more severe adjustments in some emerging economies that are facing inflationary pressures. The availability of additional reserves will help better face the possibility of a significant deterioration of the external environment.

The forex markets are stressed, and currencies are adjusting asymmetrically. There is also a risk that the decoupling of growth in the advanced and emerging economies could persist longer than expected, in which case the exchange rate pressures could intensify. The effects of this measure, while transitory, should provide room to facilitate the real adjustments in the national economy.

To implement this program, the Central Bank of Chile will accumulate additional international reserves of US$12.00 billion in 2011, via the periodic purchase of foreign currency, starting on 5 January and continuing through December 2011. This program will bring the Central Bank's international liquidity position to the equivalent of 17% of GDP.

The monetary effects of this measure will be offset in order to maintain a liquidity provision in pesos in the market that is consistent with the current monetary policy rate. This sterilization will be achieved through a combination of short-term liquidity instruments and long-term debt issues, according to an annual calendar that will be released in due time. The first stage of this program, effective from 5 January to 9 February, will consist of daily forex purchases of US$50 million, through competitive tenders. The Central Bank of Chile will announce the next phases in advance, with possible revisions based on market conditions.

The accumulation of international reserves carries important financial costs, associated with the differential between the return on investment and the cost of financing. The proposed international reserve level is consistent with the long-term financial sustainability of the Central Bank, although the capital cushion is limited.

The Board of the Central Bank reasserts its commitment to conducting monetary policy based on an inflation target and floating exchange rate. For an economy like Chile, which could face significant changes in its external financial conditions and its terms of trade, exchange rate flexibility is an essential ingredient for macroeconomic and financial stability. Rigid exchange rate regimes can have undesirable costs in terms of the volatility of growth, credit, interest rates and inflation. In a volatile environment such as the last few years, the floating exchange rate and inflation-targeting regime has proven its benefits in supporting a more stable evolution of the Chilean economy. At the same time, our floating regime allows for interventions in exceptional circumstances, such as the intervention announced in this press release.

4 January

In a special session held on 3 January, the Board of the Central Bank of Chile approved the annual auction calendar for 2011. This program considered the usual debt rollover for the current year, for US$1.0 billion, as well as the monetary sterilization of the foreign exchange purchase program announced yesterday, for US$12.0 billion.

The foreign exchange purchase program will be sterilized through the issue of short-term instruments and the use of facilities for a total of US$2.0 billion dollars, together with bond issues in pesos and UFs (*unidad de fomento*, an inflation-indexed unit of account) for US$10.0 billion. The structure of this plan has been designed to soften the effects of the measure on prices in the debt market.

In the first weeks, the monetary sterilization of the foreign exchange purchases will be achieved exclusively through the issue of Central Bank discountable promissory notes (PDBC) and the use of liquidity facilities or deposits. Starting in February, the Bank will issue bonds all across the yield curve, while also continuing to use the previous instruments.

The amount of bonds to be issued from February to December breaks down as follows:

(a) Two-year peso-denominated bonds (BCP-2): Ch$230 billion;

(b) Five-year peso-denominated bonds (BCP-5): Ch$700 billion;

(c) Ten-year peso-denominated bonds (BCP-10): Ch$470 billion;

(d) Two-year UF-denominated bonds (BCU-2): UF 22 million;

(e) Five-year UF-denominated bonds (BCU-5): UF 55 million;

(f) Ten-year UF-denominated bonds (BCU-10): UF 44 million;

(g) Twenty-year UF-denominated bonds (BCU-20): UF 28 million;

(h) Thirty-year UF-denominated bonds (BCU-30): UF 28 million.

These bonds will be issued in accordance with the provisions of Article 104 of the Income Tax Law.

This auction program will be subject to change in the case of significant changes in market conditions. If that occurs, the changes will be announced in due time.

10 March

The Board of the Central Bank of Chile decided today to broaden the universe of eligible overseas or nonresident entities that are authorized to issue local-currency bonds in the domestic market, denominated either in pesos or in an indexed unit of account applied to the peso.

Previously, the only entities that could issue these bonds were corporate issuers that traded their securities on stock exchanges authorized by the Risk Rating Commission. This requirement has been lifted.

New criteria were established for this type of issue. In general terms, to qualify for authorization, the issuers must be legally incorporated in countries (i) whose sovereign debt has at least three risk ratings and (ii) that are members of the Financial Action Task Force (FATF) or an equivalent regional inter-governmental organization that works against money laundering and financial terrorism.

Authorized issuers must also comply with requirements established by the Superintendence of Securities and Insurance (SVS) and are subject to the domestic securities market legislation. The public offer of these instruments will be open only to qualified investors.

The aforementioned authorization is also extended to foreign States and international or supranational organizations that, in each case, meet the requirements established by the SVS. At the same time, the SVS may decide to exempt such an entity from the registration requirement applied to other entities.

These new criteria have been established through a modification of Resolution 1282-02, adopted by the Board of the Central Bank of Chile in accordance with the provisions of Article 42 of its Basic Constitutional Act. In making this decision, the Board has fully considered the general orientation of the Government's economic policy, which aims to promote greater financial integration of the Chilean economy.

In this context, the Board reasserts its commitment to institutional initiatives that are aimed at increasing the depth and liquidity of the capital market and that are consistent with the Bank's objective of safeguarding the stability of the currency and the normal operation of internal and external payments.

The Resolution that was adopted today (thereby modifying the aforementioned Resolution of 2006) will be published in the *Official Gazette* on Friday, 11 March, and will enter into effect on 1 April 2011.

22 December

The Board of the Central Bank of Chile announces that as of today, it will implement a temporary program to facilitate the financial system's liquidity management in pesos, in response to the increased friction in the money market recently.

The Bank will offer a floating-rate repo program, for terms of up to 91 days. This temporary program will be offered on Tuesdays and Thursdays of each week through 7 February 2012, the last Tuesday in the January 2012 reserve maintenance period. The program will start today.

The financial conditions of each operation will be announced in due time.

Appendix III

Main measures taken by the Central Bank of Chile in 2011

January

3
The Board of the Central Bank of Chile decided to intervene in the foreign exchange market to strengthen the Bank's international liquidity position, with the aim of bringing its international reserves up to a level comparable to other economies similar to Chile and softening the effects of the exchange rate adjustment that the national economy has been experiencing. The increase in international reserves, which was set at US$12.00 billion, will be achieved through regular foreign exchange purchases starting on 5 January and continuing through the end of December 2011. The conditions were defined for the first stage of the program, from 5 January to 9 February. The monetary effects of this measure will be sterilized so as to maintain a liquidity provision in pesos in the market that is consistent with the current monetary policy rate, through the issue of a range of short-term liquidity instruments and long-term debt.

On adopting this measure, the Board acknowledges that the accumulation of international reserves carries important financial costs, associated with the differential between the return on investment and the cost of financing. Nevertheless, the proposed international reserve level is consistent with the long-term financial sustainability of the Central Bank, although the capital cushion is limited.

The Board of the Central Bank reasserts its commitment to conducting monetary policy based on an inflation target and a floating exchange rate. Given the recent level of external volatility, the Chilean economy could face significant changes in its external financial conditions and its terms of trade. Exchange rate flexibility is an essential ingredient for macroeconomic and financial stability, as it avoids the undesirable costs of rigid exchange rate regimes in terms of the volatility of growth, credit, interest rates and inflation.

The bidding terms applicable to the foreign exchange purchase program were announced in Administrative Directive 532 to Banks, on 4 January 2011.

4
In a special session held on 3 January, the Board approved the annual auction calendar for 2011. This program considered the usual debt rollover for the current year, for US$1.0 billion, as well as the monetary sterilization

of the foreign exchange purchase program announced yesterday, for US$12.0 billion.

The amount of bonds to be issued from February to December breaks down as follows:

(a) Two-year peso-denominated bonds (BCP-2): Ch$230 billion;
(b) Five-year peso-denominated bonds (BCP-5): Ch$700 billion;
(c) Ten-year peso-denominated bonds (BCP-10): Ch$470 billion;
(d) Two-year UF-denominated bonds (BCU-2): UF 22 million;
(e) Five-year UF-denominated bonds (BCU-5): UF 55 million;
(f) Ten-year UF-denominated bonds (BCU-10): UF 44 million;
(g) Twenty-year UF-denominated bonds (BCU-20): UF 28 million;
(h) Thirty-year UF-denominated bonds (BCU-30): UF 28 million.

These bonds will be issued in accordance with the provisions of Article 104 of the Income Tax Law.

This auction program will be subject to change in the case of significant changes in market conditions. If that occurs, the changes will be announced in due time.

5

By Resolution 1583-01-101230, published in the *Official Gazette* on 5 January 2011, the Board of the Central Bank of Chile authorized the use of the designs of Chile's legal currency for the purposes of public diffusion or utilization in partial reproductions, provided that said use complies with the general terms and conditions outlined in the authorization and with all other requirements established in the Operating Regulations of 18 January 2011. This permission was issued in accordance with the authority granted to the institution in its Basic Constitutional Act and as legal copyright holder of the designs.

This authorization covers public diffusion or utilization of the illustrations or images incorporated in these designs, provided it is solely for educational purposes and is tied to instructional programs established by the Ministry of Education; or when it involves activities that are strictly related to the cultural or informational diffusion of the characteristics of Chile's legal currency, including institutional activities organized by the Bank itself or by public welfare organizations.

This authorization excludes the total or partial reproduction of banknotes in legal circulation for the purposes of publicity or marketing, as sanctioned by Decree Law 726 of 1925, which covers any and all uses of the banknote images in articles destined for sale or souvenirs. Also excluded are any reproductions that could be confused with a real bill or coin, which remain subject to the penal sanctions outlined in the legislation governing counterfeiting; any reproductions that place the banknote in an offensive context or that could discredit or damage the image of or confidence in the legal currency; or any use that goes against public order, morality or the interests of the State.

10
By Board Resolution 1585-03-110106, the brokerage firm IM Trust S.A. was authorized to operate in the formal exchange market as a regulated nonbank entity undertaking foreign exchange operations, in accordance with the stipulations of Article 41 of the legislation governing the banking system and Chapter III of the *Compendium of Foreign Exchange Regulations*.

13
By Board Resolution 1586-02-110113, the Central Bank of Chile accepted the role of fiscal agent granted by Ministry of Finance Executive Decree 1602, of 23 December 2010, published in the *Official Gazette* on 11 January 2011, to represent and act in the name and on the account of the Treasurer in the placement and administration of bonds that will be issued by the Treasury, as well as the reopening of a series of previously issued Treasury bonds. The directive includes the service of the bonds at maturity.

13
At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.25% in annual terms.

20
The Operating Regulations for the application of Resolution 1583-01-101230 were published in the *Official Gazette,* establishing the general criteria for the authorization of the use of the designs of Chile's legal currency, granted by the Bank in its role of copyright holder of the designs, for the purposes of public utilization.

February

17
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 at 3.50% in annual terms.

24
By Resolution 1593E-01-110224, published in the *Official Gazette* on 28 February 2011, the Board of the Central Bank of Chile accepted the changes to the performance guidelines, submitted by the Minister of Finance through Official Letter 215 of 23 February 2011, in relation to the annual compensation to which the Bank is entitled for its services as fiscal agent in the administration of resources in the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF), as established in the Law on Fiscal Accountability.

March

10
By Resolution 1595-01-110310, published in the *Official Gazette* on 11 March 2011, in the exercise of its authority on foreign exchange issues as provided in the last paragraph of Article 42 of its Basic Constitutional Act and in accordance with the general orientation of the government's economic policy, the Board modified Resolution 1282-02-060727

to extend the authorization for foreign issuers to issue peso-denominated bonds in the local securities market, effective on 1 April 2011. Both the issuing corporation and the issued peso-denominated bonds, which use the legal national currency and are expressed either in that currency or in some unit of indexation, must be listed in the Securities Registry as established in Title 11 of Law 18,045 on the securities market.

Previously, the only entities that could issue these bonds were corporate issuers eligible to trade their securities on stock exchanges authorized by the Risk Rating Commission.

The extension allows the issue of these peso-denominated bonds, as well as their acquisition by residents of Chile, to the extent that the issuers satisfy the following conditions:

(a) They are legally incorporated in foreign states or jurisdictions that are members of the Financial Action Task Force (FATF) or an equivalent regional inter-governmental organization, such as the Financial Action Task Force of South America, and that are not classified as non-cooperative territories in terms of money laundering and financial terrorism by the FATF and do not appear on the list of offshore financial centers or tax havens that is periodically updated by the Organization for Economic Cooperation and Development (OECD).

(b) They are legally incorporated in countries (i) whose sovereign debt has at least three risk ratings by agencies that comply with the stipulations of Resolution 1595-01; (ii) that are members of the Financial Action Task Force (FATF) or an equivalent regional inter-governmental organization; and (iii) that are not classified as non-cooperative territories in terms of money laundering and financial terrorism by the FATF or tax havens by the OECD.

This authorization is further extended to international or supranational organizations in which at least two-thirds of their member States fully comply with the stipulation of points (a) and (b) of the previous paragraph. Such organizations are not exempt from the requirement that the issuer must be listed in the Securities Registry, as indicated above.

This authorization further requires that the debt securities issued in the local market by corporations or by international or supranational organizations must, at the very least, have an international risk rating or, in the absence thereof, be rated by two risk rating agencies governed by Law 18,045.

This authorization further extends to foreign States, as well as to international or supranational organizations, that comply with the requirements established in accordance with the domestic securities market legislation, for issuing and placing these bonds on the local market, provided that they are listed in the Securities Registry or have been exempted from the listing requirement by a competent oversight authority. To qualify to issue bonds, such organizations must comply with the requirements outlined in points (a) and (b) above, in addition to the requirement of having at least three risk ratings, according to the terms of the Resolution in question.

Section 3 of the Resolution establishes reporting requirements for these bond issues, which are applicable to both the foreign issuers and the institutional investors that acquire the bonds.

Finally, it was expressly stated that any and all foreign exchange operations that are carried out or implemented by the issuers and that originate from or are caused by the bond issue, the bond service or the resources obtained for the purposes of investment, capital contributions, loans or deposits—whether made or granted by the foreign issuers or carried out by the purchasers of the securities—will be subject to the foreign exchange regulations in force on the date the foreign exchange transaction is conducted.

17

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 at 4.00% in annual terms.

21

By Board Resolution 1597E, adopted in the Extraordinary Board Meeting held on 21 March 2011, the Central Bank of Chile announced that in accordance with the power vested in it by Article 31, section (b), of Law 19,396 on the new treatment of subordinated debt, the Bank, as creditor, had decided to receive a cash payment for the percentage of earnings from the *Banco de Chile*'s 2010 accounting period, owed in the form of subordinated debt. Consequently, at a given time, the *Banco de Chile* must transfer to the Central Bank the payment of its annual installment of approximately Ch$122.38 billion, or 35.33% of that banking institution's earnings in 2010.

24

By Board Resolution 1598-02-110324, published in the *Official Gazette* on 28 March 2011, the Central Bank of Chile modified appendix 1 of chapter IV.B.8 of the *Compendium of Financial Regulations,* in order to incorporate the Unemployment Fund Management Corporation, governed by Law 19,728, into the group of institutions authorized to operate in the primary market for debt instruments issued by the Central Bank.

April

12

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 at 4.50% in annual terms.

21

By Board Resolution 1604-01-110421, the Central Bank of Chile accepted the role of fiscal agent granted by Ministry of Finance Executive Decree 19, of 10 January 2011, to represent and act in the name and on the account of the Treasurer in the administration of the Strategic Contingency Fund (SCF). The associated duties are outlined in the SCF Fiscal Agency Decree and in the specific instructions included in the performance guidelines proposed by the Ministry of Finance in Official Letters 435 and 437, both of 12 April 2011.

21

By Board Resolution 1604-02-110421 the Central Bank Board accepted new performance guidelines submitted by the Minister of Finance through Official Letters 432 and 433, both of 12 April 2011, in relation to the management of the resources in the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF), which involve a passive management of sovereign funds. Through this same Resolution, the Board agreed to resume the process of selecting external administrators for the PRF resources, as requested by the Ministry of Finance through Official Letter 436 of 12 April 2011.

May

12

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 at 5.00% in annual terms.

13

By Board Resolution 1609E, adopted in the Special Board Meeting held on 13 May 2011, in the terms of Article 30 of Law 19,396, the Central Bank set the market price applicable for the sale of the preferred stock rights that will be offered by the *Banco de Chile*. These options correspond to shares belonging to the firm SAOS S.A., which were signed over to the Central Bank of Chile as collateral for subordinated debt.

The subscription of cash shares encompassed in the above options corresponds to a capital increase through the issue of cash shares, as decided at the Extraordinary Shareholders' Meeting of the *Banco de Chile* held on 20 January 2011.

June

9

By Board Resolution 1615-01-110609, the Board renewed the appointment of Mr. Luis Bates Hidalgo to the Audit and Compliance Committee of the Central Bank of Chile, for a period of three years, and also named him President of the Committee for the same period.

14

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 at 5.25% in annual terms.

16

By Board Resolution 1617E, adopted in the Special Board Meeting held on 16 June 2011, the Central Bank of Chile announced the decision to sell on the Securities Exchange the remaining stock subscription rights from the capital increase adopted in the Extraordinary

Shareholders' Meeting of the *Banco de Chile* held on 20 January 2011, which were not sold in the preferred offer period.

These stock options correspond to *Banco de Chile* shares belonging to the firm *SAOS S.A.,* which were signed over to the Central Bank of Chile as collateral for subordinated debt.

24

The Central Bank of Chile reported that, as of 7 July 2011, the Financial Brokers Survey (FBS) will include a question on expectations for the monetary policy rate (MPR) three months out. This question replaces a similar question on the MPR eighteen months out.

By Board Resolution 1619E-01-110624, the Central Bank of Chile announced the decision to award the remaining *Banco de Chile* stock subscription rights belonging to *SAOS S.A.*, according to the conditions on stock market sales established in Resolution 1617E-01-110616, in the terms stipulated in section (b) of Article 30 of Law 19,396.

July

4

Resolutions 1602E-01-110412 and 1621-01-110630 were published in the *Official Gazette*, outlining the procedures for exchanging Chilean banknotes that have been damaged and rendered unusable by deterrent technologies (dye packs), originating from bank automated teller machines (ATMs) and from security services offered by securities transport companies. These Resolutions replace Resolution 1432-03, of 28 August 2008, which applied to securities transport companies.

These Resolutions were adopted in response to the initiative reported to the Central Bank by the Ministry of the Interior and Public Safety, requiring the use of dye packs in designated bank ATMs, as a deterrent security mechanism aimed at reducing criminal actions involving the theft of cash from these machines.

13

The Central Bank of Chile approved the operating rules for the implementation of the aforementioned Regulations on exchanging Chilean banknotes that have been damaged through the use of deterrent technologies (dye packs), originating from bank automated teller machines (ATMs) and from security services offered by securities transport companies. These rules were published in the *Official Gazette* on 18 July 2011.

14

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

28

By Board Resolution 1625-05-110728, the Board modified the national accounts data provided by the Central Bank of Chile in the area of institutional accounts, in accordance with the provisions of Article 53 of its Basic Constitutional Act. To this end, Section III on Economic Activity and Expense in the Appendix of Resolution 1493-02-090806, published in the *Official Gazette* on 11 August 2009, was replaced, and the correction was published in the *Official Gazette* on 13 August 2009.

August

11
By Board Resolution 1627-02-110811, published in the *Official Gazette* on 17 August 2011, the Board appointed Mr. Pablo Furche Veloso to replace Mr. Patricio Gajardo Bórquez in the position of Substitute Representative for Mr. Juan Eduardo Chackiel Torres, before the National Commission to Investigate the Existence of Price Distortions in Import Markets, as stipulated in Article 9° of Law 18,525, whose revised, coordinated and systematized text was established by Ministry of Finance Statutory Decree 31, of 18 October 2004. At the same time, Mr. Claudio Sepúlveda Bravo was appointed Technical Secretary of the aforementioned Commission.

18
By Board Resolution 1628-02-110818, the Board accepted the modifications to the performance guidelines for the Strategic Contingency Fund (SCF), submitted by the Ministry of Finance through Official Letter 990, dated 22 July 2011. These modifications involve the administration of the SCF and are aimed at standardizing the guidelines for all the fiscal funds managed by the Central Bank in its role of fiscal agent.

18
By Board Resolution 1628-03-110818, the Board accepted the modifications to the performance guidelines for the ESSF and PRF funds, submitted by the Ministry of Finance through Official Letter 1051, dated 8 August 2011 and contained in Official Letters 432 and 433, respectively, dated 12 August 2011.

The changes allow a direct transfer of funds to open current accounts in the name of the Treasurer of Chile in the respective correspondent banks and address the possibility of temporarily holding new contributions to the indicated funds in the interest of liquidity management in the assets identified for this purpose in the guidelines.

18
At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

September

15
At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

October

06
By Board Resolution 1636-03-111006, the Board accepted the modifications to the performance guidelines submitted by the Ministry of Finance through Official Letter 1259, dated 29 September 2011 (the “new SCF

performance guidelines”). The performance guidelines at issue are related to Central Bank Resolution 1604-01-110421, wherein the Board accepted the role of fiscal agent for the administration of the financial investment of the Strategic Contingency Fund (SCF).

13
At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

November

4
By Administrative Directive from the Central Bank of Chile’s Certifying Officer, the Bank announced that based on experience from the application of Resolution 1583-01 and its accompanying guidelines, the General Manager of the Bank decided to modify the “Operating regulations on the general criteria for the authorization of partial reproductions of the designs of Chile’s legal currency for educational purposes and other specific uses,” published in the *Official Gazette* on 20 January 2011. At the same time, the certificate verifying the aforementioned changes was published in the *Official Gazette* on 7 November 2011.

The objective of the changes was to establish that the Central Bank of Chile can authorize, for the purposes specified in Resolution1583-01, that the partial reproductions of the design of the legal banknotes or coins in circulation incorporate the obverse and reverse designs of the banknotes and their original colors, depending on the characteristics of the work in which the reproduction will be used. The new regulations also establish the specific conditions and requirements for presenting a request for permission, in order to be granted the respective authorization.

14
By Board Resolution 1642E-01-111114, the firm Goldman Sachs Asset Management LP was appointed to act as external administrator of the Central Bank of Chile under a new mandate for the external portfolio management of part of the international reserves.

15
At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

21
By Administrative Directive from the Central Bank of Chile’s Certifying Officer, and in accordance with the decision of the General Manager, the rates to be charged to participants in the RTGS system in the second half of 2012 were announced and incorporated into Title X of Chapter III.H.4.2 of the *Compendium of Financial Regulations* of the Central Bank of Chile, which contains the “Operating Regulations of the RTGS System.” The certificate verifying the aforementioned changes was published in the *Official Gazette* on 22 November 2011.

December

01

By Board Resolution 1628-02-110818, the Board accepted the new performance guidelines for the management of the PRF, submitted by the Minister of Finance through Official Letter 1637, dated 18 November 2011. The new guidelines replace the contents of Ordinary Official Letter 432, dated 12 April 2011, accepted via Resolution 1604-02-110421.

At the same time, the Board acknowledged the instructions submitted by the Minister of Finance, through Ordinary Official Letter 1630 of 18 November 2011, for the Central Bank of Chile, in its role of fiscal agent, to contract the firms Black Rock Institutional Trust Company N.A. and Rogge Global Partners Plc as external portfolio managers under the fixed-income corporate mandate; and the firms Black Rock Institutional Trust Company N.A. and Mellon Capital Management Corporation as external portfolio managers under the variable-income mandate.

In the same Board Resolution 1646-02-111201, the Board accepted the compensation to which the Bank is entitled for its services as fiscal agent in the administration of the Pension Reserve Fund (PRF), for the period from March 2012 to February 2013, in accordance with Official Letter, 1638, dated 18 November 2011, from the Ministry of Finance.

13

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.25% in annual terms.

15

By Board Resolution 1648-03-111215, letter (a) of the appendix to chapter I of the *Compendium of International Exchange Regulations* was modified as follows: "(a) The value of the aforementioned reference currency basket will be adjusted 0.008077% daily from 10 January 2012 through 9 January 2013 (dates inclusive)."

21

The Central Bank of Chile announced the offer of 19-day repo operations on 21 December 2011 at the MPR.

22

The Central Bank of Chile has decided to implement a temporary program aimed at facilitating the financial system's liquidity management in pesos. To this end, the Central Bank plans to offer security repurchase agreements (repos) to banks incorporated in the country, at a variable rate and for a term of up to 91 days. This temporary program will be offered from 22 December 2011 to 7 February 2012, under financial conditions that will be announced at the time and in accordance with the applicable regulations, considering in particular the families of eligible securities that the Bank offers to by in each case.

In accordance with the stipulations of N°34 of chapter IV.B.8.5 of the *Compendium of Financial Regulations*, the adjustments to the Operating Regulations therein were specified; the revised text is contained in Administrative Directive 520, dated 15 July 2009. To lay the foundations for the smooth functioning of the aforementioned temporary liquidity provision program for the financial system, the adjustments expressly allow, for the aforementioned repo operations, debt instruments that are offered for sale by banks and that have partial maturities within the period of the respective repo operation, incorporating for this purpose the possibility that the respective operations are carried out at terms of 28 days or more.

The Central Bank also announced the financial conditions applicable for a 91-day repo operation on 22 December 2011, with a maturity date of 22 March 2012 and an interest rate equivalent to the MPR.

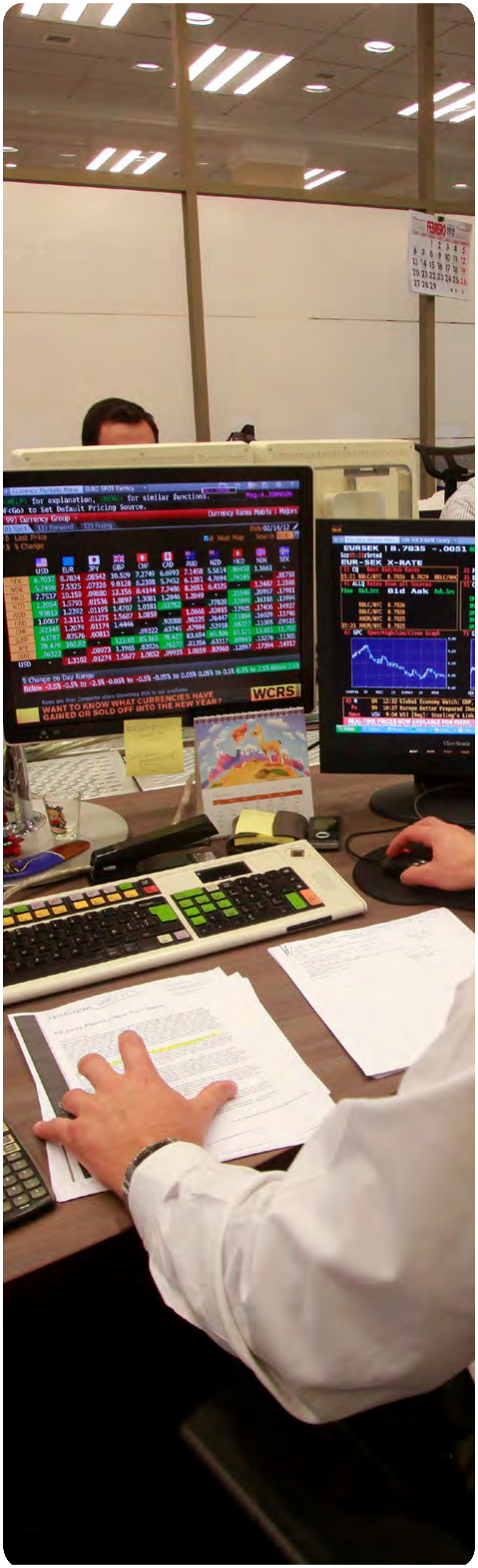
By Board Resolution 1649-04-111222 and in compliance with the stipulations of letter (c) of Article 10 of Law 18.634, the interest rate that will be charged on the deferred payment of customs duties in the half ending on 30 June 2012 will be 6.5% in annual terms, in U.S. dollars.

27

The Central Bank of Chile announced the offer of 28-day and 91-day repo operations, within the framework of the program announced on 22 December 2011.

29

The Central Bank of Chile announced the offer of 28-day and 91-day repo operations, within the framework of the program announced on 22 December 2011.



Appendix IV
International reserve management

A. Introduction

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

Consistent with the purpose, benefits and costs of international reserves, their administration aims to guarantee secure, efficient access to international liquidity and to safeguard the financial equity of the Bank. To achieve this, the Bank acts according to the legal framework stipulated in Article 38 of its Basic Constitutional Act, which specifically grants it the authority to manage, maintain and dispose of its international reserves abroad.

A floating exchange rate is a distinctive component of the set of policies adopted by the Central Bank to fulfill its mission of safeguarding the stability of the currency and the normal operation of the internal and external payment systems. This system of a floating exchange rate regime combined with inflation targeting, prudent financial regulation and supervision, full international financial integration and solid fiscal policies provides a consistent framework for maintaining essential macroeconomic balances and facing the different shocks that affect the economy, thereby reducing their impact.

In line with its transparency policies[1]/, the Bank must report on annual international reserve management in 2011. The next section reports on the investment policies and benchmark structure used in managing reserves. The third section reports on external administrators. The fourth section summarizes the risk management policies and the results of the international reserve management.

B. Investment policies and benchmark structure

The reserve investment policy encompasses liquid financial assets that meet the legal requirements established for their management. This policy was designed in terms of its impact on the bank's financial balance sheet results and risks, as well as the characteristics of the potential needs for foreign exchange liquidity. The primary objective is to preserve principal in view of possible market fluctuations.

[1]/ Board Resolution 1289-01-060831 of 29 August 2006.

B.1 Investment portfolio and liquidity portfolio

In 2011, international reserve investment was grouped in two main 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 currency liquidity needs. Investments in this subportfolio were held in bank deposits and money market instruments maturing in up to one year. The long-term subportfolio included investments in nominal and indexed bonds[2]/, mostly maturing in one to ten years.

In 2011, the main source of movements in the investment portfolio funds was the foreign exchange purchase program approved by the Board in January, for a total of US$12.00 billion.

Until November 2011, a share of the investment portfolio was managed by one external portfolio administrator, who was vested with the authority to manage a general long-term government fixed-income portfolio, as detailed in section C of this appendix. In December, the external management mandate was modified to include MBS investments[3]/, and a second external portfolio administrator was contracted.

At the close of 2011, the investment portfolio totaled US$35.33 billion, of which US$34.34 billion was managed internally and US$993.3 million was handled by external administrators. The internally managed portion was invested as follows: 10.1% in bank deposits, 8.9% in external financial institutions and 81.0% in sovereign and supranational risk. The last two items included investments in the United States (33.0%) and Germany (37.3%), with the remaining 29.7% dived among Australia, Austria, Canada, Denmark, Finland, France, the Netherlands, New Zealand, Singapore, Sweden, the United Kingdom and supranationals. Relative to the close of 2010, investment in deposits was stable at US$3.40 billion, while investment in securities grew US$10.56 billion, mainly with resources from the foreign exchange purchase program.

The liquidity portfolio is designed to cover the foreseeable need for funds in the short term. It was the preferred source for dealing with the daily fund requirements deriving from withdrawals from foreign currency accounts held at the Bank by commercial banks and the public sector. This portfolio is made up of bank deposits (overnight, weekend and time), which totaled US$4.79 billion at the close of 2011.

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[2]/ The indexed bonds are U.S. dollar bonds (Treasury Inflation-Protected Securities, or TIPS) and euro bonds (Euro Linkers).
[3]/ *Mortgage-backed securities, or debt securities whose underlying assets are mortgages.*

As of 31 December 2011, 52.6% of total reserves were invested in U.S. dollars, 30.1% in euros and 17.2% in other currencies (tables 1a and 1b). In 2011, international reserves increased US$14.12 billion relative to 2010, mainly due to the foreign exchange purchase program and an increase in the liquidity portfolio (US$1.95 billion).

Table 1.a
COMPOSITION OF INTERNATIONAL RESERVES
(US$ million)

		2010		2011	
Type of portfolio	**Currency**	**Dec.**	**%**	**Dec.**	**%**
Investment portfolio		**23,479.3**	**84.3**	**35,330.0**	**84.2**
Currencies and deposits	Dollar	1,130.8	4.1	808.0	1.9
	Euro	1,272.8	4.6	1,027.0	2.4
	Other	747.1	2.7	1,888.1	4.5
Securities	Dollar	10,505.7	37.7	16,457.2	39.2
	Euro	8,016.6	28.8	11,628.6	27.7
	Other	1,806.3	6.5	3,521.0	8.4
Total	Dólar	11,636.5	41.8	17,265.2	41.1
	Euro	9,289.4	33.3	12,655.7	30.1
	Other	2,553.4	9.2	5,409.1	12.9
Investment portfolio		**2,838.4**	**10.2**	**4,786.6**	**11.4**
Currencies and deposits	Dollar	2,838.4	10.2	4,786.6	11.4
	Euro	0.0	0.0	0.0	0.0
	Other	0.0	0.0	0.0	0.0
Securities	Dollar	0.0	0.0	0.0	0.0
Total	Dólar	2,838.4	10.2	4,786.6	11.4
	Euro	0.0	0.0	0.0	0.0
	Other	0.0	0.0	0.0	0.0
Other assets		**1,545.9**	**5.5**	**1,862.7**	**4.4**
Monetary gold	Other	11.2	0.0	12.2	0.0
IMF SDRs	Other	1,217.3	4.4	1,214.4	2.9
IMF reserve position	Other	282.1	1.0	601.3	1.4
Reciprocal lending agreements	Dollar	35.3	0.1	34.9	0.1
Total		**27,863.6**	**100.0**	**41,979.3**	**100.0**
	Dollar	14,510.2	52.1	22,086.6	52.6
	Euro	9,289.4	33.3	12,655.7	30.1
	Other	4,064.0	14.6	7,237.0	17.2

Source: Central Bank of Chile.

Table 1.b
Internally managed portfolio: investments by currency
(percent)

Currency	Share
U.S. dollar	48.67
Euro	35.83
Australian dollar	4.30
Canadian dollar	4.26
Pound sterling	2.66
Renminbi	1.20
Norwegian krone	0.66
Singapore dollar	0.65
New Zealand dollar	0.63
Swedish krona	0.59
Danish krone	0.53
Total	**100.00**

Source: Central Bank of Chile.

B.2 Investment portfolio benchmark structure

The investment portfolio benchmark structure establishes the basic parameters that guide currency composition, duration, distribution of credit risk by type of risk and instrument, and the respective reference benchmarks.

The investment portfolio benchmark structure did not change in 2011. This structure stipulates a currency composition of 50% U.S. dollars (USD), 40% euros (EUR), 3.5% Australian dollars (AUD), 3.5% Canadian dollars (CAD) 3.0% pounds sterling (GBP). In terms of the risk structure, 90% is sovereign risk, and the remaining 10% is bank risk (table 2).

With regard to the duration of the internally managed investment portfolio, the benchmark duration of the long-term portfolio was 37.7 months, with a permissible range of zero to eight months over the overall portfolio duration. For the short-term investment portfolio, the benchmark duration was 3.0 months. On aggregate, the benchmark investment portfolio had an average duration of 16.9 months with an accepted minimum duration of zero months and a maximum deviation margin of six months over the benchmark. The duration increased 0.1 month relative to December 2010 (table 3).

Table 2

Benchmark structure of the internally managed investment portfolio, by type of risk and benchmark

Structure	Credit risk	Current share (%)	Benchmark
Short-term portfolio	Bank	10	Merrill Lynch indices 3-mth. LIBID , ave. of last 3 (USD, EUR, AUD, CAD and GBP)
	Sovereign	50	Merrill Lynch indices: Treasury bills (USD and EUR Germany) FixBIS rate: 6-mth FixBIS, ave. of last 6 (AUD, CAD and GBP)
Long-term portfolio	Sovereign	34	JP Morgan indices: 1- to 10-year government bonds (USD, EUR Germany, AUD, CAD and GBP
	Sovereign (inflation-indexed)	6	Barclays indices: 1- to 10-year government bonds (USD, EUR)
Total portfolio		100	

Source: Central Bank of Chile.

Table 3

Currency, maturity and duration structure of the internally managed benchmark portfolio

		U.S. dollar		Euro		Australian dollar		Canadian dollar		Pound sterling		Total	
2011		Share (%)	Duration (months)	Share (%)	Duration (months)	Share (%)	Duration (months)	Share (%)	Duration (months)	Share (%)	Duration (months)	Share (%)	Duration (months)
Short-term portfolio	Bank	5.0	1.5	4.0	1.5	0.4	1.5	0.4	1.5	0.3	1.5		
	Sovereign, Agency and Supranational	25.0	2.6	20.0	4.4	1.8	3.0	1.8	3.0	1.5	3.0		
	Short-term subtotal	**30.0**	**2.4**	**24.0**	**3.9**	**2.1**	**2.8**	**2.1**	**2.8**	**1.8**	**2.8**	**60.0**	**3.0**
Long-term portfolio	Nominal bonds												
	Maturity segment												
	1-3 years	9.3	22.8	7.5	21.1								
	3-5 years	4.0	45.6	3.2	44.4								
	5-7 years	1.7	65.6	1.3	62.1								
	7-10 years	1.7	86.3	1.3	84.6								
	1-10 years					1.4	46.4	1.4	47.6	1.2	52.0		
	Subtotal	**16.7**	**38.9**	**13.3**	**37.1**	**1.4**	**45.1**	**1.4**	**44.2**	**1.2**	**55.0**	**34.0**	**39.3**
	Indexed bonds												
	Maturity segment												
	1-10 years	3.3	29.5	2.7	27.8								
	Subtotal	**3.3**	**29.5**	**2.7**	**27.8**							**6.0**	**28.8**
	Long-term subtotal	**20.0**	**37.4**	**16.0**	**35.6**	**1.4**	**45.1**	**1.4**	**44.2**	**1.2**	**55.0**	**40.0**	**37.7**
Total portfolio		**50.0**	**16.4**	**40.0**	**16.6**	**3.5**	**19.7**	**3.5**	**19.3**	**3.0**	**23.6**	**100.0**	**16.9**

Source: Central Bank of Chile.

B.3 Liquidity portfolio benchmark structure

The investments in this portfolio match the projected disbursements on the Bank's balance sheet in terms of currency composition and maturity. The benchmark currency structure was defined as a function of the currency composition of the projected disbursements and of the deposits and withdrawals made by commercial banks and the public sector. The benchmark for investments in this portfolio was calculated on the basis of the overnight, weekend and time rates of the currencies that make up this portfolio, as a function of characteristics of the projected disbursements.

C. External management program

C.1 External portfolio management program

Through 30 November 2011, the Bank had one external portfolio administrator, which managed a total of US$329.3 million under a long-term government fixed-income mandate, limited by a risk budget of a 100-basis-point tracking error.

A second external administrator was added on 1 December 2011[4]/. The administration mandate in place through that date was also modified. Under the new mandate, the benchmark structure incorporated a 10% share of MBS and added, relative to the previous mandate, a schedule of limits on credit risk by issuer, proportional to the authorization for the internal international reserves management. In addition, as of 1 December 2011, each of the firms is managing a total of US$500 million on behalf of the Bank.

Through November 2011, a share of the investment portfolio was managed by an external administrator (Pacific Investment Management Company LLC), which was authorized to manage a general long-term government fixed-income portfolio. In December, the external administration mandate was modified to include MBS investments, and a second external administrator was contracted (Goldman Sachs Asset Management LP).

The primary objectives of the external portfolio management program are threefold: (i) to add value to the international reserves portfolio; (ii) to transfer know-how to the Bank staff; and (iii) to build a benchmark asset for the internally managed portfolio.

The measurement of performance, risk assessment and benchmark compliance for both programs continued to be outsourced through the custodian bank.

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[4]/ The external administrator was contracted following a selection process that was carried out over the course of 2011 with the support of an international consulting firm.

D. Risk management and results of international reserve management

D.1 Risk management within international reserve management

International reserve management takes into account criteria for limiting liquidity, credit, market and operating risk.

To reduce liquidity risk, the Bank managed a portfolio made up exclusively of short-term deposits in international commercial banks (diversified by maturity) and fixed-income instruments traded in deep, highly liquid secondary markets. Credit risk was managed through limits on bank risk, sovereign risk, supranational risk and risk from external financial institutions, as well as the counterparties used (table 4).

Table 4
Composition of international reserves by credit risk (1) (2) (3)
(percent on 31 December 2011)

Credit rating Type of credit risk	AAA	AA	AA-	A+	A	BBB+ (4)	Total
Agency	8.9	0.0	0.0	0.0	0.0	0.0	8.9
Bank	0.2	1.1	3.0	2.8	2.7	0.3	10.1
Sovereign	75.8	0.3	0.0	0.0	0.0	0.0	76.2
Supranational	4.8	0.0	0.0	0.0	0.0	0.0	4.8
Total	**89.8**	**1.4**	**3.0**	**2.8**	**2.7**	**0.3**	**100.0**

(1) Bank risk is related to investment in banks' financial instruments (deposits, foreign exchange spot/forward, bonds issued by German banks with public guarantees). Sovereign risk is related to investment in instruments from sovereign states (deposits, bills, floating-rate notes, nominal and indexed bonds). Agency risk is associated with investment in instruments of U.S., French and German government agencies (bills, nominal bonds, mortgage-backed securities). Supranational risk is associated with investment in instruments from a multilateral official issuer (deposits, bills, floating-rate notes, nominal bonds).
(2) The risk rating corresponds to the average of the Fitch, Moody's, and Standard and Poor's ratings.
(3) Excluding investments in externally managed portfolios and the liquidity portfolio, gold holdings, and IMF positions.
(4) investments maturing on or before 31 January 2012.
Source: Central Bank of Chile.

The investment guidelines establish other criteria and restrictions as complementary measures for controlling credit risk, including eligibility criteria by issuer, eligible operations, treatment of derivatives and eligible intermediaries (tables 7, 8 and 9).

Market risk was managed by diversifying investment currencies, instruments and maturities and by measuring and monitoring the limits on exposure to currency and maturity risks, as noted above.

The average daily VaR[5]/ of the internally managed investment portfolio was 5.12% in 2011 (versus 4.84% in 2010). The tracking error[6]/ was 13.8 basis points.

With regard to operating risk, a clear separation of responsibilities and functions was maintained at the institutional and hierarchical levels, and efficient controls were used to mitigate this risk in the area of reserve management. The Bank also employs IT systems that enable operating under market quality standards. Additional initiatives to improve operational continuity standards include the development of lines of succession for critical positions and the maintenance of an active contingency unit to guarantee the operational continuity of both international reserves and fiscal resources in the event of problems with the Bank's physical or technological infrastructure. This, combined with internal and external audits, has ensured that the decisionmaking process and management assessment within the Bank remain clearly defined.

D.2 Returns on international reserve management

The total return from international reserve management in 2011 was 2.48% measured in terms of the investment portfolio's reference basket of currencies. Measured in U.S. dollars, it was 1.22%. The differential return obtained against the benchmark structure was 2.4 basis points. For the 2001–11 period, the average annual return measured in foreign currency was 3.26%, with an average differential return against the benchmark structure of 19.8 basis points (table 5).

Table 5

Absolute returns on international reserves and the benchmark.

(percent)

	In foreign currencies		In U.S. dollars		
Period	Int.Reserves	Benchmark	Int.Reserves	Benchmark	Differential
2011	2.48	2.46	1.22	1.20	0.024
2010	0.36	0.45	-0.15	-0.06	-0.089
2009	2.15	1.65	3.34	2.85	0.498
2008	5.70	5.37	4.14	3.81	0.327
2007	4.81	4.78	8.86	8.83	0.031
2006	2.45	2.39	6.84	6.78	0.059
2005	2.90	2.85	-1.72	-1.77	0.046
2004	1.84	1.95	4.08	4.20	-0.112
2003	2.31	1.78	6.64	6.12	0.529
2002	5.25	4.69	9.34	8.78	0.565
2001	5.57	5.27	3.90	3.60	0.302

Source: Central Bank of Chile.

5/ The VaR is based on a parametric model with a daily horizon, a 95% confidence level, and a decay factor of 0.94.
6/ The tracking error is based on a parametric model with an annual horizon, an 84% confidence level, and a decay factor of 0.94.

D.3 Operating costs and the securities lending program

In 2011, total operating costs involved in the administration of the Bank's international reserves represented around 2.1 basis points of the total managed portfolio.

During the period, the Bank continued its securities lending program with the custodians for international reserves. This program consists in lending securities owned by the Bank to primary dealers, who are required to set up a guarantee deposit equivalent to 102% of the value of the instrument being lent. The contractual relationship with the loan agent—that is, the custodian—also includes a clause stipulating that in the event of the debtor's default, the custodian is liable for the full amount of the positions lent, thereby transferring the risk from the debtor to the custodian. The custodian bank must keep the Bank's position in separate accounts, so that there is no credit risk for the lender. In 2011, the income generated for the Bank by this program was 0.84 basis point (bp) of international reserves. The absolute net return measured in dollars for 2011 was 1.21%, while the differential net return was 1.16 basis point (table 6).

Table 6
Net management summary, 2011

	Return (%)	Return differential (bp)	Administration costs (pb)	Income from securities lending (bp)	Net return differential (bp)	Net return (%)
Total international reserves	1.22	2.43	2.11	0.84	1.16	1.21

Source: Central Bank of Chile.

Table 7

Financial institutions with outstanding deposits as of 31 December 2011		
AAA, AA, AA-	Bank of Montreal	
	BNP Paribas S.A.	
	Crédit Industriel et Commercial (CIC)	
	Nordea Bank Finland PLC	
	NV Bank Nederlandse Gemeenten	
	Oversea-Chinese Banking Corp Ltd.	
	Rabobank Nederland	
	Svenska Handelsbanken AB (publ)	
	Minimum (US$ million)	11
	Maximum (US$ million)	400
	Category average (US$ million)	186
A+, A, BBB+	Barclays Bank PLC	
	Bayerische Landesbank	
	Commerzbank AG	
	Credit Agricole Corporate and Investment Bank	
	DekaBank Deutsche Girozentrale	
	Deutsche Bank AG	
	DnB NOR Bank ASA	
	Erste Group Bank AG	
	ING Bank NV	
	KBC Bank NV	
	Landesbank Baden-Württemberg	
	Landesbank Hessen-Thüringen Girozentrale	
	Mizuho Corporate Bank Ltd.	
	Raiffeisen Bank International AG (RBI)	
	Skandinaviska Enskilda Banken AB (publ) (SEB)	
	The Royal Bank of Scotland PLC	
	UBS AG	
	Unicredit Bank AG	
	Minimum (millions of dollars)	6
	Maximum (millions of dollars)	259
	Category average (millions of dollars)	109

Source: Central Bank of Chile.

Table 8
Eligible banks and permissible limits as of 31 December 2011
(Value in US$ million and months)

Country	Bank	Amount	Term (months)
Germany	UniCredit Bank AG	180	3
Germany	Commerzbank AG	180	3
Germany	DekaBank Deutsche Girozentrale	90	3
Germany	Deutsche Bank AG	180	3
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	432	9
Germany	Landesbank Baden-Württemberg	180	3
Germany	Landesbank Hessen-Thüringen Girozentrale	180	3
Germany	Norddeutsche Landesbank Girozentrale	180	3
Germany	NRW.BANK	432	12
Australia	Australia & New Zealand Banking Group Limited*d*	432	9
Australia	Commonwealth Bank of Australia	432	12
Australia	National Australia Bank Ltd*d*	432	12
Australia	Westpac Banking Corporation	432	12
Austria	Erste Group Bank AG	180	3
Austria	Raiffeisen Bank International AG (RBI)	180	3
Belgium	Fortis Bank SA/NV	180	3
Belgium	ING Belgium SA/NV	180	3

Table 8 *(continued)*
Bancos elegibles y límites permitidos vigentes al 31 de diciembre de 2011
(Value in US$ million and months)

Country	Bank	Amount	Term (months)
Belgium	KBC Bank NV	180	3
Canada	Bank of Montreal	432	9
Canada	Canadian Imperial Bank of Commerce	432	9
Canada	National Bank of Canada	180	3
Canada	Royal Bank of Canada	432	12
Canada	The Bank of Nova Scotia	432	9
Canada	The Toronto-Dominion Bank	432	9
Denmark	Danske Bank Aktieselskab	180	3
Denmark	Nordea Bank Danmark A/S	432	9
Spain	Banco Bilbao Vizcaya Argentaria SAA	180	3
Spain	Banco Santander S.A.	432	9
Spain	Caja de Ahorros y Pensiones de Barcelona	180	3
Finland	Nordea Bank Finland PLC	432	9
France	BNP Paribas S.A	432	9
France	Credit Agricole Corporate and Investment Bank	180	3
France	HSBC France	432	9
France	Credit Agricole S.A.	180	3
France	Crédit Industriel et Commercial (CIC)	180	3
France	Natixis	180	3
France	Société Générale	180	3
Holland	ABN AMRO Bank NV	180	3
Holland	The Royal Bank of Scotland NV	180	3
Holland	ING Bank NV	180	3
Holland	NV Bank Nederlandse Gemeenten	585	12
Holland	Rabobank Nederland	432	12
Italy	Intesa Sanpaolo SpA	180	3
Italy	Unicredit SpA	180	3
Japan	Mizuho Corporate Bank Ltd.	180	3
Japan	Sumitomo Mitsui Banking Corporation	180	3
Japan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	180	3
Japan	The Norinchukin Bank	180	3
Japan	The Shizuoka Bank Ltd.	180	3
Japan	The Sumitomo Trust & Banking Co., Ltd.	180	3
Noruega	DnB NOR Bank ASA	180	3
Noruega	Nordea Bank Norge ASA	432	9
Singapore	Oversea-Chinese Banking Corp Ltd.	432	9
Sweden	Skandinaviska Enskilda Banken AB (Publ) (SEB)	180	3
Sweden	Svenska Handelsbanken AB (publ)	432	9
Switzerland	Credit Suisse	180	3
Switzerland	UBS AG	180	3
Switzerland	Zürcher Kantonalbank	702	12
United Kingdom	Bank of Scotland Plc	180	3
United Kingdom	Barclays Bank Plc	180	3
United Kingdom	HSBC Bank Plc	432	12
United Kingdom	LloydsTSB Bank Plc	180	3
United Kingdom	National Westminster Bank Plc	180	3
United Kingdom	Standard Chartered Bank	432	9
United Kingdom	The Royal Bank of Scotland Plc	180	3
United States	The Bank of New York Mellon	432	9
United States	Bank of America NA	180	3
United States	Citibank, NA	180	3
United States	Comerica Bank	180	3
United States	Deutsche Bank Trust Company Americas	180	3
United States	Goldman Sachs Bank USA	180	3
United States	HSBC Bank USA N.A.	432	9
United States	J.P. Morgan Chase Bank	432	9
United States	BNY Mellon National Association	324	9
United States	PNC Bank NA	180	3
United States	State Street Bank & Trust Company	432	9
United States	The Northern Trust Company	432	9
United States	U.S. Bank N.A.	432	9
United States	Wells Fargo Bank, NA	432	9

Source: Central Bank of Chile.

Table 9
Intermediaries used in 2011

Intermediaries
Anz Securities Inc., USA
Banca Imi Securities Corp., USA
Bank of America Merrill Lynch, USA
Barclays Capital, UK
Barclays Capital Inc., USA
Bank for International Settlements, Basle
BNP Paribas, France
BNP Paribas Securities Corp., USA
CIBC World Markets Corp., USA
Citigroup Global Markets Inc., USA
Citigroup Global Markets Ltd., UK
Commerzbank AG., Germany
Credit Suisse Securities (Europe) Ltd., UK
Credit Suisse Securities (USA), LLC
Daiwa Capital Markets America Inc., USA
Deutsche Bank AG, Frankfurt
Deutsche Bank AG (London Branch), UK
Deutsche Bank Securities Inc., USA
DZ Bank AG Deutsche Zentral-Genossenschafts, Frankfurt
Goldman Sachs & Co., USA
HSBC Bank PLC, UK
HSBC Securities (USA) Inc., USA
J.P. Morgan Securities LLC, USA
Jefferies & Company Inc., USA
Jefferies International Ltd., UK
J.P.Morgan Securities Inc., USA
Merrill Lynch, Pierce, Fenner & Smith Inc., USA
Mizuho Securities Inc., USA
Morgan Stanley & Co. Inc., USA
Morgan Stanley & Co. International PLC, UK
National Bank of Canada Financial Inc., USA
Nomura Securities International Inc., USA
RBC Capital Markets LLC, USA
RBS Securities Inc., USA
Royal Bank of Scotland, UK
SG Americas Securities LLC, USA
Société Générale, France
UBS Ltd., UK
UBS Securities LLC, USA

Source: Central Bank of Chile.

Appendix V
Real time gross settlement (RTGS/CAS) system

A. Introduction

Payment systems are the means through which banks transfer funds to other banks, and they are a key component of the economic and financial infrastructure. Their safe and efficient operation is critical for the good performance of the economy, effective monetary policy, and the maintenance and promotion of financial stability.

The Central Bank of Chile is responsible for safeguarding the normal operation of the payment systems. To this end, it has been vested with the power to regulate and supervise these systems. The adoption of the "Core Principles"[1]/ recommended by the Committee on Payment and Settlement Systems of the Bank for International Settlements (BIS) is an essential requirement in the design and operation of systemically important payment facilities, which are capable of triggering or transmitting disturbances across the financial system.

In Chile, the large-value payment system (LVPS) comprises the real time gross settlement (RTGS) system, which is owned and operated by the Central Bank, and the deferred netting system of the large-value payment clearinghouse (LVPCH), which is operated by ComBanc S.A., a banking support corporation. The RTGS system settles individual gross payments. In the LVPCH, participants settle their net position resulting from payments made and received during the day once the business cycle is completed in the RTGS system. Both systems process interbank, client account and delivery versus payment (DVP) transactions. Another participant in the RTGS system is the *Contraparte Central S.A.* (*CCLV*), an affiliate of the Santiago Stock exchange that acts as a clearinghouse for the financial brokerage and fixed-income markets and as the central counterparty for the variable-income market. The *CCLV* is required to use the RTGS system to settle its total balances paid.

B. The RTGS system

The RTGS system is designed for large-value interbank payments, taking into account their critical nature. Fund transfer instructions (FTI) are sent via the SWIFT network, whose use is obligatory.

The RTGS system is designed to ensure that participants are not exposed to credit risk during the settlement process. In deferred net settlement systems, these exposures can arise when the banks update their client accounts, before the close of the interbank settlement cycle.

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[1]/ "Core Principles for Systemically Important Payment Systems", BIS Committee on Paymante and Settlement Systems, (CPSS), January 2001.

To avoid credit risk exposure among system participants, the Bank established a system in which payments are cleared with the funds available in the participants' accounts, without overdrafts, and liquidity is supplied through an interest-free intraday credit contract.

If liquidity is needed, securities issued by the Central Bank are used as collateral for the repo. The securities are transferred to the Bank's position account in the Central Securities Depository (CSD) and are valued at a discount depending on the currency and maturity. If, at the end of the day, an intraday repo cannot be reversed, the transaction is converted into a standing liquidity facility with an interest rate of 25 basis points over the monetary policy rate.

RTGS system participants are responsible for managing their own liquidity. They determine their individual holdings of eligible collateral and their use of the intraday liquidity facility. The system automatically rejects any payment orders in the queue that have not been settled at 5:30 p.m. In these terms, the RTGS system and the facilities provided by the Bank are designed to allow participants to adequately manage and contain their credit and liquidity risk, complying with BIS Core Principle III for Systemically Important Payment Systems.

C. Main initiatives

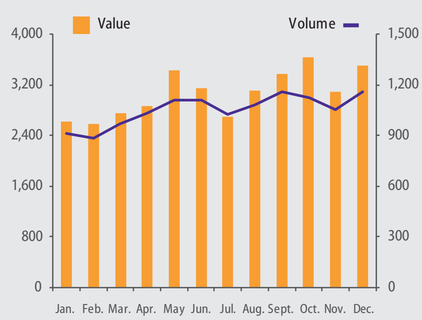
In 2011, the main event was the conclusion of the initiative started the year before for the acquisition of a payment versus payment (PvP) settlement mechanism, which allows the RTGS system to settle operations on a PvP basis. This standard allows the simultaneous clearing of two payments in different currencies. This system was used to settle a significant share of the foreign exchange purchase program, eliminating the so-called principal risk.

D. Statistical report

In 2011, both the volume and value of the FTIs settled in the RTGS system increased significantly, by 28% and 36% annually, respectively. The average value was Ch$3.06 billion a day, with 1,048 transfer instructions (figure 1). This growth was seen in all types of payments settled, in particular in client accounts and securities transactions, which is consistent with the entry into operations of the CCLV in September 2010.

Figure 1

FTIs settled in the RTGS system (*)
(Ch$ billion, number of transactions)

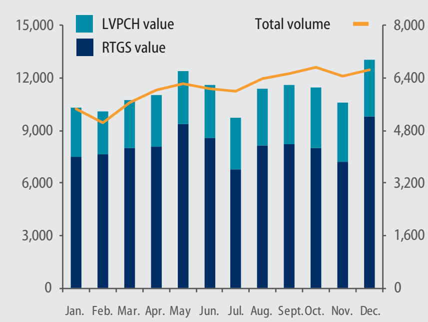


(*) Monthly daily average.

Source: Central Bank of Chile.

Figure 2

Payments settled in the large-value payment systems in 2011 (*)
(Ch$ billion, number of transactions)



(*) Monthly daily average.

Source: Central Bank of Chile.

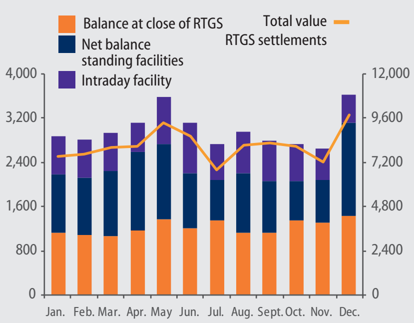
The RTGS system handled 72.6% of the total value of payments settled in the large-value payments systems in 2011. The average was Ch$11.17 billion a day, 10% higher than last year. Transactions between the Central Bank and commercial banks were relatively stable, with an emphasis on the intraday liquidity and deposit facilities (figure 2). The large-value payment clearinghouse (operated by ComBanc) had a stable liquidity level with an annual increase of 4%, but it dominated in terms of volume, with just over 78% of the daily average of the payments cleared in the large-value payments systems.

The RTGS system continued to operate with a high liquidity level in 2011. Liquidity rotation (that is, the average number of times that each peso of liquidity is used to settle payments) was 2.71 times, which is slightly lower than last year's ratio of 2.75 times (figure 3).

The daily rejection rate, in terms of the volume and value settled in 2011, was 0.37% and 0.25% respectively; this is similar to the previous period (figure 4). The general availability of the RTGS system was 99.89%, while that of the intraday liquidity provision system was 99.86% (figure 5).

Figure 3

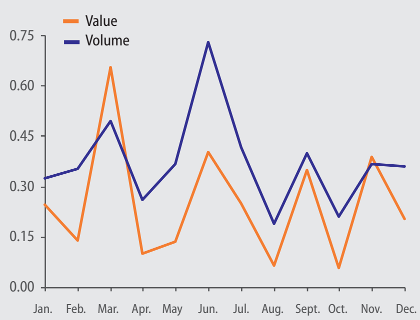
Liquidity in the RTGS system in 2011 (*)
(Ch$ billion)



(*) Monthly.
Source: Central Bank of Chile.

Figure 4

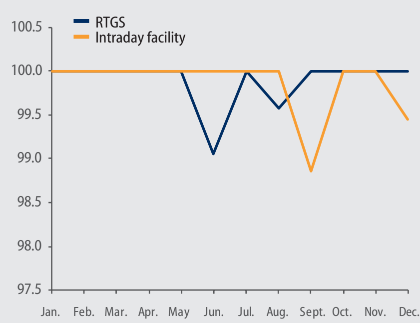
FTIs rejected by the RTGS system in 2011 (*)
(percent)



(*) Monthly daily average.
Source: Central Bank of Chile.

Figure 5

Availability of RTGS and intraday facility in 2011 (*)
(percent)



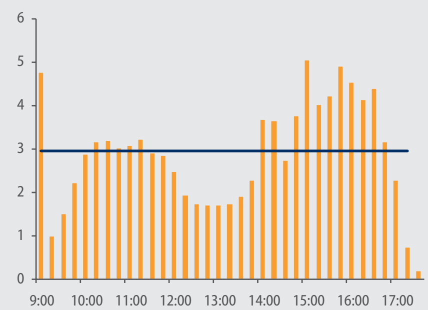
(*) Monthly.
Source: Central Bank of Chile.

The entry into operation of the CCLV in September 2010 changed the intraday pattern of settlements, causing a shift in activity toward the hours between 2:00 p.m. and 4:00 p.m. In addition, the most active period for issuing and settling transfer instructions initiated by participants was from 3:00 to 3:15 p.m. This coincided with the regulatory time slot for clearing financial brokerage instruments with same-day payment. Traditionally, the hour immediately after the opening of the RTGS system has recorded the most activity, due to the clearing of shelved payments (figure 6).

The total duration of delays in the regular settlement hours for the clearinghouses increased relative to 2010. In June, a problem with the application software caused settlement delays in the check clearinghouse. In December, a hardware failure required the activation of an alternative contingency mechanism for clearinghouse settlements. In November, the extension of Combanc's operating hours caused a delay in netting (figure 7).

Figure 6

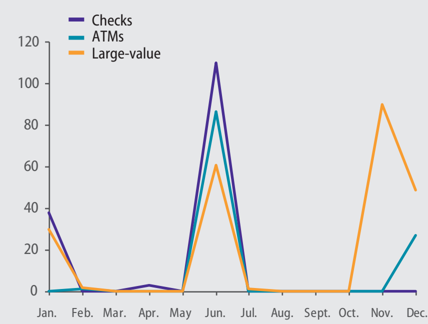
Intraday settlement pattern of FTIs, by value (*)
(percent, every 15 minutes)



(*) Horizontal line represents the daily average in 2011.
Source: Central Bank of Chile.

Figure 7

Accrued settlement delays in the clearing houses in 2011 (*)
(minutes)



(*) Monthly.
Source: Central Bank of Chile.

Appendix VI
Management of fiscal funds (ESSF and PRF)

A. Introduction

As fiscal agent, the Central Bank of Chile manages resources in the name and on the account of the Treasury. These resources are part of the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF).

The following sections describe the institutional context in which this fiscal agency operates. They also report on the investment policy, the fund structure, the reporting system, the administration results and the costs of managing the resources.

B. Institutional framework

In September 2006, Law 20,128 on Fiscal Accountability created the ESSF and the PRF. Under this law, the Ministry of Finance issued Executive Decree 1383, whereby the Central Bank is vested with the representation of the Treasury for investing all or part of the ESSF and PRF resources, once the Bank has formally accepted the assignment in accordance with its Basic Constitutional Act.

Through Board Resolution 1604-02-110421, the Bank accepted new performance guidelines, submitted by the Ministry of Finance through Official Letters 432 and 433 dated 12 April 2011, with regard to the management of the PRF[1]/ and ESSF resources, respectively. These guidelines entered into effect in May 2011 and replaced the guidelines in use since September 2009.

Through the same Board Resolution, the Bank agreed to renew the selection process for an external administrator for part of the PRF resources, as requested by the Ministry of Finance in Official Letter 436 of 12 April 2011.

Additionally, the Board Resolution authorized the Director of the Financial Operations Division to establish the internal procedures necessary to regulate the fulfillment of these tasks, in accordance with the Decree and the performance guidelines.

The operational management of this fiscal agency is centered in the International Markets Management, which reports to the Financial Operations Division. All of the procedures used in international reserve management were considered and applied to the administration of the fiscal resources. This has ensured equivalent quality standards in portfolio management and in the processes for controlling financial and operating risk.

[1]/ In addition, through Board Resolution 1646-02-111201, the Bank accepted new performance guidelines on the management of PRF resources submitted by the Ministry of Finance through Official Letter 1637, dated 18 November 2011. The new investment rules contained in the performance guidelines replace, as of 2 January 2012, the guidelines contained in Ministry of Finance Official Letter 432.

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 the fiscal resources in accordance with the relevant decrees and the accepted performance guidelines.

The performance guidelines contain the investment criteria, which define a reference benchmark and place restrictions on fiscal portfolio management. The benchmark structure implicitly incorporates risk-return objectives established by the Ministry of Finance. The fiscal agent's performance is assessed against this benchmark portfolio.

The investment guidelines determine and restrict the different risks to which the fiscal portfolios are 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 yen, with a maximum deviation of ±2% from the central values defined for each currency.

With regard to interest rate risk, the investment guidelines stipulate that the fiscal portfolios can have a maximum deviation of ±1 month over the duration of the benchmark portfolio.

Exposure to credit risk is controlled through restrictions on the issuers in which funds can be invested. The guidelines allow investment in sovereign risk ranging from 80% to 90% of the portfolio, while bank risk is set at a range of 10% to 20% of the portfolio. The universe of eligible instruments further includes balances held in transaction accounts, overnight deposits, time deposits, certificates of deposit, bank acceptances, commercial papers, bills, notes, discount notes, nominal bonds, inflation-indexed bonds and floating-rate notes.

The investment guidelines establish additional criteria and restrictions as complementary measures to minimize credit risk, including eligibility criteria by issuer, eligible operations, treatment of derivatives and eligible intermediaries (table 3 and 4).

The benchmark portfolio specified in the investment guidelines is made up of a short-term portfolio (30%) and a long-term portfolio (70%). The bank-risk benchmark for the short-term portion is made up of London interbank bid (LIBID) rates obtained from a reference deposit portfolio with a residual maturity of between 1 and 180 days. The short-term portion corresponding to sovereign risk is benchmarked against a government bond portfolio, with an average maturity of approximately three months. The indices used as reference benchmarks for the short-term portfolios are provided by Merrill Lynch.

The nominal long-term portion and the long-term portion composed of Treasury Inflation-Protected Securities (TIPS) are benchmarked against Barclays Capital's total return index, which includes investments in government bonds maturing in up to ten years.

D. Structure of fiscal portfolios

The administration mandate began in March 2007. Since that date, the ESSF and the PRF have received net contributions of US$10.03 billion and US$3.88 billion, respectively.

As of 31 December, the market value of the resources managed by the Bank was US$17.56 billion. Of this amount, US$13.16 billion corresponded to the ESSF and US$4.41 billion to the PRF. This implies an increase in the market value of the net resources delivered for management of US$1.01 billion, relative to year-end 2010 (table 1).

Table 1
ESSF and PRF
(as of 31 December 2011, US$ million)

Sector	Market value			Percent of market value
	PRF	ESSF	Total	
Bank risk	753.0	2,207.1	2,960.2	16.9
Dollar	358.4	1,014.3	1,372.8	
Euro	327.4	992.2	1,319.5	
Yen	67.2	200.6	267.9	
Riesgo Soberano	3,652.6	10,949.5	14,602.1	83.1
Dollar	1,839.1	5,548.1	7,387.2	
Euro	1,435.2	4,271.5	5,706.7	
Yen	378.3	1,129.8	1,508.1	
Total	**4,405.6**	**13,156.6**	**17,562.2**	**100.0**

Sector	Market value			Percent of market value
	PRF	ESSF	Total	
Dollar	2,197.5	6,562.5	8,760.0	49.9
Euro	1,762.5	5,263.7	7,026.3	40.0
Yen	445.5	1,330.5	1,776.0	10.1
Total	**4,405.6**	**13,156.6**	**17,562.2**	**100.0**

Currency	Duration (years)	
	PRF	ESSF
Dollar	2.52	2.54
Euro	2.44	2.33
Yen	2.56	2.58
Total	**2.50**	**2.46**

Source: J.P.Morgan N.A.

E. Reports

Executive Decree 1383 and the performance guidelines define the content and frequency of the reports that the Bank must deliver to the Minister of Finance and the General Treasurer of Chile[2]/. As a general rule, the custodian bank, in its middle office role, must provide the relevant information that is needed to prepare reports, and the fiscal agent must report daily, monthly, quarterly and annually on the status of the resources under administration. The daily reports provide information on the market value and duration of each portfolio, under items sorted by currency and risk type. The monthly, quarterly and annual reports contain more detailed information on the portfolios. These reports describe changes in financial markets, discuss compliance with investment caps, provide details on the changes in the market value of each fund and report on the absolute returns and differentials obtained.

In addition to measuring the custodian bank's performance and compliance with the investment guidelines, the Central Bank monitors and assesses the information provided by the custodian. To this end, it uses its own calculation methods based on systematically recorded information.

The fiscal agent must also report annually to the Minister of Finance and the General Treasurer on the custodian bank's performance.

F. Management results

In 2011, the ESSF and PRF resources obtained positive absolute returns. The ESSF resources being managed by the Bank generated an average return of 3.42% measured in dollars[3]/. This implied a differential return of 0.6 basis point over the benchmark performance, both measured using the time-weighted rate of return (TWRR). Using the same methodology, the PRF resources managed by the Bank generated an absolute return of 3.42% measured in dollars[4]/. This meant a differential return of 0.7 basis point over the benchmark performance (table 2).

Table 2
***Time-Weighted rate of return (TWRR)* 2011**
(percent)

	Currencies (*)	Dollar
ESSF	4.03	3.42
PRF	4.03	3.42

(*) Reference basket of currencies for the portfolio (50% USD, 40% EUR, and 10% JPY).

Source: J.P.Morgan N.A.

[2]/ The performance guidelines for reports were submitted by the Ministry of Finance through Official Letter 133 of 2007.
[3]/ This return is consistent with a 3.44% IRR measured in dollars (J.P. Morgan N.A.).
[4]/ This return is consistent with a 3.08% IRR measured in dollars (J.P. Morgan N.A.).

G. External administrator selection process

Through Board Resolution 1604-02-110421, the Bank accepted Official Letter 436 from the Ministry of Finance, which requested that the fiscal agent reopen the process of selecting external administrators. The process had previously been postponed in January 2009 on the instructions of the Ministry. In 2011, the Financial Operations Division, with the support of an outside consultant, implemented a selection process for contracting external portfolio administrators. The goal was to outsource 35% of the PRF resources[5]/, divided into a general variable-income mandate (15%) and a general corporate fixed-income mandate (20%).

Based on the set of assessments submitted during the process, the Ministry of Finance, through Official Letter 1630, dated 18 November 2011, instructed the Central Bank to contract the firms Black Rock Institutional Trust Company N.A. and Rogge Global Partners Plc as external portfolio administrators for the general corporate fixed-income mandate; and the firms Black Rock Institutional Trust Company N.A. and Mellon Capital Management Corporation external portfolio administrators for the general variable-income mandate. In accordance with Official Letter 1637 from the Ministry of Finance, the external portfolio administration mandates began on 17 January 2012.

H. Compensation of the fiscal agent

According to the stipulations of Article 9°, letter (a), of Executive Decree 1383, the fiscal agent is entitled to charge an annual fee for the direct expenses and costs incurred in carrying out its assigned functions. For 2011, the Ministry of Finance set the annual fee at US$808,500, as communicated through an Official Letter. This amount is consistent with the Central Bank's Basic Constitutional Act, which stipulates that the Bank shall not finance the Treasury. This fee corresponds to 0.47 basis point of the total annual resources managed in 2011.

[5]/ The process considers different characteristics than in 2008, because this time, the Ministry of Finance requested that the Bank outsource administration mandates for 35% of the total fiscal funds (ESSF and PRF).

Table 3
Financial institutions with outstanding deposits
(as of 31 December 2011)

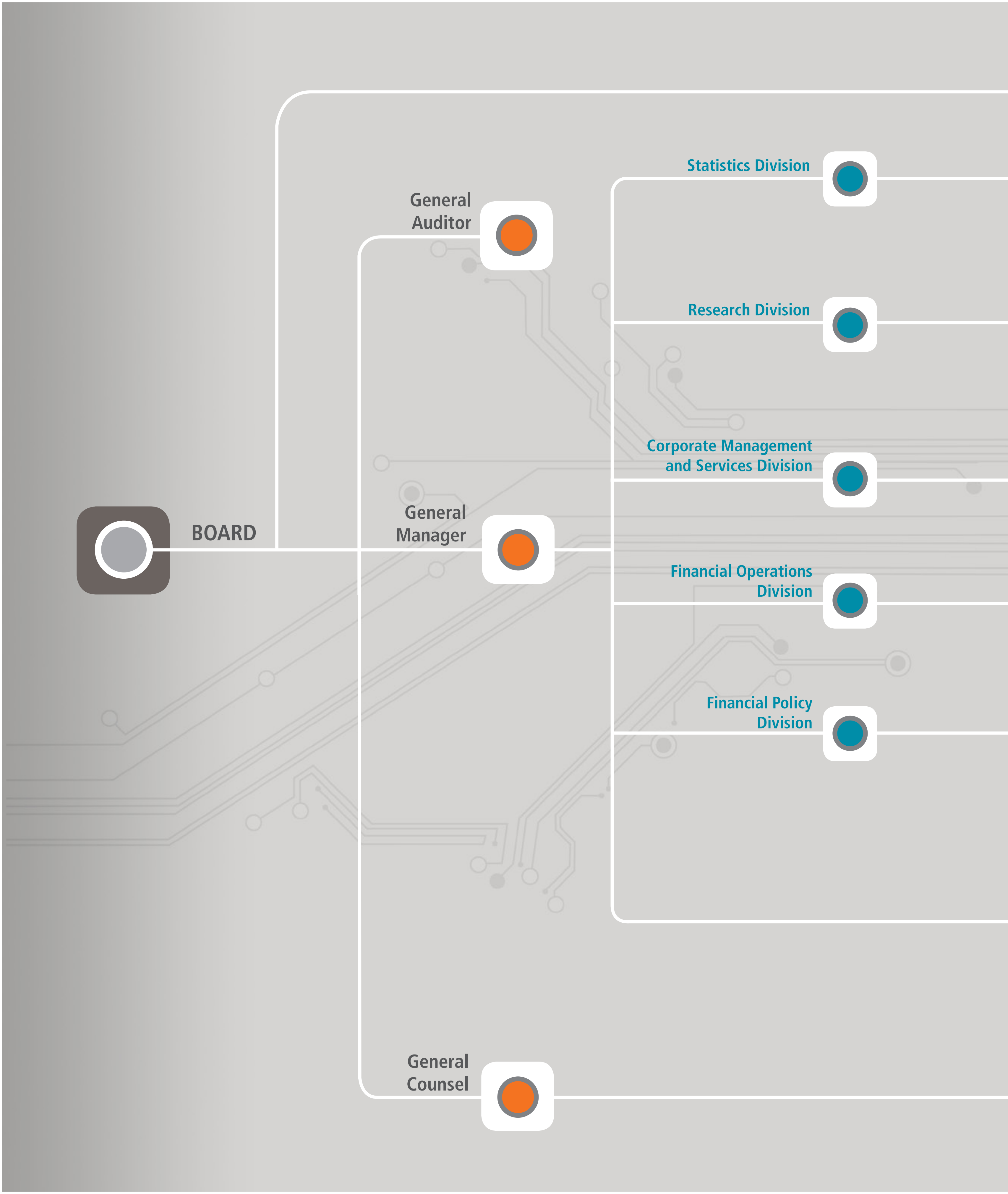
Institution
Bank Hapoalim BM
Bayerische Landesbank
Commerzbank AG
Danske Bank Aktieselskab
DekaBank Deutsche Girozentrale
Deutsche Bank AG
DnB NOR Bank ASA
Erste Group Bank AG
ING Bank NV
Landesbank Baden-Württemberg
Lloyds TSB Bank PLC
Mizuho Corporate Bank Ltd.
NV Bank Nederlandse Gemeenten
Nordea Bank Finland PLC
Rabobank Nederland
Raiffeisen Bank International AG (RBI)
Skandinaviska Enskilda Banken AB (publ) (SEB)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
UniCredit Bank AG

Source: J.P.Morgan N.A.

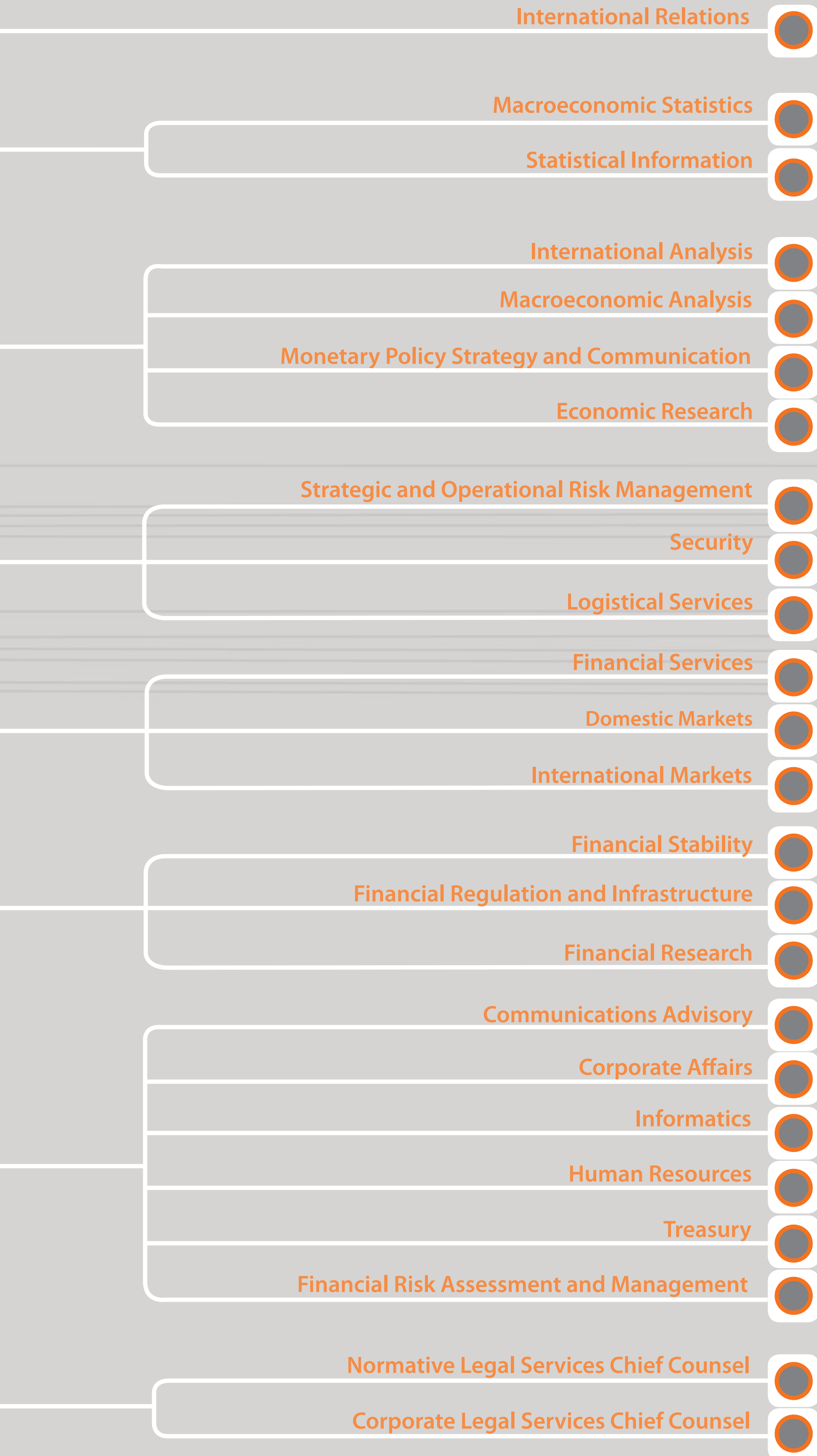
Table 4
Intermediaries used in 2011

Intermediary
Banca Imi Securities Corp.
Bank of America Merrill Lynch
Barclays Capital
Barclays Capital Inc.
BNP-Paribas SA
Citigroup Global Markets Inc.
Commerzbank AG
Daiwa Capital Markets America Inc.
Deutsche Bank AG
Deutsche Bank Securities Inc.
DZ Bank AG Deutsche Zentral Genossenschaftsbank
Goldman, Sachs & Co
HSBC Bank PLC
HSBC Securities (USA) Inc.
Jefferies & Company, Inc.
J.P. Morgan Securities LLC
J.P. Morgan Securities Ltd.
Merrill Lynch International Bank
Merrill Lynch, Pierce, Fenner & Smith Inc.
Mizuho Securities USA Inc.
Morgan Stanley & Co. International PLC
Morgan Stanley & Co. LLC
Nomura Securities International, Inc.
RBS Securities Inc.
Royal Bank Of Scotland PLC
SG Americas Securities LLC
Société Générale
UBS Ltd.
UBS Securities LLC, USA

Source: Central Bank of Chile.


BOARD
General Auditor
General Manager
General Counsel
Statistics Division
Research Division
Corporate Management and Services Division
Financial Operations Division
Financial Policy Division

Organizational chart



Financial Statements

Financial Statements of Central Bank of Chile

Balance Sheets as of 31 December, 2011 and 2010
(Ch$ million)

ASSETS	Note	31. Dec. 11	31. Dec. 10
Foreign assets		22,020,211.5	13,167,098.3
Reserve assets	11	21,890,542.2	13,050,537.0
Monetary gold		6,338.5	5,252.4
Special drawing rights (SDR)		633,274.7	570,139.9
Reserve position in the IMF	12	313,531.9	132,138.3
Correspondent banks abroad		406,892.5	26,498.2
Investments in foreign currency:		20,511,779.2	12,299,510.2
Instruments at fair value with effect on net income		14,366,374.4	8,475,295.5
Available-for-sale securities		2,115,322.8	1,046,029.2
Held-to-maturity securities		4,030,082.0	2,778,185.5
Reciprocal loan agreements		18,176.6	16,540.3
Other assets		548.8	457.7
Other foreign assets		129,669.3	116,561.3
Shares of and contributions to the Inter American Development Bank (IDB)		96,001.7	86,227.7
Shares of Bank for International Settlements (BIS)		33,667.6	30,333.6
Domestic assets		2,848,169.1	1,872,028.7
Domestic loans	13	956,069.0	1,770.4
Loans to banks and financial institutions		956,069.0	1,770.4
Operations under specific legal regulation	14	1,892,100.1	1,870,258.3
General Treasury transfers (Laws 18,267 and 18,401)		253,794.9	244,249.6
Loan for subordinated liabilities of financial institutions (Laws 18,401 and 19,396)		821,311.9	876,663.7
Sinap Liquidation Law 18,900		816,993.3	749,345.0
Other assets		43,526.5	51,917.1
Premises and equipment	15	37,149.1	45,433.3
Other securities		6,106.6	6,346.7
Other current assets		270.8	137.1
Total Assets		**24,911,907.1**	**15,091,044.1**

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

Balance Sheets as of 31 December 2011 and 2010
(Ch$ million)
continued

LIABILITIES	Note	31. Dec. 11	31. Dec. 10
Foreign liabilities	16	711,843.1	658,950.5
Reciprocal loan agreements		7,097.0	1,342.4
Accounts with international organizations		50,559.6	68,025.0
Special drawings rights (SDR) allocations		654,186.5	589,583.1
Domestic liabilities		26,538,327.9	17,866,565.1
Monetary base	17	6,851,171.5	5,525,006.6
Banknotes and coins in circulation		5,265,742.6	4,748,482.9
Deposits from financial institutions (in Chilean pesos)		676,321.6	776,523.7
Deposits for technical reserve		909,107.3	-
Deposits and obligations	18	6,501,020.3	3,425,860.6
Deposits and obligations with the General Treasury		861,198.8	377,333.2
Other deposits and obligations		5,639,821.5	3,048,527.4
Documents issued by Central Bank of Chile	19	13,186,136.1	8,915,697.9
Central Bank of Chile bonds in UF (BCU)		8,054,639.8	4,102,284.2
Central Bank of Chile bonds in Chilean pesos (BCP)		3,533,333.6	2,329,696.0
Central Bank of Chile discountable promissory notes (PDBC)		984,625.5	1,665,410.8
Optional indexed coupons (CERO) in UF		313,339.8	418,756.8
Indexed promissory notes payable in coupons (PRC)		300,176.3	399,529.0
Other		21.1	21.1
Other liabilities	20	15,609.2	14,669.5
Provisions		15,247.9	14,394.3
Other securities		361.3	275.2
Net equity	21	(2,353,873.1)	(3,449,141.0)
Capital		(3,447,503.0)	(1,961,259.2)
Valuation accounts		1,905.7	1,360.4
Surplus (deficit) for the year		1,091,724.2	(1,489,242.2)
Total Liabilities and Equity		**24,911,907.1**	**15,091,044.1**

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

Statements of Income for the years ended as of 31 December, 2011 and 2010
(Ch$ million)

	Note	31. Dec.11	31. Dec.10
Net income for international reserves	7	449,792.2	212,590.8
Income		650,423.5	378,470.6
Interest income		184,141.6	156,159.0
Gain on sale of instruments at fair value with effect on net income		236,852.2	190,491.2
Gain on sale of available-for-sale securities		6,687.1	6,711.8
Adjustments at fair value		219,290.0	23,033.9
Other		3,452.6	2,074.7
Expenses		(200,631.3)	(165,879.8)
Interest expenses		(23.9)	(1.4)
Loss on sale of instruments at fair value with effect on net income		(193,299.8)	(131,818.7)
Loss on sale of available-for-sale securities		(5.0)	(85.3)
Adjustments at fair value		(7,302.6)	(33,974.4)
Net income (loss) for other foreign operations		1,072.5	(1,398.0)
Income		4,590.5	870.5
Other income		4,590.5	870.5
Expenses		(3,518.0)	(2,268.5)
Interest expenses		(2,660.3)	(1,718.3)
Other expenses		(857.7)	(550.2)
Net loss for domestic operations	8	(707,883.2)	(401,328.7)
Income		158,150.1	137,440.9
Interest income and adjustments		155,116.9	134,394.7
Other income		3,033.2	3,046.2
Expenses		(866,033.3)	(538,769.6)
Interest expenses and adjustments		(865,594.0)	(537,535.7)
Other expenses		(439.3)	(1,233.9)
Net gain (loss) on foreign exchange transactions	9	1,433,546.6	(1,211,623.5)
Gain on foreign exchange transactions		1,530,898.3	143,084.7
Loss on foreign exchange transactions		(97,351.7)	(1,354,708.2)
Issuance and distribution costs	10	(27,906.4)	(47,065.2)
Banknotes		(14,028.6)	(26,016.2)
Coins		(12,884.5)	(20,010.1)
Distribution		(993.3)	(1,038.9)
Personnel and administrative expenses		(42,092.1)	(38,464.7)
Personnel expenses		(25,877.2)	(24,145.6)
Administrative expenses		(13,905.0)	(12,456.2)
Provision for post-employment benefits		(2,309.9)	(1,862.9)
Other expenses		(14,805.4)	(1,952.9)
Depreciation and amortization		(1,931.2)	(1,478.5)
Taxes and contributions		(611.7)	(474.4)
Other	15	(12,262.5)	-
Surplus (deficit) for the year		**1,091,724.2**	**(1,489,242.2)**

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

Notes to the Financial Statements

as of 31December, 2011 and 2010

Note 1 DESCRIPTION OF BUSINESS

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

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

In order to meet its objectives, Central Bank of Chile regulates the amount of money and credit in circulation and executes credit operations and international exchange, such as, dictating regulations on monetary credit, and financial and international exchange matters.

Additionally, Central Bank of Chile is exclusively empowered to issue banknotes and to mint coins.

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

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation of the Financial Statements

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

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

a.ii Provisions, assets and contingent liabilities. The Board decided to adopt the criterion of the international standards, however, it will be able to use the power granted by the Central Bank of Chile's Basic Constitutional Act to record global or individual provisions based upon the risk that may be estimated for certain investing or credit operations. During 2011 and 2010, no provisions were recorded in this regard.

a.iii The statement of changes in equity is not presented. Instead, note 21 Capital and reserves is included; containing the capital movements during 2011 and 2010.

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

a.v The statements of comprehensive income are not presented, instead, the statements of income for 2011 and 2010 are presented.

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

The financial statements have been prepared on the historical cost basis. The abovementioned excludes operations corresponding to foreign investments in financial instruments that are reported at their fair value (including the corresponding effect on net income) and available-for-sale securities, which basis of measurement has been performed taking the fair value as reference.

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

The English translation of this financial statement is provided as a free translation from the Spanish version (official and binding version). This translation has been performed solely for the convenience of non-Spanish readers.

(b) Functional and presentation currency

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

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

(c) Transactions in foreign currency and foreign currency translation

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

c.i U.S. dollars are translated into Chilean pesos at the closing date "observed U.S. dollar" exchange rate pursuant to Section 44 of the Basic Constitutional Act, that governs Central Bank of Chile, referred to under No.6 of Chapter I in the "General Provisions" of the Compendium of Foreign Exchange Regulations (*Compendio de Normas de Cambios Internacionales*).

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

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

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

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

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

	2011 Ch$	2010 Ch$
United States dollar (observed exchange rate)	521.46	468.37
Pound Sterling	802.86	726.04
Euro	675.20	619.87
Special Drawing Rights (SDR)	800.58	721.30

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

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

d.i Accrual basis

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

d.ii Going concern

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

d.iii Materiality

The relevance of information is affected by its nature and relative importance. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Of course, there is not a boundary line setting the limits of what is significant or not, and the best criterion should be applied to resolve the issues in each case according to the circumstances, taking into account factors such as the relative effects on assets, liabilities, equity, or on earnings for the year.

d.iv Substance over form

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

d.v Prudence

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

(e) Price-level adjustment

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

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

In addition, with the purpose of applying the legal regime related to the incorporation of the Central Bank of Chile's paid-in capital and distribution of surpluses to Tax Authorities as dealt with in Section 5 of the abovementioned legislation, in relation to Sections 75, 77 and transitory Article 2 of the same legislation, Central Bank of Chile decided to record price-level adjustment on paid-in capital for 2011 in memorandum accounts, on the basis of CPI variation for 2011, which was 3.9 %.

(f) Interest income and expenses, adjustments and commissions

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

(g) International reserve measurement criteria

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

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

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

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

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

g.ii Available-for-sale securities

Includes floating-rate notes, certificates of deposits, floating-rate certificates, commercial papers, bank acceptances, discount term-deposits issued by BIS, negotiable with BIS, term-deposits at interest rates issued by BIS, negotiable with BIS, and BIS floating-rate notes.

They are investments in financial assets that under some market considerations may become effective before their maturity, they are recorded at fair value and the changes in value are recognized directly in equity until the investment is sold or determined to be other-than temporarily impaired, whereupon, the cumulative gains and losses previously recognized in equity are recognized in profit or loss. The methods used to measure fair values are described in note 3.

g.iii Held-to-maturity securities

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

g.iv Other financial assets:

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

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

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

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

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

Shares and contributions to IDB are shown under "Other foreign assets". Contributions to the IMF are recorded under "Reserve position in the IMF" in "Foreign reserve assets". The "Reserve Position in the IMF" includes the loans granted by Central Bank of Chile to the IMF for involvement in the financing program referred to as "New Arrangements to Borrow" (NAB) and which at year-end was SDR93.5 million. Such loans are a part of the revolving credit facility in favor of the IMF approved by the Central Bank of Chile's Board on 24 September, 2009 up to SDR1,360.0 million. As of 31 December, 2011, the IMF has a balance available for drawing of SDR1,266.5 million.

(i) Bank for International Settlements (BIS) shares

During 2003, Central Bank of Chile's Board Resolutions 1073-04 dated 10 July, 2003 and 1084-02 dated 16 September, 2003, authorized the incorporation of Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September, 2003, in accordance with these resolutions, Banco Central de Chile acquired 3,000 shares of the BIS for SDR42,054,000 which are valued at acquisition cost and are shown under "Other Foreign Assets". During 2011, dividends were received in the amount of US$1.4 million (US$3.1 million in 2010).

(j) Domestic loans

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

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

(k) Operations under specific legal regulation

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

(l) Premises and equipment

Premises and equipment are measured at acquisition cost, net of accumulated depreciation. The goods that have met their useful life are stated at their residual value considering market reference prices. Depreciation is calculated using the straight-line method. Depreciation for 2011 and 2010 is recognized as expense and has been calculated considering the following estimated useful lives:

	Years	
	2011	2010
Buildings	80	80
Furniture and office equipment	10	10
Computer equipment	5	5
Vehicles	5	5

(m) Monetary base

Mostly include liabilities of Central Bank of Chile that are part of money, or other financial instruments contribute including freely-circulating banknotes and coins, plus deposits made by the financial system in Central Bank of Chile and the banknotes and coins held on cash by banks. It is recorded at its nominal value.

(n) Deposits and obligations

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

(o) Documents issued by Central Bank of Chile

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

The following is the detail of held-to-maturity securities: Central Bank of Chile bonds in UF (BCU), Central Bank of Chile bonds in Chilean pesos (BCP), Central Bank of Chile discountable promissory notes (PDBC), Indexed-promissory notes payable in coupons (PRC), Optional indexed coupons (CERO) in UF.

(p) Impairment of financial assets at amortized costs

Regardless of the classification or reclassification of the instruments, in the event it is determined that the recoverable value (fair value) is lower than the earning value recorded in accounting, their impairment shall be recognized with a debit to earning. Pursuant to this policy, during 2011 and 2010, Central Bank of Chile has not recognized any impairment of these financial assets.

(q) Employee benefits

q.i Post-employment benefits

Post-employment benefits are employee benefits which are payable after the completion of employment in Central Bank of Chile, as stipulated in: collective contract between Central Bank of Chile and the Labor Union of Central Bank of Chile, signed on 29 June, 2007 and in force up to 30 June, 2011 and that signed on 1 July, 2011 and in force up to 30 June, 2015; for special resolutions approved by the Board and for special benefits delivered to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile. These benefits include: severance indemnities, special indemnity Resolution 1414-01 dated 5 June, 2008 special benefits to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

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

Actuarial calculation is based on the following assumptions for both years, except for the discount rate which presented a change compared to 2010:

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

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

- **Salary growth rate:** calculated as the annual average composed of the salary growth rate for a five-year period of 5.24%.

- **Discount rate:** Central Bank of Chile used the annual average of the nominal rate for BCP instruments at 10 years. For 2011, the discount rate was 5.89% (6.27% for 2010).

On 29 December, 2011, through Resolution 1651, the Board approved the extension in the Retirement plan applied at Central Bank of Chile since June 2008. This agreement particularly includes individuals joining Central Bank of Chile subsequent to 26 May, 1982 who comply with certain requirements to be eligible for such a plan. These individuals will be entitled to an additional special voluntary indemnity, which will correspond to a third of the monthly gross salary currently received by the employee for each year of service for Central Bank of Chile, over 11 years.

q.ii Accrued vacations

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

(r) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing or amount. These are recognized in the balance sheet when the following requirements are met:

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

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

(s) Financial derivative instruments

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

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

(t) Use of estimates and judgments

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

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

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

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

(u) Issued but not yet effective IFRSs

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

IFRS 9 Financial Instruments: Classification and measurement, will replace sections classification and valuation in IAS 39. This standard will be applicable to financial statements of Central Bank of Chile as from 1 January, 2013 and it shows significant differences when compared to the current standard, including the adoption of a new classification model based on two single categories: amortized cost and fair value; the elimination of current classifications of "Investments held to maturity" and "Available for sale financial assets", and impairment analysis only of assets stated at amortized cost.

On 11 May, 2011, the IASB issued IFRS 13 Fair Value Measurement, which is effective for the annual periods starting on 1 January, 2013 and establishes in one single IFRS, a framework for measuring fair values and disclosures about fair value measurement.

Additionally, there are other standards issued but not yet effective which address matters that do not significantly affect or will not significantly affect the Central Bank of Chile's operations.

Note 3 METHODOLOGY APPLIED FOR THE MEASUREMENT OF FAIR VALUES

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

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

(a) Priced securities (source: Bloomberg)

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

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

On the other hand, the system calculates the gains and losses from investments on a daily basis using the following formula for 2011 and 2010:

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

Where:

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

(b) Non-priced securities (reference rate)

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

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

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

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

Note 4 SEGMENT REPORTING

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

The Central Bank of Chile's primary function is the implementation of the monetary policy in Chile. Over 95% of the reserve assets of Central Bank of Chile are managed by Central Bank of Chile's Financial Operations Division. Additional information on the composition of international reserve assets is presented in note 5.

Note 5 FINANCIAL INSTRUMENT RISKS

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

(a) International reserves

International reserves are liquid assets in foreign currency held by Central Bank of Chile to support its monetary and exchange policies. They constitute one of the instruments that Central Bank of Chile has in order to be able to meet the permanent objective of looking after the stability of the currency and normal functioning of domestic and foreign payments. Consistent with the function of international reserves, as well as with its benefits and costs, the objective of its management aims to provide efficiently a secure access to international liquidity and look after the financial equity of Central Bank of Chile. To achieve this, it acts in conformity with the institutional framework set out in Section 38 of its Basic Constitutional Act, where it is explicitly empowered to manage, maintain and dispose of its international reserves. Central Bank of Chile manages its international reserves using the Wall Street Suite (WSS) system.

In accordance with the program for the regular purchase of currency communicated at the end of 2010 and implemented at the beginning of 2011, Central Bank of Chile has accumulated additional reserves of US$12,000 million during the year, leading international reserves to a level compatible to the amounts noted in economies that are similar to the Chilean economy.

a.i Investment policy and referential structure

The investment policy of international reserves considers liquid financial assets meeting the legal requirements established for its administration. It is designed based on its impact on the earnings and risks of Central Bank of Chile financial balance sheet and on the characteristics of the potential foreign currency liquidity needs searching for the preservation of capital in case of possible market fluctuations.

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

The investment portfolio includes short- and long-term assets in foreign currency that are held to face unforeseen contingencies and long-term requirements. The referential structure of this portfolio considers 50% of U.S. dollars, 40% of euros, 3.5% of Australian dollars, 3.5% of Canadian dollars and 3.0% of pounds sterling and an average maturity of 16.9 months during 2011 and 16.8 months during 2010.

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

Currency structure, period terms and maturity of the referential portfolios

2011		USD		EUR		AUD		CAD		GBP		Total	
		Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)
Short-term portfolio	Banking	5.0	1.5	4.0	1.5	0.3	1.5	0.3	1.5	0.3	1.5		
	Sovereign, Agency, and Supranational	25.0	2.6	20.0	4.4	1.8	3.0	1.8	3.0	1.5	3.0		
	Subtotal short term	30.0	2.4	24.0	3.9	2.1	2.8	2.1	2.8	1.8	2.8	60.0	3.1
Long-term portfolio	Nominal bonds												
	Maturity tiers												
	1-3 years	9.3	22.8	7.5	21.1								
	3-5 years	4.0	45.6	3.2	44.4								
	5-7 years	1.7	65.6	1.3	62.1								
	7-10 years	1.7	86.3	1.3	84.6								
	1-10 years					1.4	46.4	1.4	47.6	1.2	52.0		
	Subtotal	16.7	38.9	13.3	37.1	1.4	45.1	1.4	44.2	1.2	55.0	34.0	39.3
	Indexed bonds												
	Maturity tier												
	1-10 years	3.3	29.5	2.7	27.8								
	Subtotal	3.3	29.5	2.7	27.8							6.0	28.8
	Subtotal long term	20.0	37.4	16.0	35.6	1.4	45.1	1.4	44.2	1.2	55.0	40.0	37.7
Total portfolio		**50.0**	**16.4**	**40.0**	**16.6**	**3.5**	**19.7**	**3.5**	**19.3**	**3.0**	**23.6**	**100.0**	**16.9**

2010		USD		EUR		AUD		CAD		GBP		Total	
		Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)
Short-term portfolio	Banking	5.0	1.5	4.0	1.5	0.3	1.5	0.3	1.5	0.3	1.5		
	Sovereign, Agency, and Supranational	25.0	2.7	20.0	4.3	1.8	3.0	1.8	3.0	1.5	3.0		
	Subtotal short term	30.0	2.5	24.0	3.8	2.1	2.8	2.1	2.8	1.8	2.8	60.0	3.0
Long-term portfolio	Nominal bonds												
	Maturity tiers												
	1-3 years	9.3	22.3	7.5	21.4								
	3-5 years	4.0	45.2	3.2	42.7								
	5-7 years	1.7	64.8	1.3	60.0								
	7-10 years	1.7	87.0	1.3	85.0								
	1-10 years					1.4	45.4	1.4	44.0	1.2	53.8		
	Subtotal	16.7	38.5	13.3	36.7	1.4	45.4	1.4	44.0	1.2	53.8	34.0	38.9
	Indexed bonds												
	Maturity tier												
	1-10 years	3.3	28.5	2.7	30.5								
	Subtotal	3.3	28.5	2.7	30.5							60.0	29.4
	Subtotal long term	20.0	36.8	16.0	35.7	1.4	45.4	1.4	44.0	1.2	53.8	40.0	37.4
Total portfolio		**50.0**	**16.2**	**40.0**	**16.6**	**3.5**	**19.8**	**3.5**	**19.2**	**3.0**	**23.2**	**100.0**	**16.8**

Benchmark – 2011 and 2010 investment policy

Structure	Credit risk	Current share (%)	Benchmark
Short-term portfolio	Banking	10.0	Merrill Lynch indices: Libid at 3 months average (USD, EUR, AUD, CAD and GBP)
	Sovereign, Agency and Supranational	50.0	Merrill Lynch indices: U.S. Treasury Bills (USD) German Gov. Bill Index (EUR) FixBis at 6 months average last 6 months (AUD, CAD and GBP)
Long-term portfolio	Sovereign, Agency, Supranational and Banking	34.0	JP Morgan Bond indices for different tiers between 1-10 years in the United States and Germany. For Australia, Canada and United Kingdom, tier 1-10 global.
	Inflation indexed bonds	6.0	Barclays bond indices for tiers 1-10 in the U.S. and Europe.
Total portfolio		100.0	

a.ii Risk policy and management

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

a.iii Management of liquidity risk

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

a.iv Management of market risk

Market risk implies possible losses due to variations in the price of investments. The investment policy limits the market risk arising from variations on interest rates and parities by establishing maturity and composition margins of currencies around referential parameters of the portfolios and through the diversification of currencies, securities and investment periods. Market risk is monitored through the daily measurement of the maturity and composition of currencies, and by the follow-up of VaR and Tracking Error. The international reserve management monthly report, prepared by the Manager of Management and Financial Risk Evaluation, includes the measurements of performance and risk in an absolute manner and as compared to a benchmark, and presents an evaluation of the implemented investment strategy.

a.v Management of credit risk

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

The table below shows the composition of international reserves according to credit risk. As noted at the end of 2010, at the end of the present year the sovereign, supranational and agency risks are concentrated in risk rating category AAA, while the securities issued by bank institutions are concentrated in the AA- category.

Composition of international reserves as per credit risk (1) (2) (3) (4)

(percentage as of 31 December, 2011)

Credit risk	Credit rating						
	AAA	AA+	AA-	A+	A	BBB+	Total
Agency	7.8	-	-	-	-	-	7.8
Banking	0.2	1.0	11.7	5.8	2.6	0.3	21.6
Sovereign	66.1	0.3	-	-	-	-	66.4
Supranational	4.2	-	-	-	-	-	4.2
Total	78.3	1.3	11.7	5.8	2.6	0.3	100.0

1. Banking risk is related to the investment in bank financial instruments (deposits, arbitrations and future arbitrations, secured bonds from public institutions issued by German banks).
Sovereign risk consists of the investment in securities from sovereign states (deposits, bills, floating rate notes, nominal and indexed bonds).
Agency risk is related to the investment in securities from U.S., French and German government agencies (bills, nominal bonds, mortgage-backed securities).
Supranational risk is related to the investment in multilateral official issuer securities (deposits, bills, floating rate notes and nominal bonds).
2. Credit rating corresponds to the average of the ratings obtained from the agencies Fitch, Moody's, and Standard and Poor's.
3. Excludes investments in portfolios of external administrators and liquidity, gold possessions and positions in IMF.
4. Corresponds to investments in the Bayerische Landesbank whose last maturity date is 31 January, 2012.

Composition of international reserves as per credit risk (1) (2) (3)

(percentage as of 31 December, 2010)

Credit risk	Credit rating						
	AAA	AA +	AA	AA-	A+	A	Total
Agency	10.2	-	-	-	-	-	10.2
Banking	0.1	-	2.7	6.3	2.4	2.4	13.9
Sovereign	65.2	4.4	-	1.8	0.1	-	71.5
Supranational	4.4	-	-	-	-	-	4.4
Total	79.9	4.4	2.7	8.1	2.5	2.4	100.0

1. Banking risk is related to the investment in bank financial instruments (deposits, arbitrations and future arbitrations, secured bonds from public institutions issued by German banks).
Sovereign risk consists of the investment in securities from sovereign states (deposits, bills, floating rate notes, nominal and indexed bonds).
Agency risk is related to the investment in securities from U.S., French and German government agencies (bills, nominal bonds, mortgage-backed securities).
Supranational risk is related to the investment in multilateral official issuer securities (deposits, bills, floating rate notes and nominal bonds).
2. Credit rating corresponds to the average of the ratings obtained from the agencies Fitch, Moody's, and Standard and Poor's.
3. Excludes investments in portfolios of external administrators and liquidity, gold possessions and positions in IMF.

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

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

a.vi Settlement of operations

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

a.vii Compliance control

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

a.viii Custody of securities

Central Bank of Chile operates with the custodians of the following institutions that qualify in accordance with the policies established by the Board: JP Morgan Chase, State Street Bank, and Bank for International Settlement (BIS).

a.ix External administrators

Through Resoutions by the Board achieved in October and November 2011, the Board provided instructions for the continuity of Pacific Investment Management Company (Pimco) and the selection of a new portfolio external administrator within an administration program which considers similar amounts for each mandate. Accordingly, in November, Goldman Sachs was appointed as a result of the selection process.

During 2010, Central Bank of Chile has three external administrators to manage international reserves: BlackRock Securities (BlackRock) and Pimco, and Wellington Management Company (Wellington) for the General Bond Program.

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

(b) Open-market operations

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

The injection of liquidity is generally performed through purchases of overnight repurchase agreements (Repo). In the opposite situation, where there is excess of liquidity and the inter-bank rate falls below the objective rate, the transitory excess is withdrawn through the opening of the liquidity deposit window. Other instruments used by Central Bank of Chile correspond to the line of credit for liquidity in local currency for secured banks and to the line of credit for liquidity used in special situations.

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

b.i Risk management policy

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

(b) Open-market operations

b.ii Management of credit risk

To manage the risk of open-market operations performed by Central Bank of Chile with financial institutions, such operations are restricted in their design to the receipt of collaterals eligible according to their credit quality, which are valued at market prices at the time of their receipt and subject to the application of discounts or haircuts according to the instrument specific characteristics. The monthly management report on open-market and debt operations prepared by the Manager of Management and Financial Risk Evaluation includes monitoring the exposure to counterparty and collateral risk, as well as measuring debt management and compliance with promissory note and bond bidding programs.

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

b.ii Management of operational risk

The management of operational risk is an activity based on two key processes, risk prevention management and operating continuity management. Risk prevention management adopts AS/NZS 4360 and COSO II Enterprise Risk Management Framework as reference standards and looks for identifying the underlying risk events in critical processes which may have an effect on the objectives and on the basis of their probability and impact, sets priorities for developing mitigating factors to avoid their occurrence. The operating continuity management adopts BS-25999 and the "High-Level Principles for Business Continuity" issued by the BIS as reference standards and through business continuity plans looks for maintaining the operation of the critical processes in the event of disruptions including recovery strategies which decrease their impact. Within this context, Central Bank of Chile assesses risks and has operating continuity plans for its critical processes and systems, which include WSS associated with the management of International Reserves and *LBTR* and *Soma* systems associated with open-market operations, operating continuity plans are tested on a regular basis.

Note 6 CHANGES IN ACCOUNTING POLICIES

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

During 2011, there were no changes in accounting policies. Through Resolution 1519-01, dated 14 January, 2010, the Board approved new policies for the presentation and preparation of Central Bank of Chile's financial statements, which have also been approved by ordinary office 5100 of 28 December, 2009 of the Superintendence of Banks and Financial Institutions pursuant to Section 75 of Central Bank of Chile's Basic Constitutional Act which states that starting in 2010, price-level adjustment of paid-in capital is only presented in memorandum accounts as described in note 2(e). These policies consider the adoption of IFRS in everything in which the application of these international accounting standards does not affect legal specific provisions that govern the Central Bank of Chile or the compliance of its public duties. Should there be any disagreement; the standards issued by the Board of Central Bank of Chile shall prevail.

Note 7 NET INCOME FOR INTERNATIONAL RESERVES

For the years ended 31 December, 2011 and 2010, this caption is composed of the following:

	(Ch$ million)	
	2011	2010
(a) Net interests and commissions on:		
Securities at fair value with effect on income	154,058.2	133,278.7
Held-to-maturity securities	28,903.5	21,548.6
Available-for-sale securities	449.5	1,234.3
Foreign correspondents	706.5	96.0
Subtotal for net interests and commissions	184,117.7	156,157.6
(b) Sales of securities:		
At fair value with effect on income	43,552.4	58,672.5
Available-for-sale	6,682.1	6,626.5
Subtotal for sales of securities	50,234.5	65,299.0
(c) Gain (loss) on adjustments at fair value	211,987.4	(10,940.5)
(d) On other income	3,452.6	2,074.7
Total net income for international reserves	449,792.2	212,590.8

Note 8 NET INCOME FOR DOMESTIC OPERATIONS

For the years ended 31 December, 2011 and 2010, this caption is composed of the following:

	(Ch$ million)	
	2011	2010
(a) Income for domestic loan		
Interests	4,859.4	8,589.9
Adjustments	181.6	50.1
Other	3,033.2	3,114.7
Total income for domestic loan	8,074.2	11,754.7
(b) Income for operations under specific legal regulations		
Interests	94,845.9	86,378.0
Adjustments	50,140.4	32,186.1
Total income for operations under specific legal regulations	144,986.3	118,564.1
(c) Income for deposits and obligations held by Central Bank of Chile		
Interests	(74,399.3)	(26,261.5)
Other	(439.3)	1,340.4
Total income for deposits and obligations held by Central Bank of Chile	(74,838.6)	(24,921.1)
(d) Income for documents issued by Central Bank of Chile		
Interests	(534,644.2)	(380,524.2)
Adjustments	(251,460.9)	(126,202.2)
Total income for documents issued by Central Bank of Chile	(786,105.1)	(506,726.4)
Total net income for domestic operations	(707,883.2)	(401,328.7)

Note 9 NET GAIN (LOSS) ON FOREIGN EXCHANGE OPERATIONS

For the years ended 31 December, 2011 and 2010, this caption is composed of the following:

	(Ch$ million)	
	2011	2010
Gain on foreign exchange operations	1,530,898.3	143,084.7
Loss on foreign exchange operations	(97,351.7)	(1,354,708.2)
Total	1,433,546.6	(1,211,623.5)

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

	(Ch$ million)	
	2011	2010
U.S. dollar	843,162.2	(449,265.4)
Euro	397,688.0	(706,723.9)
DEG	21,345.4	(14,844.5)
Pound sterling	40,170.1	(32,694.9)
Other currency	137,068.3	(4,589.9)
Subtotal net gain (loss) on foreign exchange operations	1,439,434.0	(1,208,118.6)
Arbitrage and other	(5,887.4)	(3,504.9)
Total net gain (loss) on foreign exchange operations	1,433,546.6	(1,211,623.5)

Note 10 ISSUANCE AND DISTRIBUTION COSTS

For the years ended 31 December, 2011 and 2010, this caption is composed of the following:

	(Ch$ million)	
	2011	2010
Banknotes	(14,028.6)	(26,016.2)
Coins	(12,884.5)	(20,010.1)
Distribution	(993.3)	(1,038.9)
Total	(27,906.4)	(47,065.2)

The decrease in currency issuance and distribution costs during 2011 compared to 2010 is due to the fact that during the year the launch of the new "family of banknotes" program started in 2009 finished. The detail of banknotes is provided in note 17(a).

Note 11 RESERVE ASSETS

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

	(US$ million)	
	2011	2010
Monetary gold	12.1	11.2
Special drawing rights (SDR)	1,214.4	1,217.3
Reserve position in the IMF	601.3	282.1
Correspondent banks abroad	780.3	56.6
Investments in foreign currency:	39,335.3	26,260.2
Securities at fair value with effect on net income	27,550.3	18,095.3
Level 1 market value	27,550.3	18,095.3
Level 2 measurement with market price	-	-
Level 3 measurement without reference to market price	-	-
Available-for-sale securities	4,056.5	2,233.3
Level 1 market value	-	-
Level 2 measurement with market price	-	-
Level 3 measurement without reference to market price	4,056.5	2,233.3
Held-to-maturity securities	7,728.5	5,931.6
Reciprocal loan agreements	34.9	35.3
Other assets	1.0	1.0
Total reserve assets	41,979.3	27,863.7

As of 31 December, 2011, monetary gold amounted to US$12.1 million (US$11.2 million in 2010) equivalent to 7,940 fine gold troy ounces valued at US$1,531 per ounce (US$1,413 in 2010). There was no change in the amount of troy ounces compared to 2010.

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

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

The increase observed in reserve assets for the year ended 31 December, 2011 of US$14,115.6 million, compared to 2010, is mainly explained by an increase in fair value securities of US$9,455.0 million, US$1,823.2 million in available-for-sale securities and US$1,795.9 million in held-to-maturity securities.

Investments in foreign currencies at each year-end are detailed as follows:

	(US$ million)	
	2011	2010
U.S. dollar	22,086.6	14,510.3
Euro	12,655.6	9,289.4
Other currencies	7,237.1	4,064.0
Total	41,979.3	27,863.7

Note 12 RESERVE POSITION IN THE INTERNATIONAL MONETARY FUND (IMF)

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

	(Ch$ million)	
	2011	2010
Subscription installment contribution	685,378.4	617,510.3
Loan. account No.1	61.4	61.4
New Arrangements to Borrow (NAB)	74,873.6	-
Deposits	(446,781.5)	(485,433.4)
Total position in the IMF	313,531.9	132,138.3

Note 13 LOANS TO BANKS AND FINANCIAL INSTITUTIONS

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

	(Ch$ million)	
	2011	2010
Line of credit on debt restructuring	1,114.1	1,770.4
Central Bank of Chile repurchase agreements (Repo)	954,954.9	-
Total	956,069.0	1,770.4

The average purchase rate for Central Bank of Chile repurchase agreements (Repo) was 4.98% in 2011 (0.83% in 2010).

Note 14 OPERATIONS UNDER SPECIFIC LEGAL REGULATIONS

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

(a) General Treasury Transfers

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

	(Ch$ million)	
	2011	2010
General Treasury transfer Law 18,401	253,794.9	244,249.6

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million, will be covered by the General Treasury through future taxes which as of 31 December, 2011 amount to Ch$253,794.9 million, equivalent to approximately UF11.4 million (Ch$244,249.6 million in 2010, equivalent to approximately UF11.4 million).

Executive Decree 1526 issued by the Ministry of Finance, dated 14 December, 2010, determined the total amount of the transfer that the General Treasury has to perform in favor of Central Bank of Chile because of the application of the above mentioned law for UF11,383,983.4695 and equivalent, at least, to one twentieth of the aforementioned total sum, starting on the eleventh year subsequent to the year in which the aforementioned Decree was processed, which corresponds to 25 January, 2011. However, this Decree expressly contemplates that the General Treasury will be able to make prepayments.

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

Decree Laws 1381 dated 23 March, 1976 and 2,824 dated 6 August, 1979 regulated the obligation imposed by Central Bank of Chile of granting loans to organizations which were part of the former National Savings and Loan System because of the financial position affecting organizations in that system.

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

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

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

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

As of 31 December, 2011, the amount payable to Central Bank of Chile from the liquidation of these institutions, was Ch$816,993.3 million (this amount includes interest accrued for Ch$541,899.8 million to that date), of which Ch$751,434.3 million correspond to direct loans granted by Central Bank of Chile and Ch$65,559.0 million with credit lines for international organization programs (Ch$749,345.0 million in 2010, of which Ch$688,839.1 million relate to direct loans granted by Central Bank of Chile and Ch$60,505.9 million to credit lines for international organizations programs).

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

(c) Loan for subordinated liability

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

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

During 2011, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF5,899,788.7374 to Central Bank of Chile, of which UF2,280,164.9346 were allocated to the payment of interests of the debt and UF3,619,623.8028 to the credit amortization for subordinated liability (in 2010 UF4,848,537.3713, of which UF2,140,215.0172 were destined to the payment of interest and UF708,322.3541 to amortization).

As of 31 December, 2011, the balance amounts to Ch$821,311.9 million (Ch$876,663.7 million in 2010).

Note 15 PREMISES AND EQUIPMENT

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

	(Ch$ million)						
	Balances as of 31. Dec.10	Acquisitions	Disposals	Appraisal adjustment	Held-for-sale	Depreciation	Balances as of 31. Dec.11
Real estate and facilities	34,115.1	293.0	-	(12,262.5)	(325.3)	(266.6)	21,553.7
Furniture and equipment	6,316.7	5,324.6	(109.8)	-	-	(1,644.0)	9,887.5
Transport material	235.5	191.0	(15.7)	-	-	(20.6)	390.2
Collection of banknotes and coins (*)	3,100.6	551.7	-	-	-	0.0	3,652.3
Works of art	1,652.0	-	-	-	-	-	1,652.0
Other	13.4	-	-	-	-	-	13.4
Premises and equipment, net	45,433.3	6,360.3	(125.5)	(12,262.5)	(325.3)	(1,931.2)	37,149.1

(*) This figure includes Ch$551.7 million due to variations in foreign currency exchange of gold pesos.

As of 31 December, 2011 and 2010, the caption depreciation and amortization include Ch$1,931.2 million and Ch$1,478.5 million, respectively.

During 2011, the Bank appraised its real estate which resulted in the recognition of a loss of Ch$12,262.5 million.

Note 16 FOREIGN LIABILITIES

This caption includes the following operations

	(Ch$ million)	
	2011	2010
Reciprocal loan agreements	7,097.0	1,342.4
Accounts with international bodies	50,559.6	68,025.0
Special drawing rights (SDR) allocations	654,186.5	589,583.1
Total foreign liabilities	711,843.1	658,950.5

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

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

This caption is composed of the following:

	(Ch$ million)	
	2011	2010
Promissory note obligations with IDB	41,633.9	40,197.6
International Bank for Reconstruction and Development (IBRD)	30.4	20,933.2
Inter-American Development Bank (IDB)	7,961.3	5,960.2
Agency for International Development (AID)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	32.9	32.9
Total accounts with international organizations	50,559.6	68,025.0

During 2011, Central Bank of Chile recorded in amortization Ch$2,998.4 million (Ch$2,080.6 million in 2010) of the promissory note liability with IDB, which was financed by the General Treasury in accordance with Article 38 number 2 of the Central Bank of Chile's Basic Constitutional Act, affecting Central Bank of Chile's equity in conformity with the provisions of Article 3 of Decree Law 2943 dated 1979.

The assignments of Special Drawing Rights (SDRs) correspond to SDR816,891,579 assigned to Chile through Central Bank of Chile, by the International Monetary Fund, which are subject to possible restitution; they accrue interests on the basis of a rate determined by the IMF on a weekly basis.

Note 17 MONETARY BASE

This caption is composed of the following:

	(Ch$ million)	
	2011	2010
Banknotes and coins in circulation	5,265,742.6	4,748,482.9
Deposits from financial institutions	676,321.6	776,523.7
Deposits for technical reserve	909,107.3	-
Total monetary base	6,851,171.5	5,525,006.6

(a) Banknotes and coins in circulation

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

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

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

Denomination	(Ch$ million)	
	2011	2010
$ 20,000	1,421,483.1	1,211,001.5
$ 10,000	2,903,835.5	2,701,214.3
$ 5,000	399,479.9	368,395.6
$ 2,000	131,463.9	94,220.7
$ 1,000	151,962.0	139,732.3
$ 500	4,752.0	4,760.4
Other	251.4	251.4
Coins	252,514.8	228,906.7
Total	5,265,742.6	4,748,482.9

(b) Deposits from financial institutions

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

(c) Deposits for technical reserve

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

Note 18 DEPOSITS AND OBLIGATIONS

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

	(Ch$ million)	
	2011	2010
Deposits and obligations with the General Treasury	861,198.8	377,333.2
Other deposits and obligations	5,639,821.5	3,048,527.4
Total	6,501,020.3	3,425,860.6

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

	(Ch$ million)	
	2011	2010
General Treasury current accounts	795,639.9	129,833.1
Other	65,558.9	247,500.1
Total	861,198.8	377,333.2

(b) "Other Deposits and Obligations" include:

	(Ch$ million)	
	2011	2010
Liquidity deposits of financial institutions	3,796,300.0	1,913,500.0
Current accounts in foreign currency	815,359.0	422,761.8
Short-term deposits from bank institutions	993,381.3	689,440.6
Other	34,781.2	22,825.0
Total	5,639,821.5	3,048,527.4

Note 19 DOCUMENTS ISSUED BY CENTRAL BANK OF CHILE

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

As of 31 December, 2011 and 2010, maturities of these instruments 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 2011	Total 2010
Central Bank of Chile bonds in UF (BCU)	-	269,665.0	554,065.0	1,851,054.1	5,379,855.7	8,054,639.8	4,102,284.2
Central Bank of Chile bonds in Chilean pesos (BCP)	163,663.6	392,046.3	55,384.5	862,838.3	2,059,400.9	3,533,333.6	2,329,696.0
Central Bank of Chile discountable promissory notes (PDBC)	913,906.3	70,719.2	-	-	-	984,625.5	1,665,410.8
Indexed promissory notes payable in coupons	7,148.4	3,534.6	13,220.1	53,220.1	223,053.1	300,176.3	399,529.0
Optional indexed coupons (CERO) in UF	23,766.1	20,147.8	31,767.5	102,715.7	134,942.7	313,339.8	418,756.8
Other	21.1	-	-	-	-	21.1	21.1
Total as of 31 December	1,108,505.5	756,112.9	654,437.1	2,869,828.2	7,797,252.4	13,186,136.1	8,915,697.9

Balances include interest and adjustments accrued as of 31 December, 2011 and 2010.

As of 31 December, 2011, the variation of Ch$4,270,438.2 million in these liabilities compared to 2010, is explained mainly by an increase in the issuance of BCUs, BCPs and PDBCs associated with the need for withdrawing the additional liquidity in the market as a result of the program for the purchase of foreign currency announced on 3 January, 2011. Such plan contemplated US$10,000 million issuances among those bonds indicated above.

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

Note 20 Other liability accounts

This caption is composed of the following:

	(Ch$ million)	
	2011	2010
Provisions	15,247.9	14,394.3
Other securities	361.3	275.2
Total	15,609.2	14,669.5

(a) Provisions

Central Bank of Chile has recorded provisions for severance indemnity, a benefit established in the Collective Labor Agreement in force for the periods 2007-2011 and 2011-2015 accounted for in accordance with the actuarial method of projected cost. At the same time, the benefits granted to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile and healthcare benefits for retirement plans are also included and detailed as follows:

	(Ch$ million)	
	2011	2010
Balance at the beginning of the year	12,814.1	12,328.0
Provision for the year:		
- Severance indemnity	585.8	327.9
- Special indemnity Resolution 1414-01-080605 and agreed deposit for retirement plan	90.4	1,404.5
- Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	51.9	(1,244.4)
- Healthcare benefits for retirement plans	3.9	(1.9)
Post-employment benefit provision balance	13,546.1	12,814.1
Pending accrued vacations of personnel	1,698.7	1,576.6
Special indemnity Resolution 572-05-961226	3.1	3.6
Balance at the end of the year	15,247.9	14,394.3

Nota 21 CAPITAL AND RESERVES

(a) Capital and reserves

Changes in capital and reserves during 2011 and 2010 were as follows:

	(Ch$ million)			
	Capital	Valuation accounts	Net income (loss)	Total
Balances as of 1 January, 2010	803,434.1	3,126.8	(2,766,773.9)	(1,960,213.0)
Deficit distribution as of 2009	(2,766,773.9)	-	2,766,773.9	-
Capital increase (*)	2,080.6	-	-	2,080.6
Valuation accounts	-	(1,766.4)	-	(1,766.4)
Deficit for the year	-	-	(1,489,242.2)	(1,489,242.2)
Balances as of 31 December, 2010	(1,961,259.2)	1,360.4	(1,489,242.2)	(3,449,141.0)
Balances as of 1 January, 2011	(1,961,259.2)	1,360.4	(1,489,242.2)	(3,449,141.0)
Deficit distribution as of 2010	(1,489,242.2)	-	1,489,242.2	-
Capital increase (*)	2,998.4	-	-	2,998.4
Valuation accounts	-	545.3	-	545.3
Surplus for the year	-	-	1,091,724.2	1,091,724.2
Balances as of 31 December, 2010	(3,447,503.0)	1,905.7	1,091,724.2	(2,353,873.1)

(*) The General Treasury previously provided Central Bank of Chile with Ch$2,998.4 million in 2011 and Ch$2,080.6 million in 2010 to pay liabilities assumed with IDB, which are registered in Central Bank of Chile's records as the Fiscal Agent in accordance with the Ordinary Official Letters issued by the General Treasury 2945 dated 28 October, 2011 and 1405 dated 27 August, 2010. The recognition of this balance implied recording a capital increase in the same amount (see note 16).

Section 5 of the Basic Constitutional Act of Central Bank of Chile established a paid-in capital for Central Bank of Chile at Ch$500,000 million, which at 31 December, 2011 corresponds to Ch$2,061,943.5 million adjusted to the Consumer Price Index as of that date, which has to be paid according to transitory Article 2 of the Basic Constitutional Act.

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

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

As of 31 December, 2011, Central Bank of Chile presents negative equity of Ch$2,353,873.1 million (negative equity of Ch$3,449,141.0 million as of 31 December, 2010), which is mainly originated from the variations in exchange rate variations of assets in foreign currencies.

Article 11 of Law 20,128 published in the *Official Gazette* on 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 a law for up to 5 years from the aforementioned date and therefore, such a period finished on 30 September, 2011. During 2011 and 2010, the General Treasury did not make any contributions to equity of Central Bank of Chile in relation to this law.

(b) Price-level adjusted capital

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

As of 31 December, 2011, the negative capital price level-adjustment recognized in memorandum accounts amounted to Ch$(136,450.8) million ((Ch$49,083.5) million in 2010), which resulted in adjusted capital of Ch$(3,633,046.3) million ((Ch$2,010,342.7) million in 2010). The amount to price-level adjusted is capital at the reporting date and its respective contributions by the General Treasury, if any, which does not consider valuation accounts. Note that as of to-date the related deficit has not been distributed yet.

	Capital as of 31.Dec.2011	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31.Dec.2011
Balances as of 31 December, 2011	(3,496,586.5)	(136,459.8)	(3,633,046.3)

Note 22 VARIATIONS IN THE MONETARY BASE AND INTERNATIONAL RESERVES

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

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

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

Variations in the monetary base	(Ch$ million) 2011	2010
Initial balance of monetary base	5,525,006.6	4,582,203.6
Increase		
Foreign exchange operations	5,793,799.9	10,900.8
Interest and indexation paid	731,921.9	639,332.5
Domestic loans	951,159.6	-
Operating support expenses	37,969.0	35,123.5
Deposits and obligations	-	1,892,930.7
Securities issued	-	1,459,846.2
Operations with international bodies	19,163.8	-
Other minor foreign exchange changes	-	68.3
Accounts receivable for future currency sales	-	373,258.2
Other assets	-	2,093.0
Total increase	7,534,014.2	4,413,553.2
Decrease		
Deposits and obligations	(1,945,739.8)	-
Interest and indexation received for domestic operations	(131,023.8)	(181,240.0)
Operations with international bodies	-	(163.3)
Domestic loans	-	(3,287,194.2)
Securities issued	(4,120,399.3)	-
Other minor foreign exchange changes	(1,104.1)	-
Redemption of IDB promissory notes	(2,998.4)	(2,080.6)
Other assets	(6,413.1)	-
Other liabilities	(170.7)	(72.1)
Total decrease	(6,207,849.2)	(3,470,750.2)
Variation of monetary base for the year	1,326,165.0	942,803.0
Final balance of monetary base	6,851,171.5	5,525,006.6

Variations in international reserve assets	(Ch$ million) 2011	2010
Initial reserve balance	27,863.7	25,372.5
Increase		
Foreign exchange operations	11,880.9	21.8
Deposits and obligations	2,230.8	1,975.3
U.S. dollars sale with agreement to repurchase	-	176.1
Other assets	-	1.6
Interests received for deposits and other investment instruments abroad	2,644.9	1,626.7
Total increase	16,756.6	3,801.5
Decrease		
Other liabilities	(6.0)	(5.2)
Other assets	(0.5)	-
Interest paid for foreign liabilities	(2,702.1)	(1,323.2)
Total decrease	(2,708.6)	(1,328.4)
Variation in reserves for the year	14,048.0	2,473.1
Effect of exchange rate	67.6	18.1
Final reserve balance	41,979.3	27,863.7

Note 23 FOREIGN CURRENCY BALANCES

The balance sheets include assets and liabilities payable in foreign currencies, whose balances as of 31 December, 2011 and 2010 are as follows:

	(US$ million)	
	2011	2010
Assets		
Foreign assets	42,228.0	28,112.6
Reserves	41,979.3	27,863.7
Other foreign assets	248.7	248.9
Other asset accounts	430.2	5.7
Total assets	42,658.2	28,118.3
Liabilities		
Foreign liabilities	1,348.0	1,347.5
Other foreign liabilities	93.5	88.7
Special drawing rights (SDR) allocations	1,254.5	1,258.8
Domestic liabilities	4,777.8	2,929.9
Deposits and General Treasury liabilities	1,284.2	528.9
Other deposits and obligations	3,493.6	2,401.0
Total liabilities	6,125.8	4,277.4
Net assets	36,532.4	23,840.9

Note 24 CONTINGENCIES AND COMMITMENTS

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

Note 25 INCOME TAXES

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

Note 26 FISCAL AGENCY

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

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

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

Through Resolution 1406 of the Board, dated 24 April, 2008, *KPMG Auditores y Consultores Ltda.* was assigned as the auditor of the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP) for 2011 and 2010. Through an addendum to the audit contract with the audit firm *KPMG Auditores Consultores Ltda.* on 1 October, 2011, the audit services on the Strategic Contingency Fund (FCE) were incorporated.

Note 27 TRANSACTIONS WITH RELATED PARTIES

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

(b) Compensation of the Board and key executives:

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

Compensation corresponding to the General Manager, the General Counsel and General Auditor of Central Bank of Chile, are at level 1 of the compensation structure, as they are positions established in Sections 24 through 26 of the Basic Constitutional Act.

The total gross compensation paid to the Board and key executives during 2011 amounted to Ch$1,228.1 million (Ch$1,193.5 million in 2010).

Note 28 RELEVANT EVENTS

Through Executive Decree 1716 issued by the Ministry of Finance dated 6 December, 2011 and published in the *Official Gazette* on 30 December, 2011, the President Mr. Sebastián Piñera Echenique appointed Board Member Mr. Rodrigo Vergara Montes as Central Bank of Chile's Board Governor for a period of 5 years starting from 10 December, 2011.

As of 31 December, 2011, Banco Central de Chile's Board is composed of four members given that the period of the former Governor's and Board Member, Mr. José De Gregorio Rebeco, finished on 9 December, 2011.

Note 29 SUBSEQUENT EVENTS

In the opinion of Management, between 31 December, 2011 and the date of issuance of these financial statements the following subsequent events which could significantly affect the amounts presented in the financial statements have occurred:

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

The value of U.S. dollar as of 26 January, 2012 was Ch$493.58, representing a decrease of Ch$27.88, compared to the rate prevailing as of 31 December, 2011. This represents a decrease in Central Bank of Chile's equity of Ch$475,467.6 million.

The value of euro as of 26 January, 2012 was Ch$646.30, representing a decrease of Ch$28.90, compared to the rate prevailing as of 31 December, 2011. This represents a decrease in Central Bank of Chile's equity of Ch$275,564.0 million.

The total decrease in Central Bank of Chile's equity due to the drop in the exchange rate for United States dollars and euro on 26 January, 2012 is Ch$751,031.6 million.

(b) Approval of financial statements

The financial statements for the year ended 31 December, 2011 were presented by the General Manager to the Board on 26 January, 2012 and approved for issue at the Meeting 1655.

(c) Other

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

ALEJANDRO ZURBUCHEN SILVA
General Manager

SERGIO VALLEJOS FUENTEALBA
General Accountant (D)

SILVIA QUINTARD FLEHAN
General Auditor

INDEPENDENT AUDITORS' REPORT

To the Governor and Board Members of
Central Bank of Chile:

1. We have audited the accompanying balance sheets of Central Bank of Chile as of 31 December, 2011 and 2010 and the related statements of income for the years then ended. The preparation of these financial statements (including their notes) is the responsibility of Central Bank of Chile's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits 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 Central Bank of Chile's Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. As discussed in note 2 to the financial statements, Central Bank of Chile prepares its financial statements in accordance with standards issued by the Central Bank of Chile's Board, as approved by the Chilean Superintendence of Banks and Financial Institutions, as established in Section 75 of the Central Bank of Chile's Basic Constitutional Act. These standards are consistent with International Financial Reporting Standards (IFRS). Should there be any discrepancy, the standards issued by the Central Bank of Chile's Board shall prevail, including those discussed in note 2(a) to the financial statements in relation to the following matters: a) Accounting treatment of the *Sinap* Liquidation Account Law 18,900 dated 16 January, 1990, which is presented within the caption Operations Under Specific Legal Regulation and explained in note 14(b) to the financial statements; and b) Replacement of the Statements of Changes in Equity, Cash Flows and Comprehensive Income with the notes Capital and Reserves, Variations in Monetary Base and International Reserve Assets, and Statements of Income, respectively.

4. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Chile as of 31 December, 2011 and 2010 and the results of its operations for the years then ended, in conformity with the accounting principles described in note 2(a) to the financial statements.

5. As discussed in note 21 to the financial statements, as of 31 December, 2011, Central Bank of Chile has net equity deficit of Ch$2,353,873.1 million (Ch$3,449,141.0 million in 2010), which is explained mainly by changes resulting from the exchange rates of assets denominated in foreign currency.

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

Joaquín Lira H. — KPMG Ltda.

Santiago, 26 January, 2012

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