ANNUAL REPORT 2013
CENTRAL BANK OF CHILE

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CENTRAL BANK OF CHILE

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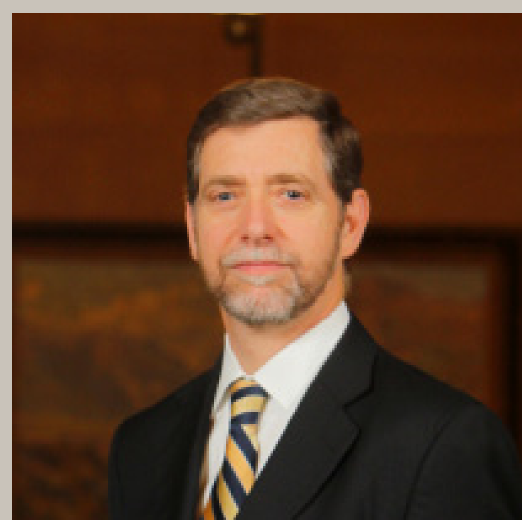
31 December 2013

RODRIGO VERGARA MONTES
GOVERNOR



MANUEL MARFÁN LEWIS
DEPUTY GOVERNOR
(served as Deputy Governor and Board Member through 18 December 2013)

SEBASTIÁN CLARO EDWARDS
BOARD MEMBER

ENRIQUE MARSHALL RIVERA
BOARD MEMBER

JOAQUÍN VIAL RUIZ-TAGLE
BOARD MEMBER

ALEJANDRO ZURBUCHEN SILVA
GENERAL MANAGER

MIGUEL ÁNGEL NACRUR GAZALI
GENERAL COUNSEL

SILVIA QUINTARD FLEHAN
GENERAL AUDITOR

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Beltrán De Ramón Acevedo
FINANCIAL OPERATIONS

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Enrique Orellana Cifuentes
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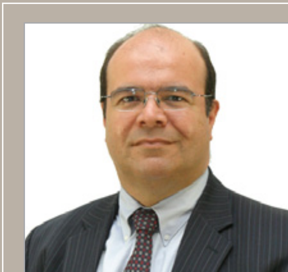
AND COMMUNICATION

Gloria Peña Tapia
STATISTICAL INFORMATION

José Luis Pérez Alegría
SECURITY

Claudio Raddatz Kiefer
ECONOMIC RESEARCH

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FINANCIAL RISK ASSESSMENT
AND MANAGEMENT

Cecilia Feliú Carrizo
TREASURY

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FINANCIAL SERVICES

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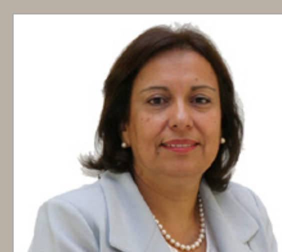
INFORMATION SYSTEMS

Sergio Lehmann Beresi
INTERNATIONAL ANALYSIS







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STATISTICS

Claudio Soto Gamboa
MACROECONOMIC ANALYSIS

Mario Ulloa López
STRATEGIC AND OPERATIONAL
RISK MANAGEMENT

María Inés Urbina De Luiggi
LOGISITCAL SERVICES

Claudia Varela Lertora
INSTITUTIONAL AFFAIRS

EMPLOYEE PROFILE

31 December 2013

BOARD MEMBERS 5

EMPLOYEES 616 (*)

AVERAGE YEARS OF SERVICE

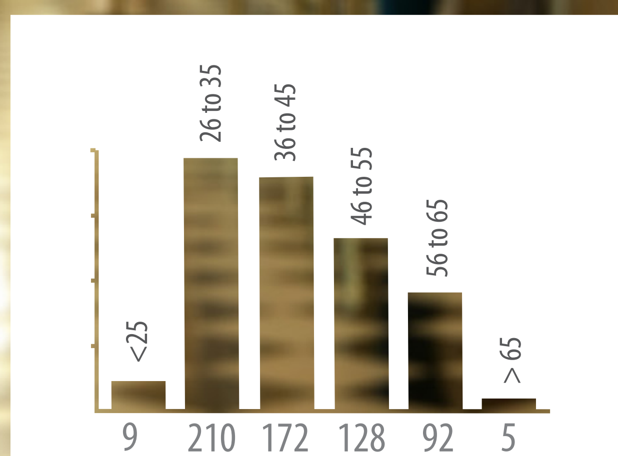
12

423 193

ANNUAL TURNOVER

6.97%

BY AGE



(*) Excluding Board Members

BANCO CENTRAL
DE CHILE

Santiago, 29 April de 2014

Mr. Alberto Arenas
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 18,840, I hereby submit this institution's *Annual Report* for 2013.

Sincerely,

Rodrigo Vergara M.
Governor

Museo Numismático
Banco Central de Chile
Qué es el Dinero ?
hay detrás de un objeto tan cotidiano pero que inspira
os sueños?
onamos, lo perseguimos, lo guardamos con celo. Con él valoramos buena parte de nuestro
empo y aspiraciones. Por su causa se libran disputas, pero también, gracias a él, se expanden
s de la experiencia humana. ¿Qué es el dinero? Un instrumento que las sociedades han
usar como medida de valor común. Así, las personas, las empresas y los países compran o
ienes y servicios, sabiendo por anticipado el valor que cada cual le asigna a lo transado.
ero es una medida de valor común. Facilita las transacciones
e, como tiene el mismo valor para todas las personas, todas están
estas a recibirlo como pago.
pensar que hubo una época en que no existía el dinero, pero así fue. En tiempos antiguos,
o existía el dinero, el intercambio comercial se realizaba mediante el trueque directo de una
a por otra, siempre que alguien poseyera algo que le interesara al otro, lo que a veces no ocu-
parición del dinero constituyó un hito en el desarrollo de las sociedades humanas, porque
s transacciones en cualquier momento y en cualquier lugar, pues todas las personas están
s a recibirlo como medio de pago.
— a.C.
9000 a.C.
S. VI a.C.
Los metales preciosos como el oro y la plata se impusieron como formas de dinero porque son durables, homogéneos, divisibles y escasos.

BANCO CENTRAL
DE CHILE

Santiago, 29 April de 2014

Ms. Isabel Allende
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 18,840, I hereby submit this institution's *Annual Report* for 2013.

Sincerely,

Rodrigo Vergara M.
Governor

CENTRAL TO YOUR LIFE

This community outreach program aims to contribute to the economic and financial education of Chilean citizens, using clear, simple language that is easy to understand. It was developed in the framework of the institution's 2013-2017 Medium-Term Strategic Plan.


CENTRAL EN TU VIDA!
Programa de acercamiento a la comunidad, del Banco Central de Chile
CENTRAL EN TU VIDA
¡Entender la
KING LONG
SANTIAGO

01

FINANCIAL MANAGEMENT AND POLICIES OF THE CENTRAL BANK OF CHILE IN 2013

FINANCIAL MANAGEMENT AND POLICIES OF THE CENTRAL BANK OF CHILE IN 2013

A. ECONOMIC OVERVIEW

As in previous years, the international environment in 2013 was dominated by the complex economic and financial situation in the developed economies. This year, however, the main economies showed some important differences. In particular, the United States began to show signs of an uptick in output and a more dynamic labor market, whereas the Eurozone did not manage to establish a clear path to recovery. These differences led the respective central banks to adopt different monetary policy positions. Thus, in May, the U.S. Federal Reserve announced that it would begin to scale back its monetary stimulus program, which went into effect toward the end of the year, while the European Central Bank cut its policy interest rate to its lower bound and disclosed the possibility of introducing additional stimulus measures.

The Federal Reserve's announcement triggered a period of heightened volatility in the external markets, mainly stemming from doubts about the effect of an increase in the cost of external financing on the financial stability of some larger emerging economies. This translated into sharp stock market fluctuations, a widening of risk spreads and a generalized depreciation of emerging market currencies. There were also questions about the performance of the Chinese economy, stemming from the government's reduction of the growth target to under 8% in annual terms and the ongoing problems in the Chinese financial system. This contributed to producing significant fluctuations in commodity prices, especially copper.

In late 2013, the world growth outlook was somewhat better than forecast at the start of the year, mainly due to the recovery of the U.S. economy and signs of a fledgling recovery in the Eurozone. In the emerging world, the outlook was consolidating around stable or lower growth, due not only to the situation in China and some large emerging economies, but also to the expected effects of a future scenario characterized by lower commodity prices and the normalization of international financial conditions, which would go hand in hand with the withdrawal of the quantitative stimulus by the Federal Reserve.

Domestically, output and demand slowed in 2013, especially toward the end of the year. Investment-related sectors, in particular, declined in annual terms in the final months of 2013, as a result of the evolution of the mining investment cycle and, to a lesser extent, the high basis of comparison in the same months of 2012. Private consumption slowed more gradually, propped up by the favorable performance of its determinants, as labor income continued to grow and financial conditions were stable. Thus, at year-end 2013, the annual GDP growth rate was 4.1%, which was below projections made throughout the year. Similarly, domestic demand declined substantially, closing 2013 with a lower growth rate than output for the first time in several quarters. Consequently, the current account deficit was smaller than expected, which alleviated one of the risks that had arisen in the last year and a half.

With regard to inflation, the annual CPI growth rate was around 2% for most of the year, reaching 3% only in December. This reflected an increase in goods inflation and higher energy prices. Medium-term inflation expectations were stable at around 3% throughout the year.

B. MONETARY POLICY

Over the course of the year, the macroeconomic scenario reflected a slowdown in output and domestic demand, which gradually intensified and exceeded projections toward the end of the year. Inflation stayed in the lower end of the target range throughout most of 2013, with expectations around the target. In this context, the Board held the monetary policy rate (MPR) at 5% for much of the year.

Toward the end of the year, macroeconomic conditions indicated that the economy needed a somewhat stronger monetary stimulus. This was mainly due to the sharper-than-expected slowdown in output and demand, mentioned above, which raised the risk of missing the inflation target. The Board thus reduced the MPR by 25 basis points at the October and November meetings, bringing it to 4.5%.

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 reserves 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, which could potentially have 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.

No such exceptional situations occurred in 2013, and the floating exchange rate regime operated normally.

D. FINANCIAL REGULATIONS

In February 2013, at the request of the corporation *Inter Corredores de Bolsa S.A.* (currently called *ICB Corredores de Bolsa S.A.*) the Board voted to revoke the company's authorization to operate in the Formal Exchange Market.

In April, the Board authorized the incorporation of so-called "mortgage bonds" in the set of debt instruments that are eligible to be used in over-the-counter repo operations (involving the purchase of negotiable instruments with a repurchase agreement).

Also in April, the Bank changed the regulations governing the issue and operation of credit cards, established in Chapter III.J.1 of the *Compendium of Financial Regulations*. The main features of the new regulations are as follows:

- The suspension of the differentiated regulatory scheme applied to issuers depending on whether they pay within three days or at longer terms;

- The definition of the universe of supervised entities as including all entities that regularly assume payment responsibilities with unrelated affiliated businesses;

- The strengthening of capital, liquidity and reporting requirements for issuers and operators;

- The expansion of the corporate governance responsibilities of the supervised entities, especially in the formulation of risk monitoring and management policies in accordance with the regulatory standards defined by the Superintendence of Banks and Financial Institutions (SBIF), and the adaptation and improvement of the regulation applicable to credit card operators and similar systems;

- The extension of the registered line of business (*giro*) required for corporations that are authorized to operate credit cards, allowing them to also operate debit cards; and

- An increase in the capital requirements for operators that channel a large volume of payment transactions, even if they do not assume payment responsibilities.

The date on which these regulations would enter into force was postponed in May. The transitional regulations were modified in July and then entered into effect on the 22d of that month.

In May, in accordance with the provisions of Article 76 of the General Banking Law, the Board authorized *Corpbanca* to make an investment overseas, consisting in the subscription and payment of 100% of the share capital of an affiliated corporation that will be incorporated in compliance with the legislation of the State of Delaware, United States, and that will operate as a stock broker.

In July, *Corpbanca* was authorized to make an investment overseas consisting in the acquisition, through its affiliate *Banco Corpbanca Colombia S.A.*, of up to 100% of Helm Bank S.A., including affiliates. The objective of this investment is to enable the merger of the two banking companies incorporated in Colombia and to allow *Corpbanca* to acquire up to 80% of the shares of *Helm Corredores de Seguros S.A.* The authorization is subject to a number of conditions, including the stipulation that the foreign bank affiliate that will be merged with Helm Bank S.A. will not undertake activities prohibited of Chilean banking entities under the General Banking Law.

In August, the Board authorized the company *Moneda Corredora de Bolsa S.A.* to operate in the Formal Exchange Market.

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 discount promissory notes (PDBC) and bonds (BCP and BCU), 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 2013, the absolute deviation of the interbank interest rate from the MPR averaged one basis point. This occurred in a context of 25-basis-point MPR cuts, the withdrawal of the temporary liquidity offered in the last quarter of 2012 and lower seasonal liquidity pressure in the money market relative to past years. In August, the Bank announced the gradual incorporation of mortgage bonds as eligible collateral in monetary operations. The program, which is still in effect, offered twice-monthly auctions of repo operations at the MPR plus 25 basis points and 14 day terms.

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 and on a series of internal policies and practices in line with recommendations from international organizations.

The management objectives of the investment policy are as follows: (i) to hold foreign exchange reserves in highly liquid instruments, which can be called in the briefest period possible without incurring significant transaction costs, so as to be able to cover residual short-term external debt if necessary; (ii) to invest in instruments that present limited financial risks, in order to limit the risk of generating capital losses; (iii) to minimize the volatility of the value of the Bank's equity as a result of changes in the exchange rates of the investment currencies vis-à-vis the peso; and (iv) to reduce the cost of holding the reserves at the margin, which is achieved through the inclusion of a portfolio oriented toward obtaining higher absolute returns in the long run.

The benchmark structure defines three investment portfolios: (a) the short-term liquidity portfolio (24% of the total reserve investment portfolio); (b) the medium-term liquidity portfolio (61%); and (c) the diversification portfolio (15%). Together, these three funds make up the foreign exchange investment portfolio. The international reserves portfolio further comprises the cash portfolio (transaction account balances held by the Treasury, public companies and banks) and the other assets portfolio (IMF special drawing rights, certified gold and other assets).

In 2013, the Bank held sufficient foreign exchange reserves to meet potential and predictable foreign currency liquidity needs. As of 31 December, the investment portfolio stood at US$35.4748 billion and the cash portfolio at US$3.688 billion. Taking the sum of these two portfolios plus other assets, international reserves ended the year at US$41.0937 billion. This balance was US$555.8 million lower than at year-end 2012. This was explained by a reduction in the investment portfolio of US$421.3 million, a reduction in the cash portfolio of US$67.1 million and a reduction in the other assets portfolio of US$67.4 million.

The liquidity of the reserves was ensured by investing in a portfolio of short-term deposits with international commercial banks and fixed-income instruments traded on highly liquid secondary markets. On 31 December 2013, time deposits and resources held in transaction accounts represented 11.0% of international reserves; short-term papers, 20.2%; bonds, 64.1%; and other assets, 4.7%.

To safeguard the Bank's equity, the invested resources are managed under policies and controls designed to limit financial and operational risk, which are approved by the Board. Credit risk is controlled through limits on issuers, instruments, intermediaries and custodians. As of 31 December, 81.9% of reserves (excluding the share of other assets) were invested in AAA-rated instruments issued by banks, sovereigns, external financial institutions or supranationals. The remaining 18.1% was invested in instruments with a credit rating between A and AA+, mainly in the banking sector. Market risk is limited by diversifying investment currencies, instruments and maturities. Decisions regarding these parameters always take into account the impact on the Bank's balance sheet.

At year-end, 50.2% of total reserves was held in U.S. dollar instruments, 18.8% in euros, 7.9% in Canadian dollars, 5.9% in Australian dollars and the remaining 17.3% in other currencies.

The average duration of the investment portfolio was around 24 months. Operational risk was managed through the separation of functions and responsibilities and the application of internal and external controls.

In 2013, a portion of the investment portfolio was managed by two external managers, who are authorized to manage a long-term fixed-income general portfolio, with a structure equivalent to the internally managed diversification portfolio.

The total return obtained from international reserve management during the year was 0.26% measured in currencies (the reference basket of currencies for the investment portfolio) and –0.71% measured in dollars. The differential return relative to the benchmark (which is used to guide and evaluate investment performance) was 5.5 basis points. The estimated total operating costs of managing the reserves for this accounting period represent 1.8 basis point of the total reserves under management. Income from the securities lending program was on the order of 0.2 basis point of the international reserves.

In accordance with institutional policy on the provision of information on the management of international reserves, appendix IV presents a more detailed report.

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 peso-denominated Central Bank securities (BCP), with maturities of five years (Ch$490 billion) and ten years (Ch$245 billion). The issue schedule also included five- and ten-year UF-denominated Central Bank securities (BCU) for annual amounts of UF22 million and UF11 million, respectively.

In early April, the Central Bank accepted the role of fiscal agent in the placement of Treasury bonds to be issued during the year, together with the related bond service at maturity. This involved placing UF-denominated Treasury bond issues (BTU) with maturity dates of 7, 10, 20 and 30 years and peso-denominated Treasury bonds (BTP) with maturities of 10, 20, and 30 years.

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

In 2013, the RTGS system processed 1,470 transactions per day on average, with a total daily value of Ch$9.64 trillion. Relative to the previous year, this represents a 3.2% increase in the number of transactions and an 11.1% increase in value. At its peak, the RTGS system cleared up to $11.70 trillion in 2,600 daily transactions. The increase in the amount cleared is primarily explained by an increase in fund transfer instructions (FTIs) sent by participants, which included payments originating in the over-the-counter (OTC) securities markets. The increase in FTI settlements led to an increase in participants' use of the intraday liquidity facility.

The RTGS system continued to maintain high levels of operational availability. In 2013, the system's availability for clearing FTIs was 99.99% (100% in 2012). The slight decline was due to an incident in September, when the system was not available for eight minutes. The delays affecting clearing house operations (checks, automatic teller machines and large value) generated an accumulated total delay in the year of just 29 minutes, indicating that the clearing houses cleared practically all of their transactions within their regulated business hours.

In 2013, the number of participants in the RTGS system dropped to 24 due to the closing of operations of DnB NOR Bank ASA, Agency in Chile.

E.5 Management of fiscal funds

Since 2007, at the request of the Ministry of Finance, the Bank has acted as fiscal agent in the management of all or part of the fiscal resources held in the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF). As of April 2011, the Bank also manages the Strategic Contingency Fund (SCF) in the name of the Treasury. The Bank submits daily, monthly, quarterly and annual reports to the Finance Ministry and the Treasury, with measures of performance, risk and compliance with the benchmark.

In August 2013, the new ESSF and PRF performance guidelines entered into effect, which were approved by the Central Bank Board in July and August 2013, respectively[1]/. These guidelines incorporated the necessary requirements deriving from the modification of the Fiscal Agency Decree, which limits the Bank's functions with regard to the externally managed resources starting in 2014.

In 2013, the objective of fiscal fund management was to obtain monthly returns in line with the benchmarks, following the passive management style and risk standards defined by the Finance Ministry in the performance guidelines accepted by the Bank. At the same time, the Bank's management of the funds considered the same standards applied to its international reserve management.

In 2013, the Bank continued to hire the services of a general custodian, which also measured the performance, risk and benchmark compliance of the management of the resources entrusted to the Bank, in accordance with the standards and parameters outlined in the performance guidelines.

In 2013, the ESSF received contributions of US$603.4 million, and on 31 December 2013 it had a market value of US$15.4191 billion. The PRF received additional resources totaling US$1.3767 billion, closing the year with a market value of US$7.3351 billion. Since the Bank accepted the fiscal agent assignment through year-end 2013, the Treasury has made total contributions to the two funds of US$28.2151 billion and withdrawals of US$9.4277 billion.

[1]/ The management of the ESSF (since August 2013) and the PRF (throughout 2013) was carried out by the fiscal agent and external portfolio managers, in line with the new performance guidelines that entered into effect.

For both fiscal portfolios, market risk was controlled through risk budgets associated with a different ex ante tracking error for each portfolio. Credit risk was controlled through restrictions on issuers, instruments, intermediaries and custodians, as defined in the performance guidelines.

In 2013, the absolute yield measured in dollars was –1.25% for the ESSF and 1.04% for the PRF[2]/.

The slightly negative return on the ESSF is mainly explained by the depreciation of the yen against the U.S. dollar and higher interest rates in the United States and Germany, which were partially offset by positive stock market returns in the period. The PRF return derives from the positive performance of the stock markets in 2013. This was partially offset by the negative performance of the internally managed portfolio, mainly due to the higher interest rates in the United States, Canada and the United Kingdom, as well as the depreciation of the yen and the Australian dollar against the U.S. dollar.

With regard to fiscal agency fees[3]/, the costs of managing the funds were charged to the Treasury. In 2013 annual charges for the ESSF and PRF were 0.5 and 2.4 basis points, respectively, of the total resources under the direct management of the Bank.

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 management of the ESSF and PRF fiscal resources.

[2]/ Both figures were obtained using the time-weighted rate of return (TWRR) methodology, which delivers a rate of return adjusted for the impact of possible contributions (of capital or generated by the securities lending program) and withdrawals (of capital or associated with payments to third parties). This methodology thus isolates the management result from the effect of changes that are exogenous to the size of the portfolio, thereby allowing a comparison of the portfolio management and the benchmark performance.

[3]/ The annual fiscal agency fees for the ESSF and PRF are associated with direct expenses and costs incurred by the Bank in the management of the funds and does not consider charges by the external portfolio managers for the management of their respective portfolios.

F. THE BALANCE SHEET OF THE CENTRAL BANK OF CHILE

F.1 Balance sheet levels and structure[4]/

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, its concern for keeping the interbank interest rate compatible with the MPR and its conduct of monetary policy based on inflation targets.

In 2013 the balance sheet was relatively stable in terms of the level of assets and liabilities, although the equity deficit shrank (figures I.1 and I.2). Measured relative to GDP, total assets decreased from 17.7 to 17.0% between 2012 and 2013. In the same period, liabilities (excluding equity) contracted from 21.1 to 19.8% of GDP. Equity thus increased from –3.4 to –2.8% of GDP in the year.

Measured in pesos, the size of total assets grew by $461 billion in 2013 (table I.1). The largest increase, of $1.590 trillion, was in foreign exchange reserves, which breaks down as follows: a gain in value due to the depreciation of the peso of $1.425 trillion and earnings from interest of $294 billion, which was offset by the (negative) effect of withdrawals by commercial banks and the Treasury of $129 billion. The balance of monetary policy instruments decreased by $1.110 billion, due to the lower use of repos and liquidity facilities in late 2013.

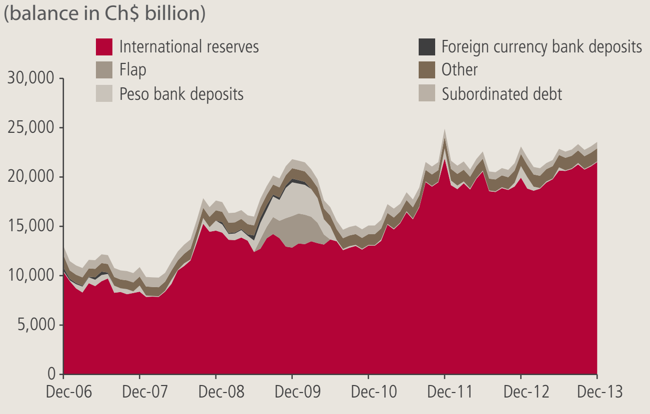
Liabilities (excluding equity) decreased $198 billion in 2013. The largest reduction, of $1.316 trillion, was recorded in the balance of monetary policy instruments, due to lower utilization of liquidity deposits and the standing deposit facility, followed by a decrease in Treasury deposits and other public sector deposits of $308 billion. These reductions were offset by increases in the monetary base ($863 billion), the foreign currency accounts held by commercial banks ($379 billion) and monetary policy promissory notes ($128 billion). The latter item is explained by the increase in the balance of PDBCs of $925 billion, which exceeded the $797 billion reduction in the balance of long-term debt, mainly BCUs.

As a result, the balance sheet carried negative equity of $3.820 trillion, reflecting the initial capital of –$4.479 trillion plus net earnings in 2013 of $659 billion (table I.1). The latter is explained by gains of $1.074 trillion from the monetary restatement of assets and liabilities, mainly due to the exchange rate[5]/; interest expense of $315 billion; and nonfinancial costs of $100 billion, mainly the costs of the production and distribution of currency and personnel and administrative expenses.

[4]/ The balance sheet is prepared in accordance with International Financial Reporting Standards (IFRS), with some exceptions. See the Financial Statements (note 2).

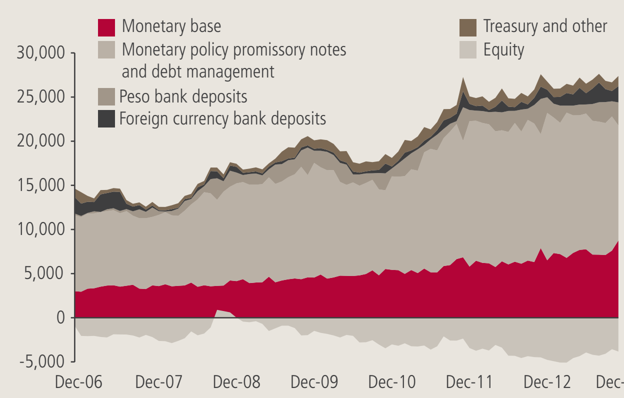
[5]/ After the close of the 2013 accounting period, the peso continued to depreciate against the currencies that make up the international reserves.

FIGURE 1.1
CENTRAL BANK OF CHILE ASSETS
(balance in Ch$ billion)



Source: Central Bank of Chile.

FIGURE 1.2
CENTRAL BANK OF CHILE LIABILITIES
(balance in Ch$ billion)



Source: Central Bank of Chile.

TABLE 1.1

CENTRAL BANK OF CHILE BALANCE SHEET

(balance in Ch$ billion and % of GDP, as of 31 December of each year)

	2012		2013		Rate of return (2) (%)			
					2012		2013	
	Balance	%GDP	Balance	%GDP	Interest	Δ value	Interest	Δ value
Assets (1)	**23,100**	**17.7**	**23,561**	**17.0**	**1.8**	**-7.9**	**1.8**	**6.6**
International reserves	19,933	15.3	21,523	15.6	1.5	-8.9	1.5	7.1
Other public sector assets	1,072	0.8	1,136	0.8	4.9	1.2	4.8	1.0
Subordinated debt	754	0.6	650	0.5	5.0	2.4	5.0	1.9
Monetary policy instruments (3)	1,110	0.9	0	0.0	5.1	0.0	5.3	0.0
Other	229	0.2	252	0.2	1.4	-5.4	1.4	5.4
Liabilities (1)	**27,579**	**21.1**	**27,381**	**19.8**	**2.8**	**0.1**	**2.6**	**1.4**
Monetary base	7,891	6.0	8,754	6.3	0.3	0.0	0.3	0.0
Monetary policy promissory notes (4)	12,905	9.9	13,033	9.4	4.0	1.4	4.0	1.2
Other monetary policy liabilities (5)	4,876	3.7	3,560	2.6	4.1	-3.7	3.6	1.4
Current accounts and bank foreign currency reserves	499	0.4	878	0.6	0.0	-5.6	0.0	10.6
Treasury and other public sector deposits	705	0.5	397	0.3	1.1	-6.0	1.0	6.2
Other	703	0.5	758	0.5	0.2	-8.5	0.5	9.1
Equity (1)	**-4,479**	**-3.4**	**-3,820**	**-2.8**				
Initial capital	-2,354		-4,479					
Valuation accounts	-2		0					
Other	0		0					
Net result	-2,123		659					
Nonfinancial result (6)	-76		-100					
Net interest (6)	-328		-315					
Changes in value (7)	-1,720		1,074					
Capital contributions	0		0					

(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 monthly balances and losses/gains due to interest or changes in value. The denominator in the rate calculation changed from average end-of-month balances to average monthly balances.
(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 and BCU.
(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.

TABLE I.2a

CENTRAL BANK OF CHILE BALANCE SHEET POSITIONS

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

	Balance 2012	2013 flows (4)		Balance 2013
		Exchanges (5)	Earnings and ∆ capital (6)	
Denominated and payable in pesos (1)	**-22,006**	**-3**	**-798**	**-22,807**
Monetary base (2)	-7,891	-843	-21	-8,754
Central Bank promissory notes	-12,905	661	-789	-13,033
Banks	-2,813	338	-59	-2,533
Other	1,603	-159	70	1,514
Denominated in foreign currency and payable in pesos (1)	**0**	**0**	**0**	**0**
Denominated and payable in foreign currency (1)	**17,526**	**3**	**1,457**	**18,986**
Equity (1)	**-4,479**	**0**	**659**	**-3,820**

TABLE I.2b

FOREIGN CURRENCY POSITIONS ON THE CENTRAL BANK BALANCE SHEET

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

	Balance 2012	2013 flows (4)		Balance 2013
		Exchanges (5)	Earnings and ∆ capital (6)	
Denominated and payable in foreign currency	**36,620**	**6**	**-376**	**36,250**
International reserves (3)	41,649	-310	-245	41,094
Central government (net)	-978	764	0	-214
Banks (net)	-2,903	-604	0	-3,507
Central Bank bonds and promissory notes	0	0	0	0
Other (net)	-1,149	156	-130	-1,123
TOTAL	**36,620**	**6**	**-376**	**36,250**

(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 to increases in the position, while positive flows correspond to decreases. Exchange flows of other entries are the balancing entry of its increase or decrease due to exchanges.
(3) 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.

F.2 Return on assets and cost of liabilities

The average return on assets, mainly reserves, is determined by the level of external interest rates on safe, highly liquid instruments. The cost of liabilities is associated with the MPR and its expected trend, which affects the placement rate for Central Bank promissory notes. In 2013 the differential between the return on total assets (1.8%) and the cost of total liabilities (2.6%) was negative, at –0.9%.

The average interest rate earned on international reserves held at 1.5% between 2012 and 2013, due to the stability of the duration and maturity profile of the investments and rate coupons. Locally, the interest rate on monetary policy promissory notes was also stable at 4%, as there were no significant changes in the maturity, duration and coupon structure of the debt instruments.

With regard to adjustments, variations in the exchange rate and the UF (*unidad de fomento,* an inflation-indexed unit of account) generated accounting gains in 2013. As usual, the biggest contributing factor was exchange rate fluctuation, given its impact on the value of international reserves in pesos. Between year-end 2012 and year-end 2013, the peso depreciated against the currencies that make up the foreign exchange reserves, causing the value of the reserves to rise by 7.1%. Adjustments to total assets caused an increase in value of 6.6%. With regard to the UF, the lower inflation rate that was transmitted to UF-denominated notes, together with the exchange rate fluctuations that affected current and collateral accounts in foreign currency, resulted in an adjustment of 1.4% in the value of total liabilities

F.3 Balance sheet positions[6]/

The flow of exchange operations reduced the Bank's position denominated and payable in domestic currency by Ch$3 billion. This included an increase in the monetary base of Ch$843 billion, a reduction in promissory note debt of Ch$661 billion, a reduction in net debt with banks of Ch$338 billion and a decrease in the net balance of other assets of Ch$159 billion, mainly due to the subordinated debt service (table I.2a).

As counterpart, the Bank's position denominated and payable in foreign currency increased by Ch$3 billion, equivalent to US$6 million. This was due to a reduction in international reserves of US$310 million, withdrawals by the Treasury of US$764 million, an increase in commercial bank funds of US$604 million and other reductions totaling US$156 million (table I.2b).

The negative flows in the domestic currency position from interest and valuation changes—Ch$798 billion—were mainly due to the cost of Central Bank promissory notes. The positive flows in the foreign currency position—Ch$1.457 trillion—were mainly explained by the increase in the international reserve balance, as a result of the exchange rate and interest effects discussed earlier.

G. MISCELLANEOUS

G.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 2013, the Commission on Price Distortions met on 19 occasions and opened six investigations. At year-end, there were no current measures.

G.2 Chilean Copper Commission (*Cochilco)*

The Board is responsible for appointing two representatives to the Chilean Copper Commission[7]/, who serve a two-year term[8]/. In 2013 these posts were held by Mr. Luis Óscar Herrera Barriga and Mr. Michael Pedersen, who were appointed on 24 October 2012.

G.3 Competition Tribunal

The Competition Tribunal (*Tribunal de Defensa de la Libre Competencia*, or TDLC) is made up of five Judges and two Alternates[9]/. The President of the Republic appoints the President of the Tribunal, who must be a certified lawyer, choosing from a list of candidates provided by the Supreme Court

[6]/ The positions or balances of assets less liabilities by currency can be used to evaluate equity exposure to foreign exchange risk. By disaggregating the changes into flows from (a) exchanges between balances and (b) interest and valuation changes, it is possible to more closely monitor the policies adopted by the Bank.

[7]/ Letter (d) of Article 4 of Decree Law 1349 of 1976.

[8]/ The appointment can be renewed, or it can be revoked before the two-year term is completed.

[9]/ Article 6° of Statutory Decree 1, of 2005, issued by the Ministry of Economy, Development and Reconstruction (DFL 1).

following a public call for nominees. The Board of the Central Bank 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.

Through Resolution 1756E-01 of 24 May 2013, the Board submitted to the President of the Republic the proposed list of candidates for the position of Alternate Judge / Legal Counsel on the TDLC[10]/. Through Executive Decree 94, issued by the Ministry of Economy, Development and Tourism on 17 June 2013 and published in the *Official Gazette* on 24 July 2013, the President of the Republic appointed Mr. Críspulo Marmolejo González to the position of Alternate Judge / Legal Counsel, from 17 June 2013 to 12 May 2014.

G.4 Technical Investment Council

Article 168 of Title XVI of Decree Law 3500 of 1980, on the pension system reform, authorizes the Board to appoint a member and an alternate to the Technical Investment Council.

Through Resolution 1783-01-131024, in October the Board accepted the resignation of Mr. Luis Antonio Ahumada Contreras from the position of alternate member of the Technical Investment Council, to which he was appointed by Resolution 1679E-01-120514, dated 14 May 2012. At the same time and through the same resolution, the Board appointed Ms. Carmen Gloria Silva Llanos to serve as alternate member of the Council for the remainder of the term corresponding to Mr. Luis Antonio Ahumada Contreras, which ends on 10 June 2016.

G.5 Foreign Investment Committee

The Foreign Investment Committee is the only entity authorized, in representation of the State of Chile, to accept the entry of foreign capital under Decree Law 600 of 1974, which contains the Foreign Investment Statute, and to establish the terms and condition of the respective foreign investment contracts.

The Committee is represented by its Chairman in the case of investments that require the Committee's approval. Otherwise, the Committee is represented by its Executive Vice Chairman. Its members include the Minister of Economy, Development and Tourism, who presides, the Minister of Finance, the Minister of Foreign Affairs, the Minister of Planning and the Governor of the Central Bank. Additional ministers participate on the Committee in the event of investment requests related to ministries that are not represented by permanent members.

In the case of the Central Bank, the Deputy Governor acts as the institution's representative to the Committee, as allowed under Article 12 of its Basic Constitutional Act. In 2013, Mr. Manuel Marfán Lewis acted in this capacity.

[10]/ For the remainder of the term corresponding to Mr. Juan José Romero Guzmán, who resigned following his appointment as Justice of the Constitutional Court.

02
INSTITUTIONAL MANAGEMENT AND GOVERNANCE

INSTITUTIONAL MANAGEMENT AND GOVERNANCE

A. ORGANIZATION AND OPERATION

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 preliminary 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[1]/.

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 organizations. On 10 December 2011, Mr. Rodrigo Vergara Montes was appointed Governor for a term of five years. Mr. Vergara was previously 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 served as Deputy Governor through 18 December 2013, when his appointment to the Board ended. On 17 February 2014, through Board Resolution 1803E-01-140217, Board Member Enrique Marshall Rivera was appointed the new Deputy Governor of the Central Bank for the remainder of his term as Board Member, ending on 23 December 2015.

The remaining Board Members include Mr. Sebastián Claro Edwards (appointed in December 2007) and Mr. Joaquín Vial Ruiz-Tagle (February 2012), both of whom are serving for a period of ten years from the date of their appointment. Finally, Mr. Pablo García Silva was appointed Board Member on 22 January 2014, for a term of ten years.

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]/ 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, ineligibilities, 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.

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[2]/.

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) Section 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, 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 independent 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, as well as the provision of foreign exchange conventions addressed in Article 47 of that legislation. 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.

[2]/ 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 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.

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, the preparation of tables, 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 a new Board Member

As indicated earlier, Mr. Manuel Marfán Lewis's term as Board Member and Deputy Governor ended on 18 December 2013. The vacancy on the Board remained unfilled through the end of 2013.

On 15 January 2014, through Executive Decree 34 issued by the Finance Ministry, the President of the Republic appointed Mr. Pablo García Silva to the position of Board Member of the Central Bank of Chile, for a period of ten years starting on 22 January 2014. An official statement was released indicating that for reasons of good service, Mr. García was authorized to assume his functions immediately on that date, prior to his endorsement by the Office of the General Auditor.

A.5 General management, general counsel and auditing

Sections 24, 25 and 26 of the Basic Constitutional Act stipulate that the General Manager is responsible for the direct management and supervision of the Central Bank, in accordance 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.

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 control 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 independent auditors.

In 2013 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 2013, the other members of the Committee were Mr. Vivian Clarke Levi, Mr. Gustavo Favre Domínguez and Mr. Santiago Meersohn Ernst. Mr. Clarke was a Committee member from 31 May 2007 to 16 June 2013, when he was replaced by Mr. Meersohn, who was appointed for a three-year term starting on 17 June 2013.

B. INTERNAL MANAGEMENT

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. This year, 2013, was the first year of the Medium-Term Strategic Plan developed under Governor Rodrigo Vergara; it extends through 2017.

The strategic focal points for this period are as follows:

- Strengthening the financial stability objective.
- Aligning people, services and resources with the Bank's primary focus.
- Renovating and optimizing Treasury processes.
- Consolidating the Bank's internal governance and institutional structures.

Based on these strategic definitions established by the Board, the different units worked on their strategic projects and initiatives and submitted a budget request for their implementation, 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 2013 were the following:

a. Publication of the *Business Perceptions Report.*

b. Seasonally adjusted Chilean macroeconomic series.

c. Historical series of GDP and spending components, 1986-2008.

d. Approval of new regulations for nonbank credit card issuers.

e. Revision, direct participation and report on issues related to the promulgation of regulations on the application of consumer protection legislation for financial services or products.

f. Contribution by the Bank to the legislative discussion and development of draft bills: Law on Prepayments, Law of the Financial Stability Council, Risk-Based Supervision, Law on the Maximum Conventional Rate and the Debtor Registry Law.

g. Transfer of activities to the Finance Ministry, in accordance with the new Fiscal Agency Decree, whereby the Bank concentrates on portfolio management functions.

h. Negotiation, writing and execution, in representation of the Treasury, of the changes to the contracts signed with the external managers of the ESSF and PRF.

i. Opening of the Numismatic Museum to the general public.

j. Launch of the program, Central to Your Life, with a branded bus and operational website.

k. Establishment of an Operational Continuity Sub-Committee, integrated with the financial system.

l. Creation of an external information technology committee.

B.2 Organizational structure, internal restructuring and appointment of executives

In November 2013, through Resolution 1786-01-131113, the Board changed the structure of the Human Resources Management[3], which now comprises three sections: Benefits and Quality of Life; Human Resource and Labor Relations Services; and Talent Management and Organization.

In December 2013, through Resolution 1793-01-131212, the Board changed the name of the Communications Advisory Management to the Communications Management. At the same time, the position of Head Communications Advisor was renamed Communications Manager, and it was decided that this position would report to the General Manager for administrative purposes, while still working directly under the Board.

With regard to executive appointments in 2013, in March Mr. Jaime Curihuinca Curaqueo was named Human Resources Manager; he later resigned from the Bank and was replaced by Ms. Angélica Arteaga Arriagada in May. That same month, Mr. Ricardo Consiglio Fonck was designated International Markets Manager, following the resignation of Mr. Cristian Salinas Cerda. In August, Mr. Diego Saravia Tamayo was appointed Head of the Models and Forecasts Management, which operates within the Macroeconomic Analysis Management, replacing Mr. Felipe Alberto Naudón del Oro. In December, Mr. Kevin Cowan Logan, Director of the Financial Policy Division, announced his resignation from the Bank effective 14 March 2014. His designated replacement is Mr. Claudio Raddatz Kiefer, who will take over the position on 15 March 2014.

B.3 Human resources management

The Human Resources Management was restructured in the second half of 2013, in order to direct efforts toward greater specialization of the department's tasks and duties and to strengthen the focus on internal service quality and strategic management.

During the year, the work environment diagnostic tool was revised and then implemented in October, with a participation rate of 86%. The study consists in an annual survey of all Bank staff, aimed at identifying perceptions of different aspects of the work environment so that the Institution can generate ongoing improvements.

The Bank continued its professional skills assessment project, concluding the assessment of the remaining 50% of professionals who were not evaluated in 2012. The assessments were made using a methodology for measuring the skill levels of each professional, based on the standards defined for each level and the structure of positions established by the Bank. Once the measurement was completed, coworkers participated in feedback sessions, in which the leaders are responsible for developing action plans to address skill areas that need improvement.

The ERP-SAP integrated management system, which was implemented in 2012, was consolidated in 2013, through actions such as the establishment of a self management module called Portal, which is currently available for use by all Bank staff.

There were 174 training activities in 2013, equivalent to 15,870 total training hours and an average of 26 hours per person. A total of 344 staff members underwent training (56% of personnel). The increase in expenditures on training in recent years generally reflects the natural increase in the needs of the different areas of the Bank, as training activities are increasingly targeted in order to improve performance and personnel development. In 2013, there was also an increase in training associated with the new projects being developed in the Treasury Management.

During the year, a project was developed to analyze the current business model of the sports and recreation facility and beach resort, in order to enhance the value of the services provided and thus contribute to a better use of the facilities by staff members and their families, as well as to increase management efficiency.

B.4 General Auditor's Office

The General Auditor's activities focus on helping the Board and Management fulfill their duties, through an independent, objective and systematic evaluation of the design and effectiveness of risk management, internal control and management. The General Auditor's Office also provides consulting services that, together with the above activities, add value and support the achievement of institutional objectives.

In 2013, the main challenges were in the following areas:

- Implementing the audit plan based on international practices;
- Supporting and responding to the needs of the Board, Management and the Audit and Compliance Committee;
- Maintaining the certification and quality of the audit process (quality assurance) by the Institute of Internal Auditors (IIA), reaffirming that the activities of the Central Bank's General Auditor "comply with international standards for the professional exercise of internal auditing;"

[3]/ It previously contained two departments: Personnel Management and Human Resources Development.

- Maintaining the certification of its process, "Internal Auditing Services for the Central Bank of Chile," under ISO 9001:2008 standards. These certifications demonstrate the Central Bank Auditor's commitment to constantly maintain a 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 2013 issue program.

TABLE II.1

CONTRACTS SIGNED IN 2013

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

N°	Supplier	Contract purpose	Effective	Ending
2615	Tuxpan Ingeniería Ltda. (1)	Computer and technology services	12-02-2013	19-06-2013
2623	Constructora WL Ltda. (1)	Infrastructure maintenance services	05-03-2013	11-08-2013
2642	Central de Restaurantes Aramark Ltda. (2)	Services for Bank staff	29-04-2013	29-04-2014
2718	Productivity Systems International Inc. (1)	Consultancy services	02-08-2013	06-02-2014
2744	Constructora Briceño y Cía. Ltda. (1)	Infrastructure maintenance services	30-09-2013	28-01-2014

(1) Initial one-year contract, which is automatically renewable for up to four additional one-year periods.
(2) Fixed-term contract.
Source: Central Bank of Chile.

TABLE II.2

EXPENDITURES ON CONSULTING, SURVEYS, STUDIES AND SEMINARS

(millions of 2013 pesos) (*)

	2009	2010	2011	2012	2013
Consulting, surveys, studies and seminars	1,827.1	1,642.1	1,725.5	1,640.0	1,482.1
Consulting	828.8	980.3	983.7	825.1	879.9
Surveys and studies	766.1	443.8	499.9	529.5	363.3
Seminars	232.2	218.0	241.9	285.4	238.9

(*) The average CPI was used to update older figures to 2013 pesos.
Source: Central Bank of Chile.

C. PERSONNEL, ADMINISTRATIVE AND OTHER EXPENSES

These management-related 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 administrative expenses; and (ii) other expenses. In 2013, of the total personnel, administrative and other expenses, personnel costs represent 59.1%; administrative expenses, 30.6%; retirement benefits, 3.0%; and other expenses, 7.3%.

Personnel expenses

Personnel expenditures rose 2.3% in real terms between 2012 and 2013. This increase is mainly explained by higher salaries deriving from agreements established in the current collective employment contract, from the annual salary review process, from performance raises and from salary adjustments for promotions to a higher level in the Bank's organizational structure. In 2013, the Bank staff comprised 620 people (versus 623 in 2012). Both figures include the Board Members in each accounting period. Professionals accounted for 76% of the total staff as of December 2013.

Retirement benefit costs

Between 2012 and 2013, retirement benefit costs fell 64.4% in real terms. This is essentially explained by the high basis of comparison, since 2012 was the first year of the partial extension of the retirement plan benefits to a new group of workers.

Administrative costs

Administrative costs recorded a real increase of 16% between 2012 and 2013. This was mainly due to technological updating, infrastructure maintenance and equipment for Treasury operations.

Other (expenses) and income

The increase in other expenses relative to 2012 derives from the higher charge for depreciation and amortization (a difference of Ch$546.3 million), in particular the amortization of intangibles. This increase is mainly explained by the ERP system, which was recognized in the accounting record as an intangible in December 2012, with an amortization period of five years.

D. COMMUNICATION AND DIFFUSION

D.1 Main publications

The main objectives of the Central Bank's publication program are 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 quarterly 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 inflation and economic growth estimates.

The *Financial Stability Report*, which is published half-yearly (in June and December), 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 public knowledge and debate on the Bank's actions in carrying out its functions.

In April 2013, a new edition of *Foreign Exchange Reserves Management of the Central Bank of Chile* was published. This report explains the objectives of foreign exchange reserve management, the institutional framework under which the reserves are managed, the investment policy applied to decisionmaking, the composition and characteristics of the reserves, the external portfolio management programs, risk management and the returns obtained by the Bank. The publication also reported on the transparency practices that the Bank has adopted in recent years, in line with international standards.

A new edition of *Liability Management of the Central Bank of Chile* was also published in April. This report describes the instruments, standing facilities and operations used by the Bank to manage market liquidity; explains the objectives of open market operations and the debt issued by the Bank; outlines the institutional framework under which these operations are managed; and provides information on the debt issued by the Bank as of year-end 2013.

TABLE II.3

PERSONNEL, ADMINISTRATIVE AND OTHER EXPENSES

(millions of 2013 pesos) (1)

	2009	2010	2011	2012	2013
Personnel and administrative expenses					
Personnel expenses	24,804.8	26,173.8	27,119.3	27,266.0	27,891.8
Administrative expenses	11,705.7	13,502.5	14,572.4	12,451.8	14,440.5
Provisions for post-employment benefits (2)	2,297.1	2,019.4	2,420.8	4,017.5	1,429.2
Total	**38,807.6**	**41,695.7**	**44,112.5**	**43,735.3**	**43,761.5**
Other (expenses) and income					
Depreciation and amortization	2,272.2	1,602.7	2,023.9	2,236.1	2,782.4
Taxes and contributions	616.2	514.2	641.1	604.3	546.2
Other (3)	-	-	12,851.1	(23.4)	85.8
Total	**2,888.4**	**2,116.9**	**15,516.1**	**2,817.0**	**3,414.4**
Total personnel, administrative and other expenses	**41,696.0**	**43,812.6**	**59,628.6**	**46,552.3**	**47,175.9**
A. Personnel expenses					
Wages and other employer contributions	21,281.4	22,841.4	23,591.8	23,147.5	23,951.3
Employee well-being	2,791.9	2,781.3	2,811.5	3,339.2	3,099.3
Training	731.5	551.1	716.0	779.3	841.2
Total	**24,804.8**	**26,173.8**	**27,119.3**	**27,266.0**	**27,891.8**
B. Administrative expenses					
Utilities	1,104.4	1,030.6	1,022.0	853.5	941.8
General services	4,397.6	4,698.2	5,326.0	4,220.4	4,645.1
Maintenance of fixed assets	693.4	1,601.9	1,380.0	1,796.9	2,418.7
Informatics and technological development expenses	3,683.2	4,529.7	5,118.9	3,941.0	4,952.8
Consulting, surveys, studies and seminars	1,827.1	1,642.1	1,725.5	1,640.0	1,482.1
Total	**11,705.7**	**13,502.5**	**14,572.4**	**12,451.8**	**14,440.5**

(1) The average CPIU was used to update older figures to 2013 pesos.
(2) The 2012 figure has been adjusted due to a change in accounting policy, resulting from the entry into effect in 2013 of changes to IAS 19: Employee benefits, recognizing the accounting results in equity.
(3) The higher expense in 2011 was due to the lower real estate appraisal value. The 2012 figure includes income from profits recorded by the country club and beach resort.

Source: Central Bank of Chile.

In May, the Bank launched a new publication entitled the *Business Perceptions Report*, which is published semiannually in May and November. This report summarizes the opinions and perceptions of different executives in around 100 companies from across the country, who are interviewed by economists from the Bank's Research Division in the month prior to publication.

The publication *Management of High-Value Payment Systems of the Central Bank of Chile* was issued in July. The objective of this report is to provide a detailed description of the stage of development and the basic operating conditions of the large-value payment system operated by the Bank. It also identifies the risks to which the system is exposed and the main mechanisms for mitigating these risks, with an emphasis on the potential impacts of a malfunction on financial stability. The document also describes the scope of the Bank's responsibilities in regulating the payment systems; the institutional framework under which the systems operate; and the main international recommendations in this area.

With regard to economic research, in August the Bank published volume 17 of the series *Central Banking, Analysis and Economic Policies, entitled Fiscal Policy and Macroeconomic Performance.* This book contains the revised versions of papers presented at the Fourteenth Annual Conference of the Central Bank of Chile, held in October 2010. The volumes in this series aim to contribute to the discussion and promotion of issues related to the transmission and absorption of external shocks, both financial and real, in the context of emerging economies.

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

The Bank also continued to publish its *Economic Policy Papers* over the course of 2013, with the issue of three new papers. This series discloses the thinking of Central Bank authorities on issues relevant to the economy and the conduct of monetary policy. The issues analyzed in 2013 were derivatives markets and their infrastructure; the reality and challenges that young people face in accessing financial services; and the application of transparency policies and practices in the Central Bank of Chile.

The *Working Paper* series maintained the dynamic publishing schedule set in previous years, with 36 papers issued in 2013. This series has been positioned as a leading economics publication at the international level, 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 publication *Investigación al Día* (Current Research) is another outlet for research papers generated by the Bank. Its main objective is to summarize the current research underway at the Central Bank of Chile. This quarterly series issued four new papers in 2013.

Nine new papers were published in the *Studies in Economic Statistics* series in 2013. The purpose of this series is mainly to release research papers on economic statistics, with a strong empirical content.

In November, the Bank published the book *A New Family of Banknotes for Chile*, which describes the process of creating, developing and promoting the banknotes that currently circulate in Chile.

In accordance with the provisions of Section 53 of its Basic Constitutional Act, the Bank continued its annual program of recurrent publications, aimed at disseminating information on the main national macroeconomic statistics. This year's publications included the following: the new *Informativo Diario de Operaciones Financieras Nacionales* (Daily Bulletin on National Financial Operations); *Informe Mensual de Estadísticas Monetarias y Financieras* (Monthly Monetary and Financial Statistics Report); the new *Serie de Datos Bancarios* (Bank Data Series); *Boletín Mensual* (Monthly Bulletin); *Indicadores de Comercio Exterior* (Foreign Trade Indicators); *Indicadores Macroeconomics and de Coyuntura* (Macroeconomic and Current Indicators). The following yearbooks were also published: *Cuentas Nacionale*s (National Accounts), B*alanza de Pagos* (Balance of Payments) and *Deuda Externa de Chile* (Chilean External Debt).

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

On 2 April, the Board presented the March *Monetary Policy Report* to the Senate Finance Committee, at the Senate Building in Valparaíso. On 1 July, the Board presented the June *Monetary Policy Report* and the *Financial Stability Report* for the first half of 2013 to the Senate Finance Committee, at the Congressional Offices in Santiago. On 4 September, the September *Monetary Policy Report* was presented to the full Senate at the Senate Building in Valparaíso. On 3 December, the December *Monetary Policy Report* and the *Financial Stability Report* for the second half were presented to the Senate Finance Committee in Valparaíso.

On 21 January, Board Member Joaquín Vial attended a session of the Special Committee for the Study of Reforms to the Pension Fund Administration System, held at the Congressional Offices in Santiago, where he gave a presentation on the challenges of the demographic transition for the Chilean pension system. On 15 April, Governor Rodrigo Vergara attended a session of the Senate Economics Committee in Santiago, to discuss the new law on the National Statistics Institute (INE). On 13 May, Deputy Governor

• David Archer of BIS, giving a presentation in the seminar "Central Bank Finances" organized in March.

• Stephen Cecchetti of BIS, at the conference "Financial Stability, Macroprudential Policy and Exchange Rates" held in April.

Manuel Marfán gave a presentation on the recent evolution of the RER and its impact on the agricultural sector for the Senate Agriculture Committee in Santiago, which was analyzing the value of the exchange rate and its influence on agricultural competitiveness. On 19 June, the Director of the Financial Policy Division, Kevin Cowan, attended a meeting of the Senate Finance Committee in Santiago, to give a talk on life insurance companies as part of the discussion of the draft bill to establish a risk-based supervision system for insurance companies.

Visits to the House of Representatives included a presentation on the Chilean real estate sector, given by the Central Bank's Governor before a special session of the House Finance Committee on the situation in the real estate market, held in Santiago on 2 January. On 31 July, the Governor gave a talk in Valparaíso on the draft bill on the economic liabilities system, in a special session of the House Finance Committee called to discuss the draft legislation regulating the treatment of information on financial or credit liabilities. Finally, on 12 August, the Governor gave a presentation on the draft bill on the maximum conventional rate in Santiago, before the Mixed Committee studying the issue.

D.3 Seminars and workshops

In January, the Financial Policy Division organized a financial stability workshop entitled "Systemically Important Institutions: Identification and Regulatory Challenges." The event brought together academics and authorities to discuss various aspects of the identification and regulation of systemically important financial institutions in the local market and the policy challenges deriving from past general initiatives. Discussants included Professor Viral Acharya of New York University; Iman Van Lelyveld, Senior Economist at the Central Bank of the Netherlands; Andrew Gracie, Executive Director of the Special Resolution Unit of the Bank of England; Fabrizio López, Risk Analysis Manager with the Bank of Mexico's Financial Stability Division; and Alejandra Kindelan, Head of Research and Public Policy with the Santander Group.

On 4–5 March, the Bank hosted the seminar "Central Bank Finances," organized jointly with the Bank for International Settlements (BIS) and the Center for Latin American Monetary Studies (Cemla). The objective was to analyze the importance of financing for central bank operations. The seminar was led by de David Archer, Head of Central Banking Studies at the BIS, and Paul Moser-Boehm, Senior Economist with the BIS Monetary and Economic Department. The Central Bank of Chile's Financial Risk Assessment and Management Department organized the event, which was inaugurated by Governor Rodrigo Vergara and included the participation of representatives from Cemla and the central banks of Argentina, Bolivia, Colombia, Nicaragua and Venezuela.

On 18–20 March, Central Bank economists had the opportunity to attend a course on the General Equilibrium Analysis of Financial Stability, taught by Professor Dimitrios Tsomocos of Oxford University, a renowned expert on financial regulation.

On 25–26 April, the Bank hosted the fourth BIS Consultative Council for the Americas conference entitled "Financial Stability, Macroprudential Policy and Exchange Rates." Central bank researchers from countries such as Brazil, Mexico and Argentina and experts from the U.S. Federal Reserve, the European Central Bank (ECB), the International Monetary Fund (IMF) and a number of European and U.S. universities addressed three main topics: financial stability. macroprudential policies; and exchange rates and monetary policy. The meeting was organized by the Economic Research Management of the Bank's Research Division.

In June, the Research Division held an internal seminar to review three documents prepared by the staff team of the IMF Article IV Mission. That

• Police officers at the seminar "Forensic Analysis of False Banknotes" in June.

same month, the Financial Stability Management, jointly with the Ministry of Finance, organized a seminar to analyze international experiences in the implementation of commercial obligation systems. The event included the participation of representatives of the supervisors and regulators in Uruguay, Peru, Argentina and Chile, as well as a specialist from the World Bank.

Also in June, the Treasury Management organized a seminar with forensic experts from the Crime Laboratory of the Chilean police force (*Carabineros de Chile*). This training workshop, which is critical in the fight against counterfeiting, featured the participation of U.S. Secret Service agents, who discussed the security features of the U.S. dollar with the local police and Bank officials.

On 24 July, the Governor inaugurated the Fifth Seminar for Journalists, entitled Challenges for Financial Stability in Chile. The event, which has been held annually since 2009, is organized by the Communications Management, in conjunction with the Inter-American Association of Economic and Financial Journalists (Aipef). The objective of the series is to contribute to the economic education of both specialized and non-specialized journalists and to explain issues that are important to the Bank, which results in a better understanding and media coverage of the Bank's policies and decisions. In 2013, the seminar included eight talks given by Central Bank economists, the Governor and Board Member Sebastián Claro.

On 30 August, the Economic Research Management held a workshop to explore the analysis of macroeconomic models with heterogeneous agents. The workshop included the participation of Professor José Víctor Ríos-Rull of the University of Minnesota; Dr. Césaire Meh, Research Director with the Bank of Canada; and other academics and Central Bank staff members.

On 3–5 September, the Bank hosted an annual meeting on Central Balance Sheet Data Offices and XBRL, organized jointly with the Bank of Spain and Cemla. The objective of the meeting was to discuss international developments in accounting standards related to XBRL (extensible business reporting language, a standardized system for exchanging digital financial data) and advances in the operation of central balance sheet data offices.

On 26–27 September, the Bank hosted the seventeenth BIS Working Party on Monetary Policy in Latin America, which was attended by delegates from Europe, Asia, Oceania, North America and South America. Organized by the Research Division, this high-level meeting sought to promote discussion on the current economic situation of the Latin American economies and the possible effects of the withdrawal of the monetary stimulus in the United States.

On 17–18 October, The Bank organized the Fourth BIS Meeting on Reserve Management in the Americas, coordinated jointly with the BIS. The central topic at the meeting was how central banks and international organizations have adapted their investment and risk management policies to reflect the lessons of the financial crisis. The event was inaugurated by the Central Bank Governor and attended by the BIS Head of Treasury, Jean-Francois Rigaudy, and representatives from the central banks in Europe, the United States, Japan, Canada, Germany, China, New Zealand, South Africa, South Korea and Hong Kong.

On 23–25 October, the Office of the General Counsel organized the XI Cemla Meeting of Central Bank Legal Advisors. The objective of the meeting was to analyze, from a legal perspective, various aspects of payment systems, the role of central banks in light of the challenges of the financial crisis and their relationship with their respective governments.

On 28–30 October, the Economic Research Management organized a course on forecasting, taught by Professor Bruce Hansen of the University of Wisconsin at Madison.

On 31 October, the Bank, in conjunction with the Financial Stability Board (FSB), organized the Working Group on Shadow Banking in the Americas, which was attended by central bank officials from Canada, Colombia, Jamaica, Mexico, Uruguay, Panama and the Caiman Islands, as well as staff members from the FSB and the Central Bank of Chile.

On 14–15 November, the Seventeenth Annual Conference of the Central Bank of Chile, entitled Global Liquidity, Emerging Market Externalities and Policy Responses, was held in Santiago and inaugurated by the Central Bank Governor. The conference, which is one of the Bank's most important events in the year, brought together central bank researchers, experts, academics and monetary policy authorities from around the world. This year, the conference featured the participation of Dr. Maurice Obstfeld, of the University of California at Berkeley, and Dr. Guillermo Calvo, of the University of Columbia. The panel discussions were organized by the Economic Research Management and Professor Jaume Ventura, of the Universitat Pompeu Fabra.

On 15–16 November, the Bank organized the fifth summit of inflation-targeting central banks, in which over twenty governors, board members and chief economists from the main central banks around the world exchanged opinions on issues such as global liquidity, capital flows and policy coordination. This meeting is organized by the Bank every two years.

On 13 December, the Workshop on Economic Growth in Middle-Income Countries was held on 13 December, featuring a special presentation by Dr. Ricardo Hausmann, economist with the Harvard Kennedy School.

As in past years, after presenting the *Monetary Policy Reports* and *Financial Stability Reports* before the Senate, the Central Bank Governor presented the reports to members of the business community, at the invitation of Icare (a private business institute) in Santiago. These presentations included a question-and-answer session for attendees and a press conference after the event. These presentations, in conjunction with Icare, offer an opportunity to approach an important segment of the public, in one of the country's main business forums, in order to explain the scope of the Bank's monetary policy, its perspective on the risks to financial stability and its assessment of the current and future state of the global and Chilean economy.

In the context of the information diffusion program on the new banknotes and their security features, the Bank continued its training program, Know Your Banknotes, to educate the community and demonstrate the security features of the bills in circulation, in particular for people who handle cash on the job. Over the course of the year, there were 53 training workshops, mostly in Santiago and some larger cities, such as Arica, Antofagasta, La Serena and Concepción, as well as the communities of Melipilla and María Pinto within the Santiago Metropolitan Region. A total 2,744 people received training, including workers in retail establishments, commercial banks and technical institutes. In addition, 8,574 brochures and 4,179 posters were distributed to the general public and cashiers to provide information on the banknote recognition features.

To reinforce the training program and generate a multiplier effect on the public, a Training for Trainers program was developed to prepare instructors in commercial firms and cashier training institutes. This will allow them to lead the Know Your Banknotes workshops for their employees or students, as the case may be. The initial pilot program was given to eight companies, which signed a cooperation agreement with the Bank.

In addition, a new training program was developed with the police forces, aimed at students in military schools, in order to improve the interaction of future police officers and citizens on these issues. In 2013 there were 19 training workshops reaching 1,045 police officers, from Arica to Chiloé. In line with these police training workshops, the technical capacity of forensic specialists was strengthened to reinforce investigations. To this end, two seminars were held on the Forensic Analysis of False Banknotes, one with the Chilean police force (*Carabineros de Chile*) and one with the investigative police (*Policía de Investigaciones de Chile*).

D.4 Community outreach program: Central to Your Life

On 21 August, the Bank launched a community outreach program called Central to Your Life, as part of its initiatives aimed at contributing to the economic education of the country and increasing the general public's knowledge of economics using clear, simple language that is easy to understand and integrating a variety of platforms. This program replaced Economics for the Majority, in an effort to foster a broader, better, large-scale economics education and to bring together the successful existing programs, such as the Numismatic Museum, the contest Economics Up Close and the guided tours. The program seeks to provide new tools and

• Students from the *Fundadores de Quilpué* School, winners of the 2013 Economics up Close contest, with Governor Rodrigo Vergara.

• Visitors to the Central Bank of Chile's Numismatic Museum.

resources for the economic and financial education of a broad target public, including high school and university students, homemakers, entrepreneurs, journalists and senior citizens. With Central to Your Life, the Bank is putting in practice one of its strategic objectives for the coming years and aligning with international best practices in central banking for the economic and financial education of citizens.

The program launch was held at the Baquedano Metro Station in Santiago, with an inauguration speech by the Governor. There were 250 invitees in attendance, plus the passengers of the underground trains that passed through the station. As part of the launch, a bus decorated with the program's logo was used to bring groups to the Bank between 21 August and 13 September, including a wide range of people from municipalities, diverse organizations and educational establishments. These visits represent a way for the Bank to draw closer to citizens and provide a fun experience tied to the economy.

The program's main platform is the new website, www.centralentuvida.cl, which reports on the Bank's educational activities and offers informative and educational materials on some key aspects of the workings of the economy, such as interest rates, inflation, prices and the role of the Central Bank of Chile. The site includes virtual classes that provide straightforward lessons on concepts ranging from what is money to the functioning of the financial system; explanatory videos on the Central Bank's role and monetary policy; short films that take a clear, simple approach to economic concepts; and a digital version of the book *Economía para todos* (Economics for everyone), by former Central Bank Governor Carlos Massad.

Economics up Close contest

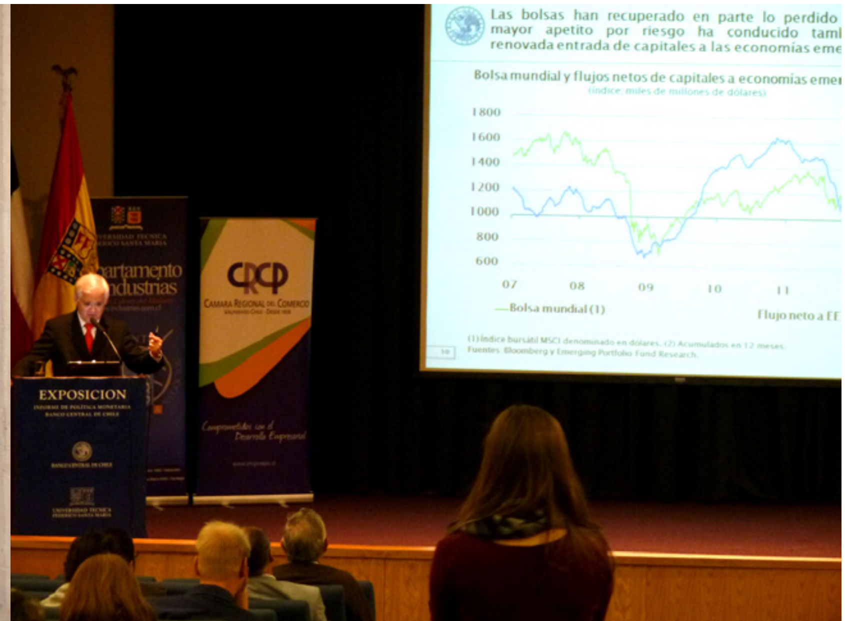
On 24 April, in a meeting of over 100 students and teachers from different schools in the Santiago Metropolitan Region, Board Member Sebastián Claro kicked off the ninth annual contest Economics up Close, sponsored by the Ministry of Education. The goal of this initiative is to promote interest in economic issues among high school students and to encourage learning about the work of the Central Bank of Chile and the economy in general.

The Central Bank has set itself the challenge of emphasizing aspects of economic and financial education. Thus, for the 2013 contest, students were asked to consider the question of how interest rates affect their lives. They were instructed to address the topic based on their own experience as people capable of making economic decisions or by observing how others make such decisions, focusing on businesses or institutions found in their immediate surroundings, their neighborhood, their community or their region.

This year, nearly 200 projects were submitted by 1,400 third- and fourth-year high school students from public, subsidized and private schools from around the country. The winning project was "The Two Sides of a Coin: The Interest Rate in Daily Life," written and presented by students from the *Colegio Fundadores de Quilpué.* Second place went to the group from the *Instituto Superior de Comercio in Santiago,* for the project "The Interest Rate Rises; Better Decisions in Smurfland," while third place was awarded to the group from the *Liceo Jorge Sánchez Ugarte in Concepción,* for the project "The Healthy Fat Man: The Importance of the Interest Rate in Students' Work."

As usual, the Bank organized a range of educational activities to support the diffusion of the contest. In 2013 there were five school visits in Santiago, including one talk led by Board Member Sebastián Claro. In June, the Bank invited three schools in the V Region to a meeting at its event center in *Punta de Tralca*, where Board Member Enrique Marshall gave a

• Students from the Los Alerces School on a guided tour of the Central Bank.



• Board Member Enrique Marshall presenting the *Monetary Policy Report* during a regional visit.

presentation on "The Central Bank of Chile: Objectives and Policies." In addition, four economics workshops were held for high school teachers at the Central Bank offices in Santiago, which were attended by a total of almost 80 teachers in person and 20 via live Internet transmission. The workshops provided an introduction to basic economic concepts and then addressed topics related to inflation, the financial system, monetary policy and the role of the Bank.

Numismatic Museum and guided tours

On 25 March 2013, the Numismatic Museum opened its doors to the public with regularly scheduled hours Monday through Friday from 10:00 a.m. to 1:00 p.m. Over 8,600 people who visited the Bank ended their informative tour at the museum. The visitors learned about, observed and travelled through over 250 years of Chile's economic history, captured in the iconography and symbols of our means of payment.

With regard to the guided tours program, the Bank received nearly 4,350 visitors in 2013, including 75 student groups ranging from seventh to twelfth grades (2,554 students), 1,354 university students, 180 foreign MBA students and 262 senior citizens from municipalities or other establishments. The 75 middle school and high school teachers who accompanied their students on the tour received materials prepared especially for this purpose, with work sheets to use in the classroom.

For the tenth consecutive year, the Bank participated in Chile's National Heritage Day, which was held on Sunday, 26 May. 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 Central Bank received 2,330 visitors, who learned about the Bank's most important functions as well as details on the building and its cultural heritage objects. The tour included the Board Room, the Governor's Office and the Numismatic Museum. People waiting in line to enter the Bank were entertained with three short street theater performances on financial and price stability.

D.5 Regional visits

The regional 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 publication of the *Monetary Policy Report* and the *Financial Stability Report* and are complemented with other presentations on the Central Bank's policies and instruments.

In April, the Regional Central Bank Seminar was held in Arica, organized jointly with the Development Corporation of Arica and Parinacota (*Cordap*) and in Punta Arenas, organized jointly with the Production and Trade Confederation (CPC) of Magallanes. In June, 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 Temuco, in conjunction with the Production Development Corporation of the *Araucanía Region* (*CorpAraucanía*) and in Antofagasta, in coordination with the Department of Economics and Business Management of the Catholic University of the North (UCN). The September *Monetary Policy Report* was presented in La Serena, in coordination with the Coquimbo campus of the Catholic University of the North, and in Puerto Montt, in conjunction with the Austral University of Chile. These regional meetings were led by Central Bank Governor Rodrigo Vergara, Deputy Governor Manuel Marfán, Board Members Enrique Marshall, Sebastián Claro and Joaquín Vial, and the Director of the Research Division, Luis Óscar Herrera.

These meetings offer 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. In 2013, attendance at these events ranged from 80 to 150 people per event.

Board Members also made several presentations outside of Santiago, in response to invitations from academic institutions, union associations and the media. In particular, Mr. Joaquín Vial gave a presentation in La Serena in April; while Mr. Enrique Marshall had a speaking engagement in Concepción in July. Mr. Sebastián Claro gave talks in Copiapó in July and in Viña del Mar in September. Finally, Deputy Governor Manuel Marfán spoke in Osorno in September, and Governor Rodrigo Vergara gave a presentation in Coyhaique in December.

This year also featured a number of regional presentations on the economic environment, including events led by Governor Rodrigo Vergara and Board Member Enrique Marshall. Details on where these presentations were held can be found online at http://www.bcentral.cl/politicas/presentaciones/consejeros/2013.htm.

E. MISCELLANEOUS

E.1 Technological changes

A new centralized storage and backup solution was launched in late 2012 and was fully operational in the first few months of 2013. The new solution has allowed the Bank to improve its data backup and the operational continuity of its computer systems.

To continue strengthening the operational continuity of the technological services used by the Bank, further improvements were made to the technology disaster recovery plan (TDRP) in 2013. The advances were concentrated in the activities leading up to the activation of contingency procedures and in an increase in the degree of automation of the necessary activities for moving operation support services between the Bank's two data processing centers.

Another highlight was the incorporation of automatic mechanisms that improve the use of the installed infrastructure by optimizing the distribution of the processing load and, in the case of contingencies, directing it solely to the equipment in operation. This will increase the availability of services and maximize the use of the existing infrastructure in the Bank's two processing centers.

In terms of information security, the access control solution was improved for the Bank's networks, further restricting the possibility of computer connections that are not duly authorized. In addition, the segregation (separation) of different networks was increased through the incorporation of new security devices.

In 2013, the Bank began to implement a computer infrastructure analysis solution, which makes it possible to proactively detect anomalous behavior and trends and facilitates the analysis of events that could affect computer services.

As part of the plan to upgrade obsolete equipment, further progress was made on consolidating the server infrastructure so as to reduce the number of servers at the processing centers and lower electricity consumption and cooling requirements (Green IT).

In 2013, the Information Systems Management participated actively in technology projects led by the functional areas of the Bank, including the launch of the document phase of the content management solution. This supported the start-up of the centralized storage and custody service for the Bank's corporate documents.

In June 2013, the Board voted to establish an Advisory Committee on Information Technologies, whose function is to consult to the Board on compliance with institutional objectives in the area of information technology corporate governance. The committee is made up of three external members appointed by the Board, all of whom are recognized in academic and professional circles as experts on information technologies (IT), IT governance, IT standards, technological innovation and independence conditions, which contributes to the fulfillment of their functions. The committee members are Mr. Ignacio Casas Raposo, Mr. Jaime Navon Cohen and Mr. José Pino Urtubia. In 2013, the committee met three times and held two additional sessions, in which they mainly addressed issues related to the organization, the portfolio of technological projects in 2013 and the IT budget approved for that year.

E.2 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 three contract renewals, and based on a favorable report

• Governors and authorities from central banks around the world attended the fifth summit of inflation-targeting central banks, held in November.

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. The contract was renewed for 2011, 2012 and 2013.

E.3 Banknotes and coins

As of December 2013, there were 823.7 million banknotes in circulation, an increase of 9.7% relative to year-end 2012 (751.1 million). The total number of coins grew 6.7%, to 11.861 billion in December 2013.

To meet public demand for currency in 2013, the Bank received the new banknotes and coins produced under contracts signed in 2012. The banknotes were printed in Switzerland and Germany; the coins were minted in Spain and Chile.

For the fourth consecutive year, the Bank carried out the National Survey on Cash Use and Preferences, interviewing over 800 people. The survey shows that cash continues to be the primary means of payment at the national level. It also confirms the finding of previous studies on the low use of the two smallest coin denominations as a means of payment by the general public.

As part of its community outreach program, the Bank developed a new banknote identification device for the visually impaired, which facilitates the easy, practical identification of banknote denominations. The device will be distributed at no charge in 2014, through associations and institutions for the visually impaired.

E.4 International relations activities

In 2013, 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); the spring and annual meetings of the International Monetary Fund (IMF); the annual meeting of the World Economic Forum (WEF) in Davos; the annual meeting of the Inter-American Development Bank (IDB); the meetings of central bank governors of South America (formerly Mercosur and associated countries); the Cemla governor meetings; and the meetings of the Institute of International Finance (IIF), which were held in conjunction with the annual IDB meeting (March) and the annual IMF meeting (October). There were also a number of visits by authorities and executives to other central banks, as well as the preparatory and final visits for the IMF Article IV mission in January, April and May.

The additional activities in which the Bank participated included international seminars, conferences and meetings held in Santiago (see section D.3 for details), official visits from foreign authorities, missions from international organizations and visits from distinguished academics.

The official visits from foreign authorities featured the Director of the IMF Independent Evaluation Office (IEO), Moisés Schwarz; the Director of the IMF Western Hemisphere Department, Alejandro Werner (July); and the Secretary General of the Organization for Economic Cooperation and Development (OECD), Ángel Gurría (October). The missions from international organizations were from the OECD (May and July) and the World Bank (August). Visiting academics included Dimitrios Tsomocos (March); Jaume Ventura (June); Guillermo Calvo (November); Maurice Obtsfeld (November); and Ricardo Haussmann (December).

Finally, in 2013, the Central Bank continued to participate in a broad range of world and regional forums, such as the OECD, the Financial Stability Board (FSB) and the Union of South American Nations (Unasur). At the OECD, Bank representatives attended the Short-Term Economic Prospects (STEP) meetings in April and October, the Economic Policy Committee (EPC) meeting in April and the biannual review carried out by the OECD Economic Development Review Committee (EDRC). With regard to the FSB, Chile has been a member of the Regional Consultative Group for the Americas since its formation in 2011, and in June 2013 the Central Bank Governor concluded his term as co-chair of this group in representation of non-FSB members. Work with Unasur centered on the meetings of the financial integration technical group in April and November.

E.5 Access to information

In early October 2013, the National Press Association presented the Tenth Barometer on Access to Information. This survey, which is carried out by the firm Adimark GFK, measures Chilean journalists' perception of information access in public institutions, along three dimensions: the timeliness of the delivery of information; the accuracy and reliability of the information delivered; and willingness to provide information.

In this year's survey, responses were received from 491 journalists, who rated 40 institutions. On the average of the three dimensions, the Central Bank ranked second in the sample, as in the last survey, with 72.7% of survey respondents grading the Bank between 6 and 7 (on a seven-point scale) on the ease of access to information. On the individual dimensions, the Bank took third place on willingness to provide information, with 70% of respondents giving it a grade of between 6 and 7; second place on the accuracy and reliability of the information delivered (82%); and second place on the timeliness of the delivery of information (66%).

As of 31 December 2013, the Bank received a total of 58 applications for access to information. All the applications were addressed in less time than required under Law 20,285 (20 business days).

E.6 Diffusion of statistics

In recent years, the Bank has implemented a series of improvements in the coverage and diffusion of its statistics in order to increase availability and facilitate understanding by the general public. This project moved forward in 2013 with the addition of new products. In July, the Bank began to publish the *Informe Mensual de Estadísticas Monetarias y Financieras* (Monthly Monetary and Financial Statistics Report), prepared by the Statistics Division of the Central Bank of Chile. This report delivers a summary of the behavior of interest rates and loans in the financial system, together with the monetary aggregates. The descriptive analysis of these statistics is complemented with a set of graphs and links to the Central Bank's Statistics Database, to access the historical statistics series.

As part of the plan to digitize its statistics publications, the Bank introduced the new *Informativo Diario de Operaciones Financieras Nacionales* (Daily Bulletin of National Financial Operations) in late January. This publication replaces the PDF version of the *Informativo Diario* (Daily Bulletin) and includes tools for downloading and analyzing historical series, thereby facilitating the work of analysts and researchers. In late November, the Bank introduced the Bank Data Series, which provides monthly data on loans, deposits and bank investments disaggregated by banking institution, previously contained in the *Monetary and Financial Synthesis.*

The new publications have been accompanied by an extensive diffusion program developed by the Bank. With the goal of promoting the use and understanding of the Bank's statistics, these presentations discussed the concepts, methodology and results of the balance-of-payment statistics, national accounts, regional accounts, and foreign exchange, monetary and financial statistics, and they drew on practical examples to describe the functionality of the Statistics Database. The presentations were given at universities and seminars organized by the National Statistics Institute (INE) and union associations. Thirty talks were given in Santiago, Antofagasta, Arica, Concepción, and Talca, with a total attendance of around 1,000 people.

03
APPENDICES

I. PRESS RELEASES ON MONETARY POLICY MEETINGS IN 2013

17 January

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, financial conditions are more favorable than a month ago. However, the risks to the financial and fiscal situation in the Eurozone remain high, and while the fiscal risk in the United States has eased, it remains significant. The developed economies continue to record weak growth, but there are more positive signs in China. Fuel prices have turned upward; copper and food prices are around the levels of last month.

Domestically, output and domestic demand have developed in line with forecasts in the last *Monetary Policy Report*. The labor market continues to be aligned. Job creation increased, and wages were strong. Total and core inflation are under 2% in annual terms, while inflation expectations are in line with the target in the policy horizon. In the past month, the peso appreciated slightly against the dollar.

The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

14 February

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, financial conditions have been stable after improving over the past few months. The financial and fiscal situation in the Eurozone remains fragile, however, and the developed economies continue to record weak growth, although the situation in China is more favorable. International fuel and metal prices, including copper, have increased in recent weeks.

Domestically, output and domestic demand were more dynamic than projected in the last *Monetary Policy Report*. The labor market continues to be aligned. Total and core inflation are under 2% in annual terms, while inflation expectations are in line with the target in the policy horizon. The peso has appreciated.

The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

14 March

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, financial conditions have been stable. Output has been more dynamic in the United States, but not in the Eurozone, where the recession continues and the fiscal and financial situation remains fragile. Japan has signaled that would like to increase its macroeconomic policy stimulus, which has been reflected in a depreciation of the yen. The dollar has appreciated in international markets, while commodity prices, including copper, fell in recent weeks.

Domestically, output and domestic demand were more dynamic than projected in the last *Monetary Policy Report*. The output trend reflects a better performance of mining, while demand, led by investment, grew faster than GDP. The labor market continues to be aligned. Total and core inflation are around 1% in annual terms, while inflation expectations stayed in line with the target in the policy horizon. The peso has appreciated multilaterally.

The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

11 April

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, financial conditions have been stable. Recent economic indicators have been mixed in the United States, while the recession continues in the Eurozone and the fiscal and financial situation remains fragile. The Bank of Japan announced a significant quantitative easing program, which was reflected in a depreciation of the yen. Commodity prices have fallen in recent weeks, with a particularly sharp drop for copper .

Domestically, output indicators for February were below market expectations. The labor market continues to be aligned, and domestic demand remains dynamic. Credit conditions are somewhat tighter. Total and core inflation are between 1% and 2% in annual terms, while inflation expectations are in line with the target in the policy horizon. The peso continued to appreciate multilaterally.

The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

16 May

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, financial conditions have improved somewhat. The recession continues in the Eurozone, where the fiscal and financial situation remains fragile, but the United States and Japan show signs of improvement. The growth figures for China and other emerging economies are less dynamic at the margin. A number of central banks cut their respective interest rates. The dollar has appreciated in international markets. Metal prices have declined in recent weeks, especially for copper.

Domestically, the data for the first quarter point to a slowdown of output and domestic demand. The labor market continues to be aligned. Total and core inflation are around 1% in annual terms, while inflation expectations derived from surveys are in line with the target in the policy horizon. The exchange rate has depreciated, but in real terms it is in the lower part of the range consistent with its long-term fundamentals.

The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

13 June

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, global financial conditions have tightened somewhat, especially for the emerging economies. This is due, in part, to expectations of an earlier withdrawal of the monetary stimulus in the United States, combined with lower growth forecasts for China. The recession continues in the Eurozone, while projections point to a coming recovery for the U.S. economy. Commodity prices have declined slightly in the past few weeks. The dollar has appreciated in international markets, especially against emerging currencies.

Domestically, the slowdown in output and domestic demand continues. The adjustment has been sharpest in investment, whereas private consumption remains dynamic. The labor market continues to be aligned. Total and core inflation are around 1% in annual terms, while inflation expectations are in line with the target in the policy horizon.

The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

11 July

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, global financial conditions tightened further, especially for the emerging economies, mainly in response to signals of an earlier withdrawal of the monetary stimulus in the United States. Recent indicators for the U.S. economy are positive and point to a gradual recovery. The recession continues in the Eurozone, while the growth outlook for China continues to be adjusted downwards, as with the other emerging economies. Food and metal prices, including copper, have fallen in recent weeks, while fuel prices have risen. The dollar appreciated across the board in international markets.

Domestically, the gradual slowdown of output and domestic demand continues, especially in investment. The labor market continues to be aligned. Consumption remains dynamic, but it is expected to slow based on the evolution of credit conditions and confidence surveys. Total inflation approached the target range, as expected, while the core measures remained near 1% in annual terms. Inflation expectations are in line with the target in the policy horizon.

The consolidation of the trends outlined in the last *Monetary Policy Report* could require adjustments in the monetary policy rate in the coming months. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

13 August

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, global financial conditions improved somewhat in the last month, including lower corporate and sovereign risk spreads. World output data for the second quarter were generally lower than expected, although consensus forecasts continue to point to a recovery in the United States. The growth forecast for emerging economies has continued to decline, although some recent figures for China suggest a stabilization of the economy's growth rate. Metal prices, including copper, rose in the last few weeks, while food prices declined. The dollar depreciated in international markets.

Domestically, output has slowed more sharply than demand. Consumption remains dynamic, although confidence surveys anticipate a slowdown in the future, as investment eases. Total inflation is within the target range, as expected, whereas the core measures remain close to 1% in annual terms. Inflation expectations are around the target in the policy horizon.

The consolidation of the trends outlined in the last *Monetary Policy Report* could require adjustments in the monetary policy rate in the coming months. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

12 September

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

Internationally, global financial conditions have not changed significantly relative to last month, but the market remains highly volatile due to expectations of a partial withdrawal of the monetary stimulus in the United States and the financial vulnerability of some emerging economies and peripheral Europe. Recently released data are consistent with the prospect of a gradual recovery of the U.S. economy, while various indicators for China show a break in the slowdown of the last few months. Commodity prices did not follow a defined trend in the international markets, although the oil price fluctuated sharply in the face of geopolitical tensions in the Middle East.

Domestically, output and demand continue to follow the trend of past months: moderate growth of production and dynamic private consumption. Total inflation has stayed within the target range, while the core measures remain close to 1% in annual terms. Inflation expectations are around the target in the policy horizon.

The consolidation of the trends outlined in the last *Monetary Policy Report* could require adjustments in the monetary policy rate in the coming months. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

18 October

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 25 basis points, to 4.75% in annual terms.

Internationally, the medium-term scenario has weakened, characterized by lower world growth, lower terms of trade for Chile, less favorable external financial conditions and the maturating of the global investment cycle in mining.

The recent decision by the U.S. Federal Reserve to postpone scaling back its asset purchase program has resulted in a reduction of long-term interest rates and a depreciation of the dollar. However, the fiscal agreement reached in the United States is temporary, so the possibility of new financial tensions cannot be discarded. International fuel and agricultural prices have fallen in the past month, while metal prices have been stable.

Domestically, economic activity continues to grow at a moderate rate, in line with the scenario described in the last *Monetary Policy Report.* The growth rate of final demand has declined, albeit more slowly than forecast, and various indicators suggest that it will continue to ease. Inflation has been lower than projected, remaining in the lower part of the target range, and market expectations anticipate a slower normalization to 3%.

The consolidation of the trends outlined in the last *Monetary Policy Report* could require adjustments in the monetary policy rate in the coming months. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

19 November

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 25 basis points, to 4.5% in annual terms.

Internationally, recent output data and growth expectations are consistent with a scenario of gradual recovery in the advanced economies, led by the United States, and more moderate growth in the emerging economies. Inflation remains low at the global level, explained in part by the recent drop in international commodity prices. The central banks of the main economies have reiterated their intention to maintain their expansive monetary policy for some time. In particular, the ECB cut its monetary policy rate and renewed some liquidity injection measures, while the U.S. Federal Reserve has retained its asset purchase program. The dollar has appreciated across the boarder in international markets, although not as much against the emerging currencies.

Domestically, economic activity continues to record a moderate growth rate, in line with the scenario described in the last *Monetary Policy Report.* Data for the third quarter, as well as the quarterly revisions, confirm that final demand has declined in all components, as projected. Inflation is moderate, and market expectations anticipate a gradual convergence to 3% over the next 24 months. Both the nominal and real exchange rate has depreciated.

The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international 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 4.5% in annual terms.

Internationally, recent data are consistent with the scenario described in the *Monetary Policy Report*. Our trading partners are growing at rates below their historical averages, but a recovery is forecast for the coming quarters, based on the upturn in the developed economies, especially the United States, and the stabilization of the emerging economies. In the last month, commodity price indices rose in most of their components, including copper. Inflation remains low at the global level.

According to market expectations, the U.S. Federal Reserve should begin to scale back its asset purchase program in the coming months. As a result, long-term interest rates have increased in the U.S. economy, and the dollar has appreciated in international markets. International financial conditions are still tighter than in the first part of the year or in past years, which has largely affected the most vulnerable emerging economies.

The Chilean economy has become less dynamic. Output is growing somewhat below trend, and domestic spending has slowed, as described in the last *Monetary Policy Report.* The peso has depreciated. Recent inflation data, as well as private expectations, are consistent with convergence to the target within the monetary policy horizon.

The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon. Future changes in the MPR will depend on the implications of domestic and international macroeconomic conditions for the inflation outlook.

II. PRESS RELEASES ON FOREIGN EXCHANGE AND FINANCIAL MEASURES IN 2013

3 January

In its regular session held on Thursday, 27 December, the Board of the Central Bank of Chile approved the annual auction calendar for 2013.

The amount of bonds to be issued in the year breaks down as follows:

(a) Five-year peso-denominated bonds (BCP-5): up to Ch$490 billion.

(b) Ten-year peso-denominated bonds (BCP-10): up to Ch$245 billion.

(c) Five-year UF-denominated bonds (BCU-5): up to UF22 million.

(d) Ten-year UF-denominated bonds (BCU-10): up to UF11 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 modification in the case of significant changes in market conditions. If that occurs, the changes will be announced in due time.

11 February

In its regular session held on Thursday, 7 February, the Board of the Central Bank of Chile approved the offer of operations to replace indexed promissory notes payable in coupons (PRC) and indexed coupons (CERO) denominated in UF with UF-denominated Central Bank bonds (BCU), through the sale by auction of BCUs payable through the purchase of PRCs and CEROs.

This measure, which is similar to the program implemented in the fourth quarter of 2010, aims to standardize the portfolio of credit instruments issued by the Central Bank of Chile and, therefore, to promote the depth of benchmark bonds in the local fixed-income market.

This program will be carried out in the period from 9 March to 8 May 2013 (both dates inclusive). It contemplates the issue of five-year UF-denominated Central Bank bonds (BCU-5), for an amount equivalent to UF10.5 million. This series will be issued in accordance with the provisions of Article 104 of the Income Tax Law and subject to the provisions of Chapter I.1 of the *Compendium of Monetary and Financial Regulations*.

The Central Bank of Chile will announce the valuation conditions for the PRCs and CEROs prior to the auction. This program could be subject to changes in the event of significant changes in market conditions, which will be announced in due time.

7 March

The Central Bank of Chile announces the schedule for its bond replacement program, involving the exchange of PRCs and CEROs for BCUs.

The program will be implemented between 9 March 2013 and 8 May 2013, as follows:

Date	Amount (UF)
Monday, 11 March 2013	1,500,000
Monday, 18 March 2013	1,500,000
Monday, 25 March 2013	1,500,000
Monday, 01 April 2013	1,500,000
Monday, 08 April 2013	1,500,000
Monday, 15 April 2013	1,500,000
Monday, 22 April 2013	1,500,000

The Central Bank of Chile will announce the valuation conditions for the PRCs and CEROs prior to the auction.

This program could be subject to changes in the event of significant changes in market conditions, which will be announced in due time.

28 March

The Central Bank of Chile announces the acceptance of mortgage bonds as collateral in monetary operations.

On 14 September 2012, in conjunction with the Superintendence of Banks and Financial Institutions, the Central Bank of Chile announced the regulations on mortgage bonds. At that time, it was indicated that in 2013 these instruments would be incorporated into the set of debt instruments that are eligible to be used as collateral in monetary operations.

To gradually incorporate this measure, the Central Bank of Chile announces a special program of securities repo operations that will accept only mortgage bonds (*bonos hipotecarios*) as collateral (Repo BH). The Repo BH will be offered for terms up to 14 days, with a floating rate equivalent to the MPR for each day plus 25 basis points.

To be eligible, the mortgage bonds must have been issued by banks with a credit rating of A or higher (appendix III, page 65, 28 March).

This special repo program, Repo BH, will be linked to the first issue of a mortgage bond and its corresponding registration in the central securities depository.

The financial conditions will be reported in due time.

19 April

The Central Bank of Chile publishes new regulations on credit cards.

On 28 September 2012, in conjunction with the Superintendence of Banks and Financial Institutions, the Central Bank of Chile published the proposed modifications to Chapter III.J.1 of the *Compendium of Monetary and Financial Regulations*, to elicit comments from interested parties and the general public.

The majority of the proposed changes to the current Chapter III.J.1 are retained in the definitive version. However, some clarifications and modifications were made based on the comments received, together with joint analysis carried out with other public sector entities.

The main features of the new regulations are as follows:

- The suspension of the differentiated regulatory scheme applied to issuers depending on whether they pay within three days or at longer terms;

- The definition of the universe of supervised entities as including all entities that regularly assume payment responsibilities with unrelated affiliated businesses;

- The strengthening of capital, liquidity and reporting requirements for issuers and operators;

- The expansion of the corporate governance responsibilities of the supervised entities, especially in the formulation of risk monitoring and management policies in accordance with the regulatory standards defined by the Superintendence of Banks and Financial Institutions.

The adjustments to the regulation deriving from the aforementioned period of public comment are the following:

- The adaptation and improvement of the regulations applicable to credit card operators and similar systems. The changes that were incorporated aim to facilitate the participation of more, and more diverse, firms in this market, in line with the recommendations in the recent report on financial inclusion and means of payment[1]/.

- The extension of the registered line of business (*giro*) required for corporations that are authorized to operate credit cards, allowing them to also operate debit cards.

- An increase in the capital requirements for operators that channel a large volume of payment transactions, even if they do not assume payment responsibilities.

The Central Bank regulations and the corresponding supervision by the SBIF are part of the broader regulatory and supervisory framework governing credit card issuers, which includes the consumer protection legislation and rules (contained in Law 19,496 and the Financial Sernac regulations), the legislation of credit operations (which establishes the limits on the Maximum Conventional Rate) and, in the event that issuers offer public securities, the legislation governing the securities market and corporations.

The article issued jointly with the SBIF on "New Credit Card Regulations" (available online at http://www.bcentral.cl/prensa/otros/pdf/19042013_minuta.pdf) provides more details on the regulations and updates the article published in September 2012. A second document from the Central Bank summarizes the comments received in the period of public consultation (available at http://www.bcentral.cl/prensa/otros/pdf/19042013_comentarios.pdf).

The new Chapter III.J.1 of the *Compendium of Monetary and Financial Regulations* will be published in the *Official Gazette* on Saturday, 20 April.

20 May

The Central Bank of Chile extends the effective date of the new credit card regulations.

In its meeting on Friday, 17 May, the Board of the Central Bank of Chile decided to postpone for one month the entry into force of the new Chapter III.J.1 of the *Compendium of Monetary and Financial Regulations* of the Central Bank of Chile, which regulates credit cards. The sole objective of this extension of the effective date is to prolong the period of public consultation on SBIF Official Letter 40, which establishes the regulatory guidelines and instructions applicable to nonbank credit card issuers for compliance with the new regulations.

19 July

The Central Bank of Chile changes the temporary provisions of the new regulations on the issue and operation of credit cards.

At its meeting on 18 July, the Central Bank Board voted to change the temporary rules in the new Chapter III.J.1 of the *Compendium of Monetary and Financial Regulations* ruling the issue and operation of credit cards, following a favorable report by the Superintendence of Banks and Financial Institutions (SBIF). In order to facilitate the process of adapting to the new requirements established in the regulations, for both the supervisor and the supervised, the following modifications were approved:

- Nonbank issuers and operators that are inscribed in the Issuers and Operators Registry maintained by the SBIF must submit a plan to the Superintendence, no later than 31 December of this year, for adapting to the new requirements on corporate purpose, minimum equity, liquidity reserve, risk monitoring and management policies and so forth.

- Entities that are not currently inscribed in the SBIF registry, but that must be inscribed to continue operating in their business line as a result of the new regulation, must apply for provisional inscription no later than 31 December 2013 and also submit to the SBIF a plan for adapting to the new requirements of Chapter III.J.1.

- In both cases, firms must demonstrate to the SBIF full compliance with the requirements established in Chapter III.J.1 by 22 July of next year, at the latest.

The date on which the new Chapter III.J.1 enters into effect remains the same, scheduled for next Monday, 22 July. The respective Resolution will

[1]/ http://www.impulsocompetitivo.gob.cl/wp-content/uploads/2013/04/Informe-Inclusión-Financiera-y- Medios-de-Pago-Electrónicos.pdf.

be published on Saturday, 20 July.

7 August

The Central Bank of Chile announces the commencement of the special program accepting only mortgage bonds as collateral (Repo BH).

On Monday, 12 August 2013, the Central Bank of Chile initiated the special securities repo program that exclusively accepts mortgage bonds as collateral.

This program was announced on 28 March 2013 as a mechanism for gradually incorporating mortgage bonds as collateral in regular monetary operations. At that time, it was announced that the commencement of the program would depend on the issue of this type of instrument and the corresponding registration in the central securities depository.

In September 2012, the Central Bank and the Superintendence of Banks and Financial Institutions announced a new regulatory framework that allows the development of mortgage bonds in Chile, thereby opening access to a new source of long-term financing for banks and a new investment alternative for the pension funds and other institutional investors.

The Repo BH will be offered for up to 14 days at a floating rate equivalent to the MPR for each day plus 25 basis points.

To be eligible, the mortgage bonds must have been issued by banks with a risk rating of AAA, AA or A or higher, with the exception of own-issued mortgage bonds.

The program specifics will be published monthly in the repayment and operations calendar for each reserve period. The financial conditions will be reported in due time.

III. MAIN MEASURES TAKEN BY THE CENTRAL BANK OF CHILE IN 2013

January

3

The Central Bank of Chile reported that the Board approved the annual auction calendar for 2013, in its regular session on 27 December 2012.

The amount of bonds to be issued in the year breaks down as follows:

(a) Five-year peso-denominated bonds (BCP-5): up to Ch$490 billion.

(b) Ten-year peso-denominated bonds (BCP-10): up to Ch$245 billion.

(c) Five-year UF-denominated bonds (BCU-5): up to UF22 million.

(d) Ten-year UF-denominated bonds (BCU-10): up to UF11 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 modification in the case of significant changes in market conditions.

17

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 5.0% in annual terms.

Through Board Resolution 1730-02-130117 and in accordance with the stipulations of Article 30 of Law 19,396 on the new payment method for subordinated debt, the Central Bank of Chile established the market price applicable to the transfer of options corresponding to the preemptive subscription rights for the ordinary shares "Banco de Chile – T" with regard to the special preferential offer period considered in paragraph (b) of the aforementioned Article 30.

The aforementioned preemptive subscription rights correspond to the *Banco de Chile* shares held by the firm *SAOS S.A.,* which have been pledged to the Central Bank of Chile as collateral for the payment of the subordinated debt.

The subscription of the cash shares, related to the options described above, is part of the capital increase approved at the extraordinary shareholders meeting of the *Banco de Chile* held on 17 October 2012.

28

The Central Bank of Chile reported that as of this date, the *Daily Bulletin of National Financial Operations* will be published in digital format.

This new statistical product replaces the PDF version of the *Daily Bulletin* and includes tools for downloading and analyzing historical series, thereby facilitating the work of analysts and researchers.

31

Through Resolution 1733-06-130131, published in the *Official Gazette* on 2 February 2013, the Board appointed Mr. Rodrigo Caputo Galarce to replace Mr. Roberto Álvarez Espinoza as representative on the National Commission on Price Distortions. The appointment starts on 31 January 2013.

February

7

Through Resolution 1734-02-130207, the Board approved a bond replacement program involving the exchange of PRCs and CEROs for BCUs, through the sale by auction of BCUs with payment in the form of UF-denominated PRCs and CEROs. Entities that are authorized to participate in the primary market for Central Bank of Chile instruments are eligible for these transactions.

The program, which ran from 9 March to 8 May, contemplated the issue of five-year UF-denominated Central Bank bonds (BCU-5), for an amount equivalent to UF10.5 million. The series was issued in accordance with the provisions of Article 104 of the Income Tax Law.

7

Through Resolution 1734-04-130207 the Board accepted the compensation to which the Bank is entitled for its services as fiscal agent in the management of resources in the Economic and Social Stabilization Fund and the Pension Reserve Fund for the period from March 2013 to February 2014, in accordance with Official Letter 263 from the Ministry of Finance, dated 6 February 2013.

7

Through Resolution 1734-05-130207, the Board accepted the compensation to which the Bank is entitled for its services as fiscal agent in the management of resources in the Strategic Contingency Fund for the period from May 2013 to April 2014, in accordance with Official Letter 262 from the Ministry of Finance, dated 6 February 2013.

14

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 5.0% in annual terms.

21

Through Board Resolution 1736-02-130221, in accordance with the provisions of Article 76 of the General Banking Law, the *Banco de Crédito e Inversiones* was authorized to make an investment overseas, consisting in the subscription and payment of up to 99.99% of the share capital of the affiliated corporation BCI Securities, INC., incorporated in compliance with the legislation of the State of Florida, United States, and that will operate as a stock broker.

The authorization is subject to compliance by the *Banco de Crédito e Inversiones* with the provisions of Official Letter 297, issued by the Superintendence of Banks and Financial Institutions on 10 January 2013, which stipulates that the aforementioned affiliate in the United States of America cannot undertake activities that are prohibited to stock brokers under Article 70 of the General Banking Law and must comply with the specific regulations issued by the Superintendence, which must be contemplated in the affiliate's statutes. The Official Letter further clarifies that the Supervision Agreement between the Superintendence of Banks and Financial Institutions and the U.S. Federal Reserve remains in effect and is applicable to the affiliate's operations, for the purposes of Article 82 of the General Banking Law.

21

Through Resolution 1736-03-130221, at the request of the corporation *Inter Corredores de Bolsa S.A.* (currently called *ICB Corredores de Bolsa S.A.*), the Board voted to revoke the company's authorization to operate in the Formal Exchange Market, which was originally granted through Resolution 1472-03-090416.

March

6

Through Resolution 1738-01-130306, the Board decided to sell on the securities exchange the remaining options from the *Banco de Chile's* capital increase process through the issue of cash shares. The remaining options correspond to the preemptive subscription rights for the cash shares assigned to the capital increase approved at the extraordinary shareholders meeting of the *Banco de Chile* held on 17 October 2012, which were not purchased in the special preferential offer period.

6

Through Board Resolution 1738-02-130306, for the purposes specified in the daily publication referred to in the second paragraph of Section 44 of its Basic Constitutional Act regarding exchange rates for foreign currencies, the Board moved to clarify the criterion used to determine the list of foreign currencies that are generally accepted in the international exchange markets, which corresponds to foreign currencies that are eligible for investment of the international reserves, in accordance with Section 38, N° 7, of the institutional legislation.

14

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 5.0% in annual terms.

21

Through Resolution 1741-03-130321, the Board approved the announcement and application guidelines for the public call for nominees in the appointment of a replacement for the position of Lawyer Alternate Judge on the Competition Tribunal, following the voluntary resignation of Mr. Juan José Romero Guzmán, who was appointed to the position of Justice on the Constitutional Court.

26

Through Resolution 1742E-01-130326, in relation to the decision by the *Banco de Chile's* Board of Shareholders on 21 March 2013 to capitalize the payment of 30% of the company's earnings in the 2012 accounting period through the issue of fully paid-up shares, the Board of the Central Bank of Chile decided to opt for the payment in full in cash of the earnings or surpluses due it, including the part of earnings proportional to the agreed capitalization. This decision was adopted in accordance with the provisions of letter (b) of Article 31 of Law 19,396, on changing the payment method of subordinated debt, and other applicable regulations.

28

The Central Bank of Chile announced a special program of over-the-counter repo operations (involving the purchase of negotiable instruments with a repurchase agreement), for which it will accept bonds without a special guarantee issued by banks in accordance with Article 69 N° 2 of the General Banking Law, which for the purposes of these operations are called mortgage bonds (*bonos hipotecarios*) (Repo BH). The "Repo BH" operations will be offered at terms of up to 14 days with a floating rate equivalent to the MPR for each day plus 25 basis points.

To be eligible, the mortgage bonds must have been issued by banks with a credit rating of A or higher, with the exception of own-issued mortgage bonds.

The commencement of this program will be linked to the first issue of a mortgage bond and its corresponding registration in the central securities depository.

April

1

The Central Bank of Chile voted to authorize the incorporation of the so-called mortgage bonds in the set of debt instruments eligible to be used in over-the-counter repo operations (involving the purchase of negotiable instruments with a repurchase agreement), in compliance with the provisions of Chapter 2.1, Title I, number 8, of the First Part of the Central Bank of Chile's *Compendium of Monetary and Financial Regulations.*

4

Through Board Resolution 1746-02-130404, the Board accepted the fiscal agent assignment entrusted to the Central Bank through Executive Decree 2 of 7 January 2013, from the Ministry of Finance, to represent and act in the name and on the account of the Treasurer in the placement and administration of the Treasury bonds identified in the Decree, in accordance with the terms and conditions established therein.

11

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 5.0% in annual terms.

18

Through Board Resolution 1749-01-130418, new regulations on the issue and operation of credit cards were introduced to Chapter III.J.1 of the *Compendium of Monetary and Financial Regulations*, which will enter into force 60 days after the publication of the Resolution, which occurred on 20 April 2013.

The main characteristics of the new regulations are as follows:

- The suspension of the differentiated regulatory scheme applied to issuers depending on whether they pay within three days or at longer terms;

- The definition of the universe of supervised entities as including all entities that regularly assume payment responsibilities with unrelated affiliated businesses;

- The strengthening of capital, liquidity and reporting requirements for issuers and operators;

- The expansion of the corporate governance responsibilities of the supervised entities, especially in the formulation of risk monitoring and management policies, in accordance with the regulatory standards defined by the Superintendence of Banks and Financial Institutions (SBIF).

- The adaptation and improvement of the regulation applicable to credit card operators and similar systems;

- The extension of the registered line of business (*giro*) required for corporations that are authorized to operate credit cards, allowing them to also operate debit cards; and

- An increase in the capital requirements for operators that channel a large volume of payment transactions, even if they do not assume payment responsibilities.

May

9

Through Board Resolution 1752-03-130509, in accordance with the provisions of Article 76 of the General Banking Law, the Board authorized *Corpbanca* to make an investment overseas of up to a total of US$2 million, consisting in the subscription and payment of 100% of the share capital of an affiliated corporation whose registered corporate name will be *Corpbanca Securities,* Inc. The affiliate will be incorporated in compliance with the legislation of the State of Delaware, United States, and will operate as a stock broker.

The authorization is subject to compliance by *Corpbanca* with the provisions of Official Letter 2913, issued by the Superintendence of Banks and Financial Institutions on 28 February 2013, which stipulates that the aforementioned affiliate in the United States of America cannot undertake activities that are prohibited to stock brokers under Article 70 of the General Banking Law and must comply with the specific regulations issued by the Superintendence, which must be contemplated in the affiliate's statutes. The Official Letter further clarifies that the Supervision Agreement between the Superintendence of Banks and Financial Institutions and the U.S. Federal Reserve remains in effect and is applicable to the affiliate's operations, for the purposes of Article 82 of the General Banking Law.

16

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 5.0% in annual terms.

16

Through Resolution 1753-01-130516,the Board appointed Mr. Santiago Manuel Meersohn Ernst as member of the Central Bank of Chile's Audit and Compliance Committee, for a three-year term starting on 17 June 2013. Mr. Meersohn replaces Mr. Vivian Clarke Levi, whose term of appointment had expired.

17

Through Board Resolution 1754E-01-130517, the entry into effect of the new regulations on the issue and operation of credit cards, established in Chapter III.J.1 of the *Compendium of Monetary and Financial Regulations,* was postponed until 22 July 2013.

24

Through Resolution 1756E-01-130524, the Board agreed to submit to the President of the Republic the proposed list of candidates for the position of Lawyer Alternate Judge on the Competition Tribunal, to replace former Judge Mr. Juan José Romero Guzmán.

The list compiled by the Board included, in alphabetical order, the attorneys Críspulo Marmolejo González, Gastón Mansilla Carvajal and Joaquín Morales Godoy.

Subsequently, through Executive Decree 94 of 17 June 2013, issued by the Ministry of Economy, Development and Tourism and published in the *Official Gazette* on 24 July 2013, the President of the Republic appointed Mr. Críspulo Marmolejo González to the position of Lawyer Alternate Judge on the Competition Tribunal, effective 17 June 2013 through 12 May 2014.

June

6

Through Board Resolution 1758-01-130606, the Bank accepted new investment guidelines for the management of the Economic and Social Stabilization Fund, issued by the Ministry of Finance via Official Letter 1267, dated 4 June 2013.

13

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 5.0% in annual terms.

July

4

Through Board Resolution 1763-02-130704, *Corpbanca* was authorized to make an investment overseas consisting in the acquisition, through its affiliate *Banco Corpbanca Colombia S.A.*, of up to 100% of Helm Bank S.A., including affiliates. The objective of this investment is to enable the merger of the two banking companies incorporated in Colombia and to allow *Corpbanca* to acquire up to 80% of the shares of *Helm Corredores de Seguros S.A.*, a company domiciled in Colombia. The first investment will be made through a capital increase in *Banco Corpbanca Colombia S.A.*, which will be subscribed and partially paid in by *Corpbanca*.

The authorization is subject to a number of conditions, including the stipulation that the foreign bank affiliate that will be merged with Helm Bank S.A. will not undertake activities prohibited of Chilean banking entities under the General Banking Law.

11

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 5.0% in annual terms.

18

Through Board Resolution 1765-03-130718, modifications were introduced to the temporary rules in Chapter III.J.1 of the *Compendium of Monetary and Financial Regulations* on the Issue and Operation of Credit Cards, in order to facilitate the process of adapting to the new requirements established in the regulations.

To this end, the following modifications were established:

- When the new Chapter III.J.1 enters into force, nonbank issuers and operators that are inscribed in the Issuers and Operators Registry maintained by the SBIF must submit a plan to the Superintendence, no later than 31 December of this year, for adapting to the new requirements on corporate purpose, minimum equity, liquidity reserve, risk monitoring and management policies and so forth.

- Entities that are not currently inscribed in the SBIF registry, but that must be inscribed to continue operating in their business line as a result of the new regulation, must apply for provisional inscription no later than 31 December 2013 and also submit a plan to the SBIF for adapting to the new requirements of Chapter III.J.1.

- In both cases, firms must demonstrate to the SBIF full compliance with the requirements established in Chapter III.J.1 no later than 22 July 2014, that is, one year from the entry into force of these regulations.

The date on which the new Chapter III.J.1 enters into effect remains the same, scheduled for 22 July 2013.

18

Through Board Resolution 1765-04-130718, the Bank accepted the new implementation guidelines for managing the resources in the Strategic Contingency Fund, issued by the Ministry of Finance via Official Letter 1635, dated 17 July 2013.

August

1

Through Board Resolution 1767-01-130801, the statutes were approved for the Central Bank of Chile's Advisory Committee on Information Technologies, which will serve as a consultant to the Board on related issues. The first committee members to be appointed are Mr. Jaime Navón Cohen, Mr. José Alberto Pino Urtubia and Mr. Ignacio Casas Raposo, who will serve terms of three years, two years and one year, respectively. Mr. Casas is the committee chair.

7

The Central Bank of Chile announced that the special program of repo operations using only mortgage bonds as collateral will commence on 12 August 2013.

13

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 5.0% in annual terms.

14

Through Board Resolution 1770-01-130814, the Bank accepted the new implementation guidelines on the management of the resources in the Pension Reserve Fund, issued by the Finance Minister via Official Letter 1925, dated 13 August 2013.

These new investment guidelines replace those contained in Official Letter 1637 from the Ministry of Finance, dated 18 November 2011, and the modifications thereof via Official Letter 192, dated 31 January 2012.

In the same Resolution, the Board accepted the new implementation guidelines on custody and other issues related to the resources in the Economic and Social Stabilization Fund and the Pension Reserve Fund, issued by the Finance Minister via Official Letter 1926, dated 13 August 2013.

These new custody guidelines replace those contained in Official Letter 133 from the Ministry of Finance, dated 8 February 2007, and the modifications thereof via Official Letter 355, dated 24 March 2011, and 248, dated 7 February 2012.

29

Through Board Resolution 1774-02-130823, the Board authorized the company *Moneda Corredores de Bolsa Limitada* to operate in the Formal Exchange Market, in accordance with the provisions of Article 41 of the Bank's constitutional legislation in Chapter III of the *Compendium of Foreign Exchange Regulations.* This authorization was granted on the condition that *Moneda Corredores de Bolsa Limitada* demonstrates to the Bank the due constitution of collateral to ensure full and proper compliance with all the obligations contracted by the firm in the course of its operations in the Formal Exchange Market. Thus, the aforementioned firm will be authorized to operate in the Formal Exchange Market as of 23 September 2013, as stated in Administrative Directive 926 of 7 October 2013.

September

12

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 5.0% in annual terms.

October

10

Through Resolution 1781-02-131010, the Board of the Central Bank of Chile, appointed Mr. Gonzalo Jorge Echavarría Martí to replace Mr. Pablo Andrés Furche Veloso in the position of substitute representative for regular member Mr. Juan Eduardo Chackiel Torres, on the National Commission on Price Distortions, as stipulated in Article 9° of Law 18,525, for which the consolidated, coordinated and systematized text was established by Statutory Decree 31, issued by the Ministry of Finance on 18 October 2004.

17

Through Board Resolution 1782-01-131017, published in the *Official Gazette* on 22 October 2013, the Board of the Central Bank of Chile approved the regulations on the use of electronic documents and the advanced electronic signature of the Central Bank of Chile for the sole purpose of custody of the authorized copy of the Board Meeting minutes provided by the certifying officer, as addressed in Section 11 of the Central Bank's Basic Constitutional Act, regarding Article 9, final paragraph, and

Articles 10 and 25 of Law 19,799 on electronic documents, electronic signature and electronic signature certification services, which are included in the appendix to the Resolution and which form an integral part thereof.

17

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 25 basis points, to 4.75% in annual terms.

24

Through Resolution 1783-01-131024, the Board of the Central Bank of Chile accepted the resignation of Mr. Luis Antonio Ahumada Contreras, effective on that date, from the position of alternate member on the Technical Investment Council considered Article 167 et seq. of Decree Law 3500 of 1980 and Article 58H of Law 19,728, to which he was appointed through Resolution 1679E-01-120514 of 14 May 2012.

At the same time, the Board has appointed Ms. Carmen Gloria Silva Llanos to the position of alternate member on the Technical Investment Council, to replace Mr. Luis Antonio Ahumada Contreras for the remainder of his term, which ends on 10 June 2016.

November

13

Through Resolution 1786-02-131113, the Board accepted the compensation to which the Bank is entitled for its services as fiscal agent in the management of resources in the Economic and Social Stabilization Fund and the Pension Reserve Fund for the period from 1 March 2014 to 31 December 2014, in accordance with Official Letter 2533, issued by the Ministry of Finance on 8 November 2013.

13

Through Resolution 1786-03-131113, the Board of the Central Bank of Chile accepted the compensation to which the Bank is entitled for its services as fiscal agent in the management of resources in the Strategic Contingency Fund for the period from 1 May to 31 December 2014, in accordance with Official Letter 2532, issued by the Ministry of Finance on 8 November 2013.

19

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 25 basis points, to 4.5% in annual terms.

December

12

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 4.5% in annual terms.

12

Through Resolution 1793-02-131212, published in the *Official Gazette* on 17 December 2013, the Board of the Central Bank of Chile modified the daily adjustment factor applied to the reference basket of currencies stipulated in the appendix to Chapter I of the *Compendium of Foreign Exchange Regulations*. The value of the reference basket of currencies will thus be adjusted daily by 0.008099% between 10 January 2014 and 9 January 2015 (both dates inclusive).

24

Through Resolution 1794-05-131219, published in the *Official Gazette* on 24 December 2013, the Board of the Central Bank of Chile ruled, in accordance with the stipulations of letter (c) of Article 10 of Law 18,634, that the interest rate that will be charged on the deferred payment of customs duties in the half ending on 30 June 2014 will be 5.9% in annual terms, in U.S. dollars.


MOSLER

IV. INTERNATIONAL RESERVE MANAGEMENT

A. INTRODUCTION

International reserves are liquid foreign currency 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.

The management of these reserves 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 Section 38 of its Basic Constitutional Act, which specifically grants it the authority to manage, maintain and use its international reserves abroad.

In line with its transparency policies[1]/, this appendix reports on the annual international reserve management. The next section describes the investment policies and benchmark structure used in managing reserves. The third section reports on external portfolio managers. The fourth section summarizes the risk management policies and the results of the international reserve management.

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

B. INVESTMENT POLICY AND BENCHMARK STRUCTURE

The international reserve investment policy centers on liquid financial assets that meet the legal requirements established for reserve management. The policy is designed based on the impact on earnings and risk on the Central Bank's balance sheet and the characteristics of potential foreign exchange liquidity needs, oriented fundamentally toward the preservation of capital in the face of possible market fluctuations.

The management objectives of the investment policy are as follows: (i) to hold foreign exchange reserves in highly liquid instruments, which can be called in the briefest period possible without incurring significant transaction costs, so as to be able to cover residual short-term external debt if necessary; (ii) to invest in instruments that present limited financial risks, in order to limit the risk of generating capital losses; (iii) to minimize the volatility of the value of the Bank's equity as a result of changes in the exchange rates of the investment currencies vis-à-vis the peso, with the goal of reducing any negative effects on the Bank's balance sheet; and (iv) to reduce the cost of holding reserves at the margin. This last objective led to the creation of a portfolio oriented toward achieving higher absolute returns in the long run.

Total international reserves are made up of the investment portfolio plus the cash portfolio (transaction account balances held by the Treasury, public companies and banks) and the other assets portfolio (IMF special drawing rights, or SDRs, certified gold and other assets). The cash portfolio is allocated to covering expected funding requirements in the short term and is the preferred source for handling the daily funding requirements deriving from withdrawals from the foreign currency accounts maintained at the Central Bank by commercial banks and the public sector.

B.1 Benchmark structure of the investment portfolio

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

The benchmark structure defines three investment portfolios: the short-term liquidity portfolio, the medium-term liquidity portfolio and the diversification portfolio (table 1).

The short-term liquidity portfolio represents 24% of the investment portfolio, and its currency structure is 100% U.S. dollars. The benchmark contemplates government bills issued by the United States, with a residual maturity of up to one year. The target duration is approximately three months. Investments can also be made in bills, bonds and discount notes, with a residual maturity of up to one year, from eligible issuers that represent sovereign, supranational and agency risk. The short-term liquidity portfolio is designated, first and foremost, to be available for the potential use of foreign exchange reserves. In this portfolio, investments in currencies other than the U.S. dollar are not allowed.

The medium-term liquidity portfolio accounts for 61% of the investment portfolio, and its reference structure comprises 39% U.S. dollars, 36% euros, 15% Canadian dollars and 10% Australian dollars. This benchmark includes sovereign securities issued by the United States, Germany, Canada and Australia, with a residual maturity of one to five years. The target duration is approximately 24 months. Investments can be made in notes and bonds with a residual maturity between one and five years, from eligible issuers that represent sovereign, supranational and agency risk. The main objective of the medium-term liquidity portfolio is to cover the Central Bank's balance sheet. In this portfolio, investments are not allowed in currencies that are not specified in the benchmark.

The diversification portfolio represents 15% of the investment portfolio, and its reference structure comprises 20% Japanese yen, 16% Swiss francs, 15% pounds sterling, 15% South Korean won, 15% Chinese renminbi, 12% New Zealand dollars and 7% Singapore dollars. With the exception of the renminbi, this benchmark includes securities issued by Japan, Switzerland, the United Kingdom, South Korea, New Zealand and Singapore, with a residual maturity of five to ten years. In the case of the renminbi, the benchmark is associated with the deposit rate on three-month bank deposits denominated in Chinese renminbi and traded offshore. The target duration of the portfolio is approximately 57 months. Investments can also be made in any and all instruments approved under the most recent *Current Policy Manual* for the management of foreign exchange reserves, with no restrictions on terms (or residual maturity) or currencies. The diversification portfolio is managed on the basis of a risk budget. Deviations from the benchmark are limited to an ex ante tracking error of 100 basis points per year[2]/. The main objective of holding these assets is to increase returns at the margin so as to reduce the existing gap between the cost of the Bank's liabilities and the returns on its investments.

The investment portfolio has mechanisms for rebalancing the subportfolios to ensure that their relative size remains in line with the benchmark.

[2]/ The tracking error identifies the incremental risk incurred by a portfolio, relative to the benchmark, when it takes positions outside the benchmark. For the purposes of management, limits can be imposed on this incremental risk, and these limits are known as a risk budget.

TABLE 1

BENCHMARK STRUCTURE FOR THE INTERNALLY MANAGED INVESTMENT PORTFOLIO

		Tranche (years)	% over Internally managed	% over subportfolio	Duration (months)	Benchmark indices
Short-term liquidity	USD	0-1	24.7	100	3.9	Merrill Lynch US Treasury Bills (Unhedged)
	Total		**24.7**	**100**	**3.9**	
Medium-term liquidity	USD	1-3	22.0	35.1	22.1	Barclays Global Aggregate – Treasury Bond Index (Unhedged) (EUR, Germany only)
		3-5	2.4	3.9	45.7	
		Total	24.5	39.0	24.5	
	EUR	1-3	20.3	32.4	20.3	
		3-5	2.3	3.6	44.0	
		Total	22.6	36.0	22.7	
	CAD	1-3	8.5	13.5	20.7	
		3-5	0.9	1.5	44.5	
		Total	9.4	15.0	23.1	
	AUD	1-3	5.6	9.0	21.9	
		3-5	0.6	1.0	38.6	
		Total	6.3	10.0	23.6	
	Total		**62.7**	**100**	**23.5**	
Diversification (internal)	CHF	5-7	1.8	14.1	65.9	Barclays Global Aggregate – Treasury Bond Index (Unhedged)
		7-10	0.2	1.9	90.7	
		Total	2.0	16.0	68.8	
	GBP	5-7	1.7	13.2	63.3	
		7-10	0.2	1.8	86.7	
		Total	1.9	15.0	66.0	
	JPY	5-7	2.2	17.6	68.0	
		7-10	0.3	2.4	97.3	
		Total	2.5	20.0	71.5	
	KRW	5-7	1.7	13.2	66.2	
		7-10	0.2	1.8	85.1	
		Total	1.9	15.0	68.4	
	NZD	5-7	1.3	10.6	57.6	
		7-10	0.2	1.4	78.9	
		Total	1.5	12.0	60.1	
	SGD	5-7	0.8	6.2	66.4	
		7-10	0.1	0.8	88.5	
		Total	0.9	7.0	69.0	
	CNH	3 meses	1.9	15.0	1.5	Bloomberg CGDRC Currency Index
	Total		**12.6**	**100.0**	**57.7**	
Total internally managed portfolios			**100.0**		**23**	

Source: Central Bank of Chile.

B.2 Benchmark structure of the cash portfolio

The investments in the cash portfolio match the currency and term structure of expected disbursements on the Bank's balance sheet. The currency composition of the cash portfolio is thus tied to the currency composition of expected disbursements and deposits and withdrawals in accounts held at the Central Bank by commercial banks and the public sector. The benchmark is calculated on the basis of the overnight, weekend and time deposit rates of the reference currencies, as a function of the characteristics of expected disbursements.

B.3 Evolution of the portfolios in 2013

As of 31 December 2013, the investment portfolio stood at US$35.4748 billion, while the cash portfolio held US$3.688 billion. Taking the sum of these two portfolios plus other assets[3]/, total international reserves closed the year at US$41.0937 billion. This balance was US$555.8 million less than at year-end 2012. The decrease is explained by reductions in the investment portfolio of US$421.3 million, in the cash portfolio of US$67.1 million and in the other assets portfolio of US$67.4 million. In the case of the investment portfolio, the drop (measured in dollars) is mainly explained by the depreciation of the yen, the Australian dollar and the Canadian dollar against the U.S. dollar, which was partially offset by interest earned in the period. For the cash portfolio, the reduction is explained by lower deposits by local banks in the Central Bank, while the decline in the other assets portfolio mainly reflects a reduction in IMF special drawing rights (SDRs).

With regard to the value of the investment portfolio, US$8.5004 billion was in the short-term liquidity portfolio, US$21.6367 billion was in medium-term liquidity portfolio and US$5.3377 billion was in diversification portfolio. In addition, a share of the diversification portfolio was managed by two external managers, which are described in section C of this appendix.

Of the US$34.4831 billion in the internally managed investment portfolio, 89.3% was invested in sovereign risk, 5.2% in supranational risk[4]/, 3.6% in agency risk[5]/ and 1.9% in bank risk. Sovereign risk includes investments in the United States (42.7%), Germany (25.2%), Canada (10.6%), Australia (7.7%), Japan (2.8%), the United Kingdom (2.2%), Switzerland (2.2%), South Korea (2.2%), Finland (1.9%), New Zealand (1.6%) and Singapore (0.9%). Supranational risk was made up entirely of issues by the International Bank for Reconstruction & Development (IBRD), the International Finance Corporation (IFC) and the European Investment Bank (EIB). Agency risk was concentrated exclusively in issues by Freddie Mac and Fannie Mae. Finally, bank risk comprises renminbi-denominated bank deposits in banks in China, the United Kingdom and Japan. The shares of supranational and agency risk have risen substantially since year-end 2012.

The cash portfolio stood at US$3.688 billion at year-end 2013.

The currency composition of total reserves and the investment portfolio is given in tables 2a and 2b.

[3]/ The other assets portfolio is mainly composed of monetary gold and special drawing rights (SDRs) from the International Monetary Fund (IMF).

[4]/ Supranational institutions are multilateral financial institutions, whose articles of agreement are signed by the governments of two or more countries.

[5]/ Agencies are financial institutions with specific objectives; they are fully or partially backed by the government of the country in which they are established.

TABLE 2a

COMPOSITION OF INTERNATIONAL RESERVES

(US$ million)

Type of portfolio	Currency	2012		2013	
		Dec.	%	Dec.	%
Investment portfolio		**35,896.2**	**86.2**	**35,474.8**	**86.3**
Currencies and deposits	U.S. dollar	3.1	0.0	4.5	0.0
	Euro	0.8	0.0	0.8	0.0
	Canadian dollar	0.4	0.0	0.5	0.0
	Australian dollar	0.4	0.0	0.4	0.0
	Other	824.6	2.0	826.2	2.0
Securities	U.S. dollar	17,210.8	41.3	16,794.3	40.9
	Euro	7,869.5	18.9	7,713.2	18.8
	Canadian dollar	3,267.2	7.8	3,244.7	7.9
	Australian dollar	2,184.9	5.2	2,408.0	5.9
	Other	4,534.5	10.9	4,482.3	10.9
Total	U.S. dollar	17,213.9	41.3	16,798.8	40.9
	Euro	7,870.3	18.9	7,714.0	18.8
	Canadian dollar	3,267.6	7.8	3,245.2	7.9
	Australian dollar	2,185.3	5.2	2,408.4	5.9
	Other	5,359.1	12.9	5,308.5	12.9
Cash portfolio		**3,755.1**	**9.0**	**3,688.0**	**9.0**
Currencies and deposits	U.S. dollar	3,755.1	9.0	3,688.0	9.0
Other assets		**1,998.2**	**4.8**	**1,930.8**	**4.7**
Monetary gold	Other	13.1	0.0	9.6	0.0
IMF SDRs	Other	1,211.5	2.9	1,147.1	2.8
IMF reserve position	Other	691.8	1.7	640.7	1.6
Reciprocal credit agreements	U.S. dollar	81.7	0.2	133.3	0.3
Total		**41,649.5**	**100.0**	**41,093.7**	**100.0**
	U.S. dollar	21,050.7	50.5	20,620.2	50.2
	Euro	7,870.3	18.9	7,714.0	18.8
	Canadian dollar	3,267.6	7.8	3,245.2	7.9
	Australian dollar	2,185.3	5.2	2,408.4	5.9
	Other	7,275.6	17.5	7,106.0	17.3

Source: Central Bank of Chile.

TABLE 2b

INTERNALLY MANAGED PORTFOLIO: INVESTMENTS BY CURRENCY

(percent as of 31 December 2013)

Currency	Share
U.S. dollar (*)	47.4
Euro	21.7
Canadian dollar	9.1
Australian dollar	6.8
Japanese yen	2.9
Swiss franc	2.4
South Korean won	2.4
Chinese renminbi	2.3
Pound sterling	2.3
New Zealand dollar	1.8
Singapore dollar	1.0
Total	**100,0**

(*) The percentage share of the U.S. dollar includes investments in different U.S. issuers.

C. EXTERNAL PORTFOLIO MANAGEMENT PROGRAM

In 2013, a portion of the investment portfolio was managed by two external managers: Pacific Investment Management Company (PIMCO) and Goldman Sachs Asset Management (GSAM). At the close of the year, a total of US$991.7 million was managed externally, distributed about equally between the two firms.

Like the internal management program, PIMCO and GSAM manage a share of the diversification portfolio, controlled through a risk budget defined as an ex ante tracking error of 100 basis points per year.

The priority objectives of the external management program are twofold: (i) to add value to the foreign exchange portfolio; and (iii) to provide an active benchmark for the internally managed diversification portfolio.

Performance evaluations, risk assessment and compliance with the limits established in the benchmark continue to be conducted externally by J.P. Morgan Chase.

D. RISK MANAGEMENT AND RETURNS FROM INTERNATIONAL RESERVE MANAGEMENT

D.1 Risk management in international reserve management

International reserve management includes criteria for limiting liquidity, credit, market and operational risks.

To reduce liquidity risk, the Bank manages a portfolio composed mainly of fixed-income instruments traded in deep and highly liquid secondary markets. Investments in bank deposits are limited to the instruments defined for the cash portfolio, composed mainly of overnight deposits[6]/.

With regard to credit risk, limits are applied to bank, sovereign, supranational and external financial institution (or agency) risk, as well as to the counterparties used (table 3).

The investment guidelines establish other criteria and restrictions as complementary measures to limit credit risk: eligibility criteria for issuers, eligible operations, treatment of the use of derivatives and eligible intermediaries (tables 4, 5 and 6).

[6]/ With regard to the internally managed investment portfolio, at year-end 2013, exposure to bank risk entailed investments in renminbi-denominated time deposits in banks in China, Japan and the United Kingdom, with a residual maturity of approximately 1.6 months.

TABLE 3

COMPOSITION OF INTERNATIONAL RESERVES BY TYPE OF CREDIT RISK (1) (2) (3)

(percent as of 31 December 2013)

Type of credit risk	Credit rating						
	AAA	AA+	AA	AA-	A+	A	Total
Agency	3.2	0.0	0.0	0.0	0.0	0.0	3.2
Bank	1.8	0.0	0.0	5.2	3.4	1.1	11.5
Sovereign	72.3	2.0	1.6	4.8	0.0	0.0	80.7
Supranational	4.6	0.0	0.0	0.0	0.0	0.0	4.5
Total	**81.9**	**2.0**	**1.6**	**10.0**	**3.4**	**1.1**	**100.0**

(1) Bank risk is related to investment in banks' financial instruments (deposits, foreign exchange spot/forward transactions).
Sovereign risk is related to investment in instruments from sovereign states (deposits, bills and nominal bonds).
Agency risk is associated with investment in instruments of U.S., French and German government agencies (bills and nominal bonds).
Supranational risk is associated with investment in instruments from an official multilateral issuer (deposits, bills, floating-rate notes and nominal bonds).
(2) The risk rating corresponds to the average of the Fitch, Moody's and Standard and Poor's ratings.
(3) Excluding gold and IMF positions.

Source: Central Bank of Chile.

TABLE 4

Financial institutions with outstanding deposits as of 31 December 2013		
AAA, AA and AA-	Bank of Montreal	
	HSBC Bank USA NA	
	Rabobank Nederland	
	Standard Chartered Bank	
	Svenska Handelsbanken AB (publ)	
	Wells Fargo Bank, NA	
	Zurcher Kantonalbank	
	Minimum amount (US$ million)	225
	Maximum amount (US$ million)	700
	Category average (US$ million)	374
A+ and A	Credit Agricole Corporate and Investment Bank	
	Erste Group Bank AG	
	Natixis	
	Bank of China (Hong Kong) Ltd.	
	BNP Paribas S.A.	
	Mizuho Bank Ltd.	
	Skandinaviska Enskilda Banken AB (publ) (SEB)	
	Sumitomo Mitsui Banking Corporation	
	Sumitomo Mitsui Trust Bank Ltd.	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	
	The Norinchukin Bank	
	Minimum amount (US$ million)	33
	Maximum amount (US$ million)	178
	Category average (US$ million)	158

(*) Includes investments in the internally managed portfolio and the cash portfolio.

Source: Central Bank of Chile.

TABLE 5

ELIGIBLE BANKS AND PERMISSIBLE LIMITS AS OF 31 DECEMBER 2013

(value in US$ million and months)

Country	Bank	Amount	Duration
Germany	DekaBank Deutsche Girozentrale	180	3
Germany	Deutsche Bank AG	180	3
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	180	3
Germany	Landesbank Hessen-Thüringen Girozentrale	180	3
Germany	NRW.BANK	432	9
Australia	Australia & New Zealand Banking Group Limited	432	9
Australia	Commonwealth Bank of Australia	432	9
Australia	National Australia Bank Ltd	432	9
Australia	Westpac Banking Corporation	432	9
Austria	Erste Group Bank AG	180	3
Austria	Raiffeisen Bank International AG (RBI)	180	3
Belgium	BNP Paribas Fortis SA/NV	180	3
Belgium	ING Belgium SA/NV	180	3
Canada	Bank of Montreal	432	9
Canada	Caisse Centrale Desjardins	324	9
Canada	Canadian Imperial Bank of Commerce	432	9
Canada	National Bank of Canada	180	3
Canada	Royal Bank of Canada	432	9
Canada	The Bank of Nova Scotia	432	9
Canada	The Toronto-Dominion Bank	432	9
China	Bank of China (Hong Kong) Ltd.	180	3
China	The Hongkong and Shanghai Banking Corporation Limited	432	9
Denmark	Nordea Bank Danmark A/S	432	9
Finland	Nordea Bank Finland Plc	432	9
France	BNP Paribas S.A.	180	3
France	Crédit Agricole Corporate and Investment Bank	180	3
France	Crédit Agricole S.A.	180	3
France	Crédit Industriel et Commercial (CIC)	180	3
France	HSBC France	432	9
France	Natixis	180	3
France	Société Générale	180	3
Netherlands	ABN AMRO Bank NV	180	3
Netherlands	ING Bank NV	180	3
Netherlands	NV Bank Nederlandse Gemeenten	585	12
Netherlands	Rabobank Nederland	432	9
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	Sumitomo Mitsui Trust Bank Ltd.	180	3
Norway	DnB NOR Bank ASA	180	3
Norway	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
Sweden	Swedbank AB	180	3
Switzerland	Credit Suisse	180	3
Switzerland	UBS AG	180	3
Switzerland	Zürcher Kantonalbank	702	12

TABLE 5 (*continued*)

ELIGIBLE BANKS AND PERMISSIBLE LIMITS AS OF 31 DECEMBER 2013

(value in US$ million and months)

Country	Bank	Amount	Duration
United Kingdom	Bank of Scotland Plc	180	3
United Kingdom	Barclays Bank Plc	180	3
United Kingdom	HSBC Bank Plc	432	9
United Kingdom	Lloyds TSB Bank Plc	180	3
United Kingdom	Standard Chartered Bank	432	9
United States	Bank of America NA	180	3
United States	BNY Mellon National Association	324	9
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 NA	432	9
United States	J.P. Morgan Chase Bank	180	3
United States	PNC Bank NA	180	3
United States	State Street Bank & Trust Company	432	9
United States	The Bank of New York Mellon	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 6

INTERMEDIARIES USED IN 2013

Intermediary
ANZ Securities Inc.
Barclays Capital
Barclays Capital Inc.
Barclays Capital Securities Limited
BMO Capital Markets Corp.
BNP Paribas S.A.
BNP Paribas Securities Corp.
Caisse Centrale Desjardins
Canadian Imperial Bank of Commerce
CIBC World Markets Corp
Citigroup Global Markets Inc.
Citigroup Global Markets Limited
Commerzbank
Commonwealth Bank of Australia
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc
Deutsche Bank AG
Deutsche Bank Securities Inc.
Goldman Sachs International Bank
Goldman, Sachs & Co.
HSBC Bank PLC
HSBC Bank USA N.A.
HSBC Securities (USA) Inc.
J.P. Morgan Securities LLC
Jefferies International Limited
Jefferies LLC
J.P. Morgan Securities PLC.

(*continued*)

Intermediary
JPM Securities (Far East) Ltd
Merrill Lynch International
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Mizuho Securities USA Inc.
Morgan Stanley & Co. International plc
Morgan Stanley & Co. LLC.
National Australia Bank Ltd
National Bank of Canada Financial Inc
Nomura International plc
Nomura Securities International, Inc.
RBC Capital Markets, LLC
RBS Securities Inc.
Royal Bank of Scotland
SG Americas Securities, LLC
Société Générale
Standard Chartered Bank, Singapore
Standard Chartered Securities Korea Limited
Svenska Handelsbanken AB (publ)
TD Securities (USA) LLC
The Bank of New York Mellon
The Bank of Nova Scotia
The Toronto-Dominion Bank
UBS AG
UBS Limited
UBS Securities LLC
Westpac Banking Corp
Zurcher Kantonalbank

Source: Central Bank of Chile.

Market risk is contained through the diversification of investment currencies, instruments and maturities and through the measurement and monitoring of limits on exposure to duration and currency risk described above.

The average daily value at risk (VaR[7]/) of the internally managed investment portfolio was 2.79% in 2013 (3.71% in 2012). The average tracking error was 10 basis points.

Operational risk is controlled through the separation of functions and responsibilities at the institutional and hierarchical levels, the application of efficient controls to mitigate it and the use of computer applications that adhere to market quality standards. Initiatives were carried out to improve the standards of operational continuity, and a contingency unit was maintained to guarantee the operational continuity of both the international reserves and the fiscal resources in the event of problems with the physical or technological infrastructure of the Central Bank building. These measures, together with internal and external audits, ensured that the decisionmaking process and performance evaluation within the Bank were well defined.

In line with best practices, the Bank has initiated a selection process to replace its current international reserve management system, as part of its regular program of technological upgrading. The first phase included contracting an external consultant to provide support services during the selection process; this phase should be completed by early 2015.

D.2 The return on foreign exchange reserve management

In 2013, the total return on reserve management was 0.26% based on the reference basket of currencies for the investment portfolio. Measured in U.S. dollars, the return was –0.71%. The return differential relative to the benchmark structure was 5.5 basis points. For the 2004–2013 period, the annual average return, measured in the reference currencies, was 2.53%, with an average return differential of 5.0 basis points over the benchmark (table 7).

D.3 Operating costs and the securities lending program

In 2013, the total operating costs of reserve management represented around 1.8 basis point of the total portfolio under management.

In the period, a securities lending program was maintained with the Bank's international reserve custodians. This consists in lending instruments owned by the Bank to primary dealers, who must put up collateral equivalent to 102% of the value of the instrument being loaned. Primary dealers are financial institutions designated by the treasury offices of the issuing countries, for the placement and distribution of their debt securities. The contractual relationship with the lending agent—that is, the custodian—incorporates a clause stipulating that in the event of default by the debtor, the custodian will be responsible for the totality of the positions loaned, thereby transferring the risk from the debtor to the custodian bank. In addition, the custodian keeps the custodial positions in separate accounts on its balance sheet, so there is no credit risk. In 2013, this program generated income for the Bank equivalent to 0.2 basis point of total foreign exchange reserves. The absolute net return measured in dollars was –0.73% in 2013, while the differential net return 3.8 basis point (table 8).

[7]/ The VaR is based on a parametric model with an annualized daily horizon, a confidence level of 84% (1 □) and a decay factor of 0.94.

TABLE 7

ABSOLUTE RETURNS ON INTERNATIONAL RESERVES AND THE BENCHMARK

(percent)

Period	In foreign currencies		In dollars		Differential
	Int. Res.	BMK	Int. Res.	BMK	
2013	0.26	0.21	-0.71	-0.77	0.06
2012	0.66	1.01	1.43	1.77	-0.35
2011	2.43	2.41	1.22	1.20	0.02
2010	2.10	2.19	-0.15	-0.06	-0.09
2009	2.15	1.65	3.34	2.85	0.50
2008	5.70	5.37	4.14	3.81	0.33
2007	4.81	4.78	8.86	8.83	0.03
2006	2.45	2.39	6.84	6.78	0.06
2005	2.90	2.85	-1.72	-1.77	0.05
2004	1.84	1.95	4.08	4.20	-0.11
Average	**2.53**	**2.48**	**2.73**	**2.68**	**0.05**

Source: Central Bank of Chile.

TABLE 8

NET MANAGEMENT SUMMARY, 2013

	Return (%)	Differential returns (bp)	Management costs (bp)	Income from securities lending (bp)	Net differential return (bp)	Net return (%)
Total international reserves	-0.71	5.5	1.80	0.20	3.80	-0.73

Source: Central Bank of Chile.

V. 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 Responsibility 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.

Executive Decree 1618, issued by the Finance Ministry on 6 December 2012 and published in the *Official Gazette* on 18 April 2013, introduced a number of changes to the original Fiscal Agency Decree. Basically, the new decree identifies two portfolios in the context of the fiscal agency and the associated responsibilities. First, there is a portfolio of resources that can be invested in instruments that are eligible for the Central Bank's international reserves and in fixed-income securities that are not guaranteed by a foreign state, with the exception of corporate bonds (Portfolio Article 4). Second, there is a portfolio of fiscal resources that are invested in stocks, corporate bonds and other classes of instruments that are not accepted by the Bank for its direct management (the externally managed portfolio).

In general terms, Portfolio Article 4 retains the functions contained in the original Fiscal Agency Decree. With regard to the externally managed portfolio, there was a transitional period ending on 31 December 2013, after which the new regime entered into effect on 1 January 2014. Once the new regime entered into force, the Bank is no longer considered in charge of the fiscal resources contained in the externally managed portfolio, thereby limiting the Bank's functions with regard to the resources managed by external portfolio managers.

Through Board Resolution 1758-01-130606, the Bank accepted new performance guidelines for the management of the ESSF resources, submitted by the Ministry of Finance through Official Letter 1267, dated 4 June 2013. These guidelines entered into effect on 5 August 2013, replacing the guidelines contained in Official Letter 433 dated 12 April 2011 and the modifications thereof in Official Letter 1051 of 8 August 2011, both from the Ministry of Finance. The new performance guidelines instituted substantial changes to the mandate in force until August 2013, with the incorporation of new asset classes and the introduction of external portfolio managers[1]/ for a share of the ESSF resources.

[1]/Through Official Letter 1267, the Ministry of Finance authorized the Central Bank, as fiscal agent, to directly contract the firms Black Rock Institutional Trust Company N.A. and Mellon Capital Management Corporation to operate as external portfolio managers under the ESSF stock mandate.

Through Board Resolution 1770-01-130814, the Bank accepted new performance guidelines for the management of the PRF resources, submitted by the Ministry of Finance through Official Letter 1925, dated 13 August 2013. These guidelines entered into effect on 16 August 2013, replacing the guidelines contained in Official Letter 1637, dated 18 November 2011, and the modifications thereof in Official Letter 192, of 31 January 2012, both from the Ministry of Finance. The new performance guidelines retained the asset classes and shares, as well as the external portfolio management[2]/.

The new ESSF and PRF performance guidelines retained the current management objective in place since May 2011: namely, to obtain monthly returns in line with the benchmarks, using a passive management strategy. At the same time, they incorporated the requirements presented through the modification of the Fiscal Agency Decree, limiting the Bank's functions with regard to the resources managed by the external portfolio managers as of 2014.

C. INVESTMENT OBJECTIVES AND POLICIES

The investment policy objectives for each fund (fiscal portfolios) and the associated risk-return profile reflect decisions made by the Ministry of Finance. The Central Bank must manage the fiscal resources in accordance with the relevant decrees and performance guidelines.

The performance guidelines contain the investment criteria, which define a 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 these benchmark portfolios.

For the ESSF, the benchmark portfolio established in the performance guidelines is made up of the following asset classes: bank assets, treasury bills and sovereign bonds, inflation-indexed sovereign bonds and stocks. The asset classes encompassing bank assets, treasury bills, sovereign bonds and inflation-indexed sovereign bonds are managed directly by the fiscal agent, while the stock asset class is managed by the external portfolio manager (table 1).

The bank asset and treasury bill portfolios use benchmark indices provided by Merrill Lynch. The nominal and inflation-indexed sovereign bond portfolio shares are compared against global indices provided by Barclays Capital. The benchmark for the stock portfolio is made up of a global index provided by Morgan Stanley.

For the PRF, the current investment policy establishes a portfolio composition made up of the following asset classes: nominal sovereign bonds and other related assets, inflation-indexed sovereign bonds, stocks and corporate bonds (table 2). In accordance with the new performance guidelines, the asset classes comprising nominal sovereign bonds and other related assets and inflation-indexed sovereign bonds were managed directly by the Bank. The stock and corporate bond portfolios were managed by external portfolio managers.

[2]/ By Board Resolution 1646-02-111201, the Central Bank Board accepted the instructions submitted by the Ministry of Finance through Official Letter 1630, dated 18 November 2011. Accordingly, the Bank, acting as fiscal agent, contracted the firms Blackrock Institutional Trust Company N.A. and Rogge Global Partners Plc to provide external portfolio management services under the corporate bond mandate; and the firms Blackrock Institutional Trust Company N.A. and Mellon Capital Management Corporation as external portfolio managers under the stock mandate.

TABLE 1
ESSF BENCHMARK
(percent)

Asset class	Share
Bank assets	15.0
Treasury bills and sovereign bonds	74.0
Inflation-indexed sovereign bonds	3.5
Stocks	7.5

Source: Ministry of Finance.

TABLE 2
PRF BENCHMARK
(percent)

Asset class	Share
Sovereign bonds and other related assets	48
Inflation-indexed sovereign bonds	17
Corporate bonds	20
Stocks	15

Source: Ministry of Finance.

The benchmarks for the corporate bond portfolio and for the share of assets directly managed by the fiscal agent are global indices provided by Barclays Capital, while the benchmark for the stock portfolio is provided by Morgan Stanley.

The ESSF and PRF guidelines define eligible currencies, issuers and instruments as those included in the respective benchmarks, and they exclude any and all instruments from Chilean issuers or denominated in pesos.

Under the current guidelines, the management mandate controls the main risks through risk budgets. The internally managed ESSF and PRF portfolios establish an ex ante tracking error of 50 basis points per year. The risk budget for the ESSF and PRF stock portfolios is ex ante tracking error of 60 basis points per year, and for the PRF corporate bond portfolio, 50 basis points per year.

Finally, the investment guidelines for both funds establish specific rules and limits on exposure, including criteria for eligible issuers, operations, instruments and intermediaries and the treatment of derivatives (tables 5 and 6).

D. STRUCTURE OF FISCAL PORTFOLIOS

The management mandate began in March 2007. Since that date, the ESSF has received net contributions of US$12.338 billion, as of 31 December 2013. At year-end 2013, the market value of the fund was US$15.4191 billion, which is invested in line with the benchmark composition established in the current investment guidelines (table 3).

From March 2007 to December 2013, the PRF received contributions of US$6.4494 billion, closing the year with a market value of US$7.3351 billion. Table 4 presents the PRF investment structure at the close of the period.

TABLE 3
ESSF
(as of 31 December 2013, US$ million)

Asset class	Market value						Percent of
	USD	EUR	JPY	CHF	Other currencies (*)	Total	total
Portfolio Article 4	**6,132.7**	**3,829.0**	**3,068.4**	**1,143.2**	**n/a**	**14,173.3**	**91.9**
Bank assets/treasury bills and sovereign bonds	5,748.4	3,671.6	3,068.4	1,143.2	n/a	13,631.7	88.4
Inflation-indexed sovereign bonds	384.2	157.4	n/a	n/a	n/a	541.6	3.5
Externally managed portfolio	**649.2**	**142.0**	**96.5**	**41.2**	**316.9**	**1,245.8**	**8.1**
Stocks	649.2	142.0	96.5	41.2	316.9	1,245.8	8.1
Total	**6,781.9**	**3,971.0**	**3,164.9**	**1,184.4**	**316.9**	**15,419.1**	**100.0**

Portfolio	Ex ante tracking error (bp)	Risk budget (bp)
Portfolio Article 4	3.7	50.0
Stocks	35.8	60.0

* Includes the Canadian dollar, Australian dollar, pound sterling and other currencies.

Source: J.P.Morgan N.A.

TABLE 4
PRF
(as of 31 December 2013, US$ million)

Asset class	Market value USD	EUR	JPY	GBP	Other currencies (,)	Total	Percent of total
Portfolio Article 4	**1,515.7**	**1,307.1**	**840.6**	**598.5**	**402.9**	**4,664.8**	**63.6**
Sovereign bonds and other related assets	1,018.5	980.9	820.6	244.9	366.7	3,431.6	46.8
Inflation-indexed sovereign bonds	497.1	326.2	20.1	353.7	36.1	1,233.2	16.8
Externally managed portfolio	**1,505.5**	**494.4**	**137.3**	**208.9**	**324.2**	**2,670.3**	**36.4**
Corporate bonds	873.1	355.4	43.1	109.7	72.3	1,453.7	19.8
Stocks	632.4	139.0	94.2	99.1	251.9	1,216.7	16.6
Total	**3,021.2**	**1,801.5**	**978.0**	**807.4**	**727.1**	**7,335.1**	**100.0**

Portfolio	Ex ante tracking error (bp)	Risk budget (pb)
Portfolio Article 4	21.8	50.0
Corporate bonds	7.5	50.0
Stocks	36.0	60.0

* Includes the Canadian dollar, Australian dollar, pound sterling and other currencies.

Source: J.P.Morgan N.A.

E. REPORTS

The Fiscal Agency Decree and the performance guidelines define the content and frequency of the reports that the Bank must deliver to the Finance Minister and the Treasurer of Chile[3]/. As a general rule, the custodian bank, in its middle office role, provides the necessary information for preparing reports, and the fiscal agent must report daily, monthly, quarterly and annually on the status of the resources under management. The daily reports provide information on the market value of each portfolio, under items sorted by currency and asset class. 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 Finance Minister and the Treasurer on the custodian bank's performance.

F. MANAGEMENT RESULTS

In 2013, the ESSF resources being managed by the Bank generated an absolute return measured in dollars of –1.25%[4]/. This implied a positive differential return of 1.8 basis point relative to the benchmark performance, with both being measured by the time-weighted rate of return (TWRR). Using the same methodology, the PRF resources managed by the Bank generated an absolute return measured in dollars of 1.04%[5]/. This meant a positive differential return of 14.8 basis points relative to the benchmark performance.

The slightly negative absolute return of the ESSF measured in U.S. dollars is mainly explained by the depreciation of the yen against the U.S. dollar and the increase in interest rates in the United States and Germany. This effect was partially offset by the positive performance of the stock market in the period. For the PRF, the absolute return measured in U.S. dollars was primarily explained by the stock market return, which offset the negative earnings of the internally managed portfolio. The return on the internally managed portfolio, in turn, is explained by the increase in interest rates in the United States, Canada and the United Kingdom and by the depreciation of the yen and the Australian dollar against the U.S. dollar.

G. COMPENSATION OF THE FISCAL AGENT

According to the stipulations of Article 9, letter (a), of the Fiscal Agency Decree, the Central Bank is entitled to charge an annual fee for the direct expenses and costs incurred in carrying out its assigned functions.

For the period from March 2013 to February 2014, the Ministry of Finance set the annual fee at US$789,277 for the ESSF and US$1,032,599 for the PRF[6]/. These amounts are consistent with the Central Bank's Basic Constitutional Act, which stipulates that the Bank shall not finance the Treasury. The fees paid to the fiscal agent represent 0.5 and 2.4 annual basis points of the total resources managed for the ESSF and the PRF, respectively.

[3]/ The guidelines on the submission of reports were issued by the Ministry of Finance through Official Letter 1926, dated 13 August 2013.

[4]/ This return is consistent with an annual internal rate of return (IRR) measured in U.S. dollars of –1.18% (J.P. Morgan N.A.).

[5]/ This return is consistent with an annual internal rate of return (IRR) measured in U.S. dollars of 1.15% (J.P. Morgan N.A.).

[6]/ The annual fiscal agency fees do not include payments to external portfolio managers for the management of their respective portfolios.

TABLE 5
FINANCIAL INSTITUTIONS WITH OUTSTANDING DEPOSITS
(As of 31 December 2013)

Institution
Australia & New Zealand Banking Group Ltd.
Bank Hapoalim B.M.
Bank of China (Hong Kong) Ltd.
BNP Paribas S.A.
Commerzbank AG
Commonwealth Bank of Australia
Danske Bank Aktieselskab
DekaBank Deutsche Girozentrale
Deutsche Bank AG
Erste Group Bank AG
ING Bank NV
KBC Bank NV
Landesbank Hessen-Thüringen Girozentrale
Lloyds Bank Plc
Mizuho Bank Ltd.
Natixis
Norddeutsche Landesbank Girozentrale
Rabobank Nederland
Raiffeisen Bank International AG (RBI)
Société Générale
Standard Chartered Bank
Svenska Handelsbanken AB (publ)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Norinchukin Bank
Unicredit Bank AG
Westpac Banking Corporation

Source: J.P.Morgan N.A.

TABLE 6
INTERMEDIARIES USED BY THE FISCAL AGENT IN 2013

Intermediary
ANZ Securities Inc, New York
Australia & New Zealand Banking Group Limited, Melbourne
Australia & New Zealand Banking Group Limited, New York
Bank Hapoalim BM, New York
Bank of China (Hong Kong) Limited
Bank of Montreal, London
Bank of Nova Scotia
Barclays Bank PLC
Barclays Capital Inc
BMO Capital Markets Corp
BNP Paribas SA
BNP Paribas Securities Corp., New York
BNP Paribas USA, New York
Canadian Imperial Bank of Commerce, London
Canadian Imperial Bank of Commerce, New York
Canadian Imperial Bank of Commerce, Toronto
Citibank N.A, London
Citigroup Global Markets Inc, New York
Citigroup Global Markets Limited, London
Commerzbank AG, Frankfurt
Commonwealth Bank of Australia, New York
Commonwealth Bank of Australia, Sydney
Credit Suisse Securities (USA) LLC, New York
Credit Suisse Securities, London
Dekabank Deutsche Girozentrale, Frankfurt
Deutsche Bank AG, London
Deutsche Bank Securities Inc

(*continued*)

Intermediary
DNB Nor Bank ASA, Oslo
DZ Bank AG Deutsche Zentral Genossenschaftsbank, Frankfurt
Erste Group Bank AG, New York
Erste Group Bank AG, Vienna
Goldman Sachs & Co., New York
Goldman Sachs International Bank, London
HSBC Bank PLC., London
HSBC Bank USA N.A, New York
HSBC France, Paris
HSBC Securities (USA) Inc, New York
ING Bank NV, Amsterdam
Jefferies LLC
JP Morgan Chase Bank NA, London
JP Morgan Securities LLC, New York
JP Morgan Securities PLC
KBC Bank NV, Brussels
Landesbank Baden Wurttemberg, Stuttgart
Landesbank Hessen-Thueringen, London
Lloyds Bank PLC, London
Merrill Lynch International
Merrill Lynch, Pierce, Fenner & Smith Inc
Mizuho Bank Ltd., London
Mizuho Securities USA Inc
Morgan Stanley & Co. International PLC, London
Morgan Stanley & Co. LLC
National Australia Bank Ltd, London
National Bank of Canada Financial Inc, New York
Natixis, New York
Nomura International PLC, London
Nomura Securities International Inc, New york
Norddeutsche Landesbank Girozentrale, London
Nordea Bank Finland Plc., Helsinki
NV Bank Nederlandse Gemeenten
Rabobank International, London
Rabobank Nederland, New York
Rabobank Nederland, Utrecht
Raiffeisen Bank International AG (RBI), Vienna
RBC Capital Markets LLC
RBS Securities Inc
Royal Bank of Canada, Toronto
Santander Global Banking & Markets UK
SG Americas Securities LLC
Skandinaviska Enskilda Banken AB (Publ) (SEB), Stockholm
Societe Generale, Paris
Standard Chartered Bank all UK Offices, London
Standard Chartered Bank, New York
Standard Chartered Securities Korea Limited, Seoul
Sumitomo Mitsui Banking Corporation, New York
Sumitomo Mitsui Trust Bank Ltd., New York
Svenska Handelsbanken AB (publ), New York
Svenska Handelsbanken AB (publ), Stockholm
TD Securities (USA) LLC
The Bank of New York Mellon, New York
The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York
The Bank of Tokyo-Mitsubishi UFJ, Ltd., London
The Norinchukin Bank, London
The Royal Bank of Scotland PLC
The Toronto Dominion Bank, Toronto
UBS AG
UBS Limited, London
UBS Securities LLC USA, New York
UniCredit Bank AG, Munich
Wells Fargo Bank NA, San Francisco
Westpac Banking Corporation, London
Westpac Banking Corporation, Sydney
Zurcher Kantonalbank, Zurich

Source: Central Bank of Chile.

ORGANIZATIONAL CHART

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- CHIEF COUNSEL, NORMATIVE LEGAL SERVICES
- CHIEF COUNSEL CORPORATIVE LEGAL SERVICES

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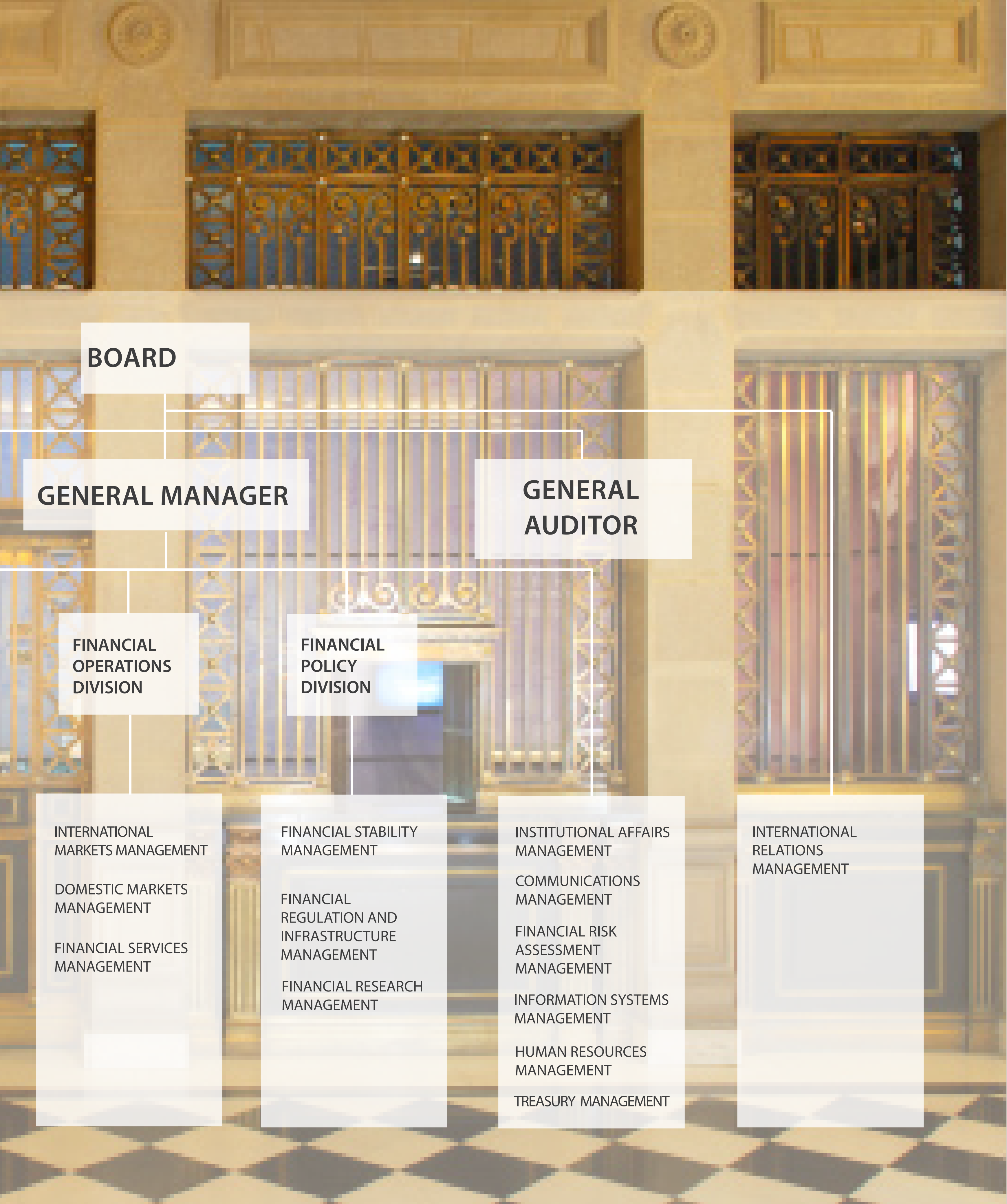
- MACROECONOMIC STATISTICS MANAGEMENT
- STATISTICAL INFORMATION MANAGEMENT

RESEARCH DIVISION

- INTERNATIONAL ANALYSIS MANAGEMENT
- MACROECONOMIC ANALYSIS MANAGEMENT
- MONETARY POLICY STRATEGY AND COMMUNICATION MANAGEMENT
- ECONOMIC RESEARCH MANAGEMENT

CORPORATE MANAGEMENT AND SERVICES DIVISION

- STRATEGIC AND OPERATIONAL RISK MANAGEMENT
- SECURITY MANAGEMENT
- LOGISTICAL SERVICES MANAGEMENT



BOARD
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GENERAL AUDITOR
FINANCIAL OPERATIONS DIVISION
FINANCIAL POLICY DIVISION
INTERNATIONAL MARKETS MANAGEMENT
DOMESTIC MARKETS MANAGEMENT
FINANCIAL SERVICES MANAGEMENT
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FINANCIAL REGULATION AND INFRASTRUCTURE MANAGEMENT
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INSTITUTIONAL AFFAIRS MANAGEMENT
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INFORMATION SYSTEMS MANAGEMENT
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TREASURY MANAGEMENT
INTERNATIONAL RELATIONS MANAGEMENT

04
FINANCIAL STATEMENTS OF THE CENTRAL BANK OF CHILE

STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2013 AND 2012

(Ch$ million)

Assets	Note	2013	2012
Foreign assets		21,653,565.9	20,052,478.3
Reserve assets	11	21,523,220.5	19,933,433.5
Monetary gold		5,050.3	6,290.6
Special drawing rights (SDR)		600,805.7	579,847.7
Reserve position in the IMF	12	335,578.0	331,087.3
Correspondent banks abroad		10,011.6	9,953.3
Investments in foreign currency:		20,501,943.4	18,967,149.6
Securities at fair value through profit or loss		18,144,375.8	16,783,042.3
Held-to-maturity securities		2,357,567.6	2,184,107.3
Reciprocal loan agreements		69,397.1	38,819.6
Other assets		434.4	285.4
Other foreign assets		130,345.4	119,044.8
Shares of and contributions to the Inter American Development Bank (IDB)		96,425.1	88,111.1
Shares of Bank for International Settlements (BIS)		33,920.3	30,933.7
Domestic assets		1,853,189.6	3,002,363.2
Domestic loans	13	256.9	1,110,964.2
Loans to banks and financial institutions		256.9	1,110,964.2
Transactions under specific legal regulations	14	1,852,932.7	1,891,399.0
General Treasury transfers (Laws 18.267 and 18.401)		265,355.6	260,018.7
Loan for subordinated liabilities of financial institutions (Laws 18,401 and 19,396)		649,521.0	754,321.6
Sinap Liquidation Law 18.900		938,056.1	877,058.7
Other assets		53,866.8	45,002.8
Premises, equipment and intangible assets	15	36,476.9	38,386.8
Other securities		16,073.9	6,146.7
Transition assets		1,316.0	469.3
Total assets		**23,560,622.3**	**23,099,844.3**

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

STATEMENTS OF FINANCIAL POSITION, CONTINUED AS OF 31 DECEMBER, 2013 AND 2012

(Ch$ million)

Liabilities	Note	2013	2012
Foreign liabilities	16	710,092.8	656,457.2
Reciprocal loan agreements		4,629.7	13,253.0
Accounts with international organizations		46,455.0	42,254.1
Special drawing rights (SDR) allocations		659,008.1	600,950.1
Domestic liabilities		26,651,957.2	26,903,859.3
Monetary base	17	8,754,473.9	7,890,603.7
Banknotes and coins in circulation		6,917,607.4	6,195,118.2
Deposits from financial institutions (in Chilean pesos)		1,139,731.0	965,242.2
Deposits for technical reserve		697,135.5	730,243.3
Deposits and obligations	18	4,864,461.1	6,108,201.1
Deposits and obligations with General Treasury		384,665.8	694,763.0
Other deposits and obligations		4,479,795.3	5,413,438.1
Documents issued by Central Bank of Chile	19	13,033,022.2	12,905,054.5
Central Bank of Chile bonds in UF (BCU)		7,830,132.7	8,535,033.3
Central Bank of Chile bonds in Chilean pesos (BCP)		4,080,623.4	3,905,683.5
Central Bank of Chile discountable promissory notes (PDBC)		925,319.1	-
Optional indexed coupons (CERO) in UF		135,669.2	230,094.7
Indexed promissory notes payable in coupons (PRC)		61,256.7	234,221.9
Other		21.1	21.1
Other liabilities	20	18,880.6	18,777.3
Provisions		18,502.7	18,365.6
Other securities		377.9	411.7
Net equity	21	(3,820,308.3)	(4,479,249.5)
Capital		(4,478,737.6)	(2,355,778.8)
Valuation accounts		(713.0)	(511.9)
Surplus (deficit) for the year		659,142.3	(2,122,958.8)
Total liabilities and equity		**23,560,622.3**	**23,099,844.3**

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, 2013 AND 2012

(Ch$ million)

	Note	2013	2012
Net income for international reserves	7	48,246.2	203,540.7
Income		366,332.7	707,477.1
Interest income		302,700.6	282,697.8
Gain on sale of instruments at fair value through profit or loss		62,330.0	416,695.8
Gain on sale of available-for-sale securities		-	6,847.6
Other		1,302.1	1,235.9
Expenses		(318,086.5)	(503,936.4)
Interest expenses		(4.8)	(12.5)
Loss on sale of instruments at fair value through profit or loss		(248,275.9)	(247,160.9)
Loss on sale of available-for-sale securities		-	(4.3)
Adjustments at fair value		(66,556.1)	(255,983.3)
Other		(3,249.7)	(775.4)
Net income (loss) from other foreign transactions	7	5,136.9	(8,658.6)
Income		7,137.1	662.9
Other income		7,137.1	662.9
Expenses		(2,000.2)	(9,321.5)
Interest expense		(588.1)	(724.5)
Other expenses		(1,412.1)	(8,597.0)
Net loss from domestic operations	8	(755,512.7)	(781,373.1)
Income		130,002.1	139,008.6
Interest income and adjustments		127,347.9	134,574.9
Other income		2,654.2	4,433.7
Expenses		(885,514.8)	(920,381.7)
Interest expense and adjustments		(884,610.6)	(919,868.6)
Other expenses		(904.2)	(513.1)
Net gain (loss) on foreign exchange transactions	9	1,462,900.5	(1,452,858.9)
Gain on foreign exchange transactions		2,670,308.0	661,232.7
Loss on foreign exchange transactions		(1,207,407.5)	(2,114,091.6)
Issuance and distribution costs	10	(54,452.7)	(37,879.7)
Banknotes		(29,882.1)	(7,884.3)
Coins		(24,007.6)	(29,304.3)
Distribution		(563.0)	(691.1)
Personnel and administrative expenses		(43,761.5)	(42,962.0)
Personnel expenses		(27,891.8)	(26,783.9)
Administrative expenses		(14,440.5)	(12,231.6)
Provision for post-employment benefits		(1,429.2)	(3,946.5)
Other (expenses) and income		(3,414.4)	(2,767.2)
Depreciation and amortization	15	(2,782.4)	(2,196.6)
Taxes and contributions		(546.2)	(593.6)
Other		(85.8)	23.0
Surplus (deficit) for the year		**659,142.3**	**(2,122,958.8)**

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

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December, 2013 and 2012

1 Incorporation and 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 at *Agustinas* 1180.

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" are explained in notes 2(k) and 14(b) and valued at amortized cost through profit or loss. 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 2013 and 2012, 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 movements in capital during 2013 and 2012.

a.iv A statement of cash flows is not presented. 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 2013 and 2012 are presented.

a.vi The fair value of documents issued and assets under specific regulations are not disclosed.

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 through profit or loss, 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.

(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 functional and presentation currency for the financial statements.

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 Central Bank of 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:

	2013 Ch$	2012 Ch$
United States dollar (observed exchange rate)	523.76	478.60
Euro	721.04	632.90
Canadian dollar	489.63	481.01
Australian dollar	465.36	496.32
Special Drawing Rights (SDR)	806.59	735.57

(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 no 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 2013, in memorandum accounts, on the basis of Consumer Price Index variation occurred between 30 November 2013 and 30 November 2012, which was 2.4%.

(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, bills payable in coupons, indexed bonds, secured bonds from public institutions issued by German banks, agency nonprepayable bonds, agency prepayable bonds, agency bills, agency discount notes.

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 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.iii Other financial assets

g.iii.1 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.2 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 SDR160.5 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. While as of 31 December, 2013 the IMF remaining balance of the revolving credit facility amounted to SDR1,183.4 million, in practice the mechanism operates by calculating quarterly capitalization periods that include the stakeholders' maximum contribution during that period.

(i) Bank for International Settlements (BIS) Shares

During 2003, Central Bank of Chile's Board Resolutions 1073-04 dated 10 July, 2003 and 1084-02 dated 16 September 2003, authorized the incorporation of Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September 2003, in accordance with these resolutions, Central Bank of Chile acquired 3,000 shares of the BIS for SDR42,054,000 which are valued at acquisition cost and are shown under "Other Foreign Assets." During 2013, dividends were received in the amount of US$1.4 million (US$1.4 million in 2012).

(j) Domestic loans

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

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

(k) 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, equipment and intangible assets

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.

In 2013 and 2012, the Bank has recognized costs related to acquisition of licenses and the development of an Integrated Management System

(ERP), as well as costs incurred for the *SOMA* System that is at development stage, as intangible assets. Historical costs are amortized using the straight-line method of accounting over their assigned useful lives.

Depreciation for 2013 and 2012 is recognized as expense and has been calculated considering the following estimated useful lives:

	Years	
	2013	2012
Buildings	80	80
Furniture and office equipment	10	10
Computer equipment	3 to 5	3 to 5
Vehicles	5	5
Intangible assets	5	5

(m) Monetary base

Mostly include liabilities of Central Bank of Chile 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.

(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 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.

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

(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 earnings, except loans referred in note 2a(i). Pursuant to this policy, during 2013 and 2012, 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 1 June 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 supplementary severance indemnity under the retirement plan per Resolution 1651-06 dated 29 December 2011, special benefits to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

This 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 2012:

- 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 5.10.

- Discount rate: Central Bank of Chile used the annual average of the nominal rate for BCP instruments at 10 years. For 2013, the discount rate was 5.25% (2012: 5.42%).

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 statement of financial position 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 statement of financial position 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. The revision to accounting estimates is recognized in the period in which the estimate is revised and in any future periods affected.

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

- Note 2(l) 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 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:

In the future, IFRS 9 Financial Instruments will replace the portion related to the classification and measurement of financial assets in the current IAS 39. This standard has no defined date of application by the IASB. It includes relevant differences compared with the current standard, among others, the adoption of a new model for the classification of financial assets based on two unique categories of amortized cost and fair value, the removal of the current classifications of "Held-to-maturity investments" and "Available-for-sale financial assets", the analysis of impairment only for assets measured at amortized cost and includes the treatment and classification of financial liabilities.

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

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.

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 2013 and 2012:

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.

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 and credits in circulation, 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 97% 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.

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 uses the Wall Street Suite (WSS) system to support its control, investment and operation improvement processes.

a.i Investment policy and referential structure

The investment policy of international reserves considers liquid financial assets meeting the legal requirements established for its administration. It is designed based on its impact on the earnings and risks of Central Bank of Chile statement of financial position and on the characteristics of the potential foreign currency liquidity needs searching for the preservation of capital in case of possible market fluctuations. However, the new investment policy approved in 2012 particularly included the objective of reducing the cost of maintaining reserves in the margin.

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

On the basis of the new referential structure, the investment portfolio is made up of three portfolios: (a) Short-term Liquidity; (b) Mid-term Liquidity, and (c) Diversification. This new structure considers lower percentages in U.S. dollars and euros and higher percentages in other currencies; i.e., 47.8% in U.S. dollars, 22.0% in euros, 9.2% in Canadian dollars, 6.1% in Australian dollars, 3.0% in Japanese yen, 2.4% in Swiss francs and 9.5% in other foreign currencies. Additionally, the revised life of the referential portfolio is 24 months.

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

a.ii Risk policy and management

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

Table 5.1
Benchmark applicable as of 31 December 2013 and 2012.

Portfolio		Share (%) on total investment portfolio	Share (%) internal admin.	Share (%) on subportfolio	Length (months) 2013	Length (months) 2012	Benchmark indices
Short-term liquidity	USD	24.0	24.7	100.0	3.9	3.7	Merrill Lynch 0 - 1 Y
	Total	24.0	24.7	100.0	3.9	3.7	
Mid-term liquidity	USD	23.8	24.5	39.0	24.5	24.5	Barclays 1 - 3 Y and 3 - 5 Y
	EUR	22.0	22.6	36.0	22.7	22.7	
	CAD	9.2	9.4	15.0	23.1	22.7	
	AUD	6.0	6.3	10.0	23.6	23.2	
	Total	61.0	62.7	100.0	23.5	23.5	
Diversification	CHF	2.0	2.0	16.0	68.8	65.8	Barclays 5 - 7 Y and 7 - 10 Y Bank deposit CNH
	CNH	1.8	1.9	15.0	1.5	1.5	
	GBP	1.8	1.9	15.0	66.0	66.8	
	JPY	2.4	2.5	20.0	71.5	70.9	
	KRW	1.8	1.9	15.0	68.4	61.1	
	NZD	1.5	1.5	12.0	60.1	60.7	
	SGD	0.9	0.9	7.0	69.0	69.2	
	Total	12.2	12.6	100.0	57.7	56.3	
Total Internal Administration		97.2	100.0	-	23.0	22.7	
External administrators	CHF	0.4	-	16.0	68.8	65.8	Barclays 5 - 7 Y and 7 - 10 Y Bank deposit CNH
	CNH	0.4	-	15.0	1.5	1.5	
	GBP	0.4	-	15.0	66.0	66.8	
	JPY	0.6	-	20.0	71.5	70.9	
	KRW	0.4	-	15.0	68.4	61.1	
	NZD	0.4	-	12.0	60.1	60.7	
	SGD	0.2	-	7.0	69.0	69.2	
	Total	2.8	-	100.0	57.7	56.3	
Total Invesment Portfolio		100.0	-	-	24.0	23.7	

USD	United States dollar	CNY	Chinese yuan	KRW	South Korean won
EUR	Euro	CHF	Swiss franc	GBP	Pound sterling
CAD	Canadian dollar	CNH	Extra Continental Chinese yuan	NZD	New Zealand dollar
AUD	Australian dollar	JPY	Japanese yen	SGD	Singapore dollar

a.iii Management of liquidity risk

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

a.iv Management of market risk

Market risk implies possible losses due to variations in the price of investments. The investment policy limits the market risk arising from variations on interest rates and parities by establishing maturity and composition margins of currencies around referential parameters of the portfolios and through the diversification of currencies, securities and investment periods. In the particular case of the diversification portfolio, a risk budget equivalent to 100 basis points is established (ex - ante tracking error). Market risk is monitored through the daily measurement of the maturity and composition of currencies, and by the follow-up of VaR and tracking error. The international reserve management monthly report, prepared by the Department of Managment 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.

Tables 5.2 and 5.3 set out the different monitored market risk measurements, where the effect of changing the benchmark can be noted, both in terms of length and currency of the portfolios.

Table 5.2
Market Risk. Internal Investment Portfolio as of 31 December, 2013 and 2012.

		2013	2012
Amount (US$ million)		34,483.2	34,868.4
Length (months)	Portfolio	23.4	23.1
	departure	0.4	0.4
Breakdown by currency (%)	USD	49.4	49.3
	EUR	22.3	22.5
	JPY	2.5	2.4
	Other	25.8	25.8
VaR	Absolute (%)	2.4	2.2
	Tracking error (b.p.)	3.6	4.4

Annualized VaR and TE calculated using the Variance/Covariance method, with a decline ratio of 0.06 and a standard deviation confidence interval.

Tabla 5.3
Market Risk for External Administrator Investment Portfolio as of 31 December, 2013 and 2012.

		2013	2012
Amount (US$ million)		991.7	1,024.2
Length (months)	Portfolio	47.9	55.0
	departure	-9.0	-0.9
Breakdown by currency (%)	USD	2.0	0.4
	EUR	0.0	0.0
	JPY	17.0	17.9
	Other	81.0	81.7
VaR	Absolute (%)	3.7	2.4
	Tracking error (b.p.)	44.4	29.9

Source: JP Morgan.

Annualized VaR and TE calculated using the Monte Carlo methodology, with a decline ratio of 0.06 and a standard deviation confidence interval.

a.v Management of credit risk

The policy on credit risk refers, 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, that may be considered for the investment of international reserves.

Tables 5.4 to 5.7 show the breakdown of reserves by credit rating and type of risk. While the credit rating is an average of the ratings reported by agencies Fitch, Moody's and Standard and Poor's, the types of risks relate to the issuer of the instrument. Banking risk is related to the investment in bank financial instruments: deposits, secured bonds from public institutions issued by German banks. Sovereign risk consists of the investment in securities from sovereign states: deposits, bills, floating rate notes, nominal and indexed bonds. Agency risk is related to the investment in securities from U.S., French and German government agencies: bills, nominal bonds, and mortgage-backed securities. Finally, supranational risk is related to the investment in multilateral official issuer securities: deposits, bills, floating rate notes and nominal bonds.

In the Internal Investment Portfolio, and as noted at the end of 2012 sovereign risks concentrate in AAA risk rating, whereas instruments issued by banks concentrate in A+ categories. For external portfolios, sovereign risk decreased its share of AAA risk rating compared to the prior year-end and increased that in AA+.

Table 5.4
Breakdown of the internal investment portfolio according to credit risk as of 31 December 2013.

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	3.5	0.0	81.4	5.2	90.1
AA+	0.0	0.0	1.9	0.0	1.9
AA	0.0	0.0	1.5	0.0	1.5
AA-	0.0	0.7	4.5	0.0	5.2
A+	0.0	1.3	0.0	0.0	1.3
Total	**3.5**	**2.0**	**89.3**	**5.2**	**100.0**

Table 5.5
Breakdown of the internal investment portfolio according to credit risk as of 31 December 2012.

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	0.0	0.0	92.0	0.0	92.0
AA	0.0	0.0	1.5	0.0	1.5
AA-	0.0	1.8	4.3	0.0	6.1
A+	0.0	0.4	0.0	0.0	0.4
Total	**0.0**	**2.2**	**97.8**	**0.0**	**100.0**

Table 5.6
Breakdown of the external administrator investment portfolio according to credit risk as of 31 December 2013.

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	0.0	0.0	24.8	0.5	25.3
AA+	0.0	0.0	13.6	0.5	14.1
AA	0.0	0.0	12.2	0.0	12.2
AA-	0.0	10.7	33.0	0.0	43.7
A	0.0	4.7	0.0	0.0	4.7
Total	**0.0**	**15.4**	**83.6**	**1.0**	**100.0**

Tabla 5.7
Breakdown of the external administrator investment portfolio according to credit risk as of 31 December 2012.

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	0.0	0.0	37.0	1.8	38.8
AA	0.0	2.6	12.9	0.0	15.5
AA-	0.0	7.5	34.1	0.0	41.6
A+	0.0	1.2	0.0	0.0	1.2
A	0.0	2.9	0.0	0.0	2.9
Total	**0.0**	**14.2**	**84.0**	**1.8**	**100.0**

Credit risk may imply 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 criteria such as equity and debt, among others. Likewise, the Manager of Management and Financial Risk Evaluation monitors the credit risk on a daily basis by measuring the exposures to different countries, counterparties and issuers and updating regularly risk ratings and other criteria that determine the limits and investment margins.

a.vi Settlement of operations

The Recording and Control of Operations, and the 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.

vii Compliance control

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

a.viii Custody of securities

Central Bank of Chile operates with the custodians of the following institutions that qualify in accordance with the policies established by the Board: JP Morgan Chase, State Street Bank NA, State Street Bank and Federal Reserve Bank of New York.

a.ix External administrators

Starting from October 2012, the mandate granted to external administrators, composed of Pacific Investment Management Company (Pimco) and Goldman Sach Asset Management (GSMA) was amended by standardizing the benchmark to the corresponding internal administration diversification portfolio.

The purpose of such program is to add value to the foreign currency portfolio, obtain knowledge transfer and technology and constitute an active comparison benchmark for 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 regulates the availability of liquidity (or reserves) of the financial system through several instruments: open-market operations, permanent liquidity and deposit facilities. Cash positions over deposits are also included in the tools of Central Bank of Chile, although Central Bank of Chile does not use them as an active instrument of monetary policy. Open-market 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 issued by Central Bank of Chile, purchases of debt securities with agreements to resale (Repo), liquidity deposits and foreign currency swaps. In the biddings or auctions the following institutions can participate: financial institutions, pension fund administrators, unemployment fund administrators, insurance companies, mutual funds, brokers and security agents, which operate through the Open-market Operation System (*Soma* in Spanish), owned and operated by Central Bank of Chile.

The transitory injection of liquidity is performed through overnight Repo transactions with maturities of less than 90 days through permanent liquidity facilities. In the opposite situation, where there is excess of liquidity and the inter-bank rate falls below the objective rate (i.e., the *TPM*), the transitory excess is withdrawn through liquidity deposits with maturities up to 15 days and a permanent overnight deposit facility. Other instruments used by Central Bank of Chile correspond to the line of credit for liquidity in local currency for secured banks and to the line of credit for liquidity in domestic currency used in special situations.

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

b.i Risk management policy

Central Bank of Chile's financial risk management policy controls credit, market and liquidity risks. Operational risk is controlled through the segregation of duties and accountabilities, the application of controls and the performance of external and internal audits on permanent and regular basis. The Domestic Market Management and the Financial Service Management which report to the Financial Operation Division are responsible for performing and formalizing 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.ii Management of credit risk

Credit risk is associated to open-market operations and facilities that inject liquidity to the financial system (Repo and permanent liquidity facility). To mitigate the risk associated to loans to banking institutions under these methods, Central Bank of Chile requires collaterals eligible according to their credit quality, which are valued at market prices at the time of their receipt and subject to the application of discounts or haircuts according to the instrument specific characteristics. The monthly management report on open-market and debt 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.

As of 31 December 2013, the Bank records no liquidity injection transactions using any of the available instruments.

As of 31 December 2012, loans amounted to Ch$1,065.4708 billion for Repo transactions and Ch$31.5352 billion for permanent liquidity facility agreements. Hundred percent of credit securities received corresponds to bonds and promissory notes issued by Central Bank of Chile.

b.iii Management of market risk

Market risk is the risk of potential losses from changes affecting the price or final value of a financial instrument or group of financial instruments. For open-market operations, this risk is mainly associated with changes in the market value of bonds and promissory notes issued by Central Bank of Chile, and the change in value of collaterals received in liquidity injection transactions. For collaterals the risk of value loss is mitigated by using margins and haircuts that write-down their value and allow the effective amount lent to be lower than the collateral received.

For the placement of bonds and promissory notes, risk is mitigated in line with the provisions in current legislation contained in the *Compendium of Financial Regulations* ruling the placement and adjudication of debt that contemplates the use of competitive bidding processes among financial institutions. Upon issuance of instruments, the main risk is associated with changes in inflation that affect bonds issued in UF.

Monitored market risk indicators include the length and VaR. Tables 5.8 and 5.9 display these indicators and show a decrease in the length, the proportional share of instruments denominated in UF in the debt structure and VaR between 2013 and 2012 year-ends. This change is mainly explained by the transitory decision made by Central Bank of Chile of not renewing short-term debt (PDBC) during December 2012.

Table 5.8
Structure and risk of the debt portfolio of Central Bank of Chile as of 31 December, 2013.

Instrument	Ch$ billion	% UF	Holding period (months)
Short-term	925	0	0.5
Long-term	12,108	66	65.0
Total	**13,033**	**62**	**61.0**

Table 5.9
Structure and risk of the debt portfolio of Central Bank of Chile as of 31 December, 2012.

Instrument	Ch$ billion	% UF	Holding period (months)
Short-term	0	0	0.0
Long-term	12,905	70	62.0
Total	**12,905**	**70**	**62.0**

b.iv Management of liquidity risk

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

For open-market operations, this risk relates to the possibility of issuing bonds and promissory notes or rolling them over in the primary market at prices that are too high compared to securities with similar characteristics traded in the secondary market. This type of risk is mitigated through the provisions in current legislation contained in the *Compendium of Financial Regulations* that rule the placement and adjudication of debt and by monitoring both secondary and primary markets and their institutions

Tables 5.10 and 5.11 show a summary of the results of the awarding of bonds and promissory notes for 2013 and 2012. In those tables it can be noted that prices or interest rates for the award of bonds and promissory notes at bids are very similar to market rates and demand has been higher than the scheduled security supply. Comparing 2013 with 2012, during 2013 the demand for securities offered was slightly lower; however, spreads with respect to market rates were more favorable and bids of all papers were performed at lower rates.

Table 5.10
Results of the bidding of debt instruments of Central Bank of Chile as of 31 December 2013.

Instrument	Amount awarded in (Ch$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	27.210	145	105	4,89	4,98	-9,0
BCP	735	323	100	5,24	5,24	-0,1
BCU	1.004	260	100	2,36	2,37	-1,5

Demand and award in respect to the annual bond placement program and monthly discountable promissory notes placement program.
Bidding and market rates correspond to the weighted average for bidding processes during the year.

Table 5.11
Results of the bidding of debt instruments of Central Bank of Chile as of December 31, 2012.

Instrument	Amount awarded in (Ch$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	30,095	152	106	5.00	5.08	-7.6
BCP	950	342	100	5.35	5.35	0.2
BCU	1,096	285	100	2.43	2.43	-0.2

Demand and award in respect to the annual bond placement program and monthly discountable promissory notes placement program
Bidding and market rates correspond to the weighted average for bidding processes during the year.

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.

Starting from 1 January 2013, the Bank applies IAS 9 "Employee benefits" as amended, which establishes that the determination of new measurement for the defined benefit liability that comprise actuarial gains and losses, must be recognized in other comprehensive income within equity.

In addition, starting from 1 January 2013, the Bank applies IFRS 13 "Fair Value Measurement."

During 2013, there were no changes in accounting policies compared to 2012.

7 Net income for international reserves

International reserves

For the years ended 31 December 2013 and 2012, this caption is composed of the following:

	(Ch$ million)	
	2013	2012
(a) Net interests and commissions on:	289,042.1	265,084.6
- Securities at fair value with effect on income	13,653.6	16,911.6
- Held-to-maturity securities	-	25.1
- Available-for-sale securities	0.1	664.0
- Foreign correspondents		
Subtotal for net interests and commissions	302,695.8	282,685.3
(b) Sales of securities:		
- At fair value with effect on income	(185,945.9)	169,534.9
- Available-for-sale	-	6,843.3
Subtotal for sales of securities	(185,945.9)	176,378.2
(c) (Loss) gain adjustments at fair value	(66,556.1)	(255,983.3)
(d) On other income	(1,947.6)	460.5
Total net income for international reserves	**48,246.2**	**203,540.7**

Other foreign operations	(Ch$ million)	
	2013	2012
Net gain or loss on foreign operations comprise the following:		
- On revaluation of accounts with international agencies	1,317.3	(7,006.0)
- On interest	(588.1)	(724.5)
- Other net income and expenses	4,407.7	(928.1)
Total net income for foreign operations	**5,136.9**	**(8,658.6)**

8 Net income for domestic operations

For the years ended 31 December 2013 and 2012, this caption is composed of the following:

	(Ch$ million)	
	2013	2012
(a) Income for domestic loan		
Interests	10,018.2	10,754.5
Adjustments	64.1	129.4
Other	2,654.2	4,433.7
Total income for domestic loan	12,736.5	15,317.6
(b) Income for operations under specific legal regulations		
Interests	86,251.1	89,563.9
Adjustments	23,794.6	31,074.9
Total income for operations under specific legal regulations	110,045.7	120,638.8
(c) Income for deposits and obligations held by Central Bank of Chile		
Interests	(92,498.2)	(96,338.5)
Other	(904.2)	(513.1)
Total income for deposits and obligations held by Central Bank of Chile	(93,402.4)	(96,851.6)
(d) Income for documents issued by Central Bank of Chile		
Interests	(605,586.4)	(613,565.0)
Adjustments	(179,306.1)	(206,912.9)
Total income for documents issued by Central Bank of Chile	(784,892.5)	(820,477.9)
Total net income for domestic operations	**(755,512.7)**	**(781,373.1)**

9 Net gain (loss) on foreign exchange operations

For the years ended 31 December 2013 and 2012, this caption is composed of the following:

	(Ch$ million)	
	2013	2012
Gain on foreign exchange operations	2,670,308.0	661,232.7
Loss on foreign exchange operations	(1,207,407.5)	(2,114,091.6)
Total	**1,462,900.5**	**(1,452,858.9)**

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)	
	2013	2012
U.S. dollar	768,495.0	(777,356.0)
Euro	508,913.3	(475,842.3)
Canadian dollar	32,319.1	(61,197.5)
Australian dollar	(66.875.2)	(55,763.6)
SDR	24,931.1	(19,824.5)
Other currency	182,712.6	(59,590.2)
Subtotal net (loss) gain on foreign exchange operations	1,450,495.9	(1,449,574.1)
Arbitrage and other	12,404.6	(3,284.8)
Total net (loss) gain on foreign exchange operations	**1,462,900.5**	**(1,452,858.9)**

10 Issuance and distribution costs

For the years ended 31 December 2013 and 2012, this caption is composed of the following:

	(Ch$ million)	
	2013	2012
Banknotes	(29,882.1)	(7,884.3)
Coins	(24,007.6)	(29,304.3)
Distribution	(563.0)	(691.1)
Total	**(54,452.7)**	**(37,879.7)**

The increase in currency issuance and distribution costs during 2013 compared to 2012 is due to an increase in the number of coins and banknotes produced and the increase in costs mainly in banknotes. The detail of banknotes is provided in note 17(a).

11 Reserve assets

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

	(US$ million)	
	2013	2012
Monetary gold	9.6	13.1
Special drawing rights (SDR)	1,147.1	1,211.5
Reserve position in the IMF	640.7	691.8
Correspondent banks abroad	19.1	20.8
Investments in foreign currency:	39,143.8	39,630.5
Instruments at fair value with effect on net income	34,642.6	35,067.0
Level 1 market value*	34,642.6	35,067.0
Held-to-maturity securities	4,501.2	4,563.5
Reciprocal loan agreements	132.5	81.1
Other assets	0.9	0.7
Total reserve assets	**41,093.7**	**41,649.5**
	(Ch$ million)	
Total reserve assets	**21,523,220.5**	**19,933,433.5**

*As of 31 December 2013 and 2012, the carrying amounts of instruments at fair value through profit or loss amount to Ch$18,144,375.8 million and Ch$16,783,042.3 million, respectively and correspond to the fair value of such instruments at those dates.

As of 31 December 2013, monetary gold amounted to US$9.6 million (US$13.1 million in 2012) equivalent to 7,940 fine gold troy ounces valued at US$1,214.5 per ounce (US$1,655.5 in 2012). There was no change in the amount of troy ounces compared to 2012.

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 decrease observed in reserve assets for the year ended 31 December 2013 of US$555.8 million, compared to 2012, is mainly explained by a decrease in held-to-maturity securities of US$62.3 million, securities at fair value through profit or loss of US$424.4 million Special drawing rights (SDR) of US$64.4 million, Reserve position in the IMF of US$51.1 million and increase of reciprocal loan agreements of US$51.4 million.

As of 31 December 2013 and 2012, the distribution of investments in foreign currencies by currency is as follows:

	(US$ million)	
	2013	2012
U.S. dollar	20,620.2	21,050.7
Euro	7,714.0	7,870.3
Other currency	12,759.5	12,728.5
Total	**41,093.7**	**41,649.5**

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)	
	2013	2012
Subscription installment, contribution	690,520.6	629,721.5
Loan, account No.1	27.9	21.2
New Arrangement to Borrow (NAB)	142,467.3	118,072.3
Deposits	(497,437.8)	(416,727.7)
Total position in the IMF	**335,578.0**	**331,087.3**

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)	
	2013	2012
Line of credit on debt restructuring	256.9	518.8
Central Bank of Chile repurchase agreements (Repo)	-	1,110,445.4
Total	**256.9**	**1,110,964.2**

During 2013, the Bank records no reverse repurchase agreements. The average purchase rate for Central Bank of Chile repurchase agreements (Repo) was 5.07% in 2012.

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)	
	2013	2012
General Treasury transfer Law 18,401	265,355.6	260,018.7

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 2013 amount to Ch$265,355.6 million, equivalent to approximately UF11.4 million (Ch$260,018.9 million in 2012, equivalent to UF11.4 million).

Executive Decree 1526 issued by the Ministry of Finance, dated 31 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 2824 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 (*Sinap*), because of the financial position affecting organization 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 that 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 liquidation of *Caja Central de Ahorros y Préstamos* and *Asociación de Ahorro y Préstamo* set out by Law 18,900, in conformity with the aforementioned Decree Laws, and as included in the 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 2013, the amount payable to Central Bank of Chile from the liquidation of these institutions, was Ch$938,056.1 million (this amount includes interest accrued for Ch$595,120.3 million to that date), of which Ch$866,447.7 million correspond to direct loans granted by Central Bank of Chile and Ch$71,608.4 million with credit lines for international organization programs (Ch$877,058.7 million in 2012, of which Ch$808,497.7 million relate to direct loans granted by Central Bank of Chile and Ch$68,561.0 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 that 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 2013, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF6,203,926.6500 to Central Bank of Chile, of which UF1,214,159.3521 were allocated to the payment of interests of the debt and UF4,989,767.2979 to the credit amortization for subordinated liability (in 2012 UF5,503,988.6769, of which UF1,548,166.6602 were destined to the payment of interest and UF3,955,822.0167 to amortization).

As of 31 December 2013 the balance amounts to Ch$649,521.0 million, UF27,865,005.0834 (Ch$754,321.6 million in 2012, UF33,025,256.0975).

15 Premises, equipment and intangible assets

	(Ch$ million)	
	2013	2012
Premises and equipment, net	34,140.2	36,377.8
Intangible assets, net	2,336.7	2,009.0
Total premises, equipment and intangible assets	**36,476.9**	**38,386.8**

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

	(Ch$ million)				
	Balances as of 31.Dec. 2012	Acquisitions	Disposals	Depreciation	Balances as of 31.Dec. 2013
Real estate and facilities	21,358.4	9.6	-	(285.2)	21,082.8
Furniture and equipment	9,399.8	636.1	(132.3)	(2,064.8)	7,838.8
Transport material	326.3	55.4	(19.0)	(105.0)	257.7
Collection of banknotes and coins (*)	3,628.0	0.6	(630.0)	-	2,998.6
Works of art	1,651.9	-	-	-	1,651.9
Other	13.4	0.1	-	(0.1)	13.4
Work in progress	-	297.0	-	-	297.0
Net, premises and equipment	36,377.8	998.8	(781.3)	(2,455.1)	34,140.2

(*) This figure includes Ch$630.0 million due to variations in foreign currency exchange of gold pesos.

As of 31 December 2013 and 2012, the caption Depreciation and Amortization in the Statement of Income includes Ch$2,455.1 million and Ch$2,169.3 million, respectively.

Composition and movements of intangible assets

	(Ch$ million)				
	Balances as of 31.Dec.12	Acquisitions	Disposals	Amortization	Balances as of 31.Dec.13
Computer programs	1,609.4	-	-	(327.3)	1,282.1
Computer programs under development	399.6	655.0	-	-	1,054.6
Intangible assets, net	2,009.0	655.0	-	(327.3)	2,336.7

As of 31 December 2013 and 2012, the amortization of intangible assets of Ch$327 and Ch$27.3 million is recorded under Depreciation and Amortization in the Statement of Income.

16 Foreign liabilities

This caption includes the following operations

	(Ch$ million)	
	2013	2012
Reciprocal loan agreements	4,629.7	13,253.0
Accounts with international bodies	46,455.0	42,254.1
Special drawing rights (SDR) allocations	659,008.1	600,950.1
Total foreing liabilities	**710,092.8**	**656,457.2**

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)	
	2013	2012
Promissory note obligations with IDB	41,817.5	38,211.9
Inter-American Development Bank (IDB)	3,690.3	3,094.8
Agency for International Development (AID)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	32.9	33.0
International Bank for Reconstruction and Development (IBRD)	13.2	13.3
Total accounts with international organizations	**46,455.0**	**42,254.1**

The assignments of Special Drawing Rights (SDRs) correspond to SDR817,029,890 (Ch$659,008.1 million) assigned to Chile through Central Bank of Chile, by the International Monetary Fund, which are subject to possible restitution; they accrue interests on the basis of a rate determined by the IMF on a weekly basis.

17 Monetary base

This caption is composed of the following:

	(Ch$ million)	
	2013	2012
Banknotes and coins in circulation	6,917,607.4	6,195,118.2
Deposits from financial institutions	1,139,731.0	965,242.2
Deposits for technical reserve	697,135.5	730,243.3
Total monetary base	**8,754,473.9**	**7,890,603.7**

(a) Banknotes and coins in circulation

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

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

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

Denomination	(Ch$ million)	
	2013	2012
$ 20000	2,093,132.6	1,808,594.2
$ 10000	3,756,732.9	3,390,659.5
$ 5000	453,165.3	418,003.6
$ 2000	117,038.5	134,675.5
$ 1000	184,682.6	161,221.8
$ 500	4,745.6	4,746.8
Other	250.1	249.9
Coins	307,859.8	276,966.9
Total	**6,917,607.4**	**6,195,118.2**

(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.

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)	
	2013	2012
Deposits and obligations with the General Treasury	384,665.8	694,763.0
Other deposits and obligations	4,479,795.3	5,413,438.1
Total	**4,864,461.1**	**6,108,201.1**

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

	(Ch$ million)	
	2013	2012
General Treasury current accounts	313,057.4	626,202.1
Other	71,608.4	68,560.9
Total	**384,665.8**	**694,763.0**

(b) "Other Deposits and Obligations" include:

	(Ch$ million)	
	2013	2012
Permanent Deposit Facility in local currency	2,601,914.2	3,987,877.9
Current accounts in foreign currency	878,171.3	499,231.0
Short-term deposits from bank institutions in foreign currency	958,480.8	890,196.0
Other	41,229.0	36,133.2
Total	**4,479,795.3**	**5,413,438.1**

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, 2013 and 2012, maturities of these instruments are as follows:

	(Ch$ million)						
	Up to 90 days	91-180 days	181 days to 1 year	1-3 years	Over 3 years	Total 2013	Total 2012
Central Bank of Chile bonds in UF (BCU)	-	41,152.7	-	1,761,317.9	6,027,662.1	7,830,132.7	8,535,033.3
Central Bank of Chile bonds in pesos (BCP)	129,760.4	396,459.3	-	1,479,167.3	2,075,236.4	4,080,623.4	3,905,683.5
Central Bank of Chile Bank discountable promissory notes (PDBC)	925,319.1	-	-	-	-	925,319.1	-
Optional indexed coupons (CERO) in UF	8,959.7	7,779.3	12,884.1	56,977.4	49,068.7	135,669.2	230,094.7
Indexed promissory notes payable in coupons (PRC)	658.3	322.7	2,515.1	13,430.4	44,330.2	61,256.7	234,221.9
Other	21.1	-	-	-	-	21.1	21.1
Total as of 31 December	1,064,718.6	445,714.0	15,399.2	3,310,893.0	8,196,297.4	13,033,022.2	12,905,054.5

Balances include interest and adjustments accrued as of 31 December 2013 and 2012.

As of 31 December 2012, the net variation of Ch$127,967.7 million, compared to 2012, is explained mainly by an increase in the issuance of BCPs and PDBCs, and a decrease in BCUs.

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

20 Other liability accounts

This caption is composed of the following:

	(Ch$ million)	
	2013	2012
Provisions	18,502.7	18,365.6
Other securities	377.9	411.7
Total	**18,880.6**	**18,777.3**

Provisions

Central Bank of Chile has recorded provisions for severance indemnity, a benefit established in the Collective Labor Agreement in force for the periods 2007-2012 and 2012-2015 accounted for in accordance with the actuarial method of projected cost. At the same time, the benefits granted to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile and healthcare benefits for retirement plans are also included and detailed as follows:

	(Ch$ million)	
	2013	2012
Provision for the year:		
- Severance indemnity	10,301.2	10,531.0
- Special indemnity Resolution 1414 and agreed deposit for retirement plan	1,614.6	1,561.3
- Special indemnity Resolution 1651 and agreed deposit for retirement plan	1,821.5	1,752.4
Subtotal provision for severance indemnity	13,737.3	13,844.7
- Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	2,571.1	2,672.9
- Healthcare benefits for retirement plan	18.7	8.6
- Pending accrued vacations of personnel	1,966.2	1,836.3
- Special indemnity Resolution 572-05-961226	3.0	3.0
- Incentive allocation	206.4	-
Subtotal other provisions	4,765.4	4,520.8
Total	**18,502.7**	**18,365.5**

	(Ch$ million)	
	2013	2012
Movements in provisions for severance indemnities:		
- Current value of liabilities at the beginning of the year	13,844.7	10,878.3
- Service cost	652.9	627.5
- Interest cost	726.5	589.6
- Benefits paid	(1,687.9)	(515.0)
- Actuarial gains (losses)	201.1	511.9
- Past service cost (effect of new benefits)	-	1,752.4
Total	**13,737.3**	**13,844.7**

	(Ch$ million)	
	2013	2012
Post-employment benefit expenses		
- Current value of service costs	652.9	627.5
- Interest cost	726.5	589.6
- Past service cost (effect of new benefits)	-	1,752.4
Total	**1,379.4**	**2,969.5**

As of 31 December 2013, the sensitivity of the actuarial liability amount from post-employment benefits considering changes indicated in actuarial assumptions generates the following effects:

Calculation of variable sensitivity analysis impact	Base scenario	Scenario 1	Scenario 2	Scenario 3
- Discount interest rate (%)	5.25	-10.0	10.0	-
- Dismissal rate (%)	4.74	10.0	-10.0	10.0
- Voluntary redundancy rate (%)	3.59	10.0	-10.0	10.0
- Annual turnover rate of employees entitled to severance indemnity payments (%)	8.50	10.0	-10.0	10.0
- Margin applied to mortality rate M-95 table (%)	67.00	10.0	-10.0	-20.0
Effect on provision for post-employment benefits (Ch$ million)	-	1,423.2	(1,300.0)	677.2
Effect on provision for post-employment benefits (%)	-	10.36	-9.46	4.93

Calculation of probable payment of the provision for severance indemnity payments	(Ch$ million)
- Short-term provisions for severance indemnity payments (up to one year)	1,461.0
- Long-term provisions for severance indemnity payments (over one year)	12,276.3
Balance as of 31 December	**13,737.3**

21 Capital and reserves

(a) Capital and reserves

Changes in capital and reserves during 2013 and 2012 were as follows:

	(Ch$ million)				
	Capital	Reserves for actuarial gains or losses	Valuation accounts	Net income (loss)	Total
Balances as of 1 January 2012	(3,447,503.0)	(341.0)	1,905.7	1,091,724.2	(2,354,214.1)
Distribution of 2011 surplus	1,091,724.2	-	-	(1,091,724.2)	-
Other comprehensive income	-	(170.9)	-	-	(170.9)
Other reserves	-	-	(1,905.7)	-	(1,905.7)
(Deficit) for the year	-	-	-	(2,122,958.8)	(2,122,958.8)
Balances as of 31 December 2012	(2,355,778.8)	(511.9)	-	(2,122,958.8)	(4,479,249.5)
Balances as of 1 January 2013	(2,355,778.8)	(511.9)	-	(2,122,958.8)	(4,479,249.5)
Distribution of 2012 deficit	(2,122,958.8)	-	-	2,122,958.8	-
Other comprehensive income		(201.1)	-	-	(201.1)
Surplus for the year	-	-	-	659,142.3	659,142.3
Balances as of 31 December 2013	**(4,478,737.6)**	**(713.0)**	**-**	**659,142.3**	**(3,820,308.3)**

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 2013 corresponds to Ch$2,155,764.0 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 2013, Banco Central de Chile has an equity deficit of Ch$3,820,308.3 million (equity deficit of Ch$4,479,249.5 million as of 31 December 2012) which arises mainly from the gains and losses from changes in the exchange rates of assets in foreign currencies.

(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 2013 the negative capital price-level adjustment recognized in memorandum accounts amounted to Ch$113,235.9 million Ch$53,367.8 million in 2012), which resulted in a negative adjusted capital of Ch$4,831,396.5 million (Ch$2,594,689.9 million in 2012). 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.13	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31.Dec.13
Balances as of December 31, 2013	(4,718,160.6)	(113,235.9)	(4,831,396.5)

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)	
	2013	2012
Initial balance of monetary base	7,890,603.7	6,851,171.5
Increase		
Foreign exchange operations	-	2,941.6
Interest and indexation paid	995,523.8	947,203.3
Deposits and obligations	1,335,590.6	-
Domestic loans	-	134,712.0
Operating support expenses	36,814.7	35,759.3
Securities issued	-	256,732.4
Operations with international bodies	-	5,416.8
Other minor foreign exchange changes	96,732.0	-
Other assets	3,572.3	1,342.6
Total increase	2,468,233.4	1,384,108.0
Decrease		
Deposits and obligations	-	(220,498. 0)
Operations under specific legal standards	(19,651.2)	-
Loans granted to commercial banks	(1,097,237.9)	-
Interest and indexation received for domestic operations	(155,401.1)	(118,078.2)
Securities issued	(331,463.7)	-
Other minor foreign exchange changes	-	(6,091.9)
Transactions with international bodies	(595.3)	-
Other liabilities	(14.0)	(7.7)
Total decrease	(1,604,363.2)	(344,675.6)
Variation of monetary base for the year	863,870.2	1,039,432.4
Final balance of monetary base	**8,754,473.9**	**7,890,603.7**

Variations in international reserve assets	(US$ million)	
	2013	2012
Initial reserve balance	41,649.5	41,979.3
Increase		
Foreign exchange operations	-	3.0
Other liabilities	43.7	-
Interests received for deposits and other investment instruments abroad	26.2	589.6
Total increase	69.9	592.6
Decrease		
Other assets	(16.4)	(0.1)
Deposits and obligations	(152.4)	(890.6)
Interest paid for other transactions abroad	(22.1)	(83.8)
Total decrease	(190.9)	(974.5)
Variation in reserves for the year	(121.0)	(381.9)
Effect of exchange rate	(434.8)	52.1
Final reserve balance	**41,093.7**	**41,649.5**

23 Foreign currency balances

The balance sheets include assets and liabilities payable in foreign currencies, whose balances as of December 31, 2013 and 2012 are as follows:

Assets	(US$ million)	
	2013	2012
Foreign assets	41,342.6	41,898.3
Reserves	41,093.7	41,649.5
Other foreign assets	248.9	248.8
Other asset accounts	20.9	6.3
Total assets	41,363.5	41,904.6
Liabilities		
Foreign liabilities	1,346.9	1,363.1
Other foreign liabilities	88.7	107.5
Special drawing rights (SDR) allocations	1,258.2	1,255.6
Domestic liabilities	3,766.2	3,921.3
Deposits and General Treasury liabilities	214.0	977.6
Other deposits and obligations	3,552.2	2,943.7
Total liabilities	5,113.1	5,284.4
Net assets	**36,250.4**	**36,620.2**

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 General Counsel Departament are not expected to have a material effect on equity.

25 Income taxes

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

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*)". A portion of FRP funds is invested in sovereign bonds and other related assets, inflation-indexed sovereign bonds managed by Central Bank of Chile as Fiscal agency and the other portion is invested in corporate bonds and shares managed by an external administrator. In conformity with the provisions of the aforementioned law, the Minister of Finance through Executive Decree 1383, dated 11 December 2006, appointed Central Bank of Chile as Fiscal Agent for the administration of resources referred to such funds, in conformity with the procedures, conditions, methods and other standards established in the aforementioned executive decree.

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

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

In accordance with Ordinary Official Letter 1637 of 18 November 2011 issued by the Ministry of Finance, Central Bank of Chile is empowered to outsource part or all of the management of government funds in the *FRP*. Accordingly, in November 2011 BlackRock Institutional Trust Company, N.A. and Rogge Global Partners Plc were selected as portfolio managers for corporate bonds. For share portfolios, BlackRock Institutional Trust Company, N.A. and Mellon Capital Management Corporation were selected as managers and JP Morgan Chase Bank N.A. was selected as custodian, which provides compliance, risk/return assessment, accounting and bookkeeping services.

On 18 April 2013, Ministry of Finance published Executive Decree 1618 of 6 December 2012 in the *Official Gazette*, amending Executive Decree 1383 of 11 December 2006 issued by the Ministry of Finance, which appointed Central Bank of Chile as Fiscal Agent, to act on behalf of the General Treasury in the performance of all or part of the functions associated with the resources in the Pension Reserve Fund (*FRP*) and the Economic and Social Stabilization Fund (*FEES*).

In the Executive Decree 1618 two portfolios are distinguished within the Fiscal Agenda. One portfolio comprises resources that may be invested in instruments classified as eligible for investment in international reserves of Central Bank of Chile or debt securities that are not secured by foreign countries, except for corporate bonds, the resources of which may be invested directly by the Fiscal Agent or its appointed external trustees and/or tendered external trustees. For tendered external trustees, they will report directly to the Ministry of Finance. This portfolio has been referred as "Portfolio substantially equivalent to international reserves". The second portfolio comprises other fiscal recourses invested in shares, corporate bonds and any other type of securities' portfolios or securities different from the aforementioned, and has been referred as "Externally managed portfolio".

With respect to the externally managed portfolio, a distinction should be made between the "fully functional" situation beginning on 1 January 2014, and the situation during the transition period that was extended up to 31 December 2013. With respect to the "fully functional" situation, i.e., starting from 1 January 2014, the Bank will not be considered to be the manager of Fiscal Resources comprising the externally managed portfolio for the Fiscal Agency.

Although the accounting effects of changes to *FRP* and *FEES* made by the Fiscal Agency do not meet the requirements of IAS 39 to derecognize financial assets from the "Externally managed portfolio," note that the accounting of *FRP* and *FEES* funds should also comply with mandates and instructions issued by Ministry of Finance. Accordingly, Central Bank of Chile as Fiscal Agent outsourced the management of this portfolio to the external Trustees that report the performance of each fund directly to the Ministry of Finance. The Ministry of Finance substantially controls resources in each fund as it assumes the risks and rewards generated by such portfolio, i.e., Central Bank of Chile is not responsible for losses that this may generate.

Because Central Bank of Chile, starting from the transition period has no responsibility for managing this portfolio, the Bank derecognized it from the accounting records, and during the transition period, solely for control purposes, it maintained a subsidiary ledger at notional level for the externally managed portfolio of each Fund.

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 2012 and 2011. 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.

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 one of the compensation structure, as they are positions established in Sections 24 through 26 of the Basic Constitutional Act.

The total gross compensation paid to the Board and key executives during 2013 amounted to Ch$1,322.4 million (Ch$1,275.5 million in 2012).

28 Relevant events

(a) On 18 December 2013, subsequent to the expiration of his period of 10 years as Board Member of Central Bank of Chile, Mr. Manuel Marfán Lewis left office.

(b) On 15 January 2014, the Chilean Senate at meeting 86/361 approved the appointment of Mr. Pablo García Silva as Board Member of Central Bank of Chile for a 10-year period.

(c) By way of Agreement 1753-01 of 16 May 2013, the Board of Central Bank of Chile agreed to appoint Mr. Santiago Meersohn Ernst as member of the Audit and Compliance Committee of Central Bank of Chile, for a three-year period replacing Mr. Vivian Clarke Levi who left office.

29 Subsequent events

In the opinion of Management, between 31 December 2012 and the date of issuance of these financial statements the following subsequent events which could significantly affect the amounts presented in the financial statements have occurred:

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

The exchange rate for U.S. dollar as of 28 January 2014 amounted to Ch$548.34 per US$1.00 representing an increase of Ch$24.58 compared with the exchange rate prevailing as of 31 December 2013. This represents an improvement in Central Bank of Chile's equity of Ch$418,919.8 million.

The exchange rate for euro as of January 28, 2014 amounted to Ch$749.82 per €1.00, representing an increase of Ch$28.78 compared with the exchange rate prevailing as of December 31, 2013. This represents an improvement in Central Bank of Chile's equity of Ch$161,632.8 million.

The total increase in Central Bank of Chile's equity because of the increase in the exchange rate for United States dollar and euro on 28 January 2014 amounts to Ch$580,552.6 million.

(b) Approval of financial statements

The financial statements for the year ended 31 December 2012 were presented by the General Manager to the Board on 30 January 2014 and approved for issue at the Meeting 1800.

(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

JUAN CARLOS SALAZAR TAPIA
General Accountant

SILVIA QUINTARD FLEHAN
General Auditor

Independent Auditor's Report

The Governor and Board Members of
Central Bank of Chile:

Report on the financial statements

We have audited the accompanying financial statements of Central Bank of Chile (the Bank), which comprise the statement of financial position as of 31 December 2013 and 2012, the statement of income for the years then ended and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles described in note 2(a); this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor´s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Chile as of 31 December 2013 and 2012 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.

Basis of accounting

Note 2(a) to the financial statements describes the basis of accounting on which the financial statements of Central Bank of Chile are prepared 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 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 January 16, 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 note 21 on Capital and Reserves, note 22 on Variations in Monetary Base and International Reserve Assets, and Statements of Income, respectively and c) Not presenting the fair value of notes issued and assets under the specific legal framework. Our audit opinion is not modified in regard to these three matters.

Emphasis on the equity deficit

As discussed in note 21(a) to the financial statements, as of 31 December 2013, Central Bank of Chile has net equity deficit of Ch$3,820,380.3 million (Ch$4,479,249.5 million in 2012), which is explained mainly by changes resulting from the exchange rates of assets denominated in foreign currency. Our audit opinion is not modified in regard to this matter.

Other matters

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

Cristián Bastián E. KPMG Ltda.
Santiago, 30 January 2014

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